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SHAPING VIBRANT INDIA

Financial Services Risk

Regulatory updates - Insurance

December 2023 to March 2024

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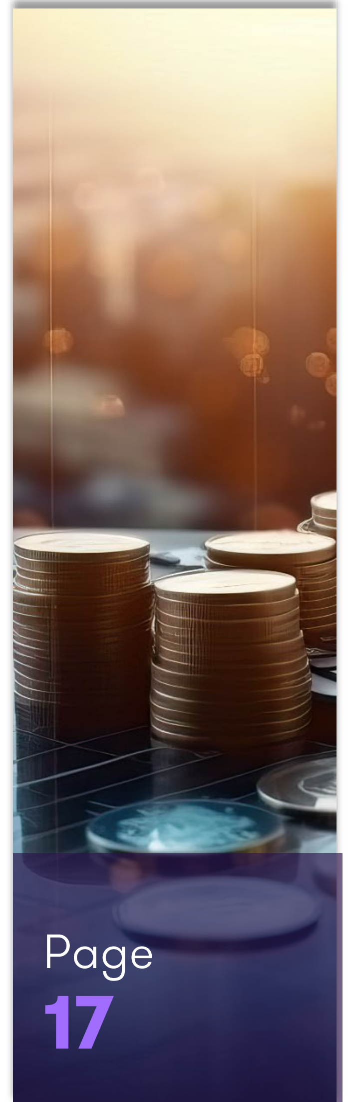

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01

Summary of key regulatory updates [Dec’23 – Mar’24]

Investments in Infrastructure Debt Funds – NBFC - IRDAI/F&I/INV/CIR/003/01/2024

In a recent review, the RBI has expanded the role of Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs) in infrastructure financing. Consequently, the requirement for case-by-case approval for IDF investments is removed to encourage insurer participation. Insurers are now permitted to invest in IDF-NBFCs, subject to specific conditions. These conditions include RBI registration for IDF-NBFCs, a 5-year minimum tenure for debt securities, and a minimum AA credit rating from SEBI-registered Credit Rating Agencies. The latest IRDAI circular, approved by the competent authority, marks a notable change in insurer investment approaches in the infrastructure sector. It aims to boost participation in financing vital infrastructure projects by giving insurers increased autonomy. This move is expected to bolster insurers' contributions to infrastructure development, aligning with broader economic growth goals and fostering a favourable environment for investment and development in the insurance and infrastructure sectors. Stakeholders are encouraged to seize new opportunities in infrastructure investments amidst these regulatory changes, benefiting from a more efficient and streamlined process.

05
Jan-24

Submission of Advance Reinsurance Programme - IRDAI/REIN/CIR/RISF/4/1/2024

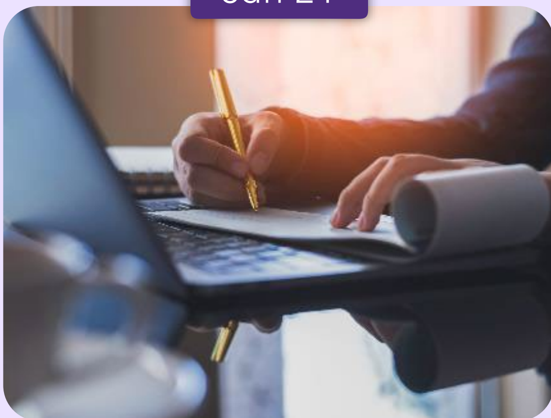
The IRDAI regulations 2018 mandate insurers to submit an advance reinsurance plan at least 45 days before the start of the financial year, as per Regulation 3(A). Annexures A and B detail the submission format, while Annexure C provides submission guidelines. Responsibility has been cast on the insurer's Board to ensure timely submission in the specified format. Even exempted insurers must comply, with Authorised Person(s) taking charge if the Board, CEO, or CFO is unavailable. Annexure D requires the CEO and CFO's endorsement of the reinsurance plan. This circular emphasises adherence to regulatory requirements for reinsurance placements. Requiring an advanced reinsurance program aims to encourage meticulous planning and enhance risk management. Timely submission ensures preparedness for the upcoming financial year, promoting prompt decision-making. Emphasising regulatory compliance enhances transparency and accountability, building trust in the insurance sector.

05
Jan-24

Compliance with MoRTH notifications in view of the Motor Vehicles (Amendment) Act, 2019 - IRDAI/NL/CIR/MOTOR/2/1/2024

The Ministry of Road Transport and Highways (MoRTH) issued three gazette notifications on 25 February 2022, responding to amendments in the Motor Vehicles (Amendment) Act, 2019. These notifications relate to the Central Motor Vehicles (Motor Vehicle Accident Fund) Rules, 2022, the Compensation to Victims of Hit and Run Motor Accidents Scheme, 2022, and the Central Motor Vehicles (Fifth Amendment) Rules, 2022, which address the Procedure for Investigation of Motor Vehicle Accidents. All general insurers in the motor insurance business must adhere to these notifications, outlining their roles and responsibilities and ensuring strict compliance. Insurers are urged to make necessary arrangements for the seamless implementation of the prescribed procedures. The issuance of these notifications reflects the government's commitment to enhancing road safety and ensuring prompt compensation for victims of motor accidents. By outlining clear rules and procedures, the notifications provide insurers with guidance on their obligations, promoting consistency and efficiency in claims processing. Insurers must adapt their operations and systems to comply with the new requirements, which may involve investing in technology and training to streamline processes and improve service delivery.

