Regulatory updates - Insurance

January to April 2023

Financial Services Risk

May 2023

Contents

List of regulatory updates in Q4 FY 2022-23

Listed below are the regulatory updates to the insurance sector. These consist of circulars, notifications, guidelines and other regulations introduced by the Insurance Regulatory and Development Authority of India (IRDAI). A summary of key regulations is provided below.

Sr. no.	Date	Description	Reference no.	Type
1	03-Jan-23	Guidelines on the issuance of file reference numbers (FRNs) to cross-border reinsurers	IRDAI/REIN/CIR/RT/1/1/2023	Guideline
2	03-Jan-23	Circular on the submission of reinsurance returns	IRDAI/REIN/CIR/RT/1/1/2023	Circular
3	10-Jan-23	Circular on the Appointed Actuary Regulations	IRDAI/ACTL/CIR/MISC/4/1/2023	Circular
4	12-Jan-23	Modifications to surety insurance guidelines	IRDAI/NL/CIR/MISC/7/1/2023	Circular
5	13-Jan-23	Sovereign green bonds – Classification and categorisation	IRDA/INV/CIR/16/01/2023	Circular
6	19-Jan-23	Guidelines on insurance claims of victims of subsidence and landslides in the calamity-affected areas in the state of Uttarakhand	IRDAI/NL/CIR/MISC/21/01/2023	Circular
7	30-Jan-23	Obligatory cession for the financial year 2023-24	IRDAI/RI/1/189/2023.	Notification
8	30-Jan-23	Profit-related commission to Non-Executive Director(s)	IRDAI/F&I/CIR/MISC/26/01/2023	Circular
9	31-Jan-23	Clarification on miscellaneous matters relating to investment master circular	IRDAI/F&I/INV/CIR/027/01/2023	Circular
10	20-Feb-23	Treatment of inward co-insurance while reporting MTP obligations	IRDAI/NL/CIR/MTP/54/02/2023	Circular
11	27-Feb-23	Product for persons with disabilities (PWD), persons afflicted with HIV/AIDS and those with mental illnesses	IRDAI/HLT/CIR/MISC/58/2/2023	Circular

List of regulatory updates in Q4 FY 2022-23

Sr. no.	Date	Description	Reference no.	Type
12	20-Mar-23	Prevention of Money-laundering (Maintenance of Records) Amendment Rules, 2023	IRDAI/IID/CIR/MISC/71/3/2023	Circular
13	26-Mar-23	Insurance Regulatory and Development Authority of India (Payment of Commission) Regulations, 2023	Irdai/reg/2/190/2023	Circular
14	26-Mar-23	Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers Transacting Life Insurance Business) Regulations, 2023	Irdai/reg./3/191/2023	Circular
15	26-Mar-23	Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers Transacting General or Health Insurance Business) Regulations, 2023	Irdai/reg/4/192/2023	Circular
16	31-Mar-23	Guidance note - Board policy of the insurer on the commission structure	IRDAI/INT/CIR/MISC/82/3/2023	Guidance note
17	31-Mar-23	Committee on regulatory sandbox	IRDAI/I&AT/ORD/MISC/78/3/2023	Order
18	31-Mar-23	Guidelines on operational issues pertaining to the regulatory sandbox	IRDAI/I&AT/GDL/MISC/77/3/2023	Guidelines

Key regulatory updates

IRDAI (Expenses of Management) Regulations, 2023

General or health insurance business and life insurance business

Limit of expenses of management:

IRDAI has defined a limit on expenses of management (EOM) that may be incurred by the insurers in a financial year. These limits are:

- Insurer carrying on general insurance business in India - 30% of gross premium written in India in the financial year
- Insurer carrying on health insurance business in India - 35% of gross premium written in India in the financial year
- Insurer carrying on life insurance business in India - Various limits depending on the nature of the insurance product and premiums received during the financial year

'Expenses of management' shall include all expenses in the nature of operating expenses of the insurance business, commission to insurance agents, intermediaries or insurance intermediaries and commission and expenses on reinsurance inward, which are charged to the revenue account. Additionally, insurers are allowed to incur head office expenses, expenses incurred on the rural sector, *Pradhan Mantri Suraksha Bima Yojana* (PMSBY), *Pradhan Mantri Jan Arogya Yojana* (PMJAY), *Pradhan Mantri Fasal Bima Yojana* (PMFBY) schemes and expenses incurred on insurtech (technology-enabled innovation) and insurance awareness.

