Insurance Institute of India
G Block, Plot No. C-46, Bandra Kurla Complex,
Bandra (East), Mumbai – 400051.

Weekly e-Newsletter

15th – 21st June, 2012

INSIDE THIS ISSUE:

News Categories	Page

Life Insurance

Back on track - The Financial Express

After many deliberations, the Insurance Regulatory and Development Authority (Irda) has come out with final guidelines on orphan policies. From now, if your insurance agent resigns from the company, the insurer will have to find a replacement immediately to service you and ensure that you don't have any trouble in continuing the policy. Only an orphaned life insurance policy that is in a lapsed condition on the date of allotment is eligible for allotment.

Detailed guidelines issued by the insurance regulator says that single premium life insurance policies or life insurance policies on which no further premiums are due for payment are not covered under these guidelines. Also life insurance products designed with specific marketing features like direct or online marketing where no commission outgo is projected under respective file and use are also not eligible for allotment. A lapsed life insurance policy will be one on which premium remains unpaid even six months after the due date.

To continue the orphaned life insurance policies, the insurer will have to notify particulars of allottee agents to the policyholders. The insurer will have to ensure that the allottee agent is an individual insurance agent who has completed at least two years of service as an insurance agent and is on the rolls of the life insurance company to whom the orphan, lapsed life insurance policies are allotted for the purpose of conservation and rendering policy services. The insurer will also take into account the track record of the agent and complaints registered against the agent while allotting the orphan policies.

The insurance company will have to provide to the allottee agent a list of the allotted life insurance policies along with the address of the policyholder for servicing.

However, there will be no bar on an allottee agent canvassing new policies to the policyholder after reviving the lapsed policies. "In case of surrender of an allotted policy after allotment, but before revival or reinstatement, no new business shall be accepted by the life insurer from the same allottee agent on the life of the same policyholder until the expiry of six months from the date of surrender of the orphan lapsed life policy," says the Irda note.

Analysts say the new guidelines will help improve the persistency of life insurance policies, which have been falling after the new guidelines on unit-linked insurance policies came into force from September 2010. Even in the past, the insurance regulator has come out with new guidelines on the training and certification of agents. To ensure that only serious professional players come into the insurance business, the Irda has mandated that only entities registered as company under the Companies Act and society and trusts registered under Societies Registration Act shall be eligible to apply for accreditation as agents training institutes (ATIs). The accredition will be given on need basis and the existing private ATIs will be granted a one-time permission as assessed by the Standing Committee constituted by the regulator. The existing ATIs will also be eligible for reallocation of the centres within the state based on the assessments made by the standing committee.

The training institutes will teach from the books prescribed by the insurance regulator. The regulator has mandated that for the part-time batches, the training can be imparted four hours daily for a duration of 14 days and, in case of composite training, the duration will be for 11 and 22 days, respectively, for full-time and part-time training. For a candidate to qualify for the exam, he will have to complete 50 hours. For renewal of licence, a candidate must attend 25 hours' training in life and non-life separately.

For remuneration to the allottee agent for servicing the orphaned policy, the guidelines underline that they will have to paid equivalent to the commission rates mentioned in the respective File & Use. The remuneration is payable only on revival of a lapsed orphan policy on account of arrears premiums received on or after the date of allotment and also on subsequent renewal premiums paid under the policy. "No up front or advance payments to agents are allowed on account of the policy allotments," say the new guidelines.

The note also says that the policies that are allotted for servicing shall not be counted for persistency of the allottee agent and the total number of policies allotted to an agent shall not exceed 20% of the total number of policies that were introduced by him and in force as on the date of allotment.

Also, where the lapsed orphan policy allotted is not revived or reinstated within six months from the date of such allotment, life insurers will have the discretion to undo the allotment by issuing a formal notice to the allottee agent and reallocated to any other agent as per the norms.

Source:
http://www.financialexpress.com/news/back-on-track/963632/0

Life insurance products may go missing from Oct - Business Standard

Come October, the life insurance industry may be left with only a handful of products, as the regulator wants companies to 'refile' all existing products according to its new product design guidelines.

In a recent letter to the CEOs of all life insurance firms, the Insurance Regulatory and Development Authority (Irda) has said the refiling has to be done by September 30 this year. The regulator has directed that insurers withdraw by October 1 all the existing products based on the earlier guidelines.

