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INSUNEWS

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• Quote for the Week •

Justice is the insurance which we have on our lives and property. Obedience is the premium which we pay for it - William Penn

INSIDE THE ISSUE

Source

Insurance Industry

US rating firm AM Best says National Insurance has good financial strength - The Economic Times

AM Best, a US-based insurance industry rating agency, has assigned a financial strength rating of "B++" and issuer credit rating of "bbb+" to National Insurance Company Ltd. The outlook for both ratings is stable.

The ratings reflect the insurer's strong risk-adjusted capitalisation, diversified business portfolio, consistent business income and its leading position in India's motor insurance sector, the rating company said in a press statement released from Hong Kong.

However, it said that the positive factors are partially offset by the fierce competition in the India insurance market, besides NIC's high equity investment risk, unsatisfactory underwriting result and India's economic risk.

The Kolkata-based general insurer was under pressure from other government-owned and private competitors with regard to pricing and growth opportunities. The company's capitalisation experienced volatility due to the significant exposure of its investments in the equity market, said A. M. Best Asia Pacific Ltd, the subsidiary of the US Company.

"Current adverse market conditions pose a significant threat to the company's overall capitalisation level. Additionally, National had shown persistently negative underwriting results for several years; therefore, the combined ratio is unlikely to drop below 100% in the intermediate term," it said.

It further added that NIC's overall operational performance will remain highly reliant on the net investment returns.

Future positive rating actions could result from better motor performance, improvement of loss experience in the health business or strengthening of capitalisation in conjunction with growth of business. Conversely, downward rating actions could occur if the motor and health business deteriorate, or there is a significant decline in the company's investment asset value, it said.

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Rising online fraud pushes banks to seek insurance cover - The Economic Times

Indian banks are increasingly seeking insurance cover against fraudulent online transactions, including those involving credit cards, as a rising use of plastic money and the ease of Internet business potentially increase lenders' exposure to cases of data breach.

Data from insurance companies show that large banks are opting for policies worth Rs 500 crore to shield against fraud, including online, while mid-sized banks are going for policies in the range of Rs250-300 crore. "Demand for insurance policy against phishing, skimming and Internet hacking has gone up in the last one year," said TR Ramalingam, head of underwriting at Bajaj Allianz General Insurance. "Enquiries have gone up and we are working on how to price the product and working on the wording."

Earlier, insurance policies did not include computer-related frauds, but now insurers expect it to be big in coming days. The premium, which depends on several factors, ranges between 1% and 2% of liability the bank is looking to insure. In 2012-13, domestic banks lost Rs17,284 crore on account of fraud, according to information obtained through the Right to Information Act. During the period, 62 banks filed a total of 26,598 cases related to online frauds. The situation has compounded the woes of the bank sector where lenders are facing huge non-performing assets. "The policy covers cyber extortion and breach of data privacy," said M Ravichandran, president, Tata AIG General Insurance. "There is a lot of talk around cyber insurance and people are actively looking to secure these exposures."

While companies like Tata AIG have underwriting capabilities for these policies, for others, it is reinsurance driven. Cyber extortion policy pays a ransom to a person who has hacked into the bank's website with a threat to divulge, destroy or steal confidential information. Last year, ATM cards of a leading private sector bank's customers were skimmed and about Rs15.48 lakh stolen from accounts.

Source

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With decline in overseas rates home insurance to get cheaper - The Economic Times

The cost of insuring homes and factories against natural calamities is likely to fall, in line with some 10% decline in overseas rates amid stiff competition, according to industry executives.

"There is oversupply of reinsurance capacity in the international market, and Asia Pacific renewals on January 1 saw around 10% reduction in rate," said Sanjay Kedia, country head for Marsh India, an insurance broker. "The Indian market is trying to hold on to rates during reinsurance treaty renewals on April 1, given the challenging underwriting results."

There were no major natural calamities in 2013, which, according to industry executives, helped lower reinsurance rates during January 1 renewal. The loss to insurers due to natural catastrophes and man-made disasters, according to insurance company Swiss Re, nearly halved from 2012 to about $44 billion in 2013.