Board-approved policy and business plan:

- Every insurer shall have a board-approved policy which shall specify measures to bring cost-effectiveness and reduction of the expenses of management and the manner of transfer of benefits arising from reduction of expenses to the policyholders by way of reduction in premium.
- Insurers shall also formulate a board-approved business plan on an annual basis which shall, at the minimum, clearly specify the projected requirements of capital, projection of solvency margin on a quarterly basis and projection of EOM (in rupees as well as the percentage of gross premium written in India) and the compliance or otherwise with the limits of expenses of management.

Return of expenses of management:

All insurers, at the expiration of each financial year, shall prepare a return of expenses of management which shall be signed by the CEO, CFO, CCO and the appointed actuary of the insurer along with the statutory auditors. The return shall be certified by the statutory auditors of the insurer.

Our assessment:

IRDAI has introduced the concept of EOM and laid down strict financial limits for expenses which may be incurred by an insurer vis-à-vis the gross premiums collected. Emphasis has been placed on cost-effectiveness and reduction of expenditure on the part of the insurers, with strict mandates provided to the board and CXOs.

Key regulatory updates

Insurance Regulatory and Development Authority of India (Payment of Commission) Regulations, 2023

- Every insurer shall have a board-approved written policy for the payment of commission.
- Total commission payable to an insurance agent, intermediary or insurance intermediary by insurers under life insurance products and general insurance products, including health insurance, shall not exceed EOM limits under EOM Regulations.
- The insurer shall submit a return within 45 days from the end of the financial year post review of the audit committee and board.

Guidance note - Board policy of the insurer on the commission structure

- With the objective of ensuring fairness, transparency, compliance, efficiency and industry reputation in the insurance distribution process, the insurer shall have a board-approved policy in place for commission structure. The policy shall include the following minimum key elements:
  - Objective and principles
  - Fairness and reasonableness
  - Good distribution practice
  - Regular review
  - Market conduct
  - Monitoring and reporting
- The commission structure of intermediaries shall be designed to promote fair and transparent practices that protect policyholders' interests and encourage insurance penetration.

Our assessment:

IRDAI has mandated a board-approved policy to be put in place for payment of commission to agents and intermediaries. The commission payable under such policy has also been limited to the expenses of management as defined in separate regulations.

These have been introduced with the objective of enhancing the responsiveness of regulations to market innovation, facilitating innovation by the insurers and providing flexibility in managing expenses and improving insurance penetration.

Profit-related commission to Non-Executive Director(s)

Insurers are permitted to pay profit-related commissions to Non-Executive Director(s), including the Non-Executive Director(s) appointed under Section 48A of the Insurance Act, 1938, under the deemed approval mechanism, subject to the following conditions:

- The insurer has reported positive profit after tax for the period for which the said commission is proposed.
- The board of the insurer has passed the resolution approving such payment.
- The amount of payment of remuneration in the form of profit-related commission to each Non-Executive Director shall not exceed the limits specified in the guidelines on remuneration of Non-Executive Directors and Managing Director/Chief Executive Officer/Whole Time Directors of insurers, as amended from time to time.
- Disclosures about said payment shall be made in the financial statements for the respective financial year.

Our assessment:

IRDAI, vide circular dated 2 September 2022, prohibited payment of remuneration to Non-Executive Directors without prior approval. The current circular further simplifies the processes and clearly lays down the terms under which such remuneration may be paid, including appropriate disclosures to stakeholders.

Guidelines on operational aspects pertaining to the regulatory sandbox

- A committee on regulatory sandbox with representation from industry and academia has been constituted to screen applications, evaluate the test design of the hypothesis and recommend applications for experimentation.
- The experimentation period has been increased from 6 months to up to 36 months.
- Every application under the regulatory sandbox shall demonstrate to IRDAI that the proposal for innovation will help increase insurance penetration or provide enhanced services to the policyholders. IRDAI may consider granting limited regulatory relaxation to such a proposal that promotes innovation in insurance in India.
- The proposal shall come to an end if the number of customers crosses 1 lakh or the premium collected crosses INR 5 crore.

Our assessment:

IRDAI has clarified operational issues pertaining to the regulatory sandbox and has invited applications under the same. These steps have been taken with the idea of promoting innovation in the insurance sector and encouraging technological solutions on a continuous basis.

Key regulatory updates

Guidelines on the issuance of file reference numbers (FRNs) to cross-border reinsurers (CBRs)

The insurers can generate FRNs on their own for the CBRs who qualify for auto-renewal from 2023-24 onwards. The CBRs, who do not qualify for auto-renewal, shall have to obtain FRNs on an annual basis.

