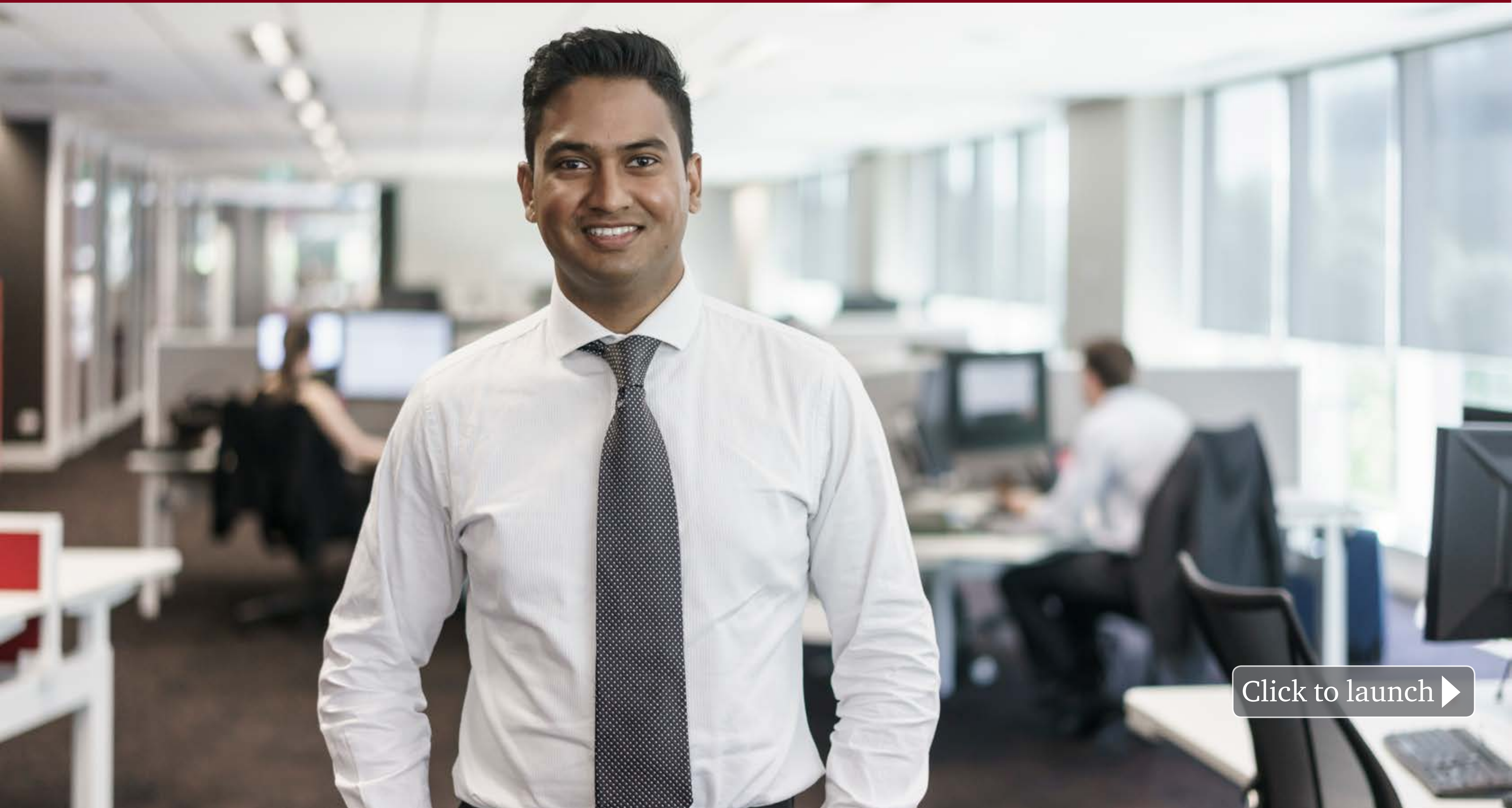
PwC's Insurance Insights

Analysis of regulatory changes and impact assessment for March 2017



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I. With a 10–30% hike in premiums for certain categories of corporate cover, the general insurance industry renewed over 1 lakh crore INR worth of policies on 1 April 2017. This is the time around which most policies held by large customers and mega policies are renewed.

