

Insurance Regulatory and Development Authority of India

Press Note

Insuring India by 2047 - New landscape for Insurance Sector

Insurance Regulatory and Development Authority of India (IRDAI) has committed to enable '*Insurance for All*' by 2047, where every citizen has an appropriate life, health and property insurance cover and every enterprise is supported by appropriate insurance solutions and also to make Indian insurance sector globally attractive. To attain this objective, efforts are being made towards creating a progressive, supportive, facilitative and a forward looking regulatory architecture to foster a conducive and competitive environment leading to wider choice, accessibility and affordability to policyholders. This reform agenda taken up by IRDAI derives inspiration from the Government of India's vision of financial inclusion and strong emphasis on accelerating reforms.

The focus of IRDAI is to strengthen the three pillars of the entire insurance ecosystem viz. insurance customers (policyholders), insurance providers (insurers) and insurance distributors (intermediaries) by

- making available right products to right customers;
- creating robust grievance redressal mechanism;
- facilitating ease of doing business in the insurance sector;
- ensuring the regulatory architecture is aligned with the market dynamics;
- boosting innovation, competition and distribution efficiencies while mainstreaming technology and moving towards principle based regulatory regime.

Towards this objective, amendments to various regulations were proposed and were placed for stakeholder comments. This was followed by a series of discussions and interactions with insurers, intermediaries (including individual agents, corporate agents, brokers, insurance marketing firms,.) and experts. A careful evaluation of comments and suggestions was carried out. The amendments to regulations were also placed before the Insurance Advisory Committee (an advisory committee for consultations formed under the IRDA Act 1999).

Some important proposals approved in the 120th Meeting of the Authority held at its headquarters in Hyderabad on Friday, 25th November 2022:

1. Registration of Indian Insurance companies

The amendments to regulations pertaining to registration of Indian insurance companies are aimed at promoting ease of doing business and simplify the process of setting up an insurance company in India. Key highlights of the amendments are

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- i. Investment through Special Purpose Vehicle (SPV) has been made optional for Private Equity (PE) Funds enabling them to directly invest in insurance companies, providing more flexibility.
- ii. Now, subsidiary companies are also allowed to be promoters of insurance companies (subject to certain conditions).
- iii. Investment up to 25% of the paid up capital by single investor (50% for all investors collectively) will now be treated as ‘investor’ and investments over and above that will only be treated as promoter”. [Earlier the threshold was 10% for individual investor and 25% for all investors collectively]
- iv. A new provision has been introduced to allow the promoters to dilute their stake up to 26%, subject to condition that the insurer has satisfactory solvency record for preceding 5 years and is listed entity.
- v. Indicative criteria for determination of ‘Fit and proper’ status of investors and promoters has been included
- vi. Lock-in period of investments for investors and promoters has been stipulated on the basis of age of insurer.

2. Increase in tie-up limits for intermediaries

In order to enable the policyholders/prospects to have wider choice and access to insurance through various distribution channels and facilitate the reach of insurance to the last mile, the maximum number of tie ups for Corporate Agents (CA) and Insurance Marketing Firms (IMF) have been increased. Now, a CA can tie up with 9 insurers (earlier 3 insurers) and IMF can tie up with 6 insurers (earlier 2 insurers) in each line of business of life, general and health for distribution of their insurance products. The area of operation of IMF has also been expanded to cover entire state in which they are registered.

3. Regulatory sandbox

The Regulatory sandbox is a framework which provides a testing environment to the companies to enable them to test their innovative products, technologies, etc., in a controlled regulatory setting. It promotes innovation and technological solutions in the industry. Certain amendments were also carried out in the Regulatory Sandbox Regulations to allow the insurers/intermediaries to do experimentation on an ongoing basis by increasing the experimentation period from ‘6 months’ to ‘upto 36 months’ and moving from the existing batch-wise (cohort approach) clearances/approvals to clearances/approvals on a continuous basis. A provision for review of rejected applications under sandbox has also been introduced as a part of amendments.

