



• Quote for the Week •

Destiny is not a matter of chance; it is a matter of choice. It is not a thing to be waited for, it is a thing to be achieved

William Jennings Bryan

INSIDE THE ISSUE

News Pg.

Industry 1

IRDA Reg 3

Life 5

General 5

Survey 7

IRDA Circular 8

Global News 8

Insurance Industry

Jaitley hopeful of passage of Insurance Bill in winter session - Financial Chronicle

Finance minister Arun Jaitley today expressed hope that the long-pending Insurance Laws Amendment Bill, which seeks to raise the FDI cap in the sector to 49 per cent, will get the Parliament approval in the upcoming Winter Session.

"We have opened up investments in various sectors. I do hope this (Winter) session I will be able to pass the Insurance Bill," he said at the India Global Forum meeting here.

The month-long Winter Session of Parliament is scheduled to commence from November 24.

FDI in the sector is capped at 26 per cent at present.

The much-delayed Insurance Bill has been referred to the Select Committee of Parliament. The Bill, which comes with a rider that the management control would rest in the hands of Indian promoter, has been pending since 2008 in the Rajya Sabha.

The Minister said India is pursuing the policy of allowing foreign investment with sectoral cap keeping in mind the requirements of the economy and the appetite of the Indian political system.

"When we were in the government last time we opened up the sector. At that time, the political system had an appetite for a limited opening. We are now opening up the sector a little more," he added.

Bowing to opposition pressure, the government had in August agreed to refer the Insurance Bill to the 15-member Select Committee. The committee is expected to submit its report by the third week of November.

The reform, according to experts, could increase the flow of foreign investment to the tune of Rs 25,000 crore into the private insurance companies. The move would help insurance firms to get the much-needed capital from overseas partners.

There are about two dozen private sector insurance firms, both in life and non-life segment in the country.

[Back](#)

Source

Select Committee to review Insurance Bill on Wednesday - The Hindu Business Line

In the run-up to the introduction of the Insurance Bill in the Winter Session of Parliament, the Select Committee will meet on Wednesday to deliberate over the long pending legislation which seeks to raise the foreign direct investment (FDI) limit from 26 per cent to 49 per cent. In August, bowing to Opposition pressure, the BJP-led NDA Government had agreed to refer the Insurance Bill to a 15-member panel.

FDI limit

The Bill, which proposes to hike the FDI limit in the insurance sector to 49 per cent, has been caught in a logjam with the Congress-led opposition insisting that it be referred to a select committee. According to sources, the meeting will have a "clause by clause" discussion of the various provisions of the Bill to assuage

the concerns of the Congress so that it has a smooth passage in the Winter Session set to begin on November 24.

Industry officials said the Congress has indicated that it will support the Bill if the Government agrees to drop amendments proposed to the earlier Bill, which was introduced during the Congress regime.

Scope of foreign investment

Apart from technical changes, the amendment proposed to the Insurance Bill by the BJP Government includes a clause which seeks to explicitly enlarge the definition of 'foreign investment' to include foreign institutional investors.

The Select Committee has held a series of meetings with different stakeholders, including insurance industry officials, and senior officials from the Insurance Regulatory and Development Authority.

The Select Committee is chaired by Chandan Mitra from the BJP, and its members include: Anand Sharma, BK Hariprasad, and JD Seelam (Congress); Mukhtar Abbas Naqvi and Jagat Prakash Nadda (BJP); Satish Chandra Misra (BSP); KC Tyagi (JD-U); Derek O'Brien (TMC); V Maitreyan (AIADMK); Naresh Gujral (SAD); Ram Gopal Yadav (SP); Kalpataru Das (BJD); P Rajiv (CPI-M); and Rajiv Chandrasekhar (Independent).

Source

The committee is expected to submit its final report to the Government in the third week of November, ahead of the Winter Session.

[Back](#)

Insurers widen networks in small towns as online policy renewals rise - Financial Chronicle

Online renewals of third party private car and two-wheeler insurance policies are on the rise. Insurers are finding this as a means to widen their distribution network in smaller towns and to cross-sell and up-sell.

