Report of the Working Group on F&U Guidelines
For
General Insurance Products

September 2014

Insurance Regulatory and Development Authority

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Member (Non-Life)
Insurance Regulatory and Development Authority
Hyderabad

Respected Sir,

Report of the Working Group on F&U Guidelines

I have immense pleasure in submitting the Report of the Working Group on F&U Guidelines vide circular IRDA/NL/CIR/F&U/112/04/2014 dated 17 April 2014.

The Report and the Recommendations contained is an outcome of extensive review of literature on the subject, meetings with various stakeholders and elaborate internal discussions by the Working Group. This analysis broadly covered the following points:

1. Classification of products, standardization and feasibility of suggesting new set of wordings in place of current erstwhile tariff wordings being used
2. Need for differential treatments for filing purposes in respect of retail and commercial lines of business
3. Standardization of key terms related to non-life insurance
4. Examining feasibility of use & file for standard products
5. Treatment of long term products, reinsurance driven products and broker led products
6. Role of Appointed Actuary, Actuarial Department and Underwriters in product pricing
7. Product Performance Review by the insurer and its submission to IRDA and
8. Other issues.

The Report is structured in three parts:

PART A providing the Background
PART B covering the Methodology adopted by the Working Group, its Recommendations and related Definitions and
PART C listing the members of the working group and Acronyms used

On behalf of the Members of the Working Group, and on my own behalf, I sincerely thank you for entrusting this responsibility to us. I also thank you for granting extension of time to the Working Group to work on the areas that formed part of terms of reference and the opportunity to report thereon has been utilized to come up with a more comprehensive report.

Place: Hyderabad
Date: 8th September 2014

Suresh Mathur
Chairman of the Working Group

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The report and the recommendations reflect the collective views and opinions of the workgroup as a whole. These views are a result of the analysis, synthesis and deliberations with different stakeholders of general insurance products. The individual views and opinions of the members of the workgroup however may differ on some of the items. But the workgroup felt that a collective expression would better serve the purpose as presented in this report.

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Acknowledgements

At the outset, the Working Group thanks Chairman, IRDA and Member (Non-life) for providing an opportunity to review the existing F&U Guidelines and suggest recommendations which may further strengthen the product development process.

The Working Group would like to profusely thank the GI Council for sharing their valuable inputs and structured suggestions. These suggestions provided a collective industry view and were extremely useful in striking a balanced approach between regulation and development.

The Working Group places on record its sincere appreciation and thanks to the various non-life companies, their representatives, brokers, actuaries, underwriters and other persons who have so generously given their time and shared their view points at several meetings, both in person and also through emails and letters.

The Working Group wishes to acknowledge with gratitude the help, assistance and co-operation rendered by the non-life department in IRDA and its team. The Working group is also grateful to IRDA Actuarial department, Health department and Distribution department for having been a part of the interaction and sharing their views on the File and Use process.

The Working Group would like to specially thank the GI Council and IRDA for providing the space and infrastructure in facilitating the discussions.

Last but not the least; the Working Group is extremely grateful to the managements of the companies/organizations that the Working Group members represent for having provided the members with time and resources for completing this report.

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Executive Summary

Background

- The insurance products are regulated by the Insurance Regulatory and Development Authority by a system of File & Use. The first File and Use guidelines were issued just after opening up of the insurance sector in 2001. These guidelines were revised in September 2006 on the basis of experience gained from 2001-2006 and the feedback received by the IRDA from different stakeholders from time to time. These guidelines with some minor modifications are in force on date.
- Some of the salient features of the 2006 guidelines are:
  - Classification of products into class-rated, individual rated, experience rated, exposure rated and large risks. This classification was primarily based on how different products are rated and underwritten.
  - Underwriting practice of every insurer to be driven by a board approved underwriting policy
  - Separation in functions of Chief Marketing Officer and Chief Underwriting Officer
  - Enhanced role of Appointed Actuary in pricing and product development
  - Technical audit of underwriting and discounts offered
  - Product performance review reporting to the board
  - Restrictions on changing erstwhile tariff wordings, but freedom to file add on covers
- These guidelines very well served the purpose of regulating and developing product development process by pushing the insurers to look at product development and pricing in a more structured way.
- However IRDA felt that the actual experience of product development process is different from what was envisaged in the guidelines. Hence IRDA felt it was imperative to review the existing guidelines in view of actual experience and evolving needs of all stakeholders.
- Hence this working group was formed with the following as the terms of reference of the working group
  - Review of File and Use guidelines issued by IRDA vide 021/IRDA/F&U/Sept.06, dated 28th September, 2006 and all other circulars related to the guidelines from time to time.
  - Recommend new File and Use guidelines taking into account the changed requirements in the de-tariffed regime
- Health insurance products are governed by Health Insurance Regulations issued by IRDA in Feb 2013. Hence the terms of reference of the working group exclude any comment on the product development process for health insurance products.
- The working group, as part of its methodology, met all the stakeholders of the non life products and collected their views. In addition to this, the working group also studied product approval process in some other countries as well as the Indian laws, regulations and regulatory guidelines that could have an impact on the file and use process of general insurance products. The recommendations of the working group

are largely based on the interactions with stakeholders and are in the context of the prevailing laws and regulations.

Recommendations

- The working group recommends a major departure in how the products are classified. While the current classification is based on "how the product is priced" the working group recommends a classification on the basis of "who buys a product". The underlying philosophy was to ensure thorough due diligence for products bought by individual lay customers who may not be able to appreciate the complexity of insurance products and hence are more vulnerable and at the same time devolve some of the regulatory functions of product approval to insurers in respect of products for commercial customers.
- Hence there may be broadly two classes of products, namely ***Retail products*** that are primarily designed for retail customers and ***Commercial products*** that are primarily designed for customers other than individuals and includes firms, companies, trusts, associations, societies, Government and the like. ***Products designed and approved for retail customers can be sold to any commercial customers but not the vice-versa***.
- All types of general insurance products can be mapped to either or both of the above two classes.
- To facilitate a smooth transition of the industry into a Use and File system as well as afford simple standard products for mass sale, the working group recommends creation of standard ***India Market Wordings*** for various products, clauses, conditions, add on covers and the like by General Insurance Council through committees of underwriters and actuaries.
- The industry had been recommending a Use and File system for some product types to co-exist with File and Use system so that they could respond to customer requirements faster under a Use and File system. The work group, after considerable deliberations on the subject, recommends a Use and File system for Commercial products. Retail products will continue to be governed by File and Use.
- Most of the products of specialist mono-line companies should fall in commercial category and hence would follow the Use and File system of product approval. However, for retail products of these companies, if any, they will need to follow the File and Use system. Minor modifications in the product need not be filed with IRDA and may be approved by company's internal PMC (explained later) subject to certain confirmations from Appointed Actuary.
- The current File and Use system requires all products to be filed with IRDA before these can be used. The process of developing innovative products requires experimentation, testing, refinement and finalization. The current system does not afford this freedom of testing and refinement and jumps from experimentation to finalization. Hence a new category of product has been visualized called ***"Pilot Products"***. Insurers may launch a product for a short period of time in a defined pilot area with defined exposure limits on a Pilot basis after informing the IRDA. After gaining experience on the product, they may finalize the product and take it through approval process depending upon whether it is a retail product or commercial.

- Essentially the following types of products may be used by the General Insurance Industry, which are not necessarily product classes in their own right but will map into one of the two product classes, i.e. retail or commercial:
    - Standard Products (these may be created by GI council)
    - Long Term products
    - Government products
    - Pilot products
    - Package products
    - Add On products
    - Group Products
    - Reinsurance Driven products
    - Broker Led Products
    - Large Risks
    - Special Contingency contracts
- It was felt by the working group as well as IRDA that the kind of due diligence that was envisaged by the existing File and Use guidelines for product development and filing was not evident in the product development and filing process. With Use and File process being recommended for certain types of products, the need for proper due diligence in the product development process becomes all the more critical. In order to bring a more structured approach to the process which takes into account the interests of all stakeholders of an insurance product, the working group recommends creation of a ***Board led Product Management Committee***. This committee may be headed by any board member who does not have executive responsibilities and will include CEO, Appointed Actuary and Chief Underwriter, at the minimum.
- The role of product management committee will be akin to the role of regulator within an insurer. The Product Management Committee affords an internal self regulatory mechanism that will create appropriate structures and processes for effectively managing the operations in the entire product lifecycle. All products either under File and Use or Use and File will be approved by Product Management Committee. Products under File and Use will be sent to IRDA after Product Management Committee's approval for regulatory approval process while products under Use and File may be sold by insurer after Product Management Committee's approval under information to IRDA.
- With a strong internal due diligence system and board led Product Management Committee's approval, it is expected that IRDA should revert with its observations on the products under File and Use within 30 days of receipt of product filing, failing which insurers may be free to sell the product.
- Every insurer will have a board approved Underwriting policy. Product Management Committee will be responsible to ensure that the Underwriting policy remains relevant and updated at all points of time and will include product management policy of the insurer.
- Each product will have a Unique Identification Number (UIN). UIN is proposed to be allotted through an automatic online process and will be a unique number for each company, each product and each add on cover.

- General Insurance Council is expected to play a significant role in creating standard ***Indian Market Wordings*** and ***benchmark prices*** for different general insurance products and its add on covers..
- Under the existing file and use system, any product approval is valid till eternity. This is proposed to be changed and it is recommended that products once approved under any of the approval systems will remain valid for 5 years after which they will have to be filed again.
- The work group also proposes a structured process of product withdrawal taking into account the interests of policyholders of the product proposed to be withdrawn.
- With relaxations in product approval process, performance monitoring of products assumes critical importance. This monitoring process is proposed to be further strengthened where Appointed Actuary, Product Management Committee and board will actively review each product and submit their observations and action taken to IRDA at least annually. Financial Condition Report also requires performance review of each product by Appointed Actuary. Hence the recommendation under this report is in line with the regulatory thought process.
- Pricing flexibility has been a vexed issue between the insurers and IRDA. The working group recommends that pricing flexibility may be allowed by Appointed Actuary to the extent of acquisition cost and profit margin built in the product, subject to IRDA approval to this deviation and an overriding condition that the combined ratio of the product should remain below 100%. The pricing deviation allowed by Appointed Actuary will be reviewed by Appointed Actuary every year and may be withdrawn if the combined ratio of the product exceeds 100%.
- Every insurer will set up Technical audit team which will have the responsibility to ensure that all underwriting and pricing of products was done in compliance with the File and Use guidelines. This working group retains the proviso and recommends that the audit team should conduct the technical audit at least once a year for all lines of business and submit its report to the Board through the Product Management Committee.
- The report outlines an effective transition process for smooth transition of industry into the new product approval process.
- General Insurance Council has been playing an effective role in self regulating the Indian general insurance industry, but this is a forum of insurers only. However, there is no platform for other stakeholders of insurance viz; loss assessors, motor manufacturers and garages, lawyers, customer groups etc. IRDA may consider creating a forum that has representatives from all stakeholders including insurers.
- Last but not the least; although, the working group has taken care to think through all the aspects of product development process and approval, it is possible that the recommended process may have some loose ends. Hence the working group recommends that this report be exposed to all the stakeholders for their views and opinions which may further strengthen this report.

PART A

Chapter 1 Key Regulatory Developments

Insurance does influence the growth and development of an economy in several ways. The availability of insurance can mitigate the impacts of risk. It provides the required products which help organizations and individuals to minimize the consequences of risk. It has a positive effect on industry growth as entrepreneurs are able to concentrate on their business rather than worry about risks that endanger their enterprise.

The General Insurance (GI) industry in India has evolved significantly over the last decade and is now at a turning point in its development. It has grown at an annual growth rate of about 17% and provides a cover of Rs.1,000 lakh crore. The industry holds further significant potential, both from the perspective of growth and value creation.

Penetration of insurance critically depends on the availability of insurance products and services. Huge untapped market, proliferation of schemes, new product innovations, perception of insurable risks of Indian consumers, competitive pressures arising from integration of bank and insurance, impact of information technology, and the role of insurance industry in financial services industry are some of the forces which shape the competitive structure of the insurance industry.

In the absence of a full range of insurance products in terms of coverage and scope, the risk-taking abilities would be hampered. Further the chances are that the economic activities may turn out to be high-risk activities. The implications of leaving various risks uncovered can be significant. The impact of losses can be devastating creating a huge burden on the governments. Therefore, a strong and competitive insurance industry is considered imperative for economic development and growth.

The insurance products are regulated by the Insurance Regulatory and Development Authority by a system of File & Use. The first File and Use guidelines were issued just after opening up of the insurance sector in 2001. All the public sector general insurance companies were asked to file all the products which were already in the market. The new products to be launched in the market, both by the existing public sector companies or by the new players, which were licensed at that time, were to be approved by the IRDA. Insurers were advised to adhere to the tariff wordings and rates prescribed in the various tariffs.

In August 2006, IRDA issued an exposure draft on File and Use guidelines with the intent to de-tariff the market effective from 1st January 2007. In September 2006, final guidelines were issued to all the non-life insurance companies based on the experience gained by IRDA and the feedback received on the exposure draft.

It was mentioned in the above guidelines that the insurer shall not vary the coverage, terms and conditions, wordings, warranties, clauses and endorsements in respect of covers that were under tariff until March 2008. The pricing of the product had to be based on appropriate data and technical justification and was to be evaluated and certified by the Appointed Actuary. The filing was accepted only after the insurer had filed Board approved Underwriting Policy.