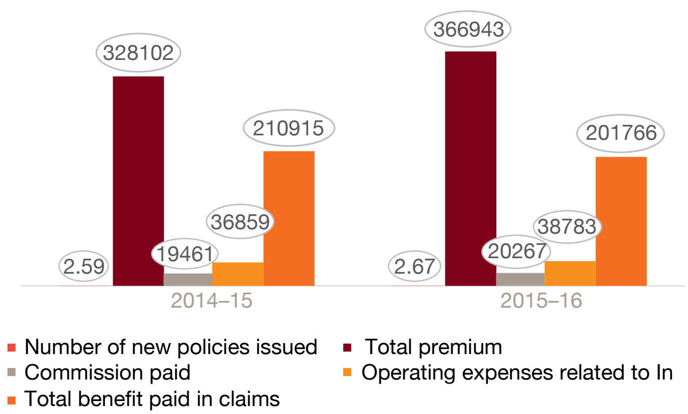
II. The industry closed 2016–17 at 1.23 lakh crore INR, up from around 96,000 crore INR in 2015–16. 'Fire and group health insurance premia have gone up by an average of 10–30%. Motor third-party premium has gone up as per IRDAI advice,' said G Srinivasan, Chairman and Managing Director of New India Assurance.[1]

III. Driven by the PM's Fasal Bima Yojana, the market has grown by a significant 25% in 2016–17. With the sustained momentum for crop insurance coverage, similar growth can be expected in 2017–18. For select segments like property insurance, the industry has been able to increase premiums by 10–15% due to firming up of prices.[2]

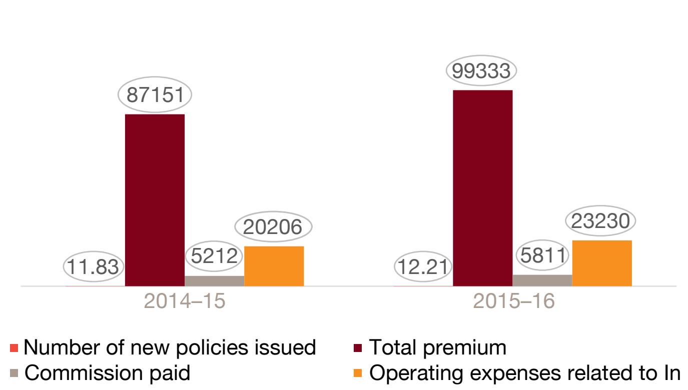
IV. A simple comparison of various parameters (including number of policies issued, total premium collected [new business and renewal of life insurance], commission paid to agents for business sourced and operating expenses related to insurers) between life insurers (LIs) and general insurers (GIs) reveals:

- There is no significant growth/ decline.
- Within the life insurance sector alone, claims benefit paid to the policyholders witnessed a decline of 0.4% over the previous year. This indicates positive growth and retention of profits within companies.[3]

Life insurance (in crore INR)



General insurance (in crore INR)



[1]NURC MediaNext Pvt Ltd and PwC analysis
[2]NURC MediaNext Pvt Ltd and PwC analysis
[3]Insurance Regulatory and Development Authority of India

Insurance e-commerce guidelines

IRDAI circular reference:

Ref: IRDA/ INT/ GDL/ ECM/ 055/ 03/ 201

Date of notification: 9 March 2017

Applicable entities: All insurers in India

Introduction

E-commerce has been a game changer in more ways than one. It has been rewriting the assumptions of trade as technology advances and more and more people get access to the Internet.

According to an estimate by Google India, by 2020, more than 200 million Indians are likely to make purchases and sales online. This will make paperless transactions as high in volume as cash transactions in the economy.[4]

Several distinct categories of e-commerce have emerged. Although business-to-consumer e-commerce has received the most attention, it is much less prevalent than business-to-business e-commerce. An increasing number of associated transactions and processes that support both selling and purchasing activities on the Internet can be also included in the definition of e-commerce.