4. Other forms of capital

In order to facilitate ease of raising other forms of capital viz., subordinated debt and/or preference shares, the requirement of prior approval from IRDAI is dispensed with. The amendments have also enhanced the limits for raising such capital (threshold limits increased from 25% to 50% of paid up capital & premium, subject to 50% of Net worth of company). This will enable companies

to raise the required capital in timely manner. Amendments have been introduced for Board's Oversight in raising such capital.

5. Appointed Actuary

Appointed Actuaries (AA) play a pivotal role in the operations of an insurer. To ensure sufficient supply of Actuary professionals in the industry, the experience and qualification requirements have been made flexible. Maintenance of solvency by the insurers is a critical aspect of the health of an insurer and AA play a significant role in maintaining the solvency levels. The responsibility of AA has been enhanced by introducing provisions for identification, monitoring, reporting and recommending actions to be taken for the risks affecting the solvency position of the company. Obligations have also been placed on insurers to ensure that the AA can discharge his responsibilities appropriately.

6. Solvency Norms for General Insurers

With an objective of facilitating the insurers to efficiently utilize their capital and resources and to increase insurance penetration in Crop Insurance, the period for considering State/Central Government premium dues for calculation of solvency position has been increased from 180 days to 365 days. The solvency factors related to crop insurance are also reduced to 0.50 from 0.70 which will release the capital requirements for insurers by around Rs. 1460 crore.

7. Solvency Norms for Life Insurers

In order to enable efficient utilization of capital by life insurers, the factors for calculation of solvency provided in regulations are revised as follows:

- i. For Unit Linked Business (Without Guarantees) - reduced to 0.60% from 0.80%.
- ii. For PMJJBY - reduced to 0.05% from 0.10%.

This will provide a relaxation in capital requirements by around Rs. 2000 crore.

Other major interventions

8. Listing of Insurance Companies

Listing of insurers in the stock exchanges allows the insurers to raise capital. It will also enhance the transparency, efficiencies and accountability of insurers. IRDAI has given final approval to Go-digit General Insurance Company for listing. Also, in-principle approval to IndiaFirst Life Insurance Company Limited has also been provided for listing.

9. Merger of Exide Life Insurance Co. Ltd. with HDFC Life Insurance Co. Ltd.

The insurance sector in India has witnessed few consolidations. The Authority has approved the merger of Exide Life Insurance Company with HDFC Life Insurance Company.

10. Registration of Kshema General Insurance Co. Ltd.

Registration of Kshema General Insurance Co. Ltd has also been approved in this meeting and the company will soon start its operations. Also, 19 applications are in pipeline at various stages, out of which one is expected to be approved in the next meeting.

Other reforms on the anvil

Exposure drafts on Expenses of Management Regulations and Commission Regulations

Exposure drafts of these regulations were placed for public comments in August. Various comments received on the same were discussed and deliberated. Further, a series of meetings was also held with insurers and intermediaries (including individual agents, corporate agents, brokers, and their respective associations, etc.) to discuss the proposed amendments at length.

Following the discussions and meetings, the proposals were reviewed and placed for public comments on 23.11.2022.

The revisions are aimed at enhancing flexibility and autonomy to the Board in the operational and financial decisions. For expenses of management, various segmental caps are proposed to be replaced with a single overall limit in general and health insurance. For life insurance, the segmental limits of expenses for certain segments is proposed to be enhanced, with overall regulatory monitoring at the company level.

For commissions, the maximum limits as specified in the current regulations are proposed to be removed with commissions being linked to the overall limit of expense of management. This will enable insurers to devise commission structures incentivizing the intermediaries in line with their solicitation efforts and also making insurance more affordable.

Amendments to regulations follow a consultative process. IRDAI's mission of protection of policyholders' interest and orderly growth of the insurance sector is always a priority. Efforts are made to reach the last mile by strengthening the entire ecosystem. A periodic review of the regulatory framework will be a continuous exercise to ensure that it is in sync with the emerging trends and dynamics of market and serves the intended objective of '*Insurance for All*'.
