

11th Capacity Building Seminar in General Insurance

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Recent regulatory changes and its implications

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Disclaimer



The scope of the presentation is limited to highlighting few key changes in insurance regulations and discuss the likely impact of the same in context of General Insurance Industry.

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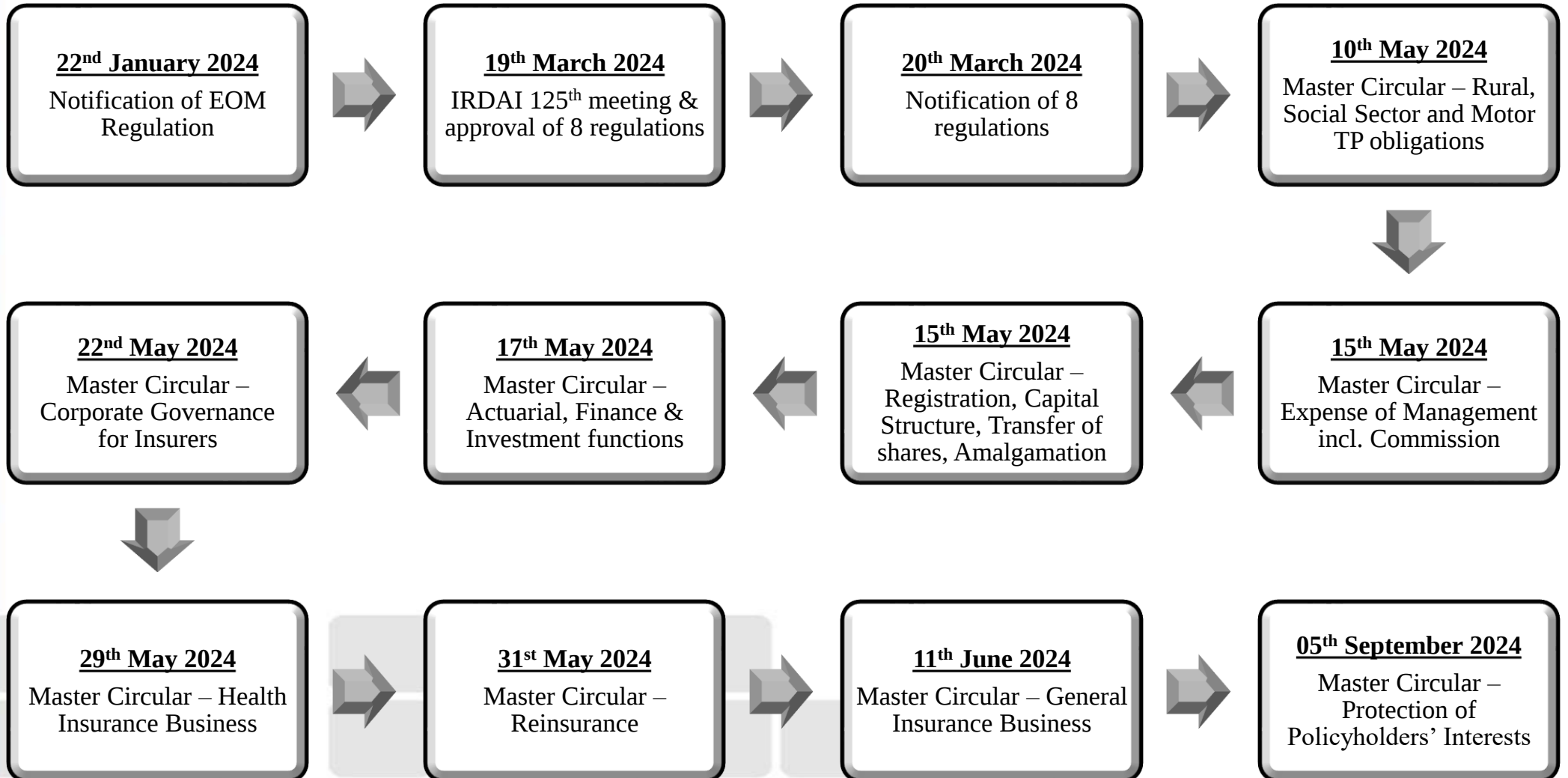
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Recent Regulatory Changes - Introduction



