

INDIA FELLOWSHIP SEMINAR  
JUNE 14, 2013

REINSURANCE REGULATIONS: IMPACT ON  
RISKS IN THE INDIAN LIFE INSURANCE  
MARKET

Guide: Rajesh S

Lead Presenter: Balaji Ravi

Support Presenter: Devadeep Gupta

# Agenda



Need for reinsurance

Prevailing regulatory scenario

2013 regulations

Implications

Summary

# Agenda



***Need for reinsurance***

Prevailing regulatory scenario

2013 regulations

Implications

Summary

# Need for reinsurance

---

## HEDGE AGAINST

- Claims volatility
- Parameter risk
- Exposure to large risks
- Concentration of risk

Capital efficiency

## ACCESS TO EXPERTISE

- Product development
- Data
- Contract design
- Underwriting policy

Smooth annual returns

# Agenda



***Need for reinsurance***

Prevailing regulatory scenario

2013 regulations

Implications

Summary

# Agenda



Need for reinsurance

***Prevailing regulatory scenario***

2013 regulations

Implications

Summary


# Prevailing regulatory scenario

## Insurance Act, 1938: Section 101 (Reinsurance)

- Insurers to reinsure specified minimum proportion of Sum Assured on each policy with Indian reinsurers
- Indian reinsurer – Company granted a certificate of registration under sub section (2A) of section 3
- No upper limit on reinsurance cession specified

# Prevailing regulatory scenario

## Life Insurance – IRDA Life Insurance (Reinsurance) Regulations, 2000

- “Programme of reinsurance” to be certified by Appointed Actuary
- IRDA to scrutinise this programme,
- Request further information,
- Suggest changes, if necessary
- Principle based approach to reinsurance 



# Prevailing regulatory scenario



## Other considerations for an actuary to consider

- IRDA Appointed Actuary Regulations, 2000
- IRDA Assets, Liabilities and Solvency Margins of Insurers Regulations, 2000
- Actuarial Practice Standard 1, IAI

