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INSUNEWS

- Weekly e-Newsletter

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• Quote for the Week •

"The highest education is that which does not merely give us information but makes our life in harmony with all existence"

Rabindranath Tagore

INSIDE THE ISSUE

Insurance Industry

Insurers for tax exemptions on home, shopkeeper policies - The Financial Express – 20th January 2016

In the last few years, profits of general insurance companies took a hit as a result of severe natural calamities – floods in Tamil Nadu and Jammu & Kashmir and the cyclone Hud-Hud. In order to increase awareness about householder policy and shopkeepers insurance, the general insurance industry has proposed tax exemptions for such policy premiums.

Currently, only premiums paid for life insurance and health insurance are exempted under Section 80C and 80D of Income Tax Act. The general insurance industry believes that if the government provides tax exemptions on householder policy and shopkeepers insurance, it will be beneficial to all.

"Agents are not selling such policies as their commissions are very low on home as well as shopkeepers policy, and with market share of such category just under 1%, the industry needs some compensation to increase the reach of such products," said the CEO of a top general insurance company. Typically, insurance companies pay around 12-15% of premiums on home and shopkeepers policy, but premiums being too low, agents don't earn much by selling these products.

According to industry estimates, general insurers have received claims worth over Rs 10,000-12,000 crore following various catastrophic events in the last three years. The insurance industry have already received claims of around Rs 3,000-3,500 crore after recent floods in Tamil Nadu.

KG Krishnamoorthy Rao, MD and CEO, Future Generali India Insurance, said, "We have seen an increase in number of queries for both home and shopkeeper insurance after the floods in Tamil Nadu. But the real question is how many of such queries convert and renew the year later? At Future Generali, we have asked our agents in Chennai to speak to individuals and small and medium-sized enterprises (SMEs) on the importance of home and shopkeeper's insurance and have few products that can be sold very easily."

"Since a house is one's biggest financial asset, a home insurance policy in addition to health is also necessary for every individual. Thus, we expect and recommend that the government should grant tax exemption on premiums for home insurance in the Budget," Rao said. Sasikumar Adidamu, chief technical officer, non-motor insurance, Bajaj Allianz General Insurance, said: "I think tax incentive would help as overall insurance penetration is very low. In any major catastrophic event, only 10% of losses are covered. So it is better to get adequately insured."

Source

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Govt comes out with Indian Accounting Standards roadmap for banks, insurance firms - The Financial Express – 18th January 2016

Coming out with the Indian Accounting Standards roadmap for banking and insurance sectors, the government today said scheduled commercial banks and insurance companies would have to start implementing the new accounting norms from April 1, 2018.

Indian Accounting Standards (Ind AS), converged with the global accounting norms, would be applicable for certain class of Non Banking Financial Companies (NBFCs) from the same date. Scheduled commercial banks, all-India term-lending refinancing institutions – Exim Bank, NABARD, NHB and SIDBI – as well as insurers/insurance companies have to prepare their financial statements as per Ind AS from April 1, 2018.

According to the Ministry, scheduled commercial banks (excluding RRBs)/ NBFCs/ insurance companies/insurers should apply Ind AS only if they meet the specified criteria. They they should not be allowed to voluntarily adopt it.

"This, however, does not preclude an insurer/insurance company/NBFC from providing Ind AS compliant financial statement data for the purposes of preparation of consolidated financial statements by its parent/investor, as required by the parent/investor to comply with the existing requirements of law," the release said.

In this regard, draft notification and rules would be issued by the Ministry, RBI and IRDAI in due course. Companies with a networth of Rs 500 crore or more would have to mandatorily follow the new accounting norms that are converged with global standards from April 1, 2016. Besides, corporates having a networth of less than Rs 500 crore but are listed or in the process of getting listed would have to compulsorily follow the new norms from April 1, 2017.

Source

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Insurance Regulation

Group should have a minimum 20 members for health insurance: IRDAI - The Economic Times – 19th January 2016

Insurance sector regulator IRDAI today proposed a 'Group' should have a minimum size of 20 members to be eligible for issuance of a Group Health Insurance Policy.

Releasing an exposure draft on IRDAI (Health Insurance) Regulations, 2016, the authority also proposed that the "premiums filed shall ordinarily not be changed" for a period of three years after a product has been cleared in accordance to the product filing guidelines specified by it.

Thereafter, the insurer may vary the premium rates depending on the experience.

On Group Health Insurance, the draft said no policy would be issued by any insurer where a Group is "formed with the main purpose of availing itself" of insurance.

"There shall be a clearly evident relationship between the members of the group and the group policy holder for services other than insurance.

"The Group shall have a minimum size of 20 members to be eligible for issuance of a Group Insurance Policy," it added. To examine the extant regulatory framework vis-a-vis the Business practices, the Insurance Regulatory and Development Authority of India had constituted an Expert Committee on in December 2014, which has submitted its report in April, 2015.

