Insurance Institute of India

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INSUNEWS

- Weekly e-Newsletter

4th – 10th November 2017

• Quote for the Week •

"Leadership is practiced not so much in words as in attitude and in actions."

Harold Geneen

INSIDE THE ISSUE

Insurance Industry

Women do need insurance - Financial Chronicle – 8th Nov 2017

Lot of people don't understand the value of wife, until the judge decided the alimony amount". This aptly summarises the way a life of a women and her contributions are evaluated, thus depriving her of her entitlement to a secure and financial independent life.

India has a population of over 1.2 billion and is amongst the fastest growing economies in the world. But it still remains one of the many under-insured and un-insured countries in the world.

The insurance penetration in India (measure of Insurance premium over GDP) is a mere 3 per cent with an insurance density of around 28 per cent (Japan would have close to 100 per cent), we have a long way to go before we can boast of providing protection to the citizens.

As per studies, India's insurable population is anticipated to touch 750 million in 2020, with life expectancy reaching 74 years. Furthermore, life insurance is projected to comprise 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10.

The country has been independent for over 70 years and state-run insurance companies have been there for a good 60 years. LIC alone employs over 10 lakh agents and collects a premium of over a lakh crores every month in renewals. Liberalisation post 1991 has seen the introduction of 21 life insurers and over 25 general insurance companies in India that has accelerated the penetration, but continues to be at a very slow pace.

Despite this history, experience and collective wisdom and aggression of both private and state-run insurers in India, the penetration of insurance in India is at an abysmal 3 per cent.

So why haven't insurance companies in India, in collaboration with their global partners and having access to best underwriting, distribution and investment practices, not been able to improve insurance penetration in India and provide a safety net to a social security deprived population.

"Life insurance is about underwriting the perception of financial loss and mitigating the risk by putting a value to life. Not everyone in India is insurable as not all life lost results in financial loss," says an industry expert, and adds, that it is, therefore, relevant to see how companies are reaching out to the segment that is insurable and offering them products.

Before we elaborate into the insignificant presence of women focus mainstream insurance products, and its impact on society, let's understand "not everyone is insurable" remark and why do people not take insurance.

Firstly, India has historically been embracing the "joint family" culture where the social security was provided by being part of the joint family and any untoward incident and loss of life was hidden behind the veil of the family with everyone contributing to the wellbeing of everyone. This provided such strong support system that an external insurance for well-being was neither necessary nor encouraged. Joint family, thus, was insurance in itself, as value of life was not appreciated outside the family.

Secondly, as a dominant agrarian society, the livelihood of a family depended on the land and its harvest. A loss of life, unless in a nuclear family, did not result in financial loss as the land was tilled by some other member ensuring the continuance of livelihood and finances.

Thirdly, life insurance companies work for profit, commercial gains and to generate favourable mortality experience over the years. This requires companies to set minimum premium, ensure regular payment of premiums, reduce costs and build economies of scale. Minimum premium and regular payment itself eliminates a large chunk of our population from getting insured. A thumb rule indicates that about 10 per cent of income can be given towards insurance. People with no secured and regular income, therefore, get opted out from the cover.

Fourthly, lack of trust on insurance companies play an important role. LIC remains the most trusted company till date and the LIC insurance agent remains a trusted member of the family in most cases. Insurance companies today are governed by the same rules and regulator, but the trust that has been built by LIC over the years still takes the lions share amongst investor.

Mis-selling to gain market share has played an important role — though it accounts for 3-4 per cent of policies sold — in retracting the awareness and confidence built by these companies over the years.

Lastly, is the absence of women insurance in the sector that misses out nearly 50 per cent of the population from the protection provided by the sector. Today a mere 3 per cent of Indian women, mainly working women, are insured.

“In our LIC days decades ago, there was an unwritten rule not to provide heavy insurance cover to women members. This was for their safety. Also, being a conservative society, we also didn’t know who was actually signing the forms and papers as we were not allowed to go inside. This added to the risk. There is lot of education and awareness now. Lot has changed since then” says an elderly insurance expert.

