

## India: Recent product reforms could increase life insurance penetration in the country

With a new Chairman assuming office in March 2022, The Insurance and Regulatory Development Authority of India (IRDAI) has initiated regulatory reforms designed to boost the sector. This e-Alert summarises some of the key reforms undertaken and discusses their possible impact on the life insurance sector.

### Product Approvals

Historically, Indian life insurers have obtained approval from IRDAI before launching new products, termed 'file and use', with limited exceptions for product modifications.

IRDAI now proposes to allow 'Use and File' (U&F) for a broad category of products.

Under U&F, products are filed with the IRDAI but can be launched within 15 days without approval. Product categories included in U&F are:

- **Retail Protection:** Individual non-linked pure term, term with return of premium and health products
- **ULIP:** Individual unit-linked insurance products (with existing approved unit funds)
- **Group protection:** Group non-linked term, credit life and health products
- **Group funds:** Group non-linked savings products
- **Riders:** Riders attaching to both individual and group products

Modifications to existing products in other categories (beyond those mentioned above) would now also fall under the U&F process. While U&F for modifications is broadly in line with the process previously permitted without prior IRDAI approval, the maximum quantum of changes to premiums/benefits on these modifications has been widened. Certain modifications which do not impact the price or benefits have now been permitted without a change in product unique identification number (UIN) to reduce the compliance burden.

Under the U&F regime, permitted modifications include alterations on account of changes to assumptions (e.g., interest rates, mortality/morbidity, expenses, lapses) and extension of the premium rate table to encompass a broader range of ages and policy terms.

These reforms would be a welcome relief to product management teams, reducing the number of formal product filings and allowing the approval process to focus on more novel products. Ideally, this new structure will target regulatory oversight where it is needed most and could signal the beginning of a more principles-based approach to insurance regulation in the country.

U&F does, however, place a much greater compliance burden on insurers, shifting responsibility from IRDAI to the industry:

- Insurers are required to have a Board Approved Product Management and Pricing Policy (BAPMPP)
- Insurers are required to constitute a Product Management Committee (PMC) consisting of senior employees of the insurer, including the Appointed Actuary and Chief Risk Officer
- The PMC should ensure that new products and riders or any modifications filed under the U&F regime are in line with the BAPMPP and relevant IRDAI stipulations

The changes are expected to significantly reduce the time to market for new products and modifications. This could also help product innovation and micro-segmentation, leading to the development of niches for various insurers. Given material reinsurance support in the pricing of protection products, there will need to be close collaboration between direct writers and reinsurers to realise this potential.

This move places significant responsibility on ensuring self-regulation and adhering to high standards of conduct. If the industry can take advantage in a measured way, this could be a precursor to further changes in this direction.

## PMJJBY

Pradhan Mantri Jeevan Jyoti Beema Yojna (PMJJBY) is the Government's flagship life microinsurance product. A basic cover of INR 200,000 for a level premium is deducted directly from savings accounts.

Experience for insurers has been mixed. The minimal underwriting conditions and low cost have led to many insurers needing to subsidise claims and encourage a passive approach to acquiring new customers. However, for the first time since the scheme's inception in 2015, the Government has signaled an upward revision of premiums from Rs. 330 to Rs. 436 per year. This, coupled with the IRDAI's proposed reduction in the required solvency margin (by almost 50%), may make this product a more attractive avenue to expanding the customer base.

## Other Recent Initiatives

The IRDAI has also issued draft regulations, which ease the eligibility criteria for becoming an Appointed Actuary by eliminating the need to pass the specialisation subject in life insurance if the actuary has an additional two years of work experience. It further requires insurers to have at least two other fully qualified actuaries for pricing and valuation purposes by 31 March 2023.

The IRDAI in recent months has eased the reporting burden on insurers by no longer requiring:

- Monthly reporting on sales of certain products
- Monthly reporting on products launched
- Monthly reporting of solvency ratio
- Annual submission of a product planner
- Quarterly submission of ALM returns
- Hard copy of reinsurance returns

## Conclusion

We anticipate that the announced reforms will positively impact the sector. Improving the agility of insurers will help increase insurance penetration in India and promote growth.

Recent reports in the media that the regulator could allow life insurers to enter indemnity-based health insurance, which if true, also appear promising for the sector. Even in cases where the Indian promoter group has a general/health insurance company, this could expand the group's reach in life insurance bancassurance tie-ups. In addition, guidelines on wellness and preventive features now allow insurance companies to offer discount coupons and vouchers for health supplements and yoga centres. Along with the possibility to create mortality plus morbidity indemnity product combos, this certainly provides scope to expand product propositions.

Furthermore, easing the regulatory burden on life insurers while increasing their internal oversight may lead to insurers becoming more efficient for all stakeholders.



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