



Insurance Institute of India

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INSUNEWS

- Weekly e-Newsletter

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Insurance Institute of India and College of Insurance invites you to Webinar on the topic “Remembering Ranadive”, An actuary who initiated IT system in Indian Insurance Industry, on 16th December 2013 at 3.30 p.m.

Key Speakers

M.G.Diwan, Former Chairman of LIC of India.

K.Sanath Kumar, Director and General Manager, New India Assurance Company Ltd.

B.Venugopal, Executive Director (IT/BPR) at Life insurance Corporation of India.

Praveen Gupta, CEO of Raheja QBE General Insurance Company Ltd.

Join us for the webinar on the following link, which can be accessed through internet on your desktop laptop and internet enabled mobile phones.

<http://68.233.237.91/iii/>

Insurance Industry

RBI eases investment norms for NBFCs in insurance ventures - The Economic Times

The Reserve Bank today relaxed norms for non-banking finance companies (NBFCs) in insurance joint ventures by allowing them to hold more than 50 per cent in such companies.

"On a review, it has been decided that in cases where IRDA issues calls for capital infusion into the insurance JV company, the bank (RBI) may, on a case-to-case basis, consider need-based relaxation of the 50 per cent group limit," the Reserve Bank of India said in a notification.

The relaxation is subject to compliance by the NBFC with all regulatory conditions, it said.

The Insurance Regulatory and Development Authority (IRDA) often require an insurance company to expand its capital, taking into account stipulations of the Insurance Act and its solvency requirements, the RBI said.

The limit on NBFC holdings may act as a constraint for the insurer in meeting the IRDA requirement, it added.

As per existing norms, an NBFC cannot hold more than 50 per cent of the paid-up capital of an insurance joint venture.

A subsidiary or company in the same group of an NBFC or of another NBFC engaged in the business of a non-banking financial institution or banking is not allowed to join the insurance company on a risk participation basis.

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Source

Banks may not be keen to become insurance brokers - Financial Chronicle

Banks may not be keen to give up their corporate agency license to become insurance brokers. The Reserve Bank of India (RBI) on Friday issued the draft guidelines permitting banks to undertake insurance broking business departmentally. Bankers and insurance company officials agreed that although by becoming an insurance broker, a bank may be able to provide a wider choice of insurance products to its customers; the risks would increase manifold without a substantive increase in remuneration.

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Low FDI cap in insurance an issue in India-EU trade pact' - The Economic Times

Low FDI cap in the insurance sector is an 'outstanding issue' for India-EU free trade pact and the EU is waiting for the Indian Parliament to pass the bill that aims to raise the limit, a European Union official has said.

The Insurance Laws (Amendment) Bill 2008, which seeks to raise FDI cap in the sector from 26 per cent to 49 per cent, is much awaited by global investors but has been pending for long in Parliament.

"There are few issues in services which are still outstanding... Obviously insurance is very important," a senior EU official said here, requesting anonymity.

"We are also waiting to see what happens perhaps in the Indian Parliament on the insurance bill. It has been there for very long time," the official added.

About EU's stance on hiking the FDI cap as a pre- condition for inking free trade pact between India and the 28-nation block, New Delhi has expressed its inability to do so without the approval of Parliament.

Finance Minister P Chidambaram has earlier expressed hope that the government would be able to push insurance bill in the Winter Session of Parliament, which will begin tomorrow.

India and the EU have been negotiating the India-European Union Broad based Trade and Investment agreement (BTIA) since June 2007. They have missed several deadlines to conclude the talks due to differences over the level of opening up of the markets to each other.

On the issue of granting data secure status for the Indian IT industry under the proposed FTA, the official said: "In trade negotiations, we are not going to be negotiating about the issue of data secure status for the Indian IT industry.

"But we fully acknowledge that India has an important economic interest in facilitating transfer of data therefore India has an interest in the matter."

Data-secure status is a major demand of India as the lack of this status has prevented the flow of sensitive information to the country. It is a big deal for the country's IT industry, a global leader in the outsourcing sector.

This has also impacted the movement of people through restrictions on business development. It restricts transfer of personal data to locations outside EU, unless the importing country ensures adequate data protection.

India has been arguing that since US has a safe harbour pact with the EU, and that the US and India have a data adequacy agreement, the EU should also extend data adequacy status to India.

The official said that for the EU a concrete ambitious trade agreement with India is of extreme importance.

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IRDA Regulation

Irda may allow new recruits to join group pension - The Indian Express

The group pension scheme (GPS) is in for another overhaul.

