



Insurance Institute of India

C – 46, G Block, Bandra-Kurla Complex, Mumbai – 400051

INSUNEWS

- Weekly e-Newsletter

31st January- 06th February 2014

INSIDE THE ISSUE

News	Pg.
Insu Indst	1
IRDA Reg	1
Banc	2
Global News	3

Insurance Industry

DIPP allows 26% cap for FII, NRI investment in insurance – Financial Express

The government on Wednesday released foreign investment norms for the insurance sector and clarified the four areas where such investment would be allowed while keeping the cap at 26% through the automatic route.

The department of industrial policy and promotion (DIPP) issued a press note in which it allowed the foreign institutional investments (FIIs) and investments by non-resident Indians (NRIs) along with foreign direct investment (FDI) within the 26% cap prevalent in the insurance sector.

While the earlier policy only talked about the insurance sector, the new guidelines now specify four sectors where insurance related FDI can come in. These are - insurance companies, insurance brokers, third-party administrators and surveyors and loss assessors.

Finance ministry sources said that there is no change in the FDI policy for the insurance sector and this is only a clarification.

“The insurance law and the Insurance Regulator Regulations have similar caps for FDI, FII and NRI investments. This press not is only consolidating the existing policy provisions,” said Akash Gupta, executive director at PWC.

“The companies bringing in foreign investment will have to obtain necessary licence from the Insurance Regulatory and Development Authority (Irda) for undertaking prescribed activities,” the note said.

Insurance brokers are entities which for remuneration arrange insurance contracts with insurers or reinsurers on behalf of their clients. As per Irda, TPAs help in facilitating health insurance on behalf of insurers. Surveyors and loss assessors provide technical services to the insurance companies.

Incidentally, the Arvind Mayaram committee had recommended composite FDI cap of 49% from the insurance sector from the current 26% within the norms stipulated by Irda.

[Back](#)

Source

IRDA Regulations

Irda defers Standard Proposal Form norms – Business Standard

The Insurance Regulatory and Development Authority (Irda) has, after getting critical comments on it, indefinitely deferred implementation of various provisions in its Standard Proposal Form for Life Insurance. These were to have taken effect from April 1.

The regulator said this was to facilitate a more comprehensive debate on the contentious provisions. Specifically deferred are implementation of obligations under sections 5, 6, 7, 8, 9 and 10 of the Irda (Standard Proposal Form for Life Insurance) Regulations 2013. These mandated detailed suitability analysis for customers.

Irda clarified these regulations did not apply to micro insurance products and those distributed through the Common Service Centre channel.

The regulation was gazetted in February 2013 and was to be implemented from August 2013. Later, Irda said this would be applicable from April 1, 2014.

The companies had represented for amendments to the provision. The Standard Proposal Form guidelines recommended a suitability analysis of each customer to be done before selling a policy to him/her. Companies had argued they had internal procedures to ensure the products sold were specific to a customer's need and without the need to fill long forms.

"Based on the suitability of information gathered from the prospect, the Insurer or Agent or Bancassurance or Broker or the insurer's employees where direct sales are involved, must have reasonable grounds to believe the product being recommended to the prospect is suitable for him /her," Irda had stated in its regulations.

Among the items specified for need-based information were projections for up to 30 years for living expenses, education expenses, travel expenses and working span, apart from areas such as expected inheritance and desired sum assured, among others.

Source

Insurers also said the mandatory nature of the form would have dissuaded customers and increased the time to finalise a sale.

[Back](#)

IRDA Releases new draft micro insurance norms – The Hindu Business Line

The Insurance Regulatory and Development Authority (IRDA) has mooted that all micro-variable products should have a lock-in period of five years from the date of inception of the policy.

In the new draft norms on micro-insurance, the regulator said surrenders would not be allowed, but partial withdrawals may be permitted in some cases.

For the distribution of micro-insurance products, regional rural banks, micro-finance institutions, district cooperative banks, non-governmental organisations, self-help groups, urban cooperative banks, banking correspondents, among others, could be allowed.

Source

It said that all the stakeholders should submit their feedback to IRDA before February.