Speaking to a few agents reveal that though things are beginning to change, the traditional baggage still remains when it comes to insurance.

“As a society, we do not respect our women, the role of a housewife is not appreciated, women is not a financial asset, and we consider household job as a menial job. Even divorce, unlike in the west where it is a huge financial burden, is not expensive as the assets don’t have to be equally split and wife just gets a monthly payment for sustenance. In majority circumstances, the women is at a loss without any safety cover”, said an expert.

The prime minister’s effort to launch government schemes protecting the girl child, educate them by providing insurance cover and putting a financial incentive for the family to encourage them to study till they are ready to take financial decision is the step in right direction to involve the significant class in the mainstream.

Population growth, GDP growth, nuclear families, working mothers, earnings growth, better awareness and education will increasingly play a role in making more in adding more insurability to the population and provide them with social security cover.

While the government is doing its bit to promote group insuranc, like the jan dhan, PM suraksha bima yojana, PM jeevan jyoti bima , etc — and forcing the banks to create awareness and promote such insurance at minimal cost, the private sector has to do its bit for the larger interest and insurance density in the country.
Let not the financial value of a women remain restricted to the alimony determined by the judge.

Source

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IRDAI Regulation

Aadhaar, PAN must for insurance policies: IRDAI - The Hindu Business Line – 8th November 2017

It is mandatory for all life, general and standalone health insurance companies to link existing policies with Aadhaar and Permanent Account Number (PAN) or Form 60.

In a circular issued on Wednesday, the Insurance Regulatory and Development Authority of India (IRDAI) said: ``Linkage of Aadhaar number to Insurance Policies is mandatory under the Prevention of Money-laundering (Maintenance of Records) Second Amendment Rules, 2017.’’

On June 1, 2017, the Centre had notified the Prevention of Money-laundering (Maintenance of Records) Second Amendment Rules, 2017 making Aaadhar and PAN/Form 60 mandatory for availing financial services including Insurance and also for linking the existing policies with the same.

Source

``These Rules have statutory force and, as such, Life and General Insurers (Including Standalone Health Insurers) have to implement them without awaiting further instructions,'' the regulator said.

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Linking of PAN, Aadhaar to delay insurance claim payment - Financial Chronicle – 10th Nov 2017

Regulator has asked insurers to mandatorily link Aadhaar and PAN card with policies with immediate effect. In the short-term, this may lead to delay in payment of claims as it poses a huge logistical challenge for insurers. But insurers welcome the medium and long-term benefits of the decision.

The central government on June 1 had made Aaadhar and PAN/Form 60 mandatory for availing financial services including insurance and also for linking the existing policies with the same under the Prevention of Money-laundering (Maintenance of Records) Second Amendment Rules, 2017.

The Insurance Regulatory and Development Authority (Irda) in a recent notification clarified that linkage of Aadhaar number to insurance policies is mandatory. "These rules have statutory force and, as such, life and general insurers, including standalone health insurers, have to implement them without awaiting further instructions," the regulator said.

In the short-term it is likely to pose a huge logistical challenge to insurance firms as they will have to link Aadhaar with every policy. Linking Aadhaar and PAN with millions of policies is a time-consuming affair. The implication is that insurers may hold claims payments until policyholders submit their Aadhaar and PAN number.

"There are likely to be short-term operational challenges in implementation but in the medium to long-term it is positive for the industry and customers," said S Agarwal, chief distribution officer, Kotak Life Insurance.

While there may be some short-term challenges to overcome, we see significant long-term benefits in terms of preventing frauds and streamlining the KYC (know your customer) process, added ICICI Lombard MD and CEO Bhargav Dasgupta.

"Aadhaar would eventually become the basis or common platform for delivery of all financial services. This is a progressive step in that direction. It will also ensure greater transparency in source of funds and will go a long way in preventing frauds," he added.