The Insurance Regulatory and Development Authority (Irda) is considering a proposal to allow new employees enter into existing group pension schemes, which are generally offered by companies as an additional retirement benefit to top managers.

"We are looking into a proposal to allow new employees also to join the GPS. After we barred the entry of new employees into GPS last year, such schemes suffered," said a top official of the insurance regulator.

After the rules are changed, new recruits joining a company would get retirement benefits through GPS in addition to the employees' provident fund (EPF) scheme. Irda had, some time back, barred the entry of new employees into group pension schemes.

This means that if a company had 100 employees under group pension scheme, it was not allowed to add more to this number.

"Managers in the middle and the top level usually go for GPS retirement benefit as it is considered as employee-friendly. Employees opt for up to 15 per cent of the basic pay as contribution to the group pension scheme. It was earlier popular among employees in IT companies, but not anymore. Companies were using group pension scheme as a perk to attract talents as they are not entitled for government pension," said an insurance industry source.

This provision as well as the clause of guaranteed returns to the customers forced many insurance companies to shelve launching of their pension product plans.

As per the LIC's pension scheme structure, it is not obligatory or statutory on the part of the employer to provide for pension to all employees. It is entirely up to him to decide to which class of employees he desires to extend the scheme. The eligibility conditions may be defined on the basis of designation or salary.

However, after the categories are specified, employer cannot discriminate between the employees and thus extends the scheme uniformly. Life Insurance Corporation Limited itself was managing nearly Rs 40,000 crore under group pension scheme.

The maximum annual contribution that an employer can make to the pension fund is restricted by the income-tax provisions to 27 per cent of the annual salary (basic plus Daily Allowance). The annual contributions are treated as deductible business expenses.

More benefits

- * Insurance regulator Irda had earlier barred the entry of new employees into group pension schemes
- * Employees opt for up to 15% of the basic pay as contribution to the group pension scheme which also brings down their tax liability
- * Companies use GPS to attract top-level managers as they are not entitled for government pension
- * As per the LIC's pension scheme structure, it is not obligatory on the part of the employer to provide pension to all employees.

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IRDA to sort out issues related to repository system - The Hindu

The Insurance Regulatory and Development Authority (IRDA) is likely to fix the processes related to the newly-launched repository system after meeting the Life Insurance Council, insurers and the five repositories this month. The KYC (Know Your Customer) norms, free-look period, guidelines and cost of repositories are among the aspects to be approved by the regulator.

"The insurance firms have raised concerns related to the five broad categories. The stakeholders almost have an agreement on free look and cost of repositories. The other aspects are expected to be approved by the IRDA after the December meeting," said S. V. Ramanan, Chief Executive Officer, Cams Repository.

The industry and the IRDA were mulling a uniform cost structure, he said.

The insurance repository system lets policy-holders keep policies in electronic form, and undertakes changes and revisions in the policy with accuracy and security. The IRDA has licensed Karvy, NSDL Database, Central Insurance Repository, SHCIL Projects, and CAMS Repository Services as repositories.

The Life Insurance Council has appointed Snehil Gambhir, COO, Aviva Life Insurance, to get feedback from insurers and the industry on the process and other aspects.

Uniform repository cost

The industry is concerned over the variation in the insurance maintenance cost structure of the five repositories. At present, the maintenance cost varies from Rs.50 to over Rs.100.

The insurance firms, as well as the repositories, are hoping for a uniform cost structure soon.

"The cost may further come down with more number of policies brought into the online structure. Right now, the cost is based on negotiation with the repository and the bulk of policies to be converted," said P. Nandagopal, Managing Director and CEO of IndiaFirst Life Insurance Company.

“The present cost itself is a major saving compared to the estimated Rs.600 incurred by the insurance firms in the pre-repository era. This apart, going by IRDA’s direction, the repository system may be made mandatory by December, 2014, which will accommodate the critical number and bring down cost,” Mr. Ramanan said.

Total insurance policies in the country are close to 40 crore, and each month about four crore policies are added, according to an industry estimate. Most new policies are brought into the repository system despite no such obligation as of now.

Source

The mandatory e-insurance system will bring in clarity on several aspects, including cost, according to the industry.

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IRDA plans to allow sub-broking in insurance - The Hindu Business Line

Insurance brokers may be allowed to expand into smaller towns and cities through the sub-broking channel so that the non-life insurance needs of retail customers can be better served.

Currently, there are around 300 active brokers, present mostly in urban centres.