- The current year witnessed many regulatory overhauls with the primary objective to move towards principle-based regulations and streamlining the current ones.
- These reforms were aimed to:
 - promote favourable business environment
 - to empower the insurance companies in taking operational decisions with adequate flexibility
 - increase innovation and competitiveness in the market
 - enhance transparency and accountability of the insurers
 - ensure protection of policyholders' interests
 - to meet the vision of **'Insurance for All' by 2047**
- These changes have taken place in a span of less than 6 months where the Authority, in its 125th meeting held on 19th March 2024, approved 8 consolidated regulations, after the notification of 1st consolidated regulation (i.e. total of 9 regulations and corresponding master circulars which replaces erstwhile 26 regulations).

Regulations & Circulars - Timeline



List of Regulations (1/3)

Current Regulations	Repealed Regulations
IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024	1. IRDAI (Appointed Actuary) Regulations, 2022 2. IRDAI (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulations, 2016 and subsequent amendments 3. IRDAI (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002 and subsequent amendments 4. IRDAI (Loans or Temporary Advances to Full Time Employees of the Insurers) Regulations, 2016 5. IRDAI (Investment) Regulations, 2016 6. IRDAI (Inspection and Fee for Supply of Copies of Returns) Regulations, 2015
IRDAI (Expenses of Management, including Commission of Insurers) Regulations, 2024	1. IRDAI (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2023 2. IRDAI (Payment of Commission) Regulations, 2023
IRDAI (Insurance Products) Regulations, 2024	1. IRDAI (Micro Insurance) Regulations, 2015 2. IRDAI (Health Insurance) Regulations, 2016

List of Regulations (2/3)

Current Regulations	Repealed Regulations
IRDAI (Protection of Policyholders' Interests, Operations and Allied Matters of Insurers) Regulations, 2024	1. IRDAI (Manner of Receipt of Premium) Regulations, 2002 2. IRDAI (Places of Business) Regulations, 2015 3. IRDAI (Fee for registering cancellation or change of nomination) Regulations 2015 4. IRDAI (Fee for granting written acknowledgement of receipt of Notice of Assignment or Transfer) Regulations, 2015 5. IRDAI (Issuance of e-Insurance Policies) Regulations, 2016 6. IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017 7. IRDAI (Protection of Policyholders' Interests) Regulations, 2017 8. IRDAI (Insurance Advertisements and Disclosure) Regulations, 2021
IRDAI (Rural, Social Sector and Motor Third Party Obligations) Regulations, 2024	1. IRDAI (Obligation of Insurer to Rural and Social sector) Regulations, 2015 2. IRDAI (Obligation of Insurer in Respect of Motor Third Party Insurance Business) Regulations, 2015
IRDAI (Registration and Operations of Foreign Reinsurers Branches and Lloyd's India) Regulations, 2024	1. IRDAI (Registration and Operations of Branch Offices of Foreign Reinsurers other than Lloyd's) Regulations, 2015 2. IRDAI (Lloyd's India) Regulations, 2016

List of Regulations (3/3)

Current Regulations	Repealed Regulations
IRDAI (Registration, Capital Structure, Transfer of Shares and Amalgamation of Insurers) Regulations, 2024	1. IRDAI (Registration of Indian Insurance Companies) Regulations, 2022 2. IRDAI (Other Forms of Capital) Regulations, 2022 3. IRDAI (Manner of Assessment of Compensation to Shareholders or Members on Amalgamation) Regulations, 2021 4. IRDAI (Scheme of Amalgamation and Transfer of General Insurance Business) Regulations, 2011
IRDAI (Corporate Governance for Insurers) Regulations, 2024	New Regulation (Though there was no regulation issued earlier, circulars and guidelines were available for corporate governance)
IRDAI (Bima Sugam - Insurance Electronic Marketplace) Regulations, 2024	New Regulation

Agenda - Key Regulatory Changes

- 1 Reinsurance & Coinsurance Balances
- 2 Long-Term Premium Accounting
- 3 Cross Border Reinsurers - Placement
- 4 Rural, Social Sector & Motor TP Obligations
- 5 Insurance Products Regulation
- 6 Other Changes

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Reinsurance & Coinsurance Balances (1/4)



