

PwC Insurance Insights

Analysis of regulatory
changes and impact
assessment for
December 2016

*Strictly private
and confidential
PwC | Strictly confidential*



Table of contents

Preface	3
Our point of view on key IRDAI guidelines issued in December 2016	4
Other key guidelines issued by IRDAI in December 2016	5
Contacts	6
About PwC	6



Preface

With double-digit growth reported by both the Life Insurance Corporation (LIC) and private insurers, the life insurance sector seems to have emerged unscathed from the demonetisation process. The individual annualised premium equivalent (APE) for November 2016 grew by 24% for private life insurers and 15% for LIC—a significant amount of growth compared to that in October 2016. On a year-on-year (YoY) basis, private insurers and LIC grew at a robust pace of 42% and 38% respectively. The general insurance industry saw a 29% growth with premium collection of 9,162.81 crore INR for the month of November 2016. Health was the most robust portfolio, ahead of motor and commercial lines, with standalone insurers seeing a 40% increase at 401 crore INR.¹ The general insurance sector, however, did not witness the stellar growth witnessed by life insurers for the month of November 2016. Post-demonetisation, with more people wanting to shift to safer havens of investment, life insurers saw a six-fold YoY increase in premium collection to 6,700 crore INR in November 2016–17. On the back of increased business in the motor and health industries, public sector insurers saw premiums go up by 19% to 4,192.92 crore INR, while private insurers saw 45% YoY growth to 4,277.26 crore INR.²

The Indian reinsurance market, which was thrown open to foreign companies last year, is set to witness intense competition with over a dozen players, including a Warren Buffett company, readying to enter the field currently dominated by a sole player—General Insurance Corporation of India (GIC Re). After giving final licences to five global players, the Insurance Regulatory and Development Authority of India (IRDAI) has cleared preliminary approvals for four more players, including Lloyd's of London, Gen Re of Warren Buffett and AXA Re. Another company that received a preliminary license last week is XL Catlin.³

Insurance sources said four more global players are in the process of approaching IRDAI for licenses. ITI Reinsurance, the first-ever Indian private sector reinsurer, which is promoted by Sun Pharma honcho Sudhir Valia, is expected to receive its final license soon. Currently, state-owned GIC Re is the only reinsurer in the 3-billion USD Indian reinsurance market. Munich Re, Swiss Re, Hannover Re, SCOR and RGA are all set to start their operations in India as they have received final licenses (R3) from IRDAI.⁴ The new reinsurers were likely to inaugurate their India offices in January after forming local companies, and are targeting 1 April renewals when almost 1 lakh crore INR of general insurance business will be renewed by the Indian general insurance sector.

With the stock market going up in 2015–16, insurance policyholders started going back to unit-linked insurance plans (ULIPs). According to IRDAI's Annual Report 2015–16, ULIPs registered a growth of 12.62% in premium in 2015–16 as compared to 2014–15. In comparison, the growth in premium from traditional products was 11.72% for the same period.⁵

Senior officials in the insurance industry say that growth was witnessed in both traditional insurance plans as well as ULIPs despite volatile equity markets. Almost all players reported strong growth in November 2016, translating to 42% growth for the private sector in the individual APE segment.⁶

We expect the regulatory environment within the insurance domain to change in line with the evolving competitive environment in the insurance industry. In this publication, we provide our assessment on how the regulations will impact the industry at an operational level.



1–4, 6 Source: NURC MediaNext Pvt Ltd

5 IRDAI Annual Reports: https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=AR&mid=11.1

Our point of view on key IRDAI guidelines issued in December 2016

IRDAI Regulations, 2016 (payment of commission/remuneration/reward to insurance agents and insurance intermediaries)

IRDAI circular reference: F.No. IRDAI/reg/25/137/2016

Date of notification: 14 December 2016

Applicable entities: All insurers in India

Background and objective

From time to time, IRDAI provides guidelines to insurers to manage the payment of commission to intermediaries sourcing business for insurers. However, this particular circular is not applicable to IRDAI (Micro Insurance) Regulations, 2015, and (Insurance Services by Common Service Centre) Regulations, 2015, and other such insurance products as may be specified by IRDAI. These regulations supersede Regulation (9) (Linked Insurance Products) Regulations, 2013, and Regulation (21) (Non-Linked Insurance Products) Regulations, 2013.

