



Insurance Institute of India

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INSUNEWS

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Insurance Industry

PSU banks must follow broker model to sell insurance: Government - The Economic Times

The government is unlikely to show flexibility on its directive that banks must disband the corporate agency model for insurance products and adopt the broker model, a top finance ministry official has indicated. Financial services secretary Rajiv Takru told ET that the panel looking into the concerns raised by PSU banks will only explore ways of smoothening the transition. "The committee's mandate is to define the exact road map or the smoothest way to implement the multi-company sale model," he said. In December, the finance ministry had asked public sector banks to become insurance brokers instead of remaining corporate agents. This was in line with the budget announcement that paved the way for banks to act as insurance brokers.

The insurance broking model also has the backing of the Insurance Regulatory and Development Authority (IRDA). A senior IRDA official said that the guidelines will be the same for both state and private sector banks. "There cannot be a distinction that state-run banks are selling all products while private banks continue to peddle product of their own group companies," the official said, adding that the regulator is open to relaxing the norms to facilitate this transition. IRDA guidelines state that while acting as brokers, banks will have to cap business from their own group companies at 25% for both life and non-life business. According to the official, the regulator could consider changing this cap or defer its implementation.

But bankers and insurance companies are unhappy. "Our foreign partners are already questioning their decision to enter India when the policy keeps changing arbitrarily," said the executive director of a state-run bank. "The whole joint venture was on the premise that they will use our branch network for expansion." Two foreign insurers - New York Life and ING - have already exited their Indian ventures.

At present, banks are allowed to sell products of one life, non-life and one health insurance company. If banks act as brokers, they can sell products of all companies. In his 2013 budget speech, Finance minister P Chidambaram had said that banks will be allowed to act as insurance brokers so that the banking network can be utilised to deepen insurance coverage in the country. In November, the RBI allowed banks with capital adequacy ratio of not less than 10% and net non-performing loans of not more than 3% to undertake insurance broking business departmentally.

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Raise FDI cap in insurance to 51 per cent - The Economic Times

The move to let FIIs and NRIs pick up stakes in insurance joint ventures is a marginal kind of reform. Of course, little more is possible, given the Opposition's obstructionist attitude on amending the law to allow higher levels of foreign investment.

The clarification that portfolio investments will be subsumed in the 26% foreign direct investment (FDI) cap for insurance companies may, at best, help a few insurers list on the stock exchange and enable foreign investors to exit by selling their stake to any interested portfolio investor. However, the help that the insurance industry needs is different. It needs more capital to grow. FDI is more stable than short-term FII money. So, the need is to raise the FDI limit to 51% to allow foreign partners have majority control. Policyholders' premiums lie on the books of insurers, and prudential norms require insurance companies to provide for more capital as premium collections rise.

Majority control will help foreign partners of insurance companies consolidate their accounts, and their boards will also find it attractive to allow more investments in India. The operations of these companies will become more efficient with better managerial skills and this, in turn, will foster a vibrant insurance market

Source

that can attract long-term funds. The economic slowdown has hurt the operations of many private insurers and their performance is below potential, in terms of their own ability and the market's need. Raising the insurance cap is an enabling measure as India is among the most underinsured countries. The case is compelling: the FDI limit in the banking sector is higher at 74% (although voting rights stay capped at 10%). The BJP, which had proposed liberalising the insurance sector during the NDA regime, should support any move to raise the FDI cap in the sector.

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Microinsurance sale norms: Sector uneasy with latest Irda proposals - Business Standard

Micro insurance products could soon be sold by local grocery stores, public call offices (PCOs), fuel outlets and ration shops in rural areas. However, insurance sector officials also believe this would hamper the need-based sale objective. The Insurance Regulatory and Development Authority (Irda) has brought out a revised set of proposals on micro insurance products. Regional rural banks, micro finance institutions, district cooperative banks, non-government organizations, self-help groups, urban cooperative banks, banking correspondents and individual owners of kirana stores, PCOs, fuel outlets and ration shops will be allowed to sell these.

