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INSUNEWS

- Weekly e-Newsletter

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● Quote for the Week ●

"Do the hard jobs first. The easy jobs will take care of themselves. "

–Dale Carnegie

INSIDE THE ISSUE

Insurance Industry

Indian Accounting Standards: Insurers seek clarity on many issues as deadline nears – The Economic Times – 8th January, 2017

Even as the insurance industry is racing against time to comply with the Indian Accounting Standards (Ind-AS) from April, they point out some concern, particularly in regard to taxes that need to be addressed before the deadline by the insurance regulator Irda.

Various industry players and sectoral experts cite taxation issue as the most teething concern coupled with the impact on solvency, determining free reserves, measuring investment property as well as the fair value accounting which can create volatility.

Considering the short window, insurers have set up committees internally to ensure that the new accounting standard is implemented within the stipulated timeframe.

While the new reporting system becomes mandatory only from April 2018, the Irdai (Insurance Regulatory & Development Authority of India) has asked insurers to submit their accounts in the new format from the December quarter onwards.

It can be noted that in November, 2015, Irdai had asked the industry to converge their reporting with international financial reporting standard (IFRS). Following this, the Corporate Affairs Ministry asked Irdai to prepare a roadmap for Ind-AS adoption from April, 2018.

After this, to ensure smooth rollout, the Irdai set up an implementation group on the issue under the chairmanship of Irdai member V R Iyer.

Sai Venkateshwaran of KPMG India said before forcing the rollout, the ministry and regulator should to work together and take into account the recommendations of the implementation group and make suitable amendments to the regulations or even Ind-As standards.

The areas that need special attention are the impact on solvency, determination of free reserves, measurement of investment property, he said.

On the other hand, insurers claim they are fully prepared for the rollout of the new accounting standards despite these issues.

"We are fully prepared for implementation of new accounting standards, but still there are a few areas requiring clarification. Yet we are confident that Irdai would provide necessary support to ensure smooth implementation," New India Assurance chairman G Srinivasan told PTI.

"Fair value accounting could create volatility for a company if it has large exposure to equities. We hope to get some time and special dispensation from the regulator to tide over this matter," he added.

Srinivasan also pointed out that there is no clarity on taxation as yet and he hopes that insurers will not be made to pay tax on unrealised profit.

Private sector SBI Life, currently preparing for an IPO, has internally formed a committee for the implementation of the new accounting norms.

"We have set up an internal committee under the CFO, with the chief actuary and head of risks as members, for implementation of Ind-AS," chief executive Arijit Basu said.

He, however, maintained that sending of financial report on a trial basis will happen only by March.

Basu said he does not see the Ind-AS implementation hitting the balance sheet and said his company is already following prudential risk management norms with better mortality, low expense ratio and good pricing norms. Non-life player SBI General has also formed a committee internally for this.

"We have appointed an external consultant to manage the implementation project and effective transition from the current accounting practice," its SVP and CFO Rikhil Shah said, adding, "fair valuation of investments will increase the balance sheet size."

Major impact of Ind-AS on the balance sheet of a non- life insurer will be on its investment portfolios, he said. According to Saha, the option and the decision with respect to valuation of investment will depend on how the business is managed and cash flows will be factored in.

Source

"After a preliminary assessment, we feel that fair valuation of investments will increase the balance sheet size," he said.

Back

Start-ups may soon be able to access insurance, pension funds – The Hindu – 9th January, 2017

The Centre will soon hold discussions with insurance and pension regulators on a proposal to enable pension funds, and insurance companies such as LIC to invest in start-ups.

It also said that online sale of medicines was allowed under the existing law and the Health Ministry would soon issue a clarification in this regard.

Stating that the Department of Industrial Policy and Promotion (DIPP), the nodal government agency on the start-up policy, had held "preliminary discussions" on the proposal of insurance and pension funds investing in start-ups, DIPP Secretary Ramesh Abhishek told reporters that further discussions would be held soon with regulators and stakeholders.

"The pension and insurance funds manage their risks in their own way. So, to do that (investing in start-ups), they have to do a reassessment of risks."

The department convened a meeting with start-ups as well as incubators and accelerators (those assisting start-ups to mature and scale up) on Monday, which was attended by Commerce & Industry Minister Nirmala Sitharaman and Mr. Abhishek, among others. On other issues, Mr. Abhishek said DIPP was also in talks with the Health Ministry on issuing a clarification under the Drugs and Cosmetics Act to boost the e-pharmacy business. Ms. Sitharaman said the e-pharmacy players had met her recently in this regard.

Another issue that came up for discussion was the hardships that some 'not-for-profit'/'non-profit' start-ups/incubators in the 'social impact' segment are facing in obtaining and utilising funds from foreign sources.

They have sought clarity on norms under the Foreign Contribution (Regulation) Act (FCRA) and the Income Tax Act.

Currently, as per the FCRA, they have to explain that the funds received from foreign sources and the income earned from businesses are not linked to 'speculative activities' (including those related to investments in stock markets).

Other issues discussed included the need for review of 'archaic' laws such as the Indian Societies Registration Act of 1860 to ensure they are either updated or done away with so that they do not hinder the start-up ecosystem. To ensure greater engagement between the financiers, mentors, start-ups and regulators, there will also be a meeting soon between SIDBI, the DIPP, leading venture capital funds, incubators and accelerators, Ms. Sitharaman said.

Source

On a query about establishing a ₹2,000-crore credit guarantee fund for entrepreneurs, Mr. Abhishek said the DIPP would soon approach the Cabinet for its nod.

Back

Employers urged to register workers under social security net – The Hindu – Business Line – 11th January, 2017

Employers should use the ongoing amnesty scheme for EPF and ESIC to ensure all their workers are registered under the social security net, urged M Sathiyavathy, Secretary, Union Labour Ministry.

She said this is an opportunity for the employers to regularise their workforce without any concern about previous dues. The scheme is open till March 31. The registration will bring in benefits, such as assured minimum wages and coverage under social security net for healthcare and retirement benefits, she said at the Regional Conference of State Labour Ministers and Secretaries here on Wednesday.