08
Jan-24



Gazette notification on denotification of arbitration clause - IRDAI/Gen Insurance/Tariff/1/195/2024

In 2006, in response to the Tariff Advisory Committee's withdrawal of tariffs, the Insurance Regulatory and Development Authority of India (IRDAI) issued notification Ref.034/IRDA/De-Tariff/Dec-06. This notification preserved certain regulations, terms, and conditions for various classes of insurance previously under tariffs until further notice. Now, exercising authority under Section 64 ULA of the Insurance Act, 1938, the IRDAI announces de-notifying arbitration clause-related provisions in these regulations and documents, effective 27 October 2023. Henceforth, insurance contracts involving arbitration clauses will be governed by circulars from the Authority, subject to periodic amendments

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Jan-24

IRDAI (Expenses of Management including Commission) Regulations - 2024 RDAI/Reg/2/196/2024

The Insurance Regulatory and Development Authority of India (IRDAI) has introduced the "Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024" to grant insurers the flexibility to manage expenses, including commissions while upholding compliance within defined limits. These regulations, which apply to insurers engaged in life insurance, general insurance, or health insurance business in India, will become effective on 1 April 2024, with a requirement for periodic reassessment every three years. The regulations delineate crucial terms such as "charges," "commission," and "Expenses of Management," providing clear guidelines for expense oversight. Insurers must devise Board-approved policies for managing expenses and commission disbursements, focusing on cost efficiency, enhancing policyholder benefits, and ensuring regulatory adherence. Business plans, overseen by the Board, must forecast capital needs, solvency margins, and management expenses. Limits are established for management expenses within each insurance segment, with additional provisions made for insurtech expenditures and initiatives aimed at raising insurance awareness. The authority retains the prerogative to exercise leniency in excessive expenses and prescribes penalties for non-compliance, including financial sanctions, operational limitations, and managerial repercussions. Furthermore, provisions are made for addressing challenges and for the repeal and retention of previous regulations, ensuring a seamless transition. These regulations are crafted to enhance transparency, operational efficiency, and sustainability within the insurance sector, fostering responsible expense management and advancing the interests of policyholders.

22
Jan-24

Guidelines on providing AYUSH coverage in health insurance policies - IRDAI/HLT/CIR/GDL/31/01/2024

The Insurance Regulatory and Development Authority of India (IRDAI) has issued a circular emphasising integrating AYUSH (Ayurveda, Yoga & Naturopathy, Unani, Siddha, and Homeopathy) treatments into health insurance policies. Insurers are instructed to establish a Board-approved policy incorporating AYUSH coverage, ensuring these treatments are on par with conventional options and granting policyholders the freedom to select their preferred treatment method. Moreover, insurers are mandated to revise existing products, eliminating any constraints on AYUSH treatments and ensuring compliance with the new guidelines.

To facilitate the integration of AYUSH treatments, insurers must implement robust controls and Standard Operating Procedures (SOPs). These procedures should cover aspects such as enrolling AYUSH hospitals into their network, establishing treatment protocols, and mitigating risks related to fraud and abuse. Furthermore, insurers are directed to collaborate with the core group of experts for the insurance sector under the Ministry of AYUSH to develop necessary frameworks for providing AYUSH coverage effectively.

The circular is set to take effect from 1 April 2024 and is issued under the authority granted by Section 14(2)(b) of the IRDA Act, 1999. This initiative underscores the commitment to expanding healthcare options for policyholders and promoting holistic well-being by integrating traditional and alternative treatment modalities.

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Jan-24

Modification in product for PWD, Persons afflicted with HIV/AIDS and those suffering from mental illness - IRDAI/HLT/CIR/PRO/32/01/2024

IRDAI/HLT/CIR/MISC/58/02/2023, dated 27 February 2023, introduces minor adjustments to the model health insurance product to ensure equitable access to allopathic and AYUSH treatments for policyholders. Specifically, Clause 4.2 and the table of benefits have been revised to specify coverage for inpatient care treatment under ayurveda, yoga and naturopathy, unani, siddha, and homeopathy systems, up to 100% of the sum insured annually. All other regulations and guidelines remain unchanged.

These modifications will take effect from 1 April 2024, aligning to provide comprehensive healthcare options to policyholders. This Circular is issued in accordance with Section 14(2)(b) of the IRDA Act, 1999.

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Jan-24

Modifications to the master circular: Unclaimed amounts of policyholders dated 17 November 2020 - IRDAI/Life/CIR/Miss/41/2/2024

In response to the escalating concern surrounding unclaimed amounts held by insurers, modifications have been introduced to Master Circular No. IRDA/F&A/CIR/misc./202/11/2020 dated 17 November 2020. These revisions aim to redefine terms such as "due date" and "unclaimed amounts" to foster clarity and enhance accountability within the insurance sector.

Under the updated framework, unclaimed amounts now encompass sums owed to consumers that remain unpaid beyond twelve months from the due date. Amounts subject to litigation or arising from specific circumstances are classified separately. Insurers are urged to undertake diligent efforts to trace rightful recipients and facilitate efficient disbursement of these funds. New measures have been introduced to address this issue comprehensively. These include encouraging policyholders to regularly update their details, holding agents and intermediaries responsible for tracing consumers, collaborating with various entities for consumer tracing purposes, and implementing robust systems for KYC (Know Your Customer) and communication.

Insurers are advised to offer online facilities for updating contact details, issuing advance notifications for maturity claims, and developing online tools for processing unclaimed amounts efficiently. Furthermore, fraud prevention measures and monthly reporting of unclaimed amounts have been mandated to ensure regulatory compliance and safeguard consumer interests.