On examining the recommendations, experience gained in reviewing the regulatory framework, IRDAI has said it has proposed to revisit the existing Health Insurance Regulations, 2013 by suitably aligning the TPA Regulations as well as revisit some of the provisions.

On renewal of policies, the draft said the insurer would provide for a mechanism to condone a delay in renewal up to 30 days from the due date of renewal without deeming such condonation as a break in policy. However coverage need not be available for such period. Further, the cost of any pre-insurance medical examination should generally form part of the expenses allowed in arriving at the premium.

"However in case of products with term of one year and less, if such cost is to be incurred by the insured, not less than 50 per cent of such cost shall be borne by the insurer once the proposal is accepted, except in travel insurance policies...," the draft said. The exposure draft said that all health insurance policies would ordinarily provide for an entry age of at least up to 65 years.

Source

Centre, IIB in talks for healthcare portal - The Hindu Business Line – 19th January 2016

The Centre plans to develop a comprehensive website for healthcare and is in talks with the Insurance Information Bureau (IIB), an arm of the Insurance Regulatory and Development Authority of India (IRDAI), in this regard.

"The officials of the Government of India have expressed interest in having a portal, similar to the portal for health insurance recently launched by us. We are looking at data convergence and other aspects," R Raghavan, Chief Executive Officer, IIB, told BusinessLine.

If the plan fructifies, all public agencies involved in healthcare may be brought under the portal for the purpose of data sharing and for uniformity and standardisation of the Central Government Health Scheme (CGHS) network.

IIB has launched a portal, Rohini, to serve as a registry of hospitals in the insurance network. It will allow hospitals to register, make changes, and add information, among others, through permitted access, providing them with visibility and faster claim processing. The list now consists of about 33,000 unique hospitals, arrived at after an extensive exercise of automated as well as manual de-duplication undertaken by the IIB.

Source

According to the bureau, the registry can become a 'strong backbone' to all e-governance initiatives by the Ministry of Health and Family Welfare, public health manager and health industry. "It is this possibility that is being explored now," Raghavan said.

Back

Irdai proposes graded approach for non-compliance by brokers - Business Standard – 19th January 2016

Insurance Regulatory and Development Authority of India (Irdai) in its norms on non-compliance by brokers said there would be a graded approach to any violation. It said that this was to simplify the application of penalties in case of non-compliance/ violation of regulations. Irdai said that generally there would be a warning for first time non-compliance.

Later, it said largely not undertaking placement of new business till such time the problem is rectified or for 2/4 months whichever is later for second time non-compliance will be there.

For third time non-compliance, Irdai will initiate steps for suspension/ cancellation of the license with the condition that the broker will not undertake placement of new business till such time the problem is rectified or 6 months whichever is later for third time non-compliance.

Source

The regulator has also put greater onus on the Principal Officer to ensure compliance as he will be held personally responsible along-with the compliance officer.

Back

Irdai says Ulip share in new premiums rose in FY15 - Business Standard – 20th January 2016

Unit-linked insurance products (Ulips) saw a rise in market share in FY15, said the Insurance Regulatory and Development Authority of India (Irdai) Annual Report for 2014-15. The regulator said that Ulips registered a growth of 10.85 per cent in premiums from Rs 37,544.08 crore in 2013-14 to Rs 41,616.94 crore in 2014-15.

The growth in premium from traditional products was 3.51 per cent, (Rs 2,86,484.20 crore in 2014-15 as against Rs 2,76,757.58 crore in 2013-14). Accordingly, the share of Ulips in total premium increased to 12.68 per cent in 2014-15 as against 11.95 per cent in 2013-14.

Also, on the basis of total premium income, the market share of Life Insurance Corporation decreased from 75.39 per cent in 2013-14 to 73.05 per cent in 2014-15. The market share of private insurers increased from 24.61 per cent in 2013-14 to 26.95 per cent in 2014-15.

With respect to life insurance, there was also an increase in the number of offices. IRDAI Annual report said that the decreasing trend of number of life insurance offices (which had continued until 2012-13) had reverted from 2013-14 and there was a marginal increase in 2014-15 at 11033 from 11032 of the previous year.

In the general insurance space, IRDAI said that The net incurred claims of the non-life insurers stood at Rs 55232 crore in 2014-15 as against Rs 49179 crore in 2013-14. The incurred claims exhibited an increase of 12.31 per cent during 2014-15.

Insurance industry had seen a lot of misselling complaints classified under unfair business practices. IRDAI's Annual Report showed that complaints from this segment came down to 52 per cent in 2014-15 from 56 per cent in 2013-14. However, unfair business practices constituted the largest class of complaints.

Source

In the non-life insurance industry, Integrated Grievance Management System data indicated that claims related complaints constituted major chunk of the complaints during 2014-15.

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Life Insurance

Insurance industry is not showing proportionate growth indications - The Financial Express – 19th January 2016

While forecasting India's economic growth during the coming three years, both the World Bank and the International Monetary Fund (IMF) have indicated that India will emerge as the fastest growing economy in the world. Finance minister Arun Jaitley has recently indicated that India's growth rate could be even higher than 7.5% if the global economy also shows positive trends. He also expects that India can grow at such pace for a considerable period.

