Insurance Institute of India
C – 46, G Block, Bandra-Kurla Complex, Mumbai – 400051

INSUNEWS

- Weekly e-Newsletter

22nd – 28th April 2016

• Quote for the Week •

"It is the mark of an educated mind to be able to entertain a thought without accepting it"

Aristotle

INSIDE THE ISSUE

Source

Insurance Industry

Insurers partner small banks to widen reach – Business Standard – 27th April 2016

Insurance companies are tying up with cooperative banks, microfinance institutions and small finance banks to widen their reach.

The Insurance Regulatory and Development Authority of India (IRDAI) had in recent meetings with the industry pointed to a concentration of insurers and their touch points in urban areas.

State-owned insurers dominate rural markets with their strong branch presence. The IRDAI has allowed banks to act as agents for multiple insurers.

Bajaj Allianz Life Insurance has signed an agreement with Vakrangee to distribute its policies through 23,000 kendras that provide banking, insurance, e-governance, e-commerce and ATM services to rural customers. "We will reach more rural customers," said Anuj Agarwal, MD and CEO, Bajaj Allianz Life Insurance.

Bajaj Allianz also has an agreement with the Gujarat-headquartered Kalupur Commercial Co-operative Bank to distribute microinsurance.

Birla Sun Life Insurance has a distribution tie-up with the Peerless group. Jayanta Roy, MD and CEO, The Peerless General Finance & Investment, his group would gain access to a range of financial services for its customers.

HDFC Life has a deal with Indiabulls Housing Finance to distribute insurance. "This will help us widen our reach," said Amitabh Chaudhry, MD and CEO, HDFC Life.

Future Generali India Insurance has tied up with 10 medium and small banks in the Kolhapur and Sangli districts to sell rural and micro-insurance.

Cigna TTK Health Insurance has an agreement with the country's largest urban co-operative bank, Saraswat Bank. This will strengthen Cigna TTK's presence in six states.

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Insurers may soon have to lower agent commission for 'participating products' - The Hindu Business Line – 22nd April 2016

Insurers may soon have to lower commissions to insurance agents in certain product categories, such as participating products even as they are faced with high agent attrition.

Incidentally, to improve the returns on insurance products, the Insurance Regulatory and Development Authority of India (IRDAI) has approved a proposal to bring down insurers' overall expenses by around 15 per cent, said Nilesh Sathe, Member-Life, IRDAI.

"If insurers breach the expense limits defined by the regulator, the excess payout will have to come from the shareholders' fund and not from the policyholders' account," Sathe added.

This comes even as the market regulator SEBI has asked mutual funds to disclose the commission payout to agents and to disclose to investors the commissions paid to their distributors, including payouts in the form of gifts, trips and sponsorships.

Sathe said that while the regulator has not asked insurers to reduce commission payouts, insurers will have to comply with the expense limit regulations and bring down administrative expenses.

In fact, in the draft circular, the regulator has proposed higher commissions to insurance intermediaries, including agents, to provide a relatively sustainable career for them. This comes as data from the Life Insurance Council show that life insurers lost 51,278 agents in 2015-16.

Arijit Basu, MD and CEO, SBI Life Insurance, said that the challenge for many insurers will be to manage commission payouts to agents within the expense limit.

Industry experts say that while the regulator had streamlined other product categories, such as unit-linked products where the commission payout is restricted and clearly defined in the benefit illustration, the expense limits are likely to impact their marketing budgets and commission payout in categories such as participating products where the charges are ambiguous.

Participating products are essentially non-guaranteed products, where the insured gets a 'profit or loss' that the insurer generates by investing the premium collected.

Sanket Kawatkar, Principal and Consulting Actuary at Milliman, said that in participating products, expenses in excess of the proposed limits, which were previously shared 90 per cent by the policyholder and 10 per cent by the insurer, will have to be fully borne by the shareholder.

Source

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Few overdrafts, fewer insurance claims - Business Standard – 23rd April 2016

With the opening of more than 215 million accounts in less than two years, the Pradhan Mantri Jan-Dhan Yojana has been a roaring success, at least on paper. Has the scheme been able to provide intended benefits to the people? Not much, if you look at the number of people who have availed of overdraft facilities (OD) or insurance claims.

According to data on the official website of the scheme, of the 215 million new accounts opened, only 1.8 million have availed of overdraft facilities. That works out to just 0.8 per cent of the accounts opened under the scheme. An amount of Rs 255 crore was made available as OD to these beneficiaries. That works to an average of slightly more than Rs 1,400 for every account, way less than the promised OD of Rs 5,000.

As per the data compiled till April 8, 2016, nearly 6.2 million accounts were offered OD facility. Of these, only 1.8 million accountholders made use of the facility. Bankers attribute this to a number of factors, including multiplicity of accounts. "At the time of opening these accounts, there was a lot of pressure on us to achieve the target. We did not check whether the person had accounts in other banks or not. As a result, many people ended up opening multiple accounts. We do not have a system in place to identify multiplicity of accounts," said a middle-level officer in a public sector bank, on request of anonymity.

