भारतीय बीमा संस्थान INSURANCE INSTITUTE OF INDIA

Insurance Institute of India

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INSUNEWS

- Weekly e-Newsletter

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• Quote for the Week •

"Being realistic is the most commonly travelled road to mediocrity."

Will smith, actor

INSIDE THE ISSUE

Insurance Industry

Insurance penetration in India stays low at 3.44% - Financial Chronicle – 29th June 2016

Despite insurance premium collection in India witnessing a growth of 7.9 per cent, penetration of insurance in the country remained low at 3.44 per cent, says a global study by Swiss Re. Insurance penetration, which is measured as a percentage of premiums to a country's gross domestic product (GDP), stood at 3.44 per cent in 2015, compared to the global average of 6.23 per cent. Advanced markets posted penetration of 8.1 per cent, led by Japan, which witnessed insurance penetration of 10.8 per cent, UK (10 per cent) and France (9.3 per cent). Insurance penetration level in India was better against the emerging market at 2.9 per cent. However, Brazil and China have registered higher penetration at 3.9 per cent and 3.6 per cent, respectively.

"Insurance companies have seen their foreign partners increasing stake in Indian entities and taking the insurance business in the country seriously. Higher incomes and savings, coupled with changing lifestyles, are expected to drive rising insurance penetration in the country," said Sandeep Patel, MD and CEO, Cigna TTK Health Insurance.

Total insurance premium in India grew by 7.9 per cent to $72 billion in 2015, compared to a contraction of 1.2 per cent in 2014. The improved performance was aided by stronger growth in both life and non-life premiums. Life premium rose 7.8 per cent to $57 billion, compared to a contraction of 2.1 per cent in 2014. The recovery was underpinned by investment-linked products, which posted strong growth through bancassurance channels.

Non-life premium increased 8.1 per cent to $15 billion, compared to the growth of 2.2% in 2014. Growth was led by stronger health (including personal accident) and motor third-party liability premiums. In India, insurance density, which is premiums per capita, stood at $55, against $281 in China and $332 in Brazil. The UK and the US posted insurance density of $4,359 and $4,096, respectively.

Global insurance premiums grew by 3.8 per cent in 2015, compared to 3.4 per cent gain in direct insurance premiums written in 2014. There was a slight slowdown in the life sector in 2015, with global premium growth dipping to 4 per cent from 4.3 per cent due to weaker performance in the advanced markets. On the non-life side, strong growth in the advanced markets of Asia and improvement in North America and Western Europe, contributed to a 3.6 per cent increase in global premiums, up from 2.4 per cent growth in 2014.

"Interest rates and the macroeconomic and financial market environments will continue to shape the outlook for the insurance industry," said Kurt Karl, chief economist at Swiss Re.

"With profitability under pressure, life insurers will continue to focus on improving capital management, lowering expenses and enhancing investment yields. Profitability in non-life will also remain subdued on still-low investment returns and soft pricing conditions," he added.

Source

Back

'Banks can sell insurance but should avoid mis-selling' - The Statesman – 29th June 2016

Even as a RBI report favoured distribution of insurance products by banks, it warned of possibility of mis-selling, especially in the light of reported attractive performance-linked incentives for banks' staff and management.

"Distribution of insurance products by banks is popular the world over. It can provide very useful non-interest income (fee-based income) and positively impact profitability," said the RBI in its Financial Stability Report (FSR).

"While this may be seen as complementary to core banking business leveraging the banks' relationship with customers by offering a wide spectrum of financial services under one roof, there is a need to check the possibility of mis-selling, especially in the light of reported attractive performance-linked incentives for bank staff and management."

On reinsurance, the report said "reinsurance is one of the major risks and capital management tools available to primary insurance companies whereby the insurers (the 'cedant') buy insurance for risks that they cannot retain entirely with themselves, from one or more insurance companies (the 'reinsurer')."

Though, a robust reinsurance programme protects the balance sheets of primary insurance companies against unexpected adverse losses and improves risk assessment, there is a need to assess the resilience of reinsurance firms in the face of increasing concentration of contingent liabilities in a few reinsurance entities, it said.