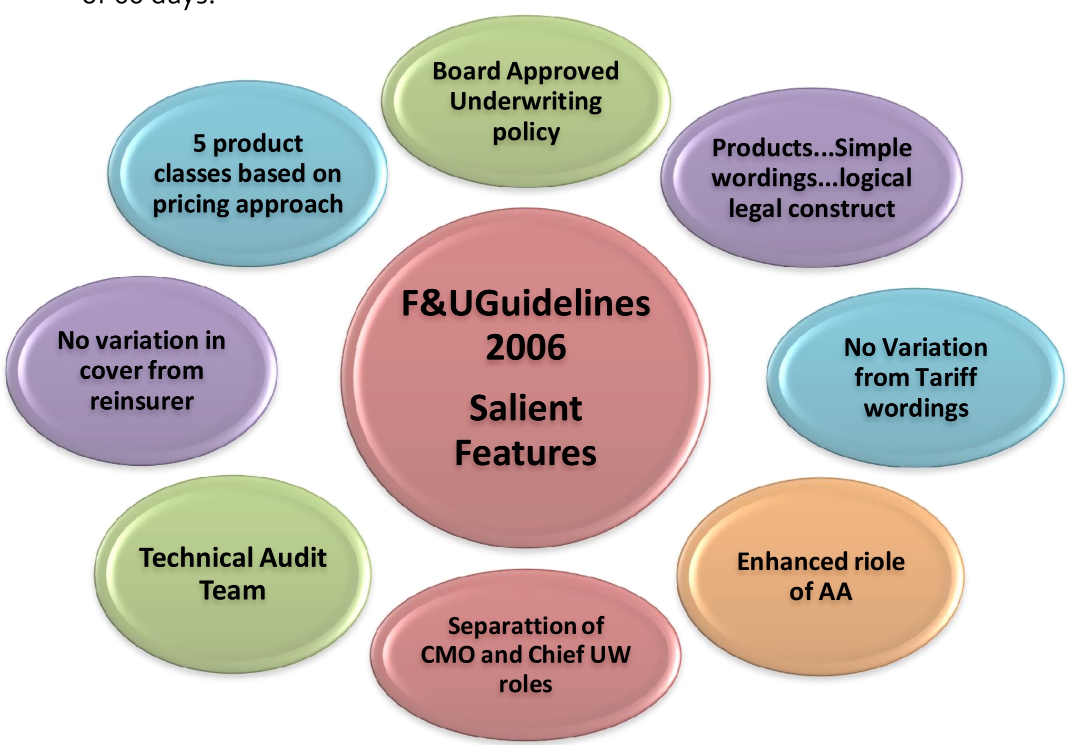
In March, 2008 IRDA informed the Insurers that the Voluntary Deductibles over and above the mandatory deductibles set out in the tariff could be offered. Insurance on first loss basis or partial insurance was allowed after approval. The circular also mentioned that the General Insurance Council may examine and propose the common market wordings.

It is in the context of this regulatory history and subsequent unraveling of the market practices that the Working group set out on its quest to review the file and use practices and recommend changes to keep it abreast with changing times and complexities of an evolving general insurance market.

Chapter 2 Salient Features of Current Guidelines

The current guidelines on file and use requirement for general insurance products have been in operation since September, 2006. These guidelines were issued when general insurance business was de-tariffed. The salient features of these guidelines include the following:

- Classification of all general insurance products into 5 categories namely.
  - a) class rated
  - b) individual rated
  - c) experience rated
  - d) exposure rated
  - e) large risk
- Board approved Underwriting Policy to drive underwriting practices of each insurer.
- The products to follow a logical legal construct with simple wordings.
- Separation in functions and duties of Chief Marketing Officer and Chief Underwriting Officer.
- Enhanced role of Appointed Actuary in development of premium rate tables in class rated risks and review of product performance on a half yearly basis.
- Constitution of technical audit teams to check underwriting and discounts offered by the company.
- Joint endeavor by insurer and authority to clear products within a maximum period of 60 days.



IRDA reviewed these guidelines subsequently from time to time and took the following steps:

- Product Performance Review Reporting to the Board of Directors in specified formats.
- Prohibition in offering difference in coverage offered by reinsurers vis-à-vis those offered by direct insurers to the insured.
- Introduction of add-on covers.
- Creation and hosting of an online tool (product comparator) by IRDA to compare fire, engineering and motor policies in terms of coverage, exclusions, conditions, add-ons, etc.
- Allotment of Unique Identification Numbers (UIN) to every product cleared by IRDA and displaying the same on Authority's web-site as per the directions of Central Information Commission.
- Having insurance policies in electronic form.
- Handling of issues relating to delay in clearance of insurance products.

Chapter 3 File & Use Working Group

In view of the actual experience of authority and insurers during last seven years it is observed that actual experience is different from what was originally envisaged while formulating the File and Use guidelines. Hence it is imperative that these guidelines are reviewed taking into account the actual experience and the evolving needs of all the stakeholders. Customer needs are also evolving and changing rapidly in recent years. It is critical that Insurance industry is alive to this reality and modernizes its procedures and policy forms in tune with the times. The following key objectives were taken into account for modifying the current guidelines:

- Protection of Policyholders's interests remains of paramount importance
- Terms of the contract are simple, clear and easily comprehensible to the prospective buyers. This in turn should reduce asymmetry of information between the insurer and the policyholder.
- Insurers are required to develop products which are financially sustainable in the marketplace.
- Premium charged should be based on sound actuarial principles.
- Changes in Size, Complexity, Uniqueness, Concentration, Accumulation and Technology is leading to new and emerging risks and the product development process takes cognizance of these changes

Efficiency and fairness should be core to the modernization effort. Identifying gaps in the current approach and redesigning norms to modernize product approval procedures should usher in a step change improvement.

This modification should allow insurance companies to compete more effectively in the current financial service marketplace and to respond with innovation and flexibility to evermore demanding customer needs while continuing to protect consumers, which is the hallmark of prudent regulation.

In order to have a holistic and structured approach in devising appropriate revisions in guidelines, IRDA, vide its circular No. IRDA/NL/CIR/F&U/112/04/2014 dated 17th April 2014 constituted a Working Group to review the extant guidelines and recommend changes to meet the above objectives.

The following were considered as the terms of reference for the working group.

A. Review of File and Use guidelines issued by Authority vide 021/IRDA/F&U/Sept.06, dated 28th September, 2006 and all other circulars related to the guidelines issued by IRDA from time to time.

B. Recommend new File and Use guidelines taking into account the changed requirements in the de-tariffed regime.

This analysis broadly covered the following points:

1. Classification of products, standardization and feasibility of suggesting new set of wordings in place of current erstwhile tariff wordings being used.
2. Need for differential treatments for filing purposes in respect of retail and commercial lines of business.
3. Standardization of key terms related to non-life insurance.
4. Examining feasibility of Use & File process.
5. Treatment of long term products.
6. Defining what are reinsurance driven products and treatment of such products.
7. Role of different stakeholders in product development process
8. Product Performance Review by the insurer and its submission to Authority.

PART B

Chapter 4 Methodology

The working group adopted the Methodology of Review; Analyse and Synthesize in finalizing and suggesting the recommendations.

As part of the review exercise, the working group had an extensive review of literature and meetings with various stakeholders on the subject. Post the review, the working group had elaborate internal discussions analyzing the various points and framing the key issues for further synthesizing the recommendations. The details of the review and analysis are provided below.

Relevant Legislation

Insurance product has to be compliant with various laws, regulations, guidelines and directions of authority from time to time. This is an important aspect as it ensures that insurance product is designed to ensure not only compliance with these legislations and guidelines but in the process meets larger objective of product being fair and transparent to customer and takes care of policyholders rights and interests in an adequate manner.

The working group identified and studied various legislations and regulatory proviso impacting general insurance products, a list of which is as under:

1. The Insurance Act 1938 and subsequent amendments thereto especially Part I - Definitions, Part II 38, 39 - Assignment or Transfer of Policies and Nominations, Part IIC - 64VB - No risk to be assumed unless premium is received in advance
2. The Insurance Rules, 1939 and subsequent amendments thereto specially Rule 58 – Advance payments of premium, Rule 59 – Relaxation.
3. Part IVA – Insurance Act to check that reinsurance arrangements made by the insurers on the basic contract of the insurer with the reinsurer is not compromised to the disadvantage of the original insured
4. Section 40- Prohibition of payment by way of commission or otherwise for procuring business
5. Section 40A of the Insurance Act, 1938 – Limitation of expenditure on commission
6. Section 41- Prohibition of rebates
7. IRDA (Insurance Advertisement and Disclosures) Regulations, 2000
8. IRDA (Appointed Actuary) Regulations 2000
9. IRDA (Appointed Actuary) Regulations 2013
10. IRDA circular number 27/IRDA/ACTL/NON-LIFE/2009-10 on the 'Role of Appointed Actuaries'
11. Protection of Policyholder's Interest Regulation 2002 and subsequent amendments thereto.
12. Section 14 (2) (i) of the IRDA Act, 1999 – control, and regulation of rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled by the TAC under Section 64U of the Insurance Act, 1938.

13. Group guidelines issued by authority in 2005 and subsequent amendments thereto
14. The Arbitration and Conciliation Act, 1996 and subsequent amendments thereto
15. The Indian Stamps Act, 1899 and subsequent amendments thereto
16. Various circulars issued by authority from time to time for any specific line of business
17. Other law/regulation/direction/guidelines promulgated/issued from time to time by competent authority having bearing on policy provisions, like Motor Vehicle Act, GIM, Workman Compensation Act, Marine Insurance Act etc.

Global Practice

The working group reviewed the practice in other countries, with a view to comparing our product development and approval process with other markets and explore if some good practices could be borrowed for Indian market. A brief summary of practices in some other markets is summarized below.

USA

The National Association of Insurance Commissioners (NAIC) regulates both Life and Non Life Insurance business in USA. The insurers are required to file the products along with statement of compliance online.

For personal property-casualty lines, most of the states require insurers to file rates and to receive prior approval before they go into effect. With the exception of workers' compensation and medical malpractice, commercial property-casualty lines in many states are subject to a competitive rating approach. Under such a system, regulators typically retain authority to disapprove rates if they find that competition is not working.

Premiums for life insurance and annuity products generally are not subject to regulatory approval, although regulators may seek to ensure that policy benefits are commensurate with the premiums charged. Many states subject health insurance rates to prior approval with all other lines using a "file and use" system or no provisions for review and the health products are subject to deemed approved after 45 days.

UK

The Financial Conduct Authority (FCA) regulates the insurance business in UK. Like USA, UK also follows an online mode of product filings through 'Online Notifications and Applications' or ONA. In UK the regulator is generally concerned about the conduct of the insurers. The treatment is mainly 'use and file' and is regularly monitored through periodic performance reviews.

CANADA

The Office of the Superintendent of Financial Institutions (OSFI) is the insurance regulator in Canada. There is a well defined 'Application and approval Guide' for addition and deletion of class of insurance. This guide includes the list of information generally expected for addition/deletion of a class of insurance.

For additional class of insurance, this list includes the description of type of risk, underwriting logics, reasoning, 3 year analysis of the effect of the financial condition, overview of the risk management and control processes whereas for deletion they expect the insurer to provide a letter signed by a senior officer stating that the company has discharged, or provided for the discharge of, unearned premiums, unpaid claims and any outstanding liabilities in respect of the policies underwritten under the class of insurance to be deleted, including a description of the manner in which it has obtained the surrender of the outstanding policies, or discharged, or provided for the discharge of, all of its liabilities under these policies; and a confirmation that all relevant provincial insurance regulators have been notified.

CHINA

In accordance with the Chinese laws and regulations, the China Insurance Regulatory Commission (CIRC) regulates the insurance clauses and insurance premium rates of insurance institutions in China. All the products are required to be submitted online.

All insurance products distributed in China need to be either pre-approved (that is, the CIRC will carry out detailed examination and scrutiny to ensure compliance with laws and regulations before the product is allowed to be distributed and sold) or post registered (that is, any insurance company is allowed to develop freely new / improved insurance products, and it only needs to register the terms / conditions and premium rates with the CIRC within 10 days after first sale).

A detailed comparison of the above is given in the table at Annexure 'A'

Stakeholder Meetings

The working group held meetings with different stakeholders of the non life industry to gather their views on the issues faced by them under the existing F&U guidelines and their suggestions/recommendations on how these could be suitably addressed in the proposed revision to the guidelines. The following stakeholders were consulted for this purpose:

- General Insurance Council
- Underwriters
- Appointed Actuaries
- Brokers
- Corporate Agents
- Specialized Insurance Companies (ECGC, AICL)

Framing Key Issues

Arising out of the discussions with these stakeholders, the following key issues emerged for consideration of the workgroup

Product Classification Related Issues

- Retail Products and Commercial Products
- Exposure Rated Products
- Reinsurance Driven Products
- Large Risks
- Long Term Products
- Add On Products
- Broker led Products
- Product Innovation
- Pilot Products
- Packaged Products
- Customized Products

Retail Products and Commercial Products

Many stakeholders felt that the current product categorization focuses on the underlying basis of rating the product and hence loses connect with the design of the product, which aims to meet the requirement of the intended buyer. The underlying intent of any product is to offer coverage of risks required by the customer and at a reasonable rate. As such, the products must be identified/classified according to the customer/policyholder whose requirement it meets. As such it is only appropriate to classify products on the basis of "who buys it" rather than "how it is priced".

