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Insurance Institute of India

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INSUNEWS

- Weekly e-Newsletter

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• Quote for the Week •

"Our attitude towards others determines their attitude towards us"

Earl Nightingale

INSIDE THE ISSUE

Essay Writing Competition

The Institute invites original essays / research work for the following Awards.

The S.K. Desai Memorial Essay Writing Competition for essay or work of research on any area of insurance or related subjects.

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Last date for the submission of Essay is 30th May, 2015

Insurance Industry

Insurers divided over proposed corporate agency norms - The Hindu Business Line – 13th April 2015

The new corporate agency norms mooted by the Insurance Regulatory and Development Authority of India (IRDAI) have virtually divided the insurance industry. In an exposure draft, the authority had said that it plans to allow each of the corporate agents to sell policies of a maximum of three life insurers and three general insurers, besides a host of other changes. At present, corporate agents are allowed to sell policies of only one life insurance and one non-life insurance company.

There was a flurry of activity among insurers as the regulator had asked them for their views by April 10. Though many insurers sought more time to respond through the Life Insurance Council, there is no word from the IRDAI on any extension of deadline which expired last week. Over a half a dozen life insurers which are not promoted by banks have already expressed their happiness over the proposed norms.

"This will definitely augur well for better penetration of insurance as the entire reach of banks can be utilised in an optimum manner. If one channel is getting closed for bank-led insurers, the other doors will be opening," Manoj Kumar Jain, Chief Executive Officer, Shriram Life Insurance Company, told Business Line here on Monday.

Bank-led insurers, however, have a different view.

"It will surely lead to loss of business because we are supposed to bring down business from a single channel to 50 per cent progressively over five years. There is little rationale in destroying the existing base and trying to create new ones," said a top executive of a bank-promoted insurance company.

Vighnesh Shahane, Chief Executive Officer, IDBI Federal Life Insurance Company, feels that the proposed open architecture should be more of an enabling nature rather than mandatory. "Like the present practice in mutual funds, it should be left totally to banks," he said. Further, the bandwidth of banks for selling insurance products of these companies from the life and non-life segments should also be taken into consideration, Shahane said, adding: "All said and done, sale of insurance is only a part of the other income of banks, accounting for less than three per cent of their revenue. It is not their core business."

According to CL Bharadwaj, Senior Vice-President (Compliance) and Chief Risk Officer, Bharti AXA Life Insurance, the new norms would require exclusive products to be designed to be sold by the corporate agency, and these have to be cleared by the authority. "This will limit the choice for the insurer in product designing," he added.

The impact

Once implemented, the new norms are expected to trigger higher interest of various entities, including banks, non-bank finance companies and others. While there are over 250 corporate agents currently, the main activity, however, could happen in bank-insurance tie-ups. The bank-led insurance companies will face more challenges if the proposed norms are brought into force without any change.

"Companies like us have been used to exclusivity. So, there will be short-term challenges," agreed the IDBI Federal Life chief. But all agree that customers will be the ultimate gainers as all these would mean more choice for them. But it remains to be seen how the regulator reacts to the feedback from insurers.

Source

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New agent regulations to impact valuation of insurers - Financial Chronicle – 12th April 2015

Changes could affect value of future new business premium.

The proposed regulations on corporate agents that mandates a bank to sell policies of up to three life insurers, three non-life insurers and three health insurers will have far reaching implications on the valuations of domestic insurance companies at a time when foreign promoters are looking at increasing their stake in them, following the passing of the Insurance Laws Act 2015.

While valuing an insurance company, a key part of the value of future new business premium relates to the value of business that can be sold through banks and other corporate agents driven by future volumes and margins, both of which could be impacted by these proposed changes, said industry officials.

The Insurance Regulatory and Development Authority of India (IRDAI) has issued draft regulations covering various aspects regarding the regulation of corporate agents including banks who act as distributors of insurance policies. Most banks such as State Bank of India, ICICI Bank, Bank of Baroda, Bank of India, Union Bank, Andhra Bank, Allahabad Bank, Canara Bank, HSBC Bank have floated their own life or a general insurance company or both and exclusively sell policies of their insurance subsidiaries.