Based on the unique identity, it will be simple and easy to authenticate our customers, bring in efficiency to processes while on-boarding a customer to settling claims and thus offer a better customer experience, said Cigna TTK Health Insurance MD and CEO Sandeep Patel.

Source

The linkage is also likely to increase the speed of settlement once the process of linking is complete.

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India: Regulator looking at allowing PE funds to start insurance ventures – Asia Insurance Review

The insurance regulator is considering a proposal that will allow private equity funds to promote Indian insurers but with stricter long-term commitments so as to reduce risks as investor interest grows.

A committee set up by the Insurance Regulatory and Development Authority of India suggested a 10-year lock-in for private equity firms holding a stake of 10% or more in an insurance company, an official aware of the development told BloombergQuint requesting anonymity. The regulator is close to a decision on the final guidelines, the official said.

Investor interest in insurance companies started growing after the government allowed a maximum stake of 49% foreign direct investment in insurers in 2015. They are betting on growth in the US$70-billion market as insurance penetration in India at 3.4% is about half the global average. Last year's currency note ban also helped funnel household savings into insurance and mutual funds.

The official said IRDAI is also considering two other proposals:

- At the time of exit, the private equity fund will have to find a new long-term investor to acquire its stake.
- Private equity funds will have to provide additional capital whenever needed to meet solvency requirements.

Source

The regulator feels that private equity investments can support the long-term growth of insurance companies if concerns over their early exit can be addressed, said the official.

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Life Insurance

Single premium policies are for people without regular income –Business Standard – 8th Nov 2017

The complete tax benefits will come only if the sum assured is at least 10 times the premium

In the past year, single premium life insurance policies have seen significant traction. Data from the Insurance Regulatory and Development Authority of India (Irdai) show that in September, individual single premium saw new business collection at Rs3,098 crore, up 52 per cent year-on-year (y-oy).

This has been a trend in FY18. In the first two quarters, new business premium in this segment grew 26 per cent to Rs 12,831 crore, against Rs 10,180, a year ago. Demonetisation and a push by life insurers were primarily responsible for this growth.

Vighnesh Shahane, chief executive officer and wholetime director, IDBI Federal Life Insurance, says: “We are targeting single premium because there is a big market of investors who want to pay their premium in a lump sum. Also, these policies give us top line (revenue) growth and are profitable products.”

Pankaj Mathpal, founder and managing director of Optima Money Managers, says: “Two things have worked in favor of single premium plans — low charges compared to regular premium plans and no need to regularly worry about dates for premiums. Many could even be buying it as an investment product.” The costs, such as policy administration charge and premium allocation, are lower compared to traditional ones.

Single premiums plans, as the name suggests, are those insurance plans where the policyholder pays the premium once for the entire tenure of the policy. It can be under both traditional and unit-linked insurance plans (Ulips). Such plans have a lock-in period of five to 10 years, depending on insurer and type of plan.

However, understanding the taxation on these policies is important. Single premium policies qualify for tax benefits, both under Section 80C at the time of investment and for making the maturity proceeds taxfree under Section 10 (10D).

However, the benefits will continue only if certain conditions are met by policyholders. The tax benefits under Section 80C and Section 10 D will only come if the sum assured is 10 times the annual premium amount.

“If the single premium is Rs 1 lakh and the sum assured is Rs10 lakh, the entire amount would be eligible for tax benefit under Section 80C of the Income Tax Act. But, suppose the sum assured is Rs5 lakh. Then, only 10 per cent of the premium amount (Rs10,000 here) would be exempt under 80 C,” added Mathpal.

Many financial planners are also averse to this product for one key reason — saving on premium. “We don’t suggest single premium plans because if a policyholder is buying a 20year policy for a sum insured of, say, Rs5 crore, he pays premium only once.

