PwC's Insurance Insights
Analysis of regulatory changes and impact assessment for June 2017

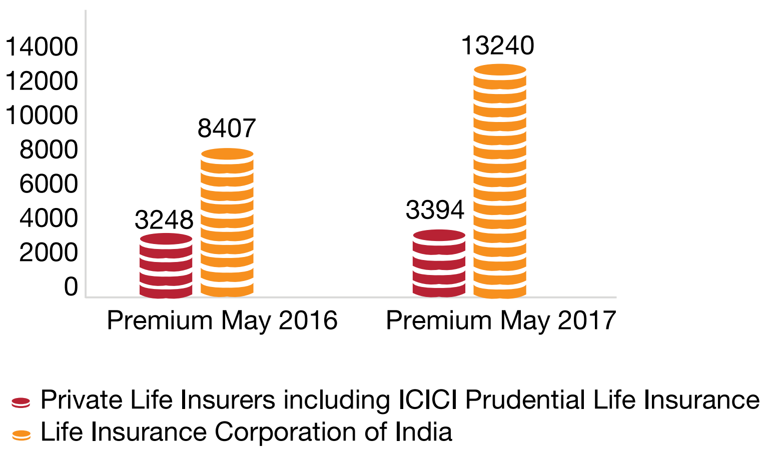
The life insurance sector witnessed significant changes in its portfolio compared to the previous year in terms of new business premium, number of policies issued and number of lives covered under group schemes offered by insurers.The graphs below present our analysis of the changes in the life insurance sector.

- New business premium collected by private life insurers, including ICICI Prudential Life Insurance, in May 2017 increased by a minimal 4.49% compared to the premium collected in May 2016.
- On the other hand, the Life Insurance Corporation of India (LIC) witnessed an unprecedented growth of 57.49% during the same period. The total new business premium collected by private life insurers was 3,394 crore INR as on May 2017, whereas LIC collected a premium of 13,240 crore INR in the same period.
- The life insurance sector witnessed slow development in terms of the number of policies issued. In May 2017, private life insurers issued 3,97,383 policies. Compared to May 2016, the growth was minuscule, amounting to just 11.39%.

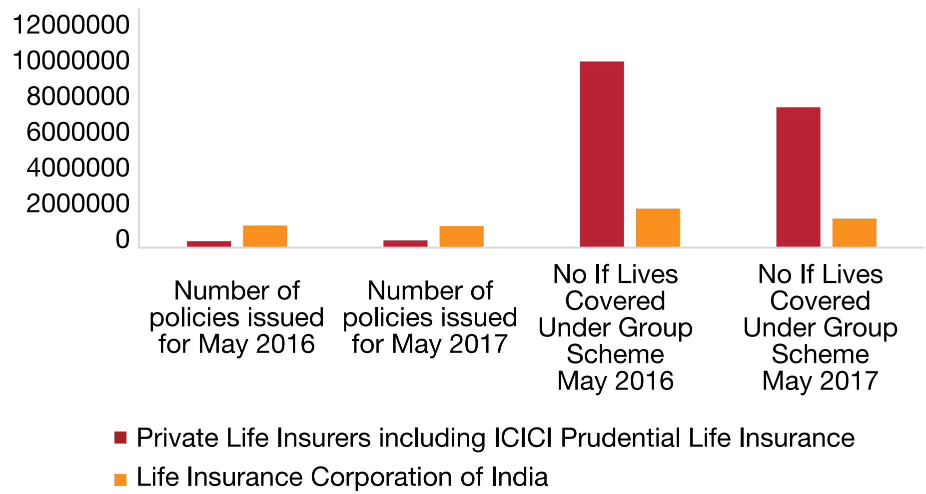
- LIC witnessed a shocking dip of 3.17% in the total number of policies issued in May 2017 as compared to May 2016.
- Private insurers leapfrogged LIC in terms of lives covered under group schemes. The total lives covered by private life insurers was 78,55,660 in May 2017, whereas for LIC, it was only 16,30,220, which is only 21% of the portfolio of private insurers for lives covered under group schemes.
- The overall growth in terms of lives covered for both private insurers and LIC was negative in May 2017 as compared to May 2016. Private life insurers and LIC recorded a negative growth of -24.61% and -25.50% respectively.

