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QUOTE OF THE WEEK

"The more that you read, the more things you will know, the more that you learn, the more places you'll go."

Dr. Seuss

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INSURANCE TERM FOR THE WEEK

Risk Retention

Risk retention is an individual or organization's decision to take responsibility for a particular risk it faces, as opposed to transferring the risk over to an insurance company by purchasing insurance. That means the individual or organization has chosen to pay for any losses out of pocket rather than purchasing insurance as a means of transferring the financial burden of a loss to a 3rd party.

Companies often retain risks when they believe that the cost of doing so is less than the cost of fully or partially insuring against it. Shoplifting losses are one example of risks that many companies choose to retain instead of purchasing or claiming on their crime insurance policy.

Another reason companies may choose to retain a risk is when it is not insurable or falls below their policy deductible. In this case, it is referred to as "forced retention".

Insurance companies also have to make a decision about which risks to retain. Risks they choose not to retain are transferred out via a reinsurance policy.

When a company chooses or is forced to retain a certain risk, they will be responsible for paying any losses from that risk out of pocket. For this reason, it is important for companies to make sure that they can properly afford to pay for potential losses before they make the decision to retain particular risks.
Oftentimes, the money can come from their current cash flows, from reserve funds set aside for these types of losses, or if they are frequent and predictable enough, they can be put into the monthly budget.
Risk retention can either be done voluntarily or be forced.

The decision to retain a risk voluntarily usually comes down to an economic calculation. If the losses happen often enough to be budgeted for or if the premiums for insuring against this risk is too high, many companies will choose to voluntarily retain the risk. Large organizations such as railway operators or government bodies may also choose to forgo insurance and retain almost all of their risk because they are big enough to absorb potential losses. These types of organizations can save money by not purchasing insurance.

Other times, companies are forced to retain a risk or loss. This happens when the risk is either excluded from their coverage, uninsurable, or when the value of the loss is less than their policy deductible.

INSURANCE INDUSTRY

S.L. Tripathy appointed as CMD of United India Insurance – The Statesman – 4th September 2021

The central government on Saturday said S.L. Tripathy has been selected as the Chairman-cum-Managing Director of the city-based United India Insurance Company Limited.

Tripathy is currently General Manager and Director at the New India Assurance Company Limited.

He is appointed as CMD of United India from the date of assumption of charge of the office and up to the date of his attaining the age of superannuation.

TOP

Is the maturity amount of life insurance policies tax-free? – The Financial Express – 9th September 2021

After religiously paying your life insurance premiums, the time may be nearing for your policy to mature. Whether it is a money-back or an endowment plan, all traditional life insurance policies have a maturity value to be received by the policyholder on surviving the term of the policy.

And, if you had purchased the policy 10-15 or 20 years back, there have been several tax-related changes during the years. So, will you be required to pay tax on the maturity proceeds? Before we see that, let's see what the maturity proceeds will consist of.

Life Insurance Maturity Amount

In a typical traditional policy, the maturity amount comprises two components – One is the amount of sum assured and second is the total of bonuses accrued (in a with-profit plan) over the years.

Illustratively, if you would have bought a Rs 3 lakh policy for 20 years, by paying an annual premium of about Rs 15000, you will get the assured amount of Rs 3 lakh on maturity. Over and above that, based on the bonus declared by the insurer during these 20 years, the bonus amount gets paid on maturity.

Assuming, a bonus of Rs 45 per lakh for each year, yearly bonus amounts to Rs 13500 and total accrued bonus after 20 years is about 2.7 lakh. So, on maturity, policyholders get Rs 3 lakh (sum assured) plus Rs 2.7 lakh (bonus) equal to Rs 5.7 lakh.

TOP

Why is Employer-Employee-Sponsored Insurance on the Rise? – Outlook – 9th September 2021

In India the health insurance penetration is 4 per cent for the individual policies, however, penetration is 12 per cent including employer-employee and government-sponsored health insurance schemes. Considering all the elements of the insurance ecosystem in India and the roadmap we all envision for the next 5 or 10 years, it is not far-fetched to think that employer-employee insurance is going to be very important. This is one segment that will contribute to increasing the health insurance penetration in India.

Taking a closer look at this category unravels more benefits than what appears at first glance.

Family health insurance without cost surely is a welcome feature for the employees. Employers happily go for this to secure the health of the employees and their families and also arrest their financial erosion due to health emergencies. Established process for processing health insurance claims and ready ecosystem across hospitals, TPAs, and insurers makes the experience seamless. Currently, employer-employee health insurance is worth Rs 16000 - Rs 18,000 crores per annum.

Why Do Companies Opt for Employer-Employee Group Health Insurance?
The main reason for employers providing this insurance is to ensure that their employees can handle medical emergencies without worrying about the costs involved. This peace of mind increases employees' motivation and engagement with their work. Another benefit for employers is that they get to attract top talent and oust competition on this front. Health insurance benefit is surely an important consideration for the employee while choosing the employer. Due to portfolio underwriting, insurers allow to waive waiting periods for various degenerative ailments, pre-existing ailments, etc, so the coverage is enriched for the employees and their family members which are not available in the retail health insurance.

Benefits under the health insurance policy are not taxable in the employee's hand due to reimbursement nature and the insurance cost is booked as expenses by the employer. Hence it works in favor of both parties.

These are the main reasons that have driven companies to opt for employer-employee group health insurance.

Is Employer-Employee Group Health Insurance Beneficial for Insurers?
Employer-Employee Health insurance has been a tricky business for insurers. While the average premium per policy has been very high for this segment and it supports the cash flow of the insurers, the portfolio performance has been unfavourable with claims more than the premium collected.

Despite bleeding portfolio, insurers have been aggressively pursuing this category due to the following reasons:

1. The lump sum premium for better cash flow
2. Higher NWP (No or less ceding to Reinsurance)
3. Management of the portfolio by careful selection of groups designing optimum covers
4. Claims cost control through direct engagement with hospitals for bulk business.

Why Do Insurers Want?
Higher average premium and portfolio approach, which makes this category lucrative for insurers. Most insurers have portfolios that consist of profitable categories like asset insurance, liability insurance, and transit insurance. The profits from these product segments help to offset the losses from loss-making products like employer-employee health insurance, ensuring overall

sustainability. None of the insurers want to miss out on this segment because of the volumes and market coverage.

Traditionally, insurers have been underwriting group insurance products as cross-subsidized for medium and large enterprise clients. The premium amounts were always very high and lucrative.

Challenges to Insurers

With changing lifestyles, economic and social environment, insurers are grappling with the following challenges concerning employer-employee health insurance –

The advancement of medical technology has increased the average cost of hospitalization over the years, availability of better health care facilities has directed the consumers to choose better hospitals over the local nursing homes irrespective of the medical necessity, medical inflation, lifestyle changes have increased the frequency of hospitalizations, the unprecedented pandemic situation has surpassed all estimates of frequency and severity of claims, absence of regulations for price standardization for treatments/procedures, increased competition leading to price wars and inability to correct the pricing, and building a sustainable portfolio.

Challenges to Employers

Employee Health insurance has been a standard with most medium to large enterprises. MNCs also adopt their global insurance program in their local operations. Now small enterprises including the VC-funded startups have been patronizing this benefit for the employees to attract and retain talent.

Some of the most common challenges faced by employers are the risk of increasing premium due to their higher claims experience, Industry claims experience, medical inflation, etc., optimization of covers to contain the cost leads to employee dissonance, the disconnected experience between the stakeholders like an insurer, TPA, and hospital in absence of a common technology interface, and unavailability to best covers for smaller groups

The Road Ahead

This is a rising category and provides an immense opportunity to the industry to work together to make sure all the stakeholders, employee, employer, and the insurer are not losing.

Careful designing of the insurance covers based on the employee demographics, existing claims experience, etc will ensure the cover is optimum at a reasonable cost.

The introduction of participatory policies through features like co-pay, payment by employees for the additional covers, etc will be a win-win approach.

There is tremendous opportunity to cater to all the insurance needs of the employees such as Topup health, Critical Illness, Home insurance, Motor insurance, Life & Accident insurance, etc through the digital fulfillment journey at the employer's intranet/employee portal.

The author is Founder Director and Principal Officer, Riskcovry.

TOP

Taking loan, getting insurance now easier with RBI's account aggregator – Hindustan Times – 6th September 2021

The Reserve Bank of India (RBI) has launched the account aggregator service through which the customers will not need to do Know Your Customer (KYC) for taking loans, getting insurance or investing in mutual funds. RBI's deputy governor M Rajeshwar Rao said last week that the account aggregator ecosystem in the nation is in a nascent stage and there is a need for its orderly growth. "The account aggregator ecosystem is still in a nascent stage of development. But given the sensitivity of the platform on account of the nature of data handled by it, it becomes imperative to ensure that the growth is orderly," Rao said while speaking at iSPIRIT Foundation event last Thursday, according to news agency PTI.

What is an account aggregator?
The account aggregator platform allows the collection of user data with their consent and is shared among financial institutions. This allows the institutions to build a better understanding of potential customers and custom their services accordingly.