Bajaj Allianz started offering online renewal facility two years back and today online channel contributes 30 per cent of the renewals, growing at a rate of 30 to 40 per cent yearly. In two to three years, the company expects online to account for 50 per cent of the renewals.

It is not just the convenience of logging in and comparing quotes of different insurance providers that is making customers choose online, many a times, quotes of the same company is either cheaper or more attractive compared to what is offered by the agents.

"As the customer comes directly online there is no intermediation cost, which is usually paid to the dealers or agents. Adding the policy fulfillment cost to that, online saving can go up to 10 to 15 per cent. This is passed on to the customer as value-adds or as a better price while buying online," said Ajay Bimbhet, MD, Royal Sundaram Alliance Insurance.

According to Vijay Kumar, chief technical officer (motor), Bajaj Allianz General Insurance, there are over three crore unlisted and uninsured two-wheelers and commercial vehicles. "In case of two-wheelers, many agents do not chase the customers due to smaller ticket sizes. Online is the right medium to get these two-wheelers insured," he said.

Young people in the top cities form the major chunk of customers who take to online renewals.

"The customers in smaller cities and towns also have started renewing policies online. This is an opportunity for us to reach out to the smaller towns," said Sanjay Kumar, VP and head- motor underwriting, Bharti AXA General Insurance.

Insurance companies are also using this opportunity to cross-sell and up-sell.

"As customers come online for renewal, they also come to know about other offers and features and sometimes ends up buying them," said Kumar.

"We try to push products like travel insurance, personal accident insurance, health policies. As we get to understand the profile of the customer better online we also have the opportunity to sell the right product and right solution, cross-sell and up-sell," said Bimbhet.

Source

IRDA Regulation

Irda proposes to tighten rules on expense management - Business Standard

The Insurance Regulatory and Development Authority (Irda) is tightening its noose around the expenses of management in life insurance companies. If implemented, this will bring down premiums in participating (par) products for customers, since higher expenses would not be allowed in the par product segment.

In a draft circular, it has asked companies to opt for the lower of either the expenses as mentioned in the file and use (F&U) filing with Irda and the norms under Rule 17D of the Insurance Rules 1939. Feedback has to be sent by next week. Srinivasan Parthasarathy, chief actuary and appointed actuary, HDFC Life Insurance, said this would bring discipline in expense management. If the limit was breached, the excess amount would come out of the shareholders' account.

The Rule 17D mentioned earlier says there will be a limitation on expenses of management in the life insurance business. No company is allowed to exceed these expenses in any calendar year. It is calculated as a percentage of the premium (first-year and regular premium) and size of the business. The appointed actuary at a bank-promoted life insurer said the draft, if made a rule, will impact all companies. "It will hit the branch and business expansion plans," he said.

On an average, it is capped at 90 per cent of first-year premiums and 15 per cent of renewal premiums if the company is in operation for 10 years and its in-force business is Rs 10 crore or above. These expenses of the management are part of the premium rates of insurers.

The Insurance Act says 'expenses of management' means all charges wherever incurred, whether directly or indirectly. It includes commission payments of all kinds and any amount of expenses capitalised, among others. This includes branch expansion expenses. Life insurance companies, especially in the first five years of their business, have a higher cost-head. This is due to expansion in the business, recruiting of staff and setting up new branches, apart from marketing expenses. Hence, experts say these newer companies might have to maintain a stricter expense ratio.

As noted earlier, the Irda draft proposal says insurers would have to compare the limit allowed by insurance rules and the actual expenses, choosing the lower of the two. Further, the expenses for two similar-looking products in the participating (par) and non-participating (non-par) segments cannot be different.

Sector experts said some par products tend to have a higher cost than non-par ones. Hence, if Irda implements this, charges could come down for customers. Par products are those where policy holders are entitled to bonuses from companies and are 'with participation in profits' policies. Non-par policies are where policy holders are not entitled to any share of surplus (profit) during the policy term.

The regulator has said if the expenses are breached up to a stipulated limit, the actuary would have to explain. If the limits are breached even further, both the chief executive and actuary would have to explain. At a later stage, if there is a large breach, both would have to visit the Irda headquarters in Hyderabad and give a detailed explanation. Another appointed actuary at a mid-size life insurance company, promoted by a large Indian conglomerate, said this would impact all entities in the segment.

