60 years of Insurance Education & Training

Diamond Jubilee
[1955 - 2015]

Insurance Institute of India

C – 46, G Block, Bandra-Kurla Complex, Mumbai – 400051

INSUNEWS

- Weekly e-Newsletter

2nd – 8th January 2015

● Quote for the Week ●

"There is nothing more deceptive than an obvious fact"

Arthur Conan Doyle

INSIDE THE ISSUE

Insurance Industry

FDI Changes in Insurance Norms May Benefit Small Local Partners - The Economic Times (Delhi)

Nearly three-fourths of the insurance companies operating in the country are `capital surplus', ie, they do not need any fresh capital. Hence, the government's decision to raise the foreign direct investment (FDI) limit in the insurance sector will help many local partners who plan to sell their stake rather than sell new shares, which would have led to cash flowing into the company.

The Cabinet, through an Ordinance, has raised the FDI limit in insurance to 49%, recommending a composite cap of 49%, which would include all forms of foreign direct investments and foreign portfolio investments.

This move will help local partners to make money hand-over-fist as there is likely to be more secondary stake sale.

"There will be a secondary deal if the company has surplus solvency and money will flow into the Indian promoter," said Abizer Diwanji, national head financial services, EY. "It will depend on the preagreed transaction that the promoters have entered into."

The select committee on insurance, in its report, had said that the incremental equity should ideally be used for expansion of capital base to strengthen the insurance sector while approving the higher composite FDI limit of 49% from 26%.

The regulator, Insurance Regulatory and Development Authority (Irda), has estimated an additional capital need of Rs 44,500 crore in the life insurance sector, and Rs 10,500 crore in the non-life insurance sec` tor over the next five years.

Till March 31, 2013, Bajaj Allianz has solvency ratio-size of capital upon all its risk of 6.34, Kotak Life Insurance 5.21 and HDFC Life 2.17, according to the latest report by Irda. The regulator stipulates all insurance companies to maintain solvency ratio of 1.5.

"Any decision to divest stake will be taken by the promoters. Currently, we are adequately capitalised and do not require any funding," said Sandeep Batra, executive director, ICICI Prudential Life Insurance Company. ICICI Prudential Life Insurance has a solvency ratio of 3.96.

Small life insurance firms need capital for faster growth in the capital-intensive sector, which has witnessed compounded annual growth of 18.4%, while non-life insurance sector has grown 16.6% in the past 14 years.

"As per the agreement, Standard Life can increase its stake in the company at a fair value," said Vibha Padalkar, chief financial officer and executive director HDFC Life. "Since our's is the first insurance company to have received licence, it is natural progression to list the company, but it is the promoters' call." At present, there are 53 insurance companies operating in India, of which 45 are in the private sector.

Source

Life Insurance

Personal Finance - Insurers Reduce Charges to Make Ulips More Attractive - The Economic Times (Mumbai)

There was a time when insurance companies were selling Ulips (Unit-linked Insurance Plans) with promises of high returns without explaining the charges to customers. Now, they are selling the insurance-cum-investment plans by tom-tomming the very same charges that they kept under wraps earlier.

A new online Ulip launched by Aegon Religare Life Insurance has set a new benchmark by lowering the fund management charge to 1%.Last year; HDFC Life had launched its Click2invest online Ulip with an ultra-low fund management charge of 1.35%.

But, while Click2Invest has a uniform charge for all its funds, the iMaximize unit-linked insurance plan from Aegon Religare has differential charges for its three funds. Investors in the Secure Fund of the iMaximize plan, which will invest in a mix of debt and equity, will pay only 1% a year as fund management charges. For the Debt Fund, which will invest in debt securities, the charges are 1.1% while the Blue-chip Equity Fund will charge 1.35% a year.

"This is the lowest fund management charge in the industry. Even mutual funds charge 1.8-2.5% a year," says Yateesh Srivastava, COO of Aegon Religare Life Insur ance. The iMaximize plan also charges Rs 100 a month as policy administration charges. There is no policy administration charge in Click2Invest. Besides the fund management charges, these online Ulips also levy mortality charges for the life cover to the policyholder.

