



Insurance Institute of India

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

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Insurance Industry

Chidambaram promises steps to boost MFs, insurance – The Hindu Business Line

Finance Minister P. Chidambaram has assured “a number of decisions” for encouraging more investments in mutual funds and insurance.

At the same time, the Government intends to prepare short-term and medium-term measures for reviving manufacturing and exports. Similarly, the Government will not hesitate in taking decisions to address problems in the infrastructure sectors, the Finance Minister said.

Addressing a press conference, Chidambaram said, “Both the mutual fund industry and the insurance sector have turned sluggish. In the next few weeks, we will announce a number of decisions to attract more people to invest in mutual funds, insurance policies and other well-designed instruments”

INVESTMENT SENTIMENTS

According to him, “investment is an act of faith, it is a must to remove any apprehension or distrust in the minds of investors.”

The Government will improve communication of policies to potential investors. The aim will be to remove the perceived difficulties in “doing business in India”, including fears about undue regulatory burden or regulatory over-reach, he stated. Similarly, domestic companies, especially public sector enterprises, which have large cash balances, will be encouraged to restart investment. Proposals pending with the Foreign Investment Promotion Board will be processed and decisions taken expeditiously.

INFRASTRUCTURE GROWTH

The Government has already announced an investment tracking system for projects with an outlay of Rs 1,000 crore or more.

“The Prime Minister has set specific targets for key infrastructure sectors. We will review the progress of each of these projects, periodically, in the Cabinet Committee on

Economic Affairs and remove the bottlenecks to quicker implementation of the projects,” he assured.

DROUGHT LIKE SITUATION

To face the drought like situation in various States, the Rural Employment Guarantee Programme (MGNREGA) and other schemes will be converged. Contingency plans are in place to supply drinking water and fodder and to help farmers replant alternative crops.

“We must seize the opportunity to build durable assets that will provide employment to the poor as well as help in drought-proofing agriculture in the affected districts,” he said.

Source –

<http://www.thehindubusinessline.com/industry-and-economy/article3734783.ece>

Soon, govt financial institutions may bundle insurance with bonds - The Economic Times

The government is working on a plan that will allow state-run financial institutions to bundle insurance with bond offerings to make them more attractive for foreign investors.

Senior government officials told ET that the move was initiated following the good response to State Bank of India's overseas bonds sale. The nation's largest lender last month raised \$1.25 billion (about 7,000 crore) from an overseas dollar-denominated bond sale.

“An insurance cover will be an added benefit over and above the better interest rates that India has to offer to investors,” an official said.

The government is keen to spur capital flows to fund India's current account deficit that worsened to 4.2% of GDP in 2011-12, causing the rupee to depreciate sharply. The plan envisages a two-year personal accident or health insurance cover to the bond holder from state-run general insurers. The proposal is to make the cover available to all investors, although details will be worked out in consultation with the insurers.

“We can work out the different insurance products that can be offered and the cost factor by pricing the bond accordingly,” the official quoted earlier said. These bonds will have a minimum subscription of 50,000 or \$1,000, and their maximum tenure will be 10 years.

Experts say these products could get a good response if SBI offer is any indication. SBI's five-year bond offering was oversubscribed 5.2 times.

“If insurance is priced at multiples of the bond value, it may attract HNIs (high net worth individuals), and if it is kept at equal to the bond value, then there may be the immigrant workers who may buy it,” said Arvind Ladha, chief executive at Vantage Insurance Brokers and Risk Advisors. The finance

ministry had recently held road shows in five Gulf countries to attract sovereign funds under its qualified foreign investor (QFI) scheme that allows certain category of investors to directly invest in mutual funds, stocks and corporate bonds.

Such bonds will have a lock-in period of two years and the interest rate, or yield, for both non-resident Indians and foreigners will depend on different benchmarks, the official added.

"We can also attract a lot of Indians who are working abroad and are set to return after a brief stint. They will have the double advantage of an insurance cover besides good interest rates," he said.

The chairman of a state-run insurer said rolling out such a product should not be any issue. "For workers abroad, already there is an insurance cover under Pravasi Bharatiya Bima Yojana, but this is for unskilled workers going on emigration check required passport," he said.

Source-

<http://economictimes.indiatimes.com/personal-finance/insurance/insurance-news/soon-govt-financial-institutions-may-bundle-insurance-with-bonds/articleshow/15398105.cms>

Life Insurance

Irda mulls friendlier rules for life cover surrender - Business Standard

There might soon be a lesser penalty on customers wishing to surrender traditional insurance policies.

The Insurance Regulatory and Development Authority (Irda), in revised draft guidelines on the design of life insurance products, has proposed a minimum guaranteed surrender value for traditional policies, significantly higher than what is being practiced by insurers.

Accordingly, an insurer will have to pay back at least the premium amount if a policy has been active for more than seven years. Policy holders would get back as much as half their premiums if a policy has been active for at least three years.