But, if he is paying regular premium for that same policy every year and passes away after 10 years, he will get the entire sum assured by paying only 10 premiums,” said Gaurav Mashruwala, a Mumbai-based financial planner.

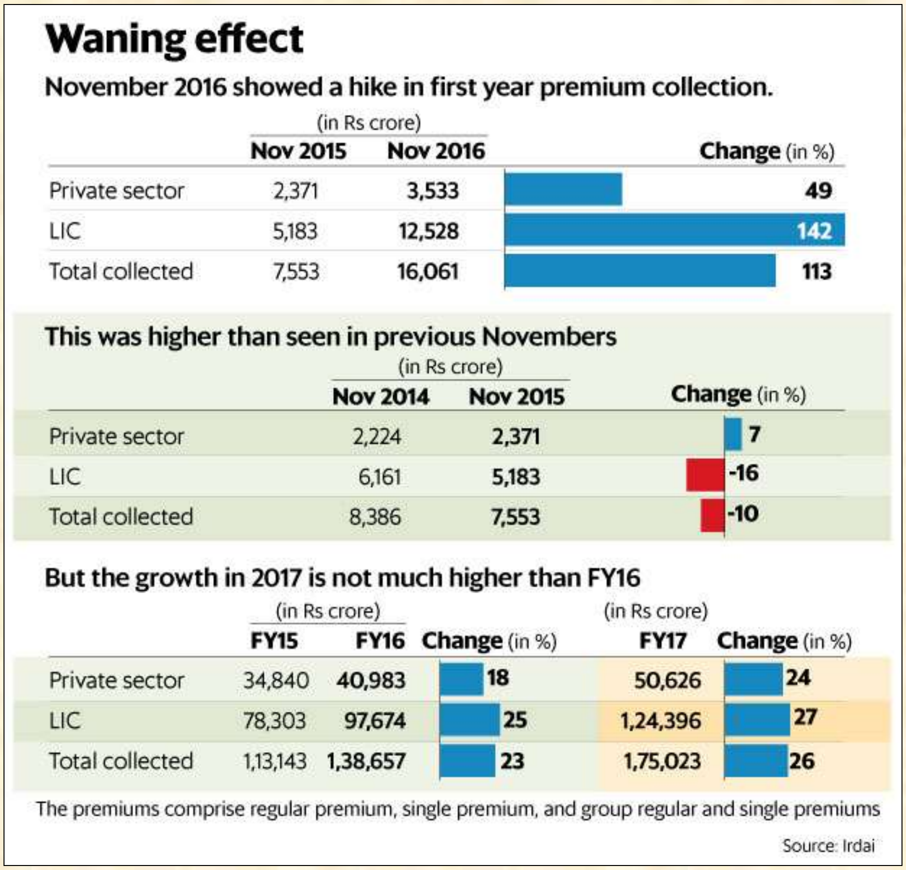
Source

Of course, for a person who does not want to pay regularly or does not have regular income, like a film star or people who work on contracts, this is a good product. Otherwise, go for a regular premium product.

Demonetisation helped life insurance industry – Mint – 5th Nov 2017

One of the beneficiaries of the huge inflow of money to banks after the invalidation of high-value currency notes on 8 November last year was the life insurance sector.

In November 2016 the total first-year premium collected by insurers was Rs16,061 crore, a jump of 113% from a year ago and 45% from the preceding month, according to figures released by the Insurance Regulatory and Development Authority of India (Irdai).



Waning effect

November 2016 showed a hike in first year premium collection.