Exposure Rated Products

It came out during discussions with some stakeholders that the provisions relating to Exposure Rated products in the current F&U guidelines lack clarity and must be reviewed to bring abundant clarity about the intention of this classification.

Reinsurance Driven Products

The extant Guidelines do not have a separate classification for such products. However, many insurers file their product with incomplete details on the pretext that the product is reinsurance driven. Many stakeholders indicated that there is lack of clarity as to what product is reinsurance driven. However, most stakeholders suggested a simpler approach to filing reinsurance driven products.

Large Risks

A lot of deliberation took place around the definition of Large Risk as is understood currently. The existing F&U guidelines define Large Risks as typical insurances that are designed for individual large clients and where the rates, terms and conditions of cover may be determined by reference to the international markets. Many stakeholders suggested a review of the Large risks definition that was fixed 8 years back.

Long Term Products

The issue of long term insurance cropped up mainly in the context of long term motor insurance but soon extended to other products. It was observed that while there is no restriction to filing long term products in either Insurance Act, 1938 or the extant regulations, there is a regulatory hitch in approving long term products. The general observation was that the file and use guidelines should bring in absolute clarity on the subject.

Add On Products:

Many stakeholders opined that while the current file and use guidelines are clear about the filing requirements of package products, the filing practice on this has been at some variance from the guidelines and this should be appropriately addressed.

Broker led Products

Brokers have been a strong votary of getting the permission to file products in their name and have them approved. It was quoted that in the international market there is a practice for brokers to design products and sell these products as their products.

Product Innovation

There were suggestions that in order to excel at creating new products, companies must continue to innovate regularly. Regulatory practices must address the core challenges and diverse risks of managing product development in unpredictable markets. Insurers must be encouraged to focus product plans that align the company's strategy and recognize and capitalize on new opportunities.

Pilot Products

Product design and innovation needs sound basis in terms of testing of assumptions, acceptability by the targeted customers and review of financial viability and sustainability. Many stakeholders suggested that this can best be achieved by introducing a "limited edition" product in selected market segment.

Customized and Special Contingency Product

The current Guidelines do not allow customization of any product to meet the unique needs of a client (for products that are not Large risks) and specifically require Special Contingency products to be filed before being sold. The fact that these are unique requirements means that these products cannot be visualized in advance until a customer approaches the insurer with its unique requirements. Stakeholders advocated the need for clear proviso for such products in the File & Use guidelines.

Product Pricing Related Issues

- Pricing Flexibility – Business Price vs. Technical Price, Judgmental Pricing
- Exposure Rating
- Certification of Price by AA
- Cross Subsidies

Pricing Flexibility – Technical Price Vs Business Price

Many stakeholders had a strong view that companies should be given some flexibility to vary the price from the technical price estimated by Actuary and filed with Authority. Stakeholders averred that insurance sold to every customer cannot have "one price" and the demand for this flexibility is justified due to following reasons:

- The factors that could influence the outcome of an insurance contract are many and it is impossible to envisage and price for each of these factors at the time of filing the product
- The concept of "One price" for all customers or "a few prices on few defined parameters" would be akin to a tariff market.
- All prices on defined parameters would throttle skill development of underwriters and would make the art and science of underwriting redundant by moving all underwriting decisions to rule driven algorithm.

Some stakeholders also suggested that the pricing freedom given to a company should be linked to its solvency margin – higher the solvency ratio, higher the pricing flexibility and freedom from filing products with regulator.

There were also suggestions that in many risks it is the underwriter's keen observation of the risk which is more critical in deciding the price rather than data driven past experience. Past data can be good predictor of future outcomes but there are certain attributes that data can't capture.

Exposure Rating

Many stakeholders stated that in some products, where the outcome is highly uncertain and characterized by very low frequencies, as is the case in exposure rated products, underwriters' judgment is very critical since past experience may fail to predict future outcomes. Hence underwriters should be allowed significant pricing flexibility in such products

Certification of Price by AA

Some stakeholders raised the issue that the Appointed Actuary is asked to confirm, with certainty, that the product shall be financially viable at the filed prices. All actuarial methodologies predict future outcomes with some degree of confidence and associated variance. With so much uncertainty around the outcome of general insurance contracts, the current certification is almost akin to asking AAs to guarantee the future outcome of insurance contracts, which is unfair and AAs should be allowed to add qualifications to the price certification.

Cross Subsidies

Some stakeholders raised the issue of cross subsidies between different products and/or between different lines of business and requested that this should be allowed since it is at the very core of insurance mechanism where many customers pay for the losses of a few.

Product Terms / Coverage Related Issues

- Wordings Flexibility – Standard Wordings
- Clarity – Simple / Easy Language
- Legality

Wordings Flexibility – Standard Wordings

It is observed and felt by all stakeholders that various insurance products which have significant retail buyers need to be standardized to ensure that coverage, terms and conditions are adequate, sound and fair from policyholder perspective.

However, companies should have freedom to devise their own product or modify such standard insurance covers for commercial customers who are expected to understand the nuances of insurance purchase.

Clarity – Simple / Easy Language Vs Legality

The definitive guide in any Insurance contract is that it should comprehensively deal with all issues that arise in insurance contracts and enable avoidance of costly errors, litigation and loss of goodwill and reputation. At the same time there is a requirement that the construct of policy wordings should be simple and customer friendly to afford easy readability and comprehension by lay customers. Meeting these conflicting requirements is a challenge.

Stakeholder Issues

- Policyholders Protection
- Shareholders' Interests
- Role of Actuaries and Underwriters
- Product Monitoring – Internal / Regulator
- Regulation and Development
- Power to Regulate / Monitor / Intervene / Stop

Policyholders Protection

It was discussed and agreed by all stakeholders that the product must meet all the regulations and guidelines of the Regulator in this regard and at the same time it is with this intention that the responsibility of complying with it must also protect the interests of policyholders, small or big.

Shareholders' Interests

The shareholders, who are typically not involved in the day-to-day operations of the Company, rely on several parties to protect and further their interests. These parties include the company's employees, its executives and its board of directors. However, some of these parties may have their own interest, which may conflict with those of the shareholders. Product development process must ensure that it balances the interests of all the stakeholders.

Role of Actuaries and Underwriters

The role of Actuaries and Underwriters in developing products and ensuring their relevance, economic viability and sustainability and above all compliance with the Underwriting policy of the insurer and its observance to policyholders' interest cannot be undermined especially in the evolving regulatory regime of risk based capital adequacy and solvency. It is pertinent to lay out norms for their individual roles.

Product Monitoring – Internal / Regulator

It was discussed that currently a lot of due diligence happens at the time of product filing, but the monitoring of the performance of these products is not so structured and strong. Many stakeholders suggested that the regulator must devolve some freedom to insurers by use and file process but strengthen the monitoring mechanism.

Regulation and Development

Some stakeholders pointed out that the objective of the regulator must be to regulate as well as actively collaborate with insurers to develop the insurance market. However, the current product approval process appears to be geared more towards regulation than development and this must be reviewed.

Powers of Regulator to regulate/monitor/intervene/stop

Some stakeholders brought up the issue of sudden withdrawal of products by regulator. Though everybody agreed with the regulator's powers to do so, they suggested that it must be done in a structured and gradual manner to limit the damage to both policyholder and insurer interests.

Other Considerations

Apart from deliberating on issues raised by stakeholders, the working group also deliberated on some of the subjects listed below:

- Global Practices
- Evolving Customer Needs
- Market Conduct
- Speed to Market
- Product Documentation
- Product Modifications
- Retention Limits
- Data Availability
- System Development
- Product Forms
- Sign Off from various Stakeholders

Global Practices

Insurance industry is evolving in India and in order to develop, needs to draw on the experience and borrow best practices from the developed markets.

Evolving Customer Needs

Penetration of insurance critically depends on the availability of insurance products and services. Perception of insurable risks of Indian consumers, competitive pressures arising from integration of bank and insurance, impact of information technology, and the role of insurance industry in financial services industry are some of the forces which shape the competitive structure of the insurance industry and need to be kept in perspective at the time of product development.

Market Conduct

Many stakeholders brought up the issue of unhealthy market practices in the Indian insurance market and suggested that the File and Use process must address some of these issues.

Speed to Market

The Insurance industry of late has perceived that being a service industry, the popularity of the industry depends on the quality of service rendered by the Company, both in terms of innovative products offered in the market, satisfying the need of an emerging India and its speed to market. Timelines for approval of products were laid down for clearance of products by the IRDA and there is need to reduce the time lag in delay in meeting these timelines arising due to complexity of the product, the price proposed, features, terms and conditions of the proposed product.

Product Documentation

Some stakeholders brought up the risk of post-approval tinkering of the products features and prices and lack of a structured system of documentation and protection related to product development process. This also creates problems in audit of the product development and approval process. It was felt that there must a policy of maintenance and protection of product approval related documents.

Product Modifications

At the base of any innovation is a strong structure of modification of existing product. This core principle applies to Insurance products equally. The modalities and processes for structured modifications should be simple and unencumbered so that the twin objectives of innovation and speed to market are not jeopardized.

Retention Limits

Some stakeholders raised the issue of product ownership in instances where the product is mostly reinsurance driven and the local insurer retains very little on it. The product performance in such cases may not reflect on the direct insurer's competence and this issue should be addressed separately in the file and use guidelines.

Data Availability

The pricing of products should generally be based on support of appropriate data. Insurers while pricing both individual and commercial lines of products have to factor in risk exposure, experience, reserves, all expenses and a reasonable and moderate amount of surplus. However, most stakeholders raised the issue of non availability of data for new companies and new products for even established companies.

Modular Approach to product development would lead to clear enunciation of covers and hence would lead to a structured approach to collect and analyse data related to each cover so that any ambiguity is avoided while arriving at the specific modular components of a product.

System Development

Stakeholders talked about the difficulty in having the IT systems being ready before the product launch due to the time lag required to develop systems for a new product.

Product Filing Forms

It was discussed that the product filing related forms were designed in 2006 and these must be reviewed in order to bring it in line with the current market requirements.

Sign Off from various Stakeholders

Some stakeholders brought up the issue that the file and use guidelines specify the roles of several insurance experts in the product development process. However, there is no structured process to obtain their considered view by way of a well documented sign off before initiating product filing.

Chapter 5 Guiding Principles

The institution of insurance thrives on trust of customers on insurers, since the insurers' promise of paying the customers' losses in case of an insured exigency is redeemed much after the date of sale of insurance. It is, therefore, of paramount importance for insurers and the regulator to establish trust of customers in the insurance system. The need to establish trust becomes all the more critical in a detariffed scenario where there is plethora of products with differing coverages and wordings which introduces complications as opposed to simplicity of a operating in a standard tariffed era. For this trust to exist and thrive, insurers need to be transparent about all types of products sold in the market, both to the regulator the policy holders.

Hence the purpose of these F&U guidelines is to create a simple and elegant product development and usage architecture in a detariffed era, which would strive to usher in a high degree of market standardization for existing simple products with enough scope for customization to take care of evolving needs of various risk groups / customers as also foster innovation by introducing special products for emerging specialized/unique risks.

The insurance product development and approval process should be governed by the following guiding principles:

- Evolving risk needs of the customer to be kept in mind while developing new products and revising existing products.
- The product should be a genuine insurance product of an insurable risk with a real risk transfer. "Alternate risk transfer" or "financial guarantee" business in any form should not normally be accepted unless IRDA takes a considered view on allowing such products.
- Insurers are not normally expected to offer financial guarantees or other contracts that are called insurance but are in fact, lending arrangements. Insurances which guarantee the financial performance of the person insured should not normally be permitted. Invariably, the event insured should be an unforeseen occurrence not under control of the insured. Any indirect insurance products such as insurance derivatives may not also be permitted normally till IRDA takes a considered call on allowing such products
- All products in the market should be filed with IRDA, though the process of filing may differ for different classes of products.
- All products should go through appropriate due diligence to ensure Protection of Policyholder Interests and should comply with the requirements of the IRDA (Protection of Policyholders' Interests) Regulations 2002.
- Products should be fair and non-discriminatory to all stakeholders of an insurance product.