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Feb-24

02

List of regulatory updates (Dec'23-Mar'24)

Date	Description	Reference No.	Type
09/12/2023	Modification in product for PWD, Persons afflicted with HIV_AIDS and those suffering from mental illness	IRDAI/PP&GR/CIR/MISC/55/3/2024	Circular
18/12/2023	Insurance claims relating to cyclone Michaung and subsequent heavy rains / floods	IRDAI/NL/CIR/MISC/216/12/2023	Circular
05/01/2024	Investments in Infrastructure Debt Funds - NBFC	IRDAI/F&I/INV/CIR/003/01/2024	Circular
05/01/2024	Submission of advance reinsurance programme	IRDAI/REIN/CIR/RISF/4/1/2024	Circular
08/01/2024	Compliance with MoRTH notifications in view of the Motor Vehicles (Amendment) Act, 2019	IRDAI/NL/CIR/MOTOR/2/1/2024	Circular
22/01/2024	Gazette notification on denotification of arbitration clause	IRDAI/Gen Insurance/Tariff/1/195/2024.	Circular
24/01/2024	IRDAI (Expenses of Management including Commission) Regulations, 2024	F. No. IRDAI/Reg/2/196/2024.	Circular
31/01/2024	Modification in product for PWD, Persons afflicted with HIV_AIDS and those suffering from mental illness	F. No. IRDAI/Reg/2/196/2024.	Circular
31/01/2024	Guidelines on providing AYUSH coverage in health insurance policies	IRDAI/HLT/CIR/PRO/32/01/2024	Circular
16/02/2024	Modifications to the master circular to unclaimed amounts of policyholders dated 17th November 2020	IRDAI/REIN/CIR/RISF/4/1/2024	Circular
23/02/202	Obligatory cession for the financial year 2024-25	F. No IRDAI/RI/3/197/2024	Notification
28/03/2024	Servicing to the policyholders - Special measures for the current Financial Year 2023-2024	IRDAI/PP&GR/CIR/MISC/55/3/2024	Circular

03

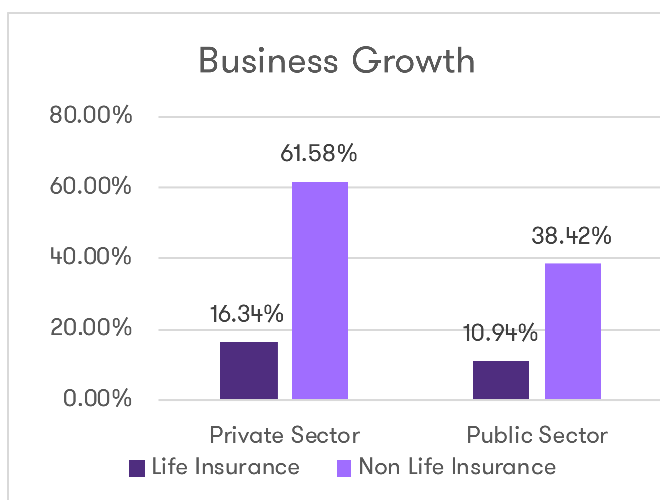
Key takeaways from IRDAI Annual Report 2022-23

Context:

The annual report for the fiscal year 2022-23 has been disseminated by the Insurance and Regulatory Development Authority of India (IRDAI), presenting comprehensive insights into the operational dynamics of the IRDAI throughout the fiscal year, coupled with an assessment of the prevailing economic conditions.

A Business performance of the insurance sector

The annual report for the fiscal year 2022-23 has been disseminated by the Insurance and Regulatory Development Authority of India (IRDAI), presenting comprehensive insights into the operational dynamics of the IRDAI throughout the fiscal year, coupled with an assessment of the prevailing economic conditions.



During 2022-23, the life insurance sector witnessed a growth of 12.98%, with a recorded premium income of INR 7.83 lakh crore. The private sector life insurers demonstrated a robust growth of 16.34% in premium, outpacing the public sector life insurer, which achieved a commendable 10.9% growth in premium. Further, the non-life insurance sector in India recorded substantial growth, underwriting a total direct premium of INR 2.57 lakh crore. This marked a significant increase of 16.40% compared to the previous year. Analysing the market share, the public sector general insurers collectively held 38.42%, while the private sector general insurers accounted for 61.58%. This highlights the sector's overall positive trajectory, with significant contributions from both private and public entities.

GT assessment: Several initiatives have been implemented to enhance the overall penetration of insurance. Notably, changes in the regulatory framework, including the increase in the foreign direct investment limit from 49% to 75% in the insurance sector, have stimulated significant mergers and acquisitions. For instance, Zurich entered the Indian market by acquiring a 51% stake in Kotak Mahindra General Insurance. Furthermore, the emergence of new insurers such as Acko Life Insurance Ltd and Go Digit Life Insurance Ltd has been observed. The evolving regulatory landscape, particularly regarding capital requirements, is anticipated to facilitate easier entry for new players, fostering increased competition within the market.

An interesting observation is the significant role played by single premium products in life insurance segment, constituting,

40.65% of the total premium for public sector insurers

22.20% for private life insurers.

While single-premium policies offer certain advantages, they pose specific challenges for insurance companies. These include limited and one-time income sources compared to the recurring revenue from regular premium payments in other policy types, as well as reduced engagement with policyholders, resulting in limited opportunities for cross-selling. Moreover, the demand for single premium policies can be sensitive to economic conditions. During economic uncertainty, individuals may be less inclined to make a significant one-time payment, which could affect the market for single-premium products and hinder insurance business penetration.