Source

As per the report, "In an unexpected, but plausible scenario of simultaneous materialisation of major risk events, reinsurance companies may come under heavy stress which may have implications for primary insurance companies too, including potential risks of insolvency."

Back

IRDAI Regulation

IRDAI to ease 3rd party policy rules - The Asian Age – 29th June 2016

Motor third party policies may soon be available at pollution check centres and other agencies following insurance regulator IRDAI approval to the proposal of relaxing norms.

Insurance Regulatory and Development Auth-ority of India (IRDAI) has approved relaxation of norms in the proposed IRDAI (Appoint-ment of Insurance Age-nts) Regulations, 2016.

During the 92nd meeting of the IRDAI, an additional note proposing relaxation of the agency norms to facilitate distribution of simple insurance policies such as Motor Third Party policies through agencies such as pollution check centres was put before the Board for consideration.

The relaxation proposed was: ‘Provided that the Authority may exempt one or more of the above conditions for such applicants who are to be appointed to distribute specific insurance product(s) having fixed premium and/or benefits such as Motor Third Party Insurance’.

Source

IRDAI accepted the proposal and acceded to insert it into the proposed regulations before notification. said the minutes.

Back

IRDA sets up panel to probe into insurance payout fraud - The Pioneer – 24th June 2016

The Insurance Regulatory and Development Authority of India (IRDA), the watchdog of Insurance sector in the country has constituted a committee to inquire into the alleged fraud in the payouts of motor dealers by the General Insurance companies.

The Uttarakhand division of National Action Forum for Social Justice had submitted a complaint on the fraud and the subsequent loss to the common public and the general insurance companies. Addressing newsmen at Press club here on Thursday, the joint secretary of the forum, Ajay Saxena said that the automobile dealers and the big insurance brokers have made cartel by means of which they are blackmailing the companies to raise their payouts.

He claimed that under pressure from these brokers and automobile dealers the insurance companies offer as much as 50 percent to 70 percent of first year’s premium as commission. Saxena alleged that the automobile dealers have taken agencies in the name of their kith and kin and earn double profits. He said that the small insurance agents are bearing the brunt of this cartel.

Saxena further claimed that in case of claim this cartel forces the customers to get their vehicles repaired in their workshops in name of cashless claim settlement and in order to earn more profits the claim amount is exaggerated due to which the insurance companies bleed.

The forum had submitted a complaint to President, Prime Minister, Finance Minister, Chairman human right commission, Finance secretary, competition commission India and other on January 26 this year. On the basis of this complaint the IRDA has constituted a committee on the issue.

Source

In a recent letter directed to the forum the Senior Joint Director Non-Life, Suresh Mathur has said that the authority would take necessary action once the report of vigilance committee is received.

Back

Life Insurance

Premium per policy up for life insurers - Financial Chronicle – 28th June 2016

With a focus on unit linked insurance plans (Ulips), the life insurance industry has witnessed a 14 per cent rise in the average premium per policy to Rs 17,952 in 2015-2016, compared to Rs 15,774 reported last year.

The industry had grown by eight per cent in individual adjusted new business premium during the year.

Public sector behemoth Life Insurance Corporation (LIC) posted an increase of 14 per cent in the average ticket size at Rs 12,526, while the average ticket size of private insurers grew by 10.6 per cent at Rs 37,111.

LIC had grown by mere three per cent in individual new business premium, while private players had seen 14 per cent growth for the same in 2015-16.

Bajaj Allianz Life posted 38 per cent growth in average ticket size to Rs 28,839. Besides, private life insurers such as Max Life, HDFC Life and Birla Sun Life saw growth in the range between 20 per cent and 40 per cent. Other players such as Shriram Life Insurance and Reliance Nippon Life reported lower growth of 4.1 per cent and 2.7 per cent, respectively.

Anuj Agarwal, managing director and chief executive officer at Bajaj Allianz Life Insurance, said, “Our strength had always been customers from tier I and tier II cities. But since last year, we are also focussing on the affluent customer segments which have helped grow our average ticket size.”