[Back](#)

Irda sets up committee on FSLRC – Business Standard

The Insurance Regulatory and Development Authority has set up a nine-member committee comprising former and current Irda officials for the implementation of the Non-Legislative Recommendations made by the Financial Sector Legislative Reforms Commission. This was discussed by the Financial Stability Development Council and was decided that all financial sector regulators would examine the 14 NLRs of FSLRC and lay down a road map and timeline for the adoption of all feasible among the 14 NLRs.

Irda said that this committee would review the 14 non-legislative recommendations of FSLRC, examine the extant legislative and regulatory framework in compliance with the 14 NLR and also identify the gaps/possible improvements in the extant framework. They will also recommend/suggest the changes/modifications to the extant framework in compliance with the 14 NLR.

Source

The Committee shall submit its report by the end of April 2014.

[Back](#)

Bancassurance

RBI deputy governor criticizes banks over hefty fees on insurance products -Mint

Reserve Bank of India (RBI) deputy governor K.C. Chakrabarty on Thursday criticized banks on earning hefty fees by selling insurance cover to their customers.

"I don't understand why banks should earn so much by selling insurance products. I have heard they earn thousands of crores selling insurance products to their customers," Chakrabarty said at the annual banking conclave of Mint in Mumbai. "Unless you are mis-selling, you are not going to get this kind of income."

The country's top bankers, including the heads of State Bank of India, ICICI Bank Ltd, Bank of Baroda, Citibank, Standard Chartered and HDFC Bank Ltd, were present at the conference.

Chakrabarty also chided banks on their proposal to limit the number of free ATM transactions permitted even for their own customers. The RBI deputy governor said that with improving technology, banks should be able to offer more cost-effective services to clients rather than pulling back on existing services or increasing the cost of such services for customers.

The Indian Banks' Association, a lobby group of bankers, had proposed recently to reduce the number of free cash machine transaction to five per month, irrespective of whether the transactions take place at their own bank's ATM or another bank's.

"Banks are saying because of new technology implementation, our cost has gone up," Chakrabarty said. "This worries me because it shows you have failed to adopt technology."

Commenting on asset quality concerns in the banking system, the deputy governor said that bankers should be worried about their indebted clients. As the leverage of banks is falling, the leverage of companies is rising, he said.

"If you are not able to stop leverage of corporates, it will remain a big fear," he warned. Stressed loans in the banking system, which include bad and restructured loans, constitute 10% of the overall loans in the system. However, Chakrabarty said that debt restructuring for companies is a legitimate tool.

According to the deputy governor, more banks are needed in the country, not for competition but for banking penetration. "Financial sector can't solve the real sector problems but can aid it greatly," he said.

Source

Chakrabarty also asked banks to change their credit appraisal process and said only knowing a customer is not enough, a bank should know the business of the customer as well. This knowledge of customers business will lead to better credit delivery system, he said.

[Back](#)

Global

Myanmar: Reinsurance will become foreign players' gateway to mart – Asia Insurance Review

Despite the government wishing to keep the insurance market in Myanmar closed while it develops, there are likely to be reinsurance opportunities for foreign carriers in the short to medium term, says the international law firm, Clyde & Co.

In its "Corporate Insurance – 2014 Market Predictions" report, Clyde & Co said that the domestic holders of 12 recently-issued insurance licences will be nurtured by the government for one to two years before foreign entrants will be allowed. Currently the new license holders are deemed to be too inexperienced in insurance related matters to be permitted immediate access to the private reinsurance market.

"So, it is expected that the Ministry of Finance will consider plans to establish a stand-alone state-owned reinsurer to provide capacity. It is likely that a policy of 30-percent compulsory reinsurance to this state reinsurer will be adopted, with the domestic insurers free to place the 70-percent balance with foreign insurers," said the law firm.

Source

Since it will take time to establish such a reinsurer, it is possible that Myanma Insurance (historically the country's only insurer) will enter into a new treaty with the 12 domestic insurers, again with 30-percent compulsory cession to Myanma Insurance and the 70-percent balance placed with foreign insurers, added Clyde & Co.