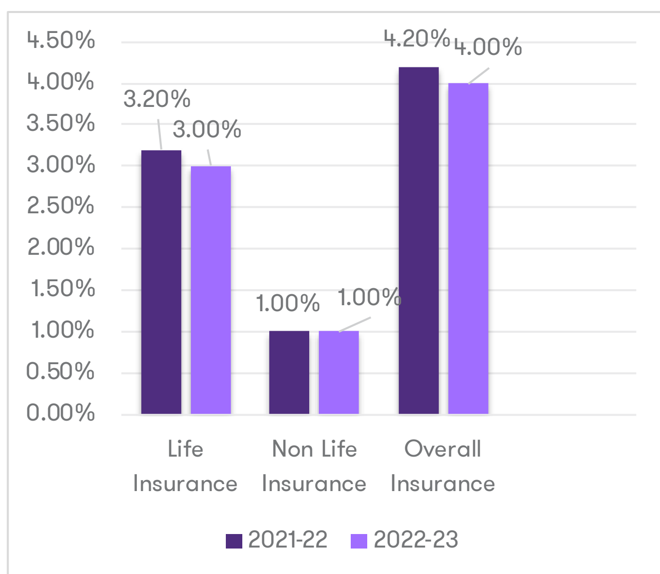
GT Assessment: The recent regulatory framework changes, encompassing the introduction of cashless health insurance anytime, anywhere, and expedited settlement during distress, alongside amendments in Expense of Management Regulations granting the Board of Insurers discretionary authority over commissions within the allowable expense limits, signify a significant shift in the strategies of Insurance companies. Formerly, varying commission limits across different lines of insurance business posed operational challenges for insurers. The revised approach is anticipated to afford insurers greater flexibility in expense management, compelling them to focus on retail and regular premium policies.

This shift is expected to foster increased product innovation, develop novel distribution models, and adopt more customer-centric operations. Consequently, it is foreseen to enhance insurance penetration and offer insurers greater agility in managing their expenditures. This transition is also poised to yield improved pricing and product offerings for customers over the medium to long term.

According to the Swiss Re Sigma Report, the life insurance penetration in India decreased from 3.2% in 2021-22 to 3% in 2022-23. Similarly, the non-life insurance penetration remained at 1% for both years. Consequently, India's overall insurance penetration declined from 4.2% in 2021-22 to 4% in 2022-23 which is demonstrated below.

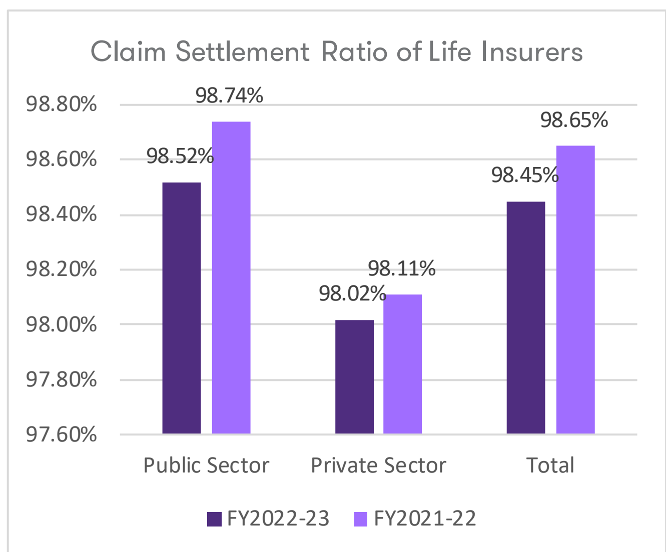
GT assessment: The low insurance penetration is multifaceted, stemming from limited customer awareness regarding insurance benefits, cumbersome paperwork in insurance procurement, and intricate policy terms and conditions. However, efforts are underway to rectify this issue. The Insurance Regulator, in collaboration with the Life Insurance Council and General Insurance Council, has embarked on initiatives to enhance insurance awareness.

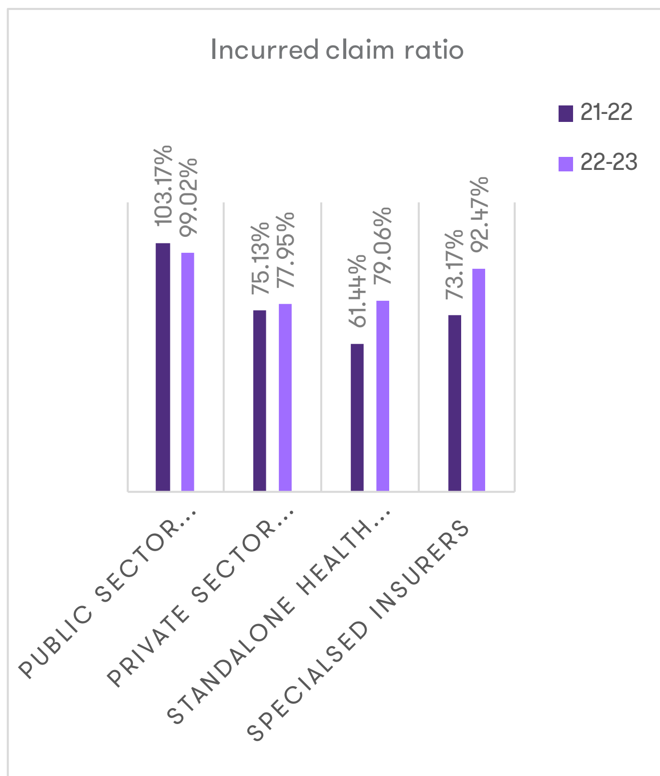
Additionally, IRDAI's introduction of simplified language in comprehensive policies is poised to significantly bolster insurance penetration across India in the foreseeable future.



