December 2022

Insurance Reforms: Road Ahead

The Insurance Regulatory and Development Authority of India ("**IRDAI**"), at its board meeting on November 25, 2022, discussed various measures to boost the easy of doing business in the insurance sector, enabling *"Insurance for All by 2047"*. These decisions are aimed to boost the entire insurance ecosystem and make Indian insurance sector globally attractive. To achieve these objectives, some of the following pivotal proposals were approved during the IRDAI meeting, paving the way of reforms in the insurance sector:

Investment and capital availability in insurance companies

Focusing on the private equity investment in the Indian insurance companies, the provision of investment through a special purpose vehicle is made optional. This aims to offer comfort and flexibility to the funds as now they can directly invest in the insurance companies.

Offering comfort to the subsidiary companies, it is now permitted that they can be the promoters of insurance companies upon fulfilment of certain conditions. While ascertaining the criteria for promoter, the investment thresholds are revised. Accordingly, investment up to 25% (earlier 10%) of the paid-up capital by single investor and 50% for all investors collectively (earlier 25%) will be treated as "investor"; and investments over and above 50% will only be treated as "promoter". Further, if the insurer has a satisfactory solvency record for the preceding 5 (five) years, the promoter's listed entity is permitted to dilute its stake up to 26%.

While determining the lock-in period of investments for investors and promotors, the insurer's age is a key element to consider.

To boost the capital availability in form of subordinated debt or preference shares, the prior approval of IRDAI will not be required. It is also proposed to enhance the limits for raising such capital from 25% to 50% of paid-up capital and premium, subject to 50% of the net worth of the company.

Intermediaries' tie-ups

The threshold of number of tie-ups for Corporate Agents ("**CA**") and Insurance Marketing Firms ("**IMF**") is increased. The tie up of a CA to insurers is increased to 9 (nine) from 3 (three), and limit for IMF is revised to 6 (six) from 2 (two) insurers, in each line of life, general and health business. The area of operation of IMF has also been expanded to cover the entire state in which they are registered.

Regulatory sandbox[1]

Under the sandbox regulations, the experimentation period is increased and the clearance/ approval mechanism is improved on a continuous basis for the ease of insurers/ intermediaries.

Revised solvency norms

To support the general and life insurers, the period for considering State/ Central Government premium dues and solvency factors for calculation of the solvency position have been revised. These intend to provide relaxation in capital requirements and increase insurance penetration.

Conclusion

With these reforms, the focus of IRDAI is to strengthen the 3 (three) pillars of the entire insurance ecosystem, viz. insurance customers (policyholders), insurance providers (insurers), and insurance distributors (intermediaries) by *inter alia* boosting innovation, competition, and distribution efficiencies while mainstreaming technology and moving towards a principle-based regulatory regime. These reforms determine the road ahead for the insurance sector by boosting the confidence of investors in Indian market and solidifying the satisfaction of policy holders in Indian insurance products.

Insurance Practice

JSA is a trusted advisor to leading insurers, reinsurers, brokers, underwriters and consultants on complex transactions, disputes, financing and regulatory and commercial matters. The team with domain-expertise in the sector has an unparalleled ability to assist insurance companies in their Indian operations. JSA has been engaged in advising the private players both in life and non-life Insurance sectors on diverse matters relating to regulatory approvals, compliances, corporate issues, and litigation relating to insurance claims. JSA has been keenly involved in advising private players both in life and non-life insurance sectors on diverse matters relating to: (a) Regulatory approvals; (b) Compliance requirements; (c) Corporate issues; (d) Litigation relating to insurance claims.

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[1] The Regulatory Sandbox is a framework that provides a testing environment to the companies to enable them to test their innovative products, technologies, etc., in a controlled regulatory setting.

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