Thus, the background in which various sectors have to perform and grow is quite clearly defined. Every sector of economy has to contribute and grow with the same celerity and it is quite feasible in the given environment. The political will that is behind such expectations is surely going to provide a very constructive ecosystem for rapid growth. In this scenario, government spending will go up and public consumption will also grow.

The government's policy of infrastructure development, social sector spending and rural area development would put more money in the hands of the rural population also. All these according to Jaitley will lead to pick up in purchase power of the people across all sections. While life insurance grows in proportion to disposable surplus in the hands of individual wage –earners; non-life insurance grows in the same ratio in which goods and services are produced to bolster all segments of the economy. Insurance is therefore very well poised to grow rapidly in the present regime.

Unfortunately, however, the insurance industry in India is not showing proportionate growth indications. The industry has perhaps failed to build up infrastructure for achieving exceptionally high rate of growth. During last five years this industry is known for struggling against so many odds including tough and often stifling regulatory interventions.

The industry also struggled to overcome the setback caused due to adverse public sentiments following allegations of mass-scale miss-selling. But the fact remains that the industry leaders have remained behind others in creating a clear space for their industry in the total economic environment.

Repeating the strategy of the past can produce semblance of growth but cannot propel the industry to such growth as is required to match the growth in the economy as a whole. When economy moves faster, a new set of strategies aligned to new factors emerging in the environment is required; and when the economy grows at slower pace compared to the industry the on-going strategies are required to be religiously followed to avoid falling into the trend. Therefore, today, all segments of the insurance business have to register some resurgence propelled by innovative growth engines.

Every insurer has to introspect whether it has to move faster than the existing pace, whether it has to achieve better service efficiency or whether it has to bring in cheaper and more customer-friendly products. Something has to be done to break away from the status quo characterised by either slow growth or negligible growth. Distribution being the most challenging part of the insurance business needs fresh approach.

Compared to the best of the time for the industry in India, seven to eight years ago, today he number of distributors, number of employees as well as number of offices are far fewer. Perhaps the industry could not manage to sustain fast growth in difficult times. That was the time when leadership needed to find ways to

drive past negative factors with innovative products and distribution strategies. I am afraid; this scenario may leave the insurance industry behind others, in scripting India's growth story.

Today, whatever good developments are happening in India regarding the insurance industry are those happening on the government's initiative. Six months ago, the Pradhan Mantri Jeevan Jyoti Beema Yojana and Pradhan Mantri Suraksha Bima Yojana were launched taking insurance right to the doorstep of the common man. Recently, the government decided to launch Bhartiya Krishi Bima Yojana to extend the benefit of crop damage insurance to at least 50% of our farmers.

About a year ago government had announced raising of ceiling of foreign investment to 49% and an amended Insurance Act was put in place. Foreign investment of at least Rs 10,000 crore is expected within a year. I believe the best of time for the industry to grow is here and every day lost in effecting the much-needed turn-around is going to prove very costly for the participating players as well as for the regulator.

Continuation of the current dull phase may drag the industry out of favour of the policy makers. Several other industries may grow faster and contribute substantially to the national GDP. The Telecom Sector Skill Council expects 7 lakh new jobs in the sector in next five years. Will the Life Insurance Council or the General Insurance Council or even the IRDAI tell us what is the employment generation potentiality of the insurance industry in the next five years?

Source

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Agent attrition continues to haunt life insurers - The Hindu Business Line – 18th January 2016

The life insurance industry continues to face high agent attrition and this could have serious implications on servicing of policies. According to the latest data published by the Life Insurance Council, there was a decline of more than 24,000 in the agency force in the first nine months of the current fiscal.

The 24 life insurers saw 4,98,476 agents exiting the industry and 4,73,671 agents joining. A senior Life Insurance Corporation of India official said that his company, which is country's largest life insurer, is on a major recruitment drive and plans to hire over two lakh agents this year.

Incidentally, according to the Life Insurance Council data, LIC has seen its agency force fall over a lakh to 10,76,835 as on December 31, 2015 against 11,78,377 as on December 31, 2014. As of December-end 2015, the number of agents was down to 20,43,660, against 21,59,729 as of December-end 2014.

Manoj Jain, MD of Shriram Life Insurance, said the life insurance industry has seen a large number of part-time agents exiting the industry and the existing agents have become more productive. He said that insurers are also increasingly relying more on their full-time agency force and direct channels for business.

Recently, in an exposure draft on remuneration for insurance agents and intermediaries, the Insurance Regulatory and Development Authority of India (IRDAI) had proposed higher commission for agents in the first year as also subsequent years to incentivise them. Further, to plug attrition, the regulator had also said that insurance companies can give rewards over and above commissions.

