Financial Services Risk

Regulatory updates - Insurance

May to July 2023

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Summary of key regulatory updates: May – July 2023

20-Jun-23

Use and file procedure for life insurance products IRDAI/ACTL/CIR/PRO/135/06/2023

The IRDAI has modified its guidelines to widen the scope of use and file products to include individual and group unit-linked life and health insurance products, as well as Combi products where the life insurer is a lead insurer in order to achieve its targets of doubling general and health insurance penetration by 2027. **In view of the above, the extension of the use and file regime to product types requires enhanced accountability and responsibility of the management through self-regulation in day-to-day working of the industry.**

16-May-23

Modification of surety insurance guidelines IRDAI/NL/CIR/SIC/104/5/2023

The IRDAI has modified the surety insurance guidelines, which include replacing solvency margin requirements, reducing the control level from 1.875 to 1.5 times and eliminating the 30% exposure limit on each contract underwritten by insurers. **These changes are expected to enhance the availability of the surety insurance products, provide liquidity to contractors, and stimulate growth in the infrastructure sector.**

12-May-23

Surrogacy Act, 2012 and ART Act, 2021 and the relevant rules thereunder - IRDAI/HLT/CIR/PRO/01/05/2023

In line with the provisions outlined in the Surrogacy Act, 2012, and the ART Act, 2021, the IRDAI has directed all insurers to comply with these regulations. **This social move will avail products which offer comprehensive insurance coverage that caters to the specific requirements of surrogate mothers and oocyte donors.**

4-May-23

Instructions to stop the facility of re-payment of loan taken against the insurance policy through credit card - IRDAI/LIFE/CIR/MISC/99/5/2023

The IRDAI has prohibited life insurers from accepting a credit card as a mode of payment for re-payment of loans taken against an insurance policy. **This has been introduced with the objective to reduce the potential for policyholders to undergo financial distress as a result of increased debt. However, policyholders using a credit card for transacting with the insurers may face an inconvenience.**

Summary of key regulatory updates: May – July 2023

12-May-23

Expert committee for matters related to mental health IRDAI/HLT/ORD/Gen/73/03/2023

The IRDAI has constituted an expert committee for matters related to mental health insurance to provide expert advice on insurance coverage offered in insurance products, terminology on concepts relating to mental illness. **This proactive approach demonstrates a deep commitment to enhancing overall healthcare and insurance penetration, but also reflects a growing recognition of the significance of mental health, resulting in the emergence of new products covering mental health and illnesses.**

24-April-23

Master circular on Registration of Indian Insurance Company, 2023- IRDAI/F&I/CIR/RIC/90/4/2023

The IRDAI has published a master circular for the registration of Indian insurance companies, to enable transition to the new regime, ease in doing of business and incentivise investments in the insurance sector. The IRDAI's consultative approach in preparing the new regulations and introducing such clarificatory provisions promptly bodes well for the industry. **The move indicates the regulator's objective of improvising and being open to practical and forward-looking suggestions and changes. Some of the relevant changes are regarding the following conditions:**

1. **Lock-in for investments-approvals granted prior to the new regulations**
2. **Lock-In in case of listed insurers**
3. **Directorship restrictions**

24-April-23

IRDAI Information and Cyber Security Guidelines, 2023 IRDAI/GA&HR/GDL/MISC/88/04/2023

Considering the widespread adoption of digital technologies and the concurrent increase in cyber security incidents, the revised guidelines are hereby issued to enable the insurance industry to strengthen their defenses, as well as the related governance mechanism to deal with emerging cyber threats. Implementation of guidelines shall protect information and information infrastructure in cyberspace, build capabilities to prevent and respond to cyber threats, reduce vulnerabilities and minimise damage from cyber incidents through a combination of institutional structures, people, processes, and technology.

While the guidelines are applicable to regulated intermediaries, it is noted that insurance agents, micro-insurance agents, point of sale persons and Individual surveyors will not fall under the purview of these guidelines. However, it is the responsibility of insurers to ensure that these entities follow minimum security framework.

Those entities who have already completed the security audit for FY 2022-23 shall ensure compliance with these guidelines from the next financial year.

Secure your journey: IRCTC travel insurance for passengers

Introduction:

The fatal railway catastrophe that occurred in Odisha on 2 June 2023 has raised awareness on passenger safety and financial security. In the tragic disaster, over 1,000 people were injured and around 280 passengers lost their lives.

