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FINANCIAL SECTOR ASSESSMENT PROGRAM

March 9, 2018

TECHNICAL NOTE

INSURANCE SECTOR REGULATION AND SUPERVISION

Prepared by
Monetary and Capital Markets Department

This Technical Note was prepared in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission in India during June 2017 led by Marina Moretti, IMF; and Aurora Ferrari, World Bank; and overseen by the Monetary and Capital Markets Department, IMF, and the Finance and Markets Global Practice, World Bank. The note contains technical analysis and detailed information underpinning the FSAP assessment's findings and recommendations. Further information on the FSAP program can be found at http://www.imf.org/external/np/fsap/fssa.aspx

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Glossary

EU	European Union
FSAP	Financial Sector Assessment Program
FSDC	Financial Stability and Development Council
FSLRC	Financial Sector Legislative Reforms Committee
GIC	General Insurance Corporation
IAIG	Internationally Active Insurance Group
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
IFRS	International Financial Reporting Standards
Ind As	Indian Accounting Standards
Rs	Indian Rupees
IRDAI	Insurance Regulatory and Development Authority of India
IRF	Inter-Regulatory Forum
KMP	Key Management Persons
LIC	Life Insurance Corporation of India
MCR	Minimum Capital Requirement
MMoU	Multilateral Memorandum of Understanding on Cooperation and Information Exchange
MoU	Memorandum of Understanding
MTPL	Motor Third-Party Liability
ORSA	Own Risk and Solvency Assessment
PFRDA	Pension Fund Regulatory and Development Authority
RBI	Reserve Bank of India
RC	Resolution Corporation
SEBI	Securities and Exchange Board of India
SII	Systemically Important Insurer
ULIP	Unit-Linked Insurance Policies

EXECUTIVE SUMMARY

This technical note provides an assessment of the recent development of regulation and supervision of the Indian insurance sector. It is part of the 2017 Financial Sector Assessment Program (FSAP) for India. The note focuses on several key developments in the regulation and supervision of the insurance sector since the last FSAP (2011), and evaluates the extent to which the recommendations of the 2011 India FSAP have been addressed. The note does not present a full assessment of observance of the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs).

The sector has continued to grow in scale and diversity, surmounting the adverse impact of the global financial crisis, although penetration remains relatively low. Public sector insurers continue to command a majority of the market and life insurance predominates, with about 75 percent of total premiums. Non-life insurance is dominated by motor insurance. Penetration rates are unchanged from 2011 and generally lower than in comparator countries, especially in non-life. While traditional sale channels continue to predominate, there is increasing diversity in distribution. Risks in life insurance are relatively well spread and in non-life are mainly short-term. The sector is profitable and solvency exceeds minimum requirements, but with exceptions.

Key challenges include increasing penetration and addressing poor underwriting discipline in non-life insurance. Insurance has been associated with savings and investments and less with protection (most domestic property remains uninsured). There is increasing focus on simple products that can be sold at low cost. In many lines, insurers are relying on investment income to offset poor underwriting results. Fixed premiums for motor third-party liability insurance continue to affect performance, although there have been moves to address the unlimited liability of insurers in case of claims. Public and private insurers are now subject to the same regulation, although there remain some structural advantages for the public-sector life insurer and reinsurer.

The insurance regulator has been implementing major changes to its regulations. Revisions to the key insurance law have transferred powers from government to the Insurance Regulatory and Development Authority (IRDAI), including wider powers to issue regulations. Foreign insurers have been allowed to increase their interest in Indian insurers to 49 percent, while foreign reinsurers may now operate as branches. Higher financial penalties are now available to IRDAI. After extensive consultation, IRDAI has issued many new regulations, strengthening policyholder protection, including through extensive product regulations and controls on commissions and other expenses.

IRDAI has not yet comprehensively updated its solvency requirements. A more formal approach to solvency control levels and new forms of eligible capital have been introduced. Implementation of International Financial Reporting Standards (IFRS) from financial year 2020–21 will require a move toward economic valuation for financial statements. IRDAI is now working with the industry on plans for economic valuation for solvency purposes and risk-based capital. India is an outlier—both in Asia and internationally—in not having moved in this direction as yet. Investment regulations remain

conservative, but there are also unusual minimum requirements on investment in infrastructure and the housing sector. The insurance resolution framework appears comprehensive, though untested.

Most of the 2011 FSAP recommendations on insurance regulation have been addressed. Issues with IRDAI's independence and overly informal approach in some areas, including solvency control levels and the arrangements for cooperation with other regulatory bodies, have been resolved. Stronger non-life reserving requirements and a new insurance fraud framework have been introduced. Insurance regulation is now more closely integrated into wider financial sector supervision, both domestically (including supervision of financial conglomerates) and internationally.

A key recommendation is that IRDAI formulate a strategy, plan, and timetable as soon as possible for modernization of the solvency framework. IRDAI should have regard to the expected new IFRS 17 on insurance liabilities (as an input into solvency valuation requirements) and to the well-advanced new International Association of Insurance Supervisors (IAIS) Insurance Capital Standards, adapted and recalibrated as necessary for application to the Indian market. Or IRDAI could draw on established approaches in other Asian countries (i.e., Singapore). Given the nature of the market and complexity of an internal model option, IRDAI should implement only a standardized approach to risk-based capital, covering all risks, and require insurers to develop an Own Risk and Solvency Assessment. Time should be taken to calibrate the approach appropriately.

IRDAI should also move to a more risk-based framework for supervision. Onsite inspections in particular are compliance-based, and there is scope for more evaluation of the risks inherent in an insurer's strategy, business model, and operations, and the adequacy of governance and controls in relation to those risks. A more risk-based supervisory approach would complement risk-based capital and encourage better risk management. IRDAI could develop a risk-based supervisory cycle, using impact and risk assessment to determine supervisory focus. Some commonality of approach with other Indian supervisors could support the further development of conglomerate supervision.

IRDAI should review its resources and organization to meet the demands of a more risk-based approach. Current resources are inadequate to support IRDAI's target onsite work program. Moving to a more risk-based approach could release some resources as well as impose new demands on skills and expertise. IRDAI should review its current reliance on staff on deputation from public sector insurers as well as its current organizational structure.

A number of other changes are recommended. The government and IRDAI should review the infrastructure and housing sector minimum investment requirements applying to insurers to ensure that they do not conflict with IRDAI's regulatory objectives. IRDAI and the government of India should continue with their current reforms of the motor insurance market. IRDAI and, as necessary, the government of India, should consider further measures to level the playing field for insurers in the limited areas where there are, or may be perceived to be, advantages for public sector insurers. IRDAI should review aspects of its cross-border supervision, including its approach to the Indian insurers with significant foreign operations.

Table 1. India: Main Recommendations

Recommendation	Responsible Authority	Priority
IRDAI should formulate a strategy, plan, and timetable for modernization of the solvency framework as soon as possible.	IRDAI	High
IRDAI should move to a more risk-based framework for supervision.	IRDAI	High
IRDAI should review the adequacy of its resources in the light of the demands of a more risk-based approach, reconsider its reliance on staff on deputation from public sector insurers and consider changes in its organizational structure to support risk-based supervision.	IRDAI	Medium
Others:		
• IRDAI should review aspects of its cross-border supervision.	IRDAI	Medium
• IRDAI and the other members of the FSDC and the IRF should consider the extension of the scope of financial conglomerates regulation.	IRDAI	Low
• The government of India and IRDAI should review the requirements on minimum investment in infrastructure and the housing sector, to ensure that they do not conflict with IRDAI's regulatory objectives.	Government of India and IRDAI	Medium
• IRDAI and the government of India should continue with their current reforms of the motor insurance market.	IRDAI and Government of India	High
• IRDAI and, as necessary, the government of India, should consider further measures to level the playing field for insurers in the limited areas where there are, or may be perceived to be, advantages for public sector insurers.	IRDAI and Government of India	Medium

SCOPE AND APPROACH[1]

1. This technical note provides an update and an assessment of the development of regulation and supervision of the Indian insurance sector since 2011. The note is part of the 2017 FSAP in India.

2. The note assesses developments in the insurance market and its regulation, and makes recommendations for future development. It updates work carried out as part of the 2011 India FSAP[2] and evaluates the extent to which its recommendations have been addressed, but, unlike the 2011 report, it does not present a full assessment of observance of the IAIS Insurance Core Principles (ICPs). References to ICPs, where they are made, are to the version issued in October 2011 and revised up to November 2015. As this was not an assessment of observance of the ICPs, the work did not include a review of sample supervisory documentation.

3. The preparation of this note benefited from extensive discussions in India. Meetings were held from March 10 to 23, 2017 with the Insurance Regulatory and Development Authority of India (IRDAI) and a selection of insurance companies and professional bodies. The author is grateful to the authorities and private sector participants for their readiness to discuss issues and share information. The author is especially grateful to IRDAI for their close cooperation.

DEVELOPMENTS SINCE 2011

A. Developments in the Insurance Market

Market structure and performance

4. The insurance sector has continued to grow in scale and diversity, surmounting the adverse impact of the global financial crisis. The market was reformed and opened up to private participation—allowing for partial foreign ownership—only in 2001, with companies divided into life and general insurers, and provision for health insurance to be written by both. More recently, companies have been permitted to establish as stand-alone health insurers; the reinsurance market that was previously restricted to the government-owned General Insurance Corporation (GIC) has been opened up to private companies, including branches of foreign reinsurers, and the limit on foreign investment in primary insurers has been raised from 26 percent to 49 percent (Section C). After two years of low or negative growth during 2010–12, total gross premium income of life insurers has been growing strongly. Growth rates in non-life insurance have been consistently high.

