



Assessing the impact of amendments in file and use procedure for the insurance sector

Introduction

To improve the ease of doing business, the Insurance Regulatory and Development of India (IRDAI) has introduced key amendments in the recent past, including an increase in the FDI limit in the sector, rationalisation of regulatory returns and introduction of use and file procedure. The use and file procedure allows an insurer to launch a product first and then file its details with the regulator. This is applicable to all health insurance products, life insurance products and almost all general insurance products.

The insurance regulator's approach to introducing a use and file procedure comes at a time when the insurance industry in India is facing multiple challenges, which are limiting the growth and penetration of the sector.

These challenges include:

- Limited awareness about insurance needs, lower levels of product innovation
- Inefficient use of capital
- Restricted distribution through digital means and shortage of capital

The IRDAI Chairman is considering a shift in approach from rule-based guidelines to principle-based guidelines that will benefit the sector. Apart from this, IRDAI may consider implementing a risk-based supervision model, similar to the banking industry. It shall lay down principal factors for the management of operational, market and governance risk and its monitoring shall be left to insurance companies. This will free up more capital for growth and expansion, thus enabling the sector to address its challenges of growth and improving the penetration of the sector.

Furthermore, the Regulator is also considering critical amendments in the Insurance Act towards lowering the base capital requirement, which will allow promoters to promote small insurance companies. This move along with a restriction on banks for investment in insurance companies envisages the entrance of a greater number of non-banking companies into the insurance sector.



Synopsis

File and use (old procedure)

Prior to the recent amendment, insurance companies followed the file and use procedure, where they filed the products with IRDAI and respond to queries raised by the Regulator if any. The companies could launch the products after the necessary approvals were given.

The file and use process was necessary when the industry was in the nascent stage. It was mandatory for the insurance companies to take prior approval before launching any life insurance product. All types of products can be filed under this procedure.

Use and file (new procedure)

With the introduction of the use and file process, the insurers can introduce their products to the market on filing with the regulator, thus avoiding a long waiting duration to get approvals for their products.

As the insurance industry has matured and there is greater awareness about the insurance products. This regulatory change would work towards empowering the insurance companies by improving the ease of doing business.

All the health insurance products, almost all general insurance products under fire, motor, marine and engineering and life insurance products (except individual savings, pensions and annuity) can be filed under this procedure.

Insurer's responsibility under use and file procedure

- Form board-approved policy for products that are to be filed, modified or revised.
- Ensure the viability of product pricing, self-sustainability and affordability for the targeted market after the approval from the Product Management Committee (PMC).
- File documents, as per Para 22 with the Authority, through an online platform (currently BAP), to generate the UIN.
- Launch the product within 15 days from the date of generation of UIN with an intimation to the Authority.
- File the product within seven days of launch.
- Revise prices (if any) basis the underlying claims experience (Incurred Claims Ratio) to make the product viable and self-sustainable.
- Act in a responsible manner and if an insurer is found to be non-compliant with the extant regulations or guidelines, the Authority, notwithstanding the action that may be taken under the provisions of Insurance Act 1938, may take one or more of the following actions:
 - Direct the insurer to withdraw the product.
 - Withdraw the use and file facility as per the norms specified herein for such an insurer for a period as may be determined.



Impact assessment

Our views on the potential impact of IRDAI's introduction of use and file procedure



Key amendments

- Currently, the filing of the insurance products is done through the file and use procedure. The procedure requires the products to be necessarily filed and approved with IRDAI before these are marketed.
- In one of the first major reforms taken by the new IRDAI chairman, the regulator has tweaked the existing procedure by introducing the use and file procedure allowing them to introduce new products without seeking prior approval from the regulator.
- This initiative by IRDAI will enable insurance companies to bring out innovative products to the market at a faster frequency.



Benefits to the industry

- This is a long-standing demand and is a positive move, aimed at reducing the time taken to introduce new products as approvals usually take a couple of months.
- This move will enable insurers to launch most of the products in a timely manner according to the dynamic needs of the market. This will lead to promote ease of doing business for the insurers and lead to expansion of the choices available to the policyholders.
- This will boost the sector and bring in more first-time insurance buyers, serving the cause of increasing insurance penetration.
- It comes with an added responsibility on insurers to continue to keep policyholders' interests at the forefront.

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