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Insurers lure customers via discounts, tax benefits - Business Standard

The last quarter of the financial year is when people rush to buy insurance products as a tax-saving instrument. To make the most of the situation as well as to meet their January, February and March targets, insurers offer attractive discounts to lure policyholders. Tax benefits are also highlighted on insurers' websites, to get the message across. Sevantika Bhandari, director (marketing) at Max Bupa Health Insurance, says the insurer began an advertising campaign a few weeks ago. The company offers a 20 per cent discount on second year premium for policyholders for all health insurance plans.

“Through this, we are looking to promote our family health platform. This will be applicable to a joint family or extended family and will be a cost-effective product,” Bhandari adds. According to her, the discount offer applies to all products, but is available only for people of certain age groups. The motive is to create awareness about health insurance and motivate customers to buy such products, she says.

Sector sources say 60-65 per cent of the new premiums are collected in the last quarter. “The fourth quarter is when individuals are looking at tax- saving products such as insurance. The discounts will be an added advantage,” says the product head of a private general insurer. Life Insurance products are a popular tax-saving instrument. According to the Income Tax Act 1961, by investing in a life insurance (or health) plan, you are allowed to claim deduction on the premiums that one pays while calculating taxable income. This also means that the insurance premiums, which you pay helps reduce your tax outflow.

Under Section 80C, one can avail deduction of up to Rs 1 lakh premium paid on pure term, endowment and Ulip (unit-linked insurance plan) products. Further, Section 80D offers deduction up to Rs 35,000. The maturity proceeds from life insurance policies are also tax-exempt, subject to some conditions.

Life insurance companies offer tax saving products throughout the year. “Life insurers are enabling customers to buy the top selling tax saving policies, by giving them this option on the home page itself. This will not only be beneficial for customers, it will help us meet our targets as well, which have been impacted since the new product guidelines were implemented in January,” said a senior executive of a private life insurer.

Source

IRDA Regulation

IRDA prescribes standard format for insurance policy - The Financial Express

Insurance regulator IRDA today prescribed a standard format for life and non-life insurance policy to improve transparency and help people take informed decisions.

"...all the insurers are advised to make available all the policy servicing forms also in languages recognized under the Constitution of India so as to meet the requirements of policyholders," IRDA said in a notification. The insurers may also make available these forms in languages recognised under the Constitution of India on their website so that the forms may be accessed easily, it said. It is envisaged that this initiative benefits in increasing informed decisions by policyholders or beneficiaries, it added.

The regulator also said that all insurers also to note that there is a need for maintaining minimum or reasonable font size in respect of all the forms provided or used. "It may be noted that an insignificant print used in the forms may affect the decision taking ability of some of the prospects and policyholders," it said.

"Therefore, all insurance companies are advised to use a minimum print equivalent to font 'Times New Roman-size no 7' or above in respect of all the forms that are made available to the prospects and policyholders both during the course of granting the cover and subsequent policy servicing throughout the policy term," it said. The advice of maintaining minimum font size is also made applicable to policy contracts issued to all policyholders, it added.

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IRDA permits insurers to invest in equity ETFs - The Hindu Business Line

IRDA on Monday allowed insurance companies to invest in equity Exchange Traded Funds (ETFs) with certain conditions, a move which would help boost inflows into the country's stock market. Only passively managed schemes of the mutual funds which are registered with SEBI and governed by SEBI are eligible, IRDA said in a notification.

ETF is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. "These schemes are benchmarked and tracked to publicly available index," it said, adding, these instruments would be listed on at least one exchange which is having connectivity with nationwide terminals.

"Investments ETFs may mitigate the concentration risk and ETFs also offer management of funds with operational convenience," it said. Exposure to stocks through ETF would not be reckoned for the overall exposure norms prescribed for individual stocks, it added. The valuation of ETFs shall be in line with the equity shares. ETFs were introduced in India in 2001. Currently, there are about 33 ETFs with assets under management of close to Rs 11,500 crore held by 6.2 lakh investors. Gold ETFs dominate the market in India.

Source

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General Insurance

Public sector general insurers plan cashless outpatient policies - The Hindu Business Line

You may soon be able to cover your medical expenses while visiting a doctor for outpatient treatment through your health insurance policy. Public sector general insurance companies are planning to join private sector insurers in launching policies offering cashless Outpatient Department (OPD) and worldwide covers (reimbursement of medical expenses overseas).