[1] This technical note was prepared by Ian Tower (IMF external expert).

[2] India: Financial Sector Assessment Program Update—Detailed Assessment of Observance of Insurance Core Principles, IMF Country Report No. 13/265, August 2013.

5. Public sector insurers continue to command a majority of the market by premium income. As at March 2017, there were 63 licensed insurers (Table 2), with equal numbers of life and non-life (including two specialist insurers[3]), domestic reinsurers, and foreign reinsurance company branches.[4] While private insurers are more in number, public insurers account for about 75 percent of the market in life (although somewhat lower in new business, excluding renewals), 55 percent in non-life, and about 60 percent in reinsurance, including business placed outside India. Most private sector companies entered the market in the decade after opening up and, in recent years, most of the new entrants have been to the non-life sector, stand-alone health, and reinsurance (since 2016), including the foreign reinsurer branches. One private sector insurer (ICICI Prudential Life Insurance Company) has recently been listed on the Bombay Stock Exchange and the National Stock Exchange of India.

Table 2. India: Numbers of Insurance Companies

	2011	2017
Life	24	24
of which state-owned	*1*	*1*
Non-life	21	24
of which state-owned	*6*	*6*
Health (stand-alone)	3	6
Reinsurance (India incorporated)	1	2
of which state-owned	*1*	*1*
Reinsurance (branches)	0	7
Total	**49**	**63**

Source: IRDAI.

6. Life insurance remains the larger market. Life accounts for about 75 percent of total annual premiums, reflecting the role played by life insurance in savings and investment markets. Traditional business (participating and nonparticipating) dominates, reflecting in part the high market share (almost 75 percent) of the state-owned Life Insurance Corporation of India (LIC), for which this is core business, while private insurers continue to write more unit-linked insurance policies (ULIP). After a sharp reduction in ULIP new business after the financial crisis (which exposed significant mis-selling, eliciting a stronger regulatory stance from IRDAI), sales have recovered, although ULIPs still account for only about 15 percent of the total market.

7. Non-life is dominated by motor insurance and the penetration rate is particularly low. Motor insurance (third-party liability, which is compulsory, and "own damage") account for about 45 percent of total gross non-life premium income, broadly the same as in 2011. Health insurance written by non-life and stand-alone health insurers is, together with crop insurance, growing the most strongly. There are requirements, which escalate annually, to write minimum levels of non-life

[3] Export Credit Guarantee Corporation of India and Agriculture Insurance Company, both state owned.

[4] Lloyd's of London has also recently been permitted to open in India. Primary insurers may also write reinsurance.

insurance for the rural and social sectors, but the amount of such business overall is low. Penetration rates remain at a level similar to those of 2011 and are generally lower than peer countries, with the rate for non-life being especially low (Table 3). However, the number of people covered under insurance is increasing substantially, especially because of government schemes (see below).

Table 3. India: Insurance Penetration in Selected Countries, 2015

	Life		Non-Life		Total		Share of Global Market	Premium Volume
	Percent of GDP	Per Capita (USD)	Percent of GDP	Per Capita (USD)	Percent of GDP	Per Capita (USD)	Percent	USD millions
Brazil	2.10	173.8	1.80	153.7	3.90	332.1	1.52	69,061
China	1.94	153.1	1.65	127.6	3.59	280.7	8.49	386,500
India	2.72	43.2	0.72	11.5	3.44	54.7	1.58	71,776
Russia	0.17	14.8	1.19	102.3	1.36	117.1	0.37	16,801

Source: SwissRe, Sigma Report.

8. **While traditional sales channels continue to predominate, there is increasing diversity in the distribution of insurance products**. In life insurance, individual agents (of which there are over two million) continue to account for about 70 percent of individual business, with group business handled by direct sales. New channels have been developing, supported by regulations and guidelines introduced by IRDAI, including online and "point of sale," but they account for negligible market share still. In non-life, as in many other markets, the share of individual agents is lower (about 35 percent by value of new business premium), with broker and direct sales channels each accounting for 25 percent of the market. Corporate agents, most of which are banks, account for about 25 percent of life and 7 percent of non-life sales.

9. **Most Indian insurance business continues to have a domestic orientation, even after increased foreign investment**. While Indian insurers are permitted to write overseas risks (medical cover in connection with travel insurance is a key product), most business is Indian risk. Only two companies, New India Assurance[5] and GIC, have significant operations outside India, and they are diversified. Many private sector insurers are joint ventures with foreign insurers,[6] which have been taking advantage, in some cases, of the recent legislative changes, enabling them to raise their interest from 26 percent to 49 percent. However, this has not always led to increased capital being injected or, where injected, to new capital reaching the operating entity. Most of the foreign reinsurance companies authorized as branches in 2016 were already active in the market on a cross-border basis.

[5] New India has the highest share of premium income generated outside India at about 15 percent.

[6] From amongst others, Australia, Canada, France, Germany, Italy, Japan, Netherlands, South Africa, United Kingdom, and the United States.

10. There are few insurance groups, although many insurers are part of wider financial conglomerates. There are regulatory limitations on ownership structure (tiered ownership is not permitted) and on insurers investing, with some exceptions (including overseas business), in any form of subsidiary entity. Many of the private insurers have been established by Indian banks or groups containing nonbank finance companies and, as discussed below, financial conglomerate supervision is now well-established, addressing the need for a comprehensive group-wide approach.

11. The industry is profitable and solvency ratios exceed the minimum requirements, but with significant exceptions at individual companies. At end-March 2016, the most recent financial year-end for which figures are available, the industry was profitable and aggregate solvency ratios were well above the 150 percent minimum (344 percent life and 239 percent non-life and health combined, calculated as simple averages). However, 5 of the 24 life and 6 of the (then) 23 non-life companies—all from the private sector—were not profitable, as were all the stand-alone health companies bar one. Solvency ratios at all the companies were in excess of the minimum requirement except for one state-owned non-life company. At the most recent quarterly reporting date (end-December 2016), two state-owned non-life insurers were reporting ratios below the regulatory minimum.[7]

Risks and challenges

12. Risks and vulnerabilities in the life insurance sector are relatively well spread. Major risks are market risk related to the investment portfolio and mortality risk. However, despite the predominance of traditional business, much of it longer term, the exposure to changes in interest rates is not as acute as in some other markets: business has not been written with high guaranteed rates; the durations of liabilities and available investment assets allows for a high degree of matching, taking into account persistency experience (see below); much of the business is participating or (in the private sector) ULIP. Insurers have been swift to reprice new business when—as recently—there have been reductions in rates. Products remain mostly simple, while regulatory investment rules constrain asset risks. Insurers are not permitted to invest policyholders' funds outside India. There are concentration risks arising from group life insurance, a significant part of life insurance business.

13. Risks in non-life insurance are mainly short-term. Most business is short-term. There is limited business in liability or other long tail lines, other than motor third-party liability (MTPL). Insurers have been free, since 2007, to determine non-life premiums, except in MTPL, where they are fixed annually by IRDAI after a process of information gathering and consultation, and where insurers must underwrite minimum amounts set by reference to market share. Much of this business is loss-making despite significant increases in premiums allowed by IRDAI in recent years. As in life insurance, investment risk is low, but there is exposure to reductions in returns given poor underwriting results (see below).

[7] As part of IRDAI's extensive financial disclosure requirements, insurers must disclose their solvency ratios at the end of each quarter.

14. Catastrophe risks are viewed as relatively low, if growing. India has relatively limited exposures to certain natural perils such as earthquake and volcano, but flood risk is significant and the incidence of weather events, exacerbated by issues such as poor drainage, is increasing (for example, the Chennai Floods in November 2015 and Hudhud Cyclone in October 2014). There is interest in writing cyber-related risks, but limited business yet.

15. Looking forward, key challenges for the industry include:

- **Increasing the levels of penetration of insurance products**: Insurance has been strongly associated in India with savings and investments and less with protection (life or non-life). As in many countries, there is a need to increase trust in the products and to improve levels of persistency in life insurance.[8] Most domestic property remains uninsured, for example, and it is estimated that 40 percent of drivers have no motor insurance. With its development as well as regulatory objectives, IRDAI is well placed to address the challenges. In addition to supporting new delivery channels, recent regulatory changes have required insurers to raise standards of customer treatment and improve persistency, for example. There is particular focus (and significant success) on making available simple products that can be sold at low cost, including through the online channel. Government initiatives in cooperation with insurers (and banks)[9] have contributed significantly to increased penetration. Indian insurers are well placed to reduce costs through continuing IT development.

- **Poor underwriting discipline in non-life insurance and the challenges of MTPL**: In many lines, insurers are relying on investment income to offset poor underwriting results (i.e., combined ratios are high, sometimes over 100 percent), which is likely to be unsustainable in the longer term, especially in competitive and soft market conditions, while creating risks that insurers seek to improve underwriting results by, e.g., obtaining reduced catastrophic risk reinsurance cover. However, market participants noted that even in MTPL, parts of the motor insurance market are now profitable, after recent premium increases, and there are prospects for further improvements resulting from reform initiatives, e.g., to enforce traffic laws, increase penalties for unsafe driving and failing to insure, and streamline the process for dealing with accidents; and, to an extent, protect insurers from current unlimited liabilities (in respect of the amount of any claim, its timing—which may be lodged years after an accident—and the jurisdiction in which the claim is filed).[10]

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[8] Insurers are required to report to IRDAI and publish persistency experience.