Multiplicity also means that a large number of such accounts remained idle with zero or negligible transactions. One of the criteria for availing OD facilities is that the account should have regular transaction. The reduction in percentage of accounts with zero balance to little under 27 per cent of all accounts shows that some transactions indeed have taken place. But lack of regular transactions in specified period is the reason why a majority of accounts are ineligible for OD facility, say bankers.

"The amount of OD offered is calculated on the basis of average deposit in the last three months. On the basis of this, each branch is informed about the number of eligible accounts and also the amount to be offered to each of them. The amount ranges from Rs 500 to Rs 5,000, most of them near the lower end," said another banker.

While Canara Bank has offered the highest amount of overdraft at Rs 51 crore to 293,047 account holders, the State Bank of India, largest network of branches, has offered a measly Rs 27 crore as overdraft, as per the latest data available.

The other benefit of the Jan Dhan Yojana was two insurance schemes offered at a premium of Rs 12 and Rs 330, respectively. On this count too, data show that the scheme is yet to take off. According to available data, under the death claims, only 2,593 cases have been reported so far. Of these, 2,233 claims have been settled and 344 rejected.

The number of reported cases under the accident claims stands at just 558, of which 219 were rejected. In most cases, claims were rejected because of "absence of ATM/e-com/POS transaction during the last 45 days prior to the date of loss." Bankers say awareness about the insurance benefits of the scheme is quite low.

Source

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IRDAI Regulation

Irdai bars insurers from inking global reinsurance pacts - Financial Chronicle – 28th April 2016

The insurance regulatory authority of India has restrained general insurers from combining their reinsurance requirements with their foreign partners and entering into common reinsurance agreements with global reinsurance companies.

The authority also has asked the insurers to strictly comply with Irdai (General Insurance-Reinsurance) Regulation 2013 and amendments/ revisions.

"The authority has reiterated its stated position with regard to reinsurance regulations," said A V Girija Kumar, director and general manager of United India Insurance.

Irdai had recently received requests from some insurers seeking waiver of certain provisions of Irdai (General Insurance-Reinsurance) Regulation 2013, citing inability to comply with the stipulations, as they were executing reinsurance treaties on a global basis where the Indian insurer along with their foreign promoter entity/ subsidiaries /group companies enter into a common reinsurance agreement with one or more re-insurers.

By combining the requirements, they are able to bargain better with the re-insurer and have the advantage of better pricing and better terms. But the regulations stipulate that Indian companies should try to retain maximum possible reinsurance requirements within the country and they should first seek the service of GIC.

Irdai found that the reinsurance needs of the Indian insurance company may vary from that of their foreign partner or group companies located in other countries. The terms, conditions, exclusions, claims experience etc of the underlying products for which the reinsurance protection is sought may also vary from one insurance company to another.

Moreover, it has been observed that in such arrangements, where Indian insurer enters into reinsurance arrangements on a global basis, the Indian entity is unlikely to have much say in taking vital decisions on matters like the choice of the reinsurer, terms of treaty, the quantum of placement with any reinsurer etc. Hence, compliance of various provisions of the reinsurance regulations, other guidelines and circulars issued by the authority on matters related to reinsurers, may not be possible for the Indian insurers.

"Therefore, insurers are hereby advised to refrain from entering into such reinsurance arrangements. The authority shall not entertain any request for exemption from the application of provisions of reinsurance regulations/ guidelines/ circulars, if such non-compliance is on account of the insurer's participation in such reinsurance arrangements," Irdai said.

Source

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Cabinet okays MoU between Irdai and Insurance Authority of UAE - Business Standard – 27th April 2016

The Cabinet today gave its nod to a pact between Insurance Regulatory and Development Authority of India (Irdai) and the Insurance Authority of United Arab Emirates which provides for enhanced cooperation between the two authorities.

The Cabinet meeting chaired by Prime Minister Narendra Modi has given its ex-post facto approval for the Memorandum of Understanding (MoU) signed in February, an official statement said after the meeting.

The MoU provides for enhanced cooperation between the two authorities in the field of insurance supervision by providing a framework for cooperation such as channels of communication.

"It will also result in increasing mutual understanding through the exchange of regulatory and relevant supervisory information including confidential information to enforce or ensure compliance with their respective laws and regulations," it added.

Source

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Life Insurance

Pvt life insurers see 14% growth in '15-16 – The Times of India – 28th April 2016

Despite the volatility in business throughout the year, private life insurers recorded a modest growth in premium income for 2015-16. The APE (adjusted premium equivalent) of private life insurers increased 14% year-on-year (y-o-y) to 24,112 crore for the period. The APE of the life insurance industry grew 12% y-o-y to around 52,000 crore during the year.