"To be more efficient, we file expenses that are much lower than what is allowed in Rule 17D. If we are asked to go for the 'Lower of the Two' processes for expenses, we will have to file expenses almost at par with Rule 17D. This will be bad for customers," he said. Newer insurance companies, though they have a higher fixed cost, feel they might not have to immediately bear the impact of this. A senior executive in a smaller life insurance company explained that some exemptions might be provided to companies which are five years or younger in the segment, so that they can firmly establish their business.

MOVEMENTS CURTAILED?

- Life insurance companies asked to lower management expenses, including commissions, capital expenses, salary costs and branch operation costs, among others
- 'Lower of the Two' formula to be used where the lesser of the expenses mentioned in its filing to the regular and the maximum permissible limit will be followed
- For instance, if a company has mentioned an expense of 20% as against the stipulated limit of 30%, using the above formula 20 % will be the maximum limit in any calendar year

Source

- This will impact expansion of business, especially with respect to branches
- Companies in their early stages of growth with higher costs will be required to limit expenses
- Participating and non-participating products with a similar structure will have similar expense rate
- Differentiated rates charged on par products by some insurers won't be allowed. Good news for par customers as their overall premiums may come down

[Back](#)***Irda whip on heavy discounts to corporate - Business Standard***

The Insurance Regulatory and Development Authority (Irda) has cracked down on general insurance companies offering heavy discounts in the group insurance portfolio to attract and retain corporate clients. The regulator, in its guidelines on pricing of risk, said industry-wise loss cost must be the starting point and should be considered for pricing a product. With this, heavy discounts, especially in group health schemes, are expected to cease and premiums likely to increase.

It further said insurance companies can consider burning cost— an insurance-industry calculation of excess losses divided by total subject premium — of a particular risk on its own past acceptances for all available products. It further said since burning cost for property risks are published by Insurance Information Bureau of India (IIB) are for perils other than natural catastrophe, insurers need to consider adequate pricing for the said risks, if offered.

Applicable on fire, property and group health space in the initial phase, this will be enforced from January 1, 2015. Fire, property and group health segment have seen heavy discounts offered inspite of insured losses going up.

The insurer's own experience on procurement and management costs also needs to be considered to a large extent of current levels, said Irda. The regulator said that due to aggressive competition in the market, risks are not being adequately priced.

"We will now see right pricing coming into the market. Several non-life insurers have been indulging in unhealthy pricing to keep corporate clients in their portfolio," said the chief executive of a mid-size private general insurance firm. He said due to the right pricing, premiums will go up and companies may ask employees to part-pay the premium amount.

Burning cost is the estimated cost of claims in the forthcoming insurance period, calculated from previous years' experience adjusted for changes in the numbers insured, the nature of cover and rate of medical inflation. This is a ratio used by insurers to protect themselves from larger claims that exceed premiums paid.

If there is acceptance of burning cost lower than the above mentioned and the board approves it subject to Nat Cat covers or based on experience, the Board has to give an approval. Further, this has to be filed as an exception report and Irda will formulate suitable standards for bringing it out on a regular basis.

Experts said that unhealthy competition is eroding the group health space with prices as low as 10-20 per cent lower than claims experience. The regulator is looking closely into this matter and will look at having higher capital requirements or solvency rates for those insurance companies who quote un-viable prices.

In a bid to retain corporate accounts, certain non-life sector insurers are indulging in this practice of offering high discounts. Industry players said that there is not just transfer of accounts from private to public, but also from one private non-life insurer to the other. Industry experts believe that it is not sensible to offer discounts to large profitable firms, since they are capable of purchasing insurance without a subsidy.

Health insurance, which has an almost 23 per cent market share in the general insurance space, has seen the incurred claims ratio touch 96.43 per cent in FY13, as compared to 94 per cent in FY12. While for public sector general insurers, the incurred claims are still less than 100 per cent, private sector general insurers have seen it cross 100 per cent. This means that the claims incurred are more than the premiums paid for such private general insurers.

Source

Irda has said that they will monitor compliance to these norms closely and any deviation will be viewed seriously.