[9] For example, the Pradhan Mantri Jeevan Jyoti Bima Yojan (PMJJBY) is an innovative scheme where customers with qualifying bank accounts can buy Rs 200,000 of life cover for Rs 330 per year (2016–17 terms), payment being taken automatically from the bank account. LIC administers the scheme for itself and participating private insurers. Take-up has been high. A separate scheme offers low cost personal accident cover.

[10] A proposed amendment to the Motor Vehicles Act 1988 which would have capped liability at Rs 100 million has, however, met with opposition in the parliament.

- **The issues arising from the continued high market share of the public sector insurers**. Many of these insurers appear to have adapted well to competition from private insurers. Of the non-life companies, two (GIC and New India Assurance) are in advanced stages of planning for listing in the course of 2017.[11] Public and private insurers are clearly now subject to the same regulatory and supervisory requirements. As noted in the report of the Financial Sector Legislative Reforms Committee (FSLRC),[12] however, LIC continues to be advantaged by its status under special legislation (it is not a Companies Act company), with an explicit government guarantee for all sums which it assures.[13] GIC benefits from arrangements in the reinsurance market whereby primary insurers are required to cede 5 percent of all premiums to the company as well as to offer GIC first preference on other business ahead of foreign reinsurers' branches and the international market.[14] As noted, above, the weakest insurers (those not meeting minimum solvency requirements) are state-owned. IRDAI is having to concentrate resources on ensuring these companies restore adequate levels of solvency, as well as on broader consideration of the future sustainability of a market with four public sector non-life companies.

16. Prospects for the insurance sector, nonetheless, seem bright. Existing low penetration rates, especially in non-life lines, offer the opportunity of future growth. The involvement of foreign companies, allied to the strengths of the Indian market in infrastructure and innovation (new sales channels, etc.), should be supportive to the further development of the insurance sector. IRDAI's regulatory initiatives, as well as improved insurance sector governance and risk management, appear to be contributing to improved customer treatment; the known incidence of mis-selling has, for example, been reduced since the issues in the ULIP market. While growth in some lines has been dependent on government initiatives, there is already strong growth in underlying demand, in health insurance in particular. Generally, the market is well capitalized, with access to additional resources.

B. Developments in Insurance Regulation

Regulatory architecture

17. IRDAI remains the single national regulator of the insurance sector and its functions, including supervision of intermediaries and business conduct. Its objectives, in line with its name, cover both regulation and development of the insurance market, including policyholder

[11] Initially 10 percent of their shares, but increasing (under a government decision taken in February 2017) to 25 percent. The other non-life public sector companies would also be listed. There are no plans to list LIC.

[12] Government of India, Report of the Financial Sector Legislative Reforms Commission, March 2013.

[13] The LIC Amendment Act 2011 did, however, bring LIC into full compliance with IRDAI's requirements by providing for an increase in its equity capital from Rs 50 million to Rs 1 billion.

[14] Under Regulation 28(9) of the Registration and operations of Branch offices of Foreign Reinsurers other than Lloyd's Regulations, 2015, other Indian reinsurers may also in principle be preferred. While a second has recently been licensed (ITI Reinsurance), only GIC has the required rating and track record and the capacity to take advantage.

protection.[15] IRDAI is accountable to parliament via the Department of Financial Services at the Ministry of Finance of the Union Government. As part of its responsibilities for the regulation and supervision of intermediaries, it regulates a relatively wide range of related functions, including third-party administrators, web aggregators, and insurance repositories (who maintain insurance policies in electronic form[16]).

18. IRDAI is organized on highly functional lines to cover its wide range of responsibilities. IRDAI is headquartered in Hyderabad, with small offices in Delhi and Mumbai supporting onsite inspections. It has separate units for offsite and onsite supervision, finance and investment, actuarial and consumer protection, for example, and a small enforcement function working mainly on the follow-up to onsite inspections, including resulting sanctions. IRDAI's staff totaled 237 in March 2017, a significant increase from 181 at end-March 2016. It relies heavily on expert staff employed on three-year deputations from the state-owned insurers (25 percent of the total staff). IRDAI is inadequately resourced to deliver its target workload for onsite inspections (one per company every one to two years compared with only about every four years at present). They are carrying out more focused inspections also and, as confirmed in discussions with insurance companies, are generally having much increased contact with the management of insurers via the offsite process. There is a risk, however, that they will not go onsite often enough.

19. In developing regulations, IRDAI leverages industry resources and is viewed as highly open and consultative. It publishes exposure drafts of proposed requirements; works through (statutory) trade associations; and establishes committees comprising industry, IRDAI and other experts to make recommendations on major issues such as (in recent years) the approach to foreign reinsurers, implementation of Indian Accounting Standards (Ind AS) and options for more risk-based solvency requirements. IRDAI makes all the final decisions. Its requirements are highly transparent, being available (with full statistical information) on its website and in regular publications.

20. IRDAI relies in some areas on the Institute of Actuaries of India. For example, the institute issues technical guidance, with which IRDAI regulations may require insurers to comply, and has established peer review, in life insurance and (to take effect soon) in non-life, of the work of the appointed actuary. The appointed actuary system is now well established. All insurers must have an appointed actuary approved by IRDAI (otherwise, it approves only the CEO/managing director and any other executive directors of insurers). IRDAI relies on their work to help ensure that reserving is adequate. External auditors may rely on the valuation of insurance liabilities undertaken by the appointed actuary. The number of actuaries is small (there are 344 fellows of the Institute and 156 associate members, including some working outside India), but large numbers of students promise the availability of increased senior actuarial expertise in the future.

[15] Insurance Regulatory and Development Act 1999.

[16] A major objective of IRDAI and industry has been to dematerialize insurance policies to improve operational efficiency and protect policyholders from the consequences of loss of paper documentation.

21. There are arrangements, involving the other financial sector regulators, for conglomerate supervision. Banks are permitted to own insurers, subject to approval of IRDAI and compliance with the requirements of the Reserve Bank of India (RBI), the authority for banking supervision. Arrangements have been in place since before the 2011 FSAP to coordinate the oversight of financial conglomerate groups. Of the total of 11 such groups, RBI is the lead regulator for the 7 bank-led conglomerates, IRDAI is the lead regulator for 4, and the Securities and Exchange Board of India (SEBI) for 1 conglomerate.

Regulatory developments since 2011

22. IRDAI has been going through a period of intensive changes to its regulations, responding to market developments and amendments to the key insurance laws. The major changes have been:

- At the level of primary legislation, revisions to the Insurance Act 1938 enacted in 2015, after several years of deliberation that have, most significantly:
  - transferred powers from the government of India to IRDAI, including powers to issue a wider range of regulations, including in the areas of solvency, investments, expenses, and commissions (subject to scrutiny by the relevant parliamentary committee), and to intervene, where necessary, in individual companies without recourse to government; this has led to an extensive program of issuing new regulations, some substantive and many updating existing requirements;
  - provided for foreign insurers to increase their interest in Indian insurers from 26 percent to 49 percent, as mentioned, and enabling foreign reinsurers to operate in India as branches; it also created a requirement that an "Indian Insurance Company" (one incorporated under the India Companies Act) be "Indian owned and controlled."[17] IRDAI issued guidance in 2015 to clarify the interpretation of this provision in areas such as governance (the appointment of a CEO must be made by the full Board or Indian owners, for example); regulations on reinsurance issued in 2016 apply the main aspects of regulation, including solvency requirements, to branches, while adapting other requirements (such as those on governance) to apply to branches;
  - formalized previous arrangements under which IRDAI expected insurers to maintain a solvency margin of 150 percent of the minimum; it is now empowered[18] to specify and enforce a particular "control level of solvency," which it has done (at 150 percent) in separate life and non-life 2016 regulations (regulations specifically for stand-alone health insurers may be developed in due course). IRDAI considers that this power could be used to set

[17] Section 2 (7A) of the amended Insurance Act.

[18] Section 64 VA.

individual minimum solvency requirements by company, although it does not do this at present;

  - introduced new arrangements for the regulation of individual agents under which they are no longer required to be licensed by IRDAI but must be appointed by the insurance company which engages them (limited to one in each of life, non-life and health business); IRDAI retains powers, for example to sanction or bar an agent.[19] Insurers now have responsibility to ensure the compliance of individual agents; and

  - significantly increased financial sanctions—for example, Rs 100,000 fine per day for non-compliance with a direction, subject to Rs 10 million maximum.[20] There are wide-ranging rights of appeal against sanctions and other IRDAI interventions, which, under the revised Insurance Act, now include the Securities Appellate Tribunal established under the Securities and Exchange Board of India Act, 1992.

- Extensive development of the regulatory framework for governance (Corporate Governance Guidelines 2016), building on earlier requirements that include, for example, mandated committees of the Board, including a Policyholders Protection Committee; and a major effort to improve customer treatment, with detailed requirements on product specification, maximum commission levels and limits on management expenses (using the new Insurance Act powers); higher standards in relation to training and competence for agents; and more focus on complaints through its Integrated Grievance Management System. Despite the large volume of often detailed regulations, most of the changes appear to have been accepted, even welcomed, by industry as contributing to increased trust in insurance. They have generally focused on retail customers. Non-life insurance products aimed at non-retail customers no longer have to be approved by IRDAI, although they must be notified (a "use and file" approach). Life insurance products must generally still be approved before use.