The draft regulations for corporate agents state that a corporate agent "shall have arrangements with a maximum of three life/general/health insurers as the case may be to distribute their products. The corporate agent is not allowed to place more than 90 per cent of the business it procures with any one insurer (in each of the categories-life/general/health as applicable in the first year. This limit is lowered to 75 per cent, 60 per cent and 50 per cent in the second, third and fourth year onwards respectively".

Karni Singh Arha, chief financial officer, India First Life Insurance told Financial Chronicle, "Open architecture model (a bank allowed to sell policies of multiple insurers) impacts future business of an insurance company. If at all it negatively impacts business, it can also negatively impact valuations of insurance companies."

"Valuation is dependant on future business which is dependant on distribution point of sale. So if the distribution point of sale either decreases or increases, it will impact valuations accordingly," explained Singh.

India First Life Insurance is floated by Bank of Baroda and Andhra Bank Sanket Kawatkar, principal and consulting actuary at Milliman (an actuarial firm) said "If the IRDA does not make any changes in draft regulations and they become final, there will surely be significant restructuring of these distribution relationships. Therefore insurance companies who have existing bank distribution arrangements and insurers that do not have bank distribution arrangement will see their valuations get impacted."

"Valuations will depend on whether an insurance company ends up gaining additional business through banks or losing business through banks," added Kawatkar.

Currently, all bancassurance arrangements are exclusive that is the bank as corporate agent is allowed to distribute products of one life insurer, one non-life insurer and one standalone health insurance company. With the proposed regulations, banks are required to distribute the products of at least two insurance companies. By the fourth year, all banks will be expected to have at least three distribution arrangements (so that the proportion of business from one insurer does not exceed 50 per cent).

Source

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Life Insurance

Ulips propel market share of pvt insurers - Financial Chronicle – 15th April 2015

With people moving back to financial assets, individual new business premium poised to grow 15-16%.

With the economic growth likely to be better than anticipated, products' stability and a booming stock market, private life insurance companies are expecting to report 12-15 per cent growth in 2015-16. Amitabh Chaudhry, managing director and chief executive officer, HDFC Life Insurance, told FC, "With economy registering higher growth, interest rates falling, people moving back to financial assets from physical assets, I expect the private life insurers to register 10-15 per cent growth."

Deepak Mittal, chief executive officer, Edelweiss Tokio Life Insurance told FC, "Product stability has come with all product-related issues behind us, economy is growing better, Ulips are driving sales for insurers that have banks as distribution partner, so this year individual new business premium would grow by 15-16 per cent for private insurers." As per recent data with FC, during April-February 2015, the individual adjusted first year premium declined for the life insurance industry by 14 per cent to Rs 33,509 crore from Rs 38,829 crore during the same period a year ago.

The industry growth was hit as public sector behemoth, Life Insurance Corporation of India (LIC) saw its individual first year premium decline by 30 per cent to Rs 17,086 crore during April-February 2015 from Rs 24,549 crore during April-February 2014.The 23 private life insurance companies witnessed 15 per cent growth in individual new business premium to Rs 16,424 crore during the same period.

The growth for private life insurance industry came largely from bank promoted life insurers who were aggressively selling unit linked insurance plans (Ulips) with the stock market booming. The stock market has given 32 per cent return in the last one year. This helped the private life insurers that increased their market share in individual adjusted first year premium (excludes group insurance business) to 49 per cent during the eleven months ended February 2015 from 36.8 per cent during the corresponding period a year ago.

Largest private life insurer ICICI Prudential Life Insurance registered 43 per cent to Rs 3,988 crore in individual first year premium during the eleven months ended February 2015, SBI Life grew by 10 per cent to Rs 2,540 crore, HDFC Life grew by 25 per cent to Rs 2,446 crore, Max Life grew by 10 per cent to Rs 1,587 crore while Reliance Life grew by 8 per cent to Rs 1,025 crore.

Companies that witnessed a decline in new business premium were those that were more focused towards traditional life insurance policies such as Bajaj Allianz Life Insurance that witnessed a 29 per cent decline in new business to Rs 625 crore, Birla SunLife (growth was -15 per cent), Exide Life (-12 per cent growth), IDBI Federal, Tata AIA Life, Future Generali and Sahara Life.