Retail distribution of insurance takes place mainly through agents who are representatives of a particular insurance company and sell policies of only that company. Brokers, on the other hand, are independent intermediaries, selling products of multiple insurers.

“We are in the process of finalising a proposal to allow sub-broking for increasing insurance penetration, particularly in retail lines of business, as currently most of the business done by insurance brokers is corporate.

“Also, to make sub-broking a viable business proposition, we are also considering a demand to allow sub-brokers to sell other financial products such as mutual funds,” a senior Insurance Regulatory and Development Authority (IRDA) official said.

Read More

In February this year, the IRDA invited comments from the industry on a draft report on sub-broking in insurance. According to the official, public sector general insurers were opposed to the sub-broking model as they feel their wide network of agents may opt to be sub-brokers and sell policies of multiple insurers.

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Health Insurance

Pre-packaged med insurance not feasible, firms tell HC - The Financial Express

Health Insurance companies on Thursday told the Bombay High Court that it would be difficult to introduce pre-packaged compensation for 42 ailments covered under medical insurance on the basis of the sum insured and the type of hospital.

The court had on August 2 asked the Insurance Regulator and Development Authority (Irda) to issue guidelines to insurance companies, requiring them to come out with a pre-packaged scheme for the 42 ailments. However, their lawyer today said such packages were not easily accepted by the hospitals. Also, sometimes the hospitals had the tendency to overcharge.

Also, hospitals can not be graded, the companies said. The division Bench headed by Chief Justice Mohit Shah gave the insurance companies four weeks to file affidavit explaining why Prue-packaged compensation can not be introduced.

However, activist Gaurang Damani, who has filed a public interest litigation in the HC on the issue, argued that grading of hospitals was not necessary; package rates can be determined in proportion with the sum insured.

Talking about the flaws in the current mediclaim system, Damani said there have been instances where different insurance amounts were given in different cases for the same treatment at the same hospital.

Source

If pre-packaging is made available, then the insured person would be able to choose the kind of hospital where he/she wants to be treated, he contended.

General Insurance

General insurance penetration on the rise - Business Standard

General insurance penetration, expressed as percentage of gross domestic product (GDP), has gone up to 0.73 this year from 0.70 in 2011-12.

The maiden yearbook on the Indian non-life insurance industry by the General Insurance Council said insurance density (per capita spend on insurance) had increased to Rs 571 in 2012-13 from Rs 158 in 2003-04. The insurance penetration was 0.62 in 2003-04.

In terms of premiums, the gross direct premium income (GDPI) has grown from Rs 17,357 crore in 2003-04 to Rs 69,070 crore in 2012-13. The motor insurance segment accounts for the largest share of GDPI (46 per cent), followed by health insurance (26 per cent) and property (fire and engineering) insurance (14 per cent).

During this period, the number of policies has seen a jump: It increased from 47.7 million in 2003-04 to 109.5 million in 2012-13. In the four-year period ending 2012-13, the number of customer complaints decreased by 58 per cent from 1,86,615 to 78,927.

There were 78,927 registered non-life complaints for 2012-13, compared to 93,155 complaints in 2011-12. Public sector general insurers accounted for 18,616 complaints in the year, while the rest were reported among private general insurers.

In the non-life sector, policy-related complaints topped the list, accounting for 29,101 of the total complaints. Motor segment followed by health accounted for maximum complaints in the non-life sector. In motor too, delay in claims settlement and dispute on quantum of claim were some of the complaints.

With respect to the number of employees in the industry, the yearbook said while the average number of employees per office had decreased from 17 in 2003-04 to 12 in 2012-13, the average number of policies handled by an office has increased from 10,420 to 13,635 during the same period.

Among the channels of distribution, individual agents followed by direct business contributed the maximum percentage of GDPI.

Though motor insurance has been growing at a healthy pace, the yearbook showed less than half of the total two-wheelers and taxis plying on Indian roads are insured. As of March 31, 2011, only 27 per cent of the registered two-wheelers, 29 per cent of registered taxis and 73 per cent private cars, were insured. This is despite the fact that third-party motor insurance (covering the liability of third party during accidents and other incidents) is mandatory in India.

Source

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'Better pricing, reinsurance key to general insurance growth' - The Financial Express

Though public sector general insurers are better capitalised to fund their future growth, industry officials feel adequate premium pricing and right reinsurance cover will enable the industry to chug ahead.

"If premium adequacy and right amount of reinsurance support are there, the current solvency ratio of general insurers are sufficient to take care of future growth," General Insurance Council secretary-general R Chandrasekaran told PTI over the weekend.