- Major reform to the motor insurance market. As mentioned, non-life insurers are now required (under an amendment to the Insurance Act in 2015) simply to underwrite the MTPL in proportion to their market share. Previously (from 2011), they were given a minimum quota of stand-alone MTPL policies, which they had to underwrite with provision for any shortfall to be met by a declined risks pool. In transitioning to the pool arrangements, IRDAI had significantly relaxed its (then informal) 150 percent minimum solvency ratio requirement, on a tapering basis (starting at 130 percent) over three years to 2014–15, as insurers established the greatly increased required reserves. No transitional arrangements were needed as part of the introduction in 2015 of the current arrangements.

- The further development of the arrangements for cooperation with other regulators, including integration of insurance into regulatory infrastructure:

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[19] Section 42. Corporate agents remain subject to a requirement for licensing by IRDAI.

[20] Sections 102 to 105B.

- A Memorandum of Understanding (MoU) was signed by the RBI, SEBI, IRDAI, and the Pension Fund Regulatory and Development Authority (PFRDA) in 2013 to support increased cooperation in conglomerate supervision. These arrangements are part of wider coordination architecture headed by the Financial Stability and Development Council (FSDC), chaired by the government of India's finance minister, its key Sub-Committee (FSDC-SC), chaired by the governor of the RBI, and also comprising technical groups on cross-sectoral issues, including an Early Warning Group and the Inter-Regulatory Forum (IRF), also established in 2013 under an RBI chair, for monitoring individual financial conglomerates. IRDAI retains full powers and responsibilities in relation to the relevant insurers. The designated (i.e., lead) entity within a conglomerate is subject to additional conglomerate reporting requirements, including on risk concentrations, although there is no capital adequacy test (as called for in the Joint Forum's work on conglomerates, for example[21]).

- In addition, a Financial Data Management Center will be established under the aegis of the FSDC to facilitate integrated data collection and analysis across the financial sector, including insurance; and insurance companies have been brought into the scope of the Central Repository of Information on Large Credits (CRILC), the shared credit information system managed by the RBI.

- Internationally, IRDAI has begun putting in place MoUs with foreign regulators and has started to participate in supervisory colleges, for Reinsurance Group America (USA), QBE Insurance Group (Australia), and Sanlam Group (South Africa), although these are all new or relatively small operations in India. It has also become a signatory to the IAIS Multilateral Memorandum of Understanding on Cooperation and Information Exchange (MMoU). IRDAI has not established supervisory college arrangements for the Indian insurers with foreign operations (see paragraph 9 above), although it is ready to communicate bilaterally with host supervisors, where it receives requests or otherwise where necessary.

23. IRDAI has not, however, comprehensively updated its solvency requirements in substance. The framework remains largely as in 2011, with the addition of the control level of solvency (see above) and provisions for new forms of capital, including subordinated debt (which has been issued by some insurers).[22] IRDAI has retained a robust "Solvency I" approach, with valuation requirements that build in prudent margins (in assets and liabilities) and a simple, mainly factor-based set of solvency requirements that move in line with business volume but which are otherwise insensitive to risk, including investment and operational risks.[23]

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[21] Joint Forum Principles for Supervision of Financial Conglomerates, 2012, Principles 15 to 18.

[22] IRDAI has also strengthened regulation and oversight of asset and liability matching, with new guidelines and reporting requirements issued in 2012.

[23] The requirements apply on group basis, as required in ICP17.

24. India's approach makes it now an outlier in Asia and internationally. Indian insurers have been required since 2011 to develop and report to IRDAI an economic capital calculation, as a basis for discussions. However, most countries in Asia have adopted, for the purposes of solvency regulation, a more risk-based approach and a more economic basis for valuation of assets and liabilities.[24] International accounting and solvency standards are also moving in that direction.[25] If Indian insurers expand more extensively in foreign markets, the lack of solvency standards that are recognizably equivalent to the international framework could be an obstacle. IRDAI is conscious of all these considerations and working with the insurance sector on options for a different approach.

25. Convergence with International Financial Reporting Standards (IFRS) will be consistent with moving the insurance sector to a risk-based solvency approach, but is not now planned until financial year 2020–21. Under requirements set by the Ministry of Corporate Affairs, the insurance sector had been required to adopt Ind AS, characterized as "converged IFRS standards," in financial statements for periods beginning from April 1, 2018. The implications, given the lack of a final IFRS on insurance liabilities effective by 2018 would have been mainly for the assets side. However, IRDAI has decided, since the FSAP mission and in the light of issuance of a final IFRS on insurance liabilities in May 2017 (IFRS17, due to take effect in January 2021), to defer implementation of Ind AS to coincide with IFRS17 implementation.[26] It is monitoring the impact of Ind AS via private reporting. In discussion, insurers noted that the most significant impact of Ind AS would come through IFRS 17. In relation to solvency requirements, existing valuation provisions continue to apply for the present.

26. Investment regulations remain conservative. Twenty-five percent of investments backing non-linked life insurance policyholder liabilities have to be invested in central government securities, for example (20 percent in the case of non-life).[27] While higher risk investments are also permitted, including equities, they generally have to meet demanding standards (broadly AA rating or a long track record of dividend payment) and requirements that limit individual credit and sector risks, and are subject to a rigorous auditing regime ("concurrent audit").

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[24] See, for example in relation to non-life, Aon Benfield's report "Asia Pacific Solvency Regulation, September 2016," which notes that following China's adoption of its China-Risk Oriented Solvency System in 2016, only India and Hong Kong—of major insurance markets—had not moved to risk-based solvency requirements.

[25] See the latest version of the IAIS ICPs (ICPs 14 and 17) and IFRS 17 (issued in final form in May 2017), which envisage an economic basis of valuation, for example, and the draft IAIS Insurance Capital Standards, which (like the EU Solvency II requirements) are based in large part on targeting the insurer's ability to survive stress at a certain level of confidence.

[26] See IRDAI Circular "Implementation of Ind AS in the Insurance Sector", June 28, 2017.

[27] IRDAI Investment Regulations 2016.

27. There are also, however, unusual minimum requirements on investment in infrastructure and the housing sector. A requirement for a minimum percentage of investment assets to be invested in infrastructure and the housing sector is mandated by law as part of social obligations.[28] IRDAI's general requirements on investments apply to the infrastructure and housing sector investments also, but the aggregate value of such investments is subject to a minimum requirement, set in IRDAI regulations, of 15 percent of the total.[29] While this requirement is consistent with the high priority given by government to development of these sectors, it does not obviously reflect insurance regulatory objectives such as IRDAI's, which would normally be reflected in limits aimed at supporting diversification or in provisions requiring insurers to match liabilities with appropriate assets. With the exception of one company (LIC), with small amounts of problem loans mostly accumulated in the past,[30] the incidence of nonperforming assets is, however, negligible.

28. The framework for resolution remains comprehensive, though untested, and is subject to change due to wider government plans on financial sector resolution. There have been limited changes in IRDAI's powers in relation to resolution of insurers and wider powers of intervention. IRDAI may issue directions, appoint and remove directors, appoint an administrator, and initiate a winding-up. There are no policyholder compensation arrangements (IRDAI is keen to avoid the associated moral hazards). It has not had to manage a failed insurer as yet. The government recently published a draft Bill (Financial Resolution and Deposit Insurance Bill), under which all financial sector entities would be handled by a new Resolution Corporation (RC), if the options for restructuring and revival under the auspices of the sectoral regulator have been exhausted. Entities would be classified according to risk, and those assessed as "critical risk" would go into liquidation with the RC as receiver, with access to a resolution fund financed by the financial sector.

29. Key outcomes of the development of regulation and supervision, relative to 2011, have been that:

- IRDAI is even more independent from the government, as well as more fully resourced: it was already empowered to set its fee levels and control its budget (subject to government review). The government retains certain reserve powers (see Annex, under ICP 3) and the right of scrutiny of IRDAI draft regulations. However, there are no areas where government now exercises supervisory powers, except in relation to IRDAI action bringing about a scheme of amalgamation

[28] Section 27 D (2) of Insurance Act, 1938. One of the objectives of opening up the insurance sector was to ensure that insurance funds were directed towards long term investments such as infrastructure spending (Malhotra Committee Report, 1994).

[29] This minimum requirement may be met by relevant investments falling within the investment categories of Central and State Government Securities, Other Approved Securities and Approved Investments. The requirement does not apply to funds relating to Pension and General Annuity and Group Business and unit reserves of all categories of Unit Linked Business of a life insurer.

[30] LIC reported gross nonperforming assets of 5.19 percent of the loan portfolio at end-December 2016, but this is a small share of its overall investments.

between two insurers, which government has to sanction, and potentially in future in relation to the resolution of insurers depending on how the RC is established and how its powers are framed (see above). Use of the relevant power on amalgamation is likely to be confined to extreme cases, given that it is available only where one of the insurers is a problem insurer, other measures have been tried first and a test of public and policyholders' interests has been satisfied.[31]

- IRDAI has been taking a more risk-based approach to regulation and supervision in areas such as the intermediary regulation (the new arrangements on individual agents and a risk-based approach to the selection of brokers for onsite inspections) and the application of regulations to reinsurance companies. In industry discussions, it was noted that Boards and senior management feel that IRDAI is holding them responsible for compliance. There is further to go in this direction in relation to solvency requirements, as noted. There may also be a need for increased focus on Systemically Important Insurers (SIIs), where IRDAI's approach is waiting on the development of the proposed new resolution framework. Equally, IRDAI is now generally applying its regulations consistently to all insurers. One exception, however, is the application of the requirement for a minimum level of investment in infrastructure and housing (see paragraph 27 above), which is not being enforced in the case of LIC, given the scale of its investments relative to the economy and the risks of compromising investment quality.