Though the premium earned by most large players slowed down, SBI Life, Canara and HSBC gained market share. While growth slumped to 5%-7% during September, November and December raising concerns of a slowdown, the last quarter of the fiscal provided the much-needed impetus by registering an increase in excess of 11%, data compiled by insurance regulator IRDA, Life Council and Kotak Institutional Equities showed. Private players reported stable market share in individual business

ICICI Prudential Life, which logged the fastest growth of 41% in 2014-15, saw a moderation in 2015-16. The insurer recorded 10% growth in 2015-16. "This is partially due to lower ticket size (down 12% y-o-y) in the individual business," observers said. Its product composition has also not changed significantly the share of ULIPs (unit-linked insurance plans) in the overall APE moderated to 83% in the first nine months of 2015-16 from 86% in 2014-15.

SBI Life was the largest driver of premium growth for private players, accounting for 40% of the increase in 2015-16. The company reported significant market share gains following a robust 36% growth in APE in 2015-16 compared to 10% in the previous fiscal. This resulted in the insurer's market share in individual APE surging to 18% in 2015-16 from 7% in 2014-15. The company largely focused on ULIPs' the share of ULIPs increased to 60% of APE in the third quarter of 2015-16 from 40% in the previous fiscal. Its average ticket size increased 26% y-o-y due to shift in product mix.

ICICI Prudential Life and HDFC Life have a high share of unit-linked business. LIC continues to have high share of single premium (79% share of its total premium). Private players have generally been selective in this segment — the share of single premium was 35% (33% in February 2016) of their total premium. Bajaj Allianz and SBI Life have a higher share of single premium in their overall business. Private players reported stable market share in group business as well — their market share stood at 17%.

Source

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How a persistency rate of 81% dropped to just 7% in FY15 – Mint – 27th April 2016

For the life insurance industry in India, getting customers to hold onto their policy remains an uphill task. A large part of the problem has to do with the fact that these policies are sold and bought for all the wrong reasons. And the impact so far has been disastrous. According to the financial year (FY) 2014-15 numbers reported in the handbook of statistics by Insurance Regulatory and Development Authority of India (Irdai), other than one (IDBI Federal Life Insurance Co. Ltd), the remaining 22 insurers were unable to retain even half the policies they sold five years back, and one 'young' insurer didn't have five-year-old policies. Some companies lost as many as 93 of 100 policies sold. This leakage should worry both you and the policymakers.

You need to worry because insurance policies are front-loaded and when they lapse, you lose money. If it's a traditional plan (and not a unit-linked plan), you can lose all your money in the first two years. Policymakers must worry because an industry that's worth about Rs.3 trillion (in premiums) and which manages retail money is destroying value for customers by selling products in a way that most investors stop paying premium within five years. For an industry in the business of selling long-term products, it's important that customers continue to pay premiums and stay in the policy for the full term. This is key to sustainability and growth of the industry in the long haul, and good investor experience.

How long customers stay with their policies is measured by persistency ratio. This measures the number of policies that continue in the books of the insurer by the end of the first year (13th month persistency), second year (25th month persistency), third year (37th month persistency), fourth year (49th month persistency) and fifth year (61st month persistency). Even as efforts are being made to improve persistency numbers, they continue to remain abysmal. For some, the 61st month persistency ratio is much worse compared to the last year. Shriram Life Insurance Co. Ltd, for instance, stood out when its FY14 and FY15 numbers were compared. Its 61st month persistency number was a decent 81% in FY14 but dropped like a large lemon to 7% in FY15. Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd also saw a drop of 61st persistency from 81% in FY14 to 37% in FY15.

We faced some flak on Twitter for 'misreporting' data: how can an insurer that was able to retain 80% of its policies hold on to just 7% the next year, we were asked. Here's what happened. In 2014, Irdai standardised the method of reporting persistency. Those who continued to report using the lax method for FY14 but moved to the more transparent method in FY15, showed the drop. Let's understand this better. There are two methods to calculate persistency. The first method (the not so good one), called the reducing balance method, calculates the leakage from the preceding year and not from the year of sale. The second method (the prescribed one) calculates persistency on a cumulative balance basis. It calculates leakages from the year in which the policies were sold. Since

the first method uses the preceding year as the base, persistency numbers can look good. For example, if a company sells 100 policies and only 70 get renewed after the first year, the first-year persistency ratio would be 70% under both the methods. At the end of the second year, if only 60 policies get renewed, then the 25th month persistency would be 86% under the first method (60 out of 70 policies) but 60% under the second method (60 out of 100 policies). If in the third year, 50 policies get renewed, the first method will show a persistency of 83% (50 out of 60) and the second method will show a persistency of 50% (50 out of 100). Just using a smaller denominator gives a higher persistency.