The Indian Railway Catering and Tourism Corporation (IRCTC) provides an optional travel insurance policy while purchasing a ticket online through the IRCTC portal at a cost of INR 0.35 per passenger. However, passengers cannot purchase the same after making a reservation.

The SBI General Insurance and Liberty General Insurance have been chosen by the IRCTC to provide the travel accident insurance coverage. The IRCTC only offers links on its website for users to transact with an insurance company to take insurance cover. The insurance company is responsible for policy issuance and claims settlement.

Documentation required:

In case of death and disablement claim:

- A filled and signed claim form by the nominee or legal heir, NEFT mandate details and a cancelled cheque.
- A report from the Railway authority, confirming the train accident or untoward incident.
- Disablement: Photographs of the insured individual before and after the disability occurred, medical bills, report from the attending doctor, attested copy of the disability certificate, attested copy of the first information report, X-ray and investigation reports.
- Death: A report from the Railway authority containing details of the passengers declared dead.

In the case of death claims, the claim will only be settled with the nominee declared at the time of purchasing insurance through the IRCTC portal. If there is no nominee, the claim will be paid to the legal heir, as per the legal heir or the succession certificate.

Coverage/ benefits of policy:

Coverage	Benefit
Death or permanent disability	10 lakh
Permanent partial disability	7.5 lakh
Hospitalisation expenses	2 lakh
Transportation of mortal remains	INR 10,000

The insurance provides coverage for several undesirable events. To fully understand the benefits and exclusions/ limitations, it is advisable to review the terms and conditions provided by the IRCTC and associated insurance companies when making the booking.

Claims procedure:

Within 4 months of the insured event, the insured, nominee, or legal heir must submit a written statement, along with a completed claim form and any other relevant details, to the nearest office of the insurance company.

Furthermore, they are obligated to provide the insurance company with any necessary information, assistance, and evidence related to the claim.

In order to support any claim, the insured must provide proof that complies with the policy details for all relevant matters.

Secure your journey: IRCTC travel insurance for passengers

Limitations

Claim process: The process of filing and processing insurance claims could be complex and time-consuming. Passengers may need to provide various documents and evidence to support their claim, and delays can occur in claim settlement.

Cancellation and refund policies: The insurance coverage may have specific rules regarding ticket cancellations and refunds in case of insurance claims. Passengers need to be aware of these policies to avoid any inconvenience.

Technical glitches: Like any online platform, the IRCTC's system might experience technical glitches or outages that could affect the booking process, including adding insurance to a ticket. This could potentially lead to insurance-related issues.

Coordination with other insurances: Passengers who already have other insurance policies might face challenges in understanding how their existing policies interact with the IRCTC's rail travel insurance. This could potentially lead to uncertainties in case of a claim.

Bibliography:

References has been taken from the IRCTC terms and conditions from the IRCTC website.

http://contents.irctc.co.in/en/InsuranceTermCondition.pdf

Conclusion:

Consumer awareness of IRCTC travel insurance

IRCTC booked ticket email/SMS: After booking a train ticket through the IRCTC, the customer shall receive the policy information through SMS and on their registered email IDs directly from insurance companies, along with the link for filling nomination details. However, the policy number can be viewed from the ticket booked history at the IRCTC page.

IRCTC website: Visit the official IRCTC website (www.irctc.co.in) and explore the train booking process. During the booking process, you will encounter an option for travel insurance. Read the details provided there to understand the coverage, benefits, and premium rates.

Insurance provider's website: If you are curious about the insurance company offering the coverage, visit their official website to learn more about the insurance policy's specifics.

Now, insurance coverage for INR 10 lakh is automatically granted to passengers who purchase railway tickets through the IRCTC website. Those who do not want insurance coverage must choose to opt out of it by selecting the relevant button.

Reinsurance - Safeguarding the insurance risk

Overview

Reinsurance, often referred to as the 'insurance for insurance companies', is a contract between a reinsurer and an insurer. In this contract, the insurance company—the cedent—transfers risk to the reinsurance company, and the latter assumes all or part of one or more insurance policies issued by the cedent. Reinsurance is an essential tool that insurance companies use to manage risks and the amount of capital they must hold to support those risks – National Association of Insurance Commissioners, 1 June 2023

Types of reinsurance

01

Treaty

A reinsurance treaty is for a set period rather than on a per-risk or contract basis. The reinsurer covers all or part of the risks that the insurer may incur.

02

Facultative

A facultative coverage protects an insurer for an individual or a specified risk or contract. If several risks or contracts need reinsurance, they are renegotiated separately. The reinsurer holds all rights for accepting or denying a facultative reinsurance proposal.