Life Insurance

Private insurers outpace market - The Financial Express

Having rolled out new products based on the revised guidelines issued by the insurance regulator earlier this year, private sector life insurers have been able to grow their business, reports Malyaban Ghosh in Mumbai. While first-year premiums for the industry as a whole contracted close to 2% year-on-year in the six months to September, private players reported a smart rise in collections of nearly 10% y-o-y. The state-owned insurer Life Insurance Corporation's collections fell 5% y-o-y.

First-year premiums are important for insurers and in fact their bread and butter; in the three months to June, premiums of private insurers grew 15.5%, while the industry grew 2.5%. Although the new lot of products is more long-term in nature, customers have not been averse to buying these policies given there is a higher insurance cover, a larger minimum surrender value and death benefits. The Irda's new guidelines have also reduced commissions on short-term policies and linked the quantity of commissions to the premium-paying period for all products. However, the number of policies issued in H1FY15 dropped over 50% indicating a rise in the ticket sizes. Insurers appear to be selling more single-premium products averaging Rs 50,000. First-year premiums for group policies grew 2% during the period.

Source

[Back](#)

General Insurance

Motor policy renewals are expensive - Business Standard

Getting your car insurance renewed soon might be a good idea as driving an uninsured vehicle will attract a huge penalty once the Road Transport and Safety Bill, 2014, is passed.

Owners and drivers of uninsured motorcycles and light motor vehicles will have to cough up Rs 10,000. Those driving an uninsured car or truck will have to pay Rs 75,000. At present, the fine for driving uninsured vehicles is a meagre Rs 1,000. According to insurance sector estimates, 45 to 50 per cent of two-wheelers on the roads across the nation are uninsured. Experts say it would be wise for such vehicle owners to buy a new two-wheeler as soon as possible, or at least get their lapsed licences, if any, renewed. "It would be wise to even get a lapsed policy renewed because third-party liability is unlimited," said Vijay Kumar, chief technical officer, motor insurance, Bajaj Allianz General Insurance.

Third-party motor insurance is mandatory under the Indian law and one has to buy the cover at the time of buying a vehicle. He added that third party-liability claim in India has touched a peak of Rs 20-25 crore. The actual payout is Rs 13 crore. While renewing a lapsed policy is easier, it has its own set of disadvantages for all vehicles.

"A lapsed policy means there was a break in insurance coverage. The renewal is treated as a new policy, leading to another inspection of the vehicle. The insurance cover is based on whether the vehicle is roadworthy or not," said Sanjay Kumar, vice-president and head, motor underwriting, Bharti AXA General Insurance. If the vehicle inspection report comes up with damages or scratches and dents, it will be treated as a pre-existing conditions. "And, post-insurance renewal claims arising due to the pre-existing problems are not paid for," said Kumar. So, for the same vehicle, the insured declared value would fall drastically due to the policy lapse. Of course, till the new policy comes into effect, usually in seven days, you can't use the vehicle.

Kumar of Bajaj Allianz General Insurance said if a policy has lapsed for more than 90 days, the customer is usually not allowed to carry forward unused no-claim bonuses (NCBs), if any, from the previous policy. This is a big loss as NCBs can be adjusted against the renewal premium.

Then, insurance companies have a decline list of vehicles. This list could change from time to time, as it is decided based on the company's loss ratio in a particular car segment. If your vehicle falls in the decline list, you are most likely to be charged a higher premium for the renewed policy.

These days, it is easier to renew policies as most companies allow renewal online. But a lapsed policy in most cases cannot be renewed online, as it is required to be inspected. However, insurance aggregator PolicyBazaar.com, which has seen a surge in online renewal of two-wheeler policies over the past two months,

Source

claims some general insurance companies like HDFC Ergo are allowing online policy renewal even for policies lapsed for over 90 day. Another good idea is to opt for the long-term third-party liability covers — that are for two years — available with private companies these days.

[Back](#)

General insurers seek Rs. 10-lakh cap on liability in road accidents - The Hindu Business Line

General insurers have sought a cap of Rs. 10 lakh on liability for third-party claims arising from road accidents. In their feedback to the Government on the draft of the Motor Vehicles Act, the insurers have sought this cap because of high losses arising from third-party motor insurance claims, which are in excess of Rs. 12,000 crore, according to industry estimates.