“Getting agents to sell micro insurance products is a big challenge. Kirana shops and PCOs neither have the skills nor the expertise. This might do more damage than increasing the penetration,” said a senior executive in a life insurance company. Micro insurance refers to general or life insurance policies offering an assured sum of Rs 50,000 or less. The average size of this category is Rs 2,000-4,000 a policy. This is aimed at coverage for low-income households in rural areas. The regulator has proposed that all micro variable life insurance products shall have a lock-in period of five years from the date of inception of the policy. In this period, surrenders are not to be allowed but partial withdrawals may be permitted. Sector officials said for local personnel to distribute insurance, they will also need to undergo training. Currently, insurance agents need to undergo mandatory training of 50 hours. Licensing rules by Irda stipulate agents have to undergo 50 hours’ training for a basic licence and 75 hours’ training for composite licence.

Insurance agents also have to undergo a 25-hour practical training to renew their licence, valid for three years. Composite agents will have to undergo practical training of 50 hours for renewing their licence. “Since agents undergo training and brokers have eligibility criteria, the regulator should have similar criteria for shopkeepers and petrol pump owners selling insurance. Otherwise, there is no accountability for products sold,” said the chief executive of a private general insurer. Mis-selling is another concern. The chief distribution officer of a private life insurance company said mis-selling and other malpractices for sales was high and could be heightened by entry of newer intermediaries.

“Retail store operators and small store owners might not be able to explain the product features or even understand the product themselves, mainly because they are in a different segment of business. However, there could be cases where they might push products to earn the extra income/commission. That is where the danger lies,” a senior broking official explained. In 2012-13, there were 341,012 registered life insurance complaints as compared to 309,613 for 2011-12. According to Irda’s Consumer Affairs Annual Booklet, the number of non-life insurance complaints dropped in the period. There were 78,927 registered non-life complaints for 2012-13, compared to 93,155 in 2011-12.

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Life Insurance

Standard proposal form requirement put off - The Financial Express

The insurance regulator has deferred the implementation of a standard proposal form for life insurance. These forms mandated insurers to conduct a detailed need-based analysis of prospects and sell policies according to their suitability.

The Insurance Regulatory and Development Authority (Irda), in a circular, said that after examining various representations from insurance companies, the implementation of the proposal has been deferred to facilitate comprehensive consultation. The regulations are, however, not applicable to micro-insurance products or those distributed through the Common Service Centre Channel.

Irda had issued a gazette for a standard proposal form in February last year and it was to be implemented in August itself. The deadline was later extended to April 2014. Analysts say the comprehensive standard proposal form, which applies to individual policies, would have curbed misselling as the insurer would have been responsible for selling a wrong product.

The Irda's gazette notification on a standard proposal form consisted of 12 pages, divided into four sections — (A) details of life assured; (B) specialised/additional information; (C) suitability analysis; and (D) recommendation or the product proposed.

While sections A and D were mandatory, section B could be customised. Section C was optional. The objective was to understand the need for a product being recommended to protect the prospect's interests. The standard proposal form would have been applicable to individual policies issued by life insurance companies, irrespective of the segment and type of the product. The first section contained mandatory information about the proposer like name, address, contact details and basic health details. In the second part, the proposer would have to submit specialised health information like physical deformity, any accident requiring treatment, if absent from work for more than a week in last two years due to illness, etc.

The third section would involve suitability analysis like affordable contribution, span of work, income-expenditure, financial details and the identified insurance needs. The fourth and final section would be product proposed details like protection needs, life stage, details of commitment for the current and future needs, etc. Analysts say the standard proposal form faced certain implementation issues. Prakash Praharaj, chief financial planner, Max Secure, says prospects were reluctant to give adequate time to complete a proposal form. "The result of need analysis depends on the accuracy and quality of the collected data," he says.

In the standard proposal form, it was mandated that an agent will have to ensure that all risk elements and details of charges are explained to the proposer. Irda had earlier underlined that the objective of the standard proposal form for individual policies in life insurance was to ensure that it takes into consideration all relevant questions that are required to understand the need for a particular product and make a recommendation to the prospect, bringing in transparency and protect the prospects' interest.

Irda had earlier made it mandatory that an insurer or agent or bancassurance or broker or the insurer's employees where direct sales are involved, would have to make reasonable efforts to obtain a consumer's suitability information prior to making a recommendation. Moreover, based on the suitability of information gathered from the prospect, the insurer or agent must have reasonable grounds to believe that the product being recommended to the prospect is suitable for him.