- For the purpose of solvency computation, all the assets are valued at the valuation date to determine the Available Solvency Margin (ASM).
- Amount receivable from reinsurers and coinsurers form part of the assets for ascertaining ASM. However, their value is placed zero (0) if:
 - Coinsurers balance is outstanding for more than 90 days
 - Balances of Indian reinsurers and foreign reinsurers having branches in India is outstanding for more than 365 days
 - For reinsurers other than those mentioned above, the balance outstanding is more than 180 days
- Thus, to ascertain if the reinsurers and coinsurers balances qualify to be part of ASM, following details is important:
 - **Due Date** i.e. date from which the ageing for 90/180/365 days will commence
 - Whether the cash inflow and cash outflow receivable and payable for each party are to be **netted out** to ascertain the balance outstanding
- IRDAI vide its 'Master Circular – Actuarial, Finance & Investment functions' has mentioned the criteria for computing the due date and ascertain the balance outstanding. A detailed comparison of the same with the previous regime is explained in the next slides.

Reinsurance & Coinsurance Balances (2/4)



Previous Regime	New Regime	Impact
<u>Due Date ascertainment:</u> - The due dates for reinsurance and coinsurance balances were not explicitly mentioned. Due Dates were determined on actual basis as per the arrangements with the respective reinsurer and coinsurer instead of any notional date. - Also, the above calculation is done for paid claims only for the claim component.	<u>Due Date ascertainment:</u> The outstanding period for reinsurance/coinsurance balances is reckoned from the earlier of {date of raising invoice with the reinsurer/coinsurer by the ceding insurer/lead insurer or <u>46th day after the receipt of intimation of claim from the claimant</u>}.	- The current changes will bring outstanding claims along with paid claims in the purview of solvency computation. - As per the new regime, notional date is stated instead of actual date which will adversely affect the disallowances. This will increase the disallowed amount for solvency computation as invoice to reinsurers and coinsurers for settlement is raised only after the claim is settled and paid to the policyholder/claimant.

Reinsurance & Coinsurance Balances (3/4)



Previous Regime	New Regime	Impact
<u>Cashflows considered before or after netting:</u> The balances are considered on net basis for solvency purposes.	<u>Cashflows considered before or after netting:</u> The outstanding balances due from the reinsurer/coinsurer shall be <u>before netting off with the premiums payable</u> by the cedant/lead insurer.	Computation of solvency disallowances at gross levels will lead to increase in solvency disallowances which may require additional capital infusion.

*As per GI Council's discussion with insurance companies, the above changes in ascertaining the Reinsurance & Coinsurance balances is likely to lead to an **additional capital requirement of around 15,000 crores** across the industry.*

Reinsurance & Coinsurance Balances (4/4)



Thus, to cater to the concerns stated in the earlier slides, GI Council on behalf of industry vide letter dated 22nd November 2024 has made a representation to the Authority to consider the outstanding period for reinsurance/coinsurance balances to be reckoned from:

Reinsurance balances: Earlier of {15 days of raising invoice by the insurer with the reinsurer or 46th day after the expiry of quarter in which the insurance claim is settled by the insurer to the claimant/policyholder}

Coinsurance balances: Earlier of {15 days of raising invoice by the lead insurer with the coinsurance follower or 21st day after the expiry of month in which the insurance claim is settled by the lead insurer to the claimant/policyholder}

Netting off balances: In case of balance is overdue by more than 90/180/365 days, then such overdue balances will not be adjusted against the other balances which are due to the reinsurer/coinsurer for less than 90/180/365 days.

However, response from the Authority is awaited for this proposition.

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Long-Term Premium Accounting (1/2)



- Prior to the issuance of new regulations and master circulars, majorly health products, dwellings and motor third party covers were offered on long-term basis.
- IRDAI vide its 'Master Circular – General Insurance Business' has permitted issuance of Annual, Long-Term or Short-Term policies for all general insurance products.
- However, IRDAI has also made a change to the accounting practices for recognizing written premium for long-term policies.
- IRDAI vide its 'Master Circular – Actuarial, Finance & Investment functions' has mentioned the long-term accounting approach for long-term policies. A detailed comparison of the same with the previous regime is explained in the next slide.