1. Insurance Regulatory and Development Authority of India (IRDAI). Business Figures - Life. Retrieved from https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout aspx?page=PageNo3173&flag=1

Premium in Cr



Figures In Numbers



Implementation of Ind AS in the Insurance Sector

IRDAI circular reference:

Ref: IRDA/F&A/CIR/ACTS/146/06/2017

Date of notification: 28 June 2017

Applicable entities: All insurers in India

The Authority, based on the draft report submitted by the Ind AS Implementation Group, had directed all insurance companies to submit proforma Ind AS reports effective from the quarter ending December 2016.

The Ministry of Corporate Affairs (MCA) further laid down a roadmap for implementation of Ind AS by the insurance sector, directing insurers/insurance companies to prepare Ind AS-based financial statements for accounting periods beginning from 1 April 2018 onwards with one-year comparatives.

Recent developments around the release of the International Financial Reporting Standards (IFRS) 17 have resulted in the Insurance Regulatory Development Authority of India (IRDAI) reviewing the position in the matter of implementation of Ind AS in the insurance sector in India as the existing IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of approaches, which makes it difficult for stakeholders to compare the financial performance of otherwise similar companies.

India does not have a standard equivalent to IAS 39, Financial Instruments: Recognition and Measurement. The implementation of Ind AS in the present form will lead to a position where assets will be valued on fair value/market value basis and liabilities will continue to be valued as per the existing formula-based approach.

This would lead to a mismatch in the asset and liability valuation and also cause volatility in the financial statements of insurance companies. Further, compliance costs would have to be incurred twice, once immediately on implementation of Ind AS and secondly, when IFRS 17 is implemented in India.

Taking into consideration the above, the roadblocks in the transition process to Ind AS and IFRS 19, the Authority approved the regulatory override whereby the implementation of Ind AS in the insurance sector in India has been deferred for a period of two years and the same shall now be implemented from 2020–21.

Mandatory compliance by insurers

The requirement of submitting Proforma Ind AS financial statements on a quarterly basis shall continue to be governed as directed under IRDAI guidelines.

Withdrawal of Circular No. IRDA/DIST/BRK/CIR/205/10/2013

IRDAI circular reference:

Ref: IRDA/BRK/MISC/CIR/120/05/2017

Date of issue: 1 June 2017

Implications for insurance brokers

The Authority instructed all brokers that, henceforth, furnishing of data in compliance with circular no. IRDA/DIST/BRK/CIR/205/10/2013 dated 30 October 2013 need not be submitted.

Mandatory compliance

Every insurance broker shall submit an undertaking stating that 'no business was underwritten during the break-in period of the licence' at the time of renewal of licence. This should be done in cases where the licence is renewed after the original due date.

Status of Issuance of e-Insurance Policies

IRDAI circular reference:

Ref: IRDA/INT/CIR/INSRE/133/06/2017

Date of issue: 9 June 2017

Implications for insurers

As part of IRDAI (Issuance of e-Insurance Policies) Regulations, 2016, dated 13 June 2016, the Authority has mandated all insurers to file quarterly and annual returns.

Mandatory compliance

The Authority has designed quarterly and annual formats which are mentioned as Annexure I and Annexure II in the circular.
The timeline to submit quarterly reports to the Authority is 21 of the following month and 30 April of the following year for yearly reports.

Point of Salespersons (PoSP) - Distribution of Add-ons - maintenance of records- submission of Returns

Ref: IRDAI/INT/CIR/PSP/130/06/2017

Date of issue: 6 June 2017

Implications for general/health insurers and principal officers of intermediaries

The Authority draws attention towards various earlier circulars issued from October 2015 to July 2016 and allows flexibility upon receipt of various requests from some insurers.

The Authority now allows add-on covers to be marketed through point of sale (PoS), subject to the overall sum insured limit of the base product.

Mandatory compliance by insurers

Insurers need to file details of such add-on covers with the Authority.

They also need to keep records of the particulars of PoSP and the business procured by them as per the format specified in Annexure I of the circular, i.e. the name of the PoSP, Aadhaar card number, number of policies sold, total premium collected and total amount paid to the PoSP.

The Authority further instructs that all the information has to be maintained in electronic form so that it can be accessed remotely.

The Authority also mandates insurers and insurance intermediaries to:

- Submit details of all employed PoSP as per the format given in **Annexure II** of the circular—that is, the number of PoSP engaged before the beginning of the first half year ending period of every financial year, the number of POSP engaged during the period, PoSP disengaged during the period and the number of PoSP engaged at the end of the period. The date of submission of returns for the end of the first half of the year is before 31 October and for the end of the second half of the year is 30 April.
- Submit returns with complete details of products sold by PoSP, as per the format given in **Annexure III** of the circular—that is, details of segment-wise business procured by PoS, number of policies sold, total premium sourced by PoS and the total remuneration paid to PoSP.
  The timelines for submission of returns would be the same as the details pertaining to Annexure II.