Why did the regulator allow two standards of reporting in the first place? Mint first asked this question in 2012 when we analysed persistency ratios. Our analysis was followed by an interview with the former insurance regulator, J. Hari Narayan, who made it clear that insurers need to follow the second method. This was nearly four years ago, but until FY15, some insurers continued to report numbers based on a reducing balance basis. In fact, the persistency number can be a little worse than what we see because, according to insurers, they also include single-premium policies in the calculation. This may dilute the numbers in favour of an insurer with a large portfolio of single-premium policies. Such policies are one-shot

investments and you can't lapse them since no renewal premium is due. You can surrender them and if you do, it lowers the persistency. Insurers say that Irdai wants one number that tracks persistency and also factors in surrenders. So, if a policy, including a single-premium policy, is surrendered, the persistency will drop. But if one were to look at persistency and surrender numbers separately, the analysis will be more transparent. Persistency ratios should be further sliced, and if that is already done internally, the data should be made public, to look at persistency of specific products and distribution channels. The industry should actively adopt this metric in compensating distributors. It should be an ongoing work for the regulator. Tracking persistency of life insurance policies is important because poor numbers point to shoddy sales practices of the industry, which should ring alarm bells.

Source

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Health Insurance

Mosquitoes take the sting out of Modi's Gujarat - Financial Chronicle – 26th April 2016

You can call this the Modi after-effect. Gujarat, which prime minister Narendra Modi left behind as one of the most industrialised states in the country along side some of the best development indices, is also home to some of the highest incidences of infectious diseases in the country, like malaria and dengue, if claims for vector borne diseases received by the insurance companies are indication.

As per the claims data of SBI General Insurance, Gujarat has recorded the highest number of claims due to malaria during the past five years at 32 per cent, followed by Maharashtra at 21 per cent. UP, Madhya Pradesh and Jharkhand are the other three states with higher number of malaria claims.

Ahmedabad and Surat are among the top five cities from where Bajaj Allianz received the maximum number of claims on malaria in the past three years. Mumbai, Pune and Bangalore were the other three cities, all of them together adding up to more 50 per cent of the claims.

Surat also distinguishes itself among the top three cities with high incidence of dengue after Delhi and Bangalore, reveals the data from Max Bupa Health Insurance.

Though incidence of malaria has been coming down every year in India, as per government statistics, insurance companies are seeing the numbers going up, mainly due to higher penetration of health cover. SBI General received 33 claims in FY13-14 that rose to 196 claims in FY15-16.

Of the total claims received for certain infectious and parasitic diseases, 9 per cent were for malaria. In the last three years, the frequency of claims for malaria fell from 3 per cent in FY13-14 to 2 per cent in FY14-15 and 1 per cent in FY15-16.

Bajaj Allianz has seen claims for malaria and related ailments growing by 9 per cent, with the average claims size rising by 7 per cent. The average claim size for malaria at Bajaj Allianz ranged between Rs 25,000 and Rs 27,000 in the last three years. In 2015-16, men accounted for 60 per cent of the malaria claims at Bajaj Allianz, with women accounting for the rest.

“While the average amount one would have to shell out for treating malaria was Rs 22,000 two years ago, it has now gone up to around Rs 26,000. So, apart from preventive care to keep infectious diseases such as malaria at bay, it is essential to have a health insurance plan that would help one bear the expenses for such treatment.

Also, with monsoon fast approaching, there is a high risk of other ailments such as enteric fever, chicken guinea and dengue, which could triple the treatment cost,” said Suresh Sugathan, head of health insurance at Bajaj Allianz General Insurance.

Max Bupa reported 47 per cent increase in dengue cases in June 2015 over the same month a year ago. In July, it reported a rise of 93 per cent and in August 141 per cent.

“Dengue has been a serious health issue over the past couple of years. A year-on-year comparison shows that dengue has been slowly creating havoc, both physically and financially. Every year we receive dengue related claims almost throughout the year, however, maximum number of such claims is usually registered between June and August,” said Ashish Mehrotra, CEO and MD at Max Bupa Health Insurance.

Source

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Labour ministry planning for medical cover for domestic workers - The Economic Times – 22nd April 2016

The labour ministry is drafting a scheme for domestic maids and drivers to avail medical insurance facility for their families for a small contribution as part of the government efforts to ensure comprehensive social security for domestic helps in the country.

The scheme would be voluntary and the government would appeal employers to contribute towards health insurance for their domestic help, a senior labour ministry official told ET.

The scheme will cost the subscriber only Rs 250 a month. "Government is committed to provide social security cover to domestic workers and to begin with we would cover them under the ESIC to provide medical coverage to the workers and his/her family," the official said, requesting anonymity as the scheme is in the draft stage. "This could be followed by covering them under the employees' provident fund," he added.