Customer consent required
State Bank of India, ICICI Bank, Axis Bank, IDFC First Bank, Kotak Mahindra Bank, HDFC Bank, IndusInd Bank and Federal Bank have planned to share customer data with the account aggregator network. This will also help banks and other financial institutions to get new customers. However, for sharing customer data, the bank or financial institution will have to take their consent, reports news agency PTI.

Data security
The RBI has prepared stringent data privacy guidelines for the account aggregator. At the same time, the data that banks will share with the account aggregator will be completely encrypted.

Aim of account aggregator
RBI deputy governor Rao said that the larger goal of the account aggregator is to empower customers and reduce information asymmetry. It is aimed at ensuring that the customer has full control over the information that is being shared through the account aggregator.

TOP

Govt considering special insurance scheme for Anganwadi workers: Smriti Irani – UNI – 6th September 2021

The Union Minister of Women and Child Development Smt. Smriti Zubin Irani today addressed the Anganwadi Workers across the nation as part of the 'POSHAN Maah' celebrations being undertaken throughout the month of September under the 'Azadi Ka Amrit Mahotsav'. At the onset, Smt. Irani thanked all the Anganwadi Workers (AWWs) and Anganwadi helpers for their determined and tireless efforts, especially during COVID-19 Pandemic, towards ensuring overall betterment of women and children and urged them to send their views and suggestions which can be incorporated in POSHAN 2.0.

The Union WCD Minister encouraged all the AWWs to ensure that 'Poshan Vatikas' (Nutrition Gardens) are setup at all the Anganwadi centres during the month-long celebrations of POSHAN Maah, especially in all the aspirational districts in the country. Smt Irani assured all possible help from the Union Government in this regard and asked the AWWs to work in tandem with the officials to give fresh impetus to the Poshan Vatikas.

The Union Minister emphasized that it is Prime Minister Shri Narendra Modi's vision and mission to ensure a healthy and prosperous nation especially the women and children and for that PM has directed that all Anganwadi Centres be provided with state of the art infrastructure and support. Smt Irani said that through POSHAN 2.0, Anganwadi centres will be made more competent (Saksham Anganwadi) through better infrastructure and all efforts will be made to fulfil the nutritional requirements of women and children.

Smt. Irani also informed that Special Insurance scheme is being considered for all the AWWs and for that, State Governments have been requested to take necessary steps so that insurance cover can be provided to AWWs.

In closing, the Union Minister said that Poshan Maah is also an opportunity to give gratitude to all the AWWs through all the activities being undertaken and said that not just the month but the entire year should be a tribute to the untiring efforts of the Anganwadi Workers.

TOP

LIFE INSURANCE

All You Need To Know About Whole Life Insurance – Forbes – 6th September 2021

The lack of understanding or interest in finance and money management, is often a major deterrent to financial planning. People are typically comfortable with commonly understood options, such as fixed deposits (FDs), mutual funds (MFs) and equity markets. Those in their post-earning years prefer the safety of FDs, as the fear of not being able to recover their investment lowers their risk appetite.

However, there is an under explored alternative that assures security along with long-term returns. Add to these, an additional component of lifelong coverage, and you have the option of whole life insurance plans.

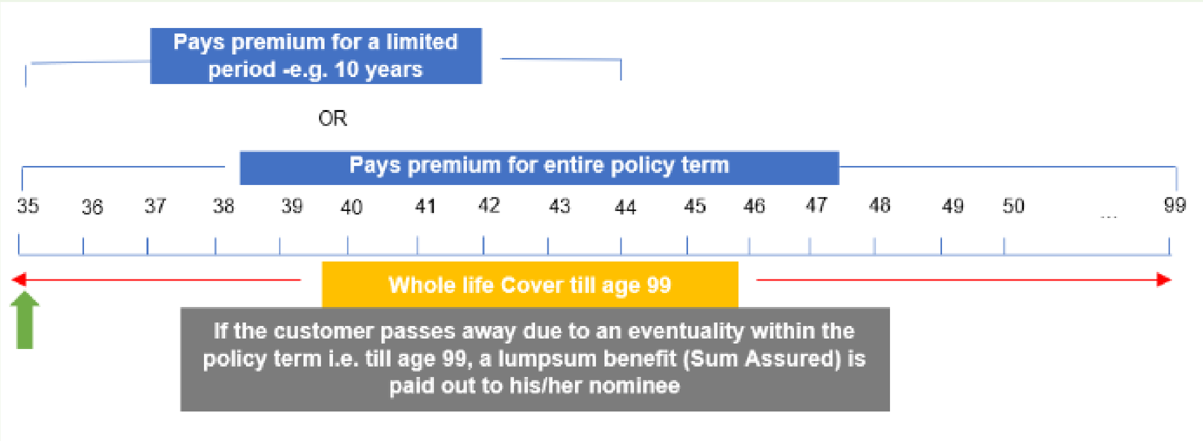
Whole life insurance plans come with an additional benefit of low maintenance. Unlike stocks or MFs that need constant monitoring and management, most whole life insurance plans do not need any active involvement, only timely premium payment.

Types of Whole Life Insurance Plans – Protection and Investment

Whole life insurance offers the longest coverage against loss of life, i.e., up to 99 years of age. This makes it an insurance with a permanent validity. In addition, the premium payment amount and term can be customized to align to the customer's convenience, current obligations, future goals, payment feasibility, and professional compensation.

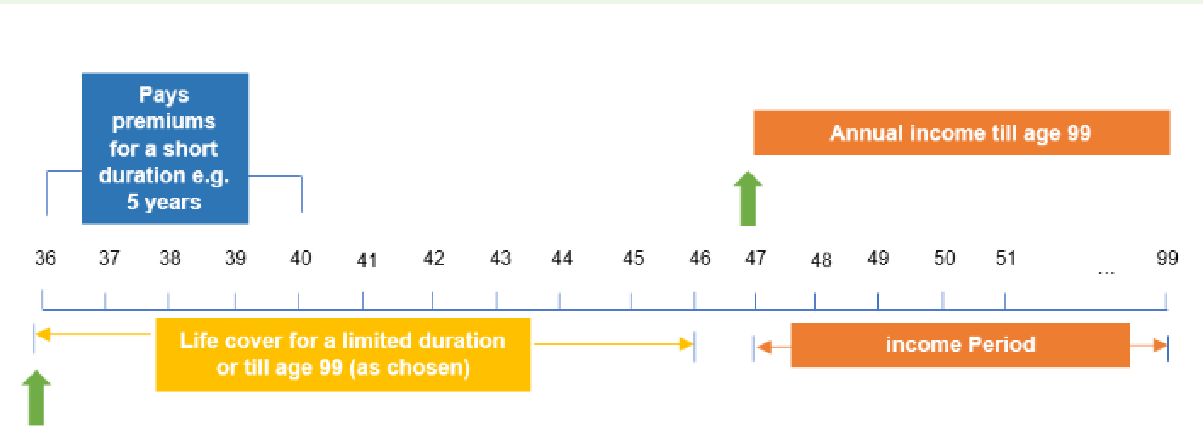
Let us understand the different kinds of whole life insurance plans and the multitude of benefits they offer, that facilitate goal-based investing. Below are examples of some basic whole life product structures available in India.

Lifetime Protection Plan: This is the simplest plan, which ensures lifetime coverage until the policyholder's death. Protection plans offer two premium paying terms – limited and regular. Limited term allows the policyholder to pay premiums for a limited tenure, whereas regular term stretches these across the entire duration of the policy, i.e., all through the policyholder's lifetime. Both premium paying terms offer lifetime coverage until 99 years of age. In case of the premature death of the policy holder, the entire sum assured is paid to the nominees.

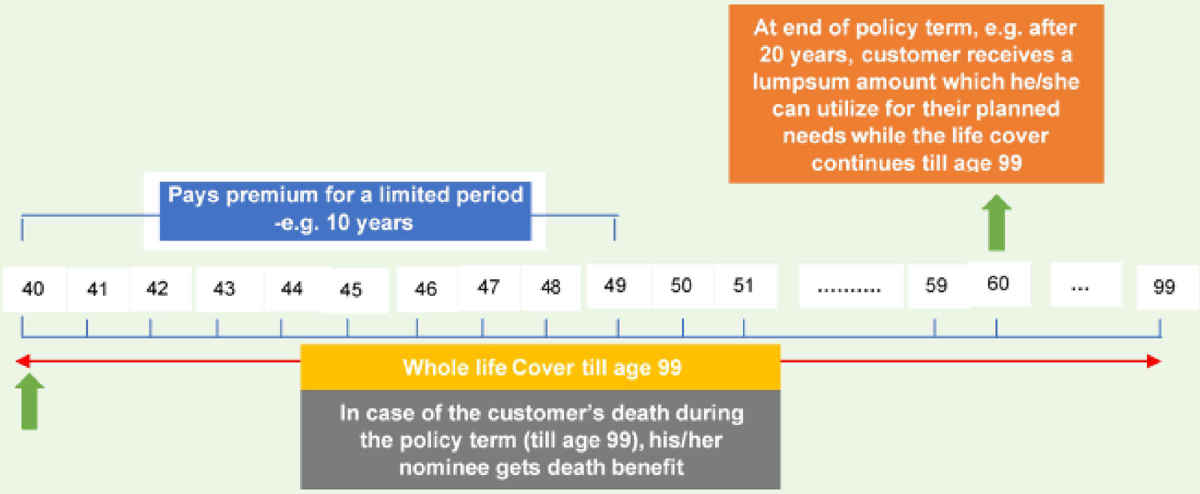


Lifetime Income Plan: This plan assures a lifetime of regular income post a defined age or policy term. The premium paying term is limited, whereas the income is received post the policy term for the rest of life. Some plans may include an additional lifetime insurance cover till 99 years of age, which serves as a death benefit. This provides a dual benefit of income and security for the beneficiaries.