- The policyholder should not be forced to buy covers that he/she does not need as a pre-condition of being granted some other benefit that he/she needs.
- The product design should ensure adherence to the basic principles of insurance like Insurable Interest, Indemnity, Utmost Good Faith, and Proximate Cause.
- Products should be need based so that unnecessary and superfluous coverages are not added and the necessary ones are not excluded.
- The design of insurance product should take care of Policyholders' Reasonable Expectations.
- Design and rating of products must always be on sound and prudent underwriting and actuarial basis and should provide clear and transparent cover that is of value to the insured. Prudent underwriting and actuarial basis means that the insurer should only offer insurance of risks that are quantifiable and manageable and where the premium can be properly assessed.
- All literature relating to the product should be in simple language and should follow a similar sequence of presentation as far as possible, for easy understanding by the public and all technical terms should be sufficiently clarified for understanding by laymen.
- Insurers should use similar wordings for describing the same cover or the same requirement across all their products, such as clauses on renewal of insurance, basis of insurance, due diligence, cancellation, arbitration, claim reporting etc. It is expected of the Indian insurance market to develop benchmark Indian Market Wordings for all such clauses/terms.
- Insurance product design should ensure transparency and clarity in wordings of terms, coverage, exclusions and conditions in order to devise a fair and balanced risk transfer mechanism through insurance.
- The terms and conditions of cover shall be fair between the insurer and the insured. The conditions and warrantees should be reasonable and capable of compliance. The exclusions should not limit cover to an extent that the value of insurance is lost.
- There should be no effort to mislead the reader to assume that the product is offering protection that it really does not, or that it offers such protection subject to limitations and conditions that are not easily apparent.
- The pricing of products should generally be based on support of appropriate data and/or technical justification. Insurers while pricing both individual and commercial lines of products have to factor in risk exposure, experience, reserves, all expenses and a reasonable and moderate amount of surplus. The pricing of products should be based on support of appropriate data and/or technical justification.
- Margins built into rates shall be consistent with the experience of the insurer in respect of commission, expenses of management, contingencies and profit.
- Where the proposed schedule of rates is derived from an existing schedule of rates, there should be adequate statistical information on the claims experience at current schedule of rates.
- Where the rates are based on the generally prevailing market level of premium rates, the insurer should be able to demonstrate the reasonableness of the variation from the currently prevailing level of rates.
- Where the rates proposed are based on reinsurance market level of rates, the insurer should be able to demonstrate that the rates of the reinsurance markets have been properly ascertained and represent rates quoted by reinsurers of repute.

- Where the rates are based on non-insurance technical data, the insurer should be able to defend the logic underlying the establishment of the estimated claims costs from which the rates are derived.
- It is permissible to have two sets of rates, namely rates subject to payment of agency commission and net rates where the client comes direct. However, the insurer should make due allowance for the expenses it will incur for doing the work that an agent or broker will do when the business comes through him.
- In case of all products under File & Use, there should be provision to inform the policyholder well in advance of expiry date if his insurance is not to be renewed.
- Where renewal is offered subject to terms being mutually agreed, it should not be treated as a means of avoiding renewal by insisting on very high renewal premium.
- Cancellation by the insurer should only be allowed with sufficient period of notice so that the policyholder will have enough time to find alternative insurance cover. Cancellation just because the insured made a claim should not be allowed.
- The policy should provide simple disputes resolution procedures and also state in simple language the process of arbitration of disputes. In respect of products using telemarketing or e-selling as channels, particular attention should be paid to the safeguards to be taken to prevent improper selling practices.
- The contract wordings should clearly indicate if the product is likely to be withdrawn or not. If yes, it should indicate if the insurer would like to migrate the customer to any similar product.
- The time allowed for reporting of claims should be reasonable. The policyholder should not be required to do things that are onerous after a claim to maintain his/her eligibility for protection nor should the policyholder be prevented from resuming his/her business expeditiously by the claims process.
- All efforts should be made to incorporate Risk prevention and Mitigation processes at the very inception of developing a product so that the underlying risks can be appropriately managed by way of avoidance and minimization. Fraud / abuse / leakage should be incorporated as risk mitigation measures in product design and monitoring to eliminate moral hazard.
- Insurer should take necessary steps in ensuring that competition will not lead to unprincipled rate cutting and other improper underwriting practices.
- In an emerging risk based solvency regime, efforts should be made to assign risk based capital to all products and monitor results to gauge the continuing need of capital for products. This will aid in developing an actuarially sound and robust internal economic capital model.

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Chapter 6 Recommendations

1. Applicability

The recommendations apply to all insurance products whether or not governed by the erstwhile tariff and includes all products that are in the market and approved by Authority under any of the earlier File & Use guidelines. *But this may not include any insurance product that is governed by IRDA Health Insurance Regulations, 2013.*

These may replace the earlier guidelines as detailed later.

2. Definitions

The following definitions may be recommended as part of the new approval system. These definitions are only for the purpose of quick reference and the detailed discussion on these is given in the respective part of this report.

a) <u>Non-Life Insurance Product</u>

For the purpose of these guidelines a non-life insurance product includes the following:

- Any insurance plan, by whatever name it may be called, that offers any insurance benefit to a group of clients for a consideration (usually premium)
- Any rider, add on, clause, endorsement or any proviso that seeks to add or remove a benefit/s of an insurance plan for a consideration (usually premium)

b) <u>Retail Product</u>

Retail products are those products that are sold to individual customers.

c) <u>Commercial Product</u>

Commercial products are those that are sold to entities other than individuals and will include firms, companies, trusts etc.

d) <u>Standard Product</u>

These are the products for which the Indian general insurance market has developed common benchmark wordings/definitions and shall include such product as notified by authority from time to time after standardization process.

e) <u>Add on Products</u>

Add on products seek to add or remove a benefit/s of an insurance plan for a consideration (usually premium) and may be known by the name of rider, clause, endorsement etc

f) **Package Products**

Package products are products which are package of existing approved products or covers in a product.

g) **Special Contingency Contracts**

Special Contingency contracts are policy contracts covering a genuine insurable risk of a unique nature which is a one off requirement for one customer and may not be required by other customers.

h) **Government Products**

These are products sold to government (not to any Government Undertaking or PSU) to either cover assets of government or for the benefit of beneficiaries. It would include insurance plans for agricultural, rural and social sector etc. launched from time to time by government.

i) **Group Products**

These are products which are sold to a group as per the provisions of group guidelines issued by regulator vide circular 015/IRDA/Life/Circular/GI Guidelines/2005 dated 14th July 2005.

j) **Long Term Products**

Long term products are those non life products that have a period of more than 1 year, but may exclude project based covers where the project period is more than one year.

k) **Pilot Products**

Pilot products are those products which are temporary launched by insurers to test market a new product concept for a short period of time in a defined pilot area with defined exposure limits.

l) **Reinsurance Driven Products:**

Reinsurance driven products are those products where the rates, terms and conditions of cover may be determined by reference to the reinsurer. Products where reinsurance is used only for capacity purpose will not fall under this category.

m) **Broker led Products**

Broker led products are those products where the product wording, terms and conditions are proposed by a Broker.

n) **Large Risks**

Large risks are:

(1) Insurances for total sum insured of Rs.2,500 or more at one location for property insurance, material damage and business interruption combined;
(2) Rs. 100 crores or more per event for liability insurance.

o) <u>Product Management Committee</u>

Product Management Committee is a committee of the Board constituted for the purpose of efficient management of insurer's products

p) <u>File & Use</u>

A File & Use System is where the Insurer is NOT permitted to market the product without prior filing / approval of IRDA.

q) <u>Use & File</u>

A Use & File System is where the Insurer is permitted to market the product without prior filing / approval of IRDA.

3. Product Classification

Existing File & Use guidelines classified products into two broad classifications, namely class rated products and individual rated products. They were further classified into 5 sub-categories.

1. *Internal tariff rated products*
2. *Packaged or customized Products*
3. *Individual experience rated products*
4. *Exposure rated products*
5. *Insurances of large risks*

This classification served the purpose in the initial phase of de-tariffing. However, over the years it was felt that a product does not always display the same character as envisaged for a particular category and might fall into another category depending upon the nature, size, exposure of the risk and client. It was felt that product classification should be more customer focused and product related regulation should keep in mind the customer's ability to make a prudent decision in buying an appropriate insurance product with adequate coverage, fair terms and conditions and at a reasonable price. r Further, keeping in mind the need to manage exposures arising out of large risks and need to package covers to customize products based on the need of the customer, such products would need to be revised keeping in view the type of customer.

In view of above a revised classification of products is proposed on the basis of nature of customer. It is recommended that insurers will have to adhere to this basic classification.

The non-life insurance products may be classified into two broad categories:

- Retail Products
- Commercial Products

a) Retail Products

Retail products are those products that are sold to individual customers. However, there is no bar on selling a retail product to commercial customers, The underlying idea is that the retail product has already gone through a detailed due diligence process and if the insurer feels that the product meets the insurance needs of a segment of commercial customers, it may sell it to commercial customers also.

Wherever there is a joint insurable interest in a subject matter of insurance and one of them is individual, they will also be treated as Individual customer for the purpose of this product classification. *Retail policyholders represent one end of the market. In view of lower penetration of insurance in India awareness of insurance product among retail customers is minimal. This makes them vulnerable to being sold products/terms/coverage that is not in conformity with their coverage needs. It is important to protect the rights of such policyholders to avail appropriate covers leading to growing confidence of public at large in insurance, which in turn will add to greater penetration in future. Keeping in mind the current stage of development of Indian market it is important that retail products are prudently regulated to ensure necessary and essential safeguards.*

This definition was finalized after a lot of deliberation on the plank that this is simple, auditable and is unlikely to have any interpretational issues.

b) Commercial Products

Commercial products are those that are sold to entities other than individuals and will include firms, companies, trusts etc. A product conceptualized and approved for commercial customers ***shall not*** be sold to retail customers.

Commercial policyholders represent another end of the market. Commercial policyholders represent that segment of the market which possesses more awareness and knowledge about insurance products and have the necessary wherewithal to understand the coverage provided under the policy to ensure it meets their requirement. They are less vulnerable to being sold inappropriate insurance coverage and hence such policies requires more amount of self regulation and greater freedom for insurers in developing and introducing products in this space which will help the market to grow and usher in more product innovations to cater to unique nature of evolving commercial risks.

Working group deliberated on the need for further segmenting commercial products into micro, small, medium and large on the basis of level of awareness of insurance products for each segment of commercial customers. It is likely that all commercial customers may not have the same level of knowledge and capacity to ensure that they get fair coverage, price and treatment from the insurer. However after considering pros and cons of the various alternatives the working group is of the considered view that we should not create any further *categories in commercial (except Large Risks defined later) to avoid interpretation and operational issues.*

Working group also deliberated on other major product categories, product related terminologies which are commonly use in the industry that need to be discussed for the sake of abundant clarity. They are:

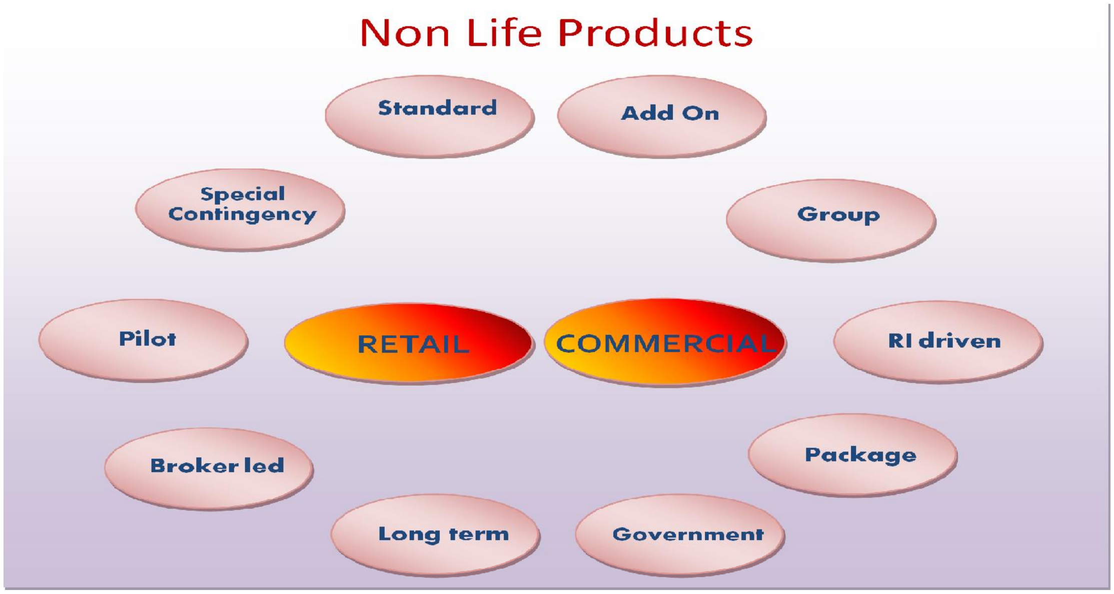
- Standard Products
- Long Term Products
- Government Products
- Pilot Products
- Package Products
- Add on products
- Group products
- Reinsurance driven products
- Large risk contracts
- Special Contingency Contracts

While working group felt that these products need to be discussed and clarified for the sake of all stakeholders, these will ultimately have to be classified as retail or commercial for the purpose of filing with the regulator.

In addition to above product categories, two special types of risks have been recognized, which are not products but special insurance contracts, viz;

- Large risk contracts
- Special Contingency Contracts

Working group felt that clarity should be provided for above special insurance contracts to ensure common understanding for such contracts and principles governing those contracts so that such offering is transparent and within the regulatory norms.



c) *Standard Products*

These are the products for which the Indian general insurance market shall develop common benchmark wordings and shall include such product as notified by authority from time to time after undergoing industry initiated standardization process.

Indian insurers currently have two sets of policy wordings. One set of wordings derive from erstwhile tariff products and second set of policy wording are devised by various insurers which largely falls under miscellaneous class of insurance. Insurers at present are not allowed to modify Tariff wordings. It is observed and felt by all stakeholders that various insurance products which have significant retail buyers need to be standardized to ensure that coverage, terms and conditions are adequate, sound and fair from policyholder perspective. Standardization of such products should be done in such a way that wordings are simple, clear and unambiguous so that it leaves no room for different interpretations by various stakeholders mainly insurers, policyholders, and courts / forums / ombudsman. Standardization should encompass following.