In the revised draft, Irda has proposed all individual non-linked life insurance and pension products shall acquire a minimum guaranteed surrender value (GSV). Unit linked insurance plans already have a minimum GSV.

"The minimum guaranteed surrender value would be 50 per cent of the total premiums paid if policy is surrendered in the second and third year. If surrendered in the fourth year, it would be 75 per cent of the total premiums paid and if surrendered during the fifth to the seventh policy year, it would be 90 per cent of total premiums paid. If surrendered thereafter, it would be 100 per cent of the total premiums paid," the draft norms said.

This would be applicable to products with a premium paying term of 10 years and more if all premiums have been paid for at least three consecutive years and less than 10 years if all have been paid for at least two consecutive years).

However, this would not be applicable to regular premium-paying, term pure-protection products such as term insurance, health insurance products and immediate annuities without death benefit.

Insurers will have to provide a benefit illustration for the insurance products, linked to benchmark indices. These products, named Index Linked Insurance Products (Ilips), will have benefits that clearly reflect the possible movements of the index to be linked and the value of the benefit to be guaranteed in such a scenario. For example, if there is a change of less than two per cent per annum on interest rates, the value of benefits assigned would be 0.25 per cent per annum of the policy account. Similarly, if there is a change of more than five per cent per annum on interest rates, the value of benefits assigned would be four per cent per annum of the policy account. Irda has said loans shall not be allowed under Ilips.

Source-

<http://www.business-standard.com/india/news/irda-mulls-friendlier-rules-for-life-cover-surrender/482766/>

General Insurance

Finmin asks insurers to raise premium for property covers - Financial Chronicle

Companies buying property insurance cover may have to pay higher premiums because the finance ministry has asked the chairman and managing directors of the four state-owned non-life insurers to stop competing with each other and raise premium rates.

In a letter dated August 1, the finance ministry said that after pricing was liberalised in 2007, the four insurers resorted to unhealthy competition among themselves to grab market share, as a result of which, some of the four insurers had been incurring huge losses in the fire business with consistent regularity.

The finance ministry letter has suggested that insurers raise the average premium per policy by 20 per cent in different sum insured bands (less than Rs 50 crore, Rs 50-100 crore, Rs 100-500 crore, Rs 500 crore and above), in such a manner that the combined ratio of the portfolio does not exceed 100 per cent and an increase of 20 per cent of total annual premium is achieved for each band of sum insured separately, and also, overall for the portfolio. Combined ratio means the total outgo on claims paid, administrative costs and commission paid to the broker.

However, the ministry has also cautioned insurers and asked them not to raise the premium on individual retail policies because it goes against the principles of financial inclusion.

"A stage has come when companies are offering a ridiculous level of 100 per cent discount on standard fire policies by not charging premium at all for the basic policy, but only for add-on covers," said the ministry.

Fire policy covers losses arising out of natural calamities and the resultant loss of business. It also pointed out that in a bid to lower losses, these insurers increased premiums for small individual and retail policies "who are otherwise not in a position to bargain and made to pay disproportionately higher

level of premium per policy, compared with what it should be," the letter said. Corporate account holders, who have the bargaining power, are able to get such windfall discounts," it said.

The four government insurers, New India Assurance, Oriental Insurance, United India Insurance and National Insurance control more than 60 per cent of the insurance business in the country.

Pavanjit Singh Dhingra, VP, Prudent Insurance Brokers, said, "After detariffing in 2007, prices fell because the four state-owned insurers competed with each other. Private general insurers do not have the capacity to underwrite large property risks on their own, while PSUs have. So, if now, the PSUs don't compete, and private insurers don't have individual capacity, then the market dynamics have to change and there will be a price increase."

A senior official of New India Assurance said, "Rates will go up but not in each risk, but for those risks which have a bad claims history."

Insurers have also been asked to evolve common underwriting guidelines by August 17. They also have to integrate their respective data for each class of product/risk separately by end of December, so that a pricing policy can be determined more scientifically for the next financial year. Also, the head office of the insurer will determine the price for covers above Rs 500 crore, while the regional offices of an insurer can underwrite and monitor policies between Rs 100-Rs 500 crore.

Source -

<http://wrd.mydigitalfc.com/news/finmin-asks-insurers-raise-premium-property-covers-773>

Health Insurance

PSU insurers revive plans to float third party administrator - The Indian Express

The Rs 13,000-crore domestic health insurance market is likely to witness a shake-up soon with the four public sector insurance companies, namely National Insurance, New India Assurance, Oriental Insurance and United India Insurance, reviving their plans to float a Third Party Administrator (TPA) exclusively for the four PSUs. Though the plans for an exclusive TPA to settle their health insurance claims and check frauds in their business was initiated two years back, it couldn't be finalised as many technical hurdles stood in the way, and they had appointed KPMG to advise them on the issue.

