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INSURANCE

IRDAI fires on all cylinders to push insurance

ON RIGHT TRACK. India will catch up with developed nations if the regulator continues with its push for reforms in the sector

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Brace yourself for more tectonic policy shifts and exponential growth in the insurance sector in the next 24 months as the new IRDAI chief Debasish Panda is a regulator in a hurry. Panda is looking to usher in more reforms, remove barriers to entry, and is steadfastly easing compliance burden to catapult the industry to even greater heights.

Don't be surprised if the insurance industry scales up to $500 billion Gross Written Premium (GWP) by 2027, notching a 34 per cent CAGR from current $115 billion, if the current reform tempo is maintained.

This is how a leading insurance industry honcho put it when quizzed about the business climate over the last six months since Panda assumed charge at the helm of the insurance regulatory body, IRDAI.

The slew of initiatives and interventions already rolled out over the last six months — centred around three key pillars of ease of doing business; distribution efficiency; and industry economics and benefits — have made captains of the insurance industry sit up and take notice of the regulator's speed of action.

SETTING THE AGENDA. Most of IRDAI's initiatives are focussed on deepening insurance penetration, which currently is at 4.2% (premium to GDP). The regulator is eyeing an insurance penetration of 8-10% by 2027

AN AGE-OLD PROBLEM

Most of IRDAI's initiatives are now focussed on deepening insurance penetration, which currently is at 4.2 per cent (premium to GDP). IRDAI is eyeing insurance penetration of 8-10 per cent by 2027.

Some thinking outside the box is certainly happening and initiatives such as 'use and file' regulation; product innovation through add-ons in motor insurance; proposal on dematerialisation of insurance policies; embracing more open architecture (proposal to allow corporate agents to have 9 tie-ups in each category from current three); and rationalising the returns to be filed by insurers are expected to have a far-reaching impact on the future of the industry.

"Steps like introducing use and file is a pivotal step and will usher in an age of product innovation in the industry. We will see a rise in unique insurance products that address the specific needs of the customers," said Tapan Singhel, Managing Director & CEO, Bajaj Allianz General Insurance Co Ltd.

"The regulator is working relentlessly to improve the ease of doing business in the sector and has taken concrete steps like rationalisation of insurance returns. This will further enable insurers to direct more efforts toward insurance development and penetration."

Singhel said the regulator is also encouraging more players to enter the market, and is taking steps to boost collaboration with new-age companies, insure-techs and other stakeholders. "I also see a rise of value-added services, complementing insurance products to provide customers more holistic solutions," Singhel noted.

There is also the much-talked-about initiative of setting sales targets (now seen as a nudge from the new regulator and not a regulation as yet) that have come in for some debate in industry and media circles.

Prashant Tripathy, Managing Director & CEO, Max Life Insurance, said: "Chairman Panda is doing a lot and bringing lot of initiatives. It is not only coming through words, but are being backed by action. I don't think introducing sales targets is inappropriate.. Introducing sales targets is a step in right direction, and shows the regulator is keen to drive growth, penetration.

"We are privileged that in our case the regulator is talking about growth. In many industries you will see regulators talking about governance and control."

The regulator's ongoing push for growth is good and removing the obstacles for growth is even better, according to Tripathy. If there is one big reform that could completely transform the insurance industry, it could be a decision to overhaul the norms around minimum capital requirements for insurers. The time has come to shun the one-size-fits-all requirement of having a minimum capital of ₹100 crore to undertake insurance business.

Policymakers have to think in terms of flexible capital requirements, depending on the type of licence applied for. This would reduce entry barriers into insurance sector, get more niche insurers into the fray, and help improve penetration through enhanced participation from Tier 2 and 3 towns.

"The regulator has to look to encourage nimble foxes rather than giant elephants in the insurance industry, if it were to reach the hinterland for improving penetration. The biggies are anyway not going to sweat it out in Tier 2 towns and beyond, and will only continue to look for business in top metro cities," said an insurance industry insider.

Lowering the minimum capital requirement to, say, ₹10 crore for certain categories, has some advantages, especially when the thrust is to innovate and go digital in a big way. Insurtechs can help deepen penetration with some regulatory push.

Having a flexible capital requirement could spawn regional players — for instance, think of a micro insurance provider who wants to focus only on Tamil Nadu. Why should he be subjected to ₹100 crore minimum capital requirement, and this could be an entry barrier.

Of course, if there is a buy-in of this flexible capital requirement, then the Insurance Act needs amendment as in 1999 the minimum capital requirement of ₹100 crore was introduced in the Statute itself. The best way for the government to solve this is to amend the law to empower IRDAI to decide on the capital requirement, depending on the category of insurance provider.

If the buzz in industry circles is anything to go by, this amendment may come about in the upcoming Winter Session of Parliament itself. If the Winter Session is missed, then don't be surprised if this comes as an announcement in the Finance Minister's next Budget speech. For now, the IRDAI chief is all guns blazing with several regulatory interventions to take insurance to higher growth trajectory.

FDI IN INSURANCE

In May 2021, FDI limit in insurance was increased to 74 per cent from 49 per cent. The sector grew at an impressive rate of 17 per cent in the last two decades, but is still far from optimal. In the last two decades, the number of players grew from 7 to 70, but more players must be allowed to improve outcomes.

Panda's sight is clearly fixated on improving India's number on insurance penetration. India is bound to catch up with developed nations on insurance contribution to GDP if Panda continues with his energetic push for reforms in the sector.