# Agenda



Need for reinsurance

***Prevailing regulatory scenario***

2013 regulations

Implications

Summary

# Agenda



Need for reinsurance

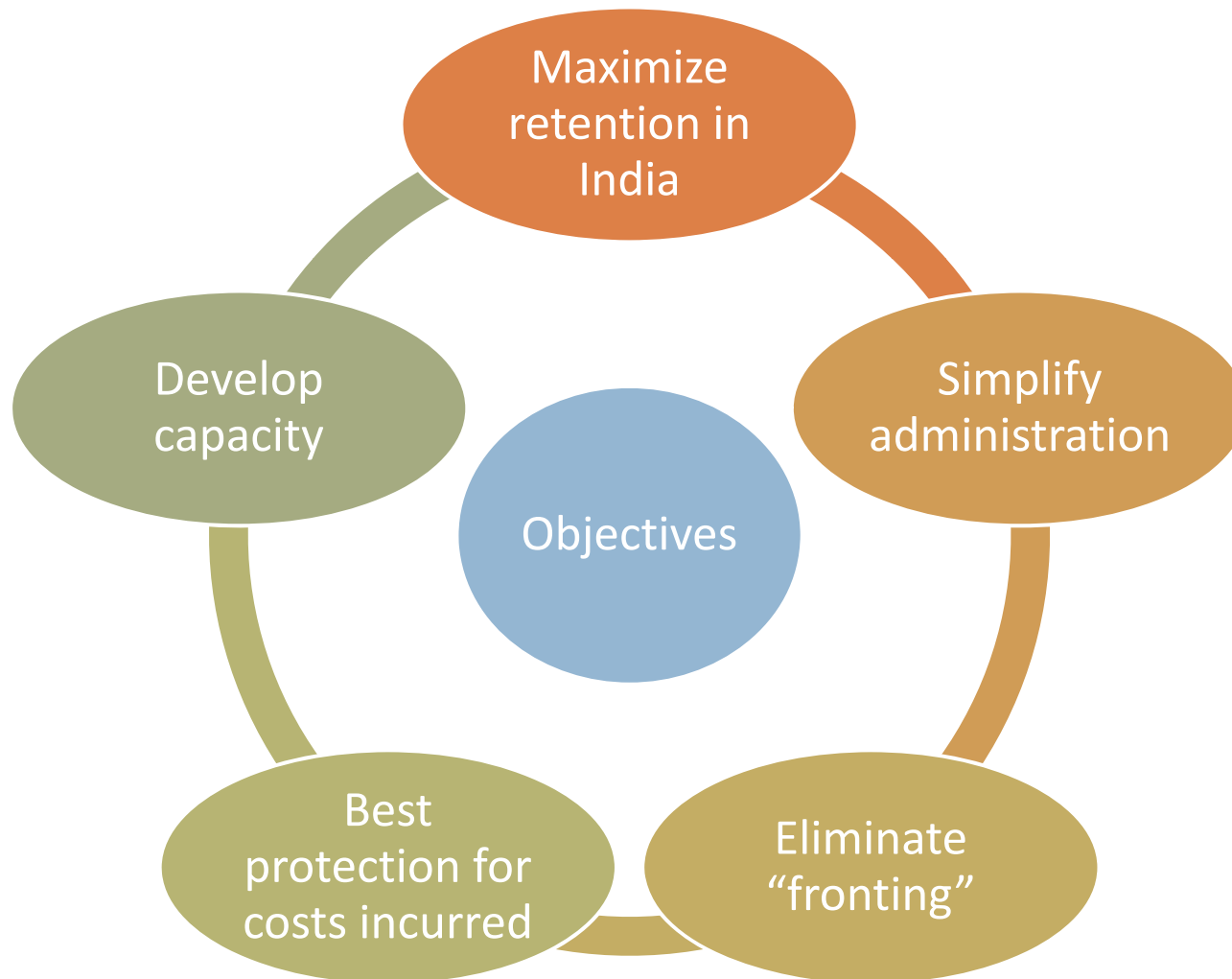
Prevailing regulatory scenario

***2013 regulations***

Implications

Summary

# Areas covered



# Areas covered

- Section 4: Programme of reinsurance



- Documentation of reinsurance arrangements as prescribed
- Mitigation of catastrophe risks, including disaster scenario testing
- Credit and concentration risks, their mitigation



- Sign-off by Appointed Actuary
- Approval by Board of Directors