Lifetime income plans are also future focused. They allow the policyholder to purchase additional new age riders, which provide financial support for Alzheimer's, Parkinson's, cardiovascular and other lifestyle diseases. This avoids unexpected health costs eroding into the retirement corpus.



Endowment Plans: A whole life plan with an endowment structure pays the policyholder the sum assured on maturity, at the end of a fixed term. In addition, the insurance coverage stays active till the age of 99 years, or as per your preference.



Benefits of Whole Life Insurance

Insurance has typically been a grim topic with negative connotations. Whole life plans are the antithesis, offering more benefits, more certainty.

Protection for Lifetime: Whole life plans offer the longest coverage, i.e., till the age of 99 years. For policyholders to reap the maximum benefits, it is advisable to start investing at a young age as the policy benefits can accrue significant value over a long-term period.

The premium cost is also considerably lower, which enables the purchaser to opt for a higher cover that can keep pace with future inflation. Unlike term insurance policies which disburse the sum assured to the beneficiaries on the policyholder's death, whole life plans, especially the income and endowment plans, allow policyholders to enjoy the returns on investment during their lifetime.

Financial Security from Day One: Most insurance policies stay active only if the premiums are paid on time and in full. The unexpected death of the policyholder could affect the amount of the sum assured. Whole life plans are independent of this and offer certainty in the event of uncertainties. The cover starts on the date of the policy and continues all through life. The premature death of the policyholder does not affect the amount of the sum assured payable to the nominees.

Protection against Health and Life Risks: People expose themselves to various stressors in everyday life, which could lead to serious health implications. Whole life policies may offer additional riders that cover critical and lifestyle diseases, accidental death, or disability. These riders alleviate the burden of exorbitant medical expenses for the dependents, ensuring their savings stay untouched.

Lifetime Income: Irrespective of the income bracket or source, the lifetime income plan is a prudent decision to safeguard against uncertainties or inflation, especially during the retirement or post-retirement years. The income may be utilized to supplement an existing income, to fund everyday expenses, support an additional interest or venture, be set aside for contingencies, or even be further reinvested in additional instruments to grow the retirement corpus.

Tax Benefits: The premiums payable as well as benefits received under the policy are exempted as per applicable tax laws. The premiums paid towards the policy receive a tax rebate of up to Rs. 1.5 lakhs. The sum assured received by the beneficiary or policyholder is also exempt from tax as per Section 10(10D) of the Income Tax Act as per prevailing tax laws.

Fixed Premium Rates: The consistent premium outflow and payment term ensure certainty. These remain consistent regardless of any change in age or health. Some whole life policies continue to offer the insurance cover even post the premium payment period, providing a dual benefit.

Loan Against Policy: Most whole life plans allow the policyholder to borrow against the policy, provided all premiums till that date have been paid. It is beneficial, especially in the case of unexpected emergencies.

Legacy Planning and Estate Protection: Whole life plans are a wise choice for business families looking for equal distribution of assets to their family members. The policyholder may purchase multiple plans with a sum assured that is equivalent to the estate value, to ensure all the beneficiaries get equal value of benefit (one through estate while others through benefit from insurance policy).

The Best Time to Invest Is Now

Lifespans are increasing. On the other hand, unexpected events such as the global pandemic and other natural disasters have proven that it is increasingly important for people to plan for their long-term future. Whole life insurance is becoming a popular investment option for its long coverage duration and guarantee of sum assured, as death benefit is payable well beyond expected life expectancy.

The plans also seem to have a buy-in with the current generation, Gen Z, who, though motivated more by passion and purpose than by pay scales, seek security outside of their income. The 'gig' economy has also grown significantly in the past decade with the Associated Chambers of Commerce and Industry of India (ASSOCHAM) projecting it to grow at a compounded annual rate of 17% to reach $455 billion by 2023.

Whole life protection plans, with their limited premium paying term, offer the perfect solution for this contemporary mindset who believe in laboring for a few years, only to fulfill their responsibilities.

Bottom Line

Lifetime coverage till 99 years of age. A customized premium payment term that stays fixed all through the plan duration. The opportunity to supplement one's income, pre as well as post retirement. Optional riders that cover exorbitant critical and lifestyle diseases. Tax benefits on both, premium paid and sum assured. With such a bouquet of benefits, there is every reason for a whole life plan to be a part of your financial plan.

TOP

Cover drive – The Telegraph – 6th September 2021

Indians are known to drive a hard bargain before spending money on any purchase. We evaluate the features offered by various retailers and service providers in the same price range before making the final decision. For instance, when we purchase a house, a car or a phone, we do a thorough market analysis before we come to any conclusion.

Similarly, when it comes to purchasing a life insurance policy that requires financial commitment for the long term, it is imperative that we compare the benefits and features offered by different products and ask the right questions to the advisers before taking the final plunge.

An effective insurance plan will help us secure our loved ones and help fulfil their dreams and goals under all circumstances. It will act as an effective safety belt, ensuring our peace of mind and enabling us to focus on our everyday life.

But what are the factors that we must focus on before buying a life insurance plan so that they suit our needs.

While term insurance is universally suitable as a savings product, depending on the current life stage, risk taking ability and future long-term financial goals, it is of utmost importance to know the category of the product we wish to purchase.

To this effect, let us jot down the different parameters that we should consider before we buy a life insurance plan.

Risk appetite
As in most other sectors, a consumer is spoilt for choice when it comes to choosing a life insurance policy.

The ability to take risk for a young individual is far higher than someone nearing retirement. As one size does not fit all, the specific needs of individuals require specific insurance solutions. It is essential to diversify our assets into a mix of traditional and Ulip products to fulfil these individual needs.

Payment options
Life insurance companies offer products where customers are required to make only a one-time payment, that is single premium. Other options include regular premium throughout the term of the policy or for a limited period of time. Knowing the cash outflow can help customers in planning their finances better.

Additional benefits
Unfortunately, everything in our lives can change within seconds. Changing lifestyles and genetic factors is increasing instances of critical illnesses.

Accidental deaths are also on the rise and it is essential to safeguard ourselves and our family from the repercussions of unfortunate events. Hence, it is essential to focus on the additional riders such as critical illness and accidental death benefits while purchasing life insurance products. These riders provide for immediate claim payout providing much required relief.

Fund performance/bonuses

Information regarding where your money will be invested over a long period of time is significant for the buyer.

Traditional life insurance products largely invest in fixed income assets which are less prone to market volatility and offer steady returns over the long term.

Unit-linked insurance plans provide customers the flexibility to choose the investment strategy which best suits their long-term financial goals and their risk appetite. It is worth noting here that a unit-linked policy has a lock-in period of five years.

The fund performances and bonuses can be checked periodically by the customers through the online portals available.

Trust is a non-negotiable element of the life insurance business. Any person thinking about purchasing a policy should first figure out the trust quotient of the insurer.
Moreover, they should evaluate the customer service indicators such as claim settlement ratio, which is the number of claims settled by the insurer versus those received by them in a given financial year, along with consistency of the claim settlement ratio for the past few years.

Not limiting yourself to just this, you should dig deeper and compare the claim settlement experience — what is the turnaround time when it comes to settling death or maturity claims and whether the process is smooth and hassle-free.

Buying a life insurance policy is an important financial decision that requires due consideration before making the final decision. The above questions mentioned in the article are the essential ones and obtaining answers to these questions will ensure that you have made an informed choice while purchasing life insurance for the security of your loved ones.

The writer is chief distribution officer, ICICI Prudential Life Insurance Company.

TOP

GENERAL INSURANCE

Karan Johar files for Rs 50 crore insurance claims over Brahmastra delay – The Economic Times – 3rd September 2021

Film producer and director Karan Johar's magnum opus Brahmastra has been marred by many delays and disturbances. The film's producers, Fox Star Studios and Dharma Productions, are understood to have approached insurance companies with five large claims that accumulated to over Rs 50 crore.

The production is learnt to have been insured for over Rs 400 crore, which could be the total cost of the movie. While few production houses can claim insurance over pandemic-hit delays, Brahmastra has faced trouble much before that. One of the insurance claims is learnt to have been over unexpected delays due to the movie's lead actor Alia Bhatt's illness in 2019.

