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# INSUNEWS

- Weekly e-Newsletter

24th – 30th June 2017

**• Quote for the Week •**

**"The powers of the mind are like rays of light dissipated; when they are concentrated, they illumine."**

**Swami Vivekananda**

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## Insurance Regulation

### *Irdai defers IndAS execution by 2 yrs - Business Standard – 29th June 2017*

The Insurance Regulatory and Development Authority of India (Irdai) has deferred the implementation of Indian Accounting Standards (IndAS) by a period of two years and it will now be implemented by 2020-21.

The board of authority, after its meeting on May 31, noted the peculiarities of the insurance sector, particularly the fact that India does not have a standard equivalent to IAS39 on Financial Instruments: Recognition and Measurement.

They came to the conclusion that the implementation of the IndAS in the present form will lead to the valuation of assets at fair value or market value, however, liabilities will continue to be valued as per the existing formula based approach. Hence, a mismatch would occur in the asset and liability valuation causing volatility in the financial statements of the insurance companies.

Furthermore, this will lead to counting of compliance cost twice. It will be counted for the first time on the implementation of IndAS and secondly, when IFRS 17 is implemented in India. The International Accounting Standards Board issued IFRS 17 insurance contracts replacing IFRS 4, which was brought in as an interim standard. The issuance of IFRS 17 had forced the Irdai to review the position in the matter of Implementation of IndAS in the insurance sector.

Earlier, the Ministry of Corporate Affairs had laid down the road map for the implementation of IndAS for the insurance sector whereby, insurers were required to prepare IndAS based financial statements for accounting periods beginning from April 1, 2018 onwards, with one-year comparatives.

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### *India: Adoption of local accounting rules deferred for insurers – Asia Insurance Review*

The insurance regulator IRDAI has deferred the implementation of Indian Accounting Standards (IndAS) for two years, pushing their implementation to April 2020.

The board of the IRDAI came to the conclusion that while the implementation of the IndAS in the present form will lead to the valuation of assets at fair value or market value, liabilities will continue to be valued using the existing formula-based approach. Hence, a mismatch would occur in asset and liability valuation causing volatility in the financial statements of the insurance companies.

At the same time, the issuance of International Financial Reporting Standards 17 (IFRS17) by the International Accounting Standards Board in May 2017 has led the IRDAI to review the position on the implementation of IndAS in the insurance sector. IFRS17 is to take effect on 1 January 2021.

In 2015, the Ministry of Corporate Affairs had laid down the road map for the implementation of IndAS for the insurance sector under which insurers would have been required to prepare IndAS-based financial statements for accounting periods beginning from 1 April 2018, with one-year comparatives.

**Source**

## *India: IRDAI urged to enable industry to promote ease of doing business – Asia Insurance Review – Asia Insurance Review*

The insurance regulator needs to step up to the plate to craft a modern, transparent and progressive industry framework and a global (re)insurance platform, say two industry veterans.

The essential leitmotif must be to prepare and promote the ease of doing insurance business in India, and the regulatory agenda needs to be development-oriented led by prudential regulations with conduct regulations pitching in as bulwarks.

Mr H Ansari, a former Member (Non-life) of the IRDAI, and Mr Arun Agarwal, an independent director of Kotak Mahindra General Insurance, made these comments in a research paper titled "A Transformative Agenda For The Indian Insurance Industry and its Policy Framework", which they released yesterday. The research paper focuses on the key areas that need to be addressed from a policy, regulatory and market development perspective.

"We need the insurance framework in India to be made more robust with global best practices serving as benchmarks, with due localisation," the authors said.

The regulator, IRDAI, must create an inclusive insurance and a digital economy, and must become an enabler – through the regulatory set up and forward-looking regulations -- for the Indian insurance market to tap technology-led disruptive changes.

"It is time to transform – in thoughts and actions," said the authors, adding that there is a need for coalition building, specialised knowledge, less hierarchy, more collaboration, and flatter professional structures.

The regulator also has to be the change agent for full vertical alignment, from the fundamental philosophy of insurance to modern regulatory practices, and finally with the insurance industry delivering efficient services to the Indian insurance market.

The changes cannot be held up for long as India's share of the global economy is set to increase. India also needs to prepare to become a regional centre of excellence for (re)insurance for the markets across Asia and Africa, as the balance of economic power is moving from West to East.

**Issues**

Outlining several challenges plaguing the industry, the authors say that the reasons that the insurance sector in India is under-penetrated and inadequately penetrated are: lack of awareness, low level of financial inclusion, and lack of trust in the system.

In addition, the support system is over-regulated and cost of compliance is high. Regulations are about input policing rather than being outcome-based.