What queers the pitch for life insurance companies further is that the Irda is yet to come out with the final guidelines on product designs, leading to fears that the industry would not be able to offer any products — whether linked or non-linked — to customers from October. Besides, the Irda is not exactly known for clearing products fast.

Industry sources point out that it generally takes about two weeks to file a product. Considering an insurer typically has more than 25 products in its portfolio, it is virtually impossible to refile all the products within three months. Also, given that the Irda takes at least 60-90 days to approve a product, there may be at best one or two products an insurer would be able to offer from October. This, they believe, would adversely impact the growth of new business premium in the second half of the financial year.

"There are no pension plans in the market today, as the regulator is yet to approve any products based on the new guidelines. Now, it is doubtful how many products the regulator would be able to approve in time, even if we refile the existing products," said a senior insurance official at a private life insurance company.

The situation is similar to what pension plans had to go through. After the new guidelines on pension plans came into force from December 1 and all the earlier products were to be withdrawn by January 1, the insurance regulator could not approve a single pension product in time. The impasse continues in the pension sector, as the Irda is yet to approve any products on the new, revised guidelines. As a result, there are no pension products in the market today.

When contacted, a senior Irda official said it would issue the final guidelines soon and the regulator would fast-track the product approval process. "We are trying to fast-track the product approval process. If the insurers refile in time, we would approve the products as soon as possible," he said on condition of anonymity.

Source:
http://www.business-standard.com/india/news/life-insurance-products-may-go-missingoct/478037/

General Insurance

Weather-based crop insurance policy introduced – Deccan Herald

A weather-based crop insurance policy will be introduced in the district during the current monsoon.

The policy is compulsory for farmers who have taken crop loans and who will, therefore, be ineligible to apply for the National Agriculture Insurance Scheme (NAIS), said Chikkanna, joint director of the Agriculture Department.

Farmers who have taken no loans, however, may apply for the NAIS. The last date to apply for loan under policy is July 31, while farmers without loans may apply by June 30.

Farmers without loans should apply at the local bank. They may contact the office of the assistant director of the Agriculture Department or the nearest Farmer Contact Centre for further information, said Chikkanna.

Crop information

Bangarpet: Kasaba- ragi (rain-based), groundnut (rain-based)
Kolar- ragi (rain-based); Vemagal- ragi (rain-based), groundnut (rain-based), potato (irrigated); Sugatur- ragi (rain-based), tur (rain-based), groundnut (rain-based)
Malur: Kasaba- ragi (rain-based), tur (rain-based)
Srinivaspur: Kasaba- ragi (rain-based); Nelavanki, Ronur, Rayalpad, Yaldur- ragi (rain-based), tur (rain-based), groundnut (rain-based)
Mulbagal: Kasaba- ragi (rain-based), tur (rain-based), groundnut (rain-based).

Source-
http://www.deccanherald.com/content/258478/weather-based-crop-insurance-policy.html

IRDA Circulars

14.06.2012 - The Insurance Regulatory and Development Authority of India (IRDA) vide its Circular Ref: IRDA/Act/GDL/PRD/135/06/2012 dated 13th June, 2012 issued guidelines to All Life Insurance Companies to provide an immediate or deferred annuity, even in cases where pension products are surrendered before vesting date.

Source -
http://www.irda.gov.in/ADMINCMS/cms/frmGuidelines_Layout.aspx?page=PageNo1722

15.06.2012 - The Insurance Regulatory and Development Authority of India (IRDA) has issued guidelines to All Life Insurance Companies on Servicing of Orphan policies vide its Circular Ref: IRDA/Life/GDL/Agn/134/06/2012 dated 15th June, 2012.

Source -
http://www.irda.gov.in/ADMINCMS/cms/frmGuidelines_Layout.aspx?page=PageNo1723

Global News

FSC Plans to Require Foreign Life Insurance Firms to Set Up Subsidiaries

The Financial Supervisory Commission (FSC) plans to require foreign insurance companies to set up subsidiaries, rather than just branches, for the sale of individual insurance policies in Taiwan.

Foreign firms need only operating fund of NT$50 million for the establishment of a Taiwanese branch, compared with NT$2 billion for a subsidiary. The high capital requirement will make foreign firms more cautious in entering or exiting the Taiwanese market. Meanwhile, subsidiary possesses an independent legal status, while branch is subject to foreign parent company.