Source

General Insurance

Onus on banks, insurers to deliver on crop insurance, says Agri Ministry official - The Hindu Business Line – 26th April 2016

Banks can no more afford to be laid-back on crop insurance front with the Centre now fixing more responsibility on them for the effective implementation of the Pradhan Mantri Fasal Bima Yojana (PMFBY), a top Agriculture Ministry official has said.

Not deducting the PMFBY premium while disbursing crop loans could lead to the banks themselves making good the crop losses, if any, suffered by a farmer, Ashish Kumar Bhutani, Joint Secretary in this Ministry said at a PHD Chamber of Commerce and Industry event on crop insurance in the capital.

Banks cannot also henceforth delay forwarding the premiums to the insurance companies.

“We have put a stop to all this by bringing penal provisions. Banks will be squarely responsible. In case there is crop loss to a loanee farmer who is not insured, the bank will have to make good the losses. The onus is now on banks and insurance companies to deliver”, Bhutani, who is seen a key architect in designing of the PMFBY.

PMFBY-launched in February 2016 and seen as a game changer for farmers-- is the biggest intervention till date by the Government in the field of crop insurance.

Through the PMFBY, the Modi-led Government has sought to provide a complete package of risk mitigation to farming community.

Bhutani said that PMFBY was not comparable with earlier crop insurance schemes. He highlighted that crop insurance has been extended to only farm loans worth ₹ 60,000 crore out of the total farm credit of nearly Rs 6.5 lakh crore.

Although crop insurance is compulsory, only 12 per cent of loanees were being covered under insurance.

Part of the problem was that the banks were not insuring the farmers who were coming within the insurance cycle for the notified crops, Bhutani said.

He also said that Centre was trying to bring non-loanee farmers (such as sharecroppers) too within the PMFBY fold. There is a separate committee of the Government looking into the land leasing policy. “We should be able to address the aspect of sharecropper also getting the benefit of crop insurance”

INSURER’S TAKE

Yogesh Lohiya, Chairman of PHDCCI’s Insurance Committee, rued that ‘L1’ story (L1 is a practice where Government awards contract to the bidder who quotes the lowest price) has started to play in PMFBY and insurance companies are killing themselves quoting unviable prices.

“It is unthinkable at all how insurance companies will pay the claim. I feel frustrated as to how insurance companies can make claim payments under this circumstance. PMFBY scheme is a wonderful scheme. But implementation is key”, Lohiya, who is CEO & MD IFFCO Tokio General Insurance said at the event.

Source

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Catastrophe cover rates shoot up by 50-140% - Financial Chronicle – 24th April 2016

A series of natural catastrophes in the not-too-distant past has led to an increase in the premium rates for catastrophic covers provided by non-life insurance companies by up to 140 per cent from March this year.

Individuals and companies buy a standard fire and special perils policy, which covers their houses and contents, building, properties, plants, and various assets from a host of disasters including natural disasters like storm, tempest, flood, inundation (STFI). The STFI cover is a component of a standard fire policy.

The rates were increased after major losses from Chennai floods, Hudhud, floods in Jammu and Kashmir and Uttarakhand. The highest increase in premium rates is for individuals at 140 per cent, followed by companies that would see their premiums shooting up by 50-100 per cent. As per the rates decided by the non-life insurance industry, dwellings (individual) would be charged Re 0.075 to Re 0.12 per mile (Rs 1,000 sum insured) from Re 0.05 per mile charged earlier (an increase of 140 per cent).

Industrial/ manufacturing risks, utilities located outside the manufacturing, standalone storage in godown outside the manufacturing premises, tank farms/gas holders would be charged 50 per cent-76 per cent more as the premium rates would increase from Re 0.125 per mile (Rs 1,000 sum insured) to Re 0.1875 to Re 0.220 on every Rs 1,000 sum insured. Standalone storage in open (outside manufacturing premises) would be charged Rs 1.125 to Rs 1.50 per Rs 1,000 sum insured, up from Re 0.75.

The premium rates for non-industrial properties, for example hotels, shops, cooperative housing societies, have increased by 50-100 per cent. They are being charged Re 0.1125 to Re 0.15 per mile, up Re 0.075 per mile.

Rain in Chennai and adjoining areas in November/December 2015 caused a loss of around Rs 5,000 crore, as per the current estimation. In September 2014, floods in Jammu & Kashmir caused a loss to the tune of Rs 2,000 crore to the insurance industry, the cyclonic storm Phailin in eastern cost in October 2013 caused approximate insured losses of about Rs 1,000 crore.

In June 2013, heavy flooding resulting from torrential rain and glacial leaks in the Himalayas caused losses of over Rs. 3,100 crore in the state of Uttarakhand. Minimum STFI rates for engineering insurance, including project extensions, have increased from Re 0.15 per mile per annum to Re 0.225—Re 0.250per mile per annum.