Background and objective

While other industries within the financial sector have vigorously embraced the Internet to obtain a sustainable competitive advantage, the insurance industry has been slow to fully adopt e-commerce.

E-commerce is seen as an effective medium to increase insurance penetration and enhance financial inclusion in an efficient manner. The Authority, as part of its developmental mandate, has issued these guidelines to promote e-commerce in the insurance space. E-commerce is expected to lower the cost of transacting insurance business and bring higher efficiencies and greater reach.

Although online sale of policies was already permitted, it has been neither paperless nor without human intervention. The e-commerce guidelines and regulations, however, point to a clear step forward to usher in an absolutely new channel to market or to purchase an insurance product.

The online products of non-life insurers can be made available at substantially lower cost. This will help in popularising householders' and health and accident policies among the vast number of middle-class people who are very rarely approached by intermediaries for such covers. If available online and at a lower cost, people may start buying essential insurance cover in the same way that they reserve railway tickets.

IRDAI's regulation also provides for remuneration to the promoters of the registered insurance self-network platforms (ISNPs).

4. Sahay, K. (2016). How e-commerce in insurance can be a game-changer. Financial Express. Retrieved from http://www.financialexpress.com/industry/banking-finance/how-e-commerce-in-insurance-can-be-a-game-changer/283778/

Implications for insurers

In its circular, IRDAI has provided a detailed step-by-step approach that every insurer needs to follow before undertaking insurance e-commerce activities in India:

1. Any insurer desiring to set up an ISNP to undertake insurance e-commerce activities in India shall make an application in Form No. 1 of ISNPs. Existing insurers and insurance intermediaries who have already set up their own ISNP or insurance portals have to comply with the requirements of these guidelines.

2. **Internal monitoring, review and evaluation of systems and controls:** Integrity of the automatic data processing systems, privacy of data, adequate internal mechanisms for reviewing, monitoring and evaluating controls, systems procedures and safeguards should be undertaken.

3. **Review of operations of the ISNP:** Review of the controls, systems, procedures and safeguards put in place by the ISNP shall be carried out at least once a year by an external certified information system auditor (CISA) or chartered accountants with a diploma in information system audit (DISA), the Institute of Chartered Accountants of India (ICAI) qualification or a CERT-IN expert.

4. **Adverse findings which are material** to the operations of the ISNP of the applicant or which result in financial loss to the policyholders shall be reported to the Authority along with an action plan to address them.

5. **Maintain a strict code of conduct** in terms of providing information to policyholders as per IRDAI directions in the circular, submit periodical returns and cooperate in any inquiry conducted by the Authority.

6. **Every applicant desiring to set up an ISNP shall undertake not to** conduct its business in a manner prejudicial to the interests of the policyholders and not indulge in manipulating the insurance business and unfair trade practices. Applications should comply with and not act in contravention of any requirement of the Foreign Exchange Management Act, 1999, the Prevention of Money Laundering Act,2002, or any other requirement which the Authority may specify.

7. **Insurers who have appointed an ISNP must ensure** that the record of conduct and performance of the persons managing their ISNP is satisfactory and that the information displayed on the website, the processes, procedures and any other mechanism by whatever name called displayed and implemented on the platform is available all times for verification and scrutiny.

8. **An ISNP undertaking insurance e-commerce activities in India shall ensure** that it enrols only those market participants that are granted a certificate of registration by the Authority. Further, it has to ensure that the participants disclose only product features that are approved by the Authority and information which is not detrimental to the interests of the policyholder.

9. **An INSP shall comply** to the Authority's directives on the acceptance of premium, issuance of e-policies and provisions of section 64VB(1) of the Insurance Act, 1938. Further, it must display disclaimers, requirements and conditions regarding the products on its website, as directed by the Authority, and manage customer grievances through the Integrated Grievance Management System (IGMS).

