

Life Insurance- Broad Regulatory Framework

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(Seminar on Audit of Life Insurance Companies-WIRC)

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Agenda

1. Regulatory Structure
2. Evolution Journey
3. Key Regulations

1. Regulatory structure

Insurance
Act 1938

IRDA
Regulations

Circulars / Guidelines
/ Notifications

Specific Directions &
Exemptions

Technical Guide

2. Evolution journey

1912

- The Indian Life Insurance Company Act is passed

1938

- The Insurance Act passed, comprehensive act to regulate insurance business in India

1956

- Nationalization of life insurance business in India to form LIC in order to increase penetration and protect policy holders from mismanagement

1972

- Nationalization of general insurance business in India

1994

- Malhotra Committee recommended opening up the insurance sector to private players

2000

- President gives assent to the IRDA Bill, market opened up to private insurers

Evolution journey (...contd)

2000

- IRDA issued license to First Private Life Insurance Company (HDFC Life)

2005

- First Unit-Linked products launched by Birla

2009

- IRDA introduces a cap on ULIP charges

2010

- IRDA issued final guidelines on Variables Insurance Policies (VIPs).

2011

- Draft IPO guidelines issued for life insurance

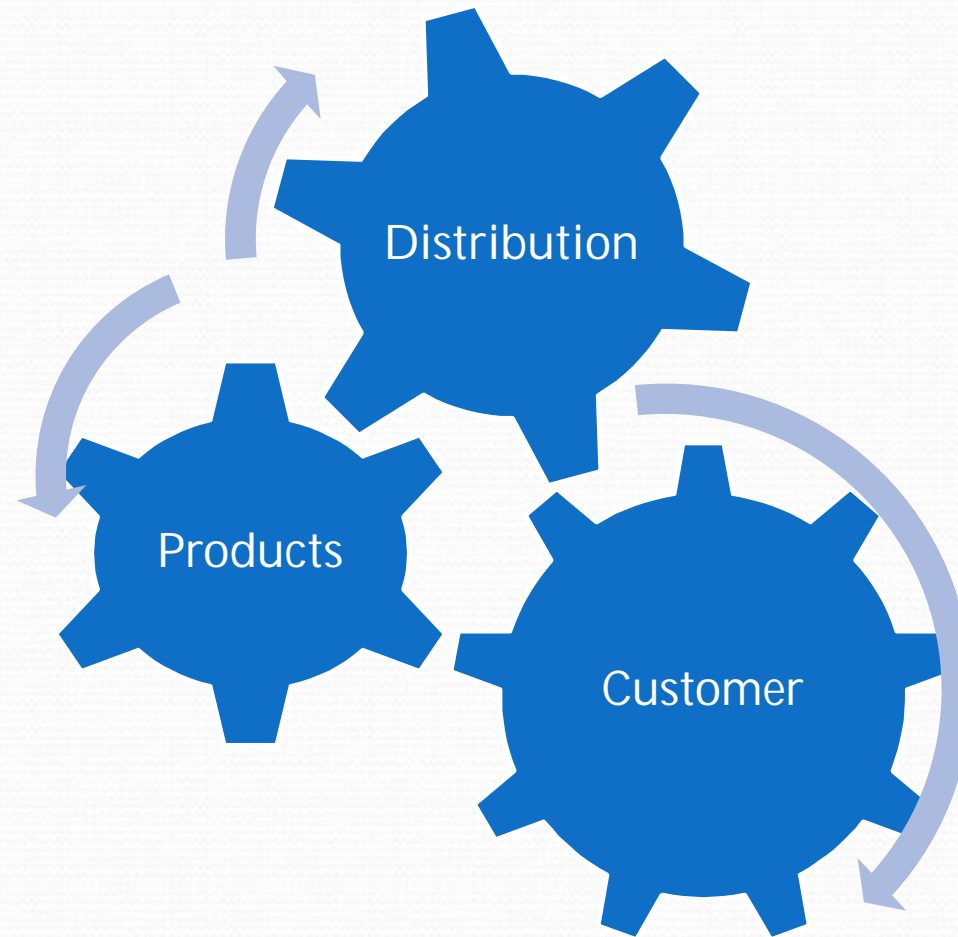
2013

- IRDA notifies the new traditional products guidelines

2014

- Promulgation of The Insurance Law (Amendment) Ordinance, 2014 effective from 26th December

Regulation effects



Regulations are at a nascent stage and they are still evolving.



3. Key regulations

- A. ULIP Charge Cap & Product Guidelines
- B. Product Guidelines – Feb 2013
- C. Insurance Law (Amendment) Ordinance 2014
- D. IPO Guidelines
- E. Investment Regulations
- F. Financial Reporting Regulations
- G. Reinsurance Regulations 2013
- H. Exposure drafts / discussions

A) ULIP Charge Cap & Product Guidelines

- Maximum charge capped
- Transparency on charges
- Discontinued Policy Fund (DPF) with minimum guaranteed return
- Lock-in period introduced to 5 years



B)Product Guidelines – Feb 2013

- Highest NAV guarantee banned. Guarantee to be given at product level and not fund level.
- Key changes specific to Non-Linked products :
 - Min Death Benefit (SA or 105% of premium whichever is higher)
 - Min Surrender Values (term < 10yr & at least 2 yr premium paid, GSV as % of premiums paid and % of attached bonuses).
 - With-Profits Fund Management (expenses and bonuses)
 - G-Sec Linked Products classified as VIP (comply with ulip charge cap)
- Group products charge cap @ 2% commission or `50k, whichever is lower.
- Product approval valid for only 5 years.

C) Insurance Law (Amendment) Ordinance 2014

- More powers have been delegated to IRDA allowing them flexibility around prescribing rules on several matters
- Composite foreign cap raised to 49%, allowing FDI and FII participation – Opens up possibility of an IPO
- Section 45 – Ability to repudiate claim after 3 years
- Insurer is made responsible for appointment of insurance agents, and IRDA no more will play the role of licensing authority. A person can act as agent for 1 life, 1 general, 1 health insurer
- Section 44 deleted - Prohibition of cessation of payment of Commission upon termination of agency
- Penalties generally – Increase from ` 5 lac per instance to ` 1 lac per day
- Appellate authority introduced (SAT)



D) IPO Guidelines

- Prior application and approval from regulator.
- IRDA specified disclosure requirements are in addition to SEBI requirements
- EV report prepared by an independent actuarial expert (Reporting actuary) and reviewed by another independent actuary (Reviewing actuary).
- Issues need to be addressed:
 - Transfer of shares above 5% - Prior IRDA approval needed
 - Alignment with SEBI take over code
 - ULIP disclosures in Prospectus
 - Upfront disclosure of issue structure in IPO application



E) Investment Regulations



Microsoft Office
Word Document



F) Financial Reporting Regulations



G) Reinsurance Regulations 2013



Microsoft Office
Word Document



H) Exposure drafts / discussions

1. Expense of management
2. Banks as brokers
3. Open architecture on corporate agency model