Long-Term Premium Accounting (2/2)

Previous Regime	New Regime	Impact
Written Premium was booked upfront for long-term policies except Motor Third Party long-term policies.	- Booking of written premium for all long-term products is based on 1/n method (where n is the policy duration). - Balance premium (premium collected – booked under written premium) shall be treated as ‘premium deposit’ or ‘advance premium’.	- There is a change in the recognition of written premium which will consequently impact the commission payout to channel partners. - This may discourage the channel partners to sell long-term policies as commission shall be paid in a staggered manner. Channel partners may prefer to write only short-term and annual policies. - Also, in IND AS 117, the accounting of long-term premium in respective future years will not hold good as the entire future premium is considered upfront for computation of Liability for Remaining Coverage (LRC).
Payment of commission corresponding to the written premium is made upfront to the channel partners.	Payment of commission in a year shall be only on written premium recognized for the year.	

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Cross Border Reinsurers (CBRs) - Placement



- At present, reinsurance is primarily done with General Insurance Corporation of India (GIC Re), Foreign Reinsurer Branches (FRBs) and Cross Border Reinsurers (CBRs).
- The credit risk i.e. default by reinsurers to meet their obligations towards insurance companies may impact the solvency of insurance companies.
- Transactions with GIC Re can be said to have a negligible/low credit risk as it is govt. owned.
- For FRBs, the chances of credit risk are low as they have invested capital within the country to continue their operations and are subject to various compliances and governance.
- However, CBRs are subject to less compliances and governance as compared to FRBs and hence, the chances of credit risk increases based on the size and risk-taking capacity.
- Therefore, to cater to the default risk of CBRs, 'Master Circular on Reinsurance, 2024', mandates Cross Border Reinsurers (CBRs) accepting reinsurance business in India to **provide collaterals to Indian cedant**. This requirement shall apply for **reinsurance placements of FY 2025-26 onwards**.

Cross Border Reinsurers (CBRs) - Placement



- The **cedant** shall be responsible for **collecting the collaterals** for such placements. The collateral shall be either in the form of:
 - Irrevocable letter of credit (LC) from CBR
 - Premium/funds payable to CBR to be withheld by the ceding insurer
- In case of **LC**, amount of collateral shall vary based on rating position of CBR as detailed below:
 - 'A- or above': **75%** of aggregate of outstanding claims liabilities & IBNR reserves
 - 'Below A-' : **100%** of aggregate of outstanding claims liabilities & IBNR reserves
- For **premium withheld**, the amount of collateral shall be **50% of the premium ceded** by the insurer to CBR. The amount shall be accounted for/invested separately. Any investment income of such fund shall be credited to the fund.
- However, the **provision of collateral shall not be applicable** for the following transaction:
 - **Premium retroceded** by the **branches of foreign reinsurers and Indian reinsurers** to CBRs
 - Premium ceded to CBRs in respect of **government schemes** eg: PMSBY, PMFBY, etc.
 - If total **premium ceded** by an insurer to CBRs is **upto INR 75 crores** during a financial year, provided that the CBRs are rated 'A- or above' from S&P or equivalent.

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Rural, Social Sector & Motor TP Obligations



- ‘IRDAI (Rural, Social Sector and Motor Third Party Obligations) Regulations,’ sets criteria for the insurance companies to achieve the following obligations:
 - Rural Obligation: by writing business in rural sector
 - Social Sector Obligation: by insuring individuals categorized under social sector
Social Sector’ includes people in unorganized sector, informal sector, persons living below the poverty line and persons with disability who may not be gainfully employed and their guardians. These individual may reside in rural or urban areas.
 - Motor Third Party (TP) Obligation
- Now, there has been change in the requirement for rural, social sector and motor third party obligations which may impact the Company’s strategy to fulfill these obligations. A detailed comparison of the same with the previous regime is explained in the next slides.