Source

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Private life insurers post 17 percent growth in new premiums - The Hindu Business Line - 17th January 2016

Private life insurers continue to outshine the public sector behemoth Life Insurance Corporation (LIC) in terms of new business premium collection during the nine months of the current fiscal. The private life insurance industry's new business premium collection grew 17 per cent to Rs. 25,972 crore, from Rs. 22,110 crore in the same period last year, according to data released by the Life Insurance Council.

LIC saw a 15-per cent growth in new business premium collection during the nine months of this fiscal, with collections jumping to Rs. 59,616 crore from Rs. 51, 667 crore during the same period last year. Incidentally, LIC saw a massive 48 per cent growth in group single premium business collection at Rs. 38,204 crore (Rs. 25,718 crore). The insurance behemoth, however, saw its individual regular premium collection decline marginally to Rs. 12,618 crore from Rs. 12,735 crore.

According to research firm Kotak Institutional Equities, the annualised premium equivalent (APE) of the insurance industry grew at just 4 per cent y-o-y to Rs. 4,890 crore. APE is an international formula that gives

full weight to regular premium but takes into account 10 per cent of single premium. "Individual business APE during December confirms slowdown for the industry even as y-o-y growth at 7 per cent for private players was marginally better than 5 per cent in November 2015. Recent slowdown/decline of large players, viz. HDFC Life and ICICI Life, has pulled down overall industry growth," the research note said.

The average policy size in the individual segment for ICICI Prudential Life and HDFC Life is down 10 per cent y-o-y and 21 per cent y-o-y respectively. Incidentally, Kotak Research attributed the slowdown in large players to weakness in capital markets, which translated into slowdown for the unit-linked segment. However, analysts expect lower business volumes to be offset by higher margin business or lower expense overruns as a consequence of declining share of unit-linked insurance policies.

Source

Back

Health Insurance

Opting for restricted hospital network can lower premium by 5-20 percent – 21st January 2016

Private health insurance companies have for the first time are offering a choice of restricted network of hospitals under group mediclaim policies that will reduce the cost of premium by 5-20%, a move that will come as a relief to firms that have been complaining of rising premiums. "Three companies in information technology, manufacturing, real estate and construction have opted for the restricted network hospitals scheme that has helped them reduce their health cost said Sanjay Datta, head of underwriting ICICI Lombard. "We are looking to offer 5-20% discount to companies opting for restricted network of hospitals."

Over the years, group mediclaim costs have been rising for employers in this fast growing segment. Insurers are expecting the sector grow at 12%-15% on a year-on year basis, and in the overall Rs 22,000-crore health insurance industry, group health comprise about Rs 10,000 crore-Rs 12,000 crore. The industry has been seeing claims outstripping premium over the past several years.

"The future of group medical has to be network-driven," said Shreeraj Deshpande, head of health, Future Generali General Insurance. "Today, hospitals are not graded by way of cost, service or quality. If there's an independent body grading hospitals, it will make it easier for insurers to offer restricted network of hospitals." Companies have been complaining about the rising cost of health insurance. Earlier, group mediclaim was offered at huge discounts of up to 80% with fire policy. But after tariff was freed in 2007, companies started charging, but still prices did not correct according to the claims in the sector.

Source

Back

Irdai proposes fitness discounts in health insurance - Business Standard - 20th January 2016

Insurance Regulatory and Development Authority of India (Irdai) in its draft norms on health insurance said that insurers can provide discounts on renewal premiums based on fitness and wellness criteria. In an exposure draft on Health Insurance Regulations 2016, Irdai said that insurers should try and promote wellness amongst policyholders of health insurance by offering health-specific services offered by network

providers, such as outpatient consultations or treatments, pharmaceuticals or health check-ups or discounts thereon at specified network providers. The regulator added that the costs towards above services would have to be factored in the pricing of the underlying health insurance product.

Also, with respect to senior citizens, Irdai said the premium charged for health insurance products offered to them should be fair, justified, transparent and duly disclosed upfront. It added that the insured has to be informed in writing of any underwriting loading charged as filed and cleared over and above the premium. Specific consent of the policyholder for such loadings will have to be obtained before issuance of a policy.

The regulator has also called for establishing a separate channel to address the health-insurance-related claims and grievances of senior citizens. Irdai has also detailed its norms for 'combi products', which would be a combination of a life insurance policy and a health insurance policy. The regulator has said that clear disclosures should be made on the two partners offering the products. There would be a 'lead' insurer in these products.

Source

Renewal does not mean changing of policy terms - Business Standard – 17th January 2016

It's a common practice by insurance companies to change policy conditions at the time of policy renewal. Such changes, surreptitiously made without the knowledge or consent of the insured, are illegal and unjustified. The insured would have the right to insist that the claim be settled according to the terms and conditions in the original contract of the insurance when the policy was first taken.

Veermani Aiyar was covered under a mediclaim policy issued by New India Assurance. The policy was taken several years ago, and was renewed without any break. The sum insured was Rs 5 lakh, with a bonus of Rs 2 lakh, totalling Rs 7 lakh.