	Nov 2015 (in Rs crore)	Nov 2016 (in Rs crore)	Change (in %)
Private sector	2,371	3,533	49
LIC	5,183	12,528	142
Total collected	7,553	16,061	113

This was higher than seen in previous Novembers

	Nov 2014 (in Rs crore)	Nov 2015 (in Rs crore)	Change (in %)
Private sector	2,224	2,371	7
LIC	6,161	5,183	-16
Total collected	8,386	7,553	-10

But the growth in 2017 is not much higher than FY16

	FY15 (in Rs crore)	FY16 (in Rs crore)	Change (in %)	FY17 (in Rs crore)	Change (in %)
Private sector	34,840	40,983	18	50,626	24
LIC	78,303	97,674	25	1,24,396	27
Total collected	1,13,143	1,38,657	23	1,75,023	26

The premiums comprise regular premium, single premium, and group regular and single premiums

Source: Irdai

Sandeep Batra, executive director, ICICI Prudential Life Insurance Co. Ltd, said demonetisation provided a big boost to the life insurance industry. "In the first half of FY17 the industry grew at 18%, which went up to 23% in the second half of the year.

This growth trend is continuing with the industry growing at 25% in H1 of FY18," he said. According to Batra, demonetisation, along with other steps taken to formalize the economy, will result in a structural shift towards financialization of savings.

Karni Singh Arha, chief financial officer of Aviva Life Insurance Co. India Ltd, said demonetisation also brought about a mindset shift among consumers, moving them to digital payments from cash. "Life insurance premiums are sourced in three ways: cash, cheques and online payments.

Of course, soon after demonetisation the industry witnessed a sharp spike in cash payment of premiums but over time we have seen even households from Tier-2 cities that preferred cash getting comfortable with NEFT (National Electronic Funds Transfer) and ECS (Electronic Clearance Service) mandate," he said.

Source

"This huge behaviour change has significantly improved contactibility and will reduce unclaimed funds. Also, it has helped us step up automation," he added.

Health Insurance

Go for comprehensive health insurance early - Financial Chronicle – 5th Nov 2017

As per current tax laws, deduction of `25,000 for premium paid on the health for self, spouse and children is allowed

Rise in general income, research and innovation in science and technology is making huge waves in almost every sector, including the healthcare, all over the world. But despite these positive factors, healthcare for all across developing and developed countries continues to pose complex and multi-faceted challenges of affordability and accessibility.

Diseases like plague and polio, which caused suffering among populations, have been eradicated. Today we have new medicines and advanced technology to fight diseases that were non-curable earlier. But that is just one part of story. The larger and scarier part is that with the advancement of technology we are coming across new diseases and are far from achieving victory over them.

Double burden of disease: Today most nations, including India, are facing problem of double burden of diseases. Chronic diseases like diabetes and other non-communicable lifestyle-related ailments are causing greater burden along with infectious diseases. With about 50.9 million people suffering from diabetes, India has emerged as the 'diabetes capital' of the world. Once very rare, conditions like heart attack and cancer are now targeting young individuals.

As per the 2014 OECD health statistics, in 2012, India witnessed 253 deaths per 100,000 due to infectious diseases alone, much higher than the global average of 178. According to recent WHO data, 61 per cent of deaths in India are due to non-communicable diseases. The hospitalisation due to non-communicable diseases is increasing at a CAGR of 16-18 per cent over last decade. On the other hand, we are witnessing emergence of diseases like severe acute respiratory syndrome (Sars), chikungunya, swine flu, ebola fever, etc, in India and across the globe.

Health financing & cost: It's a known fact that the medical inflation is outpacing overall inflation over the past few years. Retail inflation is at about 6-7 per cent whereas medical inflation is around 15 per cent.

India spends around 4.7 per cent of its gross domestic product (GDP) on healthcare. Public expenditure is only about 1.4 per cent of GDP, which is much lower than global average of 5.9 per cent. At around 70 per cent, India has one of the highest out of pocket expenditure on health globally. As per the 2015 NSSO report, over 26 per cent of hospitalised Indians borrow heavily or sell assets to cover expenses while around 6 per cent of population is impoverished due to healthcare needs.

Low penetration of health insurance: Around 86 per cent of the rural population and 82 per cent of the urban population are not covered under any scheme of health expenditure support. Even among those, who have some coverage, majority is covered under the government-financed schemes like RSBY.