Though the fund management charges of these online Ulips are lower than what even the direct plans of mutual funds charge, rival companies are not enthused by the `charge war' triggered by HDFC Life and Aegon Religare Life Insurance.

"At some point, the competition will move from pricing to performance. Instead of focusing only on how much he is paying, the buyer will have to see how well his funds are doing," says Deepak Mittal, chief executive officer and managing director, Edelweiss Tokio Life Insurance.

Mittal points out that though index mutual funds have lower charges, it is the actively managed, but costlier diversified equity funds that have created wealth for investors.

Back

Health Insurance

Government shuts doors on private insurers in Rashtriya Swasthya Bima Yojana - The Economic Times

India's flagship state-run health insurance programme for the poor, which has been held up as a model for the rest of the world by the World Bank and the United Nations, could be under threat as the Narendra Modi government is looking to end the involvement of private insurance companies in the Rashtriya Swasthya Bima Yojana or RSBY. This is set to happen in the next few months as part of the shift to a direct benefit model from one mediated by insurance firms in a bid to provide health insurance for all. This comes at a time when the government has liberalized foreign direct investment limits in the insurance sector through an emergency decree.

The move could mean insurance companies won't be able to get any part of the thousands of crores of rupees that would potentially come into the business, considering the scale of RSBY's planned expansion, according to industry estimates. The move has been opposed by several states, a senior government official told ET.Besides, starting April 1, the scheme will be run by the health ministry, which will be responsible for disbursement of funds and monitoring implementation. It's currently handled by the labour ministry.

"A decision to this effect has been jointly taken by the ministry of labour, ministry of health and department of financial services under the ministry of finance despite resistance from several states," he said. According to the official, who did not want to be identified, the Centre has asked all states to end their contracts with insurance companies by March 31 and instead set up a trust that would run the scheme, along the lines of what Andhra Pradesh has done. "This has led to all the confusion as not many states have the expertise and human resources to do enrollment and empanelment with hospitals through trusts," the official cited above said. In such cases, the Centre will insist that states rope in public sector insurance companies until state nodal units can take over.

ICICI Lombard, Max Bupa Health Insurance, Religare Health Insurance, Cholamandalam MS General Insurance and Tata AIG GIC are some of the many private companies that have been enrolling and empanelling hospitals as well as providing insurance to beneficiaries under RSBY. "This could be the beginning of the end of the much-celebrated RSBY model as it strikes at the root of the programme," said a health economist at an international financial institution. "Insurance companies had an incentive to enroll more families as their premium depended on it."

RSBY has been praised by the World Bank and the United Nations Development Programme for its success. Studies have shown that it has significantly reduced out-of-pocket expenditure on health among the below poverty line (BPL) population covered under the scheme. "A primary factor behind premium cost significantly slipping for government under RSBY was competition among insurance companies," said the person cited above. "Also, a handful of states may be running tertiary healthcare programs directly, but none to my knowledge run a secondary healthcare program without involving insurance companies. That is because the number of people claiming benefits under secondary healthcare programs is much higher and difficult to manage."

A recent committee constituted by the labour ministry had observed that the key challenge for RSBY was the low involvement of state nodal agencies and lack of checks to ensure accountability of insurers or hospitals participating in the scheme. However, it concluded that RSBY should continue with the insurance model for now as very few states have developed the expertise needed to buy services from hospitals.

"While reviling insurance companies for being-for-profit entities is fine, we also need to take an objective look at the capacities of government agencies," it said. Representatives of private insurance firms declined to speak on record. On condition of anonymity, they said RSBY would crumble under the system that was being proposed.

"This model is trying to reinvent the wheel," said a senior executive at a private insurance firm. "Every state would have to convert its government agency into a health insurer, which would have to do actuarial calculations, anticipate claims and create a corpus, not an easy capability to develop. Earlier, some large public sector units have tried and failed to develop this expertise in-house and ended up outsourcing it to insurance firms." A colleague of his added: "We are at least regulated by the Insurance Regulatory Development Authority. Who will regulate these trusts?"