Manoranjan Sahoo, chief agency officer, Reliance Nippon Life Insurance, said, “Insurers target an average ticket size of Rs 30,000-40,000 for Ulips and Rs 25,000-30,000 for traditional products, as the persistency is the highest in this band of policyholders.”

“Since, we predominantly sell traditional products, we plan to increase our average ticket size towards Rs 25,000 this year”, Sahoo added.

Source

Surprisingly, the country’s largest private-sector life insurer, ICICI Prudential, saw its average premium per policy fall by 29 per cent to Rs 58,426. Similarly, Kotak Life Insurance saw its policy ticket size fall by 12 per cent. ICICI Prudential Life Insurance officials could not be reached for comment.

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Health Insurance

Claims for rains-related diseases on rise: insurers - Financial Chronicle – 30th June 2016

The monsoon is here and insurance claims related to infectious and respiratory diseases see a spurt during this season. The claims for ailments such as fever, dengue, pneumonia, bronchitis and asthma during monsoon have been rising over the years, say insurance providers.

The incidence of infectious and respiratory diseases witnesses a sharp rise during the four monsoon months — from June to September. These months account for around 60 per cent of the claims related to the diseases, finds ICICI Lombard. Fever, dengue, pneumonia, bronchitis, asthma and typhoid are the top diseases reported during the monsoon season, with fever leading the list. In 2015-16, 36.14 per cent of claims was due to fever, followed by dengue (19 per cent).

"At Apollo Munich Health Insurance, we received around 2,600 dengue-related claims in 2014-2015, while in 2015-2016, the number of claims shot up to over 7,000. As per our experience, 60 per cent of dengue claims are received in September and October," said Antony Jacob, CEO, Apollo Munich Health Insurance.

In 2015-16, fever cases increased 50 per cent against the previous year, dengue claims 108 per cent, bronchitis by 170 per cent, pneumonia and asthma by 20 per cent, as per the ICICI Lombard data.

"Dengue has been a serious health issue over the past couple of years. A year-on-year comparison shows that dengue has been slowly creating havoc, both physically and financially. Though we receive dengue-related claims almost throughout the year, the maximum number of such claims is usually registered between June and August. At Max Bupa, we cover customers for pre- and post-dengue hospitalisation and provide coverage up to the sum insured," said Ashish Mehrotra, CEO & MD, Max Bupa.

According to Bajaj Allianz General Insurance, there has been a constant increase in the average claim size for monsoon-related ailments such leptospirosis (68 per cent), malaria (3 per cent), typhoid (5 per cent), viral fever (13 per cent), diarrhoea (7 per cent) and dengue (10 per cent) in the past three years.

"While such treatment would have cost Rs 12,000 to Rs 15,000 four years back, today it could cost between Rs 25,000 to Rs 30,000. While it is essential to take precautions to keep such monsoon-related ailments at bay, it is equally important to avail of an adequate health insurance cover so that you do not have to shell out money from your pocket for the medical expenses incurred by these ailments." said Abhijeet Ghosh, head of health administration team, Bajaj Allianz General Insurance.

The western region accounts for the highest number of claims (45 per cent), followed by the northern region. In the past two years, the highest number of claims has come from Mumbai (23 per cent), followed by NCR (22 per cent). Bangalore, Pune and Hyderabad also make it to this list that follow in claim numbers. The 2015-16 data obtained from ICICI Lombard shows that males are more prone to the monsoon-related diseases. The insurer got 58 per cent claims from males as against 42 per cent females.

"The report shared comprehends that the number of claims during the rest of the year were consistent. However, the claims made during monsoons rose in 2015- 2016,' said Sanjay Datta, chief–underwriting claims and reinsurance, ICICI Lombard.

Source

Back

PM gives nod to umbrella health insurance scheme - The Asian Age – 24th June 2016

After protracted deliberations decks seem to have been cleared for introducing an integrated health insurance scheme with Prime Minister (PM) Narendra Modi giving his approval to the proposed welfare measure.

The new scheme which is likely to be named-National Health Protection scheme (NHPS) aims to bring together all existing health insurance schemes and in its new avatar is expected to offer increased coverage.