The benefits are beginning to show with over 1,400 establishments being registered afresh and over 1 lakh new employees registered under the social security net in the Southern region alone, following the amnesty scheme. Minimum wages have been enhanced, the Model Shops and Establishments Act is providing for the employment of women in night shifts with adequate security facilities, and businesses will find it easier as the number of registers and forms are being brought down to 5 from 56, she said.

Minister of State for Labour Bandaru Dattatreya said the Centre's Shram Suvidha portal is a major e-governance initiative that serves as a one-point contact for employers, employees and regulatory and enforcement authorities to interact in a transparent manner.

Source

The 43 labour laws are being codified under four heads — wages, social security, industrial relations, and health and safety. These will be finalised in the coming months.

Back

Motor, health cover premium set to go up – Mint – 6th January, 2017

Due to their front-loaded structure, distribution incentives in life insurance are a hotly debated topic: the agent gets a fat chunk of your premium money in the first year, which may leave little incentive to service the policy for long term. But in the non-life space—which comprises health, home and car insurance—the commissions are level. You pay a fixed percentage of the premium every year to your distributor. And from April, you will pay more. In health insurance, you will end up paying more in the form of rewards, that are over and above commissions. And motor insurance commissions have gone up, in addition to the rewards.

We take you through the big changes in distributor commissions in health and motor insurance and how it may impact you.

Health insurance

You pay up to 15% of the annual premium to an agent and up to 17.5% to an insurance broker in the case of health insurance. This commission is embedded in the premium that you pay. But going forward, the commission is capped at 15% for agents as well as brokers. The new rules don't distinguish between brokers and agents as far as incentives are concerned.

To encourage distributors to clock in more sale, the new rules allow insurers to pay rewards, over the commissions. Other than agents, insurance intermediaries — such as brokers, Web aggregators and corporate agents — whose revenue is 50% or more from insurance are entitled to rewards. As per the rules, rewards can't be more than 30% of commission or remuneration paid to insurance agents or insurance intermediaries. This effectively takes the payout to 19.5%. "The new regulations surely offer much more leeway for insurers to attract more business and pay the intermediaries based on cost of acquisition. But I don't think this will lead to any increase in premiums as the costs of acquiring a customer is not fundamentally changing," said Deepak Yohannan, founder and chief executive officer, myinsuranceclub.com, an insurance web aggregator.

The commissions, however, could impact group health business. In case of group health insurance policies, where the employer buys health insurance for its employees, the commissions have been capped at 7.5% from 17.5% currently for brokers. Some consider this to be positive, given that group health insurance has seen a lot of uptake and the pressure on price needs commissions to be low. But according to Kapil Mehta, co-founder, SecureNow Insurance Broker Pvt. Ltd, this may impact small companies seeking group covers. "Even today, the public sector insurers restrict commissions to 7.5%, while the private sector pays up to 17.5%. It's the public sector insurers that are under the pricing strain, and suffering large underwriting losses. But given that they already pay 7.5%, a *reduction will not help. It is the smaller companies that bought primarily from the private sector, which will suffer because distributors will not be focused on them any more," he said.*

Source

Other than this, the regulations have also set commission ceilings for new products as mentioned in the Health Insurance Regulations 2016. For instance, insurers can now offer credit-linked health insurance up to a 5-year term. These are policies that cover your loan against medical conditions that impair your ability to repay. Accordingly, the commission payable on this policy has been capped at 15%.

Motor insurance

While the rules have not changed the commissions in health insurance significantly, they have gone up for motor insurance. In the case of packaged policies, the commissions have gone up from 10% to 15%. A packaged or a comprehensive policy includes third-party insurance, it covers damage to life or property of a third person by the insured vehicle, own damage cover that insures your vehicles against theft or damage and it may also include personal accident insurance for owner and driver.

Other than the hike in commissions, a reward of up to 30% adds up to a total pay-out of 19.5%. But the commission has to be calculated and paid only on the own damage portion of the premium. "At the time of buying a vehicle, the dealer sells comprehensive motor insurance, so insurance in the first year is not so much of a problem. But at the time of renewal there can be drop-outs.... A hike in commission will encourage distributors to ensure that policyholders renew policies," said a senior executive who didn't want to be named.

Even if you buy just the third-party cover—which is mandatory for all plying vehicles—there is a commissions of 2.5% of the premium. "There was no commission earlier on stand-alone third-party premiums. The idea of paying an incentive is to make sure that there are no supply constraints, however the tariff is declared by the regulator every year, so for the next year the new rates should factor in the commission," added the executive. But this may impact pricing. "Motor insurance is a loss-making portfolio as third-party rates are tariffed. With the increase in commission for motor insurance, they will face more pricing pressure and are likely to push for premium increases or discount reductions. While the premium increases will take time, discounts can be reduced immediately," added Mehta.

The new rules may not impact premiums significantly in the case of health insurance, however in the case of motor insurance you may see some hike. So does going online help? "Buying a policy online definitely helps as it offers convenience, but in the non-life space there is no price difference currently between online and offline policies, as insurers don't file a separate product for online sale," said Yohannan.

Back

General Insurance

General insurers vote against change of rule in favour of foreign players – The Economic Times – 11th January, 2017

On the morning of January 5, all general insurers in the country mustered the courage to meet at The Cricket Club of India in Mumbai to vote against a new rule which the government is pushing through and the regulator is reluctant to change.

The insurers fear that the new regulation - which gives foreign reinsurers the first right of refusal in obtaining business in India — would push up insurance premium, throttle competition and concentrate risks. In a nutshell, it would pinch policyholders as well hurt the bottom line of local insurance companies.

"The participants overwhelmingly voted in opposing the regulation. We have now taken it up with the IRDA," said the CEO of a large insurance firm. IRDA, or The Insurance Regulatory & Development Authority of India is the industry watchdog.

