

## EXPOSURE DRAFT ON

### **INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA (OBLIGATIONS OF INSURERS TO RURAL AND SOCIAL SECTORS) REGULATIONS, 2015**

#### Prologue

1. Pursuance to the amendments carried out to Section 32 B of Insurance Act, 1938 vide THE INSURANCE LAWS (AMENDMENT) ACT, 2015 substituting the words 'rural and social sectors' in place of the words 'Rural or Social Sectors', the existing IRDA (Obligations of Insurers to Rural or Social Sectors) Regulations, 2002 are proposed to be modified.
2. Since the notification of the Rural or Social Sector Obligations in the year 2002, these Regulations were modified three times during 2004, 2005 and 2008.
3. Therefore, it is proposed to notify the new IRDAI (Obligations of Insurers to Rural and Social Sectors) Regulations, 2015 in supersession of the existing Regulations for the following reasons:
  - (i) To give effect appropriately to the amendments made to Section 32 B of the Insurance Act.
  - (ii) To consolidate and present all the obligations of Rural and Social Sector stipulated in different Regulations (as modified from time to time) at one place.
  - (iii) To remove the then obligations prescribed (for the Financial Years 2007-08 to 2009-10) for existing insurers as stipulated in the existing Regulation 4A of the said Regulations.
  - (iv) To include the provision enabling the Chairperson of the Authority to issue clarifications/guidelines, wherever necessary.
  - (v) Uniform criteria of percentages to all Insurers whether private or public companies with the only criteria of Age of the Insurer. Prescribing percentages of business (lives) instead of absolute number of lives for social sector obligations.
  - (vi) To clarify that business pertaining to Government subsidized social security schemes will not be considered for the obligations.
  - (vii) Further, it is essential that every insurer shall put in place effective operational procedures to correctly classify the business amongst rural and social sector. Hence, towards this purpose it is proposed to mandate that every Insurer shall put in place effective operational procedures for accurate classification of the business obligations into the Rural and Social as per these Regulations.
  - (viii) It is also prescribed that every Insurer shall furnish the annual certificate duly certified by the Chief Executive Officer or the Principal Officer within ninety days from the end of the Financial Year submitting the actual

business details of the obligations fulfilled towards these Regulations. As the obligations to be fulfilled are statutory in nature, it is desired to have the certified information formally furnished to the Authority.

- (ix) As the Insurance Act has now defined health insurance as a separate class of insurance business, it is now proposed to stipulate rural and social sector obligations specifically to the health insurers. As general insurance companies will have a wide range of retail product portfolio (like motor, house hold, shop keepers etc.) and the health insurers have a limited range of products (health and personal accident), it is proposed to stipulate the obligations towards rural sector to be fulfilled by the health insurers as 50% of the obligations prescribed for the general insurers. While the obligations towards social sector shall remain the same to life insurers, general insurers and health insurers.
- (x) The existing provisions of Regulation (6) are proposed to be amended (made as Regulation 5 of the draft) to make Micro Insurance Policies issued eligible to be reckoned for social sector obligations. And it is further proposed that where the MI Policies are issued in rural area they can be reckoned for both rural and social sector separately.

**Feedback/comments on the proposed draft regulations enclosed herewith are requested to be forwarded to the following mail ids not later than 1<sup>st</sup> June 2015.**

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**DRAFT REGULATIONS:**

*In exercise of the powers conferred by section 32C, read with section 32B of The Insurance Act, 1938as amended from time to timeand subsection (1) of Section 26 of the Insurance Regulatory and Development Authority Act, 1999, the Insurance Regulatory and Development Authority of India, in consultation with the Insurance Advisory Committee, hereby makes the following Regulations to substitute the Insurance Regulatory and Development Authority (Obligations of Insurers to Rural and Social Sectors) Regulations, 2002, namely:*

- 1. Short title and commencement**
  - 1.1 These Regulations may be called the Insurance Regulatory and Development Authority of India (Obligations of Insurers to Rural and Social Sectors) Regulations, 2015.
  - 1.2 They shall come into force from the date of their publication in the Official Gazette and shall supersede the existing regulations.



## 2. Definitions

In these regulations, unless the context otherwise requires—

- 2.1 “Act” means the Insurance Act, 1938 (4 of 1938) as amended from time to time;
- 2.2 “Authority” means the Insurance Regulatory and Development Authority of India established under the provisions of Section 3 of the Insurance Regulatory and Development Authority Act, 1999 as amended from time to time.
- 2.3 “Rural Sector” means the places or areas classified as “rural” while conducting the latest available decennial population census (Census of India);
- 2.4 “Social Sector” includes unorganised sector, informal sector, economically vulnerable or backward classes and other categories of persons, both in rural and urban areas;
- 2.5 “Unorganised Sector” includes self-employed workers such as agricultural labourers, bidi workers, brick kiln workers, carpenters, cobblers, construction workers, fishermen, hamals, handicraft artisans, handloom and khadi workers, lady tailors, leather and tannery workers, papad makers, power loom workers, physically handicapped self-employed persons, primary milk producers, rickshaw pullers, safaikaramcharis, salt growers, sericulture workers, sugarcane cutters, tendu leaf collectors, toddy tappers, vegetable vendors, washerwomen, working women in hills, or such other categories of persons;
- 2.6 “Economically Vulnerable or Backward Classes” means persons who live below the poverty line;
- 2.7 “Other Categories of Persons” includes persons with disability as defined in the Persons with Disabilities (Equal Opportunities, Protection of Rights, and Full Participation) Act, 1995 and who may not be gainfully employed; and also includes guardians who need insurance to protect spastic persons or persons with disability;
- 2.8 “Informal Sector” includes small scale, self-employed workers typically at a low level of organisation and technology, with the primary objective of generating employment and income, with heterogeneous activities like retail trade, transport, repair and maintenance, construction, personal and domestic services and manufacturing, with the work mostly labour intensive, having often unwritten and informal employer-employee relationship;
- 2.9 All words and expressions used herein and not defined herein but defined in the Insurance Act, 1938 (4 of 1938) as amended from time to time, or in the Insurance Regulatory and Development Authority Act, 1999 as amended from time to time or in the Insurance Rules, 1939 or any other Regulations issued by IRDA shall have the meanings respectively assigned to them in those Acts or Rules or Regulations.