Sources said that after extensive deliberations, a final presentation was made before the Prime Minister on Monday soon after he came back from Chandigarh after the grand international yoga day celebrations.

"The road appears to be ending now. The Prime Minister seemed convinced with the final proposal," sources said.

The Union health secretary gave the presentation along with officials from department of financial services, ministry of finance and the cabinet secretary who were also present during the meeting with the Prime Minister.

The scheme proposes to offer a health cover of up to `1 lakh per family and for senior citizens, a top-up of Rs 30,000 additionally.

Officials say that the integration will ease governance and save resources of the government.

"The integrated scheme will not only help beneficiaries rise but even the number of schemes will go down, consequently saving resources of the government".

The proposed scheme has brought together those life insurance schemes where health subject is inbuilt including those which are related to accident cover, those which cover disabilities, labour, railways, textiles, fishermen etc. Interestingly, various ministries like the ministry of health, ministry of textiles, ministry of social justice and empowerment, women and child development, ministry of agriculture etc run separate health insurance related schemes. Similarly, the state government also run their insurance schemes some are even run in the name of the chief ministers of the state. The deliberations started last year on the suggestion of the PM Modi who asked the ministries to come up with an umbrella programme, bringing together the existing health insurance schemes.

At present, India only has the Rashtriya Swasthya Bima Yojana (RSBY) was envisaged to provide health insurance coverage to Below Poverty Line families. Its beneficiaries are entitled to hospitalisation coverage of up to Rs 30,000 for most diseases. "While the Expediture Finance Committee (EFC) has already approved the scheme. Extensive deliberations were going on for the past one year with the Cabinet secretary over-seeing the movements on the proposed scheme. We are hopeful that the PM will soon announce the scheme," sources added.

Source

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General Insurance

Crop cover can be sold via point-of-sales, says Irdai - Financial Chronicle – 30th June 2016

In order to improve the penetration of government-sponsored crop insurance schemes, the Insrance Regulatory and Development Authority of India (Irdai) has allowed non-life insurers to sell some of them through their point of sales persons. It has also removed the cap on the sum insured for the schemes. Pradhan mantri fasal bima yojana (PNFBY), weather based crop insurance scheme (WBCIS) and coconut palm insurance scheme (CPIS) have been allowed to be sold through point of sales persons.

"The authority hereby decides to include the following government sponsored crop insurance schemes that can be solicited and procured through point of sales persons of non-life insurers: pradhan mantri fasal bima yojana (PMFBY), weather based crop insurance scheme (WBCIS) and coconut palm insurance scheme (CPIS)," Irdai said in a notification.

"Irdai had issued guidelines on appointing PoS persons some time back in order to improve the penetration of insurance products. Till then licensed insurance companies and intermediaries only were allowed to sell insurance products. PoS persons do not need a licence from Irdai," said S R Balachandher, company secretary and chief compliance officer of Royal Sundaram Alliance Insurance Company.

However, the PoS persons can solicit and market only certain pre-underwritten products approved by the authority and shall be identified by his Aadhaar card number or his PAN card, he added. As per the notification, the insurers wishing to solicit and procure the above government sponsored crop insurance schemes through point of sales persons shall follow the guidelines prescribed earlier for point of sales person: non-life and health insurers.

Policies sold through the person should be separately identified by the insurance firm and pre-fixed with PoS followed by a name of the product. As the pre-underwritten products need minimal intervention for sales, the training and examination for them are lesser than that for intermediaries. But the PoS person should be a 10th class pass.

In semi-urban and rural areas, the number of licensed intermediaries and agents are limited; Irdai wants to ensure that the product reaches the beneficiaries in the rural areas through such persons. An intermediary can appoint four or five PoS persons in order to increase business.

The authority has also removed the cap on the sum insured for these crop insurance schemes. Some of the pre-underwritten products sold by PoS persons have a sum assured cap. But that limit will not be there for these crop insurance products.

