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Impact of Regulatory Changes (Life)

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Life Insurance Technical Case Study

Impact of Regulatory Changes (Life Insurance)

You are working at IRDAI as ED (Life). New Chairman took charge of the office. He heard that previous Chairman had overhauled the regulatory regime. He asked you to prepare a report detailing the following:

- 1) Major regulatory changes during the previous Chairman regime
- 2) Impact of these changes on the industry - especially policy holders, shareholders and employees [Please put special highlight on any innovation in products due to these changes]
- 3) Observations on effectiveness of these changes with regard to the expected outcome
- 4) Conclusion on future steps basis the study



IRDAI (Registration, Capital Structure, Transfer of Shares and Amalgamation of Insurers) Regulations



Major Regulatory Changes

- Aggregate limit for Other Forms of Capital (OFC) is increased from **25% to 50% of the Paid-up Equity Capital** of the insurer.
- Lock in requirements rationalized for **mature, listed and stressed insurers**.
- Transfer approval threshold shifted from **1% to 5%** bands for acquirers.
- Stronger '**Fit & proper**' Criteria extended to all significant investors.
- OFC Restrictions: **Inter-insurer OFC banned, pre-payment of the instruments** subject to insurer's solvency buffer.

Impact of these changes

- Improved quality of institutional investors as fit & proper' requirement and improved corporate governance
- Improved investor confidence and Insurer liquidity
- Stable companies with stronger capital increase employee welfare and expansion-led hiring
- Regulatory flexibility directly enables innovation in product types, distribution and InsurTech models
- Digital-only insurers selling pure protection or micro insurers as they can operate on low cost model and lower capital requirement

Effectiveness of these changes vs Expected Outcomes



- Improving Capital Access & Financial Strength: Higher fund limits and clearer rules on capital redemptions improves insurers' ability to raise capital and absorb stress - ***Effective, potential future benefit***
- Supporting Business Growth: Capital flexibility encourages insurers to develop long-term guarantees and enables insurers to write more business - ***Long-term impact***
- Stability & Policyholder Protection: Clear capital hierarchy & solvency safeguard reduces risk during stress - ***Highly effective***

Future Steps

- **Risk-sensitive entry criteria** - Entry approval based in stressed actuarial projections (Eg: Business plan + Stress scenarios).
- **Differential capital requirement** for different companies by business model, aligned to the risk profile.
- **Integrate OFC more tightly with solvency and ALM** rather than purely with time-to-maturity.



IRDAI (Expenses of Management, including Commission, of Insurers) Regulations



Major Regulatory Changes

- Increased focus on governance - **Board Approved Policy for Expenses of Management, Payment of Commission and Business Plan.**
- Additional **5%** allowance for **InsurTech & Insurance awareness** expenses.
- Additional allowance upto **15%** of **incremental premium** sourced from **rural sector**. (PMJJBY or any other scheme specified)
- **No variable pay** for key management people if actual expenses exceed **business plan projection by 10%**.
- Excess expenses must be charged directly to **Profit & Loss Account**.
- Additional allowable expenses within **5%** of **gross direct premium written outside India** through branch office or having IFSC insurance office.

Impact of these changes

On Shareholders

- Profitability is now more **strongly linked to operational efficiency**
- Management flexibility to **strategically re-allocate resources**
- Favorable expense limits for Pure Risk products and InsurTech allow **competitive pricing** for Term Plans, with **efficient digital solution**

On Policyholders

- **Improved advice quality;** commission-driven to persistency-driven
- Additional allowance towards InsurTech & digital initiatives; **improve the customer service provided**

On Employees

- **KMPs' variable pay linked to EoM**
- **Increase in incentives**

Effectiveness of these changes vs Expected Outcomes



- Regulatory requirement for an **EoM policy** documenting the manner of transfer of benefits ensures **consumer welfare** - *Highly effective*
- Enhanced **Governance & Accountability** in the KMP due to linking of variable pay loss with actual expenses - *Highly effective*
- Increased market penetration due to InsurTech and Rural/ Social sector allowance - *Effective, but dependent on usage*

Future Steps

- **Standardize definitions** of expenses allowed under InsurTech & Rural/ Social expenses to ensure consistency.
- **Periodically assess** utilization and impacts of InsurTech and Rural/Sector allowances.



IRDAI Products Regulations

Major Regulatory Changes

- Formal product governance framework with the formation of **PMC, Advertisement committee, BAPMPP** and **BAAP**.
- Use & File (U&F) and File & Use (F&U) procedures, the scope is expanded to allow certain **modifications to be launched quickly**.
- **Changes in benefit, premiums or charges** are restricted up-to a certain proportion due to changes in experience.
- Minimum Death Benefit is now linked to **Age at entry**.
- All non linked savings products that offer surrender value shall have a **facility of loan**.
- For life insurers that offer **long term health insurance**, premium shall now remain unchanged for entire policy term.