Fearing loss of business, nearly 30-odd existing TPAs were up in arms against the PSU firms' plan and even approached the Competition Commission of India (CCI), arguing it was tantamount to forming a cartel. The plan to rope in a foreign partner couldn't also fructify.

"We have now decided to go ahead with our own TPA. We have dropped our plans to bring in a partner. All the four PSU insurance firms will contribute equally to the equity stake of the proposed TPA. We need our own TPA to handle the business efficiently," chairman of a state-owned insurance company told The Indian Express.

Insurance companies use a TPA, which also needs licence from the insurance regulator, to manage its claims processing, advising customers on network hospitals and approving cashless and reimbursement claims and also disbursing the claims to the customer. They also handle many aspects of other employee benefit plans such as the processing of retirement plans and flexible spending accounts. While TPAs are often independent, their functions are handled by some companies directly as an in-house unit in India.

As of now, PSU insurers which control 60 per cent of the Rs 55,000 crore market, are making losses in the health insurance business with the claim ratio going up to 110 per cent in recent years. Though it was expected to come down to 90 per cent from 100 per cent last year, Insurance Regulatory and Development Authority (Irda) has proposed that it should be brought down to 70 per cent to make the business viable.

The PSU insurers had decided to have their own in-house TPA as the performance of existing TPAs which were working with the state-owned insurers was below satisfactory in handling clients as well as hospitals, insurance sources said.

For a lifeline

Insurers use a TPA to manage its claims, advising customers, approving reimbursement claims and also disbursing the claims to customers.

Fearing loss of business, nearly 30 existing TPAs opposed the PSU firms' plan and even approached the Competition Commission of India, arguing it was tantamount to forming a cartel. PSU insurers, which control 60% of the Rs 55,000 crore market, are making losses with the claim ratio going up to 110% in recent years

Source -

<http://www.indianexpress.com/news/psu-insurers-revive-plans-to-float-third-party-administrator/983083/0>

Govt plans insurance for workers dying of occupational diseases - The Indian Express

The state government has passed a resolution detailing an insurance scheme that would pay Rs 1 lakh to the next of kin or legal heir of any unorganised worker killed by any of 29 serious occupational health diseases listed under the Factories Act, which includes anthrax, silicosis and asbestosis among others.

The resolution says the scheme will cover those employed in the mining or granite industries or agate polishing cottage industry who do not come under the ambit of existing rules, but it has not specified how much money has been allotted as budget for the scheme nor what the cut-off date for deaths eligible for claims would be.

Senior labour officials also could not specify these aspects, although they were aware of the resolution and insurance scheme.

Sources said implementation has not begun due to a paucity of funds, but the state's Labour Secretary could not be contacted for clarification despite several attempts.

Of the 29 diseases listed under the Factories Act, at least four kinds were detected between 2008 to 2010 in Gujarat, according to a reply by the Ministry of Labour and Employment to a question in the Rajya Sabha in March 2012.

Details of later years are unavailable. These cases include two cases of Byssionosis (a lung condition caused by inhalation of cotton dust), 14 cases of noise-induced hearing loss, 21 cases of Asbestosis and 14 cases of Silicosis. The latter two are also pulmonary conditions that cannot be healed and which eventually lead to death from breathlessness.

Source -

<http://www.indianexpress.com/news/govt-plans-insurance-for-workers-dying-of-occupational-diseases/983666/>

IRDA Regulations

Irda may simplify investment norms for insurance companies - The Economic Times

The insurance regulator may soon announce liberal investment guidelines in response to industry's demands, said a person familiar with the matter. Insurance companies may get to buy more of lower-rated bonds (other than triple-A rated) and trade liberally in derivative instruments, said the person who did not wish to be identified.

Industry has sought a number of policy initiatives — from simplification of products and claims to a level playing field in terms of tax treatment of financial products — from the regulator to kick-start the industry.

The insurance industry is facing many while life insurance has seen no growth in new business premium in FY12, the nonlife insurance segment is weighed down by underwriting losses. The sector has suggested a host of steps to improve its functioning: it wants simplification of life insurance products and focus on protection and long-term savings. It also wants continuation of tax benefits for insurance products, speeding up of reforms in the non-life insurance space, better coordination between various ministries for non-life and health products, allowing space for innovation, streamlined process of regulatory changes through discussions, and regulatory impact assessment.

As the economy, per capita and disposable incomes grow, the insurance industry is expected to grow as a channel for long-term savings. However, the key players need to work in tandem to create a conducive environment for sustainable growth.

While the industry needs to innovate, simplify products and build trust among customers through effective distribution and claims management, the regulator needs to introduce changes based on regulatory impact assessment, thereby giving the industry time to adjust to the changed environment, along with initiatives to drive insurance awareness programmes. The government may also speed up reforms to drive growth.