- The insurance sector and insurance regulation is more closely integrated into wider financial sector supervision, both domestically and internationally. The arrangements for conglomerate supervision in particular, although not comprehensive (they exclude smaller conglomerates), appear to be leading to enhanced oversight of the relevant groups, while generally supporting greater cooperation and understanding between regulators. Insurance issues are considered in the context of the FSDC's work on early warnings of financial stability risks. IRDAI is also participating in the RBI's international supervisory colleges for banks, such as the State Bank of India and the ICICI, both of which have Indian insurers in the group. Again, there is further to go, including in relation to conglomerate capital adequacy, as noted, group-level risk assessment and potentially joint inspections across conglomerate members, for which provisions exist in the MoU (see paragraph 22 above). In relation to supervision, however, the mixture of cross-sectoral work through the IRF, including joint meetings with conglomerate senior management, and continuing sectoral supervision of individual companies appears adequate.

Implementation of the recommendations of the 2011 FSAP assessment

30. Most of the of 2011 recommendations on insurance have been addressed in the process of regulatory reform. Issues with the independence of IRDAI and reliance on an overly informal approach in some areas, especially solvency control levels, but also aspects of corporate governance and the arrangements for cooperation with other regulatory bodies, have been resolved. Enactment in 2015 of amendments to the key insurance laws has been instrumental in

[31] Section 37A of the Insurance Act.

delivering this outcome. In relation to the four ICPs rated in 2011 as only Partly Observed (PO), the related recommendations have all been addressed, through the legislative changes, strengthening of non-life reserving requirements and introduction of a set of requirements on insurance fraud.

31. A detailed assessment of how the 2011 recommendations have been addressed is set out in the Annex to this note. This includes some further recommendations in areas where issues identified in 2011 have not been addressed, including setting time limits on IRDAI's consideration of new license applications, and on matters arising, such as bringing independent and other non-executive directors into the scope of IRDAI's framework for approving the appointment of key individuals, and clarifying beyond doubt that the head of internal audit is subject to fit-and-proper requirements. Other issues are covered in the recommendations section of this note.

RECOMMENDATIONS

A. Developing a More Risk-Based Approach

32. IRDAI should formulate a strategy, plan, and timetable as soon as possible for modernization of the solvency framework. Discussions with market participants suggested that they are ready for a risk-based capital framework, although this may be less true of smaller insurers. A committee comprising industry, professional body, and IRDAI representatives is working on the issues, starting with market consistent valuation of insurance liabilities, where a report has recently been issued.[32] A second report, on risk-based capital, was due shortly at the time of the mission. Key issues include:

- **Basis in international standards**: for the valuation approach, IRDAI will have the option of basing its requirements on IFRS 17 (issued in May 2017) with the advantage that IRDAI's valuation approach would thereby be aligned with that used for financial statements, accepting that some differences will always be necessary to fit Indian markets and the particular needs of solvency regulation. Equally, the new IAIS Insurance Capital Standards (ICSs), including valuation requirements, are well advanced, and IRDAI is participating in the design and testing work. The ICSs are being developed to apply to Internationally Active Insurance Groups (IAIGs), of which India may have few, if any,[33] and at the group consolidated level, whereas IRDAI's need is for a framework applicable to all insurers at both solo and group level, as at present, with additional requirements as appropriate for SIIs. ICS should, however, prove adaptable to all insurers, recalibrated for example to reflect the more limited risk diversification. An alternative would be to draw on established approaches in other countries, including Singapore, whose risk-based capital requirements were the earliest to be implemented in the region.

[32] See: "Report of IRDAI Committee on Risk Based Capital (RBC) Approach and Market Consistent Valuation of Liability (MCVL) of Indian Insurance Industry, Part I," November 2016.

[33] Many Indian insurers partly owned by foreign insurance groups as well as all the reinsurers operating as branches in India are parts of IAIGs, however, and, in many cases, already subject to the home supervisor's risk-based capital standards applying at group level.

- Key design issues include:
    - *Whether to offer an internal model approach*: Given the nature of the Indian insurance business and the costs and complexity associated with an internal model option, it is likely to be appropriate to implement only a standardized approach to risk-based capital.
    - *The scope of the risks covered*: Inclusion of operational risks on a quantified basis would be appropriate.
    - *The basis of calibration*: A VaR approach based on a prescribed level of stress may be suitable, but should be consistent with the levels reflected in international standards and practices.
    - *"Pillar 2"*: It would be important to implement requirements for insurers to develop an Own Risk and Solvency Assessment (ORSA), as elaborated in ICP 16, in parallel with the prescribed regulatory minimum approach, to ensure that risk-based capital supports enterprise-wide risk management and reflects the risks in individual companies (a simple framework for applying capital add-ons could be developed).
    - *Solvency control levels*: As required by ICPs 12 and 17, IRDAI should implement two levels of solvency control, including a minimum capital requirement (MCR) that could also be an absolute floor on the acceptable solvency ratio. This should be related to the scale of the insurer's overall requirements and more demanding than what is effectively now the MCR, applying to all insurers, which is 50 percent of the minimum initial capital of Rs 1 billion (equivalent to only about US$7.5 million), albeit twice that level for reinsurers. Ideally, it would be consistent with the definition of "critical risk" under the new legislative framework for resolution (see paragraph 28 above).
    - *The approach to investment regulations*: IRDAI may want to retain a structure of limits, as it has now, at least initially, rather than immediately to adopt a "prudent person approach," for example.
- **Timing**: While the industry appears supportive of early change, according to discussions (in many cases expecting reductions in overall solvency requirements, in particular from a more economic and realistic approach to valuation), there may be advantages in IRDAI implementing its approach in January 2021 to coincide with the effective date of IFRS 17. If it were to prefer to move sooner, it would be able to draw on the valuation framework being developed by the IAIS for its ICS, accepting that this is aimed at IAIGs with risks concentrated in developed markets. Calibration will in any event take time—multiple quantitative impact studies have been necessary in most countries taking this path. It would be sensible to allow for a period of parallel running, with insurers required to calculate a solvency margin on old and new bases and to comply with the higher requirements.

- **Preparing the sector for the new approach**: Awareness in the insurance sector of the issues related to the solvency framework appeared relatively limited (based on discussions with market participants) and insurers are looking to IRDAI to take the lead once the committee reports are published. IRDAI could consider the benefits of focusing more closely, in the initial stages of the work, on insurers' existing economic capital evaluation (required by and reported to IRDAI, as noted). This would give IRDAI insights into the possible impact of risk-based capital, while preparing industry and supervisors for the introduction and oversight of ORSAs.

33. IRDAI should also move to a more risk-based framework for supervision. As mentioned, IRDAI supervisors are already heading in this direction, and an internal committee has been considering the issues with moving further. Supervisory tools remain relatively compliance-based, however, in particular in onsite work. Discussions with insurers confirmed that inspections are thorough and are viewed as being carried out in a professional manner with a full exit meeting on conclusion of the onsite work and timely production of (and follow-up on) written reports. Inspections cover business conduct and financial issues in an integrated approach. However, the focus of the work is predominantly on establishing compliance, and a key output is enforcement action, including sanctions. There is less focus in the onsite process on evaluation of the risks inherent in an insurer's strategy, business model, and operations, or on the adequacy of governance, risk management, and other controls, specifically in relation to risks of the insurer.

34. Moving to a more risk-based supervisory approach would complement the development of risk-based capital. A focus in offsite and onsite supervision on the key risks of the insurer would support a risk-based evaluation solvency standard, including an ORSA regime. It would complement IRDAI's recent increased emphasis on effective governance (insurers have to have risk management and other control functions, for example) and encourage (and, in principle, reward) effective risk management. Discussions with insurers suggest that the larger companies at least would be ready for the approach, as will facilitate effective risk-based supervision, many having benefited from risk management tools adapted from their foreign part-owner groups.

35. It is recommended that IRDAI develop a risk-based supervisory cycle with appropriate weighting for impact and risk in determining supervisory focus. It is already considering internally the development of a risk-based framework. Some key principles could be:

- The assessment of impact (broadly, size) could be integrated with criteria for identification of SIIs.
- Risk assessment should address all, including operational, risks.
- The allocation of supervisory resources and the scope and frequency of onsite work should reflect impact as well as pure risk—with appropriate weighting for impact to ensure that however low risk the business model and effective the management, the larger insurers would receive an appropriately high level of supervisory attention. (Some supervisors now seek to maintain continuous contact with the larger companies, while carrying out a mix of full scope and thematic onsite work for others.)

- In line with good practice, IRDAI should inform insurers regularly of risk assessment findings and key aspects of the work program.
- The approach can and should be applied to intermediaries as well as insurers.

36. Some commonality of approach with other Indian supervisors would help support the further development of conglomerate supervision. IRDAI already cooperates with other financial sector regulators, as noted. It should consider whether its risk-based risk assessment methodology and supervisory toolkit could share common core features with those of the other regulators, particularly the RBI, to facilitate group wide risk identification and coordination of supervisory work. It could consider related changes such as increased supervisory contact with non-executive directors and the Board as a whole, and with external auditors, building on what is increasingly its practice for problem companies, where supervisors meet with Board members, particularly including the chairperson of the Audit Committee.