A top official of a large private insurer told FC, "With the economy likely to register 7.5 per cent growth and the insurance sector's growth linked strongly to the economy, we expect the private life insurance industry to register 15 per cent growth. Also with the stock market doing well, Ulip sales will continue to bring a major chunk of the new business premium."

The insurance regulator revamped the product regulations that became effective from January 1, 2014 which hit sales of most insurance companies during the six months of 2014-15 as companies and their agents took time to adapt to the new product norms. Several companies have moved to selling Ulips taking advantage of the stock market boom.

Source

Health Insurance

India: Regulator drawing up health insurance framework – Asia Insurance Review

Individuals could soon get access to long-term plans, health savings accounts and single-premium health insurance policies, under proposals being considered by the insurance regulator for its new health insurance framework. Employers could also be allowed to acquire long-term group health insurance policies for their employees, which are annually renewable contracts at present.

The Insurance Regulatory and Development Authority of India (IRDAI) is reviewing health insurance guidelines, following the amendment last month of the insurance law that recognises health insurance as distinct from life and general insurance, reported The Economic Times. The modified regulations are expected to be released by the end of this month.

Single-premium and long-term health plans will allow policyholders to lock into the premiums for a longer tenure at a time when medical inflation is rising every year. It is proposed that long-term health policies could carry a tenure of 3-5 years.

At the same time, for insurers, this would ensure loyalty of customers over a long period of time. The proposal for health savings accounts will create a fund over 5-15 years to finance the healthcare expenses of the insured during their post-retirement years.

The IRDAI feels the need to revisit various areas of the health insurance framework such as products, distribution, actuarial related matters like pricing, claims experience, solvency, M&A, rural and social obligations, and others, so that processes are streamlined to cater to the growing demands of the market for health insurance and also to enable companies to gear up to meet such demand in terms of innovation and servicing capabilities, said Mr Ajay Bimbhet, Managing Director of Royal Sundaram Alliance Insurance.

Source

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General Insurance

Insurance cost of aviation companies may go up if pilot fails DGCA's psychiatric test - The Economic Times – 16th April 2015

The cost of insurance for aviation companies may rise if the Directorate General of Civil Aviation goes ahead with its plans to make it mandatory for pilots to undergo psychiatric test before takeoff as any failure to clear the test could lead to flight cancellations and claims.

This might be just another burden for an industry already facing higher cost of insurance after a Malaysian Airlines flight vanished over South China Sea with 239 people aboard last year and due to accidents in the aviation industry.

Airlines in India, mostly loss-making, may be squeezed further if the DGCA implements the plan. Insurance companies are yet to ascertain the liabilities of such an event since there is no available model to factor in such risks into a policy.

"Initially, there will be loading, but based on experience in the first two years, there will be better understanding of the risk," said TR Ramalingam, head of underwriting at Bajaj Allianz General Insurance.

Insurers are waiting for the final word on the mandatory test, which the DGCA is contemplating following the crash of the Germanwings aircraft in the French Alps last month, which killed at least 150 people. The accident was supposedly due to the mental sickness of the pilot who seemed to have deliberately crashed the flight.

But the tests could also result in lowering of premium rates if the insurance industry believes such tests could reduce the risk of a mentally instable person piloting an aircraft, which though may be rare given that not many such incidents have come to light.

"There will be an increase in premium for pilot's loss of licence cover but reinsurance companies could look at it positively and reduce reinsurance rates," said Yogesh Lohiya, MD and CEO, Iffco Tokio General Insurance.

Source

Undercutting continues to hit general insurers' profitability - Business Standard – 15th April 2015

In its bid to grow topline, the general insurance industry continues to take a hit by not raising premiums at the cost of profitability, which is a result of cut-throat competition, say industry players. In the recent April 1 renewal, when most of the Rs 80,000-crore general insurance business get renewed, the general insurers have mostly failed to receive a better pricing due to heavy competition among themselves.

In a bid to control the situation, IRDAI had recently introduced the concept of burning cost (loss figure) which has to be taken into account while pricing the fire and property product. But it has not worked out, general insurers said. "Though the regulatory initiative is to be lauded, we find that majority of the mid to large corporate renewals remained at expiring levels of premiums, giving us the impression that market is yet to adopt the methodology wholeheartedly," SBI General managing director Bhaskar J Sarma told PTI.

