

Dematerialisation of Insurance Policies

Why in news?

The Insurance Regulatory Development Authority of India (IRDAI) has mandated dematerialisation of new insurance policies by December 2022.

What is IRDAI circular about?

- By December 2022, all the new insurance policies will have to be compulsorily issued in a dematerialised form.
- By December 2023, all the old or existing policies will have to be brought on demat platform.
- From November 2022, the eKYC is becoming mandatory.
- The insurance company will pay for all the costs associated with the conversion in the online form and policyholders will not have to pay any fees for the e-insurance policy.

What is insurance dematerialisation?

99.9% of equity transactions take place in the demat mode, as per the Securities and Exchange Board of India (SEBI).

- Dematerialisation entails the conversion of physical policies into modifiable digital documents.
- The policies will be issued digitally and will be kept in an **e-insurance account (eIA)** of the customer.
- The regulator is keen on developing a digital platform called "**Bima Sugam**" for selling, servicing, and settling claims.
- Insurance policies could be dematerialised with insurance repositories that maintain the data of insurance policies in electronic form on behalf of insurers.
- Currently, there are four insurance repositories.
 - NSDL National Insurance Repository
 - CDSL Insurance Repository
 - Karvy Insurance Repository
 - CAMS Insurance Repository Services

e-insurance account (eIA) is the portfolio of insurance policies of a proposer/policyholder held in an electronic form with an insurance repository.

What is the need for such a move?

- The main objective of the move is to promote ease of doing business for insurers and ease of access and services for policyholders.
- The regulator is promoting dematerialisation to ensure robust electronic mode of policy solicitation, servicing, and storage.
- The regulator on a single dashboard can oversee the entire sector's activities leading to better monitoring and regulatory oversight of the industry.
- This is important for life insurance industry, which is likely to touch 100 billion dollars in premium receipts.

What are the benefits from dematerialisation?

- **Benefits for policyholders-** The eIA holder can keep track of insurance policies (life, non-life, including health) under one platform.
- Servicing of policies will be easier.
- Policyholders can borrow against the policies held in electronic form just like pledging of shares.
- **Benefits for insurers-** Insurers will save considerably on costs, especially on printing and delivering of policies.
- **Others-** Holding an e-insurance policy would not only be convenient but also eco-friendly and at the same time reduce frauds.

What are the limitations of this system?

- **Cost-** The added cost of facilitating eIA opening could be a problem from insurers' perspective.
- **More Services-** For the electronic insurance account to carry utility value as high as what demat share accounts do, more services would need to be offered.
- At present, eIAs do not offer the full range of services that policyholders can utilise.

References

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Quick facts

Bima Sugam

- Bima Sugam will be a one-stop platform for all insurance needs, right from buying the policy to claim settlement and much more.
- Under Bima Sugam, there will be E-BIMA or E-IA account for policyholders in a Demat format.
- It shall allow the following insurance services:
 - Buy insurance policy
 - Claim Settlement
 - Agent Portability
 - Policy Portability
- It will be accessible by insurers, agents, intermediaries and customers.
- Bima Sugam shall have linkages with UIDAI, NSDL, CDSL, etc.

Insurance Regulatory and Development Authority of India (IRDAI)

- IRDAI is an autonomous and statutory body responsible for managing and regulating insurance and re-insurance industry in India.
- It is a 10-member body (a chairman, five full-time members and four part-time members) appointed by the Government of India.
- It was constituted under IRDAI Act, 1999.
- The agency's headquarters is in **Hyderabad**.