Where policies are procured directly by an insurer, no commission or remuneration shall be payable either to insurance agents or to insurance intermediaries. Also, no insurer shall pay both commissions to an insurance agent and remuneration to an insurance intermediary on the same insurance policy.

Key directives issued by IRDAI

- Every insurer shall have a board-approved policy for payment of commission/remuneration/reward to insurance agents and insurance intermediaries. Insurers shall file the board-approved policy with IRDAI at the start of the financial year, and thereafter review the policy every year and file changes, if any, within 30 days.
- The board-approved policy for payment of commission/remuneration/reward to insurance agents and insurance intermediaries shall necessarily contain the disclosures defined in the circular.
- For policies procured directly by an insurer, no commission/remuneration shall be payable.
- No insurer shall pay both commission to an insurance agent and remuneration to an insurance intermediary on the same insurance policy.
- Maximum commission/remuneration payable under life insurance, health insurance offered by LIC, General Insurance and standalone insurance companies, including motor insurance, is mentioned under the respective schedules of the circular.
- No insurer shall, in any case, pay commission/remuneration which is lower than the maximum specified in these regulations or that approved under IRDAI (Linked Insurance Products) Regulations, 2013, (Non-linked Insurance Products) Regulations, 2013, and Guidelines on Product Filing.

- Rewards to individual insurance agents or insurance intermediaries shall not be paid over and above commission/remuneration decided by a company post the approval of the board.
- For the purposes of rewards under these regulations, there shall broadly be three channels of distribution, namely insurance agents, insurance intermediaries whose revenue from activities other than insurance intermediaries is 50% or less of their total revenue from all activities, and insurance intermediaries whose revenue from activities other than insurance intermediation is more than 50% of their total revenue from all activities.
- All insurers shall, within 45 days of the expiration of each financial year, submit returns on payment of commission, remuneration and reward by the insurer to the authority. The return shall be signed off on by the CEO and PCO and should be reviewed by the audit committee prior to being placed for approval with the board of the insurer.

Impact

The major implications will include the following:

Approved policy: Every insurer will have to prepare and have a board-approved commission/remuneration/reward policy.

Submission to authority: At the beginning of every financial year, insurers will need to submit their remuneration policy to IRDAI.

Review of policy: Insurers will have to review the remuneration policy every year and any changes made will have to be reported to IRDAI within 30 days.

Post-board approval: Insurers will need to make sure the commission/remuneration/reward paid does not exceed the board-approved and company-decided policy.

CEO sign-off: Within 45 days of the expiration of each financial year, insurers need to submit returns on payment of commission, remuneration and reward to IRDAI. The returns shall be signed off on by the CEO, PCO and placed before the audit committee prior to the IRDAI submission.

Audit plan: The insurer will need to incorporate the requirements as part of the checklist in their annual audit plan.