IRDAI Products Regulations

Major Regulatory Changes



- Maximum Sum Assured for **Accidental Death Benefit Rider** - restriction from maximum of base sum assured to 3 times of base sum assured.
- **Minimum PPT** for other than Single Pay - condition of 5 years removed.
- **Premium reduction** which was earlier allowed after payment of 1st five full annual premiums has now been changed to 3 years for pure risk products and 5 years for other than pure risk products.
- Surrender value is now payable after **completion of 1st policy year**; provided 1st full year premium is received.
- Special surrender value is the higher of, EPV which is linked to **10-Year G-Sec** and value based on notional asset share for Non-Par and asset share for Par, which is to be reviewed annually.

IRDAI Products and IRDAI Regulatory Sandbox



Innovative Products

- **Variable Annuities:**
 - Where annuity pay outs shall vary with a publicly available benchmark as per the formula as specified in the product filing document.
 - There would be a minimum guaranteed annuity rate throughout the policy term which shall not be $< 60\%$ of the annuity rate at inception
- **Index Linked Products:**
 - Where linked insurance product has all the funds linked to publicly available index otherwise it is categorized as ULIP
- **ESG ULIP Funds:**
 - Can be launched so as to adhere to the Climate and ESG framework of the Corporate Governance Regulations. These would be easy to market to environmentally conscious Investors/Policyholders

Impact of these changes

On Policyholders

- Greater transparency & comparability
- Meet emerging needs of the policyholders
- Enhanced options to select from

On Shareholders

- Faster launch to market with more freedom
- Pricing discipline
- Long term Shareholder Value growth

On Other Stakeholders

- Higher innovation and increased competition: better pricing efficiency and improved product innovation
- Increased responsibility at senior levels
- Distribution dynamics for agents and company salesforce has now changed

Effectiveness of these changes vs Expected Outcomes

- Product governance strengthened and accountability increased - ***Highly effective***
- Limit on change in premium/ benefits due to change in experience - ***Effective***
- Faster market responsiveness - ***Highly effective***
- Improved confidence on the products - ***Effective***

Future Steps



- Undertake market research on how products vary in other markets
- Clarify/standardise some **technical areas** where industry practice diverges
- Ensure the use of the **Sandbox environment for wellness benefits** under life insurance products



IRDAI (Actuarial, Finance and Investment Functions of Insurers), Regulations

Major Regulatory Changes - ACTUARIAL FUNCTION

- **Minimum resources** for the support of Appointed Actuary - Valuation Actuary and Pricing Actuary
- **Appointed Actuary eligibility** and **organizational changes**
- **Reserving Changes** for UL FFA, Global Reserving, 15-Day UL Mortality Charge Reserve
- **WPC governance strengthened:** WPC explicit composition, Independent WPC Actuary eligibility, WPC report changes
- **Changes in Solvency** - ASM (**Admissibility of Assets**) and RSM (**ULIP First Factor & PMJJBY Second Factor**)

IRDAI (Actuarial, Finance and Investment Functions of Insurers), Regulations



Major Regulatory Changes - FINANCE FUNCTION

- Changes in the content of Management Report with the introduction of Outsourcing Expense and Penalty Disclosures
- Detailed ULIP Disclosures
- Quarterly recognition of Non-par Surplus
- New disclosures on claims ageing
- 5-Year Summary of Financials and Accounting Ratios for better reporting and analysis
- Clarifications on Irreversibility of Shareholder Transfers for participating business and CSR deduction from Profit & Loss Account

IRDAI (Actuarial, Finance and Investment Functions of Insurers), Regulations



Major Regulatory Changes - INVESTMENT FUNCTION

- ULIP funds must have a designated manager and introduction of scale based requirements for fund managers
- No common fund manager between ULIP Funds and Non-ULIP Funds
- Introduction of NPA & Custodian via investment forms
- Introduction of Bonds Forwards for life insurance

Introduction of Circular on Equity Derivatives, 2025

- The Purpose of introducing the **Usage of Equity Derivatives** is for the preservation of equity gains and hedging only
- **Instruments** - Short (Sell) Only in Index and Stock Futures and Long Only in Index Put and Stock Put Options
- **Existing Life, Annuity, Pension & Group Funds** and only new **ULIP Funds**
- Others - **Board Approved Hedging Policy, CRO Responsibility and Accounting Policy on Hedging**