The rule in question relates to the special right given to foreign reinsurers who open shop in India. In order to minimise risk, insurance companies buy covers (or insurance) from reinsurers with larger capital base. While *the government's decision to open the doors to international reinsurers and make India a reinsurance hub, they are challenging the first right of refusal that these global firms would enjoy.*

While buying a cover domestic insurance companies, according to the new rule, will have to first approach global reinsurers who set up shop in India, unlike the current practice where they fish around the globe for the best rate from hundreds of reinsurers. Also, if they refuse to accept the rate offered by a global reinsurer branch in India and find a better one from an offshore reinsurer, then the former has to be given the chance to match it.

"This could be time-consuming. It's certainly anti-competitive... Less than 10% of the participants voted in favour of the rule, and even those who did were largely representatives of insurance JVs having an international reinsurer as a foreign partner," said another person who attended the meeting. "Brazil is the only market where foreign insurers have such a right. Internationally it's considered to be a flawed structure. Singapore offers some tax incentive but no special right," said a senior official with an insurance intermediary.

According to person familiar with the developments leading to the policy formulation, a senior official of a French reinsurer had actively lobbied with the finance ministry to extract the benefit of first right of refusal.

"Reinsurance is a complex subject. The ministry may not have fully grasped the implications. The assurance that premium paid to reinsurers would remain within the country may have appealed to the ministry. But the downsides are far too many. Today, insurers shop around the world from 300 reinsurers to spread the cover, mitigate risk, and minimise cost. But a special right could tie them down with less than 10 companies which open branches here. It would discourage innovation and worsen client servicing," said the person.

Till foreign reinsurers were allowed to open branch offices, the only way they could enter India was through equity participation of up to 26 equity stake in JVs. Reinsurance being a capital intensive business, no one did. "Now that they have been allowed to set up branches, they have persuaded the government for a special right. We don't know whether IRDA would review the rule. But interestingly, the IRDA draft proposal states that the amendment is "based on the advice received from the government,"" said an advisor to the industry.

Source

IRDA has given license to leading reinsurers such as Munich Re, Swiss Re, Scor, Hannover Re, RGA and ITI Reinsurance to open branch in India. "The regulations are gazetted and the regulations are an outcome of very detailed consultative process involving all stakeholders," said the head of operations of a large reinsurer.

Back

Relief under farm insurance scheme by Feb – The Tribune – 6th January, 2017

Agriculture Minister OP Dhankar said today that compensation under the Pradhan Mantri Fasal Bima Yojana would be disbursed by the end of February.

"The state government is also considering establishing its own insurance company, for which approval will have to be sought from the Centre and the Insurance Regulatory and Development Authority," he said. The minister, who was interacting with mediapersons today, urged farmers of the state to get their rabi crop insured under the scheme by January 10. He also advised them to get registered under life insurance schemes such as the Pradhan Mantri Jeevan Suraksha Yojana and Jeevan Jyoti Bima Yojana.

Source

He said in view of the Golden Jubilee celebrations, the Agri Leader Summit would be organised in March, in which leaders in the field from across the globe would participate. — TNS

Back

Why getting home insurance makes sense – The Tribune – 9th January, 2017

Home is one of the most prized and high-value assets and for Indians, owning a house has its own emotional satisfaction. Nearly 60-70% of an individual's wealth is locked by virtue of investment in home(s) and household articles such as furniture, appliances, clothing, jewellery etc.

Prime Minister Narendra Modi's New Year's Eve speech encourages ownership of homes in rural and semi-urban areas of the country with subsidies on home loans. Through "Housing for All by 2022", the government hopes to deliver 20 million homes to low-income groups in the semi-urban and urban areas.

general insurance companies welcome

With the economy expected to grow at a healthy pace of 7%, fresh impetus to subsidies from the Centre and a reduction in borrowing costs as a positive effect of demonetisation, home buying will continue to witness a surge in coming years. Besides, home is the second-most reliable investing class asset and this too would continue to boost the inventory. With 200 million-plus homes, India currently ranks as the second largest country in terms of home inventory.

While owning a home is a priority and dream for people, when it comes to insuring home and household articles, it doesn't feature at all in the priority list of most Indians.

Vulnerability to natural disasters

India is a vulnerable country in varying degrees to a large number of natural disasters. Sample this: More than 58.6% of the landmass is prone to earthquakes of moderate to very-high intensity; over 40 million hectares (12%) of its land is prone to floods and river erosion; close to 5,700 km of the 7,516 km-long coastline is prone to cyclones and tsunamis; and, its hilly areas are facing risks of landslides and avalanches. Moreover, India is also vulnerable to host of man-made disasters. In the past three years, the country has witnessed major cyclones and flooding events such Cyclone HudHud in 2015, Cyclone Vardah in 2016, Chennai floods in 2015 and also flooding across various parts of country during the monsoon.

While a rise in awareness for health insurance plans is witnessed, the awareness to insure your wealth – by purchasing a suitable home insurance plan — has been abysmally low. It is estimated that only 1% of homes in India have some form of home insurance.

A home insurance policy covers damages (partial or complete destruction) caused by flooding, cyclone, fire and allied perils, earthquake, terrorism, and other perils. In case you do not have such home insurance policy, you have to bear the entire cost of reconstruction of the house and there is a significant cost of civil works which would be about Rs 2,000-5,000 per sq ft on the basis of construction type.

A home insurance plan not only protects your immovable wealth from such perils and natural calamities but also provides a cover for household articles such as jewellery, clothing, electronics, etc. Having the majority of your wealth such as your home or household articles uninsured can expose you to significant losses, resulting an emotional setback. Therefore, we should consider protecting a significant part of our wealth (home and household articles) with an insurance plan.

Various options available

There are many home insurance products available in the market which one can opt for according to his/her needs. And it is not a bad idea to spend a few thousand rupees to buy an insurance cover for the home that is dear to you.

The author is Chief Product Officer, Royal Sundaram General Insurance Co. Limited. The views expressed in this article are his own

Source

Back

Riding without helmet? Forget insurance claim – The Times of India – 9th January, 2017

The Nashik police have decided that they would mention in their records in case an accident victim was not wearing a helmet while driving a two-wheeler.

Nashik police commissioner Ravinder Kumar Singal said, "This would prevent the bereaved family from staking insurance claims. We have decided to implement this measure to ensure that motorists wear helmets while driving their two-wheelers."