- No insurer shall place a reinsurance business with any CBR without a valid FRN.
- The Authority may allot country-wise separate FRNs to the CBR, and once the FRN is allotted for a particular CBR, the same shall be used by other insurers for placement of reinsurance business with such CBRs.
- The insurer, while placing a reinsurance business with a CBR, is solely responsible for ensuring that the CBR meets the eligibility conditions as per the extant regulations.
- The insurer shall place all the reinsurance business placements made with the 'non-eligible' CBRs before its Board of Directors for their approval/ratification and shall file the certified copy of such resolution with the Authority within fifteen days.
- The insurer, within thirty days of the commencement of the financial year, shall submit a certificate of compliance to the Authority, confirming that all the reinsurance placements are made with the CBRs who meet the eligibility criteria.

Our assessment:

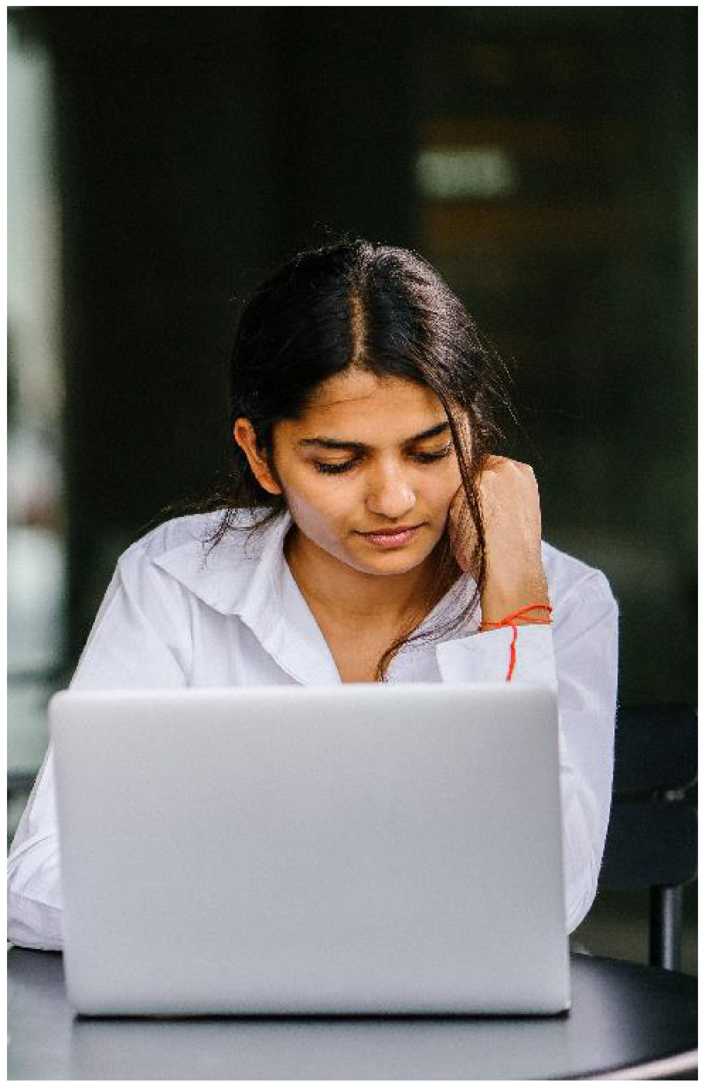
The issuance of an FRN to CBRs allows for better regulation and helps monitor the activities of these reinsurers. The FRN will enable the IRDAI to track the reinsurance transactions entered into by the CBRs, which can help prevent regulatory violations and ensure compliance with Indian insurance regulations.

Circular on the Appointed Actuary Regulations

- Life insurers shall have at least two actuaries, in addition to the appointed actuary, for pricing and valuation purposes, on or before 31 December 2023.
- General, stand-alone health insurers and reinsurers shall have at least one actuary, in addition to the appointed actuary, for pricing and valuation purposes on or before 31 December 2024.

Our assessment:

IRDAI has mandated the appointment of two actuaries in addition to the appointed actuary for life insurers and one actuary in addition for general, health and reinsurers. This move, in addition to the IRDAI (Appointed Actuary) Regulations, 2022, shows increased scrutiny by IRDAI on actuaries as well as the risk management processes at insurance companies.



Key industry updates

Budget 2023: Government to impose tax on insurance policies with premiums above INR 5 lakh

Announcement:

- Finance Minister Nirmala Sitharaman, on 1 February 2023, announced the budget proposal for the financial year 2023-24. Part of the announcement was the proposal that the government will now levy tax on insurance plans issued on or after 1 April 2023, whose yearly premium is above INR 5 lakh.
- Erstwhile, these insurance policies were added to the tax-free basket of investments. However, the new rules will not be implied on unit-linked insurance plans (ULIPs). Under the new proposal, the tax exemption provided to the amount received on the death of a person insured will not be affected. It will also not affect insurance policies issued till 31 March 2023.