37. There are other changes consequential to the move to a risk-based approach that could be considered. As IRDAI develops its supervisory approach, it could consider, for example, reduce dependence on prior approval of new products in favor of greater focus on the new product governance framework at individual insurers. It could review its approach to the position and work of the appointed actuary. There is a risk that its reliance on the actuary's work may detract from the responsibility of Boards of Directors to oversee effectively the key aspects of insurer financial management. Notwithstanding the development of a peer review process by the Institute of Actuaries and oversight by IRDAI, there is a risk of overdependence on the appointed actuary, exacerbated by the lack of full external audit of the insurance liabilities, although the implementation of Ind AS is expected to strengthen cooperation between auditors and actuaries. IRDAI would want to move cautiously, given the benefits of current approaches.

38. IRDAI should review the adequacy of its resources in the light of demands of a more risk-based approach. Current resources are clearly inadequate—as reflected in the inability of IRDAI to deliver its onsite work program. Moving to a more risk-based approach can be expected to release some resources, as well as imposing new demands on skills and expertise. Some activities may be dropped. Overall, IRDAI's resources do not appear greatly out of line with risk-based supervisory systems, considering the size and concentration of the market and supervisory model. Countries such as the United States and China are outliers, with their highly devolved supervisory systems and/or much larger numbers of insurance companies.[34] However, a net increase in resources is sure to be required, as well as training and development of staff more used to compliance-based supervisory work. IRDAI is already moving in this direction.

[34] China has over 3,000 staff at the insurance regulator, but many are in branch offices of the regulator, while the United States (as state-based system) has about 11,500 (Source: IMF FSAPs).

39. The reliance on staff on deputation should be reconsidered. Whatever the approach to supervision, it would be advisable to reduce reliance on deputations from the public-sector insurers in favor of recruitment of permanent staff and selective secondments, if possible, from insurers (including the private companies) and elsewhere to fill particular skills gaps and/or to help with transfers of expertise and understanding. All this may require some reconsideration of salary scales.

40. Some changes in organizational structure would also be appropriate. As noted, IRDAI's structure is highly functional. In discussions, the insurers mentioned occasional lack of coordination, for example, requests for similar information from different departments. It is recommended that IRDAI consider, in the context of moving to a more risk-based approach, the benefits of, for example, an organization under which supervisory teams would take the lead on preparation of risk assessments and the day-to-day relationship with insurers and intermediaries, drawing on specialist expertise in areas such as finance, investment, and actuarial, as appropriate. Separate enforcement and, potentially, also regulatory policy functions could be maintained. Whatever approach is taken, the objective would be to support comprehensive oversight and effective coordination of supervisory effort.

B. Other Recommendations

41. There are a number of other issues discussed with IRDAI in the preparation of this technical note that should be considered:

- IRDAI should review aspects of its cross-border supervision, including its approach to the Indian insurers with significant foreign operations; while it is appropriate to consider the establishment of supervisory colleges, IRDAI should take into account the limited scale of operations of these companies in most host jurisdictions. Increased bilateral contacts with supervisors may be sufficient. In respect to groups where it is a host supervisor, IRDAI should continue to develop links with the home supervisors of groups with the larger Indian presences, considering whether to seek MoUs on cooperation and information exchange. It has only one MoU at present (with the United Arab Emirates), although two more are in preparation.[35]

- IRDAI and the other members of the FSDC and the IRF should consider the extension of the scope of financial conglomerates regulation to capture all conglomerates (as was planned when the conglomerates arrangements were established) and to apply a conglomerate-wide capital adequacy test, if it is clear this would add value to existing sectoral requirements, for example, because it would address all avenues for double gearing within the group and capture significant risks in unregulated entities in the conglomerate.

[35] An MoU is not a prerequisite to IRDAI exchanging information in practice. As noted, IRDAI is also a signatory to the IAIS MMoU.

- IRDAI should review the requirements of the investment regulations on minimum investment in infrastructure and the housing sector, to ensure that its investment regulations are focused on regulatory objectives and can be enforced for all insurers without risk of their having to lower investment quality standards.

- IRDAI and the government of India should continue with their current reforms of the motor insurance market, including measures that begin to address insurers' unlimited liability and the planned changes to road transport and safety legislation. If possible, IRDAI should seek to accommodate increased risk-based pricing by insurers to relieve pressures on profitability and contribute to market discipline.

- IRDAI and, as necessary, the government of India, should consider further measures to level the playing field for insurers in the limited areas where there is, or may be perceived to be, advantages for public sector insurers:

  - The government could remove the government guarantee of LIC liabilities, as recommended by the FSLRC, and transform it into a Companies Act company like the other public sector insurers.

  - GIC and other India-incorporated reinsurers should no longer have the right to have first call on reinsurance business before it goes to the private market (at least to the private reinsurers now licensed in India as branches).

- IRDAI should continue its efforts to address financial weakness in some of the public sector non-life insurers.

- IRDAI should review its approach to the branches of foreign reinsurance companies to ensure that the application of regulations developed principally for India-incorporated companies are appropriate in all respects for branches, for example the application of solvency standards, which could be fortified with requirements to hold assets in trust, for example, or dropped in favor of reliance on the home regulators (there are examples of such approaches in other countries).[36]

- IRDAI could review its approach to disclosures by insurance companies, taking into account the additional disclosures expected to be required as Ind AS are implemented. Although the issue is not considered in full in this note, it appears that the existing requirements are comprehensive in relation to quantitative disclosures, but less so on qualitative aspects, such as governance and

[36] For example, Canada in respect of the former approach, and Singapore and New Zealand for the latter. Much depends on how the legal framework would deal with insolvency (of branch or parent company) in practice and the approach to conflicts of laws. Detailed consideration of these issues is outside the scope of this note.

risk management framework, as also required under ICP 20. IRDAI should satisfy itself that its required disclosures are appropriate to the needs of policyholders and other stakeholders.[37]

- IRDAI is reasonably waiting on developments with the proposed legislation on resolution of financial entities. However, given that the RC is likely to intervene only as a last resort, IRDAI could take its crisis planning work to the next level by seeking recovery plans from at least the larger insurers. It should keep the need for an insurance policyholder compensation scheme under review, including being alert to potential risks to insurers should policyholders come to be perceived as less well protected than bank depositors, etc.

[37] In due course, more (public and private sector) insurers are expected to be listed, which will also contribute to increased disclosure, although aimed more at the needs of investors.

Annex I. Response to the Recommendations of the 2011 FSAP

IAIS ICP (2003 version)	Rating (2011)	Recommendations to Improve Observance of ICPs	Comments
1. Preconditions	O	There may be a need to consider an appointed actuary system, whereby qualified actuaries from acceptable overseas members of International Actuarial Association can gain local accreditation after a suitable period of experience and with proper references. IRDAI should regularly obtain a listing of approved auditors from ICAI.	No change. The Institute of Actuaries has reciprocal arrangements with the professional bodies in the United Kingdom in particular, but also with professional bodies in Australia and the United States. The recommendation should be kept under review, given the still relatively small size of the actuarial profession, subject to the need to ensure adequate understanding by actuaries of the Indian market and regulatory requirements. IRDAI note, in addition, that its regulations on the appointed actuary do not specifically bar the appointment of overseas actuaries to the position. IRDAI does not see a need to obtain a listing of auditors on a regular basis and it has access to the full ICAI list on demand. It may and does exchange confidential information with the ICAI about the auditors of insurance companies. Its own requirements on auditors are set out in the Corporate Governance Guidelines (in particular Annexure 7) and removal of an auditor has to be approved by IRDAI.
2. Supervisory objectives	O	None	
3. Supervisory authority	PO	The Insurance Amendment Bill needs to be passed and become effective, so as to ensure that IRDAI is clearly independent and has a wider range of direct powers of intervention. Greater transparency over the early departure of senior officers is required.	The Amendment Bill became law in early 2015. • IRDAI now has more powers to make regulations in areas such as solvency, investments, expenses and commissions, including areas where powers to make regulations were formerly reserved to government such as setting maximum commission levels (section 114A of the amended Insurance Act). • The amendment also transferred to IRDAI some powers of intervention previously held by government such as the power to appoint an Administrator to manage a life insurer (Section 52A). • It also introduced a new appeals process (to the Securities Appellate Tribunal), whose jurisdiction covers some issues (seizure of

IAIS ICP (2003 version)	Rating (2011)	Recommendations to Improve Observance of ICPs	Comments
			documents) where appeal was formerly to the government. Reserve powers for the government to issue directions to IRDAI and to replace the authority with a "Controller of Insurance" remain in force (in the IRDAI Act Sections 18 and 19), as they do in relation to some other Indian regulatory agencies. The government still has to sanction the exercise of IRDAI's powers to bring about a scheme of amalgamation between two insurers arranged by IRDAI where one is a problem company, other measures have failed and where a test of public and policyholders' interest is satisfied (Section 37A of the Insurance Act). In relation to transparency over the early departure of senior officers, there have been no changes. The IRDAI Act Sections 5 and 6 have provisions on the appointment and dismissal of members of IRDAI governing body. IRDAI expects that, in line with general practice in India, disclosure of the reasons for any dismissal would be made. No member has been dismissed in practice.
4. Supervisory process	O	None.	
5. Supervisory cooperation and information sharing	LO	The cooperation and information sharing system between the three key domestic financial sector supervisors (the former RBI High Level Committee) should be formalized. IRDAI should formalize mechanisms to advise host supervisors of actions that are relevant to them—e.g., requiring an insurer to close down a poorly performing branch.	A Memorandum of Understanding was signed between RBI, SEBI, IRDAI and PFRDA in 2013 covering cooperation on the supervision of FCs. It sets out a statement of intent to collaborate, co-operate, share information, coordinate onsite examinations, consult on matters of mutual interest and to undertake assessment of systemic risk arising from the activities of FCs. There is active cooperation in practice, including meetings covering each of the 12 FCs. IRDAI cooperates with other regulators bilaterally on issues, including with RBI on practices in bancassurance. There remains a need to formalize arrangements with some host supervisors of Indian insurers' overseas operations, taking into account that those are not yet large in relation to the overall business of the insurer or material to the host country insurance market.