Source

Back

General Insurance

Third party motor business now mandatory for general insurers - The Economic Times

The insurance ordinance, which was promulgated recently, has made it mandatory for all general insurers except specialised ones to underwrite a certain percentage of insurance business as third party motor premium as required by the IRDA. The Insurance Regulatory Development Authority (IRDA) is likely to come up with its operational guidelines on the subject shortly.

"We are working to fix the percentage of total premium collection a general insurer must do with regard to the third party motor premium. We will soon publish operational guidelines for the sector, but I also feel that the existing third party declining pool may be considered as one of the methodologies for the same," IRDA member (Non-Life) M Ramaprasad said. Existing third party motor pool provides covers to certain segments of commercial vehicles which are loss making for general insurers and find it difficult to get cover from them.

General insurers feel that the new mandatory rule would help them increase their business from the motor insurance sector which comprises the largest portfolio of premium collection. They have suggested that the risks of providing third party motor covers must be passed on to the declining pool, which came into being, nearly a couple of years ago.

"Well, the move will help us get more business under the motor insurance segment, since everyone owning vehicles would have to mandatorily get their vehicles insured under third party motor premium now onwards,"ICICI Lombard Chief for Underwriting and Claims Sanjay Datta said. "I also believe that consideration of declining pool under the segment will be a good move when the third party motor insurance is made mandatory. Insurers will be able to pass on the risk to the pool," he said.

Reliance General Insurance has more than three per cent share in the third party motor insurance business, which is above the regulatory requirement. "Yet, I do feel that now that more vehicle owners will come under the fold of third party motor insurance which will increase its business under the segment," Reliance General Chief Executive Officer Rakesh Jain said.

Source

Back

Ordinance impact: Govt can dilute stake in PSU insurers - The Indian Express

The government is now in a position to dilute its equity stake by up to 49 per cent in five public sector general insurance companies following the promulgation of the Insurance Laws (Amendment) Ordinance, 2014 by the President last week. However, the clauses in the ordinance have made it impossible for foreign partners to get management control in India, but it has paved the way for the entry of Lloyds of the UK, the world's largest reinsurance market, into India and empowered Securities Appellate Tribunal (SAT) to hear appeals against insurance regulator Irda's orders.

The government has added a new section — Section 10B — to the General Insrance (Business) Nationalisation Act (GIBNA) which says "General Insurance Corporation (GIC) and insurance companies may raise their capital for increasing their business in rural and social sectors to meet solvency margins and such other purposes as the Central government may empower in this behalf." However, the ordinance has specified that the shareholding of the government should not fall below 51 per cent at any time. It has not indicated any privatisation plan for LIC though a section of India Inc was lobbying for the same.

KK Srinivasan, former member, Insurance Regulatory and Development Authority (Irda), said, "thus partial privatisation of GIC, Oriental Insurance, National Insurance, New India Assurance and United India is enabled. If the equity is allowed to be raised from the open market, registered FIIs who are permitted to trade in our stock markets may also perhaps be allowed to acquire stakes in PSU insurers." At present, these five PSU general insurers are fully owned by the government. Any person aggrieved by a decision by the regulator, Irda within 30 days of receiving the order can appeal to the existing SAT which will have a member from the insurance industry. At present, SAT only hears appeals against capital market regulator, Securities and Exchange Board of India (Sebi).

SAT, after being appealed by the insurer and after hearing to Irda, can cancel any order made by the insurance regulator or direct the acceptance of such a return which the regulator has declined to accept, if the insurer satisfies SAT that Irda has wrongfully passed an order. The government has, however, virtually made it impossible for foreign partners to get management control in insurance companies in India. Section 2.7A of the ordinance defines an Indian insurance company as "which is Indian owned and controlled in such manner as may be prescribed". Explanation under Section 2.7A.b further elaborates Indian control.

It states that "control shall include the right to appoint a majority of the directors or to control the management or policy decisions by virtue of their shareholding or management rights or shareholders agreements or voting agreements". Thus, if the foreign partner looks for management control, it will no longer be possible, he said.