B Benefits paid by life and non-life Insurers

In the fiscal year 2022-23, the life insurance industry disbursed INR 4.96 lakh crore in benefits, representing 64.08% of the net premium. Further, the claim settlement ratio for the public sector insurer was 98.52% as of 31 March 2023, compared to 98.74% as of 31 March 2022. Private insurers' claim settlement ratio was 98.02% for 2022-23, down from 98.11% in the previous year. The industry's overall settlement ratio decreased to 98.45% in 2022-23 from 98.64% in 2021-22. For the group life insurance business in the fiscal year 2022-23, out of a total of 12.48 lakh claims, life insurance companies settled 12.40 lakh claims, resulting in a settlement ratio of 99.35%. The public sector insurer paid 98.97% of the claims, while private life insurers paid 99.41%.





The above representation offers a concise overview of the non-life insurance sector's performance. It compares the net incurred claims and incurred claims ratio across various categories, providing a snapshot of the sector's health and potential areas of improvement.

In the case of non-life insurers, the aggregate net incurred claims increased by 6.22% compared to the previous year, totalling INR 1,49,313 crore (compared to INR 1,40,566 crore in the previous year). Further, the incurred claims ratio (ICR), measuring net incurred claims against net earned premium, decreased for the entire non-life insurance industry to 82.95% in 2022-23 from 89.08% in the previous year. Also, public sector insurers' incurred claims ratio decreased to 99.02% in 2022-23 from 103.17% in the previous year. On the other hand, private sector general insurers, standalone health insurers, and [1]specialised insurers showed improved ICRs of 75.13%, 61.44%, and 73.71%, respectively, in 2022-23 compared to the previous year's ratios of 77.95%, 79.06%, and 92.47%.

GT assessment: The Insurance Regulatory and Development Authority (IRDAI) has initiated a significant transformation by removing the age limit of 65 years for purchasing health insurance. This alteration addresses the challenge of managing increased risks associated with insuring older demographics, such as higher medical expenses and pre-existing conditions. While this change is anticipated to foster competition among insurers, potentially leading to improved consumer offerings and services, it raises concerns about a surge in claims, impacting the capital requirements for standalone health insurance providers.

[1]Speciliased Insurers includes Agriculture Insurance Co of India Ltd and Export Credit Guarantee Corporation of India Ltd

C Promoting insurance coverage in India's rural regions

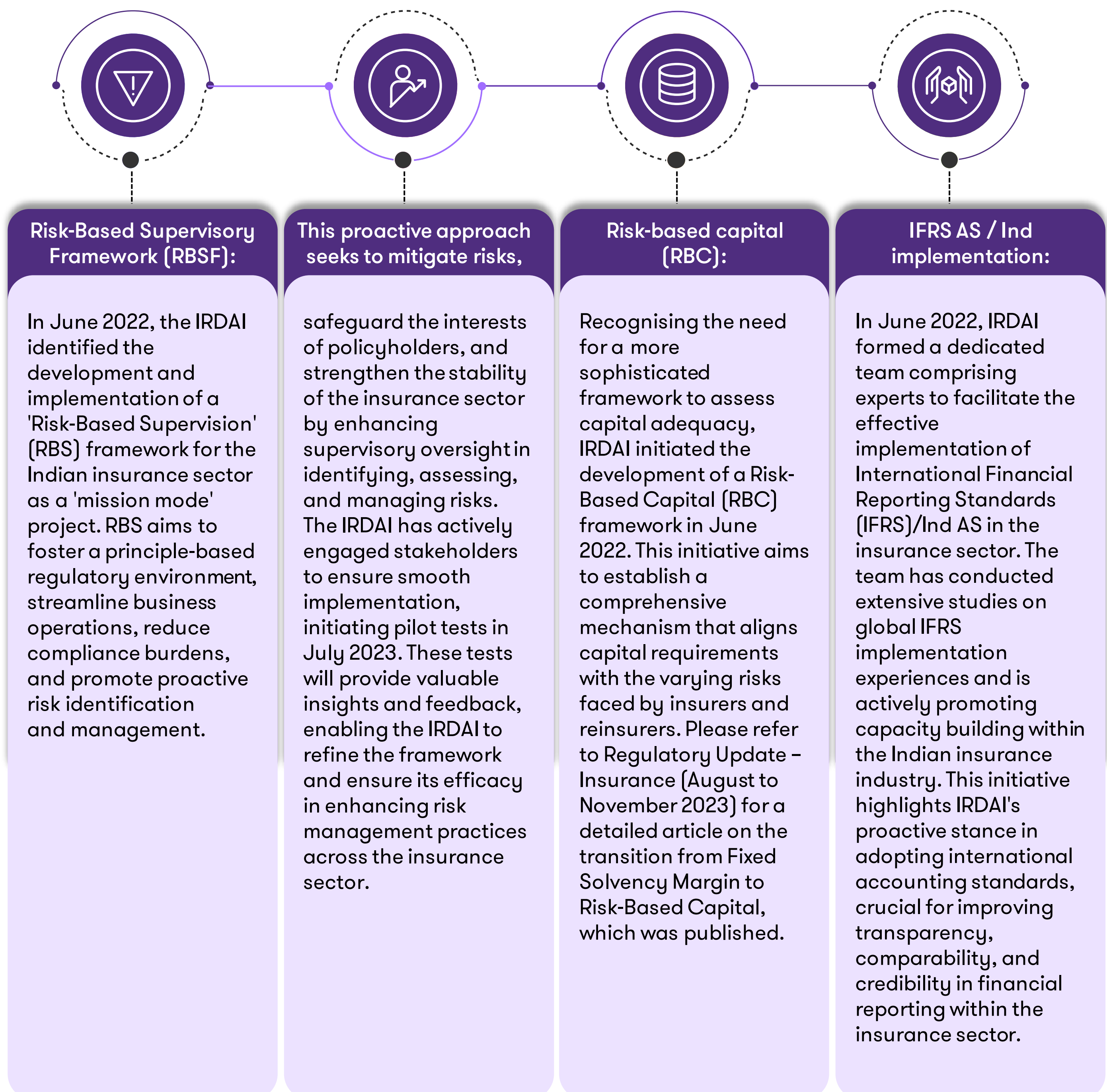
With approximately 65%[2] of India's population residing in rural areas, there arose a crucial need for regulators to promote the penetration of insurance services into these regions. In the fiscal year 2022-23, Life Insurance Companies issued 68.47 lakh policies in rural sectors, accounting for 24.05% of their total policies underwritten, surpassing the mandated 20%. Moreover, all general insurers (excluding specialised and standalone Health Insurers) generated a premium of INR 32,091 crore in the rural sector during the fiscal year 2022-23. Public sector general insurers accounted for 23% of the total gross premium written in rural areas, while private sector general insurers contributed 77%.