- Scrutiny by Authority
- Modifications suggested
- Lesser credit in demonstration of solvency

# Areas covered

- Section 5: Retention policy

## Aims

Build retention capacity within company

Maximise premium retained in India

## Formulation

Suitable retention policy for each product/risk

Restrictions on quota share

## Justification

Emerging claims experience

Financial standing

Underwriting capacity

# Areas covered

## Section 6: Regulatory reporting requirements



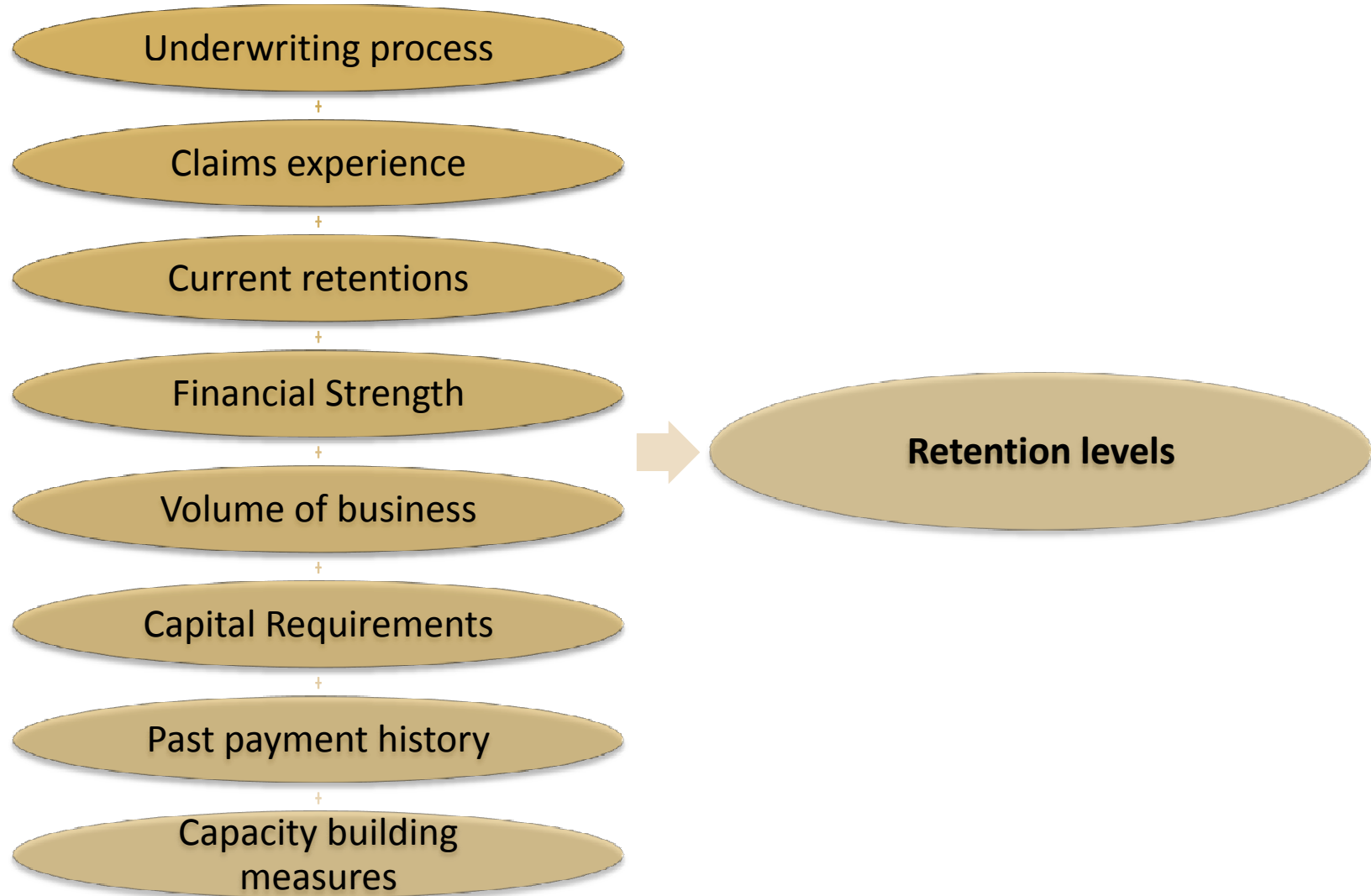
Product category-wise retention limits increasing with age of insurer/product