Industry update

Indian insurers see a 30% jump in reinsurance rates in April renewals – significantly higher than the anticipated 10-15% hike. With this increase, while it may create short-term disruption, in the long run, it is expected to bring in a positive outcome. Insurers with capital, brand, and presence across multiple LOB at scale are expected to benefit from this. – ETBFSI Research, 22 April 2023

The reinsurance market size is forecast to increase by USD 358.03 billion from 2022 to 2027. According to a recent market study by Technavio, the market will accelerate at a CAGR of 10.26% - Yahoo Finance - PR Newswire 26 July 2023

Market size outlook (USD billion)

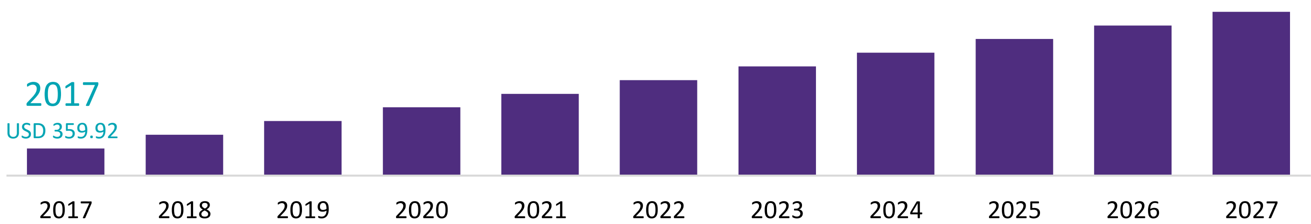


Image source: Technavio

Reinsurance - Safeguarding the insurance risk

Process	Life	General
Risk assessment	The risk assessment focuses on mortality and morbidity risks associated with policyholders. Factors such as age, health conditions, and lifestyle are critical in evaluating the risk.	The risk assessment involves evaluating property, liability, and other risks such as natural disasters, accidents, and legal liabilities.
Reinsurance placement	Life insurance companies often focus on reinsurers specialised in life and health reinsurance due to the unique risk factors involved.	In general insurance, companies may work with reinsurers specialised in property and casualty lines or select reinsurers with a broader expertise across various risks.
Underwriting and pricing	Underwriting in life insurance is often based on individual underwriting, where each policyholder's risk is assessed separately. Life insurance policies tend to be more complex and involve longer-term commitments.	In general insurance, underwriting is typically based on group or portfolio underwriting, where risks are evaluated collectively based on the insured assets or liabilities. General insurance policies are typically shorter-term contracts.
Claims-handling	Life insurance claims are typically based on the occurrence of a covered event, such as the death or disability of the insured.	In general insurance, claims are often more frequent and diverse, ranging from property damage to liability claims.
Applicable regulation	IRDAI (Re-insurance) Regulations, 2018	IRDAI (Re-insurance) Regulations, 2018 Obligatory cession for FY 2023-24

Reinsurance - safeguarding the insurance risk

Counterparty risk

Arises when the reinsurer fails to fulfil its obligations, such as paying claims or providing the agreed-upon reinsurance coverage; it can lead to financial losses for the insurance company.

Basis risk

Arises when there is a mismatch or divergence between the risks covered by the primary insurance policies and the reinsurance policies. This can occur when the terms, conditions, or exclusions of the reinsurance contract do not perfectly align with the primary insurance policies.

Reinsurance pricing risk

Arises when the reinsurance premiums are not appropriately priced or the pricing assumptions are inaccurate; it can lead to underwriting losses for the insurance company.

Concentration risk

Arises when the insurers rely heavily on a small number of reinsurers for their reinsurance needs. If one or more of these reinsurers face financial difficulties or fail, it can result in a significant impact on the insurance company's risk management and financial stability.

Compliance and regulatory

Reinsurance involves complex contracts and regulatory requirements. A failure to comply with these regulations or a dispute over contract terms could lead to legal and regulatory challenges, potentially resulting in financial penalties or reputational damage.