GT Assessment: Private sector insurance companies encounter a notable obstacle in this market due to the elevated distribution and servicing costs associated with low-cost micro-insurance products tailored for rural segments. Nevertheless, recent initiatives like Bima Vahak, a distribution model empowering women entrepreneurs in remote areas to foster insurance awareness and customer trust in insurance products, are anticipated to enhance rural customer accessibility and lower distribution costs, rendering the rural segment more appealing to insurance players.

[2] Source: Press Information Bureau (pib.gov.in)

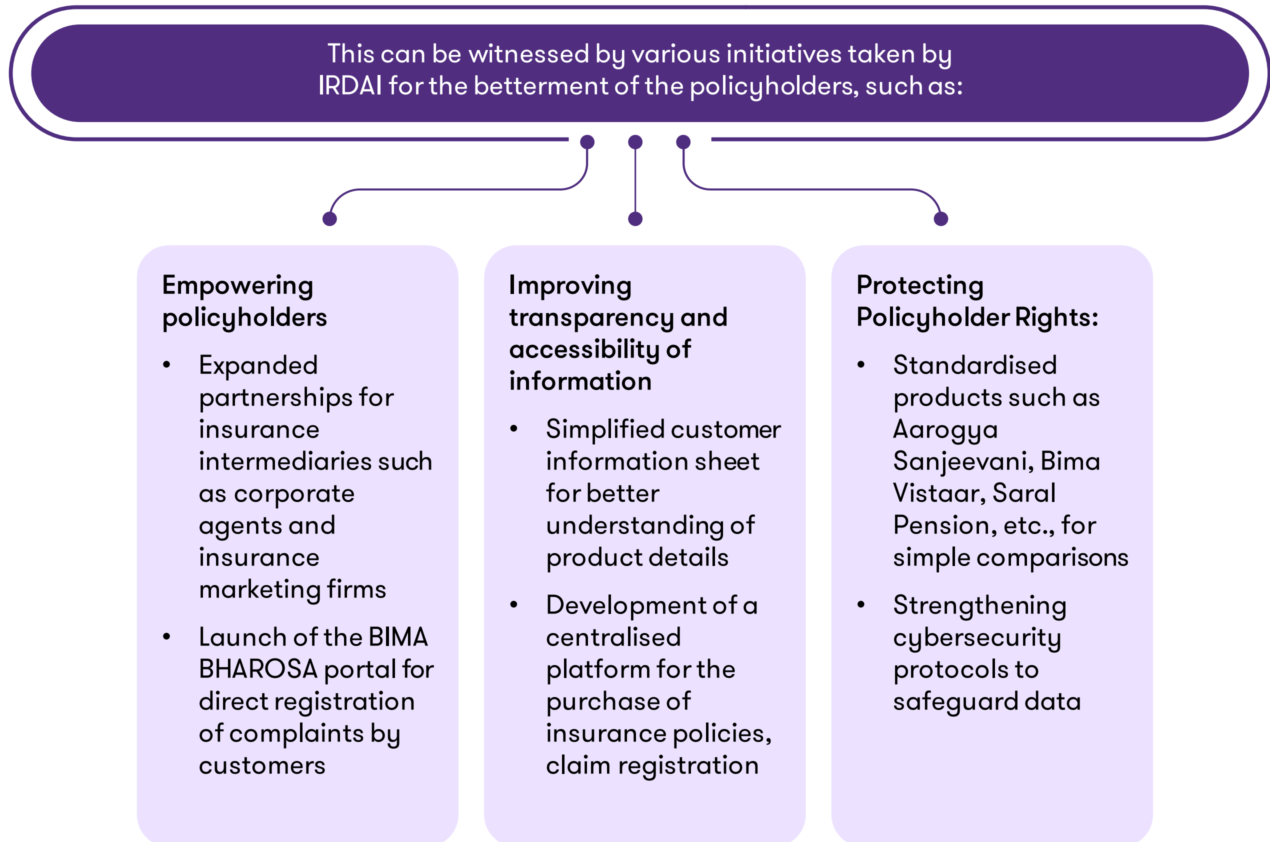
D Working towards a future-ready insurance industry

The Indian insurance sector stands at a pivotal juncture. With the vision of "Insurance for All by 2047," the IRDAI aims to ensure that every Indian has appropriate life, health, and property insurance coverage while every enterprise is equipped with suitable insurance solutions. As the industry transitions towards a principle-based regulatory framework, the IRDAI has established the following teams in a mission mode:



Conclusion

In 2023, IRDAI embarked on a customer-centric journey, prioritising policyholder satisfaction and experience. This shift reflects a commitment to cultivating trust and reliability in the insurance industry, elevating consumers as integral stakeholders. By championing customer needs, IRDAI sets a commendable precedent, ensuring a sustainable future for insurance in India.