Present provisions allow unlimited liability as decided by courts. In case of road accidents, compensation as high as Rs. 20-25 crore have been awarded. For vehicle owners who want to buy additional cover, an option for additional liability limit cover has been proposed. This additional cover will be for over and above the basic Rs. 10 lakh policy.

Insurers feel a limited liability cap will not just help insurers in bringing down huge losses, but also in bringing down third-party motor insurance rates. "Third-party motor insurance rates have been rising annually at the rate of almost 25 per cent, especially for three-wheelers which end up paying Rs. 6,000 for an annual policy.

Cap on liability

"A cap on liability will ensure that insurers can estimate the losses and look at appropriate pricing of policies. This is currently difficult to ascertain due to the unlimited liability," said Vijay Kumar, chief technical officer (motor insurance), Bajaj Allianz General Insurance. The two components of motor insurance in India are covering third-party damage in terms of property or life, and covering damage to one's own vehicle.

Third-party coverage is mandatory by law for both commercial and personal vehicles, and the premium in this segment is decided by the Insurance Regulatory and Development Authority. The draft of the Motor Vehicles Act has provided for penalties as steep as Rs. 3 lakh along with a minimum seven-year imprisonment for death of a child in certain circumstances, and proposes higher fines for driving violations and driving without an insurance policy.

Sanjay Datta, Chief (Underwriting & Claims), ICICI Lombard General Insurance, said, "The overarching theme of the new Motor Vehicles draft focuses on road safety and imposes strict penalties, which will act as a deterrent for violation of road safety norms and help bring down the overall number of road accidents. Consequently, the motor vehicles claims will also see a fall."

However, insurers feel that the draft has not defined a limit on the liability for a claim in the case of a road accident, limits of jurisdiction, and time-limit for filing a claim. G Srinivasan, Chairman and Managing Director, New India Assurance, said that if these three major suggestions are implemented, it will help solve the issue of high losses for the industry.

Kumar said that the implementation of a time-limit for filing a claim will help insurers assess the claims faster and reduce litigation, which will result in faster settlement of claims. R Chandrasekaran, Secretary General of the General Insurance Council, said the Council has submitted its recommendations to the Government on the draft Motor Vehicles Act.

[Back](#)

Agri insurance a loss: Farmers - The Times of India

The Modified National Agriculture Insurance Scheme introduced in 2010 by the Union ministry of agriculture to provide financial support to farmers in case of crop damage due to natural calamities, diseases and pests, has not benefited farmers.

According to the farming community, it is the insurance companies which are raking in profits on account of the operation of scheme by adopting the "area approach" instead of judging each case individually. As one farmer pointed out, damage must cover at least 75% of the gram panchayat area where a particular crop is cultivated or else no compensation is paid.

Now, the farmers fear that if the insurance sector is opened to foreign direct investment (FDI), things could get worse for them. These views were expressed by farmers of Pilibhit district when TOI tried to ascertain their views about the national agriculture insurance scheme.

Manjit Singh from Bela Pukhra village, Jarnail Singh Jolly of Skaria, Rakshpal Singh from Katakpua and Jaspal Singh from Chatarbhojpur village were some farmers while speaking to TOI termed the MNAIS as defective scheme and the burden on farmers. It completely neglects losses of individual farmers in a situation where there were no widespread damages to crops in the area. The banks are empowered to forcibly charge the premium of crop insurance from the loan accounts of the farmers even if they are reluctant to avail the scheme.

They warned that farmers would keep facing big losses until the assessment of the loss to crop is not initiated on an individual basis. They termed it a violation of fundamental right if a payer of insurance premium is denied the benefits of compensation.

They pointed out that the official figures of crop insurance premium and the compensation government paid to cover damages reveal how the scheme is proving to be anti-farmer.

The deputy director of agriculture AK Singh told TOI that under the Modified National Agricultural Insurance Scheme (MNAIS), in 2011-12, the total premium of crop insurance charged from farmers was Rs 1.49 crore against which the farmers were given compensation of only Rs 25.24 lakh towards damage to their crops. Likewise, in the next financial year, the corresponding figures were Rs 65.56 lakh and Rs 5.89 lakh marking a difference of 65.56 lakh between the amount of premium and the compensation. In the current financial year, the banks had charged the highest-ever premium from farmers (valued at Rs 411 lakh) only in the Kharif season, he explained.