Source

Back

Crop insurance scheme to be implemented soon – The Times of India – 26th June 2016

Around 60% of the funds provided by the central government under the crop insurance scheme would be given to the agriculture sector soon, while the remaining 40% would be dedicated to associated sectors, said district collector N Yuvaraj here on Saturday. Speaking at the ZP general body meeting, joint director of agriculture V Satyanarayana said all measures were being taken to ensure that the seeds and fertilisers for the Kharif season were properly distributed to the farmers. The collector further noted that borewells were being dug in places which had no water resources. ZP chairperson Lalam Bhavani observed that the state government was implementing all the schemes in the rural belt as well as in certain semi-urban areas and noted that drinking water would be chlorinated to ensure safety.

Source

Back

Reinsurance

Assess resilience of reinsurers for risk concentration: RBI - Business Standard – 29th June 2016

Source

There is a need to assess the resilience of reinsurance companies, with increasing concentration of contingent liabilities in some, says the Financial Stability Report. If major 'risk events' happen simultaneously, these companies might come under heavy stress. Which could create big problems, including a risk of insolvency, for primary insurance companies, it said.

Reinsurance is where primary insurance companies themselves buy insurance for the risks they cannot retain entirely with themselves, from one or more insurance companies (reinsurers).

There is only one reinsurer in the country, the General Insurance Corporation of India (GIC Re), owned by the government. GIC Re reported a solvency ratio of 3.04 at end-March 2015 (2.73 a year before this). However, foreign reinsurance entities also do business here, though they have no branch presence. The report's reference is to these, too.

Many foreign reinsurers have applied to the sector regulator for a branch presence in the country. The new insurance laws have allowed this but there is a new norm (to be reviewed after 12 months) that first preference for treaties will be given to GIC Re.

Reserve Bank of India (RBI) publishes the FSR report on behalf of Financial Stability and Development Council.

Apart from this, the FSR report also suggested offering green insurance as a cover to help in internalisation of environmental costs by the companies. It said that green insurance helps in mitigating and managing environmental and ecological risks.

Such insurance policies cover potential liabilities arising from the pollution of water, land or air or collateral damages to the ecology and environment by policyholders. "These policies will not only help in providing indemnities for ecological and environmental losses but will also help in the restoration of ecological damages. This is more than the case when the compensation for third party large losses (more than Rs 25,000) is currently not covered by extant insurance products under the Public Liability Insurance Act 1991," said the FSR report.

Check misselling by banks, if any: FSR
Any possibility of misselling, especially by banks, should be looked into, said the Financial Stability Report (FSR) published by Reserve Bank of India. The report said that this needs to be checked in in the light of reported attractive performance-linked incentives for bank staff and management.

Distribution of insurance products by banks is popular is world over. In India, bancassurance model is followed where a bank can now tie-up with three life, three non-life and three standalone health insurance companies. While earlier banks who were promoters of insurance companies were reluctant to open up to other insurers, now many banks have entered into agreements with other insurance companies as well to sell their products.

Mis-selling in common parlance refers to unfair or fraudulent practices adopted at the time of soliciting and selling insurance and generally includes selling policies which have not been sought by the customer or which are different from what the customer wanted or was promised or where the product offered for sale is not suitable to the needs of the customer.