IRDAI has initiated several measures to enhance insurance penetration. They have forged close partnerships with different states to progress towards the target of achieving comprehensive insurance coverage by 2047. Moreover, the government is considering revisions to the Insurance Act, which would allow the entry of new entities like micro, regional, captive, and specialised insurance firms and the issuance of composite licenses. This strategy shall also facilitate the provision of insurance products customised for varied geographical regions and demographic groups.

04

Transition from rule-based to principle-based regulation on payment to insurance agents and intermediaries

Overview

Insurance is a complex product representing a promise to compensate the insured or third party such as nominees etc., according to specified terms and conditions in the event of the occurrence of a covered contingency. In most insurance transactions there is usually an insurance intermediary or an individual insurance agent who serves as a bridge between consumers (seeking to buy insurance policies) and insurance companies (seeking to sell those policies). An individual agent or an insurance intermediary has a distinct role to play in the entire life cycle of a product, from the point of sale through policy servicing, up to claim servicing who is responsible to provide all material information with respect to a proposed cover to enable the prospect to decide on the best one. The intermediary is expected to advise the prospect with complete disclosure and transparency. After the sale is affected, the individual agent and the insurance intermediary must coordinate effectively between the customer and the insurer for policy servicing as well as claim servicing.

Accordingly, individual agents and insurance intermediaries receive compensation, typically in the form of commission or remuneration, for their roles in soliciting insurance business including renewal of business. This payment is calculated as a percentage of premiums.

Understanding sources of earnings for individual agents / insurance intermediaries

Most insurance agents/insurance intermediaries get paid through commissions, with the commission amount dependent on a range of factors, including:

1. Type of policy
2. Number of insurance policies sold
3. Whether the policy is new or a renewal

Factors impacting earnings of insurance intermediaries

Although commission or remuneration structures play a significant role in determining the income of insurance agents and intermediaries, there are additional factors that greatly affect their earning potential. These factors include:

1 Type of policy

Insurance agents/corporate agents can choose their specialisation, which can be one or several lines. Home insurance agents, for example, can opt to sell auto insurance policies. Life insurance agents/insurance intermediaries can expand their portfolio to health insurance. What is important is that they meet the licensing requirements of the jurisdiction where they plan to sell policies.

2 Location

The location where policies are sold plays a crucial role in determining the earnings of insurance agents and intermediaries. For instance, a densely populated large city offers numerous opportunities for agents to sell insurance compared to a small town with fewer residents. Additionally, factors such as the prevalence of natural disasters, like flood-prone areas or regions with high fraud incidents, can also impact the potential earnings of agents.

Understanding the need for change from rule-based regulation on payment of commission or remuneration or reward to a principle-based regulation

Under Sections 40B and 40C of the Insurance Act, 1938 ("Insurance Act"), IRDAI is empowered to regulate and impose limits on the amount that insurance companies may spend on Expenses of Management ("EoM"). Further, as per Section 40 of the Insurance Act, no insurer is permitted to pay, or agree to do so, to any insurance agent or intermediary, commission or remuneration in any form other than in the manner specified by the IRDAI through a regulation.

Consequently, regulators have supervised the compensation rates and methods for insurance agents and intermediaries, including brokers, corporate agents, web aggregators, and insurance marketing firms involved in securing insurance businesses. Indian insurance companies have always been prohibited from offering any commission, payment, or reward for each policy sold beyond the amounts permitted by relevant insurance legislation.

With most private insurance players receiving licenses to solicit insurance business in the mid-2000s, the industry has transitioned from its initial stages to a growth phase.

Further, the insurance sector has witnessed various forms of industry evolutions, including consolidation of the insurance industry such as merger of ICICI Lombard General Insurance Company with Bharti AXA General Insurance Company, HDFC Life Insurance Company with Exide Life Insurance Company etc., and the entry of new players such as Acko, Bandhan, GoDigit to name a few which indicates the significant transformation within the insurance sector.

Accordingly, to foster a conducive regulatory environment that protects the interests of the policyholders and encourages innovation, competition, and sustainable growth in the insurance industry, IRDAI issued new rules on the payment of commissions to insurance agents or insurance intermediaries by insurers.

Significant events in the regulatory landscape around "Payments made towards Commissions, Remuneration, Rewards etc to Insurance Intermediaries."

On 26 March 2023, the IRDAI released the following new regulations, which repealed the older provisions –

IRDAI (Payment of Commission) Regulations 2023 (2023 Commission Regulations), which replaced the IRDAI (Payment of commission, remuneration and rewards to insurance agents and insurance intermediaries)) Regulations 2016 (Erstwhile Commission Regulations) and IRDAI (Expenses of Management of Insurers Transacting General or Health Insurance Business) Regulations 2023 (2023 Non-life EoM Regulations) which replaced the IRDAI (Expenses of Management of Insurers transacting General or Health Insurance business) Regulations 2016 (Erstwhile Non-Life EOM Regulations) and IRDAI (Expenses of Management of Insurers transacting Life Insurance Business) Regulations 2023 (2023 Life EoM Regulations) which replaced the IRDAI (Expenses of Management of Insurers transacting Life Insurance Business) Regulations 2016 (Erstwhile Life EoM Regulations).