Analysis:

- From FY 2023-24, if an investor is paying a premium of more than INR 5 lakh for a savings life policy, then on maturity, the income from the policy will be taxed. The threshold of INR 5 lakh will be applicable on the first-year premium and not first-year + renewal. This is applicable to multiple policies held by an individual investor.
- Following the announcement, banking and financial stocks took a big hit, where insurance companies, such as HDFC Life, SBI Life Insurance, ICICI Prudential Life Insurance Co, Life Insurance of India, General Insurance Corp and Max Financial, were the most affected.

Registration of new life insurers

- In the 121st meeting of IRDAI held on 25 March 2023, two new entities, namely Acko Life Insurance Ltd. and Credit Access Life Insurance Ltd., were granted the certificate of registration to commence their life insurance business. With these two additions, the total number of life insurers operating in India has gone up to 25, which had remained stagnant since 2011, when the certificate of registration was last granted to a life insurer.
- This comes after the grant of registration to a general insurer in the Authority's 120th meeting held in November 2022, marking the addition of a total of three new insurers in the financial year 2022-23.
- IRDAI also announced that another 20 applications are in the pipeline at various stages of registration in the life, general and reinsurance segments.

Domestic systemically important insurers (D-SIIs)

- D-SIIs refer to insurers of such size, market importance and domestic and global interconnectedness that their distress or failure would cause a significant dislocation in the domestic financial system.
- D-SIIs are perceived as insurers that are 'too big or too important to fail.' This perception and perceived expectation of government support may amplify risk-taking, reduce market discipline, create competitive distortions and increase the possibility of distress in the future. These considerations require D-SIIs to be subjected to additional regulatory measures to deal with systemic risks and moral hazard issues.
- Life Insurance Corporation of India, General Insurance Corporation of India and New India Assurance Co. Ltd. continue to be classified as D-SIIs for FY 2022-23.

Group life insurance

An overview

Group insurance is a type of insurance coverage that is offered to a group of people, typically through an employer or membership in an organisation or 'group.' This type of insurance is designed to provide financial protection to the members of the group in the event of a specified loss, such as death, disability or illness. Group insurance allows individuals to pool their resources for insurance coverage.

Definitions

The master policy holder (MPH) is the entity that has entered into an agreement with an insurance company to provide group insurance coverage to a group of people. The MPH is responsible for the administration of the group insurance policy and for making decisions about the coverage options and benefits.

A member in the context of group insurance refers to an individual who is part of a larger group that has been insured under a group insurance policy. Members are typically enrolled in the policy through their employer or membership in an organisation.

A group, in the context of insurance, refers to a collection of individuals who are insured together under a group insurance policy. IRDAI regulations require the group to be a genuine organisation, i.e., groups must not be formed for the purpose of availing group insurance.

Types of master policy holders/groups

01 Employees of an organisation

02 Professional associations

03 Non-profit organisations

04 Financial institutions/lenders

05 Trust/fund managing retirement benefits

Group life insurance
Products

Group life insurance provides coverage for a variety of incidents/events. Accordingly, life insurance companies have a variety of group insurance products depending on the needs of the member and master policy holder. Certain products, along with their features, are listed below.

Group term life insurance

- Group term life insurance (GTLI) provides a death benefit to the beneficiaries of the insured individuals in the event of the insured person's death.
- Eligibility for GTLI is typically based on the individual's employment status or membership in the group. Coverage is often offered to members as a benefit and may also be available to eligible dependents.
- Premiums for GTLI are typically paid by the MPH, although in some cases, the members may be responsible for a portion of the premium. Premiums are generally based on the age, gender and health of the members, as well as the sum assured.
- GTLI is typically less expensive than individual life insurance policies, as the cost of coverage is spread among the members of the group. This can make life insurance coverage more accessible and affordable for individuals who might otherwise not be able to afford it.

Credit life insurance

- Credit life insurance (CLI) provides coverage for the outstanding balance of a loan in the event of the borrower's death, total and permanent disability, etc.
- The MPH is the lender or financial institution that provides a loan to the borrower who is the member.
- Premiums for CLI are typically based on the amount and term of the loan and the age of the borrower.
- In the event of a covered event, the policy pays the sum assured to the lender and member.
- Premiums may be paid either by the MPH or the member or added to the loan amount if insurance is availed at the time of loan disbursement.
- CLI can help to relieve the financial burden on the borrower's family by paying off the outstanding balance of the loan. For lenders, CLI can provide protection against loan default in the event of a borrower's death or incapacity.