Since the outbreak of the global financial tsunami in 2008, five foreign life insurance firms have withdrawn from the Taiwanese market, including ING of Holland, Aegon of Holland, Mass Mutual of the U.S., AIG of the U.S., and Metlife of the U.S. Meanwhile, New York Life of the U.S., Manulife of Canada, and Aviva of the U.K. also reportedly plan to leave Taiwan. In the past three years, eight life insurance firms have exited the Taiwanese market or plan to do so.

An FSC official noted that since Taiwan opened up its life insurance market to foreign firms 20 years ago, the government has been adopting a "super national treatment" to foreign firms, allowing them to set up either subsidiary or branch, both of which can undertake all businesses.

This, however, is not the case in many foreign countries. Mainland China, for instance, requires that foreign life insurance companies can enter the Chinese market only in the form of joint-venture subsidiary, while Malaysia has also asked foreign life insurance branches to transform into subsidiaries in recent years.

The FSC official pointed out that life insurance firms are mainly for the sale of individual insurance products, such as life insurance policies, and thus must have commitment for long-term management. A branch company has limited capital and is subject to more lax regulation by the regulator. In addition, life insurance firms must establish multiple outlets to serve clients, for which NT$50 million of capital is relatively insufficient.

Source -
http://news.cens.com/cens/html/en/news/news_inner_40479.html

China: Current pension fund gap is temporary deficit

The much-talked about CNY1.7 trillion (US$270 billion) pension fund shortfall could in actual fact be only a temporary deficit. This is due to the unique structure of China's pension system which consists of two big components: the personal account and the government-funded account, which is further broken down into the national government-funded and provincial government-funded accounts.

The China Daily reports that the national account had a surplus of CNY1.95 trillion by late last year. The conditions of the provincial accounts vary among provinces. The overall balance of the 31 provincial-level accounts was a surplus of more than CNY200 billion last year. The real gap of CNY1.7 trillion is actually a temporary deficit in personal accounts, especially in rich provinces. The pension level is higher in these better-off regions and lower in poor provinces. But the personal pension funds of these rich provinces are not proportionally higher than their poor counterparts. So the rich provinces can only divert money from the employed working people's accounts to pay pensions for the retired temporarily because they have no right to borrow more money from the national accounts than is permitted.

The central government has actually already started trying to integrate the provincial accounts into the national one. After this is accomplished, the deficit in the personal accounts of the rich provinces can be relieved to some extent. That is why the current gap should be called a temporary deficit, says the newspaper report.

Mr Tang Jun, a researcher with the Social Policy Research Centre of the Chinese Academy of Social Sciences, wrote an article which appeared on www.china.org.cn in which he argues that China does not have the problem of severe labour shortages with its tremendous population size of more than 1.3 billion. Currently, China has a working population of about 900 million, with nearly 100 million unemployed. Even if more people retire with the population's demographic shift, the country will still have a workforce of 700 million to 800 million.

When the aging population reaches its peak, the government can make efforts to improve the productivity of the 700 million to 800 million people still in the workforce, which could help to generate even greater social wealth. With that, the government can take better care of the elderly through various rational social distribution approaches, he says.

Source –
http://www.asiainsurancereview.com/pages/e-weekly-archive.asp

Bangladesh: Life insurers get new guideline for preparing financial statements

Bangladesh's insurance regulator has prepared guidelines for life insurance companies that outline details for preparing their accounts and financial statements.

The Financial Express newspaper reports that the Insurance Development and Regulatory Authority (IDRA) on Monday issued a circular, asking all the life insurance companies to follow the guideline. Such regulations were hitherto not provided for under the Insurance Act, 2010. The life insurers are now told to prepare their balance sheet and revenue account in accordance with the Insurance Act, 1938 on expiration of the calendar year, until the relevant regulations are specified under the Insurance Act, 2010. This new guideline was formed in response to queries the companies had posed in a recent meeting with the regulator.

Specifically, life insurers are advised not to show their investment in stocks in their respective balance sheets at amounts exceeding their market value. Besides, their balance sheet should contain a certificate, signed and certified by the same persons as are required under the Insurance Act, stating that the values of all the assets have been reviewed as on the date of the balance sheet.