During the tenure of the policy for 2009-2010, Aiyar had to undergo cataract surgeries in both eyes. The total cost came to Rs 90,638. He lodged a claim with Health India, the third-party administrator (TPA) appointed by the insurance company to process the claim. Though the sum insured was sufficient to cover the amount claimed, the TPA sanctioned only Rs 48,000, calculated at an ad-hoc amount of Rs 24,000 per eye.

The claim payment advice mischievously stated that acceptance of the cheque of Rs 48,000 would automatically imply that the amount has been received in full and final settlement. So, Aiyar refused to sign the discharge voucher, and instead sent a letter protesting against the shortfall in payment. He deposited the cheque without prejudice to the right to recover the balance amount of Rs 42,638.

The TPA replied that the claim had been correctly sanctioned in accordance with an internal circular issued by the insurance company pegging the limit for cataract surgeries at Rs 24,000 per eye. Aiyar wrote back that an internal circular would not be binding and could not be used to his disadvantage. He demanded the claim be processed and settled according to the policy conditions. As there was no response, Aiyar filed a complaint before the South Mumbai Consumer Forum.

The insurance company contested the case, arguing Aiyar should not have deposited the cheque if he wished to dispute the claim amount. After encashing the cheque, Aiyar would not be entitled to file a complaint questioning the quantum of the settlement, the insurer said.

The Forum overruled these objections, observing that Aiyar had not signed the discharge voucher but had recorded a protest that the cheque was being accepted without prejudice to recover the balance amount. The Forum also indicted the company for an unfair trade practice in settling the claim on the basis of an internal circular that did not form part of the contract of insurance.

The Forum observed the policy was taken in 1996 and renewed without any break. It relied on a Supreme Court decision, which had laid down that a renewal of an insurance policy means repetition of the original policy. When renewed, the policy is extended on identical terms from its expiration date.

So, the Forum concluded the policy terms and condition cannot be unilaterally varied by the insurance company at the time of renewal. It held that any changes in the renewed policy without the consent of the insured cannot be enforced. The Forum concluded the claim would have to be settled in accordance with the policy conditions prevailing in the original contract of insurance issued in 1996.

As a last-ditch effort, the insurance company alleged Aiyar had not submitted all the documents pertaining to the claim. The Forum refused to believe this, as the claims form showed that all the documents had been submitted while lodging the claim, and, thereafter, the claim had been processed.

Accordingly, by its order dated December 31, 2015, delivered by member S G Chabukswar for the Bench, along with S M Ratnakar, the Forum held that the complaint was maintainable. It ordered the insurance company to pay the balance claim of Rs 42,638, along with interest at nine per cent per annum from February 17, 2011, till payment. Aiyar was also awarded Rs 3,000 as compensation for mental torture and Rs 2,000 for litigation cost.

Source

When a contract of insurance is renewed, such renewal only extends the policy period. The renewal has to be on identical terms and conditions and cannot be unilaterally changed by the insurance company.

General Insurance

Some assurance: How new crop insurance scheme can be a game-changer – 22nd January 2016

That insurance penetration amongst India's farming community is abysmal is a known fact. Out of the gross cropped area of 195.26 million hectares in the country, only 42.82 million hectares or 22 per cent was covered under crop insurance in 2014. While the coverage was higher in some states — especially Rajasthan and also Chhattisgarh, Odisha, Bihar and Karnataka — it was hardly a tenth or less for the likes of Gujarat, West Bengal and Uttar Pradesh (see table).

But the low spread of agricultural insurance — one in every five hectares — isn't the only issue. Equally important is the inadequacy of cover, in terms of the sum insured (SI) or the maximum amount that insurance would pay in the event of crop damage.

According to the Commission for Agricultural Costs and Prices (CACP), the average SI per hectare under the existing national agricultural insurance scheme was just Rs 18,464 (Rs 19,141 in kharif and Rs 16,927 in rabi) in 2013-14. This is way below the gross value of output (GVO) for most crops. Take paddy, where the GVO on an all-India average yield of 36 quintals and minimum support price (MSP) of Rs 1,310/quintal in 2013-14 worked out to Rs 47,160 per hectare. Or tur (arhar), where these numbers stood at 8.5 quintals, Rs 4,300/quintal and Rs 36,550 per hectare, respectively.

If policy claims cannot cover even half of the value of produce when the crop suffers heavy damage, it only shows why farmers aren't really interested in taking insurance protection. And it also explains the poor spread of crop insurance in a country that has experienced five full-fledged drought years (2002, 2004, 2009, 2014 and 2015) in this century alone.

The Narendra Modi government's new Pradhan Mantri Fasal Bima Yojana (PMFBY) promises a departure from the existing crop insurance schemes. These currently cap the premiums at 8-9 per cent of the SI for rabi foodgrains and oilseeds, and at 12-13 per cent for annual commercial and horticulture crops. In the normal course, if the SIs were to be set closer to the GVOs, the actuarial premiums — i.e. based on proper statistical risk assessment — would work out even higher. In this case, the premiums have been lowered simply by keeping the SIs much below GVOs.