The essential and pre-requisite "Ease of Doing Business" framework has not been installed with vigour. The approach to public accountability is hesitant and tentative, and the level playing field imperative does not prevent a government entity from getting preferential treatment.

"The Indian insurance industry too has contributed to the current intrusive 'rule based' regulatory mechanisms. Life business has not been very successful in creating value, delivering returns below the cost of capital for years. The non-life insurance industry has the highest combined ratio across developed and emerging countries, almost for the last 15 years. What one observes is that 'poor market conduct' leads to even more intrusive regulations – with the one feeding the other in a circular movement," the paper said.

The Indian insurance market though feels redeemed with the top lines and the gross premium increases, the growing number of policies across life/non-life sectors, and the investment-led rather than underwriting-led profits.

"The lack of profitability and the underwriting disciplines means that the risk mitigation is not attended to, the right talent is not attracted and worse there is no research spends into lowering the risk thresholds – both for the traditional and emerging risks. The short-term approach taken by the market is, however, not getting corrected by the IRDAI in spite of occasional attempts," the authors said.

At the same time, capital accumulation is not enough to fund more growth. Paradoxically, the below par performance of the insurance firms means that fresh capital is not easy to get – either internal accruals, public listing or external borrowing or equity - all of which demand greater control and improved performance. This becomes a vicious cycle. India continues to be poorly and inadequately penetrated.

Mr Ansari has been a Chair Professor (General Insurance) at National Insurance Academy, Pune, and has also worked as an Additional Director at Centre for Insurance Studies, National Law University at Jodhpur. He has over four decades of insurance industry experience. He started as a Direct Recruit Officer with LIC and subsequently held various positions as Director and General Manager of Oriental Insurance, and as Independent Director of Chola MS General Insurance and L&T General Insurance. He is currently on the board of Reliance General Insurance Company.

Mr Agarwal, a 1977 Batch Direct Recruit officer from GIC, spent more than two decades at GIC/Oriental Insurance/National Insurance Academy. He then worked for AIG in India and was among the founders of Tata AIG General Insurance. Later, he was involved with the founding of Chola MS General Insurance and was its first Chief Executive and Managing Director. He has represented Lloyd's as their General Representative in India.

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## *India: Regulator may tweak structure of pension products – Asia Insurance Review*

The insurance regulator IRDAI may finetune the structure of pension products sold by insurers, to make them more attractive to the public.

At a meeting with insurance industry representatives last Friday, IRDAI officials voiced concerns over the low sales of the pension products, reported Moneycontrol.

The insurance regulator IRDAI may finetune the structure of pension products sold by insurers, to make them more attractive to the public.

"At one point, pension products used to constitute about 25% of the business of life insurers. This has now dropped to a single digit and is a matter of concern. We will see if any enabling structures can be introduced," said a regulatory source.

During the annual review meeting of the insurance companies held in Hyderabad, IRDAI acknowledged the concerns of life insurers in this space. Pension products face tough competition from the National Pension Scheme (NPS), which has better tax incentives and investment opportunities.

A senior life insurance executive explained that the current regime has been tough and therefore, insurers are able to offer only a basic guarantee product in the pension space.

Five years ago, changes were made to pension regulations that make it mandatory for insurance companies to offer a non-zero return on the products that they offer. This is because the maturity fund from these policies would be used as retirement money by policyholders.

In addition, the regulator has insisted that annuities should be brought from the same insurer. Also, no partial withdrawals are allowed which has made it difficult to sell the policies, said the chief executive of a mid-size private life insurance company.

With the goods and services tax (GST) regime, the pension products may also get slightly expensive since the insurance sector will have to pay a new rate of 18% as against 15% earlier.

"On one hand, pension products are unable to compete with NPS; on the other hand, taxes are high. We have sought a better structure that gives us more flexibility in investments ," said the chief investment officer of an insurance company.

**Source**

Life insurers had sought a tax exemption for purchases of pension products. But, no such provision was made by the Finance Minister in his Budget announcements.

## General Insurance

### *Many farmers unaware of crop insurance, get no relief – The Times of India – 27th June 2017*

Lack of awareness about crop insurance has robbed many distressed farmers of a golden opportunity to get some relief for their losses as the figures released by insurance companies show. While Tiruvarur district has claimed the lion's share of the money released, many Trichy farmers don't seem to have insured their crops at all.

In all, the insurance companies have so far sanctioned 928.12 crore for disbursal of crop insurance claims to drought-hit farmers who lost their samba paddy crops during 2016-17. Of this, Tiruvarur district received 489 crore while the farmers in Trichy district have claimed only 20 crore.