The review would be stored in a physical or an electronic format or any any other process that accurately reproduces the actual document and can stand legal scrutiny. Analysts say the most viable option by life insurers could be to provide online tools on need analysis which can be used at various life stages of the customer.

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It May be a Long 'March' for Life Cos This Quarter - The Economic Times (Bangalore edition)

The March quarter has traditionally been the festival season for life insurance companies as people work out ways of using investments in various products to avoid paying taxes. But it may be different this year as insurers struggle to convince customers to buy new products through a sales force that's reluctant to work at lower commissions with new regulations having taken effect at the beginning of the year.

Insurance distributors will take a while to understand products that have undergone a structural change in terms of benefits and cost with many older, best-selling policies having gone off the shelves. Generally, 40-50% of sales take place in the fourth quarter of the financial year.

New insurance guidelines went into force on January 1 as part of a regulatory shift toward guaranteed surrender values for policyholders and lower commission charges. Traditional policies are debt-oriented products in which the bulk of the underlying investment is in government and corporate bonds, with a maximum of 15% deployed in equities.

The new traditional product guidelines have lower commissions — between 15% and 35% of the first-year premium, depending on the tenure — compared with as much as 50% on some old policies. That's aimed at

reining in the practice of pushing unsuitable products onto buyers. “This January, February and March won’t be the same in terms of growth as people are taking time to understand the new products,” said Sanjiv Bajaj, MD, Bajaj Capital.

The regulator overhauled the rules to make insurance products more customer-friendly. Surrender values have been raised as many customers, forced to discontinue participation in products because of financial reasons, felt they took an excessive hit from the insurance companies by having to forfeit much of what they’d paid in. March quarter revenue may also suffer as companies aggressively sold products in the December quarter to beat the new norms.

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General Insurance

Step up focus on Agriculture Insurance: IRDA chief - The Hindu Business Line

The insurance sector should increase its focus on agricultural insurance products and their distribution, according to TS Vijayan, Chairman, Insurance Regulatory and Development Authority. In his inaugural address at the 10th brokers’ summit organised by the Insurance Brokers Association of India (IBAI), Vijayan said agricultural insurance has largely remained Government-driven so far and there is greater scope for expansion in the segment. “The brokers may focus on agriculture, allied sectors and disaster management insurance products being aided by geometric and remote-sensing technologies,” he said.

Referring to some of the demands made earlier by IBAI President Sohanlal Kadel, the regulator said a panel was working on aspects, including permission to sub-broking. Brokers should put in place a proper post-sales service.

“Policy servicing was critical to the credibility of the brokers,” he added. They should also help customisation of products in the retail general insurance segment, he added. Earlier, Kadel had requested that the regulator increase the limit of business from a single client from the current 30 per cent to 50 per cent, reduce the annual brokerage fee and permit sub-broking. Many of the issues brokers face with general insurers, such as delays in payment of brokerage, issue of Form 16A certificate, and documentation and settlement of claims, should also be addressed, he added.

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Third Party Motor Insurance set to increase from April - The Hindu Business Line

According to IRDA, from 2009-10 onwards, there has been a steady increase in the size of death claims in this segment. The average size of death claims in motor TP policies has seen a 27.2 per cent rise for 2012-13 (as on March 30, 2013), compared to the previous year.

Every year, in April, the insurance regulator revises the third-party premium rates for all classes of vehicles based on an actuarial formula, which takes into account the loss ratios for insurers, inflation, higher awards by judiciary, and other factors.

While third party premium rates have gone up across most categories of vehicles, in certain categories such as goods carrying private carriers (other than three-wheelers), IRDA has proposed to cut premium rates by eight to 35 per cent.

Higher provisioning

In November, the IRDA sharply increased the provisioning (the money general insurance companies need to set aside to meet the high level of claims) to 210 per cent of the claims from 145 per cent, based on the loss estimates by an actuarial committee.

A senior official from a public sector general insurance company said the industry needs at least a 50 per cent hike to see the third party motor insurance portfolio break even, as the judicial awards by courts has been rising every year.

Motor insurance in India has two components: own damage cover and third-party cover. The latter is compulsory, to cover third-party damage in terms of property or life.