1. *Definitions of various key terms used in various policies and all insurers have to follow the same definition even if they do not use the standardized policy wording.*
2. *Standard product specific wordings for various exclusions and conditions which are generally commonly used by all insurers.*
3. *Standard wordings for various add on covers, clauses, endorsements which are optional in nature and can be offered in conjunction with standard products.*

It is recommended that the market may adopt the existing tariff products and their wordings as Standard Products. Apart from standardization, market benchmark pure risk premium rate should also be worked upon and published from time to time. It should be reviewed and revised at an interval of two years or earlier if product performance so requires. Insurers then can refer to these benchmark pure risk premium rates and price their product by suitably marking up for other cost components, margins etc. Subsequent to this other common retail products falling under miscellaneous class should be taken up for standardisation.

Apart from obvious benefits to policyholders and industry at large this will help immensely new companies entering the market who can adopt such standard market wordings and price them according to their own underwriting and rating philosophy and file with regulator. This will drastically reduce product development cycle time and facilitate easier start-up of operation.

However, companies would have freedom to devise their own products which are different from such industry initiated standard insurance covers. Existing companies having approved products in this space would continue to use the approved product wording. In case they wish to switch over to standardized wording then they need to withdraw existing filed product and file with the regulator as being recommended in the report. .

It is envisaged that this all industry level standardization initiative will be implemented under the aegis of GI Council. GI council may constitute product working groups in respect of various line of business such as fire, marine, motor and miscellaneous. Miscellaneous class of business can be further sub divided depending upon nature of products and market it caters to. Following sub division is proposed for Miscellaneous class as a recommendation;

1. *Liability(Casualty and Financial)*
2. *Rural and Agricultural*
3. *Credit*
4. *Others*

This work group may consist of experienced underwriters and actuaries from the industry and it will be responsibility of this work group to develop standardized wording and industry benchmark pure risk pricing. This work group shall use industry wide data available with IIB or data from any other source deemed fit from product development and pricing perspective.

Such standardized product and benchmark pure risk premium will be filed with IRDA by GI council. IRDA will review and approve such standard products/ bench mark price with unique identification number. This will be published on IRDA and GI council website apart from circulating to existing insurers. Such products will be then available for adoption by insurers.

d) Long Term Products

Long term products are those non life products that have a period of more than 1 year, but may exclude project based covers where the project period is more than one year. The exclusion of project based insurance from the definition of Long Term covers is based on the fact that project related covers are usually linked to project period which may be more than one year.

Long term products require taking into consideration time horizon and consequent increase in exposure and uncertainty associated with perils covered under the policy such as act of god perils. Longer the tenure, lesser is the predictability of financial outcome of the insurance contract. To ensure sustainability of such products it is therefore imperative that greater care is taken in designing such products to account for increased uncertainties due to long tail coverage so that such sustainable long term products be adequately priced keeping in mind long term risk trends and uncertainties. Long term products should be backed up with *appropriate actuarial basis for pricing and reserving to ensure rating adequacy and prudent reserving.*

The erstwhile Fire Tariff had allowed cover matching with housing loan tenure for dwellings without any cap on tenure. This continues to be used in the market till date and serves a critical need of seamless fire insurance cover for home owners and home financiers. On the Motor insurance front, TAC had introduced long term two wheeler third party insurance in late 1990's. Recently IRDA has again allowed up to 3 years two wheeler third party insurance. In several other countries long term personal lines insurances are popular and are sold as investment linked insurance. However, there are not many examples of long term products in commercial lines. Hence, after considerable deliberation on the issue of long term products for non life, the workgroup recommends the following in respect of long term products:

- The term of any new product proposed after the notification of new file and use guidelines may be restricted to 5 years, in the normal course
- Existing long term products approved under any of the earlier file and use guidelines may be allowed to continue subject to their satisfactory performance
- IRDA may encourage insurers to design long term products for retail and rural customers and examine them on case to case basis and may consider approving products for term longer than 5 years also especially in those categories where products with longer than 5 year tenure already exist in the market.

e) Government Products

These are products sold to government (not to any Government Undertaking or PSU) to either cover assets of government or for the benefit of beneficiaries. It would include insurance plans for agricultural, rural and social sector etc. launched from time to time by government.

Government is a large buyer of many socially relevant insurance products on behalf of Indian population. Many of these products are designed by Government and insurers get very little time to get the product approved. Many a time, the requirement is to just adopt the product as proposed by Government. Since Government is not an individual, typically all these products would be commercial.

f) Pilot Products

Pilot products are those products which are temporary launched by insurers to test market a new product concept for a short period of time in a defined pilot area with defined exposure limits.

Post de-tariffication of the general insurance market, it was expected that insurers will come out with innovative products to cater to the large insurable population of the country. Insurers did introduce some new products, but its pace has left much to be desired. One of the reasons cited for this was the file and use process that required complete filing before any sales could happen. Many a time, insurers develop a product concept but are not sure of the response it *will get from the customers. The work group felt a compelling need to give insurers some leeway for experimentation and innovation. Pilot products are expected to provide this opportunity to insurers to experiment and innovate for the larger penetration of insurance.*

In such a pilot product exercise, it is critical that insurer acquires the targeted number of customers for testing the concept and implicit assumptions. This may require customer promotion exercises to ensure continued customer engagement throughout the policy duration for achieving any meaningful results. Insurer, if so required, may file the promotion plan prior to launch of any such exercise for necessary advice. Authority may examine this and propose a guideline for such promotions in due course.

g) Package Products

Package products have two variants.

- One where products are package of existing approved products or covers. Cover should not be construed as an individual peril covered in the policy and should be capable of being developed into a standalone insurance product. Such covers wherever covered in any product should be in the form of independent section with its own coverage, conditions and exclusions. Such products or covers which are being packaged are filed products/covers without any change/modification and shall follow the same underwriting guidelines and pricing logic as filed.
- Two, where entirely new package is being developed with entirely new covers or mix of new and existing approved covers.

h) Add On Products

Authority allowed add on products to be introduced by insurer in tariff products in 2008 and since then insurers have filed various add on covers in tariff products. Add on products seeks to add or remove a benefit/s of an insurance plan for a consideration (usually premium) and may be known by the name of rider, clause, endorsement etc. Add On products should follow the basis product, its classification and filing and approval system. Add On products are basically an extension to basic policy. An add on to a basic policy, however, cannot change the fundamental nature of the parent policy and have to be consistent with basic principles of insurance. Add on products can have their own limits and deductibles. Add On products will also be either for retail customers or for commercial customers and will follow the fortunes of the base product which they add to.

Add on covers must meet the following criteria:

1. Provides additional coverage/benefits not covered under the base product or remove coverage/benefits included in the base product
2. Such add on covers must meet the criteria for insurance product envisaged in this report.
3. It should have linkage to the base product
4. It should be quantifiable and separate premium should be charged / deducted for such additional cover/removal of cover.

Monitoring of performance of such Add on covers independent of base product and together with base product is an important aspect of product performance review.

All attempts should be made to create a modular approach to classifying such add on products so that both premium and claims arising out of such add-on coverage are tracked from a data perspective to ensure actuarial viability of such add on products.

i) Group Products

These are products which are sold to a group as per the provisions of group guidelines issued by regulator vide circular 015/IRDA/Life/Circular/GI Guidelines/2005 dated 14th July 2005. These will typically be commercial products since they are bought by entities who are not individuals.

Many a time the end customers in a group policy are individual retail customers. But the group buyer is invariably an entity. The dynamics of a group purchase are different from that of a retail purchase, be it insurance or any other goods or service. The approval process for group products was deliberated amongst the members of working group and many a time the opinion veered towards treating these products as retail.

However the working group tried to distinguish between two kinds of group products as below:

- Group Retail Products: These are those group products where the members of the group pay the premium and have the right to purchase insurance or not. The entity to which the group members belong is just a group administrator without any interest in buying insurance for its group members. Such group products behave more like retail products and ideally should be treated as such. Extended warranty product sold through motor manufacturers will be one example of such a product. . Hence such group products sold on a voluntary basis to each individual member would follow a file and use approach as for retail products.
- Group Commercial Products: These are group products where the entity to which the group members belong, purchases insurances for the benefit of its members and typically will cover all members in insurance. Group policies sold to commercial entities would follow the use and file approach as for commercial products.

The price and product terms/coverage of group products should be governed by the corresponding retail products and any change in covers and/or terms and/or conditions of the filed product is not allowed. Price of group products may be different than that arrived from the retail price on account of lower expenses of management, lower commissions and/or different experience than the retail product. However, any such deviation in price shall be done only on the basis of deviations allowed by Appointed Actuary of the company and being noted by PMC.

j) Reinsurance Driven Products:

As per existing F & U guidelines, Reinsurance driven products are those products where the rates, terms and conditions of cover may be determined by reference to the reinsurer and where insurer do not have any similar filed product. Products where reinsurance is used only for capacity purpose will not fall under this category. Reinsurance driven products may fall either under retail category or under commercial category.

The existing file and use process affords a differential approval process for reinsurance driven products. However, after a detailed discussion on the subject, in view of the proposed new classification, the members reached a conclusion that any which ways the reinsurance driven product would fall in either retail or commercial class. In case it falls in retail class, the product would be driven by a reinsurance treaty, the terms and price of which would be known to insurer in advance. Hence file and use approach for these products should not pose any problem to insurers.

In addition to above product categories, two special types of risks have been recognized, which are not products but special insurance contracts, viz;

- Large risk contracts
- Special Contingency Contracts

Working group felt that clarity should be provided for above special insurance contracts to ensure common understanding for such contracts and principles governing those contracts so that such offering is transparent and within the regulatory norms.

k) Large Risks Contracts

After a lot of deliberation on the subject the work group reached a conclusion that Large Risk Products, as talked about in the existing File and Use Guidelines, are not products in their own right since each contract can have customised wording/terms/conditions. The work group felt that unless a similar insurance contract is sold to a group of customers, it does not fall in the definition of "product". The work group recommends calling them Large Risk Contracts

Large risks are:

(1) Insurances for total sum insured of Rs.2,500 or more at one location for property insurance, material damage and business interruption combined;
(2) Rs. 100 crores or more per event for liability insurance.

This is in line with existing guidelines. The existing F&U guidelines define Large Risks as "Large risks are typical insurances that are designed for individual large clients and where the rates, terms and conditions of cover may be determined by reference to the international markets. It is expected that the insurer will quote terms in line with the terms quoted by reinsurers including the extent of cover and deductibles and claims conditions.

The working group deliberated upon the appropriateness of both increasing and decreasing current limits for large risks. Increasing the same in view of enhanced current domestic capacity and hence the lesser need for facultative reinsurance would mean that the current risks which are classified as large risks and having access to customized non tariff wordings would, necessarily, be required to revert to tariff coverage. This was not deemed as a customer *friendly move without the underlying tariff wordings being liberated and customization being allowed in this segment.*

On the contrary decreasing the limit would in turn have an effect of customers having risks below the large risk definition being exposed to the dangers of customization without them and the market being ready from an awareness and maturity perspective.

Hence it was felt that the large risk definition should be kept intact till such time that proper regulatory approved Indian market wordings for the current tariff products are evolved by the GI Council as a market initiative as a part of the transition approach.

l) Special Contingency Contracts

Special Contingency contracts are policy contracts covering a genuine insurable risk of a unique nature which is a one off requirement for one customer and may not be required by other customers. These are not categorised as product since they are sold to just one customer.

There are situations when a customer comes across with genuine insurable risk of a unique nature which is a one off requirement only for that customer and may not be required by other customers. These requirements are far and few but do come across many insurers once in a while. Such contracts for an individual customer may be allowed subject to the following condition;

1. *There is no filed product with the insurer which meets customer requirement.*
2. *Such identical product cannot be sold to more than one customer. If so then it should be filed as separate product and shall follow the filing process as per classification into retail and commercial.*
3. *Such contracts will have to be approved by PMC of the company.*

In addition to these product categories, some other product categories have been in use or have been demanded by some stakeholders. These product categories will essentially map to either Retail or Commercial. Although these product categories have not been recognized as a category within this report, a brief discussion on these products and how they map to retail or commercial is produced in the ensuing paragraphs for the sake of completeness of various kinds of products being used in Indian market.

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m) Broker led Products

During the course of interaction with brokers, it was suggested that brokers be allowed to introduce product in the market.

There is no denying the fact that Brokers are important stakeholders in the insurance industry and have contributed to its development, both in terms of technical and product related inputs as well as development of insurance market. In several jurisdictions, brokers have the freedom to introduce their wordings which are allowed by the regulators. The work group deliberated in detail on this issue and came to a conclusion that brokers' have a stake in the product development process and their contribution to this should be recognized and encouraged. In *the considered view of the work group, it is recommended that brokers desirous of introducing any new product may approach any insurer for considering the same and the insurer may adopt the product as it is or with modifications and take it through the approval process depending upon the class to which the product belongs. As carriers of the risk insurers the insurer will remain accountable for all the products conceptualized by them or by brokers and adopted by them.*

Products of Specialist Mono-line Insurance Companies

Specialist insurance companies like Agriculture Insurance Company of India Limited and ECGC Limited play a very crucial role in providing specialized cover to a niche group of customers. The working group deliberated on the products sold by these insurers and arrived at a conclusion that most of the products of these companies should fall in the commercial category. As such these products may follow the approval process under the Use and File system. However, for retail products of these companies, they will need to follow the File and Use system for their retail product approval. The filing forms for the products may be somewhat different than those for the other products and shall be designed after the acceptance of this report by IRDA.