The PMFBY, going by what has been notified, removes any artificial capping of the SI, resulting in low claims being paid to farmers. The SI will be calculated by multiplying the MSP of a crop with the average seven-year 'threshold' yield (excluding calamity years) for the particular village panchayat area where it is grown. The premiums would be determined by the SI and not the other way round, as is the case now. Farmers will, however, have to fork out a uniform premium of just 2 per cent for all kharif crops, 1.5 per cent for rabi and 5 per cent for commercial/horticulture crops. The gap between the actuarial premiums and the rates payable by farmers would be fully met by the government. There is no upward limit on government subsidy.

If the scheme is implemented as promised, it will certainly be a significant step forward. But there are a few catches. The first is that PMFBY will be applicable only from the next kharif season, which may well witness a normal monsoon. The fact that it would not benefit farmers today, when they are in the grip of an excruciating drought, may somewhat limit the scheme's political appeal.

Secondly, implementing the scheme in letter and spirit will entail huge premium subsidy outgo, more so in a drought year. The implicit assumption seems to be that if low premiums attract more farmers, the increased insurance penetration and crop area coverage will succeed in driving down actuarial rates, as it has happened with mobile call charges. The CACP reckons the premiums to drop to 3.5 per cent of SI if 50 per cent of India's gross cropped area is insured. On an SI of Rs 50,000 per hectare, this would come to Rs 1,750. For the farmer, the premium cost will be Rs 350 per hectare assuming 80 per cent government subsidy.

Lastly, it's not clear whether and how much of the subsidy burden will have to be borne by the states. What would happen to farmers in states whose governments insist that the tab be fully picked up by the Centre?

On the whole, though, there is a lot to commend about the PMFBY from a farmer's standpoint. If the conditions of low premiums and the SI covering the entire GVO are met — along with quick claim settlements enabled by mobile and satellite technology — it can turn out to be a game-changer for Indian agriculture.

Source

Insurance for crude oil importers from Iran to take time - Business Standard – 20th January 2016

The US has lifted its economic sanctions on Iran. While this is positive from an insurance perspective, some more steps are required before companies can freely take insurance for crude oil imports. G Srinivasan, chairman and managing director of New India Assurance, termed this a positive development given the difficulties Indian insurers used to face to insure refineries importing Iranian crude.

"Now, we will get capacity from reinsurers and even Iranian reinsurers could come forward to provide a cover," he said. In 2013, when Iranian crude importing refineries had to face problems as insurance firms declined to extend full coverage to refiners processing Iranian crude, citing lack of reinsurance coverage.

For this, a Rs 2,000-crore Indian Energy Insurance Pool was proposed to cover the refineries that were importing crude oil from Iran. However, this failed to take off due to the differences in opinion between oil companies and the former government on the size of the cover and pool.

While oil companies were asking for a cover of Rs 9,500-11,000 crore, the government offered only Rs 2,000 crore. Of the Rs 2,000-crore insurance pool, the petroleum ministry was to contribute around Rs 1,000 crore through the Oil Industry Development Board, and the finance ministry another Rs 1,000 crore.State-owned general insurers had also invited their private sector counterparts to be part of this pool, but none of the latter accepted, citing high associated risks.

Now that the US has lifted its sanctions, insurance companies said the demand for covers for crude oil importers would be back. However, they cautioned that only after the United Nations lifts its sanctions will there be availability of reinsurance capacity. A senior general insurance executive said reinsurers from Europe were yet to lift the sanctions and they would do so only after the United Nations does it. Hence, covers will be available only after this.

Indian insurers used to depend on European companies to re-insure their risks. However, with the sanctions on trade with Iran from both the US and the European Union, they had refused to re-insure. Large sized covers like these are only given if the particular insurer or group of insurers has enough reinsurance capacity to deal with the high risks involved in this process.

Source

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Terrorism cover limit hiked to Rs 2,000 crore - Financial Chronicle – 18th January 2016

Domestic companies would be able to buy a higher cover from terrorism pool from next year onwards. National reinsurer General Insurance Corporation (GIC Re), along with others, has decided to increase the cover limits under the terrorism pool from the current limit of Rs 1,500 crore per event per location to Rs 2,000 crore.

Speaking to FC, K Sanath Kumar, acting chairman cum managing director, GIC Re, said, "We have proposed to increase the capacity of the terrorism pool from Rs 1,500 crore to Rs 2,000 crore per event per location. The pool may offer up to Rs 2,000 crore from the next financial year. This will take some months because each

member of the pool will have to take the proposal to its board. In addition, we also require approval from the insurance regulator." "Companies can take a terrorism cover of Rs 2,000 crore in India from the pool but if they want a much higher cover, they have to take it from reinsurers abroad," he added

The terror pool cover limit was last increased in April 2014 from Rs 1,000 crore to Rs 1,500 crore per event. Besides premium rates were also lowered. The Indian market terrorism risk insurance pool (terrorism pool) has largely remained claims-free since the last terror attacks in Mumbai in November 2008. Kumar said that there is no current proposal to bring down the premium rates under the terrorism insurance pool.