Other guidelines issued by IRDAI in December 2016

Other key guidelines – December 2016

Sr. no.	Guidelines reference	Particulars	Impact
1	IRDA/BRK/ CIR/ NO/243/12/ 2016 Date of issue: 8 December 2016	Filing of returns for foreign to foreign reinsurance transactions	<p>IRDAI is of the view that currently reinsurance/composite brokers undertake reinsurance transactions between entities that are domiciled in foreign jurisdictions.</p> <p>Bearing in mind that such a practice has implications on the servicing of Indian policyholders, IRDAI has advised reinsurance/composite insurance broking companies to file a return of the nature of transaction, underwriting year, date of reinsurance transaction, remittance date, name of the reinsured, reinsurer and country, reinsurance premium amount in foreign currency, etc., in the format it has prescribed. The authority on collection of data will then analyse the impact on policy servicing of policyholders in India.</p> <p>The return shall be submitted within 45 days of the end of the half year, beginning from the financial year 2016–17.</p>
2	IRDAI/LIFE/CIR/ ADV/255/12/2016 Date of issue: 27 December 2016	Filing of health insurance advertisements by life insurers	<p>Going forward, life insurers are required to file advertisements pertaining to health products and combined advertisements for health and life products with the health department of the authority through the BAP portal.</p> <p>Currently, all life insurers are filing advertisements for both life- and health-related products with the life department of the authority on the BAP portal.</p> <p>In order to facilitate the review of all health insurance advertisements by the health department till the required changes are made in the BAP portal, IRDAI mandates that all insurers file advertisements in physical format with the authority and addressed to the DGM of the health department. The provisions of this circular are applicable with immediate effect.</p>
3	IRDA/HLT/GDL/ CIR/257/12/2016 Date of issue: 29 December 2016	Clarification to guidelines on standardisation in health insurance	IRDAI has extended the timelines for compliance up to 31 March 2017 for registration of network providers in the hospital registry—ROHINI—maintained by the Insurance Information Bureau (IIB). IRDAI vide circular ref. no. IRDAI/HLT/ REG/CIR/212/10/2016, dated 27 October 2016, earlier offered time until 31 December 2016.
4	IRDA/F&A/CIR/ ACTS/ 262/12/2016 Date of issue : 30 December 2016	Report of the Implementation Group of Ind AS in Insurance Sector including reinsurers	All insurers/insurance companies are required to prepare Ind AS-based financial statements for accounting periods beginning from 1 April 2018 onwards with comparatives for the periods ending 31 March 2018 or thereafter. Reference is invited to paragraph four of the circular IRDA/F&A/ CIR/IFRS/038/03/2016, based on which all insurers are required to submit pro forma Ind AS financial statements to IRDAI from the quarter ended 31 December 2016.
5	IRDA/BRK/MISC/ CIR/260/12/2016 Date of issue: 31 December 2016	Online system for obtaining prior approval and intimation regarding governance issues of broking companies	<p>As part of its digitisation initiative, IRDAI has launched a web-based portal for obtaining prior approval and intimation regarding governance issues of insurance broking companies.</p> <p>Correspondence received by the department prior to the notification date will be processed manually. The portal will also facilitate payment of renewal fees and annual fees.</p> <p>IRDAI also notified that submission of applications for licensing of new brokers and submission of applications for renewal of registrations will only be accepted online post the notification date.</p>



Contacts



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

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 2,23,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com

In India, PwC has offices in these cities: Ahmedabad, Bengaluru, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune. For more information about PwC India's service offerings, visit www.pwc.com/in

PwC refers to the PwC International network and/or one or more of its member firms, each of which is a separate, independent and distinct legal entity in separate lines of service. Please see www.pwc.com/structure for further details.

©2017 PwC. All rights reserved.

pwc.in

Data Classification: DC0

This document does not constitute professional advice. The information in this document has been obtained or derived from sources believed by PricewaterhouseCoopers Private Limited (PwCPL) to be reliable but PwCPL does not represent that this information is accurate or complete. Any opinions or estimates contained in this document represent the judgment of PwCPL at this time and are subject to change without notice. Readers of this publication are advised to seek their own professional advice before taking any course of action or decision, for which they are entirely responsible, based on the contents of this publication. PwCPL neither accepts or assumes any responsibility or liability to any reader of this publication in respect of the information contained within it or for any decisions readers may take or decide not to or fail to take.

© 2017 PricewaterhouseCoopers Private Limited. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers Private Limited (a limited liability company in India having Corporate Identity Number or CIN : U74140WB1983PTC036093), which is a member firm of PricewaterhouseCoopers International Limited (PwCIL), each member firm of which is a separate legal entity.

HS/February2017-8829