Mandatory compliance/ filing by insurers

1. Board-approved proactive fraud detection policy and process
2. Maintenance of record, standard operating procedures, supervision and control by an insurer over its INSP as per IRDAI guidelines
3. Reporting to IRDAI in case of actions taken by the government or other regulatory bodies
4. Any adverse findings found during the system audit should be placed before the board and also would need to be reported to IRDAI along with an action plan to resolve it.
5. An annual compliance certificate showing compliance with these guidelines at all times is to be filed by the applicant's chief executive officer and compliance officer.

Sr. no.	Guidelines reference	Particulars	Impact
1	IRDAI/ACT/CIR/GEN/070/03/2017 (life insurance) and IRDA/ACTL/MISC/MISC/074/03/2017 (general insurance, health insurers and reinsurers) Date of issue: 31 March 2017	Information to be submitted as part of the Annual Actuarial Valuation and related reports submission	The Authority, in its recent circular on actuarial valuation and related reports submissions, stipulates that insurers provide the minimum information required to be submitted in respect of annual statutory valuation. This circular supersedes the earlier circulars mentioned in the current circular by the Authority. • Insurers need to provide information in a defined format as annexures and timelines mentioned in such annexures form a crucial part of the circular. • Any other information/reports/certificates required to be submitted at quarterly and half-yearly intervals should continue to be submitted as per extant regulations/guidelines/circulars which may not be a part of these guidelines. **Implications for insurers:** Every insurer will have to adopt formats and methods prescribed by the Authority on an immediate basis. The reporting/submission is due from the FY ended 31 March 2017. Deviation in compliance may lead to action against the AA/CEO/CMD/insurer.
2	IRDA/ACTL/CIR/ARA/073/03/2016–17 Date of issue: 31 March 2017	Report on Persistency rate and Renewal rate	The Authority considers the requests from all LIs and has decided to delink the submission of the report on 'Persistency rate and Renewal rate', along with the Appointed Actuary's annual report till further instruction. **Mandatory filing by insurers:** The independent report on persistency needs to be submitted on or before 30 June every year.

Sr. no.	Guidelines reference	Particulars	Impact
3	IRDA/SUR/MISC/ CIR/71/03/2017 Date of issue: 31 March 2017	Training and the exams in Crop Insurance Department for Surveyors	The Authority, considering the paucity of surveyors to train new entrants/surveyors to carry out loss assessment in crop insurance, has waved the existing clause on 'applicants to undergo 12 months training in the respective department under a senior surveyor'. However, those who wish to be appointed as surveyors and loss assessors of crop insurance under the waiver will need to apply before 31 December 2019 and will have to pass the examination conducted by the Insurance Institute of India (III). The syllabus for the crop insurance paper is as per Annexure I of the circular.
4	IRDA/SUR/MISC/ CIR/72/03/2017 Date of issue: 31 March 2017	Survey work in Crop Insurance Department	The Pradhan Mantri Bima Yojana (PMBY) has prescribed certain criteria for insurance companies for appointing loss assessors for the assessment of post-harvest losses. Presently, loss assessment is carried out by employees of insurance companies along with state government officials and the Authority. Considering the above fact, IRDAI has exempted crop insurance from the requirement of appointing surveyors under section 64 UM of the Insurance Act, 1938.
5	IRDA/ACTL/MISC/ MISC/074/03/2017 Date of issue: 31 March 2017	Panel of Actuaries	The Authority had invited expression of interest from individual actuaries and firms employing actuaries vide circular ref: IRDA/ACT/MISC/039/02/2017 dated 15 February 2017. The responses received were scrutinised by the Authority and after due diligence, a panel of actuaries was finalised separately in respect of life insurance and general insurance for a period of three years from 1 April 2017 to 31 March 2020. The names and contact details of the actuaries found eligible for the panel are given in the circular by the Authority.