Awareness and penetration of private health insurance is very low. Low penetration of healthcare services and health insurance is due to difficulties like reach and accessibility, low literacy, lack of information, mindset and cultural practices, etc. Increasing disease burden, lack of easy access to healthcare financing and low awareness are big challenges.

To improve penetration, the government has also kept provision of income tax benefit under section 80D for the amount paid as health insurance premium. As per current tax laws, a deduction of Rs 25,000 for premium paid on the health for self, spouse and children are allowed. Also, health insurance premium paid for parents, who are senior citizens, an additional deduction of Rs 30,000 can be claimed.

Comprehensive coverage: A rapid increase in the income level has enhanced the standard of living, aspiring people to get best of the medical facilities. One way to avail quality healthcare without incurring unnecessary out-of-pocket expenses is to have a comprehensive health insurance. The health insurance product should cover basic hospitalisation expenses as well as new age lifestyle-related health conditions like obesity, maternity complications, etc.

One should also look for features, which cover alternative medicines and promotes fitness and preventive care. It is equally important to have a coverage amount adequate to cater to the health needs of one's family not just as per present status but also considering their future health needs and rising healthcare cost. Having a health cover of just Rs 1-2 lakh coverage is insufficient considering, for instance, that an open heart surgery costs around Rs 2.5 lakh and cancer treatment around Rs 10-15 lakh or even more.

Buy early: People tend to leave the decision to buy a health cover to a later age in life. The underlying assumption is they will stay healthy in young age and will need medical care only in old age. This is not correct considering the changing disease profile especially at a younger age. Also, as age progresses, health conditions may start setting in that may make buying adequate health cover difficult. So, with health insurance, earlier is better.

Source

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General Insurance

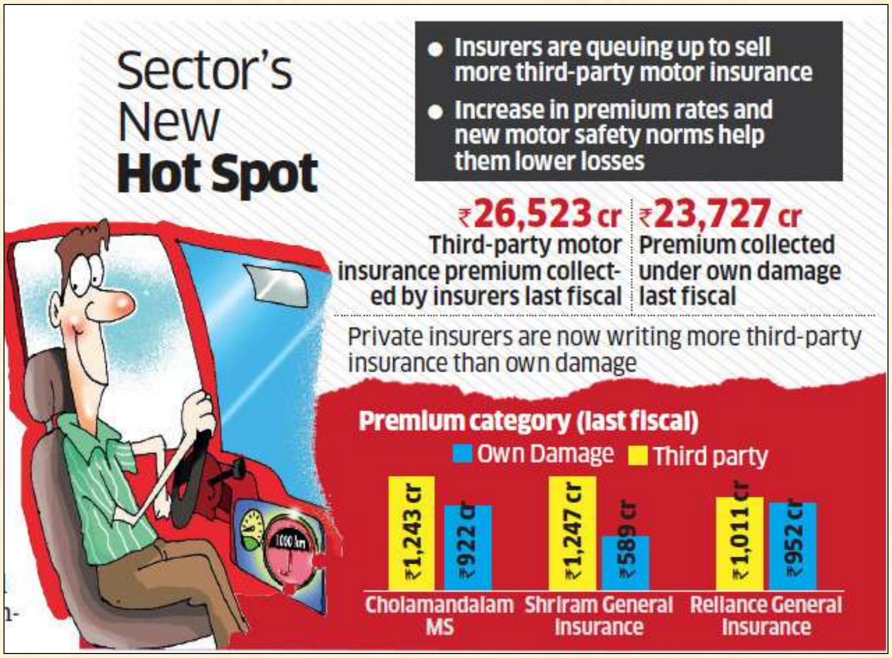
Third party motor insurance is the new cash cow – The Economic Times – 7th Nov 2017

Third party motor insurance, the segment that used to be a drag on insurers for more than a decade, has turned into a money spinner for these firms, thanks to increased premiums and motor safety norms.