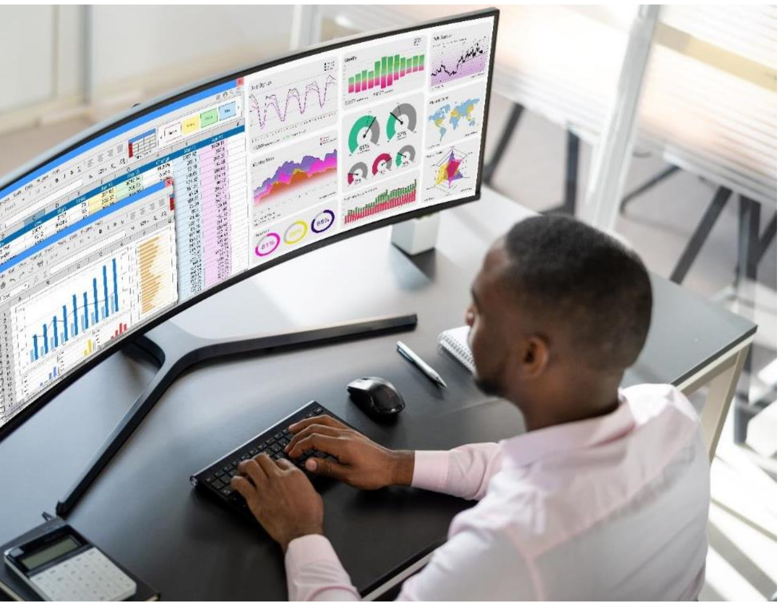
Guarding against financial crime: AML guidelines extension to non-life insurance

Overview

Money laundering is a critical issue that connects money and crime. When illegal funds are converted into legitimate money, it is known as money laundering.This overview explores the imperative of extending anti-money laundering (AML) guidelines to the non-life insurance industry, shedding light on the significance, challenges, and benefits of this extension.

The extension of AML guidelines to the non-life insurance sector is a response to the growing recognition that financial criminals seek opportunities beyond the banking system. Non-life insurance products, including property, casualty, liability, and other general insurance policies, offer an avenue for money launderers to legitimise their ill-gotten gains. By integrating AML measures, regulators and industry stakeholders aim to create a robust defense against such risks. While life insurance has long been subject to AML regulations, the landscape of financial crime is ever-changing. Recognising this, regulatory authorities have taken proactive steps to extend the scope of AML guidelines to encompass non-life insurance as well.

On 1 August 2022, the IRDAI issued a consolidated set of regulations to safeguard the insurance industry from fraudulent financial activities such as money laundering and counter financing terrorism.



In response to evolving financial landscapes, distinct anti-money laundering (AML) guidelines have been developed for banking, insurance, and fintech sectors to address their specific operational characteristics and risk profiles. Banking has a longstanding history of AML regulations, ensuring the prevention of financial crime. In insurance, guidelines have developed gradually to become more stringent, focusing on mitigating fraud and money flow risks associated with policies, premiums, and claims. The fast growth and creative ways of doing things in the fintech sector have made it even more important to have good rules for preventing money laundering. As a result, regulators are continuously working to ensure comprehensive coverage of this dynamic sector. These tailored guidelines underscore the industries' distinct vulnerabilities and emphasise the need for comprehensive strategies to combat money laundering effectively across all sectors.

Guarding against financial crime: AML guidelines extension to non-life insurance

Key provisions for general insurance

The shift from previous guidelines to the current ones represents a proactive response to evolving financial risks. By examining the differences between the previous and current guidelines, we can gain insights into the regulatory advancements aimed at strengthening AML/CFT frameworks, boosting accountability and securing honesty within the financial system. Following are some of the key differences:

Applicability of guidelines

The key change in the applicability is that exemptions and relaxations from the guidelines for companies have been done away with. Currently, the guidelines are applicable for all classes of general insurance business carried out by the insurers except re-insurance business carried out by Indian insurance companies or foreign companies in India. The new guidelines issued aim to consolidate and update the guidelines to replace the assorted norms since 2013.

Simplified due diligence

Previously, simplified due diligence was applicable to all low-risk customers (defined as salaried, lower-income customers, etc.) irrespective of premium amounts. However, as per the new guidelines, the simplified due diligence applicable to low-risk customers is with annual premium < INR 10,000.

Strengthened KYC norms

The new guidelines expand upon the know-your-customer (KYC) norms and introduce additional requirements for customer due diligence. Previously, KYC documents were not mandatory for buying non-life or general insurance policies such as health insurance, auto insurance, and travel insurance policies. Currently, know-your-customer (KYC) is mandatory.
Previously, providing KYC documents was required at the time of policy claim and only if the claim amount was greater than INR 1 lakh. However, as per the new guidelines from 1 January 2023, the insurers are required to conduct a KYC exercise before selling an insurance policy, i.e., KYC for all customers at the time of the commencement of the account-based relationship.

Compliance certificate

As per the new guidelines, insurers shall submit annual compliance certificates within 45 days of the end of the financial year.