Even though the non-life insurance industry was detariffed in 2007 and each insurer is now free to decide its own premium rates depending on its risk perception, the industry has come together and agreed upon the minimum STFI rates.

An agreement by non-life insurance companies said, "Premium rating of STFI and earthquake perils under fire, fire loss of profit, industrial all-risk, annual engineering and project policies was reviewed last time in 2012 and revised guidelines were introduced with effect March 1, 2012. Subsequent to that, India has faced several major catastrophes losses because of high intensity cyclones, heavy monsoon, flash floods and torrential rains. Such huge losses due to act of god perils have put all of us into difficult position. Despite our conscious efforts, premium rates of fire and engineering portfolios have not improved much to take care of such eventualities."

"It has, therefore, been decided to revise the minimum premium rates for STFI for all policies of fire and engineering. However, as the exposure and intensity varies from area to area, the underwriters at regional level can decide upon the same from the range provided," said a circular by the industry.

Speaking to FC, Sanjay Datta, chief underwriting claims and reinsurance at ICICI Lombard General Insurance, said, "The premium rates have been decided for all kinds of risks with a sum insured up to Rs 2,500 crore."

"In the last four years, several catastrophic events in world and in India have resulted in significant insurance claims. In India there were Uttarakhand floods, which were a major trigger, Jammu Kashmir floods, Hudhud cyclone and Chennai floods gave a justification for the industry to correct the pricing," T L Arunachalam, director global strategy and special projects, Bharat Reinsurance Brokers, said.

"The above rates will be applicable for all policies incepting on or after March 2016. The rates mentioned are bare minimum. No discount can be allowed on the above the rates in lieu of higher excess or otherwise," said the circular.

Source

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India: Non-life insurance premiums hit US$14.5 bln in FY2015-16 – Asia Insurance Review

The general insurance industry has reported premium revenue of INR964 billion (US$14.5 billion), an increase of 14% for the financial year ended 31 March 2016, driven by motor and health insurance segments which are traditionally the largest segments of the industry.

Data from the General Insurance Council shows that the four government-run general insurers reported premium income of INR477 billion or 49.5% of the total premiums posted by the non-life market. The 18 private-sector insurers reported INR397 billion of premiums, while two specialised operators - Export Credit Guarantee Corporation (ECGC) and Agricultural Insurance Company - netted INR48.3 billion and the five standalone health insurers reported INR41.5 billion.

"We have achieved total premium of INR964 billion in FY16, falling short of our ambitious target of INR1 trillion by a small margin," General Insurance Council General Secretary R Chandrasekaran said. However, he said that after taking into account inward reinsurance business, the industry would have exceeded the INR1-trillion mark in terms of written premiums.

Source

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Bancassurance

Banks now sell more insurance policies than individual agents - The Financial Express – 22nd April 2016

In the last few years, the life insurance industry has seen high attrition of individual agents largely due to low remuneration. At the same time, the contribution of bank channels in selling life insurance policies has gone up.

According to the annual report of the Insurance and Regulatory Development Authority of India (Irdai), corporate banks had a share of 47.37% of individual new business premium in 2014-15, while the share of private insurers in 2012-13 was 43.08%. On the other hand, individual agents who had share of 39.68% of individual new business premium in 2012-13 came down to 35.73% in 2014-15 for private insurance players.

Vignesh Shahane, CEO and whole-time director at IDBI Federal Life Insurance, says, "In the last few years, we have seen that it has become unenviable for individual agents to become commercially viable due to low compensation. It is a challenging time for individual agents as many full-time agents have now turned part-time agents."

The data from Life Insurance Council shows that at the end of March 2016, there were 20.16 lakh individual agents, down from 20.67 lakh individual agents in 2014-15. Senior officials in the industry added that, one of the major reasons of banks contribution going up is due to the loyal customer base and the low cost compared to hiring individual agents.

"Individual agents are also facing credibility issues as they often move from one insurance company to another for higher commissions. Also commissions have gone down in the past few years and apart from the industry, we have also seen high attrition of individual agents in Life Insurance Corporation of India (LIC)," said a marketing officer in an insurance company.

Sunil Sharma, appointed actuary at Kotak Mahindra Old Mutual Life Insurance, said, "There are a few things which go in favour of bank channels selling insurance. First, they are experienced and trained people; second, target customers are ready; and finally, there is trust in bank by investors." However, he also emphasised that Kotak Mahindra Old Mutual Life is having diversified distribution network in both the channels.

Many players in the industry believe that, there should be an ideal mix of individual agents and banks to gain market share in such competitive environment. "We cannot just depend on either agents or banking channels. While banks are important as they bring in most business where we don't have any our individual branch, it is equally important to have individual agents in this business," said a CEO of a leading insurance company. Insurance players believe that, unless individual agents get economic of scale, their survival in this industry will become more difficult, while banks are likely to continue their dominance in selling insurance policies.