Insurance companies and claim

The movie has been insured by the country's top four insurance companies. While New India Assurance is the lead insurer of the consortium, the other three are United India, Oriental Insurance and National Insurance.

Apart from Alia Bhatt, the movie has high-profile actors like Amitabh Bachchan, Ranbir Kapoor along with South superstars like Nagarjuna and Prabhu. Most Indian movie productions insure against event cancellation, damage to set via fire, unexpected shoot cancellations and much more. However, no claims can be made over delays due to the pandemic, since it would count as an 'Act of God' or Force Majeure.

The movie, which is touted to be a superhero movie, and the first of a possible trilogy, is shot across locales like Bulgaria, Scotland, London and New York. The high octane action movie was also supposed to be released in a 3D format. It was touted as a multilingual film to be released in Hindi, Telugu, Tamil, Kannada and Malayalam.

The shooting for the movie started in 2018 and was initially expected to be released in late 2019, but couldn't due to its extensive VFX or graphics. It was later postponed to late 2020, but the pandemic kept moviegoers away from theatres while most states had closed them altogether. The producers have since not announced a new date of release.

TOP

HEALTH INSURANCE

Technology Enables a Better Ecosystem for Health Cover Business – Outlook Money – 6th September 2021

Digital technologies have brought ease, speed and power into information processing. With the advent of cloud-based data management and high-speed communication networks, accessing information has become convenient, particularly so on handheld devices. These technologies are now enabling an improved ecosystem within health insurance.

Digital technologies are easing customer interactions in various milestones of the health insurance experience journey, such as:

- Plan Selection: Digital comparison engines allow customers to analyse hundreds of plans online and select the one that fits their needs best. Automated recommendation engines ease the process further by providing a ranked list of plans that perfectly match the customer's profile.

- Proposal Submission: Paperless proposal forms can be filled up, signed and submitted electronically on mobiles or computers.
- Online Payment: Digital payment gateways support direct electronic payments from customers to insurers using debit or credit cards, e-wallets and even EMI options.
- Underwriting: Digital rule engines allow straight through processing of proposals with real time approval. Tele-underwriting speeds up the medical underwriting process too, wherever required.
- Information Access: Digital technologies enable policies and e-cards to be issued and sent electronically to customers through emails and apps.
- Cashless Claims: Cashless claim forms and approvals are transmitted electronically between the hospitals and insurers or third-party administrators.
- Reimbursement Claims: Reimbursement claims still involves quite a bit of paperwork. Digital technologies within the National Digital Health Mission's framework have the potential to eliminate this paperwork.
- Claims Pay-out: Digital payment modes enable reimbursement claims to be paid directly into the customer's bank account. Cashless claims are electronically paid to hospitals by the insurers.
- Renewals: Customers are able to pay renewal premium through electronic payment gateways.
- Endorsements: Customers can submit endorsement (information update) requests electronically through insurer apps or portals.

Digital technologies are helping other members of the health insurance ecosystem as well:

- Distribution costs are going down as insurers can sell and service health insurance digitally and no longer need armies of insurance agents.
- Rule engines allow automation of first level of underwriting and claim processing, thereby increasing speed and reducing costs. Pattern recognition engines are beginning to help detect systemic frauds in claims.
- Digital health technologies such as Electronic Medical Record (EMR) systems are beginning to change the way hospitals capture and share information with insurers and insured. The National Digital Health Mission's framework for electronic health record sharing, should drastically reduce claims related paperwork.

The author is Co-Founder, SANA Insurance Brokers Pvt. Ltd.

TOP

Healthtech start-up GOQii to venture into 'outcome-based' insurance products – The Hindu – 6th September 2021

Preventive healthcare start-up GOQii will be going live with its customisable insurance products by the end of 2021. The start-up has been testing these products under IRDAI's Regulatory

Sandbox, co-created with partners Star Health Insurance, Bajaj Allianz General Insurance and Kotak Mahindra General Insurance.

GOQii has been manufacturing fitness tracking wearable's linked to its app, which offers several features and parameters to track physical and dietary health of the users. The users get access to coaches, doctors and experts on the platform depending on various plans selected. Having gathered data around the same for over seven years with a present paid active userbase of 5 lakh, the start-up is in an advantageous position to tie-up and sell insurance products to its users over the app.

Health Risk Assessment

A key metric in the app is the Health Risk Assessment (HRA) rate, an important parameter using which founder and CEO Vishal Gondal wants to help users get a fitter life while also benefiting the insurance companies looking to offer policies to users.

Based on how healthy a person is, GOQii will be offering a differential pricing and plan to every user, which can further be customised based on improvement in their health.

"It took us three years to convince the regulator and the companies to partner with us. We will be able to start our outcome-based insurances, where once you have a health outcome, depending on the result, dynamically we will be able to change your pricing, coverage and benefits completely. We are looking at a different approach of fundamental healthcare," Gondal told Business Line.

"We look at how many people have managed to reduce their health risk. That's an important parameter to judge improvement. We monitor HRA rate on a monthly basis. Last year about 30 per cent users had a marginal improvement in health risk but 18 per cent showed substantial improvement," he added.

GOQii already has an existing insurance plan with Max Health Insurance.

E-comm platform

The start-up health management app also has an e-commerce platform where it sells health related products, which is a major revenue contributor to the company. Its users are spending around ₹ 4,000-5,000 per year on the app on an average.

This comes at a time when the fintech and especially insurance space is heating up. In June, after getting an insurance license, Walmart-backed payments app PhonePe expanded to 15 offline retail stores.

According to media reports, earlier this month, fintech lender ZestMoney also got its license.

TOP

Why India's efforts to standardise insurance have gone nowhere - Mint – 6th September 2021

In November 2020, Harsh Shukla, 29, an IT professional based in Greater Noida, had to make a quick decision. Covid-19 had jolted him into action, and he was scouting for a "good health insurance plan". Unfortunately, insurance is a notoriously complicated subject in India with dozens of different plans and top-ups, and Shukla didn't know how to make sense of any of it. Luckily, the Insurance Regulatory and Development Authority of India (Irdai) had issued a set of guidelines a few months earlier (in January 2020, just prior to the onslaught of covid), which was supposed to make things easier for consumers like Shukla. The new rules were supposed to create a "standard" product with a common name—making it easy for consumers to identify it—followed by the name of the insurance provider. Over 40 commonly used insurance terms and conditions were meant to be standardized across providers, liability had to be spelt out clearly and an informed consumer choice was supposed to reign supreme. The deadline for effecting these changes: 1 April 2020 (well in time for the covid-induced insurance demand spurt).

However, these lofty ambitions didn't make a material difference when Shukla was in the market for a good product. The first issue facing Shukla was that a standardized health policy was not available across all insurers. He also quickly realized that the standard product, even when available, offered rather limited coverage. "I didn't understand the co-pay clause or the basis for the pricing difference (why insurers put different price tags while offering the same product)," Shukla said. "I also didn't quite understand how (available) standardized insurance policies score over comprehensive health policies." Strangely, guidelines that were meant to provide more transparency and clarity in theory had the exact opposite effect in practice. Eventually, Shukla ended up buying a comprehensive health policy from a leading insurance firm rather than opting for a standard health policy. This chasm between the stated goal and the actual experience of consumers matters for one simple reason: The pandemic has changed the landscape of India's insurance industry. Insurance penetration is expected to shoot up rapidly, with the pandemic providing a tailwind for health, life and other insurance products. Until 2020, insurance used to be a "push product", primarily promoted by an army of agents and banks. It is now progressively transforming into a "pull product", with consumers raising the first query. Many of these new entrants to the insurance market will greatly benefit if a standardized product market functions effectively.

Whether the experience of these new entrants is good or bad matters because a wider insurance penetration will bring down costs for everyone. As of FY20, India's insurance penetration is a mere 3.76 percent (life insurance products at 2.82 percent and non-life penetration at 0.94 percent), according to the India Brand Equity Foundation (IBEF), a website established by the Union government's ministry of commerce and industry. For an industry that is used to a modest growth of roughly 3-5 percent year-on-year, this is a clear inflection point. Standardization can potentially facilitate further growth. But will it work for India's consumers, many of whom are suddenly clamouring for a rainy-day cover? What exactly is a standard cover? It effectively means the regulator—Irdai, in this case—will impose a framework in terms of the specific coverage and the details of the product. Within the guardrails of this framework, insurers can offer their own individual plans. The only differentiator will be the price, which could have the added advantage of keeping consumer costs low since insurance providers won't be able to hide behind small differences in benefits to jack up the premium.