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While own damage is a profitable portfolio for insurance companies, third-party motor insurance is highly unprofitable with claim ratios exceeding 140 per cent. So, due to the high claims from commercial vehicles, insurance companies provide them cover from a common declined pool and not from their own books. Last year, third-party motor insurance rates had gone up by an average 18-20 per cent after transporters opposed the 60 per cent hike demanded by insurers.

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Bancassurance

IRDA may bar bank-insurer exclusive tie-ups - The Times of India

Banks may not be allowed to sell products exclusively of one insurance company with the insurance regulator IRDA keen on a multi-company distribution arrangement even if the Reserve Bank of India was disinclined to allow banks to take up insurance broking.

Several corporate agency tie-ups between banks and insurance companies are coming up for renewal in 2014, and the regulator has indicated that existing arrangements may not continue. Attempts by the finance ministry and the insurance regulator to get banks to take up the broking route to distribution have been thwarted by the RBI, which is yet to come up with guidelines for this and is likely to set the bar high when it does.

If banks continue to have the option of following a corporate agency model, it would defeat IRDA's attempts to open up banks and get them to give customers a choice of products. Sources said that if banks are not allowed to get into insurance broking, the insurance regulator will look at other ways to develop an 'open architecture' where customers get a choice of several insurance companies' products from their bank.

Last week, the Indian Banks' Association (IBA) discussed the broking issue in two separate meetings with the finance ministry and the RBI. Following the RBI meeting, K R Kamath, chairman of Punjab National Bank and IBA chief, said that it has been decided that a small group comprising banks, insurance companies, RBI and IRDA would look into the matter.

"There is no dispute that banks have to do what is best for the customer. The issue was that instead of one company's product, customers should have a choice. The question is, how to do it? One particular model may not be the right way as many banks have contractual obligations with their joint venture partners," said Kamath. He added that the panel would look into these issues. Sources said that RBI has already constituted a panel under B Mahapatra, executive director, RBI.

According to Kamath, it was decided that banks whose agency contracts are coming up for renewal would, for the time being, renew them until the final guidelines come. This was unless there is a contrary directive from either the finance ministry or from the regulator, he added.

The pressure to open up banks to sell products of more than one company is coming from banks that do not have a tie-up with any major bank. Although broking fees are higher than agent commissions, brokers say that for banks operating as a corporate agency is much more lucrative. This is because in addition to commissions, insurers are allowed to pay infrastructure and administration expenses to banks, which is outside the commission. In the case of broking, such payments are not allowed by the regulator since brokers are supposed to be independent entities.

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IRDA Circular

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IRDA released Exposure Draft on Revision in Premium Rates for Motor Third Party Insurance Covers for the Financial year 2014-15

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IRDA vide Ref:IRDA/F&I/CIR/INV/063/02/2014 uploaded note regarding Bank's Capital Instruments under Basel III – Investments by Insurance Companies to CEOs of all Insurers

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IRDA uploaded guidelines for Individual Agents for Persistency of Life Insurance Policies

Global News

China: Motor insurers can expect higher pricing this year – Asia Insurance Review

Insurers can expect lower pricing in many business classes this year, except for motor where rates are forecast to increase by up to 5 percent, says global insurance broker, Marsh, in its 2014 Asia Insurance Market Report.

Marsh said: “Since the motor business results were not as good as regulators expected, the de-tariff initiative was not carried out as scheduled in late 2013. In general, motor rates will be increased due to poor loss records in 2013.” In its comments on other classes of business, Marsh expects prices to decline by up to 10 percent in workers' compensation, employee accident and health, non-cat exposed property, marine cargo, professional liability and general liability. The main reason for the dip in prices is ample capacity in the market. In workers' compensation and general liability, there is the added factor of a good loss ratio.

Marsh says that in non-cat exposed property, insurance buyers cannot expect further rate reductions, especially when the renewal rate is below the guideline set up by the Insurance Association of China. In classes like cat-exposed property, environmental, medical malpractice, employee health and employee life, rates are expected to be stable, falling or rising by at most 5 percent either way. Marsh adds that since the start of 2013, 19 insurance companies, including life insurers, have completed capital increases. The total amount of increases exceeded RMB26 billion (US\$4.3 billion), so market capacity and solvency status have improved significantly. The insurance industry has also enjoyed strong growth, with premiums increasing by 25 percent per year since 2001.