Source

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Global News

Korea: Life insurers alter product mix amid low interest rates – Asia Insurance Review

Ongoing progress made by key players in the Korean life insurance industry, in shifting their business mix to products less vulnerable to low interest rates, has helped the sector maintain a stable outlook, says Moody's Investors Service. In addition, forthcoming regulatory changes will add to their pricing power and also push up their regulatory capital requirements.

"We believe that these factors will together help the industry weather current operating challenges, namely prolonged low interest rates, in the context of a subdued outlook for domestic growth," said Ms Stella Ng, a Moody's Assistant Vice President and Analyst.

Between March and June 2015, The Bank of Korea cut the base interest rate twice by a total of 50 basis points to its current level of 1.5%. Moody's says its baseline scenario continues to assume very low interest rates over the next 12-18 months, a credit negative from the industry's perspective for two reasons:

First, low interest rates will prolong or even widen negative spreads, or the extent to which the investment yields achieved by insurers fail to match the average yields they guarantee on their policies.

Second, such rates will drive life insurers towards riskier asset allocations. Both developments were evident in 2015, as major players reported wider negative spreads and higher risk/overseas asset allocations in their portfolios.

"However, our outlook also assesses these negatives in the context of the industry's broader efforts to strengthen its business model and loss-absorption buffers," said Ms Ng.

Product mix

According to Moody's, Korean insurers have been able to shift their product mix towards protection-based policies and floating-rate policies that are less sensitive to interest rate changes or the economic cycle. Furthermore, higher levels of mortality and morbidity gains as well as continued cost efficiencies help insurers defend their bottom-line results from the widening in negative spreads.

The Korean insurers also show a low level of duration mismatches between their assets and liabilities, therefore shielding in part their balance sheets from the impact of falling interest rates. While the insurers have increased investment risks on their portfolios -- which could add to earnings volatility -- their current portfolio of risk assets remains small. The industry's overseas investments, including foreign bonds, equities and Korean papers, rose to 8% of total investments at end-2015 from 5% at 31 March 2012.

Moody's says two current regulatory developments will further reinforce the industry's credit fundamentals. First, the Financial Services Commission has initiated a year-long process to remove the maximum limits on risk margins and premium rate adjustments with effect from this month, a move which gives the industry more flexibility to price certain protection-type products and improve their margins.

Second, the phased adoption of International Financial Reporting Standard 4 Phase II regime will tighten the industry's capital management and risk management practices. While the changes have resulted in, and will continue to lead to, falling reported risk-based capital ratios, they will also force some weaker players to raise new capital or slow business growth.

Source

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Japan: Kumamoto quakes approaching insurance payout record - Asia Insurance Review

The earthquakes which struck Kumamoto Prefecture in southwestern Japan earlier this month are expected to result in the second highest property insurance payout total of any Japanese natural disaster, partly on the growing popularity of earthquake insurance. Insurers received 68,913 damage claims as of last Thursday, erported The Nikkei citing the General Insurance Association of Japan. In comparison, the quake that struck the Kobe area in January 1995 generated 65,427 successful claims, resulting in payouts totalling JPY78.3 billion yen (US$704 million) -- the current second-place figure.

Just 9% of Japan's households had purchased earthquake insurance at the end of the 1994-95 fiscal year. The figure more than tripled over a decade to 29% by the end of FY2014-15. Catastrophe modeling firm AIR Worldwide has estimated that insured losses to properties from the 16 April M7.0 earthquake that struck Kumamoto Prefecture will be between JPY180 billion and JPY320 billion. The March 2011 earthquake and tsunami disaster in northeast Japan holds the insurance payout record at JPY1.3 trillion.

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Australia: Waste in medical sector pushes up insurance premiums - Asia Insurance Review

Australians are paying at least A$20 billion (US$15.5 billion) a year in higher taxes and insurance premiums because of wastage and anti-competitive practices in the healthcare sector. Health insurance chiefs and the head of the government’s Health Safety and Quality Commission, Ms Debora Picone, told the newspaper, The Australian, that improving health efficiency could cut 15% off the A$150-billion national health bill.

"Falling-off-a-log type reforms could save that amount every year with no reduction in actual outcomes," said Australian Unity chief executive Rohan Mead, pointing to over-servicing and lack of competition among hospitals and doctors. Health insurer NIB chief Mark Fitzgibbon said that tackling the "low hanging fruit" of waste in the system — ensuring prices for devices on the prostheses list is the same for private and public hospitals — would mean a fall of up to a 4.5% in insurance premiums.

"On its own, a fairer approach to the cost of prosthetics, such as pacemakers, hip and knee replacements, which currently cost private health patients as much as three times as they do in the public health system, would deliver A$800 million in savings," said Medibank acting chief executive David Koczkar.