Introduction of Central KC Registry (CKYCR)

The new guidelines introduce the concept of the CKYCR for general insurance, which serves as a centralised repository for KYC records. Insurers are now required to retrieve KYC records from the CKYCR using a KYC identifier, eliminating the need for customers to submit physical copies of KYC documents. This streamlines the KYC process and enhances efficiency.

Guarding against financial crime: AML guidelines extension to non-life insurance

Impact on insurer:

The introduction of new guidelines can positively impact insurers by promoting operational excellence, reducing risks, and creating opportunities for growth and innovation. Some of the major impacts are as following:

Holistic customer insights: AML compliance measures require comprehensive customer due diligence. This process provides insurers with deeper insights into their customer base, enabling personalised interactions, targeted marketing strategies, and improved customer retention. It also results in a deeper understanding of customers' risk profiles and behaviours. Insurers can leverage this information for more accurate underwriting, pricing, and tailoring of insurance products to meet specific customer needs.

Mitigation of reputational risks: Adhering to AML guidelines helps insurers avoid association with criminal activities, reducing the risk of negative publicity and reputational damage that could impact customer trust and loyalty.

Enhanced risk management: AML guidelines require insurers to conduct thorough risk assessments to identify and assess potential money laundering or terrorism-financing risks. This process enables insurers to better understand their exposure and implement appropriate risk mitigation measures.

Increased compliance costs and burden: The Insurers will have to incur additional expenses related to implementing and maintaining AML compliance measures, such as investing in technology, training, and resources. These costs can impact their operational budget and profitability.

Reduced exposure to financial crime: By following AML guidelines, insurers can detect and prevent transactions related to financial crimes, such as money laundering or fraud. This reduces their exposure to potential liabilities and reputational damage associated with these activities.

Regulatory collaboration and alignment: By aligning with the new AML guidelines, insurers can foster positive relationships with regulatory authorities. This collaboration can lead to smoother regulatory interactions, reduced scrutiny, and a more supportive regulatory environment.

Conclusion:

In conclusion, the AML guidelines of 2022 mark a significant milestone in the ongoing battle against financial crime. The evolution of AML regulations from their established application in life insurance to the deliberate expansion into non-life insurance underscores the commitment of regulatory bodies and industry stakeholders to pre-emptively address vulnerabilities. This expansion not only demonstrates a proactive approach to safeguarding the integrity of the financial system but also highlights a collective dedication to upholding transparency, compliance, and ethical business practices.

References have been taken from the following:

1. Master Guidelines on Anti-Money Laundering/ Counter Financing of Terrorism (AML/CFT), 2022(IRDAI/IID/GDL/MISC/160/8/2022)
2. Anti-Money Laundering /Counter Financing of Terrorism (AML/CFT)-Guidelines for General Insurers(IRDA/SDD/GDL /CIR/020/02/2013)

Regulatory updates May – July 2023

S No.	Date	Description	Reference No.	Type
1	5-Jun-23	Investments in National Bank for financing infrastructure and development	IRDAI/F&I/CIR/INV/121/6/2023	Circular
2	5-Jun-23	Circular on settlement of claims due to train accident, Balasore June 2023	IRDAI/NL/CIR/GDL/122/06/2023	Circular
3	19-May-23	Dedicated email IDs as single point(s) of correspondence for the applicants seeking NOC, CoR or for other related communication	IRDA/INT/CIR/MISC/108/05/2023	Circular
4	16-May-23	Modification of surety insurance guidelines	IRDAI/NL/CIR/SIC/104/5/2023	Circular
5	12-May-23	Surrogacy Act, 2012 and ART Act, 2021, and the relevant rules thereunder	IRDAI/HLT/CIR/PRO/01/05/2023	Circular
6	12-May-23	Expert committee for matters related to mental health	IRDAI/HLT/ORD/Gen/73/03/2023	Circular
7	4-May-23	Instructions to stop the facility of re-payment of loan taken against the insurance policy through a credit card.	IRDAI/LIFE/CIR/MISC/99/5/2023	Circular
8	24-Apr-23	Master Circular on Registration of Indian Insurance Company, 2023	IRDAI/F&I/CIR/RIC/90/4/2023	Circular
9	19-Apr-23	Circular on WMD & UAPA nodal officer	IRDAI/IID/CIR/MISC/86/4/2023	Circular
10	05-Apr-23	IRDAI (Expenses of Management of insurers transacting Life Insurance business) Regulations 2023 - Clarifications	IRDAI/F&I/CIR/EOM/84/4/2023	Circular
11	20-Jun-23	Use and file procedure for life insurance products	IRDAI/ACTL/CIR/PRO/135/06/2023	Circular
12	24-Apr-23	IRDAI Information and Cyber Security Guidelines, 2023	IRDAI/GA&HR/GDL/MISC/88/04/2023	Guidelines
13	16-Jul-23	Insurance claims relating to floods in Himachal, Punjab, Haryana and Delhi regions	IRDA/NL/CIR/MISC/146/7/2023	Circular