Singal was speaking at the inauguration of the 28th Road Safety Campaign, which is implemented jointly by the Regional Transport Office and the city police, from Monday.

District collector B Radhakrishnan also called for joint efforts from various departments to work towards making Nashik an accident-free district by taking up all the necessary works that were needed to meet the purpose.

"Deaths from road accidents were more than number of deaths in riots or crime. Every life is important and most of the times, the deceased are the breadwinners of their family. Thus, our efforts should be such that there were no road deaths," Radhakrishan said.

He added that even the safety of pedestrians and those travelling by buses is important as road deaths brought the gross domestic product of the nation down by 4%. He appealed to all the departments concerned to put in sincere efforts to bring down the rate of road deaths.

Bharat Kalaskar, deputy RTO Nashik, said they had taken up various programmes last year to spread awareness about the use of helmets and seat belts. He also said the rate of accidents in the district had come down compared to last year, despite there being a consistent rise in the population and the number of vehicles.

He added that the police and the RTO had prepared a list of accident-prone spots to follow-up with the departments concerned to take up the necessary works done like putting signals, sign boards, speed breakers, dividers, blinkers.

Source

Meanwhile, a booklet on road safety was released by the dignitaries present at the inauguration. RTO Rajendra Kadam, chief executive officer of the Nashik Zilla Parishad Milind Shambharkar, deputy commissioner of police Vijay Patil, and other senior officials of the police, Nashik RTO, state public works department, National Highway Authority of India were present at the function.

Back

Soon, insurance cover while hiring taxi service much like airlines, railways – Hindustan Times – 11th January, 2017

Soon, you will be able to opt for travel insurance cover while travelling in a cab from one place to another within the same city.

Taxi service providers and aggregators such as Ola and Uber are looking to tie up with insurance companies to provide cover to their passengers for any accident, medical emergency or even loss of baggage much like airlines and railways.

The insurance cover will be over your own personal accident or third party motor insurance.
Passengers will have to pay an additional 3-5 per cent for this cover. The charges could change depending on the needs of the customers.

Sources said that insurers such as ICICI Lombard, Bajaj Allianz General Insurance and Reliance General Insurance are already in talks with the taxi service providers for the same.

"We are looking at launching a domestic travel insurance product in the near future that will cover your ride via any of the e-commerce taxi service providers in India," TA Ramalingam, chief distribution officer, Bajaj Allianz General Insurance told Hindustan Times.

"One will be able to opt for the cover on a per day or a per trip basis... the insured will be able to customise the policy depending upon her requirement," Ramalingam said.

A Reliance General Insurance spokesperson added, "We are evaluating a few products in this space, which has been gaining acceptance and growing in scale."

Uber and Ola, however, refused to comment on the issue.

Sources, meanwhile, said that this market was still in its nascent stage and "this could be used as an experiment to test the waters."

Source

This insurance segment will particularly help many foreign travellers visiting the country, an industry insider said, adding that many passengers are still reluctant to hail a cab late at night or while travelling to deserted areas.

Back

Insurers call for voluntary tier to motor liability cover – AIR – E-daily – 10th January, 2017

The non-life insurance industry has submitted a proposal to the government to introduce a two-tier motor third-party liability cover for motor vehicle owners.

A two-tier system would keep premium on the mandatory cover under check and at the same time would enable customers, who wish to do so, to buy voluntary additional cover from non-life companies, reported TNN.

The proposal comes in the wake of the government's move to amend the Motor Vehicles Act. Besides providing for higher penalties for offences, the amendment Bill incorporates a number of provisions that include providing cashless medical treatment for accident victims and higher compensation for hit-and-run victims.

Mr R Chandrasekhar, Secretary General of the General Insurance Council, said that the compulsory cover would still cover over 90% of motor claims, based on historical data.

He said that another suggestion from insurers is the settlement of claims without litigation. This would be possible if the police was to submit detailed accident reports, as well as verify and provide all relevant documents to the court and insurers.

Today, most motor insurance claims are settled on the basis of awards granted by the Motor Accident Claims Tribunal that usually take three years. Insurers end up making a higher payout because of interest on the claim amount.

The insurance industry has pointed out that given the economic development and changes in the social environment of the country, there is a need to ensure that every vehicle on the road is insured and every victim gets compensation speedily without delay. It is estimated that a third of vehicles on Indian roads are breaking the law because they lack mandatory third-party liability insurance.

Source

Amendments to the Motor Vehicle Act have come under focus given the rising number of road accidents in the country. India accounts for the highest number of road accidents globally with 150,000 people being killed in 500,000 road crashes every year.

Back

Health Insurance

E(I)nsure your health – Financial Chronicle – 6th January, 2017

Definitely, death of a loved one within the family or among our social circle is painful and irrevocable; but it is equally excruciating to see individuals suffering from critical health disorders or physical disabilities but have limited monetary funds to undergo quality medical treatment to ease the pain and worry. As per the latest data available in the public domain, only 15 per cent of the Indian population has health insurance. In spite of all forms of comprehensive health insurance products now available in the market, individual buyers still hesitate to opt for such plans.

Such prudent health planning should be a part of early age financial planning for betterment of our future and our family. If opted at early age, claim-free health insurance policies generate numerous benefits like free health checkups, no-claim discounts on premium and cumulative bonus to name a few.

For most people of our country, the term 'insurance' means life insurance policies or products. True, a life insurance policy becomes a financial backbone to the family members of the deceased in their absence, it does not substantiate the financial stress of providing quality medical treatment when required while undergoing a treatment or an unplanned medical emergency at the hospital.

The skyrocketing healthcare costs are evident, irrespective of the nature of the illness. This is in accord with the annual medical inflation of 6 – 7 per cent in medical as well as surgical treatments. Any unexpected and unprepared medical emergency could severely affect the finances or household savings. Take for instance the prevalent spread of pathogen diseases like dengue and chikungunya. It can set you off by several thousand rupees each day you spend in a hospital. The incidences of critical illness like cancer or the cardiovascular diseases are also dreadful. Lifestyle diseases, which are silent killers, such as high blood pressure, diabetes or heart ailments, is becoming an epidemic across all age groups mainly due to an unhealthy lifestyles and dietary choices. Each of these has long standing health implications. Most of them require immediate medical attention.