Any major difference in price could then be justified only by offering a markedly superior customer service experience. Thus, it is a potential win-win for ordinary consumers. Assuming all the features (across providers) are the same, customers will have to make a judgment based on just a few verifiable parameters, said Nishith Baldevdas, founder of Shree Financial, an investment advisor registered with the Securities and Exchange Board of India (Sebi). “The basic criteria to keep in mind while shortlisting would be affordability (upfront price), promptness of service, and the number of claims settled in the last 5 years and whether the claims settlement record is good." The push towards standardization could also benefit insurance providers. Currently, policyholders often get into extended arguments with firms during the claims settlement process due to ambiguity in the terms and conditions. Standardization of the product could play a crucial role in reducing recurrent disagreements. A standardized product will reduce the complexity of the claims process. But the key advantage is this: products that bring in more transparency will increase consumer confidence and build trust in the industry by simplifying price points and associated underwritings.

Trust is an essential lubricant for any well-functioning marketplace. Informed buyer choice is one of the key bottlenecks in the Indian insurance ecosystem currently. Due to the vast array of policies that are on offer in the market, consumers often end up getting confused. For anyone with a day job and dozens of other priorities, buying the right insurance may not be an easy task. In most cases, insurance firms and their distribution agents are responsible for explaining the specific details of a product. If this interaction is fair and transparent, it inevitably builds trust. For a first-time policy buyer, the first go-to person is generally the insurer. And a well-designed standardized product will make it very easy for a newcomer to glean the right information from a firm or an agent. The year 2020 brought about a complete revolution for the health insurance industry. While the first steps towards greater simplification and standardization were taken, the regulator’s quest for clarity often created a set of new confusions.

For instance, after the introduction of the standard Arogya Sanjeevani health policy, the regulator modified the product several times in order to attract insurers and buyers. This eventually caused more confusion, said an industry expert who requested anonymity. Thus, while the amendments may have been intended to benefit policyholders and buyers, too many modifications over the past year increased the complexity unnecessarily. In the realm of life insurance, a significant regulatory intervention was the introduction of a standard term insurance product—Saral Jeevan Bima—by Irdai in October 2020. The policy came into effect on 1 January 2021. Generally, term life insurance policies cover almost all kinds of death and have no exclusions (except a clause on suicide in the first year after a policy is purchased). The product has thus become highly commoditized, and insurers generally struggle to bring out any real differentiation. Interestingly, however, a few insurers are currently selling the Saral Jeevan Bima policy at nearly twice the regular term insurance policy price.

Insurance firms often use filters such as income, education level, and the demography of the buyer in order to evaluate term insurance products, said the industry expert mentioned earlier. “The problem with a standard term insurance like Saral Jeevan Bima is that there are no filters permitted… meaning that the premium will be high as the risk is high," he explained. Essentially, a person who earns reasonably well and lives in a city that is not hazardous may not find the standard insurance product relevant since the regular term product will be cheaper for them. Despite the hiccups, the benefits of standardizing India’s complex insurance web are many. Yet, insurers are still reticent about marketing these policies. “Generally, the insurance companies have a lower inclination towards these standardized products as these products have a lower premium and a higher comparison rate," said Naval Goel, founder and chief executive officer of PolicyX.com. "Further, this has also led to more competitive pressure on insurance companies to offer the best after-sale services at relatively lower prices than other insurers. Therefore, the lesser profitability somewhere demotivates the insurers in marketing new standardized products."

However, there could also be some genuine reasons as to why insurance firms are holding back, Goel said. "The Irdai can take some steps to help insurers in sorting out those issues that are causing delays. It is difficult to predict whether Irdai will do this," he added. Echoing similar views, Srinath Mukherjee, co-founder and director, SANA Insure, said that insurers are not promoting these standard products because they do not want to compete only on price. Standardization brings in the fear of being treated as a commodity in their minds, said Mukherjee. "Insurers are, therefore, just complying with the regulator while launching these (new) products, but (they are) not promoting them in any way. Their human agents and intermediaries also don't like to sell these products because of (the) lower premiums and commissions." Besides, India's problem of low insurance penetration is due to multiple factors—lack of trust, complexity of products, and the lack of distribution reach of mainline insurance firms. Standardization of insurance products currently focuses on only one of these underlying concerns—the easing of complexity. Some of the other issues still remain unaddressed.

Mukherjee says that some of the standardized products that have been cleared by the regulator could actually put off a segment of value-seeking consumers. The regulator has defined a co-pay clause, which does not go well with the Indian mind-set, Mukerjee said. "For instance, if I am paying a premium of say ₹5,000 for a sum insured of ₹10 lakh, and the hospitalization expenses amount to ₹3 lakh… at 5 percent co-pay, I will be forced to pay another ₹15,000 out of my pocket. Such conditions reinforce the lack of trust, and so customers are still staying away (from such types of standardized policies)." Hence, the only way to increase insurance penetration is via trustworthy, transparent and comprehensive digital platforms, said Mukherjee. Things will inevitably improve as the new guidelines fall into place and insurers learn to adapt to the new system, said Chandan D.S. Dang, executive director at Secure Now, an insurance broker. "Insurers are beginning to understand the claim incidence rates (proportion of buyers who file claims) since these products are now in the market. This process will help them in establishing the correct prices. Do keep in mind that the incidence of covid-19 itself has been unpredictable so far," he said. While it may indeed be a little early to gauge the success or failure of this new class of standardized insurance products—ranging from Arogya Sanjeevani and Corona Kavach to Saral Jeevan Bima—all eyes are clearly on them. "In the long run, I think this practice of standardizing insurance products will prove to be helpful," said PolicyX.com's Goel.

TOP

MOTOR INSURANCE

How the new bumper-to-bumper vehicle insurance rule will impact consumers – Mint – 8th September 2021

When it comes to motor insurance in India, every driver has to carry at least a minimum of a third-party insurance policy, as per the Motor Vehicle Act. To drive a vehicle without insurance is a punishable offence. The law was drafted and brought in effect to safeguard the interest of a third party that suffers injuries or property damage due to an accident with the involvement of an insured vehicle. However, the own-damage insurance cover is optional, while the personal accident cover is necessary only for the owner-driver of the car. The Madras high court, in a judgement, has said all vehicles sold in Tamil Nadu after 1 September 2021, must be sold with a compulsory bumper-to-bumper insurance cover every year in addition to personal accident cover for all the occupants including the owner, driver, and passengers of the vehicle for straight five years.

Ankit Agrawal, CEO and co-founder, InsuranceDekho.com, said, "The ruling is expected to make vehicle owners pay heed towards the interest of driver, passengers, and third parties along with themselves. It may also avoid unwanted liability being levied on the owner of a vehicle since at present, bumper to bumper is optional, and there is provision to elongate it beyond five years." Pranav Srivastava, partner, Phoenix Legal, said the high courts in India, when exercising writ jurisdiction, do have extra-territorial/ pan-India powers, i.e., powers to issue directions, orders or writs to persons, authorities or governments located outside the territorial jurisdiction of the said courts. "However, in the present case, the Orders have been passed by the High Court of Judicature at Madras while exercising civil appellate jurisdiction and not the writ jurisdiction. Also, the Orders only direct the transport department in Chennai to ensure compliance and arrays the Transport Department, Chennai and the Joint Transport Commissioner, Chennai, as parties. Therefore, in our view, the Orders will not have a pan-India application and will apply only to the State of Tamil Nadu," said Srivastava.

"To understand the effect, firstly one needs to know the importance of motor insurance. It is the second-largest business segment of the insurance industry that contributes around 40 percent of the total premium collected by the general insurance companies, in which approximately 41 percent of the premium share comes from the own-damage insurance cover that the court has made mandatory," Agrawal said. "Besides, at present, almost 65-70 percent of the two-wheelers running on the roads avoid the possession of own-damage policy by the second year, while approximately 20 percent to 30 percent of the four-wheelers tends to shun the owning of own-damage policy by the fourth year. It shows the scope of coverage lies under this own-damage insurance cover," he said. Industry experts anticipate that the new rule may push up cost of vehicle purchases 8-10 percent. For bikes, this may rise by ₹5,000-6,000, for entry-level cars by ₹50,000, and SUVs by more than Rs2 lakh. The rise in prices can make customers pay up to Rs1, 000 more as down payment for two-wheelers, Rs10, 000-12,000 more for four-wheelers. Overall this order will make car prices dearer by Rs50, 000 to Rs5 Lakh, as per car dealers and experts.

Agrawal said, "Currently, the price of a one-year insurance policy costs around 3 percent of the car's value. But, post court's decision, the car dealers will have to sell vehicles with 5-year mandatory bumper-to-bumper insurance that will enhance the vehicle prices which can bring a massive upfront expense for customers." The domestic insurance sectors has been adopting measures to provide flexibility to customers to ease their insurance experience. Many companies offer per month payment options based on the policy to help customers purchase a policy without affecting their budget, but the revised law can impact the monthly payments too. The move is expected to be counterproductive and might end up curbing the volume of car and bike sales since it can put extra burden on customers' pockets. Some car marketers assume that the decision could also against the holistic perspective of the auto sector, while a few feel that in such a scenario, the Insurance Regulatory and Development Authority of India (IRDAI), should modify the premium structure to provide some relief to customers as it did in 2020 by ordering the withdrawal of compulsory long-term insurance for new vehicles. "Based on the facts, it is validated that this decision can hit the customer's pockets badly and might change or delay their vehicle purchasing decision, which could cause trouble for the auto industry," said Agrawal.

