Policy Alert

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Advent of the Insurance Regulatory Sandbox Regime

In this Issue

Closely following the initiatives of the RBI and SEBI for setting up a regulatory sandbox in the financial services sector, the Insurance Regulatory and Development Authority of India ("**IRDAI**") has come out with the IRDAI (Regulatory Sandbox) Regulations, 2019 (notified on July 30, 2019) and the Guidelines on Operational Issues pertaining to the Regulatory Sandbox ("**Guidelines**") (notified on August 22, 2019) to create a regulatory environment to test innovations, new products and ideas in the insurance space.

A sandbox is a workspace where companies can ideate, experiment and test innovative financial products in a live, but controlled environment with certain regulatory relaxations, for a specific time period. There will also be in-built safeguards to ensure that failure of process is limited and does not affect the stability of the overall system.

Salient Features

Core Areas: Applications to the IRDAI for launching innovative products, applications and business models should pertain to one or more of the following core areas:

- insurance solicitation or distribution;
- insurance products;
- underwriting;
- policy servicing; and
- claims servicing.

Eligible Applicants: The application can be made by one or more: (a) insurers; (b) insurance intermediaries; (c) entities with a minimum net worth of INR 10,00,000 (during the previous financial year); or (d) any other persons recognized by the IRDAI. If the innovation pertains to underwriting or an insurance product, then, the application must be made in association with an insurer. The IRDAI Chairperson may grant permission for the proposal if it: (a) promotes innovation beneficial to insurance in India; (b) is in the interest of the policyholders; (c) is conducive for the orderly growth of the industry; (d) would promote increase in insurance penetration in the country; or (e) meets any other requirements specified by the IRDAI.

Cohort Approach: The IRDAI has invited applications only between September 15, 2019 and October 14, 2019.

Validity of Approval: The permission granted by the IRDAI to each applicant will be valid for 6 months, which may be extended by the IRDAI Chairperson (for up to an additional 6 months maximum).

Review of Proposal and SPOC: The IRDAI shall review the progress of the proposal at regular intervals, through its single point of contact ("**SPOC**") and provide guidance. Likewise, an applicant is also required to nominate an experienced and responsible person to be its SPOC for interacting with the IRDAI's SPOC.

Power to Exempt: The IRDAI may relax one or more regulatory provisions prescribed by it for a maximum of one year, specifically for the applicant. There will be no relaxation in respect of compliance with the Insurance Act, 1938 or the Insurance Regulatory and Development Authority Act, 1999 or other applicable statutory provisions.

Conditions governing the IRDAI Approval: All applicants must ensure integrity of its systems and confidentiality of policyholder data, at all times. Proper implementation of adequate internal mechanisms for reviewing, monitoring and evaluating the controls, systems, procedures and safeguards is also a pre-requisite.

Accounting of expenses on the proposal for innovation: The IRDAI has clarified that any expenses incurred on the proposal shall be maintained separately and shown as a line item in the annual report. In case of insurers, such expenses will be charged to the shareholder's accounts or its equivalent.

Boundary Conditions The proposal will come to an end if any of the following is achieved, within the stipulated time: (a) the number of customers reach 10,000; (b) a premium of INR 50 lacs is collected; or (c) any other parameter(s) decided by the IRDAI. Within 15 days of such completion, the applicant is required to submit a report to the IRDAI on how the proposal met its objectives and plan of action for bringing the proposal under the regulatory framework. After examining such report, the IRDAI may permit adoption of the proposal under regular regulatory supervision for ensuring due compliance of all insurance laws, regulations, guidelines, circulars etc.

Customer Consent & Grievance Redressal Mechanism: The applicant must (a) obtain prior written consent of customers for participation in the proposal; (b) ensure that customers are informed that they are participating in a proposal whose outcomes are not certain; and (c) ensure that a grievance redressal mechanism for policyholders is established, as prescribed by the IRDAI.

Global Practices

Globally, the 'regulatory sandbox regime' has been well-recognised as a process to promote innovations in the financial services sector. In the insurance sector, it has resulted in products innovations such as the world's first automated insurance solution based on block chain technology which offers pregnant women financial protection in case of gestational diabetes, without ever needing to make a claim. The insurer securely connects to the customer's electronic medical records through their mobile device to issue a policy within minutes. It also triggers an automatic payout upon diagnosis, without the need to make a claim. Similarly, a UK based company has launched an insurance product with an automated claims process that allows travellers to instantly book a new ticket on their mobile device in the event of a flight cancellation. Another innovative insurance product launched in the UK provides an event-based flood insurance, including in high-risk areas. Customers receive a pre-agreed settlement as soon as the company's sensor detects that flood waters have exceeded a certain depth.

Way Forward

Under the Guidelines, the IRDAI has indicated that the proposal must either facilitate an increase in insurance penetration or enhancement in services to policyholders. Mere requests for regulatory relaxations will not be entertained by the IRDAI under the sandbox regime. Accordingly, applicants should consider and design their proposal in detail such that it meets the eligibility criteria based on which the IRDAI will grant its approval.

Further, applicants should comprehensively review the regulatory regime to identify regulatory provisions which will impact the proposal and require relaxation. Given that a plan of action for long term implementation is also to be formulated upon conclusion of the proposal, it will bode well for potential applicants to be clear in their objectives, with sufficient understanding of what may or may not work with the regulator and the legal framework. A step further in achieving success of an innovative proposal, would be to anticipate (as well as provide inputs on) how the regulatory framework should evolve to regulate the innovation, in the best possible way.

As the regulatory sandbox regime does not provide relief from statutory provisions (such as requirement to register as an insurance intermediary for carrying on insurance solicitation), distribution channel innovations should factor in the limitations. Similarly, there has been a lot of interest in process innovation in claim settlement, as well as in flexible underwriting models based on telematics in motor and health insurance. Technology based innovation can also be considered for reducing complexity in crop insurance claim assessments, that may significantly improve implementation of insurance schemes promoted by the central and state governments. There have also been efforts by tech companies to conceptualize products around alternative non-cash modes of claim settlement, as well as faster premium payment and refund processes. The regulatory sandbox regime appears to be a promising opportunity for industry players and the regulator to explore new beginnings, in the interest of policyholders and development of the insurance market.

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