"OPD consists of almost 60 per cent of overall medical spends in India, so we need to get into that space and offer reasonably priced products in a few months," said G Srinivasan, Chairman and Managing Director of New India Assurance.

The insurer is also planning to offer covers for treatment outside India, said Srinivasan. The four public sector insurers – New India Assurance, United India, Oriental Insurance and National Insurance – control 70 per cent of the health insurance market.

Medical expenses

Insurance in India typically covers medical expenses involving a minimum 24 hours hospitalisation. OPD, meanwhile, covers doctor consultation, diagnostic tests and medicines. Over the last two to three years, new private sector general insurance companies and standalone health insurance companies have been offering policies covering OPD.

According to a recent report by ICICI Lombard, only two per cent of the health insurance products currently available cover OPD.

For insurers, covering OPD is not an easy proposition as the ticket size of claims is small and frequent. “While there are difficulties in managing OPD, we need to take care of the loss experience to ensure that it does not become an unviable portfolio,” said Srinivasan.

A senior official at United India Insurance said the insurer is also considering extending an OPD cover under cashless scheme in all retail policies. Currently, United India offers cashless OPD for only group policies and in some cases insurers extended this as an add-on offering in their main mediclaim policies on payment of additional premium.

Health insurance

The move to cover the OPD space will provide a wider portfolio for general insurers. Health insurance is one of the rapidly growing sectors for the industry growing 18.66 per cent to Rs 13,975 crore in 2012-13 from Rs 11,777 crore a year before.

Source

Health insurance industry in India is intensely competitive with 23 general insurance companies and five standalone health insurance companies.

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'Financial liability insurance to pick up on higher compliance' - Business Standard

Amid rising compliance standards, coupled with greater integration of domestic companies with their global peers, general insurers are spotting a big growth opportunity in the financial liability insurance segment, which is poised to grow at over 30 per cent annually going ahead.

"There has been an increasing demand for financial liability insurance products like directors and officers' (D&O) liability insurance, professional indemnity, and errors and omission products among others in the recent past. "We hope this segment to grow over 30 per cent per annum going ahead,"Bharti Axa General Insurance Chief Executive Amaranath Ananth-anarayanan said here.

He further said the rising overseas operations of domestic companies would also support this growth trend.

According to industry officials, the financial liabilities insurance segment is under Rs 1,000 crore as of now but is attracting keen interest from corporate houses given the higher level of compliance norms and investor activism among others.

Companies are looking for products like D&O cover which include all kinds of liabilities arising out of activities like sexual harassment charges, discrimination of any kind or fraudulent actions done by directors or officers, etc, to cover rising claims.

"Importance of financial liabilities products have been realised after the Satyam scam. Currently, with provisions like class suits, personal liability of independent directors under the new Companies Act, financial liabilities products are likely to see higher demand from domestic corporates," said Sanjay Datta, head - underwriting and claims, ICICI Lombard.

With rising investor activism and employee awareness, these products would see greater momentum going ahead, he added. "Globally, the D&O segment is a $10-billion market. Things will slowly catch up in this market as well," he said.

Source

An official from New India Assurance also concurred saying despite being a small segment, the trend is quite positive in this space. "Though this is a small segment in the general insurance industry, the trend is very encouraging. Growth rate is also high now," New India Assurance general manager S Sampath Kumar said, adding his company is well poised to reap the benefit of this new growth area.

IRDA plans to free up motor third-party rates - The Times of India

The insurance regulator has drawn plans to free up pricing of motor third-party (TP) cover from 2015 even as insurance companies have raised objections to the proposed new rates set to come into force from April 2014. Detariffing of the third-party cover will enable insurance companies to fix rates according to each company's experience of profitability.

Motor third-party insurance is the only cover where rates are specified by the regulator under a tariff. In all other businesses, including motor own damage (cover against damage to vehicle), pricing is decided by companies.

Responding to IRDA's proposal to free up third-party tariff, R Chandrasekaran, secretary general, General Insurance Council, said, "The industry feels that for detariffing to work, there should be changes in the law to reintroduce laws of limitation and jurisdiction on MACT (Motor Accident Claims Tribunal) claims and there should also be a cap in respect of the statutory liability. Only then will insurance companies be in a position to offer competitive pricing for TP premium within reasonable range, based on claim experience."