With standard h insurance policies available in the market to compare and chose, one can be rest assured that the financial implications are taken care of and your savings are not dented, while you or your loved one in the family is being treated at a hospital. Health insurance products today offer many wellness and other allied benefits — and not just the plain vanilla hospitalisation cover — which helps you stay fit and healthy. There are also benefit policies available exclusively for diagnosis of critical illness that can mitigate your financial loss in an unwanted emergency.

By procrastinating the decision to opt for a health insurance cover might backfire due to the age factor, the policy premiums rise accordingly. Another belief among the working class of our country is that the group health insurance policy, provided by the employer, is enough to suffice any medical emergencies and opting and paying premiums for an individual or family floater comprehensive cover are redundant. Though the group health policy is an added advantage job incentive, but it is primarily ineffective due to the low sum insured. Therefore, it is advisable for employees to study the scope of coverage that is being offered in their group policy and whether the policy completely shields you from any out-of-pocket-expenses in case of any medical treatment for illnesses. In these cases, individual may consider to opt for super top-up and top-up health products, which gets triggered when the sum insured under the base policy exhausts.

While there is a rise of new-age diseases, we should not forget that road accidents remain one of the leading causes of death in our country. While death is loss of life which may be covered by a life insurance policy, accidents that lead to disability, which are partial, total or temporary and permanent, the financial implications could result in a disaster.

A personal accident insurance cover not only monetarily compensates for the death of the insured caused due to an accident but also extends financial support when the insured has been immobilised due to the accident, irrespective of if the physical immobility is permanent or temporary in nature. The cost of premium for choosing a personal accident cover is negligible when compared with health insurance. It is important to note that, a personal accident cover does not pay for medical expenses incurred at a hospital if being treated for an accident unless medical expenses extension is opted during policy purchase.

Source

In the end, what matters the most is complete protection, for you and your family during any personal health emergencies. A back-up plan should be prepared to deal with such uncertainties rather than repenting later.

Back

Regulations

Irdai hikes agent payouts – Mint – 11th January, 2017

As the entire financial sector moves towards lower fees, payments and charges, there is one outlier—the Indian insurance industry. The industry is not at fault; for that we must look towards what the regulator is doing. Almost a year after it floated a draft on rethinking commission rates, on 14 December 2016, the insurance regulator—Insurance Regulatory and Development Authority of India (Irdai)—hiked the total payout to the distribution arms. You can read the document here: http://bit.ly/2jjM69X.

The good news first. Total payouts have gone up but are lower than what were proposed in the draft, which had suggested a peak rate of 70% as payout. You can read what the draft proposed here: http://bit.ly/2i7I17I. The new rules have raised overall payments in the life insurance business to agents and intermediaries. The new rules break up the market into three categories of distributors of life insurance products: agents, intermediaries with more than half their income coming from insurance, and intermediaries with less than half their income coming from insurance (see table below). Agents represent one company and are individuals. Intermediaries include corporate agents, insurance brokers, Web aggregators and insurance marketing firms. Agents are paid a commission on the sale of insurance policies. Intermediaries' sales commissions are called 'remuneration'. A third payment category has been introduced. This is called 'rewards'. A reward is an amount paid, directly or indirectly, as an incentive by the insurer to agents and intermediaries. The rewards look like a formalisation of the payments being made earlier by insurance companies to intermediaries, which were over and above the commission limits.

The notification has made some changes to the existing commission structure for selling policies. First, it has hiked commissions for pure risk policies as compared to policies that bundle investment and insurance. Two, it has raised renewal commissions on regular premium policies and made them level through the life of the policy. Earlier, the renewal commissions would reduce over the years. The direction is right but the rates are too high. Term policies are only pure risk products and the cheapest way to buy life cover. To reward intermediaries more for selling a term product over a product that bundles investment and insurance is good but the rates look far too high, at 40% of the first year premium for a term plan and 35% of the first year premium in a bundled policy. Remember that upfront commissions are zero in mutual funds. To make trail commissions, or commissions on regular premiums higher is a good direction to follow since it makes the agent service the policy and prevents *churn. But with upfront payments as high as they are, the role of trail gets muddied. Policyholders will continue to get churned as long as upfront remain this high, specially as agents are not forced to return the commissions if the policyholder stops funding the policy midway.*

But the payouts do not stop here. Irdai is giving away more to the intermediary in the form of 'rewards'. What are these rewards? Irdai believes that agents need to be rewarded to account for benefits such as gratuity, term insurance cover, various group insurance covers, telephone charges, office allowance, sales promotion gift items, competition prizes and such other items. Intermediaries need rewards to compensate for services such a risk analysis, gap analysis, plan design, predictive modelling, data management, infrastructure, advertisements and such other items, including any additional incentives by whatever name they are called. How much are these rewards? All agents are eligible for rewards that are fixed at a maximum of 20% of the first year premium that they collect. Not all intermediaries are eligible for rewards. Only those who earn more than half their income from the insurance business are eligible for rewards. Others are not. The definition used by Irdai for rewards begs the question: if intermediaries need to be compensated under the various heads listed, what was the commission for? Irdai will go down in history as perhaps the first regulator to formalise what were informal payments.

Source

After these changes, from 1 April 2017, the peak rates of payouts to intermediaries go up to as high as 42% in the first year. The hikes by Irdai must be seen in context of an overall reduction in cost in the financial sector due to the use of technology, the new payment systems and rising levels of entrepreneurship. Finally, we all need to ask this question: what is it that they sell that needs such high commissions? Why does selling largely government securities with a warp of a life cover cost so much?