Farmers' organisations in the district admit that only a few farmers had reported having ever insured their crops. A majority of them were found to be unaware of the practice of insuring crops and that the facility was available for them or were not interested. Even Ramanathapuram farmers have claimed 355 crore as crop insurance. However, lack of knowledge about the importance of remitting the required premium has restricted Trichy farmers from availing the benefit, the leaders opined. "Despite the farmers facing severe drought for the last five years, no one came forward to be covered under crop insurance scheme. In this distress period, had they remitted a meagre amount of 386 as crop insurance premium, they could have claimed at least 6,000", said Puliyur A Nagarajan, state organizer of the farmers' wing of Tamil Manila Congress wing to TOI. He said they will meet every farmer in person across the district as part of a campaign to motivate them to pay insurance premium, Nagarajan said.

"We hope that farmers can take up cultivation on 1.50 lakh acre in Trichy district. Of them, we have planned to bring at least one lakh acres under crop insurance cover," he further said. He also appealed to the state government and the district administration to expedite the disbursal of claims as soon as possible. They have submitted a memorandum in this regard to expedite the process, he added.

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## Global News

### *China: Fitch highlights threats to nonlife business – Asia Insurance Review*

Further liberalisation of Chinese commercial motor insurance pricing could weaken underwriting margins, says Fitch Ratings in a new report which outlines some of the threats facing the general insurance sector. Motor insurers are likely to drop their premium rates to the lowest permissible limits, leading to a deterioration in loss ratios.

“The claims frequency has declined since the implementation of the trial deregulation of commercial motor premium pricing in June 2015. The mechanism of non-claim discount has incentivised insurers from not reporting small claims, but this impact is only likely to be marginal in 2017. Furthermore, the ongoing escalation in policy-acquisition costs due to market competition will exacerbate the narrowing in underwriting profitability,” said the international rating agency in the report titled "China Non-Life Insurance Market Dashboard 1H17".

Referring to catastrophe risk, Fitch expects this to remain a key threat to operating stability. It is inevitable for smaller insurers to increase their reliance on reinsurance to mitigate their claims from severe weather-related events such as flooding.

In the investment arena, Fitch said: “We believe insurers' ability to support cash outflows associated with their 'short-tailed' claims liability may be affected if they were to further raise exposure to alternative investments such as infrastructure debt investment plans or trust products. Most insurers have increased investment allocation in less liquid alternative investments to boost investment yield.”

**Source**

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### *China: Govt to promote elderly endowment insurance - Asia Insurance Review*

China aims to build a mature and comprehensive commercial endowment insurance market by 2020, with endowment polices set to become the main form of family pension plans.

To this end, the State Council which is the Chinese cabinet unveiled an array of incentives and guidelines aimed at boosting the sector at an executive meeting presided over by Premier Li Keqiang last Wednesday. A statement released after the meeting said that the government will encourage innovation in private insurance services to create tailored products for individuals and families, reported China Daily.

Companies selling commercial endowment insurance will get support to offer customised services to elderly customers. Other forms of insurance will also be promoted, including those covering accidental injury and long-term care for the elderly.

Supportive policies will be granted in this area while the government's supervision will be reinforced to safeguard the legal interests of consumers and to prevent financial risks. The State Council also decided to test an individual tax-deferral programme, which will encourage people to buy commercial endowment insurance products.

In pension insurance, financial security is the top priority, Mr Huang Hong, CIRC Vice Chairman said at a news briefing last Friday. "Endowment insurance is what people rely on in old age and in times of illness," he said. "So it's important for endowment funds to have steady financial returns, and they must not face high financial risk."

CIRC is ready to work with ministries to create “green channels” for commercial insurance funds to participate in national strategic and livelihood projects, support the real economy and ensure insurance funds see steady returns, he added.

Mr Huang said China faces a severe shortage of professionals in endowment product design, especially top-tier actuaries.

"Well-designed endowment products need to take a number of factors into account - such as economic cycles and changes in life expectation -- and create a proper balance," he said, adding that colleges and universities should train more actuaries.

China's pension system has three pillars, namely basic endowment insurance, enterprise annuity and personal commercial endowment insurance. However, Mr Huang said, the pillars are not well balanced due to a variety of reasons.

Basic endowment insurance, for instance, makes up the majority of policies and is regarded as the key pension plan for the elderly. Yet it supports only basic subsistence. Individual commercial endowment insurance sees low sales and has been slow to develop compared to the experience in some other countries, Mr Huang added.

**Tax deferred pension insurance**

A private tax deferred pension insurance plan, to supplement the basic social pension scheme, has been discussed for at least eight years. The delay in its implementation has been attributed to the lack of consensus among the several government agencies and ministries involved.

Mr Huang said that details of the scheme have been worked out and would be submitted to the State Council. A pilot programme would be launched soon. He said that conditions for the implementation of such a programme are “ripe”.