Iffco-Tokio managing director and chief executive Yogesh Lohiya also confirmed that though IRDAI's act of introducing concept of risk pricing based on burning cost to be appreciated for, the result has to be seen. "It may take some more time for market to stabilise and implement burning cost based pricing in true sense," ICICI Lombard chief, underwriting and claims, Sanjay Datta said adding that as the burning cost norm was implemented by IRDAI in February only, it would take some more time for them to understand its impact.

However, New India Assurance chairman and managing director G Srinivasan said, "There is slight improvement in price under property and fire segment as we have used the burning cost method in the segment which has been devised by IRDAI." Prices are stable across other segments. However, prices have gone up by around 14 per cent under motor third party segment.

Reliance General CEO Rakesh Jain said that pricing has remained competitive in the industry. "Pricing has gone up by 10-15 per cent in those segments where we had bad claim experiences and some of which may include textile, plastic and chemicals," Jain said. Premiums have gone up in few segments like health insurance largely due to health cost escalations and deteriorating claim ratios.

Source

"In the group health segment (corporate), the premium has gone up by 15 percent whereas in retail health segment, it has gone up by almost 35 per cent across industry. In motor segment, third party rates have recently gone up ranging from 10-30 per cent depending upon the models of vehicles," Lohiya said.

Back

India: Less than 1/5 of farmers insure crops – Asia Insurance Review

Fewer than 20% of farmers have insured their crops at one time or another, leaving the vast majority of the farming community exposed to the vagaries of the weather, according to a joint study by The Associated Chambers of Commerce of India (Assocham) and Skymet, a local weather monitoring and agri-risk Solutions Company.

At the national level, only 19% of farmers or about 32 million of them reported ever having insured their crops. Of the uninsured, 46% were found to be aware but not interested while 24% said that the cover was not available to them. Only 11% felt that they could not afford to pay the insurance premium, the joint study found.

Mr DS Rawat, Assocham Secretary General, said that there are implementation and technical challenges in farm insurance. He added that these can be addressed but will require a comprehensive strategy, innovative solutions, and a timely rollout. One main issue is delay in claim settlement.

To address the problems, the government is piloting a modified National Agricultural Insurance Scheme, which is a market-based scheme with private-sector involvement. Compared with the existing scheme, the new programme is designed to offer timelier claim settlement, fewer distortions in the allocation of government subsidies and cross-subsidies between farmer groups, and reduced basis risk, Mr Rawat said.

Source

Agricultural production and farm incomes in India are frequently affected by natural disasters such as drought, floods, cyclone, storm, landslide, earthquake etc. The susceptibility of agriculture to these disasters is compounded by the outbreak of epidemics and man-made disasters such as fire, sale of spurious seeds, fertilizers and pesticides, price crashes, etc, the study said. With the growing commercialization of agriculture, the magnitude of losses due to adverse events is increasing.

IRDAI Circular

Source

IRDAI has extended the deadline for the submission of comments/responses on draft corporate agency regulations.

Source

IRDAI uploaded weblist of surveyors and loss assessors (individual & corporate) with IIISLA membership to all surveyors and loss assessors and insurance companies.

Source

IRDAI updated list of corporate surveyors as on 01/04/2015.

Source

IRDAI updated list of individual surveyors as on 01/04/2015.

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Global News

Islamic insurers seek consolidation - www.reactionsnet.com

Increased regulation, lack of profits and too many players are all pushing Islamic insurers in the UAE in the direction of consolidation.

Many Islamic insurers in the United Arab Emirates (UAE) a considering a merger or acquisition, according to Ibrahim Al Zaabi, director-general of the UAE Insurance Authority.

Speaking on the sidelines of an Islamic insurance event, his comments highlighted the pressure that the Islamic insurance sector is under in the Arabian Gulf. Tougher regulations, tougher competition and a business model that is only a few years old have all put pressure on the large number of players in the region to consider consolidation as a means of improving profits.

There are more than 50 insurers – conventional and Islamic – in the UAE, which has a population of only 9m, and a low level of market penetration. No takaful provider in the region generated a fund surplus in 2013, according to rating agency S&P.

Source