[Back](#)

South Korea: Regulators suspend telemarketing by financial firms – Asia Insurance Review

South Korea's financial regulator has suspended telemarketing activities by all financial institutions, including, insurers, in the wake of a massive scandal involving the leak of the personal data of at least 20 million credit card holders from three credit card companies.

The Financial Services Commission (FSC) imposed the temporary ban last week. The suspension will last till the end of March to prevent any likely use of customer data stolen from the three credit card companies. The ban may be extended depending on the circumstances, reported the Korea Times.

“We think it will eventually help develop the telemarketing industry if the companies suspend the marketing for a while and check their customer data management until public anxiety eases. The ban is not legally binding, but we asked financial firms to cooperate and most of them said they will comply,” an official at the FSC said.

However, a group of foreign insurance companies is not taking the ban lying down. AIA Life, the Hong Kong-based life insurer, sent a letter of protest to the FSC, asking for the ban to be lifted. An AIA Life Korea official said that about 35 percent of its new insurance policies are generated via telemarketing. “We forecast the ban may cause a significant sales decline,” she said.

Three other American insurers - AIG, Lina and ACE Insurance - are among seven insurers exempted from the ban as more than 70 percent of their sales are derived from telemarketing. However, they are prohibited from operating indirect phone sales channels, such as home shopping, credit card companies or consumer finance service firms. Their sales from these channels also make up a large portion of their total revenue. The three insurance companies discussed the issue with the American Chamber of Commerce in Korea. They talked about the impact of the telemarketing ban on the insurance industry.

For AIG, more than 80 percent of its sales come from telemarketing. “And more than 80 percent of our telemarketers work for the indirect channels,” an official at AIG said. At Lina Korea, 2,800 out of its 5,400 telemarketers work for indirect channels, which contribute about 40 percent of the company’s total sales.

Local insurance companies are also being hit hard by the telemarketing ban. “A number of our member companies have been alarmed by the government decision,” a spokesman for the General Insurance Association of Korea (GIAK) said. The association’s members comprise 18 non-life insurance firms.

According to GIAK, Lotte Insurance earned 70.2 percent of its car insurance premiums, or 235 billion won (US\$217.8 million) during the January-September period last year from business solicited through telemarketing. Heungguk Fire & Marine Insurance ranked second with 64.7 percent for the same period, followed by Dongbu Insurance with 36.7 percent, Hanwha General Insurance with 33.7 percent and Meritz Fire & Marine with 21.9 percent.

The Korea Life Insurance Association (KLIA) said that it is also concerned about the ban. Among the 27 KLIA members, KB Life relies the most on telemarketing with sales through this channel contributing 27.4 percent, of total revenue, followed by Shinhan with 18 percent.

Commenting on the insurers’ protests, the FSC said that telemarketing sales have shrunk since news of the data leaks emerged. People receiving telemarketers’ calls are suspicious of whether or not the marketeers have obtained their phone numbers from the stolen data.

The regulator will examine consumer data management systems at all credit card firms in Korea beginning this week. The regulator is already investigating KB Kookmin Card, Lotte Card and NH NongHyup Bank’s credit card division, which suffered leaks of data of some 20 million card users. The probe may expand to other card firms based on the results of the inspection, a FSC official said. The FSC will focus on data-sharing between the card firms and their subcontractors. Some firms have outsourced their telemarketing and data processing work to save on labour costs.

Source

According to the authorities, an employee of the Korea Credit Bureau (KCB), a credit information service provider, copied the personal information of card users with the three card firms, and sold the data. The KCB and the credit card companies had failed to discover the theft. Illegal brokers who purchase personal data from employees at financial companies and sell them to service providers have been identified as the driving force behind the theft of personal information, according to the authorities.

[Back](#)

Philippines: Microinsurance coverage highest in Asia – Asia Insurance Review

One out of five Filipinos is covered by microinsurance, making the Philippines the country with the highest coverage in Asia.

The Department of Finance (DOF) says that micro-insurance coverage in the Philippines hit 19.95 million last year, or 20.4 percent of the population, from only three million in 2008 when only 3.3 percent of the population was covered.