On the rates proposed under the new draft tariff, Chandrasekaran said, "Our experience is that the exposure draft does not reflect the reality in respect of claim trends among commercial vehicles in the goods and passenger segments. We have done our own calculations based on the industry data which shows that premium in these segments should also rise," said Chandrasekaran. "Since the IRDA calculations are based on industry claim numbers, one possibility is that the difference could be on account of more conservative assumptions in respect of future claim trends," he added.

Sources close to IRDA said that differences would exist as industry assumptions were based on expectations that awards will continue to rise. They add that detariffing will address the industry's concerns.

In the draft tariff for 2014-15, cars below 1000cc, such as the Maruti Alto and Hyundai Santro, will see their premium rise 136% while the rates will rise by a little over 25% for private cars with engine capacity of over 1500cc. Goods vehicles with gross vehicle weight between 7,500 kg and 12,000 kg will see their premium fall by nearly 14% and buses will see their premium come down by 2%.

"The revised premium has to take into account future tribunal awards as well and these awards may take place in 2025 considering that we have recently seen a claim being awarded pertaining to an accident in the '90s," said Chandrasekaran. That shows the extent of inflation that needs to be factored in while determining the price of the policy.

Source

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Survey & Report

Indian insurance firms to ramp up IT spending: Gartner - The Times of India

Indian insurance companies will spend Rs 12,100 crore on IT products and services in 2014, a 12% increase over 2013, according to IT advisory firm Gartner. This forecast includes spending by insurers on internal IT (including personnel), hardware, software, external IT services and telecommunications.

The Rs 1,200 crore software segment is forecast to be the fastest external segment, growing at 18% in 2014 overall, lifted by accelerated growth of insurance-specific software. IT services, the biggest spending segment for the insurance industry at 40 billion rupees in 2014, will continue to realize robust growth of 16% Category leaders are business process outsourcing (BPO) at 25% and consulting - much of which relates to these insurance-specific application investments - at 21%.

"Insurers in India are getting serious about their core insurance processes, especially where they help increase insurer penetration of the market," said Derry Finkeldey, principal analyst at Gartner. "While internal spending is also increasing, Indian insurers have been quick to turn to the competitive technology provider sector in India for guidance and delivery."

Source

IRDA Circular

Source

IRDA uploaded business figures for Gross premium underwritten by non-life insurers within India (segment wise) : December, 2013 (Provisional & Unaudited).

Source

IRDA released Guidelines on Investment in Equity Exchange Traded Funds to CEOs of all Insurers.

Source

IRDA uploaded Policy Servicing Forms(1) Availability in Languages recognized under Constitution of India(2) Minimum Font Size of "Times New Roman 7" to all insurers.

Source

IRDA uploaded the information about Right to Information Act, 2005. Through this act the Insurance Regulatory and Development Authority is obliged to provide information to members of public in accordance with the provisions of the said Act.

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Global News

China: Regulator directs insurers to manage reputational risk – Asia Insurance Review

The China Insurance Regulatory Commission (CIRC) has issued a directive telling insurance companies to include reputational risk management in their overall risk management framework. It states too that the board of directors of insurance companies are ultimately responsible for managing reputational risk.

The directive, which contains 33 clauses, requires insurers to set up a system to manage reputational risk, including appointing specific personnel to oversee the function, setting out policies, training company employees and the sales force, establishing handling processes, setting up an accountability system and maintaining a database of relevant information. Insurance companies would also have to submit reports to CIRC and be audited, in the event of any significant untoward incident affecting their reputation.

The issuance of the directive followed rising complaints against insurance companies. According to CIRC data, more than 21,300 complaints were lodged against insurers last year, representing an increase of one third over 2012. Of the total, around 9,000 complaints were made against non-life insurers and more than 12,200 complaints were against life insurers. In 2012, the total number of complaints exceeded 16,000, double the number in 2011.

Many of the complaints revolve around mis-selling and settlement of claims. In recent years, many customers have complained that they were talked into buying wealth management products which turned out to be insurance policies. Customers have also suffered losses from investment instruments bought from people they had believed were insurance company staff. Last month, several customers of one of China's biggest insurance groups, Ping An, said that they had bought funds backed by Beijing Roll-in Investment Management which failed to repay investors on maturity. Capital plus interest on the products involved CNY1 billion (US$160 million). Although the funds were sold by staff purportedly representing the insurer, Ping An said that it did not distribute such funds.