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## *New Zealand: Govt announces major reforms to home disaster insurance scheme – Asia Insurance Review - Asia Insurance Review*

The government plans to cover an extra NZ$50,000 (US$36,300) of building damage for each claim after a natural disaster, raising the coverage ceiling to NZ$150,000. This is part of reforms to the Earthquake Commission (EQC) announced yesterday.

The reforms, which follow a five-year review process, clarify that EQC land cover is for natural disaster damage directly affecting an insured residence or access to it. They standardise claims excess on EQC building cover at NZ$1,000, abolish EQC's contents cover, and require EQC claimants to lodge claims with private insurers who will act as the contact point. The EQC automatically provides disaster cover to all homes that are privately insured for fire damage.

The Minister responsible for the EQC, Mr Gerry Brownlee, said the changes would simplify the scheme and help resolve claims faster. The revamp is expected to come into effect in 2020 and would not affect existing claims. The details have still to be worked out and draft legislation will not be ready until later this year or early 2018.

**Industry response**

In a response, the Insurance Council of New Zealand (ICNZ) says in a statement that it supports the thrust of the reforms to the EQC Act but seeks a clear expectation that insurers should be responsible for assessing and managing claims for house damage.

"The high-level decisions announced today are good step toward creating a better scheme for New Zealanders" the Chief Executive of ICNZ Tim Grafton said yesterday. "There is acknowledgement of the increase to the EQC building cover to NZ$150,000 ex GST.

"Most importantly though, the government has listened to our concerns that some form of land compensation needs to be kept in addition to the building cover. This means that where land damage has occurred separate funding to the building cover is available to fix the land or access to the property, so the house can be repaired or rebuilt. Without these two separate sources of funding, there was a real risk in a city like Wellington, where there are many hillside properties that are likely to suffer land damage in a major earthquake, that people would not be able insure themselves adequately," he said.

"The removal of contents insurance makes sense as the focus of the scheme should be on ensuring people can be rehoused after an earthquake, so private insurers will meet all contents claims and having a standard excess helps simplify the claims process," he said.

"The area where we have some difficulty is that we believe insurers should be responsible for assessing and settling all house claims as we have largely been doing for the Kaikoura earthquake.The worst outcome would be if the law requires all claims to be lodged with insurers, and then that information passed to EQC to assess the damage and manage the settlements for our customers. Insurers are wanting to make this simpler and more efficient for their customers, not more complicated" he said.

"So, we would seek clear direction from the government to EQC that insurers should be responsible for assessing and managing claims broadly based on the Kaikoura model. This will ensure we avoid the situation that occurred in Canterbury where insurers are advised by EQC some years later that the building cap has been breached, and that they should now manage the claim," he said.

"Another issue we are keen to push is that the standard of repair that homeowners receive is the same as that in their insurance policies irrespective of whether the damage is above or below the EQC cap.

"We will have more technical discussions with officials on this and other issues, but we are pleased with the direction of travel and look forward to having legislation introduced before too long by the next government," he said.

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## *Japan: More businesses snapping up cyber insurance – Asia Insurance Review*

Japan has seen a sharp increase in the number of policyholders - mainly companies - taking out cyber insurance.

The number of cyber insurance policies in the fiscal year April 2016 to March 2017 (FY16) rose from the previous period. Mitsui Sumitomo Insurance said it increased by 250%; Tokio Marine & Nichido Fire Insurance said it roughly tripled; and AIU Insurance said it increased by 50%. Sompo Japan Nipponkoa Insurance said that premiums increased by 350%, reported The Yomiuri Shimbun without citing absolute amounts.

Behind the increase in the number of cyber insurance policies is the recognition by businesses that sizeable losses can arise from information theft that can hamper operations.

According to research by the Japan Network Security Association, a nonprofit organisation, there were 468 cases of information theft via cyber attacks and other means last year. Although the figure fell by 320 from the previous year, the number of victims who had personal information stolen jumped by 10.15 million to about

15.1 million during the same period. Among the top 10 cases in which personal information was stolen in bulk, eight were caused by cyber attacks.

The compensation paid by the affected companies is estimated to be nearly JPY300 billion (US$2.7 billion). The average amount per case also doubled from the previous year to about JPY674 million.

According to the National Police Agency, the number of cases of targeted attacks using emails, which contained viruses and were sent to companies, increased for three consecutive years. The number of those cases totalled 4,046 in 2016, up by 218 from the previous year, marking the highest number since 2012.

Cyber insurance mainly covers risks related to cyber-attacks. The risks include costs of compensation for damage from information theft, costs of research on possible damage, and losses from the suspension of sales activities or assembly lines. Some cyber insurance policies also cover the cost of examinations conducted when it is feared that companies might have come under a cyber attack, and subsequent advertising to apologise for effects of an attack.

**Source**

In Japan, the first cyber insurance services were marketed in 2013.

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