After the 9/11 attacks in 2001 in US, international reinsurers had stopped covering any losses on account of terror attacks. To ensure continuity of cover, all non-life insurers in India, along with the GIC Re, established the terrorism pool in 2002 to cover the property damage and consequential loss arising out of terror strikes. The pool is administered by GIC Re and it enables non-life insurance companies to provide insurance cover against terrorism risk in India on the combined underwriting capacity of members and GIC Re.

The terrorism pool covers only the property damage and consequential loss arising out of any terror strike. Under the pool arrangement, an act of terrorism is an act that involves the use of force or violence by any person(s), whether acting alone or on behalf of any organisation, committed for political, religious, ideological or similar purpose.

However, any loss or damage resulting from the action taken in controlling, preventing or suppressing any act of terrorism is not covered under the policy. Besides, terrorism claims arising from other lines of insurance like personal accident, life insurance, health insurance, public liability are not covered by the terrorism pool.

Source

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Coming, an exclusive insurer for Indian ships - The Hindu Business Line – 17th January 2016

To reduce the insurance cost of Indian ship-owners, the Centre plans to get the four public sector general insurers to float a new joint venture. The venture will exclusively provide cover to ships operating in Indian and South Asian waters.

The Shipping Ministry is spearheading the move to set up the company. A draft plan has been prepared and is being vetted by various ministries. The proposed company will be launched in the next fiscal year by the four PSU general insurers (New India Assurance, United India Insurance, National Insurance Company, and Oriental Insurance Company), said a senior Shipping Ministry official.

The move is in keeping with the government's 'Make in India' campaign. It will save precious foreign exchange that shipping companies pay to get insurance cover from overseas insurers. Crucial insurance covers such as Protection and Indemnity (P&I) will be offered to shipping companies by the Indian insurer at premiums that will be much lower than current global averages.

P&I is a third-party-liability insurance for ship owners, operators and companies that charter ships. The insurance covers their legal liability in the event of a crew member getting injured or dying in an accident. It also covers collision, wreck removal, marine pollution, stowaways, cargo damage and fines levied by foreign governments or port authorities.

The genesis

The official told BusinessLine that Indian shipping companies spend huge sums (in foreign currency) on buying insurance cover, especially under P&I. When the 'Make in India' ideation happened in the ministry, the outgo of foreign exchange was also discussed.

If Indian companies can insure domestic satellites, then why can't they do the same for ships, the official said. The official pointed out that public sector oil marketing companies collectively pay about ₹590 crore as demurrage charges every year. This is for the delays in evacuating crude oil from tankers in Indian waters. These charges could be handled by the Indian insurance company.

Globally, P&I insurance requirements are handled through a P&I Club and not an insurance company. This arrangement has been in vogue since the 1870s. If a ship-owner or a charterer requires P&I insurance for a ship, he contacts a P&I Club. In such a club, members contribute to the club's common risk pool according to the Pooling Agreement rules. The insurance cover is offered from the common pool.

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Reinsurance

Irdai tightens norms for cross-border re-insurers - Business Standard – 20th January 2016

Insurance Regulatory and Development Authority of India (Irdai) has tightened norms for cross-border re-insurers (CBR) operating in India. It has said that the CBR should have credit rating of at least BBB (with Standard & Poor's) or equivalent for the past five years. CBR means those re-insurers that do not have any physical presence in India and do re-insurance business with Indian insurance/re-insurance companies.

The regulator said the CBR planning to write re-insurance business should file its information sheet before transacting re-insurance business with any of the Indian insurance/re-insurance firms for the financial year. It said insurers have to do due diligence, scrutinise documents and ensure compliance with the criteria prescribed in these rules.

Source

IRDAI Circular

Source — IRDAI uploaded first year premium of life insurers for the period ended 31st December, 2015.

Source — IRDAI released exposure draft Insurance Regulatory and Development Authority of India (Health Insurance) Regulations, 2016.

Source — IRDAI issued guidelines on cross border reinsurers to all CEOs/CMDs/Incharges of General Insurance Companies/Standalone Health Insurers/GIC Re/ Exempted Insurers/Foreign Reinsurance Branch offices/Reinsurance Brokers.

Source — IRDAI issued circular for approach in case of non-compliance of IRDAs (lnsurance Broker) Reguations, 2015 to CEOs/ Principal Officers of All lnsurance Broking Companies.

Source — IRDAI issued status of Insurance Brokers (As on 31st December, 2015).

Source — IRDAI issued terms and conditions of life products for F.Y. 2015-16.

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Global News

China: Smaller life insurers more vulnerable to stock market rout – Asia Insurance Review – 15th January 2016

Small- and medium-sized Chinese life insurers are more vulnerable to potentially significant unrealized investment losses following the sharp decline of the stock market in China, Fitch Ratings says.