Rural, Social Sector & Motor TP Obligations



Previous Regime	New Regime	Impact												
<u>Rural Obligation:</u> It is defined in terms of ‘% of gross direct premium (GDP)’ which is varying based on company’s age since inception. <table><tr><th>FY from inception</th><th>% of GDP</th></tr><tr><td>1st year</td><td>2%</td></tr><tr><td>2nd year</td><td>3%</td></tr><tr><td>3rd year – 7th year</td><td>5%</td></tr><tr><td>8th year</td><td>6%</td></tr><tr><td>>= 9th year</td><td>7%</td></tr></table>	FY from inception	% of GDP	1 st year	2%	2 nd year	3%	3 rd year – 7 th year	5%	8 th year	6%	>= 9 th year	7%	<u>Rural Obligation:</u> - The basis is modified and to achieve the rural obligation, the insurance company has to insure each of the following in gram panchayats as specified by the Authority: - Minimum 10%* of dwelling & shops under fire insurance - Minimum 10%* of vehicles under motor insurance (new vehicles excluded) - Minimum 10%* of lives under health and personal accident insurance <i>*For the 1st year of this regime.</i>	- The current changes in rural obligations will gradually capture the rural market with the aim of ‘Insurance for All’ by 2047. - Previously premium written in all segments for rural areas was considered. In the current regime, target is to provide coverage to individuals and hence, the obligation is focused to cover dwellings, shops, vehicles and life.
FY from inception	% of GDP													
1 st year	2%													
2 nd year	3%													
3 rd year – 7 th year	5%													
8 th year	6%													
>= 9 th year	7%													

Rural, Social Sector & Motor TP Obligations



Previous Regime	New Regime	Impact																						
<u>Social Sector Obligation:</u> It is defined in terms of ‘% of total lives insured in the preceding financial year’ which is varying based on company’s age since inception. <table><thead><tr><th>Age of the insurer</th><th>% of total lives</th></tr></thead><tbody><tr><td>1</td><td>0.5%</td></tr><tr><td>2</td><td>1%</td></tr><tr><td>3</td><td>1.5%</td></tr><tr><td>4</td><td>2%</td></tr><tr><td>5</td><td>2.5%</td></tr><tr><td>6</td><td>3%</td></tr><tr><td>7</td><td>3.5%</td></tr><tr><td>8</td><td>4%</td></tr><tr><td>9</td><td>4.5%</td></tr><tr><td>10 and above</td><td>5%</td></tr></tbody></table>	Age of the insurer	% of total lives	1	0.5%	2	1%	3	1.5%	4	2%	5	2.5%	6	3%	7	3.5%	8	4%	9	4.5%	10 and above	5%	<u>Social Sector Obligation:</u> It is defined as ‘minimum 10%* of lives covered as a proportion of total lives covered’. <i>*For the 1st year of this regime.</i>	The % of lives covered has increased as compared to previous regime with the objective to bring more people under insurance cover in social sector segments.
Age of the insurer	% of total lives																							
1	0.5%																							
2	1%																							
3	1.5%																							
4	2%																							
5	2.5%																							
6	3%																							
7	3.5%																							
8	4%																							
9	4.5%																							
10 and above	5%																							

Rural, Social Sector & Motor TP Obligations



Previous Regime	New Regime	Impact										
- Motor TP obligation is based on gross direct premium income (GDPI). - The obligations for an insurance company is formula-based as stated below: {Company’s Motor TP market share + Company’s Overall market share}/2 x Industry TP business x 90%	- Motor TP obligation is based on number of vehicles (new vehicles excluded) insured under Goods Carrying Vehicle (GCV), Passenger Carrying Vehicle (PCV) and Tractors. - The obligation for the 1st year after notification of the regulation is to achieve a ‘% increase in the number of vehicles over last financial year’ for each category (i.e. GCV, PCV & tractors) where % varies based on company’s market share subject to a minimum of 5,000 vehicles for GCV & PCV each and 1,000 tractors. <table><tr><th>Market share</th><th>% increase in vehicles</th></tr><tr><td>Upto 2%</td><td>12.5%</td></tr><tr><td>2% - 5%</td><td>10%</td></tr><tr><td>5% - 10%</td><td>7.5%</td></tr><tr><td>More than 10%</td><td>5%</td></tr></table>	Market share	% increase in vehicles	Upto 2%	12.5%	2% - 5%	10%	5% - 10%	7.5%	More than 10%	5%	- In previous regime, liability business of all vehicles i.e. private car, two-wheeler, etc. is considered. In the current regime, only GCV, PCV and tractors are considered. - Changing the metric from premium to vehicle aids in easier tracking of uninsured vehicles if any. - Also, it shall gradually capture the uninsured market with the aim of providing TP covers to all vehicles categorized under GCV, PCV and tractors.
Market share	% increase in vehicles											
Upto 2%	12.5%											
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Insurance Products Regulation