TOP

Bihar first state to simplify road accident claims – Hindustan Times – 5th September 2021

Bihar will be the first state to simplify claims of road traffic accident (RTA) by removing the victim or their dependents from the litigation process and paying them an interim ex-gratia amount of ₹5 lakh within 15 days in event of death, officials driving the change have said.

The state will also take the onus to contest the case in court, on behalf of the victim, if the insurance firm of the accused vehicle owner, decides to challenge the order.

Come September 15, and the state will implement the new amendment to the Bihar Motor Vehicle Rules that empowers the state transport appellate tribunal to settle all such accident claims within 60 days. The new amendment was notified in the Bihar gazette on August 11 after a cabinet order.

So far, road traffic accident claims are tried in the civil court and linger for years.

“This is the first of its kind initiative in India to simplify accident claims,” said Bihar’s transport secretary, Sanjay Kumar Agarwal.

The new rules allow immediate payment of ₹5 lakh as interim compensation for death and ₹50,000 for grievous injury to dependents or victims of road traffic accidents, involving vehicles that are insured, uninsured or involved in hit-and-run case. The compensation for grievous injury is proposed to be increased from ₹50,000 to ₹2.5 lakh.

As part of the new rules, victims or their relatives will not have to run from pillar to post for settlement of claim. The state will pay the interim compensation and also take the responsibility of fighting a legal suit on behalf of the victim if an insurance firm were to challenge its order.

“We have set up a revolving corpus of ₹50 crore under the Bihar motor vehicle accident assistance fund through which such payments will be made,” said Agarwal.

In case of insured vehicles, the state will pay the compensation to the victim or their dependents through the corpus fund and recover the amount from the insurance firm after the tribunal settles the case within the stipulated 60 days, he added.

For uninsured vehicles, the state will recover the compensation amount by auctioning the vehicle if its vehicle owner is unable to pay the compensation to the victim’s family. Should the amount realised through auction be less than the compensation fixed, the state will bear the difference amount through the Bihar motor vehicle accident assistance fund, said Agarwal.

Nearly 20% of the 13.60 lakh registered vehicles in the state till 2019-20 do not renew their insurance. "We will start a special drive to check for insurance of motor vehicles soon," he added.

For hit-and-run case, the compensation amount will be borne through the corpus fund and replenished partially by the Centre through insurance companies, which pay ₹50,000. The state will bear the remaining ₹4,50,000 in deaths involving hit-and-run cases.

Under the changed rules, all sub-divisional officers (SDO) will be the accident claim inquiry officer and district magistrates (DM) the accident claims assessment officer. The SDO conducts the inquiry on the basis of site inspection done by the police and the motor vehicle inspector.

"The changed rules do not mandate any site inspection or examination of witness at the trial stage. If challenged, the case will be adjudicated on the basis of a summary trial based on the petition of the victim or their relatives, deposition by the insurance firm and reports by the police, the SDO and DM," said Agarwal.

In case the tribunal or a higher court awards a higher compensation, the difference of the amount already paid as interim compensation would be credited into the bank account of the victim's family. However, in case of an adverse order for the government, the interim amount already paid as compensation to the family of the victim will not be taken back but adjusted through the Bihar motor vehicle accident assistance fund.

Bihar ranks 15th in India in terms of road accidents and ninth in terms of fatalities arising out of them, as per the latest data released by the ministry of road transport and highways (MoRT&H) in 2019.

Tamil Nadu, Madhya Pradesh, Uttar Pradesh, Kerala, Karnataka, Maharashtra, Rajasthan, Andhra Pradesh and Gujarat are among states which rank higher than Bihar both in terms of number of road accidents and deaths.

Bihar had only 9.3 recorded cases of road accidents against the national average of 34.2 per lakh population in 2019.

With a score of 11.7, it ranked 22nd in terms of accidents per 10,000 vehicles.

TOP

'5-yr vehicle insurance court order anti-competitive, anti-policyholder' – The Economic Times - 3rd September 2021

Legal and insurance industry experts are of the view that the recent Madras High Court order - now kept in abeyance - making it compulsory for all new car owners to have bumper-to-bumper insurance policy is not only 'anti-competitive', but will also have far-reaching implications for the players, feel experts in the field.

While the order is most favourable for the general insurers, as they get lump-sum upfront, there are differing voices within the industry as the order makes the field uneven.

It will be interesting to note how the General Insurance Council (GIC) - the lobby body for non-life insurers - and the Insurance Regulatory and Development Authority of India (IRDAI) would react before the court when the case comes up for hearing again.

"On the face of it, the Madras High Court order is anti-competitive," D. Varadarajan, a Supreme Court advocate specialising in company/competition/insurance laws, told IANS.

Though there are several non-life insurers in the country selling vehicle insurance policies, as per the order, a vehicle buyer will be locked-in with one insurer for five years.

The insurance policies for new vehicles fetch the highest premium and are generally sold through vehicle dealers.

Varadarajan said that it is beyond the purview of the high court to pass such sweeping orders, rather than deciding the real dispute between the parties in that particular case, and that too without giving notice to the parties, including the Central government, which would be affected or concerned by such a 'drastic' order.

"Further, in the teeth of the law enacted by the Parliament, there is no warrant for judge-made law. Such orders would amount to encroaching upon the domain of legislature, which cannot be countenanced," Varadarajan argued.

Commenting on the lack of awareness on the part of the car owners about the liability for the occupants of the car, the court while hearing a case ordered: "Therefore, this court directs that whenever a new vehicle is sold after 01.09.2021, it is mandatory for coverage of bumper-to-bumper insurance every year, in addition to covering the driver, passengers and owner of the vehicle, for a period of five years."

Later, the court issued an order keeping its earlier order in abeyance and issued a notice to the General Insurance Council and IRDAI.

"Under Competition Law, it needs to be evaluated if this order has the potential to create a vertical arrangement under Section 3(4) of the Competition Act, 2002, that will have an adverse appreciable effect on competition (AAEC)," Varadarajan said.

According to him, vertical arrangements are subject to the rule of reason and if there is a justifiable business or economic reason for the implementation of the vertical arrangement that does not result in an AAEC, the same will be considered as valid.

"For determining if there is going to be an AAEC, any or all of the provisions of Section 19(3) of the Competition Act, 2002, i.e. 1. Creation of barriers to new entrants in the market; 2. driving existing competitors out of the market; 3. foreclosure of competition by hindering entry into the market; 4. Accrual of benefit to consumers; 5. improvements in production or distribution of goods or provision of services; 6. Promotion of technical, scientific and economic development by means of production or distribution of goods or provision of services will need to be considered," Varadarajan explained.

"The Competition Commission of India (CCI) is empowered to evaluate the effect of such a scenario through the prism of Competition Act in consultation with the IRDAI. However, the final say is with the CCI," Varadarajan added.

"The solution is simple. The IRDAI and the players should deliberate and come out with a third party policy that covers the non-fare paying passengers. The Madras High Court's intention was to provide insurance cover to such passengers," Varun Dua, Managing Director and CEO, Acko General Insurance Limited, told IANS.

Meanwhile, within the general insurance sector, there are differing views on how the industry should respond to the new development.

Couple of industry officials not wanting to be named told IANS that bigger insurers with tie-ups with vehicle dealers are happy with the order as it locks up the policyholders for five years and wants the high court order to be implemented.

"Non-life insurers world over are one-year contracts while life insurance is a long-term contract. If one makes non-life insurance a long-term contract, the capital needs, provisioning norms and others would kick in. How it would impact an insurer in the future as motor third party claims are long-tailed ones is not known now," and industry official told IANS preferring anonymity.

"Pricing long-term cover, particularly third party, is a challenge. It will need to forecast the future of accidents and future trends of court awards," K.K. Srinivasan, former Member (non-life), IRDAI, told IANS.

Locking in a policyholder for five long years with one insurer also makes the playing field uneven and anti-policyholder.

"The vehicle dealers will have an upper hand. They will demand higher compensation from the insurers. Already dealers are selling only policies of those insurers from whom they get higher commissions and other perks," an industry official told IANS.

The IRDAI has been penalising several insurers for paying higher commissions to the intermediaries.

TOP

CROP INSURANCE

Drone Use, Satellite Imagery for Agriculture Insurance May Be Must - Business Standard – 8th September 2021

Use of drones and satellite imaging could be made mandatory for insurers to keep a check on fraudulent and false insurance claims. For this, the Centre and the Insurance Regulatory and Development Authority of India (IRDAI) are in discussions to adopt artificial intelligence and big data to identify manipulation of processes, and reduce delays in settlement of claims. Initially, technological up gradation will be voluntary, and this would soon be made mandatory for all insurers, creating a new benchmark, said an official. The use of technology for claim assessment is being pushed to diagnose processes that are being manipulated, leading to fraudulent claims in agricultural as well as industrial insurance. For agriculture insurance, where claims are dependent on crop and crop-cutting patterns, the plan is to initially make the use of satellite imagery and drones for detailed evaluation of crop produce on a voluntary basis.