On 24 January 2024, IRDAI released the IRDAI (Expenses of Management, including Commission, of Insurers) Regulations 2024 (Unified Regulations), consolidating the provisions of the IRDAI (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations 2023, the IRDAI (Expenses of Management of Insurers Transacting Life Insurance Business) Regulations 2023, and the IRDAI (Payment of Commission) Regulations 2023 (collectively, the 2023 Regulations). These Unified Regulations will come into effect on 1 April 2024 for three years.

Some of the key changes that can be noted through the unified regulations are as follows:

Relaxation of commission limit

The unified regulation has replaced the previous individual cap on commission payments for insurance products with an overall cap on management expenses for insurers. This rule applies to life and non-life insurers (including general and standalone health insurers). Therefore, this change can offer insurers greater flexibility in managing their expenses. These regulations came into effect on 1 April 2024 and will undergo review once every three years.

According to the IRDAI notification, the objectives of these regulations are to enhance the regulation's adaptability to market innovation, thereby enabling insurers to develop new business models, products, strategies, and internal processes. They also aim to facilitate easy compliance with the regulations while meeting regulatory objectives. Additionally, these regulations seek to provide insurers the flexibility to manage their expenses based on their growth aspirations and the evolving insurance landscape to improve insurance penetration.

It is important to highlight that historically, only insurance intermediaries whose revenue from insurance-related activities surpassed 50% of their total revenue in a fiscal year were eligible for 'rewards.' This effectively excluded banks acting as corporate agents from receiving such 'rewards.' However, with the Commission Regulations, the IRDAI has also merged the terms 'remuneration' and 'reward' into the definition of 'commission.' This significant addition underscores the principle that any 'compensation' for distributing insurance products will now be categorised as 'commission' payments.

Rationalisation of Expenses of Management Limits (EOM)

- The IRDAI has overhauled the regulatory regime in relation to EoM. In relation to the EoM of general and health insurers, the IRDAI has taken a simplistic approach in the EOM General Regulations, allowing general insurers to incur EoM of up to 30% and standalone health insurers to incur up to 35% of Gross Written Premium ("GWP") in India in the preceding budget year. By introducing a single limit based on the total GWP of the general and health insurer, the new regime has removed the erstwhile segmental product-based calculation of allowable limits.
- The EoM Life Regulations maintain the practice of aggregating separate allowable limits based on premiums received for different life insurance products. This approach retains segmental limits, reflecting the complexity of life insurance products. Unlike general and health insurers, it's deemed impractical to rationalise the entirety of the portfolio into a single limit. The IRDAI has simplified the segmental calculation under the EoM Life Regulations, preserving a reasonable product-based approach and streamlining the calculation process.
- According to the Unified Regulations, insurers must develop an annual business plan endorsed by the board before the start of each financial year. This plan should detail capital needs, quarterly solvency margins, projected Expenses of Management (EoM), and adherence to specified limits. To enforce compliance, the regulations stipulate that if an insurer's EoM exceeds the projected amount by more than 10%, managerial personnel will become ineligible for any variable pay.

Key challenges for the industry:

Shift from product-level commissions to a company-wide limit of expenses

The amended regulations aim to establish uniformity across different business models while providing insurers with increased flexibility in expense management. The limits on Expenses of Management (EOM) as a percentage of Allowable Expenses of Management are intended to promote cost discipline and guide the industry towards prudent and profitable practices. This approach is expected to result in improved pricing and product offerings for customers over the medium to long term.

Removal of the cap on commission payments will boost the insurance sector

It will enable enhanced product innovation, the creation of new product distribution models, and implementing more customer-centric operations. Additionally, it will boost insurance penetration and grant insurers greater flexibility in expense management. Ultimately, it will streamline adherence to compliance standards.

Beneficial for distribution-led business model

The revised regulations will provide an extra expense allowance for insurtech expenses, spending on insurance awareness, and rural and social schemes of the government, etc. Distribution-led business models would likely attract more investments. Insurers would be more able to incentivise reach for priority segments such as individual protection plans, commercial insurance for small businesses, and tier-two cities.
“Insurtech expenses” means expenses incurred towards technology-enabled innovation in insurance services (policyholder-oriented) that could result in new business models, applications, processes, or products.
“Insurance awareness” means awareness creation by Insurers through (a) direct campaigns, including branch campaigns, social media campaigns, etc.

Enhance the regulation’s responsiveness to market innovation

It would facilitate the insurers in developing new business models, products, strategies, and internal processes and enable easy compliance with the regulations while fulfilling the regulatory objectives.
And to provide the insurers with the flexibility to manage their expenses based on their growth aspirations and the ever-changing insurance needs with an objective to improve insurance penetration.

Move towards more transparent environment thereby encouraging flexibility

In the long term, customers can expect more robust, well-designed, and cost-effective product offerings from financially stable organisations. The expanded flexibility in commission limits will enable insurers to respond more rapidly to market dynamics, aligning with IRDAI's goal of enhancing insurance penetration nationwide. Moreover, the allowance for higher expenses of management in the later years of the policy, coupled with limited expenses in the initial year, will incentivise insurers to focus on enhancing long-term persistency. This, in turn, will enhance the customer proposition and contribute to the company's profitability.

Contributors:

Vivek Iyer
Partner and National Leader
Financial Services Risk

Ramkumar Subramanian
Partner
Financial Services Risk

Bijal Khara
Associate Director
Financial Services Risk

Jasmine Nair
Assistant Manager
Financial Services Risk

Shardul Parab
Consultant
Financial Services Risk

Sakshi Shah
Consultant
Financial Services Risk

Kaushik Dave
Consultant
Financial Services Risk

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