Sr. no.	Guidelines reference	Particulars	Impact
6	IRDA/ INT/ CIR/ COMM/ 069/ 03/ 2017 Date of issue: 30 March 2017	Clarification on Regulation 6(d)(ii), 6(e)(ii) and 5(f) of IRDAIs (Payment of commission, remuneration or reward to insurance agents or insurance intermediaries) Regulations, 2016	This Clarification draws attention to Regulation 6(d)(ii) and 6(e)(ii) of IRDAI's recently released (Payment of commission, remuneration or reward to insurance agents or insurance intermediaries) Regulations, 2016. The Authority has come up with various clarifications that have the following implications for insurers: • The reward cannot be more than 20%/30% of the first-year commission or remuneration paid to the insurer/health insurance company respectively. Also, the reward cannot be linked to each and every life insurance policy solicited or total first-year commission earned by an insurance agent or an insurance intermediary. • Insurance intermediaries with revenue from insurance intermediation equal to or more than 50% are to be rewarded as per the terms mentioned in the circular. • The maximum rate of commission or remuneration payable by an insurer shall not exceed: i. The maximum rate of commission or remuneration specified by these regulations or ii. Any other rate of commission or remuneration approved by the Authority under any other regulations or guidelines, whichever is lower.
7	IRDA/ACT/CIR/ SLM/066/03/2017 Date of issue: 28 March 2017	Solvency Margin	The Authority, upon examining the representations made by insurers, proposes concession in the determination of solvency margin for all non-life insurers, including health insurance and reinsurers. The Authority takes the decision considering the given macroeconomic environment and risk parameters which necessitate the utilisation of capital optimally so that insurance penetration increases.

<table>
<tr><th>Sr. no.</th><th>Guidelines reference</th><th>Particulars</th><th>Impact</th></tr>
<tr><td>8</td><td>IRDA/NL/NTFN/
MOTP/068/03/201

Date of issue:
28 March 2017</td><td>Premium Rates for Motor Third Party Liability Insurance Cover for FY 2017–18</td><td>The Authority had released an exposure draft on 3 March 2017 on the revision of premium rates for motor third party insurance covers, inviting comments from all concerned stakeholders. Pursuant to comments received from the stakeholders and examination by the Authority, IRDAI notifies the premium rates applicable to motor third party liability insurance covers with effect from 1 April 2017. The detailed rates of premium based on the category of the vehicle are mentioned in the circular issued.

Implications for insurers: Insurers, on an immediate basis, will have to configure the systems and amend the premium masters and underwriting policy in compliance with the said guidelines.</td></tr>
<tr><td>9</td><td>IRDAI/NL/CIR/
F&U/060/03/2017

Date of issue:
22 March 2017
(GIs)

IRDA/HLT/REG/
CIR/064/03/2017

Date of Issue:
24 March 2017
(health insurers)</td><td>Modification in premium rates due to revised Commission/ Remuneration Structure and introduction of Reward System</td><td>IRDAI released a regulation on the modification of premium rates due to the revised commission/ remuneration structure and the introduction of a rewards system. The provisions of the circular will be effective from 1 April 2017.

Implications for insurers: In the event of such modifications, the insurers will have to revisit the pricing of their products:
• Insurers may make such modifications without filing product revisions with the Authority
• Change in premium rates is limited to a range of +/- 5%
• No changes in other parameters of the product

Mandatory filing by insurers: A signed certificate from the appointed actuary and CEO certifying that no other changes have been made in the approved F&U and U&F applications except for changes pertaining to premium and commission.
• Certificate indicating system readiness for undertaking the changes as per the circular
• Additional certificate as provided in Annexure I
• Two sets of F&U and U&F applications and related documents citing all the changes in track change mode

Penalty for non-compliance: Any violation noticed will be dealt with as deemed fit by the Authority, including withdrawal of the products/add-ons.</td></tr>
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Sr. no.	Guidelines reference	Particulars	Impact
10	IRDA/F&A/GDL/ CMP/059/03/2017 Date of issue: 22 March 2017	Guidelines on Stewardship Code for Insurers in India	IRDAI regulates the state of governance of companies where insurance companies have invested the premium received from the policyholder. Insurers, being institutional investors, are mandated to follow generally adopted principles by other institutional investors, mutual funds, pension funds, foreign portfolio investors, alternative investments funds, etc. The Authority has therefore decided to implement the code for stewardship for the insurers. The code will broadly require the following compliances. **Implications for insurers:** • Insurers to draw up a board-approved policy based on the stewardship code within six months from issuance of the guideline • Disclosure of the policy on the website within 30 days of board approval, alongside the public disclosure **Mandatory filing by insurers:** All insurers should file a status report with the Authority as per Annexure A of the guidelines on an annual basis, indicating the reasons/justifications for any deviation from or non-compliance with the principles indicated in these guidelines.