### 3. Obligations

- 3.1 Every insurer, who begins to carry on insurance business after the commencement of the Insurance Regulatory and Development Authority Act, 1999, for the purposes of sections 32B and 32C of the Insurance Act, 1938 as amended from time to time, shall ensure that it undertakes the following obligations, during the financial years indicated herein, pertaining to the persons in—

#### (A) Rural Sector

##### (a) In respect of a Life Insurer:

- i. *Seven per cent* in the first financial year;
- ii. *Nine per cent* in the second financial year;
- iii. *Twelve per cent* in the third financial year;
- iv. *Fourteen per cent* in the fourth financial year;
- v. *Sixteen per cent* in the fifth year;
- vi. *Eighteen per cent* in the sixth and seventh financial years;
- vii. *Nineteen per cent* in the eighth and ninth financial years;
- viii. *Twenty per cent* in the tenth financial year to fifteenth financial year;
- ix. *Twenty five per cent* from sixteenth financial year onwards,

***of the total policies written direct in that year;***

##### (b) In respect of a General Insurer:

- i. *Two per cent* in the first financial year;
- ii. *Three per cent* in the second financial year;
- iii. *Five per cent* in the third to seventh financial years;
- iv. *Six per cent* in the eighth financial year;
- v. *Seven per cent* in the ninth financial year and thereafter;

***of total gross premium income written direct in that year;***

##### (c) In respect of Standalone Health Insurers

- (i) 50% of the obligations prescribed for General Insurers

#### (B) Social Sector

##### In respect of all Insurers (Life, Non-Life, Standalone Health):

Age of the Life Insurers	proposed % of Social Sector lives on the total business procured in the preceding financial year
1	0.5%
2	1%
3	1.5%



4	2%
5	2.5%
6	3%
7	3.5%
8	4%
9	4.5%
10 and above	5%

**(Note: Total business for the purpose of these regulations is the total policies issued in case of individual insurance and number of lives covered in case of Group Insurance)**

**Provided** that in cases where an insurance company commences operations in the second half of the financial year and is in operations for less than six months as at 31st March of the relevant financial year, (i) no rural and social sector Obligations shall be applicable for the said period, and (ii) the annual obligations as indicated in the Regulations shall be reckoned from the next financial year which shall be considered as the first year of operations for the purpose of compliance. In cases where an Insurance Company commences operations in the first half of the financial year, the applicable obligations for the first year shall be 2500.

**Provided further** that in case of a General Insurer, the obligations specified shall include insurance for crops.

#### **4. Notes applicable to Regulations 3**

- 4.1 The term 'lives' referred to in Regulations 3 in respect of all Insurers refers to human lives insured as at the end of each financial year.
- 4.2 Re-insurance premium shall not be included while calculating the obligations of the insurers in respect of the Rural and Social Sectors.
- 4.3 Business pertaining to Government subsidized social security schemes will not be considered for the social sector obligations.
- 4.4 The Authority may prescribe or revise the obligations specified in these Regulations from time to time.

#### **5. Compliance**

- 5.1 Micro insurance policies issued are eligible to be reckoned for the social sector obligations.
  - 5.1.1 Where a micro insurance policy is issued in a rural area, such micro insurance policies may be reckoned for both rural and social sector obligations separately.
- 5.2 Every Insurer shall put in place effective operational procedures for accurate classification of the business obligations into the Rural and Social as per these Regulations.

- 5.3 Every Insurer shall furnish the annual certificate by the Chief Executive Officer or the Principal Officer within ninety days from the end of the Financial Year submitting the actual business details of the obligations fulfilled towards these Regulations.

**6. Submission of Returns**

- 6.1 Every insurer shall submit a return, as part of the financial returns to be submitted under the Insurance Regulatory and Development Authority(Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations, 2002 as modified from time to time, the Rural and Social Sector obligations specified under these Regulations and disclose the level of compliance achieved during the said year. Such reporting shall form part of the 'Notes to the Accounts'.

**POWER TO REMOVE DIFFICULTIES AND ISSUE CLARIFICATIONS**

7. In order to remove any doubts or the difficulties that may arise in the application or interpretation of any of the provisions of these regulations, the Chairperson of the Authority may issue appropriate clarifications or guidelines as deemed necessary.