Over-servicing
Analysis by The Australian also suggests the 21% surge since 2006 in the number of medical specialists per capita in Australia — who now outnumber GPs — would potentially cost taxpayers, insurers and patients an extra A$2.8 billion a year. Ms Picone said doctor-induced overservicing was adding significantly to the cost of the health system, pointing to a variation in the incidence of procedures across Australia of up to 30 times. "When you see variation of this extent you have to realise some doctors are not following the guidelines," she said.

Mr Dwayne Crombie, the head of Australia's second largest health insurer Bupa, said that healthcare reform needed to be "turbo charged" and consolidated. He said while there were six separate reviews of the healthcare system, a Productivity Commission review into how the public and private systems could collaborate effectively was needed.

Mr Fitzgibbon, head of Australia's third largest insurer, said patients being in the hands of sellers of healthcare had led to over-servicing, suggesting there were 600,000 highly avoidable hospital admissions each year. Royal Australasian College of Surgeons president David Watters said there was not an oversupply of surgeons. "It is a small proportion of surgeons who charge excessive fees. We want it to be made clear to the public there is no co-relation between the size of the fee charged and the quality of the surgery,'' he said.

Source

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South Korea: Online life insurance sales jump 300% from 2012-2015 – Asia Insurance Review

The annual online insurance sales in the domestic insurance sector increased to KRW7.56 billion (US$6.58 million) last year from KRW1.88 billion in 2012, a surge of 300%, according to data released last week by the Korea Life Insurance Association. It added that the ratio of online insurance sales jumped from 0.008% to 0.06% during the same period.

Term and cancer insurance products are two of the most popular online insurance products in the South Korean market, reported Business Korea. An increasing number of customers are opting for online term and cancer insurance products as these are available at lower premiums. Some of these products are up to 53% cheaper than their offline counterparts.

"Online insurance marketing is particularly suitable for markets with better Internet environments such as South Korea," the association explained, continuing: "By utilising it, consumers can select better products for them at lower costs after checking hundreds of insurance products in a convenient way." It expects the proportion of online insurance sales to increase over time.

In the meantime, industry experts are predicting that an increase in online insurance sales will not necessarily result in a decline in traditional insurance sales. According to them, customers with a higher level of price sensitivity and in less need of after-sales services are likely to prefer online insurance contracts while those looking for total services remain loyal to insurance planners.

Source

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Cambodia: Insurance take-up in construction still low - Asia Insurance Review

Despite strong growth in investment in the construction sector, investors, builders and developers still largely neglect insurance on projects, industry and government officials say.

Director and General Manager of Forte Insurance, Mr Youk Chamroeunrith, said: "People still seem to have a limited understanding about construction insurance."

"I have a problem demonstrating the risk issue to construction companies. Investors and construction companies should clearly learn about this and consider the importance of insurance," he told the Khmer Times.

Mr Chhay Rattanak, Deputy Director-General of Financial Industry in the Ministry of Economy and Finance, said: "With the strong growth of the construction sector, the Ministry calls on construction companies as well developers to buy insurance to protect their projects. However, the number of companies buying insurance is still low."

The insurance sector was worth US$80 million last year, following a 20% y-on-y increase over the past five years. Total general insurance premiums rose by 16.4% last year to about $61.6 million, with property, fire, vehicle and medical insurance leading the way, according to the Insurance Association of Cambodia.

Source

A report from the association said that the fastest growing segment of insurance was property and fire with premiums rising by 35.1% last year over 2014.

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Australia: Regulator looks into life insurance products - Asia Insurance Review

After kicking off a probe into life insurance claims' practices, the corporate regulator, the Australian Securities and Investments Commission (ASIC) will next demand information about life products from industry executives.

It is understood ASIC will soon write to insurers requesting key details about the terms and conditions of their life insurance products, which include total and permanent disability cover and income protection, reported the Sydney Morning Herald.

ASIC's demands for more product information comes after a slew of scandals in the beleaguered life insurance sector. An investigation by Fairfax Media revealed CommInsure, one of the country's biggest life insurers, denied or delayed payments to terminally ill patients.

The regulator is seeking a reading on inappropriately denied claims and whether there are systemic problems in the industry. ASIC has written to all bank-owned and independent Australian insurers ordering them to take a look at their claims management records over the past five years. It is understood the regulator will also draw on complaints data from a range of sources including the Financial Ombudsman Service.

Last month, ASIC Deputy Chairman Peter Kell flagged that the corporate regulator will be taking a close look at the life insurance sector using in-depth data and clamp down on any errant behaviour in the wake of the CommInsure scandal.

Source

"If we find that there are, for example, particular products or particular types of claims or a particular insurer that seems to exhibit problems or anomalous outcomes, then we can look at whether that will require more in-depth investigation or review," Mr Kell told Fairfax Media.