Sr. no.	Guidelines reference	Particulars	Impact
11	IRDA/INT/GDL/ PSP/058/03/2017 Date of issue: 16 March 2017	Revision in Guidelines on Point of Sales Person—Non-Life and Health	The Authority has issued revised Guidelines on Point of Sales Person–Non-Life and Health. Given that the products allowed under non-life and health insurance are largely pre-underwritten, the Authority offers further modifications to the guidelines. The circular is effective from 1st April 2017. **Implications for insurers:** Every GI, including a stand-alone health insurer or an insurance intermediary, proposing to engage with a point of sales person shall: • Ensure that the applicant is not engaged with any other insurer or insurance intermediary. • Conduct an in-house training of fifteen (15) hours for the candidate. • Conduct an examination after successful completion of the training. • Issue a certificate to the candidate who has passed the examination in the format attached in the circular. • Engage the successful candidate as a point of sales person by entering into a written agreement, specifying the terms and conditions. • Upload the details in the IIB database at the end of the day. • Maintain a proper record of training and examination for at least five (5) years from the end of the financial year. • Comply with the Model Syllabus for training of 'POS Person–General Insurance including stand-alone health insurance' as per Annexure I of the guidelines.

Sr. no.	Guidelines reference	Particulars	Impact
12	IRDAI/CIR/F&I/ INV/056/03/2016-17 Date of issue: 14 March 2017	Investment in Units of 'Real Estate Investment Trusts (REIT) and Infrastructure Investment Trusts (InvITs)'	IRDAI has issued amendments to the Master Circular–Investment, 2016. Under this, the Authority allows insurance companies to invest in units of real estate investment trusts (REITs) and infrastructure investment trusts (InvITs). **Implication for insurers investing in REITs/InvITs:** The REIT /InvIT shall form part of Approved Investments based on their rating: a) Investment not to be more than 3% and 5% based on criteria defined by IRDAI b) No investment to be made where the sponsor is under the promoter group of the insurer c) Updation of the investments master with the predefined codes in the circular for REITs and InvITs Mandatory compliance for insurers: • Investment in the units of REITs/InvITs shall be valued based on market value, and units shall be valued as per the latest NAV where a market quote is not available within timelines specified in the circular. • The concurrent auditor shall provide confirmation on the above-mentioned compliances to the audit committee/board in his quarterly report.

Sr. no.	Guidelines reference	Particulars	Impact
13	IRDA/BRK/MISC/CIR/050/03/2017 Date of issue: 8 March 2017	Approach on the un-reconciled, unsettled outstanding reinsurance balances as on 31 March 2014	IRDAI directs all principal officers of reinsurance/composite brokers to reconcile all the unclaimed, unsettled and outstanding money of their clients. **Implications on reinsurance brokers:** All unreconciled, outstanding, unsettled money of clients shall be transferred to a separate bank account. Reinsurance/composite brokers shall settle the outstanding amount within a period as specified in the agreement and, in the absence of any time limit, within a period not exceeding 30 days. **Mandatory filing by brokers:** • Intimation to the Authority with full details of the outstanding money lying in the bank account • Undertaking by brokers that they would work with their clients (insurers/reinsurers/other reinsurance/composite brokers) and ensure reconciliation and settlement of the unclaimed, unsettled and outstanding money of their clients by **31 May 2017** • Filing of a compliance certificate on settlement of all outstanding amount within 30 days after the expiry of the agreed settlement period, as mentioned in the guidelines • Confirmation that there is no unreconciled outstanding unsettled client money lying with insurers on a half-yearly basis along with Annexure VI-E of IRDA (Insurance Brokers) Regulations, 2013