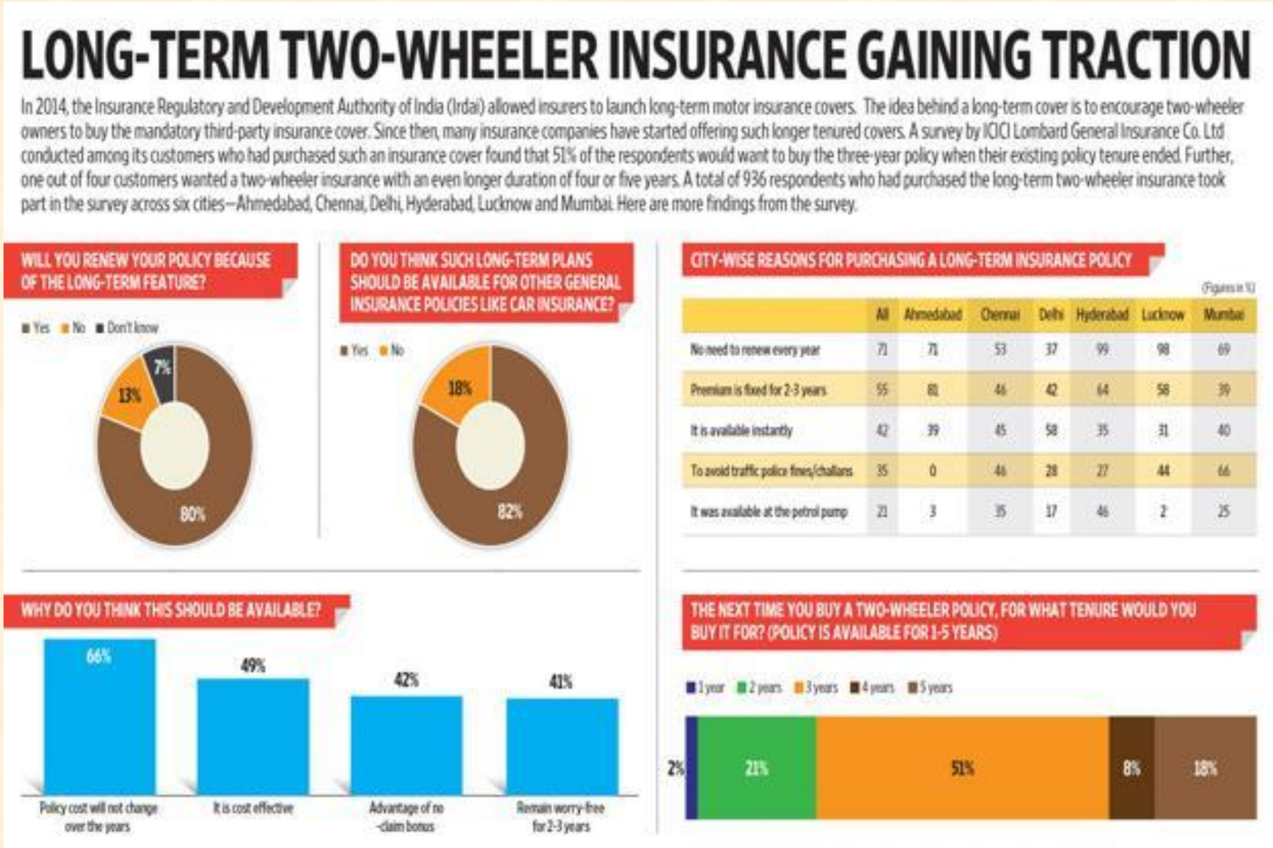
The FSR report said that insurance selling by banks can provide very useful fee based income and can positively impact profitability. It added that while this may be seen as complementary to the core banking business leveraging the banks' relationship with customers by offering a wide spectrum of financial services under one roof, any misselling possibilities should be looked into.

Source

Survey & Reports

Long-term two-wheeler insurance gaining traction: survey – Mint – 28th June 2016

In 2014, the Insurance Regulatory and Development Authority of India (Irdai) allowed insurers to launch long-term motor insurance covers. The idea behind a long-term cover is to encourage two-wheeler owners to buy the mandatory third-party insurance cover. Since then, many insurance companies have started offering such longer tenured covers. A survey by ICICI Lombard General Insurance Co. Ltd conducted among its customers who had purchased such an insurance cover found that 51% of the respondents would want to buy the three-year policy when their existing policy tenure ended. Further, one out of four customers wanted a two-wheeler insurance with an even longer duration of four or five years. A total of 936 respondents who had purchased the long-term two-wheeler insurance took part in the survey across six cities—Ahmedabad, Chennai, Delhi, Hyderabad, Lucknow and Mumbai. Here are more findings from the survey.



	All	Ahmedabad	Chennai	Delhi	Hyderabad	Lucknow	Mumbai
No need to renew every year	71	71	53	37	99	98	69
Premium is fixed for 2-3 years	55	81	46	42	64	58	39
It is available instantly	42	39	45	58	35	31	40
To avoid traffic police fines/challans	35	0	46	28	27	44	66
It was available at the petrol pump	21	3	35	17	46	2	25

Source

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IRDAI Circular

Source

Guidelines on Point of Sales Person - Govt. approved Crop Insurance Scheme to all CEOs of Non-life are available on IRDAI website.

