



Director General

To: Mr. T S Vijayan
Chairman
IRDA

Your
reference: -

Our
reference: (MK) 14-008

Subject: Comments on the proposed "Insurance Clearing House"

Brussels, 2 April 2014

Dear Mr. Vijayan,

Insurance Europe, the European insurance and reinsurance federation, represents all types of insurance and reinsurance undertakings accounting for around 95% of total European premium income. Many of these companies have a long-term interest in India. Insurance Europe would like to continue its dialogue with the IRDA on regulations impacting foreign (re)insurers by submitting the following comments on the proposed Insurance Clearing House (ICH). These reflections should be read as only preliminary, as the Exposure Draft does not provide details of the future composition and functioning of the ICH.

First and foremost, Insurance Europe understands the IRDA's goal of improving the effective reconciliation of inter-company balances, particularly in reinsurance and coinsurance businesses. However, Insurance Europe believes that establishing a mandatory central accounting and settlement model, as proposed in the Exposure Draft, may not only not achieve this goal, but have important drawbacks.

The ICH model is principally used in very specific markets which are characterised by having a low volume of high value transactions and where cooperation between participants is more important than competition. This is not the case for the Indian coinsurance and reinsurance market. Therefore, we do not believe that other markets which have clearing institutions serve as a useful example for the Indian market and question what additional benefit a centralised accounting and settlement process would bring.

At the same time Insurance Europe fears that the proposed ICH could actually introduce new problems and result in significant costs for both the IRDA, through its role in conducting central oversight of the ICS and the collection and aggregation of data, and insurers active in the Indian market, as a result of having to integrate their own back-office processes with those of the ICH. This would in turn constitute a market-access barrier, add more bureaucracy and delays. It would also likely push up the final price of reinsurance and coinsurance which will ultimately be to the detriment of Indian consumers who will have to bear these additional costs. In addition, the establishment of an ICH owned by local market participants will raise important data confidentiality concerns which would need to be appropriately addressed.

Against this background, Insurance Europe believes that it is essential that the IRDA first analyse whether the incurred costs lead to appropriate benefits before further progressing its work in this area.

We would also request the IRDA to consider if its goal as outlined in the introduction of the Exposure Draft could be achieved with alternative and voluntary measures including some non-IT measures. The experience in Europe has been that a single large delivery system is often not the most suitable solution to the problems identified by the IRDA. However, substituting paper accounting and settlement, and gradually adopting electronic messaging systems and e-accounting (first through the exchange of imaged paper documents, then through structured electronic messaging), have delivered significant steps towards the goals outlined. These advances have helped to solve problems associated with unallocated funds, missing and late payments and disputes between the parties involved without the need to centralise information.

In addition, further collaboration is enabling companies to work towards standardisation of data exchange between companies and is beginning to deliver further benefits in swifter, easily traceable back office processing. On top of that, regulation mandating better documentation practices could also lead to improvements.

Insurance Europe would welcome the opportunity to further discuss with the IRDA how its concerns could be addressed in a proportionate manner, while not placing an undue burden on foreign reinsurers or exposing them to confidentiality concerns. In particular, we would be happy to provide detailed information on standardisation, electronic messaging and e-accounting based on the experience of European markets with relevant expertise.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Michaela Koller".

Michaela Koller
Director General