Back

Circulars

Source

Partial Modification of the provisions of Guidelines on Standardization in Health Insurance

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Clarifications in respect of the provisions of IRDAI (Health Insurance) Regulations 2016 and Guidelines on Product Filing in Health Insurance

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Pensions

EPFO launches Employees Enrolment Campaign, 2017 – Deccan Chronicle – 6th January, 2017

Retirement fund body EPFO today formally launched the Employees Enrolment Campaign, 2017, to encourage firms to enroll their employees under its schemes at nominal damages of Rupee one per annum.

Under the scheme, the employees share of contribution, if declared by the employer as not deducted, shall stand waived, the Employees' Provident Fund Organisation (EPFO) said in statement.

According to the statement, the damages to be paid by the employer in respect of the employees for whom declaration has been made under this campaign shall be at the rate of Rupee one per annum.

Besides, no administrative charges shall be collected from the employer in respect of the contribution made under the declaration. Under the scheme, a declaration can be made under the campaign for the period till March 31, 2017, for which no inquiry under section 7A has been initiated.

The EPFO's apex decision making body -- the Central Board Trustees -- at its meeting held on December 19, 2016, decided to launch a special campaign from January 1, 2017 to March 31, 2017 to enroll the eligible workers who were left out, in bringing them under its social security umbrella.

The campaign seeks to enroll new establishments and employees with or without past service. The Central Government has accepted the recommendation of the Board and has since notified the scheme, it said.

The campaign aims to encourage employers to voluntarily come forward and declare details of all such employees who were entitled for membership between April 1, 2009 and December 31, 2016 under EPF & MP Act 1952, but could not be enrolled. The enrolment drive offers a limited time window to employers to bring all eligible workers under social security net.

According to the provisions of Employees Provident Funds and Miscellaneous Provisions Act, 1952, the employer of an establishment covered under the Act is required to enroll all employees drawing basic wages of up to Rs 15,000 per month.

The establishments that enroll new employees under the campaign will be eligible to draw benefits available under Pradhan Mantri Rojgar Protsahan Yojana (PMRPY) as well as Pradhan Mantri Paridhan Rojgar Protsahan Yojana (PMPRY).

The government pays 8.33 per cent contribution of employers share to the Employees Pension Scheme (EPS) in respect of new employees having Universal Account Number.

For textile (apparel) sector, the government additionally pays 3.67 per cent towards EPF contribution for new employees required to be paid by the employers.

Source

EPFO has made special arrangements for the success of the campaign and appropriate assistance will be made available to employers coming forward to extend social security coverage of their employees. EPFO said that more details of the campaign and FAQS are available at www.epfindia.gov.in

Back

Pension watchdog for tax parity between NPS and EPF – Business Standard – 6th January, 2017

The pension regulator has sought tax parity between the National Pension System (NPS) and the Employees' Provident Fund (EPF) in the coming Union Budget.

Hemant Contractor, chairman of the Pension Fund Regulatory and Development Fund Authority (PFRDA), made this suggestion at a meeting on Thursday with the finance minister and officials.

He was here in connection with the first meeting after demonetisation of high-value currency notes of the Financial Stability and Development Council (FSDC).

Coming out of the meeting, Contractor said he'd made a case for EEE-status (meaning, exemption at all three stages of investment, accretion and withdrawal) for NPS, as against the present EET regime (exemption for the first two stages but taxation at withdrawal. EPF and the Public Provident Fund (PPF) are both having the EEE status; the maturity amount is not taxed at withdrawal either.

In the current year's Budget, Finance Minister Arun Jaitley had made withdrawals from NPS on maturity tax-free up to 40 per cent of the total corpus; the balance 60 per cent continued to be taxable.

"Our emphasis was more on increasing the pension coverage. The EEE benefit for NPS was the major demand. We have digitised a lot of our facilities," said Contractor.

The government is yet to amend the EPF Act to enable subscribers in the fund to shift to NPS, as was promised by Jaitley in the Budget for 2015-16. The amendment is stuck on a labour ministry demand that NPS subscribers be also allowed to shift to EPF, where there is presently a tax advantage.

At the outset, it seems NPS gives better returns even in debt instruments. For example, the EPF gave 8.69 per cent average annual return for the five years till 2016-17, while NPS gave a little over 13 per cent in the case of any of its schemes — equity, government debt or corporate debt. However, this is because of different accounting methods adopted by EPF and NPS. The former follows what is called the hold to maturity and accrual based accounting norm; NPS uses a market valuation norm.

For instance, if NPS and EPF buy a government security at a coupon rate of 6.5 per cent annually for 15 years, EPF will declare 6.5 per cent interest after the first year; NPS will take into account the decrease in interest rates. If because of the latter the securities turn five per cent more attractive, it would add this to the coupon rate and say the return is 11.5 per cent.

However, both NPS and EPF have to hold the security till maturity. So, for a subscriber, the security would actually give the same return. However, equity gives an added advantage to NPS. While government staffers may opt for *an investment plan where 50 per cent could be invested in equity, private sector employers may choose one where 75 per cent could be used for equity. In EPF, only up to 10 per cent of the incremental fund could be invested in exchange-traded funds.*

U K Sinha, chairman of the Securities and Exchange Board of India also gave suggestions for the equity markets. He did not elaborate on what he'd suggested. "A number of issues and areas were discussed...The market is being well regulated, I don't see any specific risk at this stage," he said.

FSDC

A day after asserting that tax revenues for the current financial year would exceed the Budget Estimate, the finance ministry painted a rosy picture of the macro economy after demonetisation.

Chairing the FSDC meeting, Jaitley said the world economy was fragile but India appeared much better placed, with improvement in its macro fundamentals. He said the government's measures to eliminate the shadow economy and tax evasion were expected to have a positive impact on both Gross Domestic Product and fiscal consolidation in the long run.

Among other financial sector regulators, Reserve Bank (RBI) governor Urjit Patel and insurance sector regulator T S Vijayan attended the meeting. FSDC also reviewed the present status of non-performing assets in banks and measures taken by the government and RBI to address the issue.

Source

Arvind Subramanian, the chief economic advisor, made a presentation on the state of the economy.