IRDAI (Corporate Governance of Insurers) Regulations



Major Regulatory Changes

- Regulations now **enforce more formal rules** instead of older principle based guidelines and hence can attract penalties
- **Mandatory prior IRDAI approval for Board Chairperson**
- **ESG and Climate Risk Oversight** has been introduced and hence its framework needs to be built
- **Tenure terms for the CCO** have been capped at 3 years
- **Key Management Person (KMP)** can not be involved in more than one control function
- Introduction of a **mandatory whistleblower policy**

Impact of these changes

On Policyholders

- Improved financial security and greater confidence in insurer
- Strengthening of WPC Framework

On Shareholders

- Increased governance Eg: More detailed WPC and management reports
- Change in Solvency ratios and Increase in reserves
- Faster reinsurance settlement income with new timelines for balance measurement

On Other Stakeholders

- Credit Rating Agencies - Enhanced oversight capability and penalties for non-compliance are now consolidated
- Stock Analysts / Potential Investors - A detailed management report, 5-Year summary of financials and standard accounting ratios **help in informed decision making**

Effectiveness of these changes vs Expected Outcomes



- Regulatory returns prepared and reported to provide a true and fair view - ***Highly effective***
- Ease of doing business is facilitated - ***Effective***
- Protection against High Equity Market Volatility with preservation of Equity Portfolio Gains - ***High potential as it depends on usage***
- Enhance financial soundness and solvency for Policyholder Protection - ***Highly effective***

Future Steps

- Introduction of **Additional Global Reserves** like a Reinsurance Default Reserve and Catastrophe Reserve
- **Asset Types:** Allowance of Commodities and Private Equities/Debt as an asset class
- **Investment Limits:** Increase of Investment limits in REITs/InViTs from current 3% with certain conditions
- **Board Effectiveness Reviews:** Institute mandatory Annual Independent Evaluations of Board Committees
- **Automation and Tech Based Solutions:** BAP to APIs and Compliance Questionnaires on Tech Solutions

Future Steps (Continued)

- **Investor Communication:** Disclosure of hedging benefits and cost impact of the use of Equity Derivatives
- **Deepen ESG Integration:** Mandatory Investment under ESG compliant assets for Insurance Companies
- **IND AS 117** and its phased implementation
- **Solvency** - Move to Indian Risk Based Capital Requirement (IRBCR)



Protection of Policyholders' Interests, Operations and Allied Matters of Insurers Regulations



Major Regulatory Changes

- Board approved policy for protection of policyholders' interest, to be reviewed annually.
- Every insurer shall mandatorily provide the **Customer Information Sheet (CIS)** along with the policy document.
- Issuance of Insurance policies in **electrical form**.
- **Changes in Free Look Period of Life Policies**
 - 30 days (earlier 15 days, except for online policies)
 - Premium refund within 7 days (earlier 15 days)
- **Changes in provisions related to Nominations** - No proposal shall be accepted unless nomination is obtained.
- Introduction of **Annual Periodic Statement** for participating policyholders.

Protection of Policyholders' Interests, Operations and Allied Matters of Insurers Regulations



Major Regulatory Changes

- Insurers must collect **bank account details** at proposal stage to facilitate electronic refunds & claim payments.
- Insurers must **display all products on offer** and **withdrawn products** on their website, with key details and UIN.
- Group insurance regulations require groups to exist for a **genuine non-insurance purpose**, to prevent **groups formed for taking insurance and rate arbitrage**.
- Insurers that meet the **Solvency and Expenses of Management criteria** may open new places of business in India with just intimation to IRDAI.
- Introduction of **Bima-ASBA**

IRDAI's Initiatives towards 'Insurance for All by 2047' - The Bima Trinity



Bima Vistaar - All-in-one standard product

- A standard, affordable composite policy with:
 - Life cover
 - Personal accident / disability cover
 - Health cover (hospitalization)
 - Property cover (dwelling + contents)
- Targeted primarily at **rural / low-income customers**, with simple wordings and fixed benefits.
- **Industry bodies** (Life Insurance Council, General Insurance Council) and IRDAI are designing it jointly, with uniform features across companies and uniform premium & sum insured for given variants.

The Bima Trinity (Continued)

Bima Sugam - Digital public infrastructure for insurance

- A unified **digital marketplace** / “insurance UPI” where customers can:
 - Buy policies across life, health & general
 - Compare products
 - Store all policies in one place
 - Raise and track claims & service requests
- Backed by **IRDAI + Life Insurance Council + GI Council** as a neutral, regulator-anchored platform.

Bima Vahak - Women-centric last-mile channel

- A new distribution & service channel, designed as women-centric and village-level.