He explained that the premium of crop insurance is compulsorily charged by banks from those farmers who are the holders of agriculture loan accounts in the form of KCC (Kisan Credit Cards) and the premium amount is debited directly to their respective loan accounts. However, those farmers who have not taken a loan from the banks can decide whether they wish to avail of a crop insurance policy or not.

He said MNAIS provides insurance coverage to all crops — foodgrains, oilseeds and annual commercial crops — provided these are primarily produced in the respective district. For the district of Pilibhit, wheat and mustard are the permitted crops for insurance in the Rabi season while paddy and sugarcane have been assigned for Kharif season, he added.

AK Singh told that the amount of crop insurance premium varies in different districts as well as from crop to crop. For the current fiscal year, a total of 5.59% premium, on sum insured, has been fixed for paddy crop, in Pilibhit district, of which 3% would be borne by the farmer while the remaining share would be contributed by the central and the state governments in 50:50 ratio.

For sugarcane, a premium of 2.49% has been fixed with 2% share of farmers, mustard crop has 4.34% premium making the farmers contribute 2.60% share and wheat crop would need 2% premium without any contribution of the government, the deputy director said.

Source

[Back](#)

Survey & Reports

Online insurance sales to touch Rs 15,000 cr by 2020: Report - The Hindu Business Line

The insurance industry expects online sales to grow by around 20 times to Rs.15,000 crore by 2020.

“Digitalisation influence is quite high in the country with the Internet access growing at a phenomenal pace and rising smart phone penetration. We are expecting sales in the insurance sector to grow by 20 times to Rs. 15,000 crore by 2020 through the digital medium,” Boston Consulting Group Principal Amit Kumar told PTI, explaining the ‘Insurance @Digital-20X by 2020’ report.

Online insurance sales

Online insurance sales market in India would be around Rs.3,500-Rs 6,000 crore for life insurance and Rs. 11,000-Rs 15,000 crore for non-life insurance, the report said.

The online insurance market is now over Rs. 700 crore, in which life insurance sales contributed Rs.300 crore, motor insurance around Rs. 250 crore and other segments like health and travel make up for about Rs. 150 crore.

Digital sales

Even though online purchases are a small component of commercial activity today, it is growing rapidly, the report said, adding that the impact of digital sales would be felt beyond just online sales. It has been estimated that by 2020, three in every four insurance policies would be influenced by digital channels during either the pre-purchase stage, purchase or renewal stages, the report said.

In insurance, term life plans and travel insurance have already picked up substantially in the last few years, the report said. The report explained that Google's Consumer Barometer 2013 showed that since 2008 search queries for motor insurance has grown six times, that of health insurance has grown by 4.5 times and life insurance queries have grown by 4.5 times.

[Source](#)
[Back](#)

IRDA Circulars

[Source](#)

IRDA released guidelines on pricing of risk to all CEOs of general insurers.

[Source](#)

IRDA updated status of insurance brokers (As on 30th September, 2014)

[Back](#)

Global News

China: Wealth per adult now exceeds US\$21,000 - Asia Insurance Review

Wealth per adult in China has grown robustly since 2000, more than tripling from US\$5,670 to US\$ 21,330 in 2014, with almost all of the gains since 2010 due to the appreciation of the yuan, according to the latest Global Wealth Report by the Credit Suisse Research Institute. Total household wealth in China is the third highest in the world, just 8% behind Japan and 44% ahead of France (in fourth place). The US remains the most affluent country.

Due to a high personal saving rate, a high proportion (49%) of Chinese household assets is in financial form compared with other major developing or transition countries. At the same time, privatized housing, new construction and rural land are very important forms of wealth in China, accounting for much of the US\$10,900 in real assets per adult. Debt averages US\$1,600, equivalent to 6% of gross assets. While this is relatively low, personal debt has been rising at a fast rate in recent years.