On the reform front this year, Mr Xiang Junbo, chairman of the China Insurance Regulatory Commission, has stated that the insurance industry will focus on four main aspects: reform to help develop omnidirectional coverage and multi-layer service; marketisation in risk pricing and fund operation; commercialisation to enhance industry competitiveness; and reform for more effective supervision and governance.

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Australia: Insurance body approves revised general insurance code - Asia Insurance Review

The board of the Insurance Council of Australia (ICA) has approved the trade body's revised General Insurance Code of Practice which will be formally launched on 1 July 2014 with all Code signatories to be compliant by 1 July 2015. The Code commits insurers to high standards of service and promotes better and more informed relationships between insurance companies and their customers.

The Code, which is implemented on a voluntary basis, establishes a transparent and independent governance framework to ensure Code compliance is effectively monitored and enforced. It provides for stronger and more detailed obligations on Code signatories to provide assistance to consumers in financial difficulty. It also promotes easier-to-follow claims and complaints processes.

For instance, the Code states that insurers will keep policyholders informed about the progress of their claim every 20 days; and respond to policyholders' routine requests about their claims within 10 days. If the insurer has not made a decision within 12 months, it is obliged to provide the claimant with details of its complaints process. Insurers that sign up the ICA's revised voluntary Code and are found to be in “significant breach” of it could be forced to publish the non-compliance or undertake a compliance audit.

ICA board president, Mr Mark Milliner, said in a statement that the industry expects that the revised Code would set the benchmark for industry self-regulation in Australia. “The Code has been revised after a robust and thorough review, extensive consultation with a range of consumer groups and regulators, and the general insurance industry,” Mr Milliner said.

The revised Code follows a 12-month independent review that examined the role and effectiveness of the Code with a broad range of consumer, government and industry stakeholders. The ICA's Code Review Working Group then reviewed and assessed the report's remarks, findings and recommendations. The ICA, which

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represents general insurers Down Under, also consulted the Australian Securities and Investment Commission and the Financial Ombudsman Service.

Rate reductions to continue in 2014: Marsh - www.reactionsnet.com

Rate reductions across most business lines in 2013's fourth quarter and the January 1 renewals marked a downward pricing trend expected to continue in 2014. This is despite insurance market rates largely remaining stable in 2013's first three quarters across Europe, the Middle East, and Africa (EMEA), Marsh reported.

General liability insurance rates have drop by an average of 10% and property by up to 15%, Marsh's latest report found. Only four countries saw rate increases: Latvia, Namibia, Serbia & Montenegro, and Turkey (of up to 10%). Rates for directors' and officers' liability insurance saw average reductions of up to 10%. Only Italy witnessed a marginal rise in rates. Capacity for EMEA insurance is at an all-time high and is unlikely to change in the short-term, said Marsh.

"For January 1 renewals, fierce competition among insurers for organisations with attractive risks and good loss histories led to an increased use of alternative capital, smaller reinsurance orders for the traditional insurance marketplace, and rate reductions in the region of 10-15%," said Marsh. Ongoing economic anxiety and budget pressures have also altered companies' insurance buying behaviours, Marsh noted. Insurers are responding by creating new programmes to retain business, while reducing premiums for their clients.

"The sovereign debt crisis continues to weigh heavily on business decisions across much of the world," said David Batchelor, president of Marsh's international division.

"Europe is in increasing danger of being torn into a two-tier continent; one split between those northern nations in the midst of recovery and the Mediterranean countries which continue struggle in the economic mire.

"This, coupled with the benign catastrophe loss environment, means that premiums have not increased in the way insurers would have hoped and, as a result, a greater emphasis is now being placed on rigorous underwriting and risk selection," said Batchelor.

Underwriters want a greater range and depth of information from buyers to reduce their exposures, putting an even greater importance on detailed and comprehensive risk management to secure good rates at renewal, Batchelor explained. Enquiries relating to cyber risk insurance products have continued to grow as firms are increasingly aware of their exposures, Marsh found. While take-up has risen in countries such as the UK, Germany, and Belgium, uncertain economic conditions and ensuing budgetary constraints mean it may be some time before cyber insurance becomes a key priority for clients in struggling countries.

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