According to Capgemini's recently released World Insurance Report 2014, China ranked 29th out of 30 countries or territories worldwide in terms of positive customer experience. Capgemini's Voice of the Customer Survey, the results of which were published in the report, found that 16 percent of respondents in China said that they had a positive customer experience in their insurance dealings. This percentage was dwarfed by the 51 percent reported for the US which ranked at the top of the 30 markets surveyed.

Source

GCC market still attractive – Moody's - www.reactionsnet.com

Western reinsurance companies will continue to find the GCC region an attractive market for growth, despite softened rates amid a lack of recent loss activity, according to Moody's.

The credit rating agency said the GCC represents an attractive medium-term growth opportunity for reinsurers.

"The market's low insurance penetration, combined with rising awareness of the benefits of insurance and a high number of infrastructure and hydrocarbon related projects, has resulted in stronger demand for both commercial and personal lines of insurance," said Moody's.

However, the report notes that primary market growth of 16.8% between 2006 and 2012 has not been reflected in reinsurance growth, as retention has increased because local insurers have grown in sophistication, risk appetite, capturing more of the value chain.

"This, combined with the lack of extreme losses in the GCC during 2013, led to rate softening in the January 1 2014 renewal. We expect this to continue over the short-to-medium term, absent significant deteriorations in underwriting loss ratios," said Fitch.

"Nonetheless, use of reinsurance in the region is generally significant, with premium retention levels in the Middle East often low – on average 66%...compared to over 90% for some of the largest global insurers," added the report.

The rating agency thinks the region's reinsurance market is set to expand over time.

Moody's also notes that the region's reinsurance market is roughly split between the local reinsurers writing personal lines risks and Islamic retakaful business, using local knowledge and expertise, and international reinsurers writing commercial lines business.

"Although the capitalisation of local reinsurers is often strong compared to the risks underwritten, in many cases the local reinsurance market remains limited in terms of geographic coverage and to a lesser degree, line of business, exposing them to meaningful concentration risk," said Moody's.

Moody's thinks that "stagnant growth" in Western markets will continue to attract reinsurers to Middle East business. Structure of reinsurance market in the GCC – relatively high cession rates, albeit reducing in recent years.

"Although the entire GCC region represents less than 0.4% of global insurance premium, very low regional insurance penetration, the high number of infrastructure and hydrocarbon related projects and typically low natural catastrophe risk5, makes the GCC market attractive to global reinsurers," said Moody's.

"Additionally, local insurers are often keen to partner with international reinsurers to help develop pricing and risk selection capabilities. However, offsetting these opportunities, we note that economic activity in the region is correlated to global oil/gas prices, geo-political uncertainty in the region remains high and effective risk management is still in the development stage for many local (re)insurers," added the rater.

Source

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UK floods' £1.2bn cost manageable – Fitch - www.reactionsnet.com

Credit rating agency Fitch thinks the UK winter floods will add 3.4% to insurers' combined ratios, negatively affecting earnings but remaining a "manageable" claims event. Fitch Ratings said the £1.2bn published estimates for the claims bill will prove broadly accurate, creating "a limited negative effect on the sector's earnings".

The rating agency's UK Non-Life: Company Market Dashboard said insurers' ability to soak up losses would be helped by their being "typically large, well-diversified players with the ability to offset losses through other profitable lines and to capitalise on price increases post-event thanks to strong capital levels".

Motor is expected to "remain under pressure" in particular, thinks Fitch.

"Fierce competition and regulatory reform in the personal motor market are set to remain the greatest challenges to underwriting performance through 2014 in the UK company market," said the rating agency.

"Market competition continues to limit insurers' ability to achieve meaningful price increases, leading most companies to focus on expense control, which is expected to be reflected in lower expense ratios in 2013 and 2014," said Fitch.

"Fitch believes that most insurers will continue to rely on prior-year reserve surpluses to achieve sub-100% combined ratios in their motor business, which will bring reserving sustainability back into the spotlight," added the rating agency.

Source