He further said the industry would require more capital if it grows above the recent industry average of around 18-20 per cent.

Last week, rating agency IcrA has come out with a report which said the industry will require around Rs 17,500 crore of capital over the next five years if the industry grows at a CAGR of 15-20 per cent.

As per the report, private sector players are likely to require around Rs 8,000 crore during this period. The IcrA report said that public sector companies are better placed to fund future capital needs if required as they are sitting on unrealised gains in investment portfolio of around Rs 33,100 crore by the end of the September quarter.

"The long-history of operations of public sector insurers has created assets that are yet to be realised," New India Assurance general manager and whole-time director K Sanath Kumar said.

He also added that since the nationalisation, public sector companies had funded their growth through internal accruals.

Source

Referring to this, an official from a private sector insurer said, "Though private sector insurers don't have legacy investments in their kitty, the parentage of most of the companies are very strong, which will ensure capital infusion when required."

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Reinsurance

Reinsuring crude - The Hindu Business Line

The Centre should not give up on its plans of creating a sovereign fund to back Indian insurance companies on their liability cover for tankers carrying Iranian crude and for refineries processing the same. It should go ahead irrespective of whether or not the European Union (EU) suspends its ban on reinsurers covering risks associated with shipping and refining Iranian oil, a possibility following Tehran's recent deal with western powers over its nuclear programme. Indian insurers have the capacity to provide normal cargo insurance limited to spoilage, losses or theft. But they cannot afford to offer third-party liability cover against claims arising from the cargo-carrying ships colliding or causing oil spills and other environmental damage.

That is where the power of Europe-based Protection & Indemnity (P&I) Clubs lies. They insure roughly three-fourths of the world's ocean-going tonnage and extend up to \$1 billion cover to individual crude carriers. This is against the \$50 million P&I risk that GIC, India's sole reinsurer, is willing to bear. Indian insurers rely on the European reinsurance market even to hedge their exposures against claims by refineries. Deprivation of European reinsurance/P&I support following the EU ban last July has been the most potent western sanctions instrument, causing India's crude imports from Iran to fall from 420,000 to 263,000 barrels per day between 2009-10 and 2012-13. Imports are now being undertaken largely in Iranian vessels and underwritten by the Islamic Republic's own insurance providers/P&I Clubs.

The EU insurance sanctions, which remain fully in force, may be lifted in the coming weeks. But given the uncertainties still surrounding Iran's compliance and the temporary nature of the agreement, there is no guarantee that sanctions will not be re-imposed. Establishing an Indian P&I Club to protect domestic ship-owners from being at the complete mercy of foreign insurers is anyway a good idea. Neither our shippers nor our insurers have the financial resources to meet each others' third-party liability losses, which could run up to hundreds of millions of dollars. This is where the Centre can step in by providing a guarantee cover similar to that approved by Japan's Parliament in June 2012 for keeping its oil trade with Tehran going. This is a clear case of market failure – underwriting of risks not occurring for purely geopolitical reasons – that warrants government intervention. True, India has more than made up for reduced Iranian supplies through increased sourcing from Iraq, Venezuela and elsewhere. But that should not stop it from continuing to import from Iran so long as there aren't any binding United Nations sanctions.

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Reports & Survey

General insurance industry to grow at 15% in FY14: ICRA - The Hindu Business Line

The domestic general insurance industry is expected to grow at a lower rate of 15 per cent in FY14 on the back of continued slowdown in the economic activity, according to an ICRA study.

In contrast, over the past five years, the gross premium written by the general insurance industry has grown at a compounded annual rate of 18.1 per cent to Rs 65,000 crore in FY13, with slowdown visible since FY12.

According to Karthik Srinivasan, Senior Vice-President, Co Head Financial Sector Ratings, the hardening of premium rates and improvement in underwriting has also resulted in a reduction in the losses for the general insurance industry.

According to Srinivasan, the General Insurance industry would require around Rs 17,500 crore of capital over the next five years with the requirement for private sector at around Rs 8,000 crore. The study said the public sector insurers can meet the requirement by divesting part of their equity investments of Rs 33,000 crore.

Source

Complaints against life insurers rise 9.2% in FY13 - The Hindu Business Line

Complaints from life insurance policyholders grew 9.2 per cent to 3.4 lakh in 2012-13 compared with 3.09 lakh in the previous year, according to an IRDA (Insurance Regulatory and Development Authority) report.

Of all the complaints received during FY13, 50 per cent relate to unfair business practices followed by life insurers.

