



# Insurance Institute of India

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## INSUNEWS

- Weekly e-Newsletter

2<sup>nd</sup> - 8<sup>th</sup> December 2016

### • Quote for the Week •

**"Most of us spend too much time on what is urgent and not enough time on what important."**

**- Dr. Stephen R Covey**

### Insurance Industry

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#### ***Filling long-time vacancies: FinMin interviews candidates for top posts of 4 PSU insurers - The Indian Express - 6th December, 2016***

The Ministry of Finance has finally completed the interviews for the post of two managing directors of Life Insurance Corporation and three top posts of public sector general insurance companies — United India Insurance, Oriental Insurance and Agriculture Insurance Company.

The four public sector insurers have been functioning without a full-time chairman for the last several months. The finance ministry had gone ahead with the interviews for the two managing director posts before announcing the results of the interviews for selecting chairman and one managing director post of Life Insurance Corporation which was conducted earlier.

Earlier, the finance ministry had conducted a similar exercise for the chairmanship and one MD post of LIC, the largest financial institution in the country with assets of around Rs 20 lakh crore, but it's yet to announce the names. In September, LIC managing director V K Sharma, who is the top contender for the chairman's post, took additional charge as chairman, replacing S K Roy who was relieved of his duties. Roy resigned in June, nearly two years ahead of his retirement. In the second round of interview for selecting the two MDs, only Hemant Bhargava, Zonal Chief, North India was not called and thus giving rise to speculation that he has been selected from the first round of interview.

However, for the second round of interviews recently, the ministry changed the members of the panel which conducted the interviews for selecting the chairman and one MD. A former LIC official — now with a private sector company — who was in the panel for the first round of interview, was dropped from the panel that conducted the second round of interview.

He was apparently dropped as his company had business relationship with the LIC and competes with other reinsurance major including GIC Re to bag reinsurance deals from the life reinsurance behemoth, raising the issue of conflict of interest. "The presence of three private sector officials who were earlier with PSU insurance companies in the selection committee is surprising," said an insurance source.

The members of the selection panel included IRDAI chairman TS Vijayan, DFS secretary Anjali Chibb Duggal, DoPT Secretary BP Sharma, Bhargava, an actuary who was with LIC, former IRDAI Member Mathew Varghese and former LIC chairman GN Bajpai.

After PJ Joseph left Agriculture Insurance Company and joined insurance regulator IRDA as Whole-time Director (life) in March this year, RN Dubey, Economic Advisor, Department of Financial Services, was holding charge as Chairman of the agri insurance company. United India Insurance is also headless after its chairman Milind Kharat retired in May. AK Saxena of Oriental Insurance retired in June.

Source

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## Insurance Regulation

### *IRDA allows insurers to invest in additional tier 1 bonds - Mint – 2nd December, 2016*

The insurance regulator allowed insurers on Wednesday to invest in so-called additional tier 1 (AT1) bonds sold by banks, but the stiff terms set by the regulator mean many banks won't be able to make the grade.

AT1 bonds are perpetual bonds with debt-like and equity-like features issued by banks to augment their tier 1 capital.

Insurance firms can invest in AT1 bonds of only those banks with at least an 'AA' rating, according to an Insurance Regulatory and Development Authority of India (IRDA) circular on 30 November.

Also, insurers won't be able to invest more than 10% in any such issue, nor can they invest in banks which haven't declared dividend in the last two years.

Insurers must also ensure that banks' Common Equity Tier 1 (CET 1) capital—including the capital conservation buffer of banks—is 1% more than the prescribed minimum CET 1 capital, the circular added.

According to RBI regulations, banks must have CET 1 capital of 6.12% by March 2016 and 6.75% by March 2017. This, along with a capital conservation buffer of 1.5%, will take CET of banks to 7.625% and 8.25%, respectively.

Since these are perpetual bonds with an equity element, AT1 bonds will form part of equity investments of insurers in banks, currently capped at 15% of total investments.

Insurers also cannot invest in bonds sold by banks which come under the same promoter group or act as corporate agents of the insurer.

Bankers welcomed the move, but said the regulations limit the number of banks eligible to attract investments.

"AT1 bonds are privately placed with a single investor currently. But the new regulations demand that these bonds be listed on exchanges and insurance companies invest only 10%, which would mean that banks have to call for bidding from several investors and do a price discovery for these bonds," said N.S. Venkatesh, executive director at Lakshmi Vilas Bank.

Under the new regulations, only State Bank of India (SBI) and Union Bank of India among public sector banks will be eligible to sell these bonds to insurers.

Private sector banks are in a better position.

So far this year, state-run banks have raised Rs24,000 crore via these bonds in the domestic market; SBI has raised Rs500 crore via an international issuance.

"The regulation is a step in the right direction. But it wants to ensure that insurance companies invest in bond issuances of stronger players since these are risky instruments. These regulations will allow banks to have new set of investors in AT1 bonds," said Karthik Srinivasan, senior vice president, at ratings company ICRA Ltd.