The ordinance also provides for permitting foreign reinsurers like Lloyds to open a reinsurance branch in the country. Such a branch is now defined as an 'Indian Insurance Company'.

The government has amended the definition of 'Indian Insurance Company' in Section 2 to include "a foreign company engaged in reinsurance business through a branch established in India".

The explanation clause states: "For the purpose of this sub-clause the expression 'foreign company' shall mean a company or body established or incorporated under a law of any country outside India and includes Lloyds, established under the Lloyds Act 1871 (UK) or any of its members."

Though ordinance has been issued, foreign investment is unlikely to come any time soon as the process to implement the proposals will take many months.

"Now Irda has to amend or bring in regulations to align the regulations to the Ordinance. That is a three tier process involving consulting the Insurance Advisory Council, making draft regulations, getting the regulation passed by the Irda board and the government notifying the regulations in the Gazette. Companies will have to wait till the process is completed which may take a few weeks to a few months," Srinvasan added.

Source

Back

IRDA Circular

Source

IRDA uploaded updated list of Corporate Surveyors as on 07/01/2015

Back

Global News

China: Nat cat caused US$54 bln economic losses in 2014 – Asia Insurance Review

Natural disasters in China have caused economic losses of CNY337.4 billion Chinese yuan (US$54.3 billion) and killed 1,583 people last year, according to a joint statement by the Ministry of Civil Affairs and the National Committee for Disaster Reduction.

Around 244 million people were affected due to the disasters and displaced some six million, reported the Xinhua News Agency citing the statement.

Around 450,000 houses were destroyed and more than 3.5 million damaged. Almost 24.89 million hectares of agricultural land were affected.

The statement added that all indicators measuring natural disasters were down last year. The losses caused by natural disasters last year were lower than those in previous years. In 2013, such losses totalled CNY580.84 billion. The number of destroyed homes was down by 80% compared with the average of the years between 2000 to 2013.

Source

Back

India: Regulator to maintain auto insurance pool - Asia Insurance Review

Despite general insurers reluctantly agreeing to insure commercial vehicles for third-party motor insurance, the insurance regulator is not considering scrapping the common pool where vehicles that are denied insurance are covered, a senior Insurance Regulatory and Development Authority of India (IRDA) official has said.

"Dismantling the declined pool and free-pricing have been the main requests from the industry but we have some concerns as most of the commercial vehicle risk is currently being underwritten by public-sector insurers," reported Hindu Business Line citing the official.

The declined risk pool allows insurers to transfer risks they are unwilling to have on their books to a pool administered by General Insurance Corporation, India's state-owned reinsurer. In 2011, the declined pool replaced the third-party motor insurance pool, which was set up in 2007 to stem losses that were bleeding general insurers.

Motor insurance in India consists of own damage cover and third-party cover. While the former is a profitable portfolio, third-party insurance, which is mandatory for every vehicle in India, is highly unprofitable as the liability for insurers is unlimited and the premium is fixed by the insurance regulator.

Recently, Mr TS Vijayan, Chairman of IRDA said that the regulator has no plans to liberalise motor premiums and the maximum tariff that can be charged will continue to be prescribed by the regulator.

But the declined pool's size has shrunk to around INR2 billion (US$31.5 million) from INR35 billion in 2011. The reason for the shrinkage is mainly because public-sector general insurance companies have been underwriting commercial vehicle risk on their own books.

Mr Amitabh Jain, Head-Motor Underwriting and Claims, ICICI Lombard, said that the industry has been discussing scrapping the pool as supply-side constraints have been taken care of. Each insurer chooses a particular segment of vehicles to insure, because of which most firms meet mandatory quotas. Insurers are given a minimum quota of standalone third-party policies that they have to underwrite in their books. If the quota is not met, the declined risks pool will allocate business back to the insurers by the extent of the shortfall.

Source

Mr Roopam Asthana, CEO of Liberty Videocon General Insurance, said that insurers have been aggressive in getting third-party business to meet the mandatory quota.