Back

EPFO Laps Up Top-Rated PSU Bonds to Deploy Special Deposits – The Economic Times – 9th January, 2017

YEAR-END WINDFALL Proceeds from govt's special deposit scheme of nearly Rs 10,000 cr invested in REC, Power Finance Corp, NTPC and Nabard papers

The Employees' Provident Fund Organisation (EPFO), which manages retirement funds for millions of Indians, has once again made good use of its year-end windfall from the government's Special Deposit Scheme with an investment of nearly Rs.10,000 crore in top-rated corporate bonds clinching best possible rates.

EPFO invested in top-rated public sector bonds earning decent interest rates in the month of December, including Rural Electrification Corp, Power Finance Corp, NTPC, and National Bank for Agriculture and Rural Development (Nabard), the Central PF Commissioner's office said in an email reply to ET.

"Special Deposits amount received becomes part of the investible fund, which is then invested by our discretionary fund managers as per market conditions and views taken by them," the email said.

"The coupon (interest rate) varies as per the market rates." It, however, did not elaborate on the details.

The central fund body earns an interest income of about Rs.4,700 crore from the government's Special Deposit Scheme (SDS), while together with other standalone provident funds this may be more than Rs.12,000 crore. SDS yields about 8.7% annually, which accrues at the end beginning of every calendar year. Other fund inflows for EPFO include the usual member contributions and other interest income.

Those triple-A rated corporate bonds, issued mostly in the last two weeks of December, have interest rates in the range of 7.23-7.54% across 10-15 year maturities. These rates are relatively compared with benchmark bonds, which now yield about 75-100 basis points less than the levels.

For example, Nabard has sold about Rs.3,000 crore to EPFO in a one-on-one deal that will help EPFO earn 7.48% for 15 years.REC has placed Rs.3,000 crore worth of corporate bonds of which the central body subscribed about Rs.2,600 crore at 7.54% with 10-year maturity . "EPFO has obtained best possible rates amid falling rates," said Ajay Manglunia, executive vice president fixed income at Edelweiss Finance. "EPFO will earn higher interest income over long term. Those securities are all top rated and quasi-sovereign papers that mitigate default risk."
Even in the secondary market, EPFO is sitting on notional profits as yields have dipped about 20-25 basis points in the past two weeks.

Source

"These are viewed as prudent investments," said Ashish Agarwal, executive director, AK Capital. "When interest rates are falling across the board, coupons offered by these top-rated companies have provided attractive spreads over long term G-Sec yields."

Back

Single women to get Rs. 1,000 as pension in Telangana – The Hindu – Business Line – 6th January, 2017

Single women from poor families in Telangana will get a monthly pension of Rs. 1,000 from April next. Single women whose annual income is below Rs. 2 lakh are eligible for the pension.

Chief Minister K Chandrasekhara Rao announced this in the State Assembly today. "Poverty inflicts more misery among women than men. Hence we have decided to give a monthly pension of Rs. 1,000 to those women," he said.

Allocation in Budget

The government will allocate funds for the scheme in the ensuing State budget in March.

We are instructing district collectors to start registering details of single women eligible for the pension. We are also requesting all legislators to get eligible women enrolled under the scheme," he added.

Rao said the government is already giving pensions to aged people, differently-abled persons and widows under Asara scheme as promised in the TRS election manifesto. A scheme to provide Rs. 1,000 as monthly pension to women beedi workers is also under implementation, he said.

Source

The State government has launched Kalyana Laxmi and Shaadi Mubarak schemes to meet the wedding expenses of girls. Thousands of families have received Rs. 51,000 as financial assistance under these schemes.

Back

NPS offers subscribers a choice of two record keeping agencies – Mint – 10th January, 2017

Last year, the Pension Fund Regulatory and Development Authority (PFRDA) selected Karvy Computershare Pvt. Ltd as the second central record keeping agency (CRA) for the National Pension System. The first CRA is NSDL e-Governance Infrastructure Ltd, which has been functioning as the CRA since 2007 when NPS was opened for the government sector. It later opened to the private sector in 2009.

In a recent circular, dated 3 January, PFRDA stated that Karvy was in advanced stages of CRA system development, which is likely to become operational soon. The circular also mentioned the CRA charges by Karvy. Once operational, the two CRAs would be NCRA (NSDL-CRA) and KCRA (Karvy-CRA). According to an email response from PFRDA, the idea of a second CRA is to bring in competition to improve efficiency and pricing. NPS subscribers can now choose between two CRAs. We take you through the roles of a CRA and the charges you may have to pay.

What is a CRA?

In the architecture of NPS, CRAs have a pivotal role. Other than being a repository of data, they are also responsible for administration and customer service functions, and act as operational interface between the different entities of NPS, such as the pension fund managers, trustee banks and points of presence (PoP) who distribute NPS.

So when you open your account, either online or through a PoP, the CRA captures your data and issues you a Permanent Retirement Account Number (PRAN). Your contributions go to the trustee bank and it's the CRA's job to tell the bank about your chosen pension fund manager, and also to tell the pension fund manager where to invest your money. "Pension fund managers don't have data of the subscribers or their choice of funds. When the trustee bank apportions money as per customer choice, the CRA communicates to the pension fund manager which fund to invest the money in," said Sumit Shukla, chief executive officer, HDFC Pension Management Co. Ltd. "Nobody except the CRA has complete details of the customers and therefore it is responsible for the coordination and the customer service," he added.

Charges

CRA services come at a cost. Unlike the pension fund management charge or the PoP charges, which are a percentage of the contribution you make, CRA charges are fixed. There are three cost heads under which the CRA charges: one-time account opening fee, annual maintenance cost and charge per transaction.

The one-time fee by NCRA is currently Rs50, whereas the annual maintenance charge is Rs190. The per transaction charge is Rs4.

KCRA costs much less. The account opening charge is Rs39.36 whereas the annual charge is Rs57.63 and transaction charge is Rs3.36.

According to PFRDA, NCRA has an option to reduce the charges and the authority expects the charges to come down due to the competition from the new CRA.