This would be replicated for industrial insurance as well due to difficulty in identifying the cause of the problem, and subsequent delay in settlement of claims, the official said. "Use of drones will help in checking the extent of losses in instances such as fire at the top of a building or oil spillage at sea, where the cause of the problem is difficult to identify or assess," the official said. This leads to inordinate delays in settlement of claims, he added. Insurance frauds are reportedly committed at the time of application or claim and cost Rs 45,000 crore per year to insurance companies. The changes for insurance claims settlement will be introduced by IRDAI. The changes have been initiated by the government, after conducting pilot studies.

The Department of Agriculture, Cooperation and Farmers Welfare, in 2018, had carried out pilot studies for optimisation of crop-cutting experiments (CCEs) using remote sensing and satellite data during the Kharif and Rabi 2018-19 season under the Pradhan Mantri Fasal Bima Yojana (PMFBY). Based on the results from use of technology, the government, in 2019, had rolled out a smart sampling technique using satellite data in 96 districts of 9 states, for rice crop during the Kharif season. Pilot studies have been undertaken for estimation of yield at the gram panchayat level by using unmanned aerial vehicles (UAVs) or drones, artificial intelligence and machine learning, among others. The government is yet to adopt any methodology for yield estimation, through technology.

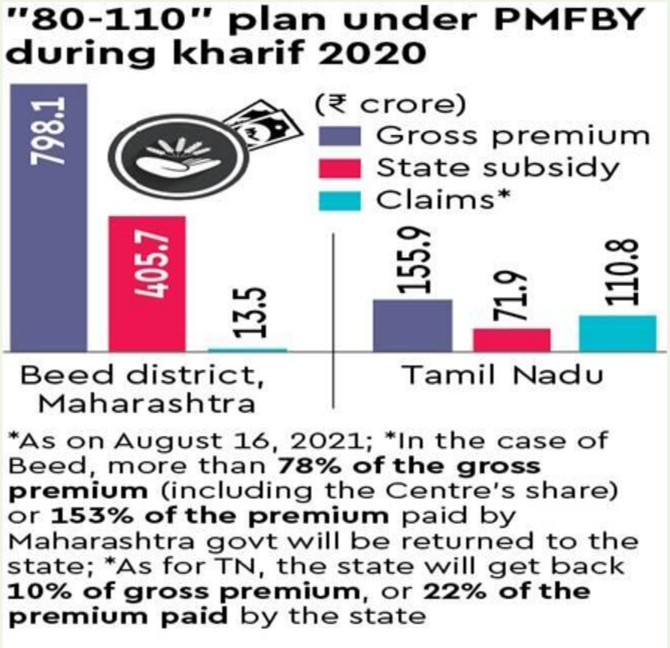
TOP

Crop Insurance: Centre rethinking Beed formula as states get large premium refunds – The Financial Express – 6th September 2021

Meanwhile, insurers have approached states like Uttar Pradesh urging them to adopt the Beed formula for next year's crop and offered to reduce their guaranteed premium share to 10% from the current 20% under the 80-110 plan, sources say.

After offering the so-call 'Beed formula' as an alternative model in crop insurance to retain the states' participation, the Centre is now reconsidering the 80-110 plan, given that some states have started securing refunds of major shares of the gross premiums collectively paid by the Centre and states. The Centre apprehends that state governments and insures are acting in concert to understate the insurance claims by farmers. The formula is a win-win for states and insurers as the former gets large premium refunds – as high as 153% of the premium paid by the state government in Maharashtra's Beed district in the current kharif season, for instance – and the insurers get assured return of 20% of the gross premium.

According to sources, the Centre has written to both Tamil Nadu and Madhya Pradesh, which have adopted Beed formula in many districts of the states, stating that "the reimbursements above state share of subsidy will be refunded to government of India as well" in case claim to premium ratio is very low. The Centre, in July, had written to states seeking their views on including the 'Beed formula' as an option under the PM Fasal Bima Yojana amid several states developing cold feet on the flagship scheme.



Under the 'Beed formula', also known as 80-110 plan, the insurer's potential losses are circumscribed – the firm won't have to entertain claims above 110% of the gross premium. The insurer will refund the premium surplus (gross premium minus claims) exceeding 20% of gross premium to the state government. Of course, the state government has to bear the cost of any claims above 110% of the premium collected to insulate the insurer from losses, but such higher level of claims rarely occur, so the states reckon the formula in effect reduces their cost to run the scheme.

Meanwhile, insurers have approached states like Uttar Pradesh urging them to adopt the Beed formula for next year's crop and offered to reduce their guaranteed premium share to 10% from the current 20% under the 80-110 plan, sources say. The claims ratio in UP was 29-49% in the last five years, barring in 2019-20 when it was 76%. In kharif 2020, the claim to premium ratio in UP is also estimated to be near 40%.

As a temporary relief to Madhya Pradesh and Tamil Nadu, the Centre last month allowed these states to roll out PMFBY under 80-110 formula with a rider that the states can't get refunds from insurers beyond their subsidy share. "Last year, Madhya Pradesh was allowed to implement under 80-110 plan at last minute after the state delayed crop insurance enrolment for the Kharif season. This year too, there were similar delays and the state was allowed to roll out the scheme much beyond the deadline, that is, until August 31. Tamil Nadu, too, was also allowed to run the crop insurance scheme under 80-110 plan where enrolment was said to have declined significantly from last season's level, a source said.

Madhya Pradesh is yet to finalise yield data of last Kharif, delaying claims compilation, sources said, adding the claims to premium ratio in Tamil Nadu was over 70%. The gross premium collected by insurers in Madhya Pradesh was about Rs 4,580 crore and Rs 156 crore in Tamil Nadu during last Kharif season. While the claim ratio was 157% in MP in 2019-20, it was as high as 181% in 2018-19 in Tamil Nadu as farmers in the state often face crops damage.

Claims to premium ratio for farmers in central Maharashtra's Beed district, on the other hand, dropped in kharif 2020 to 1.7% from as high as 245% in kharif 2018 and 89.4% in kharif 2019. Agriculture Insurance Company of India (AIC) will now have to return to the state government nearly 78% of the gross premium of Rs 798 crore collected from the district during kharif 2020, exceeding the state's share of subsidy of Rs 406 crore, sources said.

Two successive years of far-below-normal monsoon rainfall in Beed dissuaded insurers from covering farmers in the district under the PMFBY for kharif 2020, which prompted the Centre to ask AIC to bail out. Not a single insurance company participated during the three rounds of bids in Beed last year, citing past losses.

Under PMFBY, premium to be paid by farmers is fixed at 1.5% of the sum insured for rabi crops and 2% for kharif crops, while it is 5% for cash crops. The balance premium is split equally between the Centre and states. Many states have demanded their share of the premium subsidy be capped at 30%.

TOP

SURVEY & REPORTS

The case of rising Unit Linked Insurance Plans demand – The New India Express – 6th September 2021

A recent study has showed that there is a 40% increase in younger Indian investors, who seek to invest based on a clear-cut financial plan post the advent of Covid-19, as opposed to earlier when it was sporadic and largely unplanned.

Interestingly, a recent survey by a Life Insurance company indicated that two out of every three i.e. 66.66% of the respondents have said they will invest in Unit Linked Insurance Plans (ULIPs) in the coming year.

The key reasons attributed for ULIPs popularity amongst affluent investors, according to the report was its ease of tracking, relatively low-cost structure over time and the convenience of adding a rider or top-up. The survey also indicated that ULIPs were popular even amongst the middle-income group, who listed its partial withdrawal facility as the main point of attraction.

The study further shows that while majority of Indian investors especially young investors prefer investing in financial product through SIP, people in their Forties and above prefer lump sum investments. If one goes purely by the content from a search engine's results, one would carry the notion that Unit Linked Insurance Plans (ULIPs) offered by insurance companies are costlier and lack the same transparency as mutual funds, besides generating much lower returns after 5 years, which is the lowest instalment premium paying term for a ULIP investor.

So, does this mean, ULIPs are superior to mutual funds as an investment vehicle. The simple answer is yes and no. It depends on whether one prefers apples or oranges, as that is the nature of the comparative studies that one reads on many financial websites. The simpler way to look at it is to select based on the appropriateness of a product to the temperament of an investor.

Allow me to cite a case I remember of a young couple, both professionals and earning handsomely, but somehow perpetually facing a liquidity crunch whenever a payment commitment was due. This forced them to keep redeeming their mutual fund investments at frequent intervals, thus robbing their portfolio of the crucial compounding element that boosts returns.

Clearly, their problem was not one on the supply side as they earned well and their cash inflows were pretty impressive. Their problem area was their inability to control cash outflows, especially avoidable capital commitments like costly club memberships that they never ended up using more than a couple of times. However, their opting for not just such a capital commitment but also ‘easy’ EMI installments to pay it further compounded their problems as the interest rates levied on them were abnormally high.