Back

South Korea: Insurance market entry barriers to be lowered – Asia Insurance Review

The South Korean financial regulator is expected to lower entry barriers for small specialized insurance firms to meet diversified demand and boost competition in the already saturated industry.

The Financial Services Commission (FSC) is considering revising local rules to ease the current minimum capital requirements for the establishment of a non-life insurance company in a bid to encourage smaller financial firms to sell travel, bicycle or glasses insurance policies, the Yonhap News Agency reported, citing industry sources.

Under the current law, only insurance companies with billions of won in capital are licensed to do business in certain sectors including life, fire, auto, accident and liability. A general non-life insurance firm that covers car, fire and travel accidents is required to have an capital of KRW30 billion (US$27.1 million).

Those interested in establishing a smaller insurance firm that offers only travel insurance or bicycle insurance, however, must obtain four different licences along with a capital of KRW30 billion.

Source

Due to the high capital and licensing requirements and market saturation, no new general non-life insurers have acquired business permission for the past 10 years. The regulator is considering easing insurance license rules or guidelines to meet the market demand, said an FSC official, adding that the detailed outline will be completed by March.

Back

India: Non-life premiums expected to be generally stable in 2015 – Asia Insurance Review

General insurance premiums are unlikely to harden this year despite record high catastrophe claims in India last year, as reinsurance rates have cooled internationally because of a flood of liquidity in the market and fewer calamities worldwide, according to industry executives.

"International rates have softened by 10-20% during the treaties (reinsurance contracts) that have come up for renewals now," The Economic Times reported, citing a senior executive of state-run General Insurance Corporation. "There are claims in the aviation sector but not big enough to harden the rates," the source added.

While there were fewer catastrophe claims globally last year, the situation was different in India. The Kashmir floods last September and Cyclone Hudhud in October on the east coast led to a higher number of claims in the local market. But their impact on premiums will be offset by the lower international rates, say the executives.

Reinsurance capacity in the international market has increased with the entry of new players and that should also help keep the rates low, said Mr KK Mishra, Chief Executive of Tata AIG General Insurance.

Another factor is liquidity. Big global reinsurance firms have raised around US$14 billion by issuing catastrophe bonds in 2014.

Source

Global reinsurers such as Munich Re and Swiss Re renew two thirds of their annual treaties with various non-life insurers in January, and the rest in April and July. In the Asia-Pacific, including India, renewals are typically effective from 1 April.

FDI will mean capital returns - www.reactionsnet.com

The majority of insurers in India are in capital surplus, says accounting and consultancy firm EY, meaning that the main impact on the change in the maximum level of foreign direct investment (FDI) to 49% will be permitting local owners to sell their stakes rather than to issue new shares.

Speaking to the Economic Times, EY India National head financial services said that there would be a secondary deal "if the company has surplus solvency", adding that it would "depend on the pre-agreed transaction that the promoters have entered into".

The select committee on insurance, which released its report in December, said it would be ideal if the incremental equity was used for an expansion of the capital base.

Source

The Indian Insurance Regulatory & Development Authority (Iirda) has estimated that an additional capital need of INR445bn would be needed in the insurance sector as a whole and INR105bn in the non-life sector.

Back

China predicted to grow despite low margins - www.reactionsnet.com

Rising demand and increasing awareness in government-backed natural catastrophe insurance will boost growth in the Chinese (re)insurance market, despite margins being relatively low, a Munich Re executive has said. "China is the largest market in Asia Pacific for Munich Re, and I think that part will continue to grow," Ludger Arnoldussen, Munich Re management board member told the South China Morning Post.

Premiums from the Chinese market grew by 25% year on year to €1.39bn in 2013, while premiums for Asia Pacific dropped 6.5% to €4.65bn for the same period. Despite the growth potential in the Chinese market, Arnoldussen said that the profit margins of the Chinese market were lower than others in the world. "We will see higher margins because of changes in risk-bearing natural catastrophe business," he said. The Chinese government launched 10 directives in August 2014 to boost the insurance industry.