Acknowledgements

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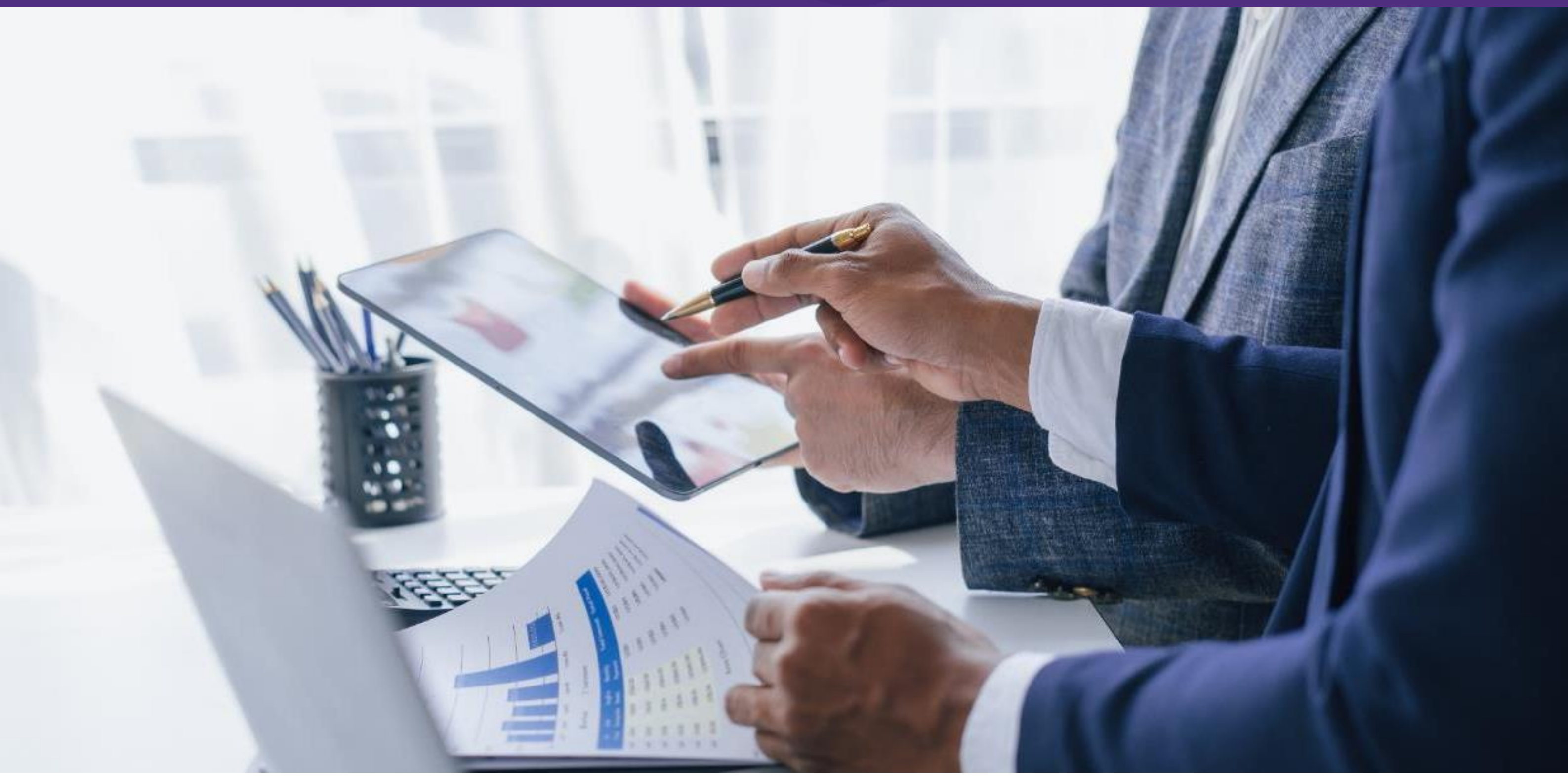

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