Source-

http://articles.economictimes.indiatimes.com/2012-08-06/news/33065651_1_insurance-products-insurance-regulator-insurance-space

Insurers must look at sharing agents: Hari Narayan - The Hindu Business Line

Insurance companies must explore the possibility of sharing their agents to realise the full potential the sector presents, J.

Hari Narayan, Chairman, Insurance Regulatory Development Authority, said.

The remuneration given to agents is not attractive enough to draw talent. Then, can agents be allowed to work across companies? "I do not have definite answers to it, but questions are important. I am hopeful that answers will be found to this," he said at an Insurance Summit organised by the Confederation of Indian Industry.

PROVIDE ANNUITY

Insurance companies, he added, must focus on their core business of providing protection and also consider providing annuity. Annuity refers to a business model where a company accepts money from an individual systematically over a fixed time period and on maturity, pays a lumpsum along with interest. He stressed that growth for insurance companies will come from protection and annuity.

The burden of paying annuity from 2019 will fall on the insurance sector since the Government has stopped pension schemes.

The Government launched a contribution-based new pension scheme in 2004. "Is the insurance sector geared to face this challenge?" asked Hari Narayan. The IRDA chief said LIC is the sole player in the annuity business and there is a high degree of risk in this since all the business is concentrated in a single player. It also robs the customer of choice, he added. He urged companies that provide pension to also take on the burden of annuity.

He said that in the life insurance space there are 800-900 products. Most of these have not been able to achieve the intended targets. "So, why is there this compulsion among insurance companies to introduce more and more products?" he asked. There is a need to pick winning products from each category and then persist with that, he said. If there is not enough difference in each succeeding products then it will be like "selling old wine in a new bottle," he said.

Insurance contracts, he said, are written in very complicated language which the common man cannot understand. The companies must relook the way insurance contracts are structured, he added.

He expects the next phase of growth to come from the non-life segment. "The existing insurance companies will have to recast themselves to take advantage of it."

Source -

<http://www.thehindubusinessline.com/industry-and-economy/banking/article3734165.ece>

Surveys & Reports

Insurance industry poised for growth: Report - The Economic Times

Even as the insurance sector has witnessed a decline due to regulatory changes, industry leaders are optimistic about scope for growth.

The picture is not all gloomy, and though in the short run the industry may be undergoing a catharsis, the longterm picture is still compelling, and a stronger and better-founded

insurance industry is likely to emerge from this challenging situation, a joint study by Confederation of Indian Industries and leading global professional services organisations says.

Innovation is the first casualty in tightly controlled markets, leading to drying up of incentives for product manufacturers and decline in business activities, the report pointed out.

The report also said that the market today is primarily dependent on push, tax incentives and mandatory buying.

"There is very little customer pull, which will come from increasing financial awareness along with increasing savings and disposable incomes. Till then the stakeholders will have to strive for product simplification, transparency of cost and pricing, effective distribution and improving customer servicing to drive sales," it said.

In the long run, it said, the insurance industry is poised for a strong growth, as the domestic economy is expected to grow steadily.

For the first time in 12 years, the life insurance industry witnessed a decline in the first year premium collected in FY12, from Rs 1,258 billion in FY11 to Rs 1,142 billion, a drop of approximately 10 percent.

The business model for insurers has been changing for the past couple of years on account of regulatory changes.

"While the regulatory changes were aimed at customer protection and increasing transparency in pricing and operations, it gave the industry very little time to adjust, leading to a lot of uncertainty in the market environment," the report pointed out.

The industry is also likely to witness consolidation as and when the regulator finalises the guidelines for mergers and acquisitions, the report predicted.

Source -

http://articles.economictimes.indiatimes.com/2012-08-06/news/33065693_1_first-year-premium-insurance-sector-insurance-industry

IRDA Circulars

03.08.2012 - The IRDA (Insurance Regulatory and Development Authority of India) has issued a circular dated 3rd August, 2012 on :-

Draft Guidelines on new Investment Products: Reverse Repo / Repo in Government Securities and Corporate debt securities, by the Insurer have been envisaged, subject to the approval of the IRDA.

Source -

http://www.irda.gov.in/ADMINCMS/cms/frmGuidelines_Layout.aspx?page=PageNo1764

Draft Guidelines on new Investment Products: Securities Lending and Borrowing (SLB) Scheme.

Source -

http://www.irda.gov.in/ADMINCMS/cms/frmGuidelines_Layout.aspx?page=PageNo1763

Draft Guidelines on new Investment Products: Credit Default Swaps. The said guidelines inter alia, provide for Insurer's participation as "Market maker" and "Users" subject to the approval of the IRDA.

Source -

http://www.irda.gov.in/ADMINCMS/cms/frmGuidelines_Layout.aspx?page=PageNo1762

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