4. Product Management Committee

Each non-life insurance company may set up an internal Product Management Committee to review and approve all the products that are being / will be sold by the insurer. It is recommended that this Product Management Committee may be formed as a Board level Committee. The Committee can create a Product Management Policy (an expanded Underwriting Policy) and may delegate powers to the management of the company for day to day operations and put in place mechanisms to ratify decisions.

Self regulation is said to be the best regulation. Corporate governance practices are gaining traction across all industries and insurance industry is no exception to it. Under the direction and support from IRDA through its corporate governance guidelines, each general insurance company has created a corporate governance structure that is overseen by its board. Hence, it is in line with the growing importance of corporate governance that product development process undergoes an internal governance system before regulator gets involved in it.

Insurance products are complex and many times the lay customers do not fully comprehend the financial implications of what they are buying, whether it meets their needs and effectively manages the risks they are exposed to and whether the price being asked is fair. At the same time insurance products can make or mar the financial health of the company due to the financial risks that they cover in return for a price. Each insurance product has several stakeholders:

- *Customers / Policyholders*
- *Company Shareholders*
- *Insurance Regulator*
- *Sales and Marketers*
- *Insurance Distributors*

    - *Agents*
    - *Bank Partners*
    - *Dealers*
    - *Other Corporate Agents*
- *Sales Intermediaries*
- *Underwriters*
- *Claim Handlers*
- *Actuaries*
- *Accountants*
- *Other Company Employees*

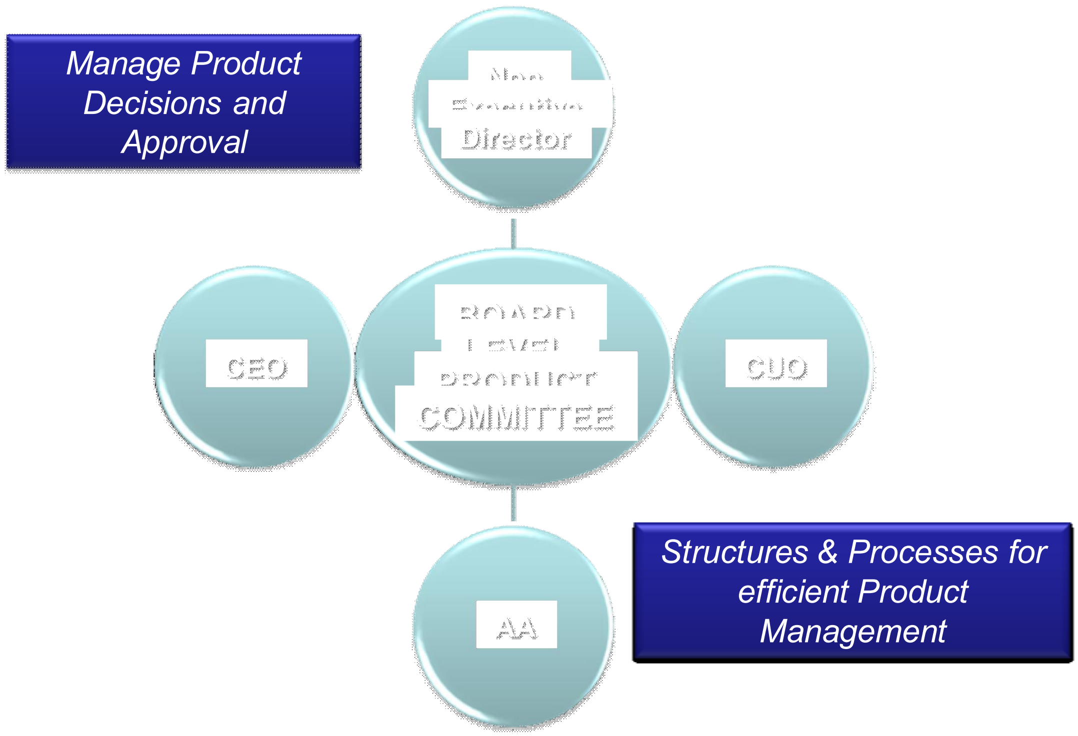
It is important that all insurance products balance the interests of all the above stakeholders and the product development process in each company should necessarily have a structured approach to ensure this. IRDA is conscious of the fact that the insurers and Appointed Actuaries could have been broadly discharging this duty; the purpose of creating a separate internal governance system is to provide a framework to insurers so that this aspect of product development could be attended to in a more structured way with appropriate documentation. The Corporate Governance guidelines issued by Authority recommend several board level committees to effectively manage various risks arising out of investments (Investment Committee), non adherence to regulations/laid down procedures (Audit Committee), Policyholder interests (Protection of Policyholder Interests Committee) and others.

The working group felt that at the core of insurance functions lie its Products for which there is very little internal self governance mechanism. Hence it was felt that an internal self governance mechanism that oversees the product development and approval process may significantly minimize the risks for insurers and will be better placed to balance the interests of all stakeholders.

It is recommended that the PMC will report to the board (not to any committee or subcommittee of the board) and will assist the board in effective control over the risks posed, in particular, by insurance products being sold by the insurer. In order to meet its obligations towards the board, the PMC will carry out a due diligence process and record its concurrence/sign off on various product related risks for all product filings before any insurance product is sent to IRDA for approval. The Board may however delegate the day-to-day responsibility to the Appointed Actuary and Principal Officer of the Company with due ratification process in place during its next meeting. The due diligence process through internal PMC will apply to all kinds of products whether these fall in Use & File or File & Use category or any other product category that IRDA may introduce from time to time. The committee will hold its meetings as and when required but not less than once a year. However, if the committee has delegated some of its responsibilities to the Appointed Actuary and Principal Officer of the Company, it MUST hold the meeting at least once a quarter to ratify the decisions taken by AA & Principal Officer during the intervening period.

The companies may wish to consider including other persons in the PMC if they believe that the inclusion of any such person will add value to the due diligence process. The company may also create internal work groups to suitably support the PMC (which may include the CMO / CFO and the CRO, Compliance Officer, Head for reinsurance etc).

The designations used here (Chief Underwriting Officer, Chief Marketing Officer etc) are only indicative. In case a company does not use these designations, the principal officer of the company may propose the name of the officer who performs functions closest to these designations.



Role of PMC

The role of the PMC will include the following, inter-alia

- To create appropriate structures and processes for effectively managing the operations in the entire product lifecycle
- To ratify any product related decisions by the management if delegated
- To assist the board in effective management of risks associated with the products being sold by the company
- To present to the board the product performance report, as presented by AA, at least once in a year.
- To apprise the board of the residual risks and its impact on company's capital for the products on which it has done its due diligence during the period intervening two board meetings.
- To ensure that the underwriting policy covers all the aspects of business as required and that it is relevant in the context of evolving regulations and market complexities
- To ensure that all the necessary data and/or assumptions have been provided to the AA for the purpose of pricing of the product
- To ensure that the IT systems are in place before the product is sold and the systems are capable of capturing the necessary policy and claims data to enable the company in general and AA and underwriters in particular, to analyze the emerging experience of the product and whether it is in line with the assumptions.

- To ensure that the claims settlement process is in place for the product and all claims handlers have been trained in the claims settlement process

The roles and responsibilities of some members of the committee have been laid down in some regulation/s or regulatory guidelines/circulars. However, many a time, these roles and responsibilities, though equally important from the product perspective, may be more indicative in nature than specific. Therefore, in order to bring absolute clarity in the role of each member from the product perspective and even at the cost of repetition, the roles of members have been defined herein. However, these guidelines do not define any particular role for Principal Officer and Directors and they are assumed to have an overall responsibility for ensuring that a robust due diligence process is in place to mitigate risks of new and current products.

Role of Appointed Actuary

- To ensure that due diligence has been carried out on the product development process and pricing in accordance with Appointed Actuary regulations, 2000, Appointed Actuary Regulations, 2013 and all other regulatory guidelines, circulars and directions in force.
- To document all the assumptions used in product pricing and the basis of those assumptions
- To analyse the financial implications of risks covered in the product and build these into the rating of product on sound and prudent actuarial basis
- To confirm that the margins built into rates are consistent with the experience of the insurer in respect of commission, management expenses, contingencies and profit
- Analyze the impact of product on the capital and solvency margin of insurer and inform the management and board of additional capital requirement, if any, to maintain solvency margin
- Determine and inform the PMC about the data and system requirements, both at the time of underwriting and claims, to enable the company analyze the emerging experience of the product on a regular basis
- To advise the PMC about the basis on which URR, PDR should be calculated for the product
- To present product performance report to PMC along with recommendations

Role of Chief Underwriting Officer

- To check and confirm that similar wordings have been used for describing the same cover or the same requirement across all the products in the company.
- To check and confirm that the product is in conformity to the board approved Underwriting policy of the company and that the Underwriting policy is relevant in the context of evolving regulations and market complexities
- To check and confirm that the product and its features satisfy all the Basic principles of insurance
- To check and confirm that the product is customer need based, the contingencies covered are clear and provide transparent cover which is of value to policyholder. The terms and conditions of cover are fair between the insurer and the insured.

- To check and confirm that the product is a genuine insurance product of an insurable risk with a real risk transfer.
- To check and confirm that all the literature relating to the product is in simple language and easily understandable to the public at large

These roles are indicative in nature and the company's board may expand these roles or more clearly define them. Many of these roles may also appear stating the obvious. Still these have been produced here in an attempt to avoid any interpretational gaps. In case a company wishes to include other persons in the PMC, it must define their roles of each member of the committee. In order to fulfil its responsibilities, PMC may ask any officer of insurer to confirm on the due diligence done by him/her in respect of the product presented for approval. Indicative role for some potential members of PMC or the officer from whom PMC may seek confirmation on due diligence for the products is produced below:

Role of Chief Financial Officer

- *To check and confirm that the commissions built in the product are in line with regulatory guidelines and actual commissions paid will not exceed those allowed under regulations*
- *To confirm that the accounting for the product premium and claims shall be done in accordance with Indian GAAP/regulatory guidelines*
- *To apprise the PMC about the tax implications of the product, if any*
- *To coordinate with AA in identifying the additional capital requirements that the product may pose*

Role of Chief Marketing Officer

- *To identify the target segments to which the product would be sold*
- *To indicate the volume of business that the company plans to achieve over future three years after the product approval*
- *To confirm that the product would be sold only by IRDA authorized intermediaries*
- *To confirm that all the distributors and company sales staff would be appropriately trained in the product and sales process*
- *To confirm that appropriate systems would be set up to avoid and minimize sale of the product mismatching customer need*
- *To present to PMC periodic report on cancellations due to product sales not matching with customer need and action plan to reduce the cancellations.*

Role of Chief Risk Officer

- *Integrate the risks arising of the proposed product into the company's risk management framework*
- *Coordinate with Appointed Actuary, Chief Underwriter and other product stakeholders in the company to*
    - *identify and assess non insurance risks*
    - *quantify these risks*
    - *recommend an effective mechanism to minimize these risks to the PMC*

- *quantify the residual risk and recommend providing for these in the compoany's financial statements*

Role of Head Reinsurance

- *To assess the reinsurance requirement for the product from risk perspective and arrange suitable reinsurance that reduces overall risk arising from the product*
- *To ensure that reinsurance cessions, If any, for the proposed product follow Reinsurance Regulations and any other guideline/circular/direction of IRDA*
- *To identify if there are risks that are not likely to be covered by reinsurance and the company will retain these risks on its books. Analyse and apprise the PMC of the financial implication of such risks.*

Role of Compliance Officer

- *To ensure that the product development process, including reporting requirements to IRDA are followed by the company in letter and spirit*
- *To ensure that the product does not breach any of the laws, regulations and extant guidelines, circulars and directions of IRDA*

5. Product Approval System

The work group had detailed deliberations on this with all the stakeholders as well as within the work group members.

The product approval process needs to balance the interests of all stakeholders in a way that:

- *IRDA is in the full know of products that are being sold in the market*
- *IRDA is assured that design of products meet all the Guiding Principles enumerated earlier.*
- *Insurers are able to respond with speed to the ever changing consumer needs in terms of innovative insurance products that meet these needs.*

The final outcome of these deliberations is the following dual approval system..

Use & File System

A Use & File System is where the Insurer is permitted to market the product without prior filing / approval with IRDA.

Almost all stakeholders during the stakeholder meetings articulated the need for a Use & File system. This is linked with the need for speed to market where insurers need to respond to consumer needs within reasonably short period of time. Hence the collective view of the working group members was to recommend a Use and File mechanism with appropriate controlling mechanism to protect the interests of all stakeholders.

The workgroup recommends allowing insurers to market the product post approval of PMC without prior approval of IRDA.. However it is recommended that insurer should file the product within 7 working days from approval by PMC. The documents to be filed along with filing to Authority may be prescribed in details by Authority in its communication to industry.

File & Use System:

A File & Use System is where the Insurer is NOT permitted to market the product without prior filing / approval with IRDA. Approval of Authority may mean a tacit approval or noting by Authority without any further query or observation.