Group savings/pension

- Group savings/pension policies are availed by employer-employee or any other group administrators who want the insurer to manage the employees' retirement/savings funds.
- The MPH hands over the management of funds to the insurer. The funds are generally earmarked for specific purposes such as employee superannuation, gratuity and leave encashment benefits.
- The insurer provides a variety of investment fund options with varying risk profiles to choose from.
- Funds can be maintained at the master policy holder level or individual group member level.
- On death/retirement/resignation of the member from the group, a claim is submitted for the balance outstanding towards the member, which is withdrawn and paid out to the member/beneficiaries either directly or through the MPH.

Group life insurance

Key processes and risks

Some key processes in the group insurance lifecycle are listed below.

New business

Potential customers and master policy holders are identified. Preliminary data pertaining to the group, such as the quantum and demographics of the members, are obtained.

Actuarial evaluation

The actuarial team analyses the group and member-level details and decides on pricing. Negotiations are conducted with the MPH, and quotes are finalised.

Underwriting

Certain members of the group may be required to undergo medical underwriting per the terms of the policy.

Policy issuance

The MPH and members are onboarded, and the policy is issued.

Policy servicing and renewal

Policy servicing activities such as member addition/deletion and fund switching are performed on an ongoing basis. For certain products, policies are issued for a limited term of one year and have to be renewed on expiry.

Claims

Claims are submitted to the insurer by the member and MPH on the occurrence of covered events. Claims are investigated and processed by the insurer, and payouts are made to the MPH/member/beneficiaries, as applicable.

Key compliance risks for group insurance are:

Compliance with product specifications

- All group insurance products have specific requirements with respect to the groups and members, such as the size of the group, age restrictions, free cover limit, etc.
- The insurer must monitor the groups covered under the policies to ensure they meet the requisite criteria at all times.

Compliance with IRDAI guidelines

IRDAI has issued various regulations and guidelines for group insurance which must be adhered to, such as:

- No group should be formed for the purpose of availing insurance, and a clear relationship between members and the MPH must be evident.
- Members covered under group term insurance in non-employer-employee groups must be issued a certificate of insurance by the insurer containing all details of coverage.
- The insurer must conduct an inspection of the books and records of the MPH at least once a year to ensure compliance with guidelines. This may be conducted by the insurer itself, through a third party appointed by the insurer or via a certificate of compliance from the auditors of the MPH.

Key new highlights

PSU banks set a target for selling flagship government insurance schemes in FY 2023-24

Public sector banks (PSBs) have set themselves a target for the sale of flagship government insurance schemes - *Pradhan Mantri Jeevan Jyoti Bima Yojana* (PMJJBY) and *Pradhan Mantri Suraksha Bima Yojana* (PMSBY) in FY 2023-24. Recently, the ministry held a meeting with heads of PSBs and financial institutions and urged them to push various financial inclusion schemes and achieve the targets allocated to them under various schemes in a timely manner.

HDFC or HDFC Bank can raise a stake in HDFC Life and HDFC ERGO beyond 50%

The Reserve Bank of India has allowed either HDFC or HDFC Bank to increase their ownership to more than 50% in HDFC Life and HDFC ERGO before their merger. The regulator has also asked HDFC Bank to comply with liquidity and reserves requirements without exception from the merger date.

IRDAI revives bid to launch Bima Sugam, a single platform for sale, servicing and claims

The Insurance Regulatory and Development Authority of India (IRDAI) has revived the bid to launch *Bima Sugam*, a single platform for the sale, servicing and claims from insurance policies. As per the structure being considered, life and general insurance companies will equitably hold a stake of 45% each, and the remaining 10% will be held by other stakeholders, including service providers, insurance aggregators and the agent body, who are expected to raise around INR 100 crore for the project.

ACKO launches battery insurance plan for EVs

Private insurer ACKO General Insurance launched an 'extended battery warranty' plan, targeting electric vehicle (EV) owners. The policy is designed to boost EV affordability by enabling banks to lengthen loan terms and reduce monthly instalments.

MDIndia Health Insurance TPA announces a major expansion and opening of a new state-of-the-art branch in Mumbai

MDIndia Health Insurance TPA, a prominent player in third-party administration of health insurance, announced a major expansion and opening of a new state-of-the-art Mumbai branch, enhancing customer experience through skilled personnel and efficient claim processing while offering value-added services to benefit the growing Mumbai clientele.

Insurance Information Bureau of India (IIB) faces a cyber attack

The Insurance Information Bureau of India (IIB) has faced a cyber-attack, and some of its data has apparently got compromised. The incidence is being addressed at the highest level.

Acknowledgements

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