Back

Global News

China: Regulator wants more info on equity investment funding – Asia Insurance Review

The Chinese insurance regulator has said that insurers must improve their information disclosure on issues including sources of capital deployed in equity investment in listed companies.

The regulator's statement came amid the escalating clash between listed property developer China Vanke Group and its largest shareholder, Baoneng Group, a private insurance conglomerate, reported the China Daily.

Baoneng and its affiliates, including an insurance company, have aggressively purchased Vanke's shares in the secondary market through what Vanke called a "hostile takeover" to become the developer's largest shareholder.

Mr Zhou Yanli, Vice Chairman of the CIRC, speaking at an economic forum on Monday, said that the regulatory priority is insurers' compliance with disclosure regulations while noting that equity investment in public listed companies is a normal practice by insurance firms as it meets their need for asset allocation.

Chinese cash-rich insurers such as Anbang Insurance Group have been aggressively increasing their shareholdings of public companies in the open market since last year. Their high-profile purchase of public companies including Vanke has sparked questions about their funding sources and the possible risks associated with their aggressive investment.

The regulator has stepped up its scrutiny by demanding that insurance firms conduct stricter stress tests on their assets and liabilities and capping their investment in equities, real estate and other financial assets to no more than 20% of their total assets.

Source

CIRC has launched an inspection of insurers' risk controls over stock, private equity and real estate investments, the official Shanghai Securities News reported earlier this month.

Back

New Zealand: Insurers' gains hit by interest & exchange rates – Asia Insurance Review

Low interest rates overseas and the strong US dollar are affecting the profitability of insurance companies in New Zealand.

Premium growth in New Zealand's general insurance sector fell to 0.2% in 2015, from 8.2% in 2014 and 7.0% in 2013, according to Davies Financial & Actuarial, reported interest.co.nz. Meanwhile return on equity (RoE) growth is down to 8.4%, from 12.1% in 2014 and 17.3% in 2013.

Mr Tim Grafton, Chief Executive of the Insurance Council of New Zealand (ICNZ), recognising that the general insurance market has softened, said: "There is a lot of capital available for insurance globally and that is feeding through to lower rates and therefore impacting on premium growth.

"The investment income return for insurers has been subdued globally - and New Zealand's no exception to that - partially because returns are so low. There are a lot of investors chasing better returns."

He said that investors are putting their capital into global catastrophe insurance, of which New Zealand is a major purchaser due to the natural disaster risks the country faces.

"Investors globally are looking for what they describe as 'non correlated returns'. That means that if there's a global downturn tomorrow, the risk of an earthquake or some other natural catastrophe is not affected by that.

"And so a lot of the likes of US pension funds have sought to invest more heavily in the reinsurance market, and that has flowed through to more capital coming through, and lower rates, and that also brings down the capacity for premium growth in New Zealand."

"When you have a lot of capital available globally, it affects the whole world and feeds through to New Zealand. It's a question of whether it's a cyclical thing or a long-term issue."

Mr Grafton said that the 2010-11 Canterbury quake hangover is still casting a shadow over the sector, even though low interest rates had a larger influence on premium and RoE growth last year.

He said that the earthquakes have seen international catastrophe modellers revise New Zealand's riskiness upward.

Premium growth in the life insurance market is stronger than in the general insurance market, but has still fallen to 6.0% in 2015 from 6.6% in 2014 and 7.0% in 2013.

While RoE growth inched up in 2015, risk-free investment returns were lower last year at 2.8%.The executive director of the Financial Services Council, Owen Gill, said: "Like all sectors that invest, life insurance is directly affected by the low-rate environment, especially if it continues long-term.

"The challenge for insurers is adjusting to the new normal, which is low rates, globally."

Mr Grafton said that insurers' profitability is also being affected by the strong US dollar which is hiking the cost of imported car parts, and thus motor insurance claims.

Source

Competition, caused by new entrants into the market may have some impact on premium prices. Yet this is not significant, as their market share is not huge.