File and Use system has been in place since 2002. However, keeping in view the need for a greater level of due diligence at company level, it is proposed that all products that have to be filed with Authority should be internally approved by PMC before being sent to Authority. The need for this was felt on the basis of feedback received from Authority that products are being filed with them without a proper due diligence and documentation process. The discussions with other stakeholders also indicated a lack of seriousness in following the old File & Use guidelines in letter and spirit. Hence, the group felt that approval of the product from an internal PMC will bring the desired level of seriousness and due diligence in product development and approval process and will usher in a better product specific risk management culture within each insurance company. Insurer may not be permitted to market the product until expiry of 30 days from the date of receipt of the product filing with Authority.

6. Products and Approvals Mapping

It is recommended that insurers shall classify all their products irrespective of any other type, category or terminology mentioned in the report into two broad classifications i.e. Retail and Commercial and shall follow the filing process accordingly.

Retail Products

It is proposed that all the products in this class would follow file and use process as envisaged in this report.

Commercial Products

It is proposed that all the products in this class would follow use and file process as envisaged in the report. However, long term commercial products will have to go through use and file system.

The exception from this F&U system may be made for Standard Products, Pilot Products, Packaged Products / Special Contingency contracts and Government Defined Products which can be through a U&F system.

For the sake of clarity following is recommended for various categories as defined in the report.

Standard Product

A standard product will either map into a retail product or a commercial product and will be filed accordingly. However, the fact that the wordings of the product are standard, IRDA / PMC should take lesser time in approving products since they would need to do due diligence on product pricing only.

Long term Products

It is proposed that all the products in this class including commercial products would follow file and use process as envisaged in this report.

Government products

These are products sold to government and will follow use and file process.

Pilot Products

Pilot product can be launched through a use and file process.

However the insurer shall file the product within 30 days of the launch.

Once pilot is completed insurer will inform to the regulator that they have stopped selling the product.

After the pilot, if the insurer wants to launch the product as it is or with some modifications, it will need to go through the approval process depending upon whether it is a retail product or commercial product.

Package Products

Package products would follow Use & File process if the package is simply an amalgamation of existing products or covers without any change in coverage, terms, conditions or price. Any other packaging will follow the approval process depending upon which class of products it belongs.

Add on products

Add on products for retail products will follow file and use process and for commercial products use and file.

Group Products

Group Products will follow Use and File process for commercial customers and File and Use process for retail customers.

Reinsurance Driven Products

These products will follow the approval process depending upon whether they are retail product or commercial product.

Large risk contracts

Large risk contracts may follow Use and File process. For speedy decision making, if the board has delegated IRDA of customization to this group of customers, all such decisions will have to be ratified by the PMC

Special Contingency Contracts

Special Contingency Contracts would follow Use and file process and will not have UIN. These products will be approved by PMC either by way of prior approval or ratification if the company's board has delegated IRDA to its executives

Broker led Products

There is no separate approval process for broker led products. As and when such products are allowed these products will follow the approval process depending upon whether they are retail product or commercial product.

In the non-life space there are few specialised insurers such as AIC and ECGC who cater to a specific market segment. Going forward also there may be new specialised insurer in this segment. It is observed that existing specialised insurers are catering to commercial segment and government led insurance initiatives in agriculture sector. It is recommended that such companies also follow the same product classification principle for product filing purpose.

The product approval process will include several forms designed to elicit crucial information about the product apart from policy wording, underwriting guidelines, proposal form, claims form, prospectus, customer information sheet, technical note from Appointed Actuary, sign off forms from different officers of insurer, PMC approval of the product and the like. However, the design of these forms will critically depend upon the final shape of guidelines as approved by IRDA. Hence the forms have not been made part of this report.

Minor Modifications in Products

Many a time insurers want to make minor modifications. As an illustration some minor modifications are given below but this is not an exhaustive list of all possible modifications:

- Change in proposal/claims form to either capture more information or remove some information
- Change in the prospectus/customer information sheet/brochure to bring more clarity about the product
- Change in policy schedule to capture more/less details

The working group feels that filing of products with IRDA for such small modifications will not serve any useful purpose. Hence it is recommended that all such modifications may be approved by PMC subject to the company's Appointed Actuary confirming that:

- The changes in no way have any financial implications either for customer or for insurer
- The changes will not mislead the customer in believing something that the product does not offer

7. Underwriting Policy

The Underwriting policy of the insurer should be placed before the Board of Directors (and not merely a committee or sub-committee of the Board) for their approval.

The Underwriting policy may cover the following at the minimum:

- The underwriting philosophy of the company in the matter of the underwriting profit expectation;
- The product management policy of the company clearly indicating the following:
  - The constitution of the Product Management Committee
  - The rights and responsibilities of the committee
  - The rights and responsibilities of the members of the committee
  - The frequency of meetings of this committee
  - Documentation policy stating how the minutes, proceedings and product related documents shall be maintained so as to be available for audit by Authority

- The segment of commercial customers for which it would want to adopt approved retail products so as to avoid customization for small commercial customers
- The product withdrawal and re-pricing philosophy clearly stating the business volume and combined ratio threshold failing which it would like to withdraw/re-price the product

- Whether each product should stand on its own or cross-subsidy among products sold to one client will be acceptable. [It is important for the Board to note that even though a client's total portfolio may be profitable overall on gross basis, the position on net of reinsurance basis can be a loss because different percentages are reinsured in different classes of business;
- Whether the insurer will underwrite any business on a planned underwriting loss basis and if so, how the Board will control the effect of such underwriting on the insurer's solvency margin and the aggregate exposure to such losses; the Board should be conscious of the likely need to further strengthen the capital of the insurer following underwriting losses;
- The margins that will be built into the rates to cover acquisition costs, promotional expenses, expenses of management, catastrophe reserve and profit margin and the credit that will be taken for investment income in the design of rates, terms and conditions of cover, and how they will be modified based on the actual operating ratios of the insurer;
- The list of products that will fall into each of the product categories; it is recognized that this list may change from time to time, in which case, whenever a product is placed in a category or transferred to a different category, such modification should be reported to the Board with a copy of the note for Board and the Board's decision being filed with IRDA;
- The role and extent of involvement of the Appointed Actuary in review of statistics to determine rates, terms and conditions of cover in respect of internal tariff rated risks and products designed for a class of clients;
- The internal audit machinery that will be put in place for ensuring quality in underwriting and compliance with the corporate underwriting policy; and
- The procedure for reporting to the Board on the performance of the management in underwriting the business, including the forms and frequency of such reports.

Company's product management that would essentially include product design, rating, terms and conditions of cover, approval related sign offs and underwriting activity should be consistent with the approved Underwriting policy of the Board. A copy of the Underwriting policy paper as approved by the Board should be filed with IRDA without delay. Subsequent changes if any, made from time to time with the approval of the Board, should also be filed with the IRDA without delay. Even where the Board delegates IRDA to define and execute the Underwriting policy to the management, it should only be done on the basis of a clearly defined statement of Underwriting policy approved by the Board and the management should work within the scope of such policy. Design and filing of products explained later shall only be done in conformity with the Underwriting policy approved by the Board.

The File & Use guidelines issued in 2006 mandated a board approved underwriting policy for each company. The underwriting policy, as conceptualized by the regulator was very detailed and is still equally relevant. However, it was felt that with the Use & File process being proposed in this report, there is a stronger need to establish a living linkage, on a day to day basis, of a company's product management philosophy with its underwriting philosophy. This becomes imperative since the proposed product approval process would require approval of all its products/customized contracts from the Product Management Committee, whether under File & Use or under Use & File. It should not so happen that this committee is swamped with large number of products falling under Use & File in the name of customization for small and medium commercial customers. Hence it is proposed that the Underwriting Policy, apart from including underwriting related policy statements, should also include product management related policy statements. A large part of the proposed Underwriting Policy has been adopted from the earlier File & Use guidelines with appropriate modifications to include product management related policy issues.

8. Pricing Flexibility

During the meetings of working group with stakeholders, many stakeholders had a strong view that companies should be given some flexibility to vary the price from the technical price estimated by Actuary and filed with Authority. Stakeholders averred that insurance sold to every customer cannot have "one price" and the demand for this flexibility is justified due to following reasons:

- The factors that could influence the outcome of an insurance contract are many and it is impossible to envisage and price for each of these factors at the time of filing the product
- The concept of "One price" for all customers or "a few prices on few defined parameters" would be akin to a tariff market.
- All prices on defined parameters would throttle skill development of underwriters and would make the art and science of underwriting redundant by moving all underwriting decisions to rule driven algorithm in computer

However, from the actuarial and regulatory perspective, there are concerns on the predatory pricing and deviations from the filed prices. IRDA has many a times clearly indicated that it is uncomfortable with rates being offered below burning cost.

Keeping in view the market dynamics and the need for pricing sanity, it is recommended that the Appointed Actuary, if he/she deems fit, may allow pricing deviation to the extent of acquisition cost and profit margins built in the product pricing, but the price of any contract must not go below this deviation. However, this deviation may be subject to IRDA approval and is conditioned on insurer maintaining a Combined Ratio below 100%. In case of combined ratio of any product breaching 100% mark, Appointed Actuary may withdraw the flexibility allowed.

9. Technical Audit Team

Audit is a necessary risk management and control process to ensure that the intended processes put in place are scrupulously followed by all employees and officers of the insurer. The File and Use guidelines 2006 mandated setting up of Technical Audit team to ensure that all underwriting and pricing of products was done in compliance with the File and Use guidelines. This working group retains the proviso and recommends that the audit team should conduct the technical audit at least once a year for all lines of business and submit its report to the Board through the Product Management Committee.

10. Unique Identification Number and Product Documentation

Each product will be identified by using the corresponding Unique Identification Number (UIN). However, special contingency contracts and large risk contracts would not need UIN since these are special contracts for a few customers and do not fall in the category of product.

The PMC should document its Approval Process in individual Product Binders (physical) specially created for this purpose. The product binders should include all the documents to be filed to regulator along with sign offs/assertions from other stakeholders, any other relevant information and its observations / recommendations / approval to the product. The product binders should include the in minimum following product details among others:

- Unique Identification Number (UIN)
- Proposed Benefit Structure
- Underwriting Guidelines
- Terms and Conditions
- Technical Note
- Other relevant information
- Sign Off from various internal stakeholders

In the absence of the binder, the internal approval would not be valid. The PMC must make available the product binders to the Regulatory Audit team as and when required.

The workgroup felt that the identification of both products and add on within products should follow a modular approach for proper identification and subsequent tracking.
A summary of the suggested identification process is as follows:

1. *Each product filed with IRDA should be allocated an unique identification number by way of an unique product code(either alphanumeric or numeric in nature) which should make it easy for both IRDA and the concerned insurer to refer to the product and collect all information and data connected to the use of this product*
2. *Each add on under this product should be allocated an unique identifier by way of a sub series under the mother product code. This will enable both tracking of these add ons separately and also as a part of the whole product. Policies issued with one or more of these add ons can thus be grouped together as a homogenous class within the heterogeneity of several add ons filed within a product.*
3. *Modification / revision of either the product and the add ons should continue with their original unique numbers as applicable unless a product and/or a add on is withdrawn.*
4. *In case of a withdrawn product/add-on the original unique product/add-on code should be extinguished so as to prevent any subsequent confusion in tracking such products. These*

withdrawn products/add-ons should be then identified as run-off products and/or add-ons and should hence be accordingly monitored.

5. *For use and file class of products, authority may introduce web based system where companies can upload the product online and generate UIN number before marketing the product.*
6. *Each insurer can have their own product codes to track such products. However each of these codes should, at all times, be matched to the regulator allocated product/add-on code. In any confusion between the two the regulatory allocated unique code/number will prevail for the purpose of identification and monitoring.*

11. IRDA's Right to question Terms and / or issue directions

If, at any time it appears to IRDA that a product being sold by an insurer is not appropriate for any reason or does not carry rates, terms and conditions that are fair between the parties or the documents used with the product are in any way unsatisfactory, notwithstanding the fact that that Authority may have had subsisting queries in respect of that product when it was originally files, it may express its concerns and call upon the insurer to answer the concerns of Authority with regard to that product, within the time specified by Authority. If the insurer is not able to satisfy IRDA in the matter, IRDA may require the insurer to suspend the sale of that product until it is modified in a manner acceptable to IRDA or withdraw the product from the market. Where a product is withdrawn from the market under this provision, the insurer shall not use the same trade name for any other product. *This is to deal with cases, inter alia, where the insurance information is misleading or cases of improper pricing that come to the notice of Authority.*

Authority may require an insurer to justify the rates, terms and conditions of insurance offered to a particular client or to a class of clients or for a particular product, within the time specified by Authority. A mere statement that the risk is rated "on merits" will not be acceptable unless the quantification of the merits can be objectively demonstrated satisfactorily. After hearing the insurer, Authority may issue such directions as appropriate in relation to that insurance or that product, as the case may be. *This is to enable action in case of predatory pricing.*

12. Role of GI Council

GI Council will help the regulator move to an effective Use & File system by creating industry required standard product wordings, known as ***Indian Market Wordings***, and benchmark market prices.

General Insurance Council, as an industry body has demonstrated, by action, that it can play a very constructive role of balancing the interests, at times conflicting, of regulator and insurers. As the insurance market place becomes more complex and regulations move to the next strata of higher level oversight leaving industry to self regulate, as has been recommended in this report for products, the role of GI council assumes ever greater significance.