Catastrophe, pension, health and agriculture insurance are being focused on by the cabinet. As China's insurance penetration is low natural catastrophes would bring large economic losses to China. But I would expect we would probably have three to five times the premium that we have written now [in natural catastrophe insurance] over the next three to five years' time," Arnoldussen added.

Munich Re has participated in the catastrophe pilot programme, which was launched in the southern city of Shenzhen and southwestern Yunnan province. It is also developing new products which will require Beijing's regulatory approval. [The pilot scheme] maybe provide only basic coverage, but there would be room for private individuals to top up this basic cover," Arnoldussen said.

The German reinsurer is also investing in a modelling system, gathering information including geographic data, along with the frequency of various disasters such as floods and earthquakes. "Compared with Germany, China is a bigger trunk to work on. But such a modelling system will help calculate the right prices for properties," he said, and that would allow the company to price products at more attractive prices.

China's premiums were expected to more than double until 2020, making it the third-largest insurance market in the world. Reinsurance premiums would grow at a slower pace. A large part of Munich Re's business China. s to substitute capital by reinsurance to support Chinese companies in their strong growth. However, the capital needs would change after the implementation of C-ROSS and that posed uncertainties to the company, Arnoldussen said. Munich Re's major clients mostly achieved 15% to 20%, and one even 30% business growth in 2013, Arnoldussen told the South China Morning Post.

Source

Back

Re/insurers prepare for regulatory deluge - www.reactionsnet.com

Solvency II will be at the forefront of many European re/insurers' minds ahead of its implementation at the beginning of 2016, but the rules are just one of a series of regulations that will focus carriers' attention over the coming months.

The International Association of Insurance Supervisors' (IAIS) released a draft of its proposed risk-based global capital standards in December, and has requested public comments on it by the middle of February. The global body expects to conduct a series of quantitative field tests both this year and next, and plans to have the final version of the international capital standards rules by the end of 2016.

As Aon Benfield explained in its Reinsurance Market Outlook 2015, the broker believes 36 companies around the world will be classified as internationally active insurance groups (IAIG) under the IAIS draft proposal. To be considered an IAIG, a company must generate gross premium written from three or more jurisdictions around the world, at least 10% of which must emanate from outside where the firm is domiciled.

Furthermore, that level of gross premium written must be more than $10bn. Companies can still be classified as IAIG's if they do not write more than $10bn, but the business' total assets must be greater than $50bn. Having looked at various insurance groups around the world, Aon Benfield now believes there are 36 firms that meet its criteria.

In its draft, the IAIS has outlined two approaches to its proposed regulation. The first is a market-tested approach to valuation that will require adjustments to be made to generally accepted accounting principals (GAAP) valuations. The other method is based on existing some existing GAAP rules, where the approach uses assets and liabilities as reported under existing accounting rules in each jurisdiction.

Outside of the US, numerous countries within the Asia Pacific region are looking to improve their solvency regulations. China, Hong Kong and Malaysia's offshore financial centre of Labuan are all looking at enhancing solvency rules, while Singapore is implementing RBS2 and Japan will implement an economic value-based solvency regime in the near future.

Source

Disclaimer:

'Newsletter' is for Private Circulation only intended to bring weekly updates of insurance related information published in various media like newspapers, magazines, e-journals etc. to the attention of Members of Insurance Institute of India registered for its various examinations. Sources of all Cited Information (CI) are duly acknowledged and Members are advised to read, refer, research and quote content from the original source only, even if the actual content is reproduced.

CI selection does not reflect quality judgment, prejudice or bias by 'III Library' or Insurance Institute of India. Selection is based on relevance of content to Members, readability/ brevity/ space constraints/ availability of CI solely in the opinion of 'III Library'.

'Newsletter' is a free email service from 'III Library' to III Members and does not contain any advertisement, promotional material or content having any specific commercial value.

In case of any complaint whatsoever relating 'Newsletter', please send an email to Mr. A. Mukherjee, Director, College of Insurance at a.mukherjee@iii.org.in.

To stop receiving this newsletter, please send email to library@iii.org.in