Smaller life insurers generally have more aggressive risk appetites compared with their larger counterparts. The smaller companies are also more reliant on bancassurance channels due to smaller agency distribution networks, and they face intense competition from peers and banking products.

Many smaller insurers concentrate on low-margin savings-type products with short durations, such as single-premium universal life policies.

They often pursue high investment returns to offer attractive rates to policy holders (generally between 4% and 6.5% and occasionally up to 8% from some small insurers, compared with a three-year deposit rate of 2.75%) and to generate interest spreads for profits, resulting in greater exposure to equities compared with large insurers. Some insurers allocate more than five times their shareholders' equity to equity investments.

The short durations of their insurance liabilities might lead them to dispose of some of their investments at unfavourable prices.

Large insurers

Fitch believes that the impact of recent stock market correction in China remains manageable for large life insurers. More conservative asset allocations with bigger shares of long-duration insurance policies should make them more resilient to stock market volatility.

The 3Q15 results of four listed insurers and insurance groups - China Life Insurance, Ping An Insurance (Group) Company of China, China Pacific Insurance (Group), and New China Life Insurance - showed their capital positions remained intact.

Their shareholders' equity decreased by less than 10% in 3Q15 despite the 29% drop in the Shanghai Composite Index. This resilience may be attributed to their dynamic asset management, which reduced equity exposure. Continuing premium inflows and flexibility to reduce policyholders' payments also cushion the impact of a volatile stock market, says Fitch.

Source

Thailand: Licencing rules to ease for life and non-life insurance businesses – e-daily Asia Insurance Review – 19th January, 2016

Thailand will soon allow freer foreign investment in four business areas: life insurance, non-life insurance, commercial banks, and representative offices of foreign banks. Foreign investors in these sectors in Thailand will no longer need to seek a licence from the Foreign Business Act (FBA) committee to hold stakes of more than 50%, when they are removed from the list of businesses requiring such permission. The objective of this move is to promote competition, particularly in commercial banking and insurance services, and support investment in the country. The Council of State has vetted the Commerce Ministry's draft regulations designed to remove these business from the list and the draft will soon be sent to the Cabinet, reported The Nation newspaper. The relaxation will take effect once the changes are officially published in the Royal Gazette.

The Cabinet agreed in principle last May that the four business types should be removed from the list, known as List 3, which stipulates the group of businesses in which Thais are deemed not ready to compete with foreigners. The FBA obliges foreign investors wanting to own more than 50% in business types in the list to seek approval from the FBA committee.

Ms Pongpun Gearaviriyapun, Director-General of the Commerce Ministry's Business Development Department, said that after the new regulations take effect, foreign investors can directly apply for an operating licence from the authorities or regulators of these four businesses, such as the Bank of Thailand, or the Office of Insurance Commission. Currently, they have to seek the FBA committee's approval first and then approach the regulators. "This will help improve the ease of doing business in Thailand and make the country the centre of banking and insurance in ASEAN," Ms Pongpun said. As of 31 December 2015, 11 foreign banks are approved to carry out business under the FBA. Also, nine foreign bank representative offices, two foreign life insurance and six non-life insurance companies currently operate under the FBA.

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China: Sports insurance policy to protect Shanghai schools – e-daily-Asia Insurance Review – 20th January, 2016

Eighty percent of all primary and secondary schools in Shanghai have signed up to a new insurance scheme created by the city's Education Commission in association with China Life, the country's biggest life insurer. The insurance plan will pay out in the event of children being injured while engaged in sport at school, reported the Shanghai Daily.

The scheme is principally designed to give schools more confidence to hold “vigorous or competitive” sporting events without fear of litigation by parents, said Mr Ding Li, director of the Sport, Health and Arts Department at the Shanghai Education Commission.

“Shanghai has been encouraging schools to promote physical exercise and sporting activities, such as requiring all children take part in at least one hour of physical activity per day,” he said. “But the existing insurance system did not provide sufficient cover for an enhanced sporting curriculum.”

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Japan: Postal insurer to move into reinsurance – e-daily- Asia Insurance Review – 21st January, 2016

Japan Post Insurance has applied for approval to enter the reinsurance business, as part of an effort to diversify its sources of earnings.

The company has filed an application with the Ministry of Internal Affairs and Communications and the Financial Services Agency to reinsure other insurers' policies sold at post offices, reported The Nikkei. These include term insurance for corporate managers that is offered by Nippon Life Insurance, Dai-Ichi Life Insurance and six other big players, as well as cancer policies from American Family Life Assurance (Aflac).

Japan Post Insurance will decide whether to reinsure such policies based on individual negotiations with providers. The new business is also seen reducing payout risks, now concentrated in the mainstay endowment and whole-life insurance operations. Reinsuring against cancer and other risks would help curb the risk of having to make large lump-sum payouts.

The government's postal privatization committee said in a December report that deregulation to let Japan Post Insurance launch reinsurance business should be a priority.

Source

The insurer has also filed for approval to offer existing customers free telephone consultations on medical care, eldercare and tax issues.