It is envisaged that GI council may create Line of Business wise committees comprising underwriters and actuaries and IIB representatives to create these. GI Council may adopt a modular approach to products and break each product into small modules, where coverage for each product would be unique, but many of the terms, conditions and clauses may be similar across products, e.g. Renewal, Cancellation, Claim reporting, Arbitration etc. The standard wordings for these terms, conditions and clauses would have a unique identifier allotted by Authority and can be used as such by insurers in their product filing. GI council may maintain a library of these terms in a web based data base with user access control to insurers and IRDA. If an existing term is modified or a new term is designed which is not available in the database, then it needs to be first proposed for inclusion in the database before the product is launched. Similarly, GI Council, through its committees may coordinate with IIB to develop industry level benchmark prices on the basis of industry level data being collected by IIB. These benchmark prices may also be made available on GI council website through user access control.

13. Validity of Product Approval

Every product has a limited life and needs to be reviewed ground up to ensure it remains relevant to all the stakeholders even after the efflux of time and the concomitant changes it brings in the customer preferences, customer behaviour, external environment and all those factors that have interplay with an insurance product performance. Although the report recommends annual review of all products and this should automatically trigger need for product and/or price revisions, there is no proviso in the existing guidelines about the validity of product approval. From the regulatory standpoint, a product once approved stands approved till eternity. The Health Insurance Regulations introduced in Feb 2013, for the first time, introduced the concept of product approval validity. The regulations require all products to be re-filed after five years from the date of approval. The work group deliberated on this issue and recommends that the validity of product approval may be fixed at 5 years from the date of approval. After this, the product must be refilled, either under File and Use or Use and File, as the case may be.

It is important to consider the implication of this for existing approved products which were approved at different points of time since 2001. Following situations can be visualized:

1. The counting of 5 year validity starts from the date of original approval of products. This would mean all products that were approved prior to 2009 (assuming notification of new guidelines in 2014), would have to be immediately re-filed for approval. This would mean a sudden rush of product approval process for all insurers and a glut of product filings with IRDA.
2. The counting of 5 years starts from the date of notification of new guidelines (or the date of allocation of UIN to existing approved products by IRDA). In this case, insurers would avoid the product approval rush immediately, but at the end of exactly 5 years all the products in the industry would fall due for re-filing and would create a glut at IRDA.

Either of the two situations visualized above is not a desirable option. As an alternative the work group recommends the following:

- IRDA may issue the UIN to all existing approved products.
- The validity of 5 years may apply to all products approved by IRDA after the date of notification of new guidelines (or the date of allocation of UIN to existing approved products).For all existing products the validity will be treated till eternity until any of the following conditions is met:
  - The insurer wishes to modify the product or files an Add On/Clause/Rider, in which case the 5 year validity period will start counting from the date of approval of product
  - The Appointed Actuary/Board/IRDA finds the product performance unsatisfactory on any parameter and recommends refilling the product.
- It is quite possible that some products complete 5 years after their approval but are performing quite satisfactorily and the insurer does not wish to make any changes to the product, be it in the product price or its coverage, terms or conditions. In such a scenario, IRDA may allow a simple re-filing consisting of a certificate from CEO and Appointed Actuary along with product performance report.

The above system is expected to afford a staggered approach to bringing all the products under a 5 year approval validity system over a period of time.

14. Product Withdrawal

The decision to withdraw a product should be taken by the company's Product Management Committee

The reason for withdrawal of a product should be clearly documented and filed with IRDA along with the product withdrawal information

All customers of a withdrawn product must be informed through written communication at least twice. The first such communication should be sent at least 3 months before the expiry of the policy and the second at least one month before expiry. The communication should also include if the customer is being offered any option to migrate to a similar product in accordance with the conditions of the product.

Each product has a certain life cycle and needs to be reviewed both from customer perspective as well as insurer perspective after some time and withdrawn to usher in a newer product. While this may be true for most non insurance products, it is only partly true for many general insurance products. A look at some of the products in the industry would indicate that these have been around for a fairly long time with only some cosmetic changes in recent time. Having said this, the working group felt that insurers may feel the need to withdraw certain products for following reasons, inter-alia:

- *The product has failed to achieve critical sales volume,*
- *The product is not tenable due to profitability and pricing concerns*
- *Product revision is such that old and new products should not co-exist to avoid customer confusion*

- *Product has failed to meet the interests of all stakeholders and poses unacceptable risks to the company*
- *IRDA has instructed the insurer to withdraw a product*

The current File & Use guidelines do not mandate a structured product withdrawal process and it was felt by the working group to address this in the interest of customer interest so that the customers of withdrawn products are not taken by surprise.

The Health insurance regulations, 2013 mandate guaranteed renewability of all health insurance products. The need for retaining a similar proviso was deliberated amongst the members of the working group and it was felt that the nature of non-health general insurance products is quite different from health insurance products. While the guaranteed renewability of a health insurance contract is highly desirable to minimize customer detriment, it is not so for non health general insurance products and insurers should have the freedom to withdraw some products and not offer a similar product. This freedom for insurers is critical if they have to be encouraged to innovate and come up with innovative risk solutions, which can be withdrawn if not found sustainable and may not have a similar product to offer as replacement.

15. Product Performance Review

The Appointed Actuary may periodically review the product performance of all products / add on covers in a structured manner and present it to the PMC at least once a year along with his / her recommendations. This product performance report along with AA recommendations, PMC observations and board observations may be sent to IRDA by 31st August of every year for the preceding financial year.

The analysis is supposed to be carried out to ascertain if the assumptions used while pricing the product are valid after gaining the product experience. The analysis should cover the following minimum items:

- Sales volumes expected Vs actual
- Claims incidence rate assumed Vs actual
- Claims severity assumed Vs actual
- Commissions planned Vs actual
- Expenses of management planned Vs actual
- Loss Ratio and Combined Ratios assumed Vs actual
- Capital impact assumed Vs actual
- Mis-selling / Grievances expected Vs actual

In many developed markets, the regulator does not get involved in the nitty-gritty of the product approval, but focuses at the end result i.e. the implication of the products on the financial health of the insurer and the consumer interest. This can be achieved by a strong product monitoring process. Many stakeholders also articulated the need for the regulator to devolve the product approval process to companies and focus on yearly monitoring of product performance. Now that the report recommends a large part of product approval process may move to the companies under the Use & File process, the need for an effective monitoring mechanism, both at individual company level and at Authority level, cannot be *overemphasized. Hence this report recommends a strong and well structured product monitoring process at the end of every year.*

The Appointed Actuary, under its regulatory responsibilities, is expected to periodically analyze the emerging experience of all the products. IRDA may require AA to periodically review the product performance of all products / add on covers in a structured manner and present it to the PMC at least once a year along with his/her recommendations. The product performance may be done at the minimum for each product that has a Unique Identity Number.

For Special Contingency Class of insurance contracts and large risk contracts where insurers are allowed customization on Use and file basis, the performance analysis may be done at Class level i.e. for all Special Contingency contracts together as a class. The need for product level performance analysis is based on the philosophy that each insurance product should be financially viable and should minimize customer detriment.

IRDA may specify the level of details for assumption testing, but the working group felt that the list above should be done at a minimum on the following (and where required at appropriate sub-product levels). This product performance report along with AA recommendations, PMC observations and board observations should be sent to Authority every year for the preceding financial year.

16. Transition

IRDA may suitably notify the effective date of this new system. The working group recommends an effective date at least 3 months from the date of notification of the guidelines.

- Any new products from the effective date will go through new system
- Any existing product as on the effective date should be reviewed for product performance by Product Management Committee within a period 6 months.
- The existing products approved under current file & use system as on the date effective date should be documented within a period of 3 months and sent to Authority under the new product classification system. Authority will issue a UIN to all the products in existence.
- The current products already filed with IRDA and awaiting approval should either be cleared or rejection before the effective date for enforcement of new F&U guidelines.
- Any new sale (including renewals) after expiry of 6 months from the effective date should go through the new product approval system
- Till the time GI council has created Indian Market wordings for different standardized products, any product falling under the tariff product will be governed by File and Use system as proposed.

The recommended product classification and product approval process are significantly different from the existing product classification and approval process. Hence an appropriate transition mechanism, bearing in mind the interests and the adaptation speed of different stakeholders, is critical for smooth implementation of the proposed system of product approval. However, the transition mechanism and the nitty-gritty of the mechanism greatly depend on *acceptability of the recommendations of this report. Acceptance of some parts of the recommendations and the transition mechanism for it could be significantly different from that if the recommendations are accepted in totality.*

17. Property & Casualty Forum

It has already been discussed that General Insurance Council, as an industry body has demonstrated, by action, that it can play a very constructive role of balancing the interests, at times conflicting, of regulator and insurers. However, by its very design GI Council is a body created to take care of insurers' interests. The insurance industry Operates with the active support and participation of several other stakeholders like surveyors and loss assessors, lawyers, insurance distributors, motor manufacturers and repair garages etc. Currently there is no joint forum where all these stakeholders can come together and discuss issues of common interests. The workgroup felt the necessity to form a multi stake holder body as a part of the transition to a new F& U system. The regulator may set up a Self Regulatory Industry Body with a multi-faceted role in the developmental issues surrounding the insurance industry. As one of its roles, this body could look at initiatives for standardization and maintain standard documents and standard 'masters' to be used in the industry, as also take steps to bring about uniformity in the processes of handling claims. As a second role, the body will create strong deterrents against misuse or fraud in the system, which will include a role for the body in maintaining a database of fraudulent entities, as also investigate or otherwise legally pursue cases of suspected or reported fraud brought to the attention of the body by the industry, and to suggest common action against such entities which the entire industry would follow. The body could be collectively set up by the Insurance Industry with representation of Non-life Insurers, consisting of actuaries, Underwriters, GI council and with representation from other non life industry stakeholders like motor car manufacturers/garages, surveyors, lawyers and others for collectively servicing the insurance business.

Vision for the P&C forum

The Working Group drafted the following, short vision statement,

P&C forum will focus on being a lever in the overall development of the economy.

This vision highlights the nature of the equation between insurers and relevant industry stakeholders linked together by commercial and product interplay. There is a need to ensure that the "DNA" of the new P&C forum imbibes this dynamic.

18. Guidelines / Regulations

These recommendations may be suitably drafted initially as guidelines and later as regulations after internal review as required.

The working group debated amongst itself whether the product approval process should be notified by Authority as Guidelines or Regulations. It has been observed that after *guidelines/regulations are implemented, several practical and genuine issues come to the fore, which could not have been envisaged even after views are invited by Authority by the route of exposure draft. Hence it is proposed that Authority may notify the product approval process through Guidelines, to begin with. After a lapse of reasonable period during which Authority and insurers would have gained sufficient experience, it may consider converting the Guidelines into Regulations with suitable modifications, if required.*

PART C

Chapter 7 Other Details

Members List and Terms of Reference

The following are the members of the Working Group.

1. Shri Suresh Mathur, IRDA – Chairman of the Workgroup
2. Shri Pankaj Kumar Tewari, IRDA – Member – Convenor
3. Shri Anurag Rastogi, HDFC ERGO General Insurance – Member
4. Shri Arunachalam R, Cholamandalam General Insurance – Member
5. Shri Ashesh Anupam, Tata AIG General Insurance – Member
6. Shri Sanjay Dutta, ICICI Lombard, General Insurance – Member
7. Shri P.K. Mahapatra, United India Insurance – Member
8. Smt. Anuja Shiromani – Oriental Insurance – Member

Abbreviations / Acronyms

AA	Appointed Actuary
IRDA	Insurance Regulatory and Development Authority
PMC	Product Management Committee
CUO	Chief Underwriting Officer
F&U	File and Use
U&F	Use and File
Authority	Insurance Regulatory and Development Authority

Annexure "A"

Country	INDIA	USA	UK	CANADA	CHINA
Regulatory Body	Insurance Regulatory and Development Authority (IRDA)	National Association of Insurance Commissioners (NAIC)	Financial Conduct Authority (FCA)	Office of the Superintendent of Financial Institutions (OSFI)	The China Insurance Regulatory Commission (CIRC)
Nomenclature	File and Use	Product Requirements Locator	ONA- Online Notifications and Applications	Application and approval Guides	Insurance policy filing process
Mode of Filing	Hard Copy	Online (Along with online statement of compliance)	Online		Online
Class of Insurance	• Class Rated • Packaged products • Experience rated • Exposure rated • Large Risk	• Personal property-casualty lines • WC, Medical malpractice and Commercial property-casualty lines • Health Insurance • Life and Annuity • Other Lines		-	• Personal (Life, health and PA) • Property (property, Liability and Credit)
Treatment / Approval	Except large Risk all are Prior Approval	**Prior Approval** • Personal property-casualty lines • Health Insurance **Competitive Rating Approach** • WC, Medical malpractice and Commercial property-casualty lines **No Regulatory Approval (only ensure benefits wrt premium)** • Life and Annuity **File and Use (with no review)** • Other Lines		**Addition of class of Insurance** Reasoning, underwriting info, distribution channel, SWOT, 3 year analysis, overall solvency etc **Deletion of class of Insurance** Letter by Senior official Confirmation that all relevant regulators are notified	**Prior Approval** • Property (property, Liability and Credit)- Standard product **General Provisions** • Personal (Life, health and PA) **Post registered (only register T & C within 10 days of first sale)** • Property (property, Liability and Credit)- New/Improved product
Approval process	Deemed approved after 30 days	Deemed approved after 45 days (for Health)			To revert within 20 days
Withdrawal		20 days advance written notice			_
Revised pricing		For health products- performance, justifications, AA Certifications.			_