Retentions below prescribed limits to be justified by providing further information

## Section 10: Inward reinsurance business

Board of Directors made responsible in addition to Appointed Actuary

# Areas covered





# Agenda



Need for reinsurance

Prevailing regulatory scenario

***2013 regulations***

Implications

Summary

# Agenda



Need for reinsurance

Prevailing regulatory scenario

2013 regulations

***Implications***

Summary

# Implications- Insurers

## Review of reinsurance arrangements by the Board

- Management and shareholders to share responsibility
- Management information and reporting systems need to be put in place
- Board needs to understand the risks and their mitigation measures
- Need to build understanding among non-executive directors

# Implications- Insurers

## Focus of regulations – “building capacity”

- Building capacity in isolation will not mitigate all risks
- Reinsurance not needed solely against parameter risk and claims volatility
- Regulations silent on commercial considerations for reinsurance
- May lead to sub optimal use of capital

# Implications- Insurers

## Supply of reinsurance

- Definition of “Indian reinsurer”
- Eligibility of multinational reinsurers
- Monopoly power?
- Increase in concentration risk
- Reduction in benefits of geographical diversification

# Implications- Insurers

## □ Price of reinsurance

*Factors driving increase in price*

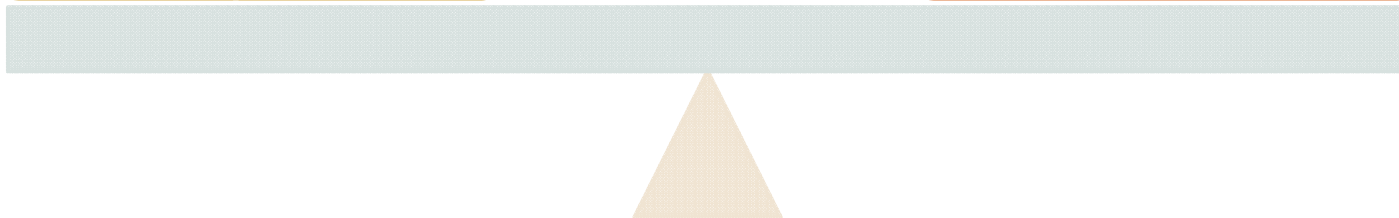
Diseconomies of scale – higher overheads

High retention – small, undiversified ceded portfolio

*Factors driving decrease in price*

Competitive market for reinsurance

High retention - significant volumes of “select” risks reinsured



# Implications- Insurers

## □ Reinsurer as an enabler of product innovation

### Online Term Insurance

Competitive reinsurance rates

Access to reinsurer's expertise

### Long term health insurance

Access to reinsurer data

Sharing of parameter risk

Contract design and underwriting policy

### Setting/Review of rating factors

Credibility of population data

Reliance on reinsurers' experience

# Implications- Insurers

## Impact on product design

- Hardening of premium rates
- More stringent underwriting
- Risk aversion in contract design
- Risk aversion in claims control
- Investment in capacity building – increase in costs
- Will insurers start sharing experience?