IAIS ICP (2003 version)	Rating (2011)	Recommendations to Improve Observance of ICPs	Comments
6. Licensing	O	The government may wish to specify maximum timeframes for IRDAI to respond to applications including specifying requirements for more information.	There has been no change to the registration provisions of the Act (Section 3) nor any provision in the IRDAI (Registration of Insurers) Regulations (as amended variously up to 2016) to set time limits on IRDAI's consideration of applications. It would be appropriate to consider this recommendation for a future amendment to the Regulations. In many jurisdictions, there is provision in law for the regulator to "stop the clock" in case of a need to require submission by an applicant of additional information to support the application. IRDAI takes the view, however, that the required time varies by type of applicant, etc. and the regulator should be able to determine the appropriate timeframes.
7. Suitability of persons	O	It would be desirable that either a Board Nominating Committee become mandatory or that the compliance officer be required to immediately advise IRDAI of the fit-and-proper details of any new directorial appointment. In addition, it is desirable that the Actuarial Certificate of Practice specify the areas in which an actuary is qualified to practice.	A Nomination and Remuneration Committee is now a mandatory committee under the Corporate Governance Guidelines 2016 (paragraph 7). Its role extends to all appointments of Key Management Persons (KMP) rather than just directors (it has to scrutinize declarations of applicants and ascertain if they are fit and proper before appointment, reappointment, or election). The onus is placed on the committee and the Board to be satisfied that a nominee is fit and proper. Only the CEO/managing director, other "whole-time" directors, and the appointed actuary are subject to prior approval by IRDAI. While IRDAI is concerned not to undermine Board responsibility for assessing suitability, it should consider whether to bring independent and other non-executive directors into the scope of the approval requirements, given the significance of such directors in governance (for example, in chairing the Audit Committee of the Board). IRDAI feels, however, that the role of the Nomination and Remuneration Committee and the framework of fit-and-proper assessments are clear, such that there is no need for it to approve the appointment of non-executive directors. The Actuarial Certificate of Practice does specify the areas (life or general insurance) in which the actuary is qualified to practice. In addition,

IAIS ICP (2003 version)	Rating (2011)	Recommendations to Improve Observance of ICPs	Comments
			IRDAI's appointed actuary regulations also mandate a certain period of post-fellowship experience and experience in the relevant field.
8. Changes in control/portfolio transfers	O	While practice achieves this, the Insurance Act would ideally state that the interests of the policyholders of both insurers involved must be taken into account in assessing a portfolio transfer or merger and that an independent actuarial report should be required to confirm this.	There is no explicit provision to this effect in the amended Insurance Act (Sections 35 to 36). The IRDAI (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013, refer simply to the interests of policyholders (see Section 3, which sets out the basis on which IRDAI will decide whether to give its approval). The Insurance Act does make clear that information and actuarial reports required to be submitted to IRDAI should address the interests of policyholders of both transferor and transferee (Section 35 (3)).
9. Corporate governance	LO	While the Corporate Governance Guidelines are comprehensive, the monitoring process appears to be limited. In particular, the company secretary, who is the relevant compliance officer, is often beholden to the chief executive officer and has numerous other responsibilities, and the external auditor is not required to report on adherence to the guidelines—this additional check should be instituted. It is advisable that related-party transactions be reported on an exceptions basis according to size or nature—ideally as part of the quarterly reporting process. If a related-party transaction (e.g., provision of expert advice by one of the significant shareholders) appears to be egregiously mispriced then IRDAI should seek independent advice on the pricing and, if necessary, take appropriate supervisory action.	The Corporate Governance Guidelines 2016 (paragraph 11) require that insurers designate a Compliance Officer to monitor compliance with the guidelines. The annual reporting by insurers must include a certification from the Compliance Officer, and insurers have to file a detailed report on the status of compliance annually. The external auditor is not required to make such a report. Related-party transactions have to be disclosed by companies in their quarterly disclosures (report L30) and oversight of the reports is carried out in IRDAI offsite supervision. IRDAI has powers to commission review by external expert parties as appropriate and has done so in practice. External auditors are required to review whether related-party transactions are carried out at arm's length. There are provisions in the Guidelines on Outsourcing of Activities by Insurance Companies (section 9.15) on reporting of activities outsourced to a group company or company with a common director.[38]

[38] More detailed regulations on outsourcing have been issued by IRDAI since the FSAP Mission: Insurance Regulatory and Development Authority of India (Outsourcing of Activities by Indian Insurers) Regulations, May 2017

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10. Internal controls	LO	The Corporate Governance Guidelines should explicitly cover the internal audit function, specify that it needs to have a senior officer responsible for its fulfilment and that it have sufficient resources and an unfettered access to required information, that it is sufficiently independent, and that it has direct access to the Audit Committee and to the Board as a whole.	The 2016 Corporate Governance Guidelines, paragraph 6, require that insurers and intermediaries have "an internal audit function capable of reviewing and assessing the adequacy and effectiveness of, and the insurer's adherence to its internal controls as well as reporting on its strategies, policies and procedures." Paragraph 6 also requires that "the independence of the control functions…from business operations [be] demonstrated by a credible reporting arrangement." The Board certification of compliance with the governance guidelines includes a statement that management has put in place an internal audit system commensurate with the size and nature of its business, and that it is operating effectively. It could be clearer that the head of internal audit is subject to fit-and-proper requirements. "Key Management Persons," to whom such requirements apply (as well as directors), are defined in the IRDAI (Registration of Insurers) Regulations broadly to include CFO, Appointed Actuary, Chief Investment Officer, Chief Risk and Compliance Officers and "functional heads one level below the Managing Director /CEO." Internal audit is not mentioned (nor in the guidelines definition). IRDAI note that the internal audit function could be an external agency and that requirements on internal control and internal audit flows from the Companies Act, 2013, as well as being mandated under the Corporate Governance Guidelines. The relationship of the head of internal audit to the Board/Audit Committee should be elaborated. In practice, insurance companies have internal functions reporting to the Board.
11. Market analysis	O	None.	
12. Reporting to supervisors	LO	It is desirable that the monthly reports include more short-term risk data in addition to sales and branch/geographical development data.	Monthly reporting requirements have not been extended. IRDAI relies on quarterly and annual reports for risk-related information, although it would also react to information in the monthly numbers indicating a significant change in risk. (IRDAI collects more monthly information from insurers than most regulators).

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13. Onsite inspection	LO	It is recommended that a staff member with IT system skills be added to a full-scope inspection team. It would be helpful to the managements and Boards of insurers to arrange feedback meetings after inspections are completed.	Staff with IT knowledge are included in all full scope inspections—they are not career IT experts, rather supervisors with understanding and experience of IT issues. IRDAI can engage greater IT expertise externally, if necessary. Onsite inspections are now generally concluded with an exit meeting with senior management, at which the main findings are presented and discussed. Comments are then invited from management on the draft inspection report, which is prepared and sent to the company after the onsite work.
14. Preventive and corrective measures	LO	IRDAI does not have a modern risk-based early warning system in place and the ratios that are measured appear to be largely generic rather than based on emerging experience. The supervisor is currently examining the Northern European traffic light system. It is of concern that IRDAI does not have a direct role when insurers engage in capital management such as buy-backs. This should be rectified in any Amendment Bill finally agreed.	IRDAI has (i) significantly increased the information reported to it—for example, with the reports on asset/liability mismatches; and (ii) installed a capacity to analyze financial information and identify trends, outliers and areas of potential non-compliance for action by the supervision functions. The "Northern European traffic light system" has not been adopted by IRDAI, although the solvency control level framework adopts a Red, Amber, Green approach (Green above 150 percent, etc.) An automated system of electronic reporting, validation and generation of alerts has better equipped IRDAI to respond swiftly to significant changes in the business profile, balance sheet, etc. (the Business Analytics Project (BAP) Model). IRDAI does not have explicit powers to approve share buybacks, etc., but relies on its requirements that insurers meet solvency standards as a basis for intervention where a share buy-back would result in non-compliance and on the requirements applying to shareholders where the buy-back would result in a change in ownership. Buy-backs are subject to Companies Act provisions. IRDAI takes the view that any change in the capital structure of an insurance company would also require prior written approval under section 6A of the Insurance Act, 1938, including buyback.
15. Enforcement or sanctions	PO	• The enforcement regime needs to be formalized through a regulatory 'Supervisory Guide' or 'Ladder of Intervention'.	• This has been implemented in relation to solvency margin requirements where insurers must meet 150 percent of the requirements calculated under the regulations (effectively the PCR in terms of