- IRDAI by way of following regulation and master circulars has prescribed the guidelines and terms and conditions to respond faster to emerging needs of customer through innovative products, protect policyholders' interests and ensure sound and responsive management practices:
 - IRDAI (Insurance Products) Regulations, 2024
 - Master Circular – General Insurance Business
 - Master Circular – Health Insurance Business
- From the product cycle's governance point of view, the following Committee's scope reinforced or they have been newly set up to meet the above objective :
 - **Product Management Committee (PMC)**: Responsibility is placed on PMC for approval of products through Use and File procedure. Thus, PMC which comprises of senior management team is responsible for the terms and conditions of the product and hence, shall carry out proper due diligence on various product related risks.
 - **Advertisement Committee**: This is a new committee to be formed as per the regulation who shall review all the advertisements issued by the insurer and their distribution channels.
 - **Claims Review Committee (CRC)**: This is a new committee formed which shall independently take final decision on repudiation of all health claims.

Insurance Products Regulation



- **Key changes introduced for Health Insurance Products:**
 - **Moratorium period** has been **reduced** from **8 years to 5 years**. This shall increase the risk for the insurer and hence, may lead to increase in reserves.
 - **Pre-Existing Diseases (PED) waiting period** is **reduced** from **48 months to 36 months**. The reduction of PED waiting period may increase the claims cost. This may warrant price revision or increase in reserves to support the increase in claims cost.
 - **AYUSH** has been made a **mandatory cover** which may increase in claims cost resulting in either price revision or increase in reserves or both.
 - **Free-look period** has been **increased** from **15 days to 30 days** which may increase the free-look reserves.
 - **Policy with unnamed members shall not be issued to a non-employer-employee group**. Policy with unnamed members increases the volatility in claims experience and hence, may impact the reserves. Not insuring such policies may reduce the volatility. However, a business opportunity may be lost.
- Issuance of **Customer Information Sheet (CIS)** is made **mandatory** for both group and retail products.

Insurance Products Regulation



- **Key changes introduced for General Insurance Products:**
 - Master Circular prescribes that policyholders shall be offered an **option for customization** in Motor and Fire insurance (dwellings) products. For motor, customers shall be offered 'pay as you drive / go / use' option as their first choice. Similarly for fire, customers shall have an option to pick and choose various perils such as earthquake, terrorism, flood, cyclone, storm, etc.
 - **Policy Duration** can be **Annual, Long-Term or Short-Term**. This may **create business opportunities** eg: Motor OD for 2 years can be offered along with bundled (1+3 for private car) product to avoid loss of business if the customer does not renew the OD policy.
 - In case of a claim for motor products, **depreciation shall not be applied on non-OEM and non-OES**. This may **impact claims cost** depending on Company's current claim practices.
 - In the new regime, **retail products definition comprises of micro and small businesses**. Erstwhile, such businesses with sum insured more than 5 crores could be offered commercial products. However, due to change in definition, micro and small businesses shall be offered retail products only. This may **lead to filing of commercial products into retail products** basis Company's previous filings and business strategy.
 - Issuance of **Customer Information Sheet (CIS)** is made **mandatory** for retail policies.

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Other Changes



- **GST unutilized outstanding credit balances**: The unutilized outstanding balances for more than 120 days from erstwhile 90 days shall be disallowed for solvency computation. This change has a favourable impact on solvency.
- **Salvage**: As per the Master Circular on General Insurance, ‘the retail customer will not be burdened with disposal of salvage. It shall be the responsibility of the insurer to collect the salvage from the customer’. This change will increase the administrative and additional financial burden at insurer level.
- **Expenses of Management**: As per ‘Master Circular on Expenses of Management, including Commission, of Insurers, 2024’, for computation of expenses of management, Insurtech expenses now clarified to include only depreciation on capital nature of expenditure to enable insurers to claim the same.
- **Bima Sugam**: Establishment of an insurance electronic marketplace which will be a one stop solution for all Insurance stakeholder’s visa-vis customers, insurers, intermediaries or insurance intermediaries and insurance agents to promote transparency, efficiency, collaboration across the entire insurance value chain, technological innovation in insurance sector, universalize and democratize insurance and to achieve the vision of ‘Insurance for all by 2047’.

Any Questions?

Thank You

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