# Implications - Reinsurers



- Definition of “Indian reinsurer”
- Indian reinsurers will have to build and demonstrate capability in all lines of business.
- May promote development of indigenous reinsurance sector
  - ☑ Need to understand risks
  - ☑ Capital intensive nature of business
  - ☑ Gestation period
  - ☑ Acquisition of expertise

# Implications - Policyholder



- Impact on current products priced assuming prevailing treaties
- Cover may become expensive
- Exclusions in policy terms and conditions may increase
- Proposal underwriting may become stringent
- Protection against some risks may no longer be available

# Implications - Macroeconomic



- Consistency with government/regulator's objective of increasing insurance penetration
- Impact on India's image as an investment friendly destination?
- Implications for other economic reforms – (FDI in insurance)
- Higher retention within India to flow back into the economy, having an effect on GDP growth?

# Agenda



Need for reinsurance

Prevailing regulatory scenario

2013 regulations

***Implications***

Summary

# Agenda



Need for reinsurance

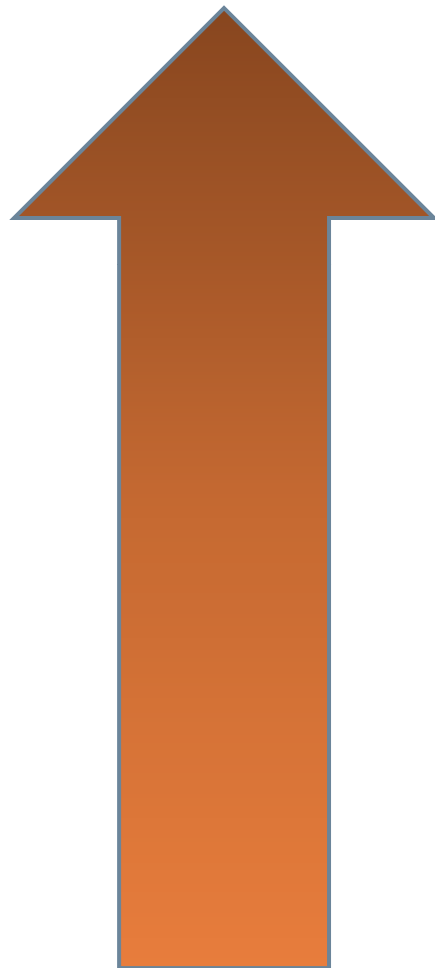
Prevailing regulatory scenario

2013 regulations

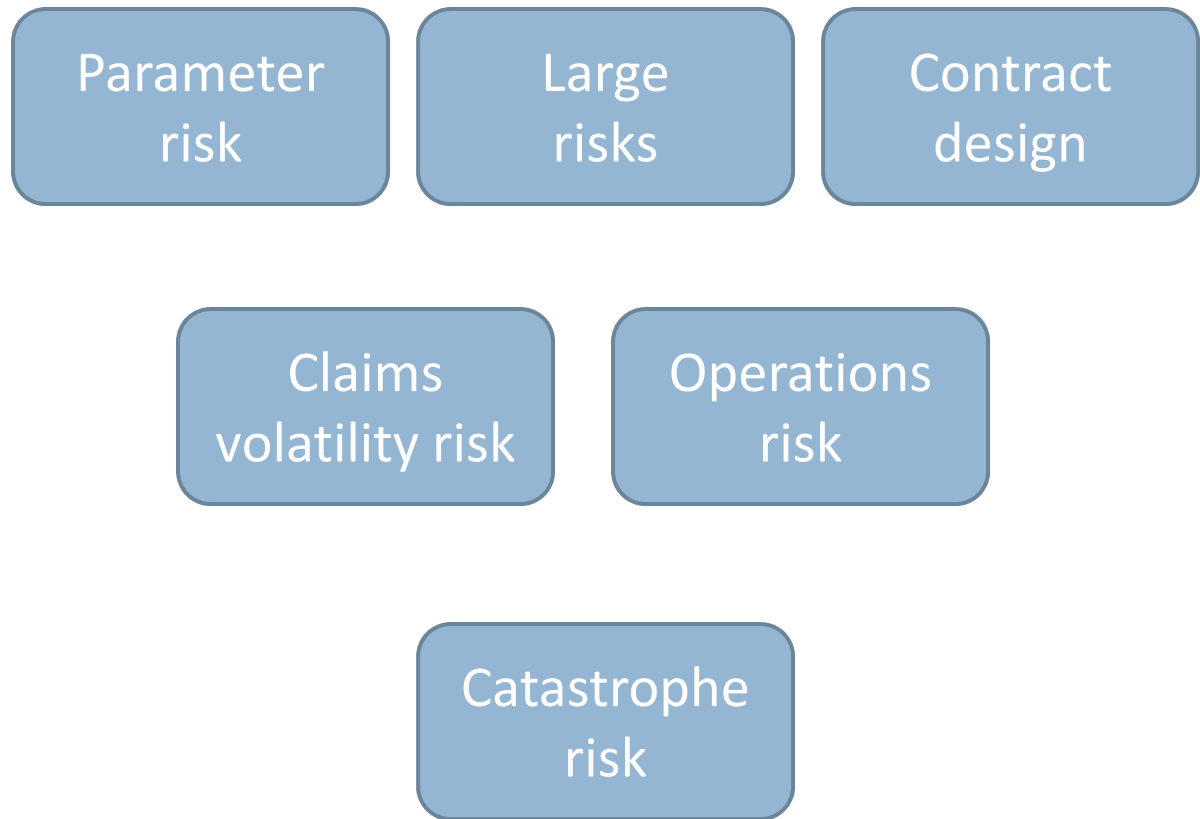
Implications

***Summary***

# Impact on risks



Impact



Parameter  
risk

Large  
risks

Contract  
design

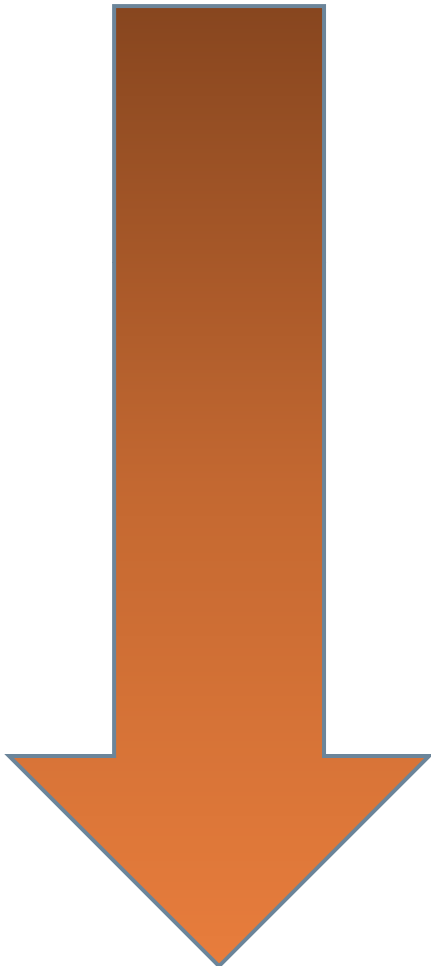
Claims  
volatility risk

Operations  
risk

Catastrophe  
risk

Type of risk

# Impact on product types



Retained Sum at Risk

Group Term      Long term health

Individual term

Savings

Type of product



Impact

# Impact on company strategy

## Business plan

Change in product strategy

Change in channel strategy

Change in risk rates

Impact on capital adequacy

## Supporting initiatives

Systems and control processes

Governance structure for Board reporting

Data warehousing and analytics infrastructure

Sharing of data?



# Agenda



***Discussion***

# IAIS ICP 13



## Prudent approach to

Purchase of reinsurance

Management of risk associated with purchasing reinsurance

## Choice of reinsurance

A commercial decision made by management

Within the overall reinsurance strategy of the insurer.

## Principles

Cedant to assess the risk profile - experience, expertise and solvency position

Reinsurance decision in line with its operating strategy.

# Prescribed retention limits



Rs lakh

Product Type	Age of the insurer/product/risk (Years)			
	0- 3	4 - 7	8 - 11	12- 15
Pure protection products	5	10	15	20
Savings products	10	20	30	30
Group protection	5	10	15	20
Health insurance	1	3	3	4