Impact of these changes

On Policyholders

- Reduction in **mis-selling**, improve **comparability**, and enable informed **decision-making**
- Faster **policy issuance**, claim **payments** and **grievance redressal**
- Instant access to **policy documents**, accelerate **policy servicing & claim processes** and reduce **fraud & manual errors**

On Shareholders

- Reduced **compliance burden**, **faster decisions**, **lower costs**, and improve **capital productivity**
- Reduce **cheque dishonours** and speed up **accounting and reconciliation activities**
- Expected increase in **reserve requirements** and adverse impact on the **embedded value**

Impact of these changes (Continued)

On Employees

- **Sales - reduction in disputes with customers, more structured sales processes and increase in credibility**
- **Operations & Servicing - Shift to e-policies will reduce manual activities. New TAT requirements will require automation, digitalization of workflow and clear SLAs**

On Other Stakeholders

- **Higher consumer protection and transparency**
- **More operational efficiency**
- **Better environment for innovation and growth**
- **Bima Trinity will focus on larger addressable market (rural, women, gig workers, informal sector)**

Effectiveness of these changes vs Expected Outcomes



- Improve the clarity of rights, obligations and servicing norms and reducing misinterpretation and improving policyholder protection - ***Highly effective***
- Digitalization, reduce paperwork and improve TATs - ***Effectiveness varies*** by insurer, depending on their tech capabilities
- Reduction in claim settlement time, lower mis-selling complains - ***Effective***, public data on its effectiveness expected to become available over time

Future Steps

- Define a **small set of outcome KPIs** that every insurer must track and submit.
- Finalize standard **product design for Bima Vistaar** (Life + PA + Property + Hospitalization).
- **Launch the Bima Sugam** platform for the benefits of customers.
- **Issue a comprehensive framework / Master Circular** on Bima Trinity, clarifying roles and responsibilities of: Bima Sugam entity, Participating insurers and intermediaries, Bima Vahaks and other distributors.

IND Risk-Based Capital Requirement (IRBCR)



- IRBCR is a solvency framework under which the capital required by a life insurer is explicitly linked to the **underlying risks** in its business rather than applying uniform, factor-based margins. The objective is to ensure that insurers hold **adequate capital corresponding to their risk profile**, thereby strengthening policyholder protection and financial stability.

IND AS 117 (IFRS 17)

- **IND AS 117** is the new accounting standard for insurance contracts, notified by the Ministry of Corporate Affairs, which introduces a uniform, **principle-based framework for recognition, measurement, presentation and disclosure** of insurance liabilities. It replaces **IND AS 104** and fundamentally changes how life insurers measure profits and liabilities.

Question & Answers

Thank You!

Appendix

Change in Expense of Management Limits

(New Vs Old)

Product Type	Single Premium / First Year Premium	Renewal Premium / Annuities / SA
Immediate Annuity - Single Premium	5% of Single Premium (SP)	0.75% Vs 0.5% of annuities
Deferred Annuity - Single Premium	5% of SP	0.75% Vs 0.5% of annuities
Pure Risk Policies - Single Premium	Individual - 14% Vs 10% of SP	N/A
	Group - 10% of SP	
Deferred Annuity & Pensions - RP & LP	15% Vs 10% of First Year Premium	6% Vs 4% of Premium of RP 0.75% Vs 0.5% of annuities
Regular Premium Pure Risk Business	With PPT ≥ 10 : 100% of FY Premium	25% of Premium of RP
	With PPT < 10 : 7.5 times of number of whole years (New)	
Other Individual Product	With PPT ≥ 10 : 80% of FY Premium*	17.5% of Premium of RP*
	With PPT < 10 : 7.5 times of number of whole years (New)	
1-year Renewable Group Plan	15% of Premium	N/A
Group Fund Based Plan (Avg. AUM)	AUM ≤ 10000 Cr: 1% of AUM	N/A
	AUM > 10000 Cr: 0.8% of AUM	
Paid-up Policies	0.1% Vs 0.05% of the average of the total SA	N/A
Lapsed Policies under the Revival Period	0.02% Vs 0.01% of the average of the total SA	N/A

**Based on years of operation and premium payment term.*

IRDAI Reinsurance Amendments

Major Regulatory Changes



- Introduction of any retrocession to an IIO up to 20% of Indian reinsurance business shall be reckoned towards the minimum retention of 50%, **also applies to FRBs.**
- Submission of the **Board approved Final Reinsurance Programme** should be done **within 45 days**, instead of within 30 days.
- Cedant must collect **collateral from CBRs** in the form of irrecoverable letter of credit or premiums/funds withheld by the ceding insurer.