Submission of Actuarial reports for the FY 2016-17 in respect of the registered branch offices of Foreign Reinsurers other than Lloyd's

Ref: IRDA/ACT/CIR/MISC/147/06/2017

Date of issue: 21 June 2017

Implications for reinsurers

IRDAI, in accordance with the (Registration and Operations of Branch Offices of Foreign Reinsurers other than Lloyd's) Regulations, 2015, mandates reinsurers to comply with certain elements while submitting actuarial reports for 2016–17.

Mandatory compliance by reinsurers

Reinsurers with life insurance portfolios are required to prepare actuarial reports in accordance with the provisions of the IRDAI (ARA for Life Insurance Business) Regulations, 2016, as relevant to the branch offices of foreign reinsurers. Returns are to be submitted in accordance with circular no. IRDAI/ACT/CIR/GEN/070/03/2017:

Actuarial Report and Abstract in form number as defined by IRDAI in the circular along with the explanation to forms as defined in the circular.

Reconciliation checks for various forms under Actuarial Report and Abstract in compliance with the Authority's circular dated 31 March 2017. The Authority also advises reinsurers to include notes on actuarial reports in case of non-applicability of any checks.

Submission of Actuarial reports for the FY 2016-17 in respect of the registered branch offices of Foreign Reinsurers other than Lloyd's

Ref: IRDA/ACT/CIR/MISC/147/06/2017

Date of issue: 21 June 2017

Implications for reinsurers

In respect of general insurance business portfolios, reinsurers should submit returns in accordance with circular no. IRDAI/ACT/CIR/GEN/075/03/2017 dated 31 March 2017 and should include various elements—that is, IBNR, audited financial reports, statements of admissible assets and statement of liabilities, statements of available solvency margins and solvency ratios.

A reinsurer shall comply with relevant provisions of the IRDAI (ALSM of Life Insurance Business) Regulations, 2016 and IRDAI (ALSM of General Insurance Business) Regulations, 2016, while valuing its portfolio in the books of branch offices.

The respective actuary, along with other signatories as prescribed in the regulations/circulars, shall certify the solvency statement and other regulatory actuarial reports for general and life business and also the combined solvency statement at the overall branch level as per Table IB (mentioned in the circular).

The Authority also mandates that the actuary who certifies the reports follow the norms defined in the circular.

A reinsurer may also take the help of a panel of actuaries in case of non-availability of a suitable actuary for the purpose of certification of reserves and submission of actuarial reports.

The Authority also mandates the submission of additional actuarial certification from the parent reinsurance company on solvency and financial soundness of the foreign reinsurance company as a whole, along with regulatory returns filed with the Authority.

Delay in Claim Intimation/Documents Submission

Ref: IRDA/NL/CIR/MISC/149/06/2017

Date of issue: 28 June 2017

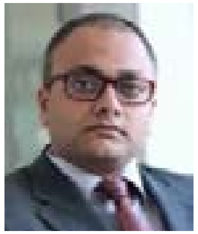
Implications for all general insurance companies, life insurance companies and health insurance companies

The Authority had earlier issued guidelines on how to deal with delayed intimation of claims and delayed submission of documents by claimants vide circular no. IRDA/HLTH/MISC/CIR/216/09/2011 dated 20 September 2011.

The Authority further issued directions under section 34(1) of the Insurance Act, 1938, vide no. IRDA/NL/MISC/CIR/214/10/2016 dated 28 October 2016, clarifying that the circular dated 20 September 2011 will be binding on insurers.

Mandatory compliance by insurers

Due to several adverse comments by the Hon'ble High Court against insurance companies' non-compliance with the Authority's direction, the Authority has advised all insurers to ensure compliance with the said circulars scrupulously and with immediate effect.



Vivek Iyer
Partner
vivek.iyer@in.pwc.com
Mobile: +91 9167745318

Joydeep K Roy
Partner
joydeep.k.roy@in.pwc.com
Mobile: +91 9821611173

Dnyanesh Pandit
Director
dnyanesh.pandit@in.pwc.com
Mobile: +91 9819446928

Yugal Mehta
Manager
yugal.mehta@in.pwc.com
Mobile: +91 9970163293

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