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		• Additional intermediate enforcement powers could include ability to impose selective time and volume limitations; to require deposits if assets security is a concern; and to impose an expiry date for a license. • Financial sanctions need to be updated to reflect the impact of inflation since the fines were first established.	ICP 17); and must never go below 50 percent of the minimum initial capital (the MCR). There are extensive further intervention powers in the Act. • IRDAI's powers of direction (Section 34 of the Insurance Act) are broad, covering anything that IRDAI considers necessary to protect the interests of policyholders or which is in the public interest. These powers equip IRDAI to take the measures listed here. • Financial sanctions have been significantly increased through the amendment to the Insurance Law (Sections 102 to 105B)—for example, Rs 1 lakh (Rs 100,000) fine per day for non-compliance with a direction, subject to Rs one crore (Rs 10 million) maximum.
16. Winding up or exit from the market	O	The authorities may wish to consider allowing the voluntary wind-up of solvent non-life insurers, subject to satisfactory safeguards. In some circumstances, claims run-off can be the most efficient method of exit. In addition, it is desirable that the provisions relating to the appointment of an administrator for non-life insurers be brought into line with those applying to life insurers.	The Insurance Act continues to provide (Section 54) that an insurance company shall not be wound up voluntarily, except for the purpose of effecting an amalgamation or a reconstruction of the company, or on the ground that, by reason of its liabilities, it cannot continue its business. This would preclude solvent run-off. IRDAI should consider providing for voluntary wind-up in future. The provisions on appointment of an administrator by IRDAI (formerly by the government) (Section 52A) continue to apply only to life insurance. IRDAI should consider extending the power to cover non-life insurance in future. IRDAI takes the view, however, that given that the liabilities of non-life insurance companies are short-term, there may not be a need to appoint an administrator.
17. Group-wide supervision	LO	The information flows, processes, and early warning mechanisms involved in FC group supervision need to be formalized, possibly through an MOU among the four supervisors. Individual supervisors should have more power to consider group structures and exposures	A Memorandum of Understanding was signed between RBI, SEBI, IRDAI and PFRDA in 2013 covering cooperation on the supervision of FCs (see ICP 5 above). The processes for sharing information continue to develop. Insurance companies have, however, been brought into the scope of the Central Repository of Information on Large Credits (CRILC), the shared credit information system managed by the RBI.

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		and related-party transactions in determining its interventions. An ad hoc committee of an insurer's directors should, by law, consider each related-party transaction.	No additional powers were included in the Amendment Act or otherwise extended to IRDAI. Oversight of related-party transactions and other conflicts of interests is clearly assigned to the Board of Directors by the Corporate Governance Guidelines (paragraph 3A). IRDAI notes that the definition of 'related party' is being tightened through the 'Corporate Governance Framework' and Regulations on Preparation of Financial Statements of Insurance Companies. The Investment Regulations prevent an insurer from having investments of more than 5 percent in aggregate of its investments in all companies belonging to the promoters' groups, and investment made in all companies belonging to the promoters' group shall not be made by way of private placement or in unlisted instruments.
18. Risk assessment and management	O	Further work needs to be done on the monitoring of operational (including general systems) risk—see Internal Control (ICP 10).	The economic capital submission which has to be made by insurers to IRDAI on an annual basis must cover (and must quantify) insurance, market, credit and operational risks. This reporting is for information only and full oversight of operational risks will be developed as IRDAI moves towards risk-based capital and more risk-based supervision. IRDAI notes that, in addition, it collects information on operational risk from life and non-life companies in the Appointed Actuary's Annual Report (AAAR) and, since 2012, in a standard quarterly reporting format and also annually.
19. Insurance activity	O	None.	
20. Liabilities	Life O Non-life PO	Life: The need for life-appointed actuaries to determine valuation discount rates through informal agreement is undesirable. In addition, expense over-runs should be provided for, if they appear to be chronic once the establishment period is finished. Non-life: IRDAI should provide guidance as to where long tail provisions should be set on the	Life: IRDAI's 2016 regulations on valuation and solvency (Assets, Liabilities and Solvency Margin of Life Insurance Business Regulations) now: • set out the requirements on valuation interest rates, although there remains some discretion for the actuary over the choice. This is a key focus of IRDAI supervision (identification of outliers, changes in choice of valuation rate, etc.); and

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		distribution of possible results. Ideally the non-life actuary should provide a range of possible values to management and Board and show where, say the 75th percentile value lies. In addition, non-life appointed actuaries should be certified on the basis of training and experience in this very specialized area.	• prescribe that policy maintenance expenses shall have regard to the actual expense experience of the insurer, that all expenses shall be increased in future years for inflation (the rate of inflation assumed should be consistent with the valuation rate of interest), and that appropriate additional provisions shall be made if the actual experience has not been considered for the valuation. Non-life: Requirements on valuation have been elaborated in the regulations issued in 2016 under the amended Insurance Act (Assets, Liabilities and Solvency Margin of General Insurance Business Regulations) and in guidance issued by the Institute of Actuaries. Further work will be done in this area in the context of the development of risk-based capital adequacy requirements (see main note).
21. Investments	LO	In a high interest rate environment, the investment valuation basis is potentially inconsistent with the Insurance Act, which states that no asset may be held above its market value. The required skills and experience of investment officers should be specified, if only in broad terms and subject to oversight by the Board.	The IRDAI's 2016 regulations on valuation and solvency (Assets, Liabilities and Solvency Margin of Life Insurance Business Regulations, and Assets, Liabilities and Solvency Margin of General Insurance Business Regulations) state that assets may not be held at above market value, reflecting the Insurance Act provision. The regulations specify fully the basis for setting the valuation rate of interest, including prudent assessment of the yields from existing assets, and the yields which the insurer is expected to obtain from the sums to be invested in the future; expected cash flows from the investments on hand; the cash flows from the block of policies to be valued; the likely future investment conditions and the reinvestment and disinvestment strategy to be employed in dealing with future net cash flows; the risks associated with investment in regard to receipt of income on such investment or repayment of principal; and also the expenses associated with the investment functions. KMPs for the purposes of fit-and-proper requirements include the Chief Investment Officer, but no specific skills and experience are mandated. Oversight of the investment function by the Board is, however, mandated in the 2016 Corporate Governance Guidelines.

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22. Derivatives and similar commitments	O	If IFRS is fully implemented in India for insurers, the value of debt holdings will fluctuate and derivatives may become more attractive instruments in order to stabilize results. At this point IRDAI would need to strengthen its governance oversight and perhaps require monthly reporting of exposures.	Indian Accounting Standards, based on IFRS, are being implemented from April 1, 2018. IRDAI has no plans specifically to focus more on monitoring of derivatives, but collects information and would identify developments via its offsite monitoring. (See Master Circular issued August 2016, which sets out the types of derivatives permitted and the purposes for which they may be used).
23. Capital adequacy and solvency	LO	IRDAI's non-intervention 150 percent solvency ratio requirement had not been translated into a mandatory corrective action process. There was also a need for insurers to examine their asset-liability matching, and for the economic capital calculation to be formalized, possibly as an adjunct to the corrective action regime that is being examined.	The 150 percent minimum has been established in regulations made by IRDAI using new powers in (new) Section 64VA of the (amended) Insurance Act 1938. Companies falling below the 150 percent are required to submit a plan for restoring solvency within six months (which may be extended to one year). Other matters are under consideration as part of the work IRDAI is undertaking, with industry and actuarial profession involvement, on the development of risk-based capital, which will influence the future of the economic capital framework (which remains in 2011 Guidelines). IRDAI now covers ALM requirements in the 2016 Corporate Governance Guidelines (including functions of an ALM Committee, although it is not one of the mandated committees) and ALM Guidelines (2012) and collects information from life and non-life companies in the Appointed Actuary's Annual Report (AAAR) and, since 2012, in standard quarterly and annual reporting formats.
24. Intermediaries	O	As insurance brokers become more important, the relevant statutory reporting should be upgraded - an annual or six-monthly report showing, e.g., premiums collected, etc. and the amounts held in policyholder trust funds.	The regulation of intermediaries has been overhauled, including a move to indirect regulation of individual agents, enabling IRDAI to focus more on corporate agents and brokers as well as new and emerging channels. Only reinsurance brokers may hold customers' premiums or money resulting from the settlement of claims (and even in their case, there are time limits on how long they may do so). There are reporting requirements on brokers in relation to business volumes by line of business.
25. Consumer protection	O	The 12 Ombudsmen do not communicate and there may be some grounds for establishing a	The (now 17) ombudsmen are subject to coordination by the Governing Body of Insurance Council and now communicate and exchange information, via meetings and

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		mechanism to share experiences and observations.	electronically, while remaining autonomous in their own jurisdictions. More generally, the ombudsman system has been reformed and a legislative framework (Insurance Ombudsman Rules, 2017) issued by the Ministry of Finance. The new framework empowers IRDAI to review the activities of ombudsmen through their annual reports. The Rules provide for an Advisory Committee constituted by IRDAI to review the performance of the ombudsmen and for IRDAI to make proposals for improvements in the functioning of the system.
26. Information, disclosure and transparency towards markets	O	None.	
27. Fraud	PO	There had been little in the way of an industry wide response and relevant IRDAI guidance is still to be developed and promulgated. Continue the development of fraud control systems.	Guidelines were issued in 2013 (Insurance Fraud Monitoring Framework) requiring insurers to have, for example, Board-approved fraud policies and appropriate systems and controls to detect and manage fraud. They are also required to share and exchange information as appropriate. Compliance is being assessed in offsite analysis and as part of onsite inspections.
28. Anti-money-laundering, combating the financing of terrorism	LO	It is advisable that the growing role of brokers be addressed through a new directive. Financial sanctions also need to be strengthened for legal person intermediaries, but the existing name-and-shame option is likely to be effective in the interim.	The Insurance Brokers Regulations 2013 remind brokers of their obligations to comply with applicable anti-money-laundering requirements. Financial sanctions have also been strengthened (see under ICP 11 above).