Regulatory Impact Assessment in Insurance Sector in India:
Facilitating Investments and Enabling Access

CUTS has conducted Regulatory Impact Assessment (RIA) exercise on select legislations in the areas of investment in insurance companies, expenditure by insurance companies and retention of consumers in insurance sector in India. Key findings are highlighted below:

1. Baseline Scenario

1.1. Investment in insurance companies

1.1.1. Foreign Sources

- Foreign investment is permitted up to 49 percent of paid up equity capital of Indian insurance companies, which are Indian owned and controlled.
- In October 2015, IRDA issued guidelines on 'Indian owned and controlled', which prescribed the powers which Indian promoters/ investors of Indian insurance companies are required to retain.

1.1.2. Domestic Sources

- Indian life insurance companies are required to take prior written approval from the IRDA before approaching SEBI for public issue of shares.
- The foreign investors are required to hold shares in insurance companies in accordance with Indian Insurance Companies (Foreign Investment) Rules, 2015.

Impact

It has been estimated that the sub optimal regulatory scenario with respect to investments in life insurance sector is delaying potential investments of more than Rs. 50,000 crore.

1.2. Expenditure by insurance companies

1.2.1. Commission paid to intermediaries

- IRDA has linked commissions to premium collected on the relevant insurance products.
- Typically, the first year commission/ remuneration can range from 15-35 percent of the premium, and for subsequent years it could range from 5-7.5 percent of premium, resulting in front loading.

Impact

The commission expense ratio and operating expense ratio for non-linked products is higher than linked products.

1.2.2. Management expenses

- Insurance regulations links management expenses to premium collected through different product segments by the insurer.

Impact

- Despite having similar caps, the average management expense for participatory non-linked products is higher than that for the non-participatory non-linked products. Most of the insurance companies are not complaint with the caps on management expenses.

- While insurers are interested to push for non-participatory products, intermediaries are interested to push for participatory and linked products. Regulatory push also appears towards pushing non linked products.

1.3. Retention of consumers

- All life insurers were required to have their own company specific persistency criterion for renewal of individual and corporate agency from 1st July 2014.

Impact

- In close to 60 percent of public disclosures, persistency rate is less than 50 percent
- Complaints of unfair business practice comprise more than 50 percent of the total complaints received by life insurance companies
- Conservation ratio of non-participatory non linked policies has been consistently lower that other policy segments

2. Designing regulatory alternatives

Investment in insurance companies

- Incorporate requirement of improved and comparative disclosure of costs of similar products across product segments
- Shift regulatory energy from regulating commissions and operating expenses of different product segments to checking surrender and mis-selling of policies.
- Disallow high upfront commissions
- The regulatory alternative of increasing in cap on commission and management expenses for participatory non linked policies is not likely to increase its sale

Expenditure by insurance companies

- A single window clearance structure for regulatory approvals
- Management certification on compliance with 'owned and controlled' requirement

Retention of consumers

- Claw backs allow for upfront commissions to be recouped from the agent in case the consumer exits partially or fully from the product before a predefined tenure
- Enforce thorough suitability assessment of the products being sold

Reform the process of regulation making

- Assessment of costs and benefits of possible regulatory alternatives and structured consultation is necessary for selection of such regulations, having the potential to result in maximum net benefit to the society.
- Incorporate effective public consultation which includes addressing stakeholder concerns.
- Fix accountability of regulatory is also necessary for good regulation.

3. Selection of Alternatives

- A combination of alternatives needs to be applied rather than just one in isolation.
- In case of management expenses as well as persistency the findings show that implementing all the alternatives together would provide the maximum net benefits to stakeholders.