Insurance News - March 2025

1. Domestic Systemically Important Insurers (D-SIIs)

Systemically Important Insurance Companies in India:

- **Definition**: Domestic Systemically Important Insurers (D-SIIs) are considered "too important to fail," meaning their distress or failure could disrupt the domestic financial system.
- The government is perceived to potentially support these insurers in case of financial distress due to their significance.

D-SIIs for FY2023-24:

- The list of D-SIIs for the financial year 2023-24 includes three Public Sector Undertakings (PSUs):
  1. **Life Insurance Corporation of India (LIC)**
  2. **General Insurance Corporation of India (GIC)**
  3. **New India Assurance Co. Ltd**
- This list remains unchanged from FY2022-23.

Why D-SIIs are Important:

- D-SIIs have significant size, market importance, and both domestic and global interconnections.
- Their failure could lead to major disruptions in the financial system, making their continuous functioning vital for the stability of the national economy.

Risk and Regulatory Concerns:

- D-SIIs are perceived as **"too big or too important to fail" (TBTF)**, which could lead to:
  - Increased risk-taking.
  - Reduced market discipline.
  - Competitive distortions.
  - A higher chance of distress in the future.
- These factors necessitate **additional regulatory measures** to manage systemic risks and moral hazards.

Regulatory Supervision:

- D-SIIs must:
  1. Improve **corporate governance**.
  2. Identify and manage relevant risks while fostering a sound **risk management framework** and culture.
- As a result, D-SIIs are subject to **enhanced regulatory supervision**.

Comparison with Domestic Systemically Important Banks (D-SIBs):

- **State Bank of India (SBI)**, **ICICI Bank**, and **HDFC Bank** are classified as D-SIBs.
- The **Reserve Bank of India (RBI)** issued a framework for dealing with D-SIBs on **July 22, 2014**, requiring the disclosure of D-SIBs and applying additional capital requirements based on their Systemic Importance Scores (SISs).

2. IRDAI retains obligatory cession at 4% for FY26, third year in a row

1. **Obligatory Cession:**
   - For FY26, Indian general insurers are required to cede **4% of their business** to **GIC Re**.
   - The cession requirement has been gradually reduced over time:
     - **20% → 15% → 5% → 4%**.
2. **General Insurance Corporation of India (GIC Re):**
   - **National Reinsurer**: India's only government-owned reinsurance company.
   - **Established in 1972** under the General Insurance Business (Nationalisation) Act.
   - **Wholly Owned by Government**: 100% ownership by the Government of India.
   - **Regulated by IRDAI**: Operates under the supervision of the Insurance Regulatory and Development Authority of India (IRDAI).
   - **Reinsurance Role**: Provides financial backing to insurance companies by sharing risks.
   - **Supports Indian Insurance Market**: Helps insurers manage large claims and ensures financial stability.
   - **Global Operations**: Provides reinsurance services both domestically and internationally.

3. **Exceptions to Rule:**
    - **Terrorism Insurance Premiums**: No obligatory cession required.
    - **Nuclear Risk Premiums**: No obligatory cession required.
    - **Terrorism Risks**: Covered under the **India Terrorism Pool**, managed by GIC Re.
    - **Nuclear Risks**: Managed under the **India Nuclear Insurance Pool (INIP)**.
    - Insurers are free to seek reinsurance for terrorism and nuclear risks from **global markets**.
4. **Commission on Obligatory Cession:**
    - **5%** for **Motor Third-Party & Oil & Energy Insurance**.
    - **10%** for **Group Health Insurance**.
    - **7.5%** for **Crop Insurance**.
    - **15%** for all other types of insurance.
5. **Revenue Trends Over the Years:**
    - **FY21**: Obligatory business was **30%**.
    - **FY24**: Increased to **43%**.
    - **FY25**: Reduced to **39%** (as of October).
    - **Non-Obligatory Business**: **61%** in FY25, indicating more revenue is from voluntary (non-obligatory) reinsurance than from forced placements.