The value of real estate in the balance sheet and revenue account will be determined at historical cost, subject to revaluation. The change in the "carrying amount" of real estate will be taken to Revaluation Reserve. Carrying amount, for the purpose of the guideline, is defined as the amount at which an asset is recognised in the balance sheet after deducting any accumulated depreciation and accumulated impairment losses thereon. Unrealised gains or losses arising out of changes in the carrying amount of real estate, should be taken under Revaluation Reserve. The insurer will assess on each balance sheet date, whether or not any impairment of the value of real estate has occurred. if impairment loss exceeds the corresponding revaluation reserve, such excess will be recognised as an expense in the Revenue Account. IRDA has the right to issue directives specifying the amount to be released from the revaluation reserve for declaring bonuses to policyholders.

Listed equity shares will be assessed at fair value on the balance-sheet date. Fair value is the lowest of the quoted closing-price on the balance sheet date. Unrealised gains/losses, arising out of changes in the fair value of the listed equity shares, should be taken under Fair Value Change Account. The insurer will assess on each balance sheet date whether or not any impairment of the value of equity shares has occurred. An impairment loss will be recognised as an expense in the revenue account to the extent of the difference between the re-measured fair value of the shares and their acquisition cost as reduced by any previous impairment loss, recognised in Revenue Account. The Authority may issue directives specifying the amount to be released from the Fair Value Change Account for declaring bonuses to the policyholders. The profit or loss on sale of equity shares will be passed through the Revenue Account and reflected in the changes in the carrying amount previously recognised under Fair Value Change Account.

Source –
http://www.asiainsurancereview.com/pages/e-weekly-archive.asp

UK

Insurers failing to meet social trends says survey

Confused.com survey of 2000 UK single adults found few have insurance to cover person who they share mortgage with Insurers are failing to keep products up-to-date with fast-changing social trends according to a new survey.

The survey by Confused.com and Life Laboratory found that a growing number of people have no insurance to cover the person who they share a mortgage or home with, particularly if that person is a friend.

Traditional insurance products are still largely geared toward families, couples and the elderly, said confused.com while calling on the industry to change its product offerings.

Confused.com's chief marketing officer, Mike Hoban, said: "There is an opportunity for insurance companies to reflect the rich diversity of our society and to meet the needs of more people by making available products and services which reflect the value that people put on personal relationships outside of traditional family and marriage ties."

Source –
http://www.insurancetimes.co.uk/insurers-failing-to-meet-social-trends-says-survey/1397182.article

Disorderly exit could have a 'materially negative impact' on ratings

The European insurance sector should be able to absorb hocks arising from a hypothetical Greek exit from the euro, provided such an exit were orderly, rating agency Fitch said in a new report.

Fitch said it recognises that the results of the 17 June Greek election lessen the risk of a short-term exit but believes that Greece remains under significant financial pressures, and does not rule out the possibility of an ultimate exit.

"Most major European insurers have negligible direct exposure to the sovereign debt of Greece - typically less than 1% of shareholders' equity," Fitch's head of EMEA insurance Chris Waterman said.

But he added: "A disorderly Greek exit could have a materially negative impact on the ratings of European insurers, with contagion hitting credit quality and asset values, leading to a squeeze on insurers' capital."

The rating agency believes there are factors that might alleviate the impact of falling asset values on insurance companies in the event of a Greek exit.

"Regulators could relax the rules for assessing regulatory capital if widespread falls in the market values of financial assets threatened insurers' solvency positions," Fitch senior insurance director David Prowse said.

"An important additional factor for life insurers is their ability to pass certain investment losses on to their policyholders," he added. "However, any respite from regulatory relaxation and loss-sharing with policyholders could be highly constrained in the event of severe investment losses, because of the need for insurers to meet certain minimum investment guarantees to policyholders."

Insurance companies' large holdings of sovereign debt make them vulnerable to any deterioration in the credit quality, market value or liquidity of these securities. Fitch said it takes sovereign downgrades into account when reviewing the ratings of insurers. Insurers could also be at risk of downgrades if a meaningful portion of their bank debt securities holdings were downgraded, the rating agency added.

Source –
http://www.insurancetimes.co.uk/insurers-can-cope-with-orderly-greek-euro-exit-fitch/1397135.article