ICRA had issued a warning in August this year that many state-run banks face the risk of default on coupon repayments on AT1 bonds due to the mounting losses and fall in revenue reserves. While 13 out of 21 PSU banks reported losses last year, this year too saw seven banks reporting losses in the first quarter and five in the second quarter.

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## Health Insurance

### *Insurance cover up, but medical expenses push more into poverty - The Times of India (Delhi) - 3rd December, 2016*

#### **Private Out-Of-Pocket Spending Comprises 67% Of Total Health Outgo**

Increased insurance coverage in India has not led to any reduction in the numbers of those being impoverished by healthcare expenditure or 'catastrophic health spending', the two main objectives of health insurance, a study has found. In fact, households with catastrophic health expenditures have risen significantly across both rural

and urban India between 2004 and 2014, a time when insurance coverage rose from about 1% to 15% of the population.

This was revealed by Brookings India, a policy think tank, which brought out a report based on a study of health expenditure data from the National Sample Surveys of 2004 and 2014.

Catastrophic health expenditure is defined as households spending over a certain proportion of their income on this head. The study considered three thresholds -15%, 25% and 40% -and the conclusion was the same in each case.

“Expansion of health insurance was a policy priority during this period and most of the increase in coverage happened because of public insurance. Yet catastrophic expenditures have risen significantly, especially for urban households. And the overall percentage of Indian households that fell below the poverty line due to out-of-pocket health expenses remained unchanged at 7% over the ten years. Is it because of the way insurance companies function or because people are unaware of what insurance coverage can provide them? We need to study why this is so,” said Dr Shamika Ravi of Brookings India, the lead author of the report. Dr Srinath Reddy, president of the Public Health Foundation of India, pointed out that the percentage of households impoverished by health expenses remaining unchanged at 7% meant a huge increase in the number of such households (from about 77 million in 2004 to over 88 million in 2014, due to the rise in population). That's like a population larger than Germany's (just over 80 million) being pushed into poverty because of health expenses.

Dr Ravi said that increased insurance coverage appears to have increased access to hospitalised care. However, Dr Reddy pointed out that if the government was paying for the services through greater public health insurance coverage, there ought to be more accountability, without which a patient going to a private hospital could be subjected to “induced care” and treated as an ATM.

He said hospitals tended to focus more on making money.

The study showed that private out-of-pocket expenditures comprised 67% of total health expenditure in India, which included private and government expenditure. This is one of the highest levels in the world. “What is heartening is that the OOP burden has fallen marginally in the 10 years from 2004, when it was above 70%,” stated the study. It showed that most of the rise in out-of-pocket expenditure was due to the rise in in-patient spending and not out-patient spending.

#### Source

The report also noted a “worrying” aspect, which was that in the rural areas, out-of-pocket spending by rich has remained constant, but that by the poorest 20% has risen by 77%. This despite the poor being the target of most health insurance schemes.

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#### Circular

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*Insurance Marketing firms*

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#### Global

***UAE: Regulator proposes “game-changing” life insurance rules – AIR-Middle East – 6th December, 2016***

The UAE Insurance Authority (IA) has issued draft regulations for life insurance and family takaful business that, among other measures, ban upfront commissions and cross-subsidisation of the costs of multiple sales channels.

In a statement, IA said that it had carried out a study of the current market practices with respect to distribution channel compensation, charges on products as well as disclosures in place in the market.

The IA said that the study revealed that “both the conventional and takaful operators charge heavy commissions and upfront fees to policyholders which are perceived to provide poor policy value to customers in the early years of the policy.



“This is in addition to poor disclosures in place that do not meet global best practices.

“The IA has also noticed an alarming amount of complaints from the policyholders that they are provided with no value if they surrender in the early years of the policy.”

### **Proposed regulatory changes**

International law firm Clyde & Co said that the proposed regulations would be “potentially game-changing” for the UAE’s life insurance industry. It said: “The Life Regulations have the potential to fundamentally change the way life products are priced and sold in the UAE, and represent a long overdue move to regulate the manner in which life insurance investment contracts have been sold and marketed in the UAE.”

Clyde & Co summarises the proposed changes as follows:

- Ban on indemnity commission;
- Cap on commissions payable for savings, term, short-term and bancassurance life products;
- Minimum death benefits;
- A 20 working-day 'free look period' following purchase; and
- Compulsory disclosure regime setting out detailed requirements around commission and fees disclosure as well as product performance criteria.

### **Distribution**

Clyde & Co says that the IA's proposal to restrict the ability of insurers to cross-subsidise distribution channels “represents a particularly burdensome obligation on insurers as presumably they would have to be able to break down expenses on a per-distribution channel basis, which could be near impossible given the various costs incurred on a business-wide basis”.

As an alternative, this provision could be limited to only applying to commissions across distribution channels rather than general expenses of the insurer, says the law firm.

### **Disclosure**

Under the proposed regulations, customers must be given comprehensive disclosure from the outset with product Illustrations providing an itemisation of all fees and charges payable for the life of the policy (ie premium, commission, surrender charges, administration fees, investment management/fund management fees etc).