Sr. no.	Guidelines reference	Particulars	Impact
14	IRDA/ACT/CIR/ MISC/054/03/2017 Date of issue: 7 March 2017	File and Use procedure for minor modifications under existing products and riders offered by Life Insurers	LIs need to keep pace with the changing requirements of consumers as well as ensure compliance with extant regulatory provisions. In order to make the product modification process more efficient, the Authority decided that minor modifications to the approved products and riders will be allowed without complete procedure under file and use. **Implications for insurers:** • To abide by the list of minor modifications that are allowed as defined in the circular • Compliance with the general and specific norms which are defined in the circular, concentrating on premium rates based on various features of a product and projected investment returns **Mandatory compliance/filing by insurers:** • Withdrawal of existing products before the launch of revised products • A complete set of file and use, sales literature, policy document, key features document, proposal form showing the changes in track change mode along with certificates and other documents as mentioned in **Annexure I and II** duly signed off by the appointed actuary and the CEO within seven days from the date of launch of the modified version of the product/rider • Allotment and display of Unique Identification Number (UIN) on all documents of the modified product • A statement as per **Annexure III** of the circular regarding modified products/riders launched during that quarter within 15 days from the end of every quarter • The modified version of the product/rider to be withdrawn from the market immediately in case of any violations observed by the Authority

Sr. no.	Guidelines reference	Particulars	Impact
15	IRDAI/Life/Cir/ GDL/049/3/2017 Date of issue: 3 March 2017	Guidelines on Claim processing for Group Insurance Policies—Addition of new Categories of Master Policyholders	The Authority has decided to extend the scope of the existing Guidelines on Claim processing for Group Insurance Policies—Addition of new Categories of Master Policyholders dated 29 December 2014 to: a. National Minority Development Finance Corporation (NMDFC) and its state channelising agencies b. Small finance banks regulated by RBI **Implications for insurers:** Insurers may settle the outstanding loan amounts under certain categories of master policyholders and should adopt the procedure prescribed by IRDAI in the circular. Compliance with all other conditions mentioned in the guidelines IRDA/Life/Cir/GDL/285/12/2014 dated 29 December 2014.
16	No reference details. Date of issue: 28 March 2017	Insurance Regulatory and Development Authority of India (Insurance Brokers) Regulations, 2017 Exposure Draft	The Authority feels that there is a need to update the existing broker regulations. The major focus of the Authority is on the issuance of new certificates of registration and renewal of certificates of registration, introduction of the concept of promoter and investor restrictions on capital holdings, etc. **Corporate governance:** Increase in capital requirements, FDI, restrictions on professional indemnities, regulatory framework for outsourcing of activities of insurance broker proposed, regulatory framework for amalgamation and merger and acquisition and transfer of business proposed, no payment of annual fees and instead upfront fees for three years proposed for administrative convenience. **Others:** Foreign to foreign reinsurance business for reinsurance/composite broker allowed and principal officer, broker qualified person and point of sale to have a certificate based on Aadhaar number in order to develop a common database for all intermediaries. **Mandatory filing by insurers:** Comments/suggestions on the proposed regulations had to be sent to IRDAI for consideration in MS Word format by 15 April 2017.

Sr. no.	Guidelines reference	Particulars	Impact
17	519/F&A/Ind AS/2016-17 Date of issue: 15 March 2017	Insurance Regulatory and Development Authority of India (Preparation of Financial Statements of Insurers) Regulations, 2017 Exposure Draft	Amendments to section 10 and section 11 of the Insurance Act, 1938, necessitated changes in IRDAI (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002, as per the notification dated 30 March 2016 issued by the Ministry of Corporate Affairs. **Implications for insurers:** • The insurers/insurance companies are required to prepare Ind AS-compliant financial statements for accounting periods beginning from 1 April 2018 with previous year comparatives. • Provide operating segment information as per Ind AS 108, Operating segments, wherever applicable. • Revalue investment property at a minimum every three years. • Round off figures in the financial statements to the nearest rupees in lakhs. • All other disclosures are to be made in compliance to Ind AS and regulatory stipulations.

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