General insurance companies collected Rs 26,523 crore under the third party motor segment in the last financial year while the premium collected under own damage was Rs 23,727 crore, according to the data published by insurance regulator Insurance Regulatory and Development Authority of India (Irda).

“There are various factors that have played in the increase of the third party pool, including reduction in own damage claims and increase in premium for third party segment,” said Sanjay Datta, head of reinsurance at ICICI Lombard General Insurance. When the third party pool was dismantled in 2011, the four public sector insurance companies were mostly writing these motor insurance policies. The cover had moved to a declined risk pool, which later became insignificant, with regulator intervening in rates.

Now, private sector insurance companies such as Cholamandalam MS General Insurance, Reliance General Insurance and Shriram General write more third party insurance than motor own damage. Motor own damage policy covers losses to the vehicle arising out of accidents. Last year, Chola Insurance wrote Rs 1,243 crore of third party premium compared to Rs 922 crore of motor own damage. Shriram General insurance wrote Rs 1,247 crore third party and Rs 589 crore own damage.



Similarly, Reliance General Insurance wrote Rs 1,011 crore third party against Rs 952 crore in the last financial year. The insurance regulator has been raising insurance premium so that the prices are actuarially at par with the loss ratio of the industry.

This financial year, Irda had raised premium by 28% for cars in 1000-1500 cc and above. Motor third party cover is mandatory for all public, private vehicles and commercial vehicles. It covers liability arising out of third party claims due to accidents.

Source

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IRDAI Circular

Source

Gross premium underwritten by non-life insurers within India (segment wise) : SEPTEMBER, 2017 (Provisional & Unaudited)

Source

The Prevention of Money-laundering (Maintenance of Records) Second Amendment Rules, 2017 To Life and General Insurers (Including Standalone Health Insurers)

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Global News

Indonesia: 4Q2017 health business expected to show double-digit growth – Asia Insurance Review

The Indonesian General Insurance Association (AAUI) is fairly certain that growth in the health insurance business in the fourth quarter will continue along the same path as that seen in the first half of this year.

AAUI data show that for the first half of the year, health insurance premiums rose by 10.2% to IDR2.36 trillion (US$174.7 million).

AAUI Chairman DadangSukresna said the trend and growth of health insurance can be one of the factors behind the increase in general insurance premiums overall, reported Kontan.

Source

"The potential is still okay," he said, noting that more young people are demanding health cover.

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China: Super financial regulator hard at work – Asia Insurance Review

China's super financial regulator, the Financial Stability and Development Committee, has started its work and held its first meeting on Wednesday.

The cabinet-level committee, which will coordinate the various sectoral regulators to oversee China's mult-faceted financial industry, is chaired by Mr Ma Kai, Vice Premier of the State Council who is in charge of the financial sector, reported the Xinhua News Agency. The establishment of the committee was announced in July at the National Financial Work Conference.

The committee will review a strategic plan for financial reforms; coordinate China's monetary policy and financial regulation; and forge policies on financial risk management so as to maintain country's financial stability, Xinhua said.

The committee will also supervise financial regulatory bodies, and guide local financial development.
At Wednesday's meeting, the committee approved a list of primary tasks it will carry out in the short term and stressed that the main economic regulatory philosophy of maintaining stability while seeking progress will be adhered to, the Xinhua report said.

China will stick to its prudent monetary policy, strengthen financial regulatory coordination, improve its ability to handle risks, better guide the financial system to serve the real economy and safeguard national financial security.

China's various financial sectors are supervised by separate agencies including the CIRC, the China Banking Regulatory Commission, the China Securities Regulatory Commission, the People's Bank of China and the State Administration of Foreign Exchange.

The sectoral regulatory arrangement has proven inadequate to stem systemic risks in cross-sectoral financial activities such as wealth management and peer-to-peer lending.

Source

The central bank, and the banking, insurance and securities regulators will each nominate one representative to the financial stability committee as vice chairpersons to coordinate the latter's work.