Citing figures from the World Bank, the DOF said that the microinsurance penetration rate in the Philippines last year was ahead of Thailand's 14.1 percent, India's 8.9 percent, Bangladesh's 5.1 percent, Malaysia's 3.6 percent, and Pakistan's 3 percent. The penetration rate of microinsurance stood at only 0.9 percent in China, 0.5 percent in Indonesia, and 0.2 percent in Vietnam.

Mr Emmanuel Dooc, chairman of the industry regulator, the Insurance Commission, has said that the government has set a goal of further increasing the penetration rate of microinsurance over the medium term. He said that an estimated 27 million poor Filipinos should be covered by microinsurance by 2016. This would be achieved through more partnerships between insurers and cooperatives which have been the driving force behind marketing microinsurance in the country.

Source

[Back](#)

Global: Reinsurance pricing pressure to continue in April, July – Asia Insurance Review

The forthcoming reinsurance renewals in 2014 at 1 April (mainly Japan) and 1 July (especially parts of the US market, Australia and Latin America) will include a greater proportion of natural catastrophe business than the January renewals, says the world's biggest reinsurer, Munich Re. The global reinsurer expects pricing pressure in this segment to remain very appreciable in the further course of the year unless any extraordinary loss events occur.

Mr Torsten Jeworrek, Munich Re's Reinsurance CEO, said in a statement announcing the company's 2013 results: "In the coming renewal rounds, we will be aiming to buck the general market trend with our tailor-made risk-transfer solutions and with prudent portfolio management."

Munich Re said that it is satisfied overall with the renewals at 1 January, when slightly more than half of Munich Re's non-life reinsurance business was up for renewal, representing a premium volume of around EUR8.7 billion (US\$11.8 billion). Altogether, the volume of business, including new business, written at 1 January grew slightly by 2.7 percent to around EUR9 billion. Pricing fell marginally by 1.5 percent. Treaty terms and conditions remained largely stable.

Mr Jeworrek commented: "Munich Re has again succeeded in keeping its portfolio relatively stable. As ever, client proximity and solution orientation make us a valued partner. In a generally difficult economic environment, clients are seeking sophisticated reinsurance solutions for their capital and risk management." He said: "Munich Re again adhered consistently to its principle of only writing business at risk-commensurate prices and conditions."

However, the market environment remains very challenging, with competition having become even keener. Ample capacity is available, partly because capital from investors such as pension funds is increasingly being invested in instruments for alternative risk transfer. This capital is flowing mainly into non-proportional natural catastrophe business, which only featured to a relatively small extent in the January renewals. Of more significance is that price competition has increased in the traditional reinsurance market.

Munich Re reported net profit of EUR3.3 billion for 2013, marginally higher than the EUR3.2 billion seen in 2012 but above the company's profit target of EUR3 billion for the year. The profit increase was due mainly to lower than expected disaster claims, lower taxes and a write-back of claims provisions accumulated for prior years after a reserve review found they were no longer needed.

Source

Natural catastrophe losses for the company for the year amounted to EUR764 million compared to EUR1,284 million in 2012. The two largest losses in 2013 were the floods in central Europe in early summer (EUR178 million) and the intense rain and hailstorms in Germany in June and July (EUR174 million).

Disclaimer:

'Newsletter' is for Private Circulation only intended to bring weekly updates of insurance related information published in various media like newspapers, magazines, e-journals etc. to the attention of Members of Insurance Institute of India registered for its various examinations. Sources of all Cited Information (CI) are duly acknowledged and Members are advised to read, refer, research and quote content from the original source only, even if the actual content is reproduced.

CI selection does not reflect quality judgment, prejudice or bias by 'III Library' or Insurance Institute of India. Selection is based on relevance of content to Members, readability/ brevity/ space constraints/ availability of CI solely in the opinion of 'III Library'.

'Newsletter' is a free email service from 'III Library' to III Members and does not contain any advertisement, promotional material or content having any specific commercial value.

In case of any complaint whatsoever relating 'Newsletter', please send an email to Mr. P.K. Rath, Director, College of Insurance at rath@iii.org.in.

To stop receiving this newsletter, please send email to library@iii.org.in