GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

To: V. Jayanth Kumar,
General Manager (Life)
Insurance Regulatory Authority of India (IRDAI)

Date: 22 March 2017

Subject: Additional comments on the proposed regulations on outsourcing of activities by Indian insurers

Dear Mr. Kumar,

Following up on our letter from 7 February to IRDAI responding to their public inquiry seeking comments on the draft "Outsourcing of Activities by Indian Insurers" (attached), we would like to provide additional comments on certain provisions of the draft.

Specifically, GFIA would recommend that the following aspects be addressed to ensure that the regulation does not inadvertently create cost and compliance burdens for insurers operating in India:

- Regulation 8 (Outsourcing Service Providers) **omits individual and proprietorships from the permitted list of outsourcing service providers.** Individual and proprietorships provide a cost-effective vendor base for insurers, and are an important source of entrepreneurship in India. The regulation should not prohibit their use, without understanding the potential impact on both, directly on Indian technology innovators and other auxiliary service providers.

- Regulation 14(a) (Related Parties) creates a significant compliance burden, in that it **discourages transactions between an insurer and related parties of the insurer**. This further represents a logical inconsistency with Regulation 13 ii, the rest of Regulation 14 itself and Annexure-III, Form A I, which all clearly contemplate outsourcing to affiliates. There are sufficient safeguards in the other parts of the draft (e.g. oversight by the Outsourcing Committee and the Board, due diligence, reporting to the Authority, etc.) which would make Regulation 14(a) redundant. This provision would further create the anomalous situation where multinational companies could have a service company in India to support their business activities around the world but not their business activities in India, and would deprive multinationals of economies of scale in India.

- Regulation 14(a) also **discourages outsourcing by an insurer to affiliates of its insurance intermediaries**. This creates a significant monitoring burden in addition to the compliance burden. A given insurer may have 3000 insurance intermediaries, each with 11 direct related parties, and likely numerous other related parties (who are covered by Article 14 as listed family members). As drafted, it appears that an insurer would generally need to be able to ensure that no outsourcing occurs in that pool, or if it does occur, it is compliant with the requirements in Regulation 14. GFIA therefore recommends that the draft regulations be amended to reduce the scope of the pool, or to clarify application between insurers and insurance intermediaries.

- **The revised draft should include a value threshold** to ensure that low value activities, such as housekeeping, are excluded from application of the regulations.

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Additionally, we would like to stress how these regulations - if finalised - would have unintended implications on the continued development and growth of the Indian information technology industry and other services auxiliary to insurance such as diagnostic processing, claims management, customer service, and cloud services. We would point out that in addition to the moderate number of global insurers with investments in India, many other insurers' headquartered outside of India utilise vendors which either are Indian-headquartered or who have substantive Indian operations.

The regulations as currently drafted are applicable to all outsourcing arrangements – irrespective of whether they are arranged within a group or if they are arranged with an external third party service provider. This does not consider the distinct structure of branch offices of foreign reinsurers compared to Indian insurers. It is common practice that branch operations will be subject to oversight and controls from their head office, and will also place some degree of reliance on their head office to fulfil specific functions.

India is an important market for numerous reasons for the global (re)insurance industry not only because of its growth potential for sale of risk protection products, but as a source of talented and entrepreneurial service providers and as a destination for investment in innovative companies. After the cost of employees, technology and auxiliary services are the greatest cost of operations for most insurers.

We would thus urge the authorities to consider this proposal in a more holistic context and potentially revert to less proscriptive means of addressing prudential objectives IRDAI seeks to achieve. Additionally, while we understand that this is an IRDAI originated proposal we would respectfully urge a broader consultation amongst Indian policy makers who may have relevant secondary responsibilities which this proposal may impact.

Through its 41 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 60 countries. These companies account for around 87% of total insurance premiums worldwide, and 4.7 trillion dollars in annual premium income.

We would welcome a correspondence with the IRDAI and other Indian policy makers on this subject.

Sincerely yours,

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About GFIA

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