The nature of complaints includes malpractices, misappropriation of premiums, single premium policy issued as annual premium policy, difference in promised and actual features in products, non-refund of premium on policies cancelled during the free-look period, tampering or forgery of proposal forms and alteration in policy tenure without consent.

“The reason why grievances arise in insurance is because information flow is not symmetric across people. Customers may not know the entire thing that is being given to them. To address these issues, we are working towards improving insurance awareness,” said T. S. Vijayan, Chairman, IRDA.

Interestingly, general insurance complaints declined 15 per cent to 78,927 in FY13, from 93,155 in 2011-12.

“General insurance contracts are short-term contracts, which are settled annually. Life insurance contracts are long-term contracts and the gap between the understanding of the seller and the buyer is more in life insurance,” said Vijayan.

GRIEVANCE REDRESS

Policyholders have three routes for grievance redressal — cancelling the policy during the 15-day free-look period or complaining to the insurer. If the complaint is not resolved by the insurer, then the policyholder can approach the insurance regulator which has an Integrated Grievance Management System (IGMS), an online system to register and track grievances for the policyholder and the insurance company.

If the dispute is still not resolved, the regulator may escalate the complaint to an insurance ombudsman, which acts as mediator and arrives at a fair recommendation based on the facts of the dispute.

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Source

Global News

China: Work on new life table to begin in 2014 - Asia Insurance Review

The China Association of Actuaries (CAA) plans to start work next year on a new mortality table for the life insurance industry. The task will be carried out by the association's Mortality Investigation Office (MIO) which recently produced the country's first critical-illness incidence table.

The MIO expects data collection to be completed by the end of 2014 and the new mortality table to be issued within 12 months thereafter, according to the Securities Times newspaper citing MIO sources. Members of the MIO comprise specialists from China Insurance Regulatory Commission (CIRC), China Re Life and six major life insurance companies in China which commanded 80 percent of the life insurance market in the early 2000's.

The industry makes it a rule to carry out a mortality investigation every 10 years, according to the CAA. It has been a decade since the current life table was released.

To date, there have been two nation-wide mortality investigations conducted into the assured lives experience in China in the last two decades. The first investigation lasted for nearly four years from year 1992 to year 1995 and resulted in the China Life Table (1990-1993). The data used then was taken only from China Life. The second investigation was completed in November 2005 from which the China Life Table (2000-2003) was produced. The data used were from the six major life insurers represented in the MIO.

The MIO says that it is yet to be decided whether or not data will be collected from a bigger number of insurers in next year's mortality investigation now that there are more players and increased competition in the market.

Nevertheless, a new feature to be introduced in the next life table would be data on annuities and retirement products, which the central government is promoting so as to reduce the fiscal and social burden of an ageing population.

Source

The MIO will determine at a later date how detailed the new life table will be. Apart from age and gender, the table could provide analyses based geographical distribution, insurance products and risk factors. Small and medium-sized insurers stand to benefit more if the analyses are more detailed. This is because their pool of insured people may be too small for them to have the extensive mortality data which large rivals have.

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China: Banking regulator proposes new bancassurance rules - Asia Insurance Review

The China Banking Regulatory Commission (CBRC) has issued a draft proposal for the sale of insurance policies by banks and postal agencies, placing the focus on protection products.

Among a slew of new requirements, the draft says that the premiums collected by banks and postal agencies from the sale of protection-type insurance products must be at least 20 percent of the total premiums they receive, according to a report in the Securities Daily.

Banks and postal agencies are advised, that in choosing an insurance company to work with, they have to consider the 13-month persistency ratio of the bancassurance products of the insurer, its operating structure and the functions of its various products.

At the same time, the draft provides for some loosening of current rules prohibiting insurance companies from stationing their personnel in bank branches. The proposed new rules will allow insurance company representatives to be stationed at banks and postal agencies to help with customer enquiries. However, the insurance representative is required to wear identity tags which clearly indicate that they are not the employees of the bank nor the post office.

CBRC is currently seeking feedback on the proposal and expects to implement the new rules with effect from 1 January.

An industry player says that it may be difficult for banks and postal agencies to meet the 20-percent protection-product rule. It is understood that at present, premiums from such products sold through bancassurance form less than 10 percent of total bancassurance sales. The main products sold through this channel currently are high-returns wealth management products.

The new rules also require banks and postal agencies to carry out Know-Your -Customer assessments before selling clients an insurance product. They also need to match customers' incomes to the value of insurance products to be sold, to avoid excessive financial commitments to be taken on by customers.

Source

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