Wealth inequality has been rising strongly with the increasing wealth of successful entrepreneurs, professionals and investors. China now has over one million millionaires, and more residents with wealth above US\$50 million than any other country except the USA. Its Gini coefficient for wealth inequality now stands at 72%, which is not extremely high by international standards, but is much higher than its level of 60% in the year 2000. Despite making enormous strides in recent years, however, China accounts for 21.4% of the adult population of the world, yet only 8.1% of global wealth.

[Source](#)
[Back](#)

Malaysia: Non-life insurance sector to see steady growth in 2015 - Asia Insurance Review

The general insurance industry, which continues to face challenges, expects to chart steady growth in premiums next year in line with the projected economic growth of 5% to 6% in 2015. General Insurance Association of Malaysia (PIAM) new chief executive officer, Mr Mark Lim Kian Wei, said that barring any unforeseen adverse impact or turnaround in regional and global economies, the industry is poised for stable growth next year, reported The Star newspaper. "While motor insurance being the dominant class of business in Malaysia will continue to grow steadily, we foresee strong growth potential in non-motor lines products like medical and health, property/engineering and specialty classes.

These lines of businesses are supported by strong domestic consumption and an overall increased consumer awareness for general insurance products,” he told StarBiz in an e-mail reply. Although the industry was poised for growth, Mr Lim added there were still some key challenges facing the market. They include, he said, high third-party bodily injury claims from road accidents and rising vehicle thefts. “Road accidents and vehicle theft pose serious challenges for the industry as they contribute significantly to the losses of motor insurers. PIAM is working closely with the governmental agencies and all stakeholders to plug the leakages in claims cost and to educate all motorists on road safety and good driving habits. “Regulatory developments, for example, the Financial Services Act 2013 which will require mandatory conversion of composite insurance and takaful operators to single insurance and takaful businesses, will be another challenge,” he said.

He added that the industry is proactively engaged with the central bank, Bank Negara, on the impending liberalisation of the motor and fire classes of business targeted for 2016, when motor insurance and fire premiums will be de-tariffed. Motor premiums, for instance, would be based on a diverse list of risk factors like the driver’s risk profile to the vehicle make. Therefore, the premium rates that vehicle owners would be paying would correlate with their level of risk which includes claims experience. Mr Lim said the move to liberalise the insurance sector would promote greater efficiency, product innovation and a more equitable pricing structure for vehicle owners. At the same time, further liberalisation of the motor insurance would enhance the overall viability and continuity.

Source

[Back](#)

China: Compulsory auto business saw net gains of US\$33 mln in '13 - Asia Insurance Review

The mandatory motor liability insurance market in China just about broke even last year, with net profits of CNY200 million (US\$32.7 million). Investment profits of CNY4.5 billion offset underwriting losses of CNY4.3 billion, according to the China Insurance Regulatory Commission. Insurers paid out compensation totalling CNY17,828.7 billion in the compulsory auto liability line and dealt with 22,530,000 traffic accidents last year. A report by KPMG last year said that underwriting profitability appeared to have entered a downward cycle then. The slowing premium growth in motor insurance, which accounts for more than 70% of China non-life insurance business, its increasing claim cost and a widening loss of the compulsory third party liability business are the main reasons for the China non-life insurance industry’s downward cycle in profitability.

On the other hand, the current system of nearly uniform motor insurance premium rates and policy clauses has limited insurers’ ability to react to market developments. As a preemptive measure to reduce unreasonable reserving practices, the regulator introduced new requirements that aim to strengthen data quality, internal control, as well as the adequacy and reasonableness of insurance reserve, with punitive measures attached for material adverse reserve development. However, KPMG’s analysis of publicly available data indicated that the overall industry reserve adequacy level had declined and the trend could be worsening. On a more positive note, the industry is investing more in risk segmentation, new distribution, product innovation, and customer services. Direct distribution channels, led by telesales of motor insurance, are booming and have started reshaping the insurance distribution system in the country. Cross-selling and Internet sales through either insurers’ own online platform or third-party price comparison websites are becoming norm for the industry. Many foreign-owned insurers have grown their participation in the Chinese insurance market through writing the compulsory motor liability insurance that is newly available to them, or by acquiring stakes in existing domestic market players.

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