A minimum of two scenarios of the performance of the product must be provided; and importantly these projections must not use a rate of return greater than EIBOR +3% and one of them must show performance based on a 0% return. Customers must then sign a declaration to the effect that they have received the Illustration and understand that the performance is subject to change.

### **Minimum protection**

The draft regulations also stipulate the minimum protection benefits for policyholders. The IA said: “Currently, some of the life insurance policies are sold at 101% of cash value, that means only 1% additional death benefit is provided to the customer. These policies are sold as life insurance policies whereas the actual cover provided is minimal.”

The minimum protection benefits being proposed are:

- 25% for those below 45 years old and 10% for those aged over 45 single-premium products: and
- 10 times annualised premium for those below 45 years old and seven times for those aged over 45 for regular premium products.

The insurance industry had been given a two-week period ended 30 November within which to submit feedback on the proposed regulations.

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### ***HK:Govt axes high-risk patients from proposed health plan for now – edaily AIR – 5th December, 2016***

The government has suspended two controversial features in the planned voluntary health insurance scheme in the face of resistance from insurers. The move means that insurers will not have to cover high-risk patients or guarantee to cover anyone regardless of the person's age or condition.

Secretary for Food and Health Dr Ko Wing-man said: "We realised that guaranteed acceptance and the high-risk pool are the more difficult parts of the voluntary health insurance scheme."

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Under the original proposal, all health insurance policies would have to meet 12 minimum requirements to provide consumer protection and sustainability. High-risk coverage was not one of these, but it was necessary to guarantee acceptance. Also dropped temporarily was a requirement that all policies be portable.

With the insurance sector supportive of the remaining 10 features, Dr Ko said the easier features could proceed first and he expected the measures to be in place next year, reported the South China Morning Post.

"Our current direction will be working with the Insurance Authority, which will release guidelines to the insurance sector to comply with the 10 minimum requirements," he said.

Lawmaker Dr Pierre Chan who represents the medical sector said that the decision would make the insurance scheme less attractive.

Mr Alex Lam Chi-yau, chairman of Hong Kong Patients' Voices, said the scheme would "no longer exist" without the high-risk coverage, which was a key element of the original plan.

#### **Source**

But Dr Ko said that the government would not give up on the two suspended features. He expected it would take at least two to three years to implement coverage for high-risk patients.

The idea of the voluntary scheme is to reduce the burden on the public healthcare system by encouraging the middle class to switch to the private sector.

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### ***Global:Insurance regulators establish sustainability forum – edaily AIR – 8th December, 2016***

A new international network of insurance regulators and supervisors has been launched to promote cooperation on critical sustainable insurance challenges, such as climate change.

Held in San Francisco earlier this week, the first meeting of the Sustainable Insurance Forum included insurance supervisors and regulators from Brazil, California, France, Ghana, Jamaica, Morocco, the Netherlands, Singapore and the UK, as well as the International Association of Insurance Supervisors, said a statement from the UN Environment Programme which co-hosted the meeting with the California Department of Insurance.

The insurance sector is pivotal to an effective response to sustainable development. This includes providing coverage against natural disasters as well as integrating environmental, social and governance (ESG) factors into the management of their assets.

Increasingly, insurance regulators and supervisors are exploring how these factors impact upon their goals of ensuring the safety, soundness and accountability of the sector. For the first time, the Forum provides an international platform for insurance regulatory and supervisory bodies to share experience and explore common approaches.

California's Insurance Commissioner Dave Jones said: "Insurance regulators have an important role to ensure that critical sustainability risks and opportunities are effectively managed. The new Forum will enable supervisors to learn from each other and take common action against shared threats to the insurance sector such as climate change."

UN Environment's Assistant Secretary General Elliott Harris said: "Insurance is one of the pivotal sectors underpinning the transition to sustainable development. As part of this, regulators and supervisors will play a vital role and UN Environment is delighted to be the secretariat for the new Forum."

UN Environment will provide the Forum's secretariat. UN Environment is home for the Principles for Sustainable Insurance, which provides a structured framework for insurance companies to integrate ESG factors into their operations.

#### Source

The San Francisco meeting approved the Forum's first-year work programme for 2017, including a focus on disclosure, access to insurance, sustainable insurance roadmaps, climate risk, disaster risk reduction and capacity building for supervisors.

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#### *UAE: Insurance Authority enforces pricing review – MEIR edaily – 8th December, 2016*

The UAE Insurance Authority (IA) has requested insurance companies in the country to complete their insurance pricing review or underwriting performance evaluation for all property and liability insurance branches by 1 March next year.

The regulator has issued a number of instructions that should be followed in actuarial reports related to the review, reported Emirates Today. Insurers have been asked to state the basis relied upon in determining their prices.

Last year, the IA issued regulations requiring insurance companies operating in the country to appoint an actuary, registered with the regulator. The actuary has to review and approve technical provisions. The goal is to price property and other insurance policies including motor insurance covering theft, own damage and third-party liability. This aims to stamp out fierce price undercutting in the market that has led to losses for insurers.

#### Source

Around 60 insurance companies operate in the UAE market.

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