Ever since they shifted to a ULIP a few years ago, there has been a cap on their expenses as it is not quite as readily redeemable as a mutual fund. In such cases, the limited liquidity for the first few years actually works as an advantage for compulsive spenders. It is hence that I for one, am hardly surprised about the results of the above mentioned survey reflecting the growing popularity of ULIPs.

The writer is Ashok Kumar, Head of LKW-India.

TOP

PENSION

PFRDA proposes changes in premature exit rules for Atal Pension Yojana, facilitates timely payment of money – Mint – 7th September 2021

To increase acceptability of Atal Pension Yojana (APY) scheme among informal sector workers, the Pension Fund Regulatory and Development Authority (PFRDA) has proposed modifications in premature exit processing for the benefit of subscribers.

APY is a social security scheme administered by PFRDA through banks and the department of post. The scheme offers guaranteed pension benefits to eligible citizens after reaching the age of 60 years, who subscribe and contribute to the scheme.

According to a PFRDA circular issued on 3 September, "The existing mode of premature withdrawal under APY is examined from time to time by PFRDA based on the inputs/suggestions received from various stakeholders and the changes are proposed with suitable technological intervention."

The scheme will introduce instant bank account verification in the interest of underlying subscribers for the orderly processing of their exit requests.

The following guidelines are issued for facilitating timely transfer of withdrawal amount in the bank account of APY subscribers and also as additional due diligence to protect their corpus lying in the Permanent Retirement Account Number (PRAN).

There could be two scenarios at the time of exit which are explained as under:

A. If the SB account details of subscribers at the time on boarding & exit are the same

1. APY subscriber should incorporate the field indicating active status of savings bank (SB) account in the revised exit file format provided by CRA which is mandatory from 15 September, 2021.
2. Instant Bank Account verification by penny drop shall also be undertaken by CRA to verify the operative status of savings account as part of enhanced due diligence.
3. The above changes are being implemented to enable CRA system to process the premature withdrawal requests where the associated SB Account is operative so as to ensure receipt of APY account closure proceeds in the SB account, as per the PFRDA circular.
4. If the associated savings account is closed/dormant, the modified process ensures preservation of subscribers' contribution in the PRAN itself to generate optimum market-based returns.

B. If the savings account details at the time of on boarding & exit are not the same, different account numbers of the same bank or the different bank

1. Subscribers are advised thatAPY closure proceeds be credited to the same bank account number and may accept the request with a different account number or account of a different bank only as an exception. Such requests are to be accompanied by proof of alternate account number acceptable to the bank, as per the PFRDA circular.
2. Instant Bank Account verification by penny drop shall be undertaken by CRA as part of enhanced due diligence including name matching between PRAN and bank account number.
3. Exit requests with mismatches or with unsuccessful account verification, post penny drop is to be confirmed by respective APY subscriber for further processing of exit requests by CRA, as per the circular.
4. Subscribers are to be educated to keep their respective bank account active when they submit their premature withdrawal request and the request is processed. A suitable undertaking can be obtained from the subscriber as part of the withdrawal request.

The applicable charges for instant bank account verification would be recovered by CRA from the respective PRAN for reimbursement to service provider. Prevailing charges for verifying bank account number through penny drop is Rs2.40 and tax, as per the PFRDA circular.

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EPF contribution of over Rs 2.5 lakh now requires 2 PF accounts – The Pioneer – 6th September 2021

People with Employees' Provident Fund and Voluntary Provident Fund (VPF) contribution of over Rs 2.5 lakh per financial year will now have two separate PF accounts.

Finance Minister Nirmala Sitharaman had announced, in this year's budget, that PF contribution of more than Rs 2.5 lakh in a fiscal will be taxable. In line with the decision, recently, the Central Board of Direct Taxes (CBDT) notified the rules for taxation of the interest on the excess EPF contributions.

'For the purpose of calculation of taxable interest under sub-rule (1), separate accounts within the provident fund account shall be maintained during the previous year 2021-2022 and all subsequent previous years for taxable contribution and non-taxable contribution made by a person,' it said. What this means is that till FY22, all contributions made in PF accounts so far, including contribution of upto Rs 2.5 lakh made in FY22, will be placed in one account where no tax will be levied as has been the practice with the PF, where contribution, interest, and withdrawal, all are tax free.

But another PF account will be opened for each subscriber in FY22, where contribution of over Rs 2.5 lakh made in the current year and subsequent years will be placed. This will taxable account meaning interest earned on this contribution would be subject to applicable tax.

These rules will be effective from April 1, 2022.

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Atal Pension Yojana dominates social security scheme with 66% NPS subscriber base – The Pioneer – 6th September 2021

Atal Pension Yojana has emerged as the most popular social security scheme under the National Pension System with over 2.8 crore subscribers, mainly from the non-metro centres.

Out of 4.2 crore National Pension System (NPS) subscribers, over 66 per cent or 2.8 crore opted for the APY at the end of 2020-21, says the annual report of the National Pension Systems Trust (NPS Trust).

The State Government Scheme ranks second with 11 per cent share, while the central autonomous bodies (CAB) continued to account for the least number of subscribers of NPS with a share of 1 per cent, followed by state autonomous bodies (SAB) with a share of 2 per cent. 'APY is the most subscribed plan among non-metro subscribers. This also reflects the demographic pattern in the country, where more unorganized population segments reside in the non-metros, thus accessing the NPS self-initiated plan,' the report said. Total assets under management (AUM) for the National Pension System schemes saw a year-on-year growth of over 38 per cent, and stood at Rs.5.78 lakh crore at the end of the year, the report said, adding as of fiscal 2021, NPS had 4.2 crore registered users or popularly known as subscribers.

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IRDAI CIRCULARS

Topic	Reference
IRDAI (Trade Credit Insurance) Guidelines, 2021	https://www.irdai.gov.in/ADMINCMS/cms/frmGuidelines_Layout.aspx?page=PageNo4561
Product Structure for Cyber Insurance	https://www.irdai.gov.in/ADMINCMS/cms/Circulars_Layout.aspx?page=PageNo4560
Exposure Draft on IRDAI (Surety Insurance Contracts) Guidelines, 2021	https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo4559
Title Insurance Products	https://www.irdai.gov.in/ADMINCMS/cms/Circulars_Layout.aspx?page=PageNo4558
Draft regulations relating to IIB	https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo4557
First Year Premium of Life Insurers for the Period ended 31st August, 2021	https://www.irdai.gov.in/ADMINCMS/cms/NormalData_Layout.aspx?page=PageNo4556
New Business Data as at 31.08.2021(Line of Business wise)	https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo4555
List of active Individual Surveyors as on 07.09.2021	https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo4333
List of active Corporate Surveyors as on 07.09.2021	https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo4332

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GLOBAL NEWS

Life sector clouded by uncertainty over COVID-19 impact on mortality and morbidity – Asia Insurance Review

The profitability of the life insurance industry is expected to be an area of concern given the increase in mortality and morbidity rates induced by the COVID-19 pandemic, ICICI Prudential Life says in its annual report for the financial year ended 31 March 2021 (FY2021).

"Even more than a year after the pandemic first struck, there continues to be significant uncertainty regarding its absolute impact on mortality and morbidity experience," the insurer said.

COVID-19 poses multiple challenges for Indian life insurers. At the onset of the pandemic, there was a sharp fall in equity prices. Interest rates also declined as policy measures were triggered to deal with the economic impact of the disruption.

With certain sectors under stress, there were concerns about credit defaults. Insurers have exposure to equities in unit-linked and participating businesses. Interest rate movements impact the liabilities and guarantees embedded in the business, while credit risk can impact investments made in corporates. There were concerns about the behaviour of existing policyholders, in terms of lapse/ surrender/paid-up decisions.

Business continuity was a key concern given the restrictions due to the pandemic, such as the lockdown. Further, as many employees are working from home in the current circumstances, there were concerns about a potentially higher exposure to cyber security issues.

Emerging risks

The life insurance industry faces a number of other emerging risks. Even as the ongoing COVID-19 pandemic continues to pose several challenges for life insurers, there are new risks related to ESG (environmental, social and governance) issues, says ICICI Prudential Life in its annual report.

One of the most prominent ESG risks is that of climate change and its potentially far-reaching consequences. There is currently a lot of uncertainty about the impact of climate change and ICICI Prudential Life says it has started working to better understand and address the potential impacts on its business.

Impact of climate change risk

Apart from climate change, there are emerging risks associated with public health trends such as an increase in obesity-related disorders and demographic changes such as population urbanisation and ageing.

On the asset side, ICICI Prudential Life is implementing a framework for investment decisions that will support mitigation of risks due to climate change as well as other environmental, social and governance risks by factoring these in its investment decisions. On the liability side, it is difficult to estimate the impact of climate change on mortality and morbidity given the complex interactions with other factors such as environmental, social and demographic changes. Over the short term, ICICI Prudential Life does not expect climate change to have a material impact on its mortality and morbidity claims. Over the longer term, the financial impact of risks due to climate change on ICICI Prudential Life's insurance liabilities could be more significant.

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