So should the CRA costs matter? "Reducing the CRA charges through market competition doesn't benefit the subscribers significantly, as it's a tiny sum. But this leads to multiplicity of processes that may be unnecessary for a young product like the NPS," said Manoj Nagpal, chief executive officer, Outlook Asia Capital. "Even in terms of customer service the scope is limited as it is the PoPs that interact with the customers whereas the CRAs work the back-end," he added.

Source

Existing as well as new subscribers will be able to choose between the two record keeping agencies. "The subscriber would be given an option to shift from one CRA to the other once in a financial year. There will be data migration from one CRA to the other. The required inter-shifting forms and processes are in finalisation stage," said the email response from PFRDA.

Back

Atal Pension Scheme may be tweaked; maximum entry age to be raised to 50 – The Economic Times – 10th January, 2017

The government may tweak the Atal Pension Yojana by adding more slabs of guaranteed pension and raising the maximum age limit for entering the scheme to 50 years.

The current maximum guaranteed pension is Rs 5,000 per month. "All suggestions are being deliberated. One is to add slabs in the minimum guaranteed pension amount. The highest slab could be up to Rs 10,000," said a government official, who did not wish to be named.

At present, the minimum age of joining the scheme is 18 years and maximum is 40 years. "This is also being looked at," the official said, adding that higher contributions would be mandated for such subscribers that join the scheme at high ages.

Under APY, the age of exit and start of pension is 60 years. The minimum period of contribution by a subscriber under APY is 20 years or more. An individual has to contribute Rs 1,454 per month if she enrolls in APY at the age of 40 to stand eligible for a monthly pension of Rs 5,000.

There are 39 lakh subscribers in APY till December 2016 with assets under management (AUM) worth Rs 1,498 crore. APY is managed by Pension Fund Regulatory and Development Authority (PFRDA), which has suggested extending capital gains regime applicable to mutual funds to National Pension System Tier II accounts.

"This will make the scheme more attractive," said a PFRDA official. Tier II account under NPS is a voluntary savings facility and the subscriber can withdraw her savings at any juncture. The account, however, can only be opened if the subscriber has an active Tier I account, which is a permanent retirement account.

There are 1.02 crore subscribers under NPS with a total AUM of Rs 1.60 lakh crore. The pension regulator has also demanded the EEE-status (Exempt, Exempt, Exempt) for NPS on the lines of EPF and the Public Provident Fund (PPF), where maturity amount is not taxed at withdrawal either.

Source

"The EEE benefit for NPS was the major demand," PFRDA chairman Hemant Contractor had said after a meeting with the finance ministry.

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PSUs eye EPFO funds – Financial Chronicle – 10th January, 2017

Source

Under the government pressure to step up capital spending, PSUs are eyeing investments from EPFO, wh¬ich is sitting on a huge ca¬sh pile, to fund projects.

It being a pension fund, EPFO invests its corpus in long-term funds like state and central government bo¬n¬ds. PSUs too need such funding to implement their infrastructure projects, whi¬ch have mostly longer pay back period.

At least seven PSUs, including Indian Oil, ONGC, Coal India and Power Finance Corporation, have approached the Employee Provident Fund Oragnisation (EPFO) for investment, labour minister Bandaru Dattatreya said on Tuesday.

Back

Govt: Go online, cut delays in pension cases – The Economic Times – 10th January, 2017

Source

The Centre has asked secretaries of all departments to ensure that all pension-related cases are mandatorily processed through an online system in order to check delays and bring in more transparency . Officials say the move will result in timely sanction and grant of post-retirement benefits to employees.

It has been seen that despite detailed guidelines and instructions, a large proportion of retiring employees do not get their retirement benefits and pension payment order (PPO) in time, the ministry said in an order.

It said an online pension sanction and tracking system called `Bhavishya' has been launched to check the delays. Both retiring employees as well as administrative authorities can monitor progress of pension cases at each stage online.

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Global

Myanmar:Door to open wider to foreign insurers this year – AIR – E-Daily – 9th January, 2017

The government will allow international companies to enter the insurance market this year, the Finance Ministry's Financial Regulation Department has said.

Sources in the Department told The Myanmar Times that a liberalisation roadmap will lay out how foreign insurers should be allowed into the market.

Representatives from international firms will sit on a new Myanmar insurance association, which U Soe Win Thant, General Manager of Global World Insurance Company, thinks will be in place next month.

The regulator has already invited local and foreign insurance companies to provide their views on how best to liberalise the sector, U Soe Win Thant said.

“I said there is a need to open up the market because we need technical expertise and knowledge, especially in areas like life insurance,” he told The Myanmar Times. “In order to get that technical expertise, we need to invite foreign insurers to help develop the Myanmar life insurance market.”

An American Chamber of Commerce White Paper published last July argued that the Myanmar insurance sector is constrained by product restrictions, a shortage of experienced professionals, as well as inadequate IT systems and standards on reserves for different insurance policies.

At present, there are 12 local insurers operating in the domestic market. There are over 20 foreign insurers with representative offices in Myanmar and three Japanese insurers operating in the Thilawa special economic zone, namely, Tokio Marine & Nichido Fire Insurance, Sampo Japan Insurance and Mitsui Sumitomo Insurance.

Senior executives at local insurers recognise the weaknesses in the industry, but remain cautious about allowing international firms unfettered access to the nascent market.

“We welcome foreign insurers, but allowing 100% foreign-owned insurers is very dangerous,” said U Soe Win Thant, adding that this would risk “locking out” local firms from the market. “So what we want is to prepare joint

ventures. Partnering [with international firms] will be the best way for the country and for our people, as well as for foreign investors."

Eventually, Myanmar insurers will also be allowed to design their own products and set their own tariffs. At present, the local insurers have to offer products at the same prices and can only compete on customer service. U Thant Zin of KBZ Insurance also wants to have a "slow step-by-step liberalisation".

"In order to keep the playing field level, we need time [to develop]," he said.

U Thant Zin is keen to work with international brokers and underwriters to establish reinsurance arrangements.

Source

At present, the best Myanmar insurance firms can do is spread the risk between them using a form of co-insurance, he said. "But co-insurance is dangerous," he said. "If something catastrophic happens in one area, then all the insurance firms may suffer."

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