Insurance Institute of India

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Newsletter

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Insurance Industry

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News	***IRDA bars appointment of relatives of employees as corporate agents***
Newspaper	***Financial Chronicle***
Source	***http://www.mydigitalfc.com/insurance/IRDA-bars-appointment-relatives-employees-corporate-agents-649***

In order to maintain quality of intermediaries selling non-life insurance products, the Insurance Regulatory and Development Authority (IRDA) has extended the regulations imposed on individual agents to corporate agents as well.

Corporate agents are intermediaries who sell insurance policies of more than one insurance company. At present, individual agents are tied to one insurance company and are allowed to sell products of that company.

New regulations bar appointment of blood relatives or close relatives such as son-in-law, daughter-in-law and spouse of any employee of the insurance company as a corporate or an individual agent. Also, now the insurance company will have to set a minimum benchmark for performance of their individual agents monitored periodically.

“All non-life insurers are directed to lay down the minimum business requirements for corporate agents and monitor performance of corporate agents in this regard as often as it is required,” an IRDA order said.

As per the guidelines issued by IRDA for life insurance agents earlier this year, insurers have been barred to provide licences to relatives of their employees. And, also, the regulator has asked all life insurance agents to maintain a minimum 50 per cent persistency ratio for the next three years and 75 per cent after 2014-15.

“IRDA wants only serious entities to be engaged in the insurance business. Minimum performance standards will ensure that those agents (individual or corporate) who are taking insurance as part-time option do not stay in business. It will improve quality of advice,” said an official of public sector general insurance company.

But, since the tenure of most general insurance products is for one year, their persistency ratio is not a factor. However, minimum requirement for performance level will ensure only serious players will remain in the industry.

Insurance Regulation

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News	***10-year-old insurers must list within a year, says IRDA***
Newspaper	***The Economic Times***
Source	***http://articles.economictimes.indiatimes.com/2011-12-05/news/30477690_1_insurance-act-insurance-companies-IRDA***

MUMBAI: Promoters of life insurance companies may have to make a public offer within a year of completing a decade of operations with the regulator keen on nudging these companies towards a diversified ownership.

"Insurance companies will be required to list within six to nine months of completing 10 years. The idea is to have diversified ownership. This is in line with what the Reserve Bank of India had done to new private sector banks," said a senior official at Insurance Regulatory & Development Authority (IRDA).

The regulator has come out with the final guidelines for life insurance companies to raise funds from the public, charting different disclosure guidelines due to the nature of the business that involves policyholders' money. The official, however, added that the first set of companies which have completed 10 years will get some leeway in terms of listing timeline.

IRDA is yet to suggest a standard way for valuating an insurance company. The regulator has asked the Institute of Actuaries of India to suggest a method. "It will most likely be market-consistent embedded value that involves factoring future profits," the official added. However, many companies are likely to oppose the proposal given the market conditions and ownership restrictions in the sector.

"The intention of the government is that local shareholders should dilute their stakes. If the 26% foreign direct investment cap is not relaxed, insurers will have to largely look for domestic investors. But the valuation would be different without FIIs participating," said Amitabh Chaudhary MD and CEO HDFC Life.

The biggest roadblock to listing the shares is amendment to the Insurance Act, which includes raising foreign direct investment (FDI) limit to 49% from 26%. The proposed legislation is pending before the parliamentary standing committee. "Most foreign partners are looking to increase their shareholding to 49%. They are unlikely to agree on a stake dilution," said a partner with a consulting firm.

"No insurance company will be interested in a domestic IPO and the market may not have the appetite either," he said. At present, an insurance IPO will not attract FIIs as the FDI limit is capped. The IPO norms allow loss-making insurance companies to raise funds from public, provided their embedded value is double the share capital.

There are 24 life insurance companies. According to a Goldman Sachs report for the first quarter, most large insurance companies like SBI Life, ICICI Prudential and Bajaj Allianz have an embedded value that is twice the share capital. HDFC Life and Reliance Life have expressed their willingness to list.

News	***Can IRDA's new rules prevent mis-selling?***
Newspaper	***The Times of India***
Source	**http://epaper.timesofindia.com/Default/Scripting/ArticleWin.asp?From=Archive&Source=Page&Skin=ETNEW&BaseHref=ETM/2011/12/05&PageLabel=38&EntityId=Ar03800&ViewMode=HTML**

If you belong to the growing tribe of Indians that is buying insurance online, there is some bad news for you. The Insurance Regulatory and Development Authority (IRDA) has proposed stiff guidelines for Web aggregators, which help buyers compare policies. Aggregators say the guidelines are so restrictive that they will have to shut shop or change their business models.

The regulator believes that these portals influence buyers' choices and push products for which they are paid by insurance companies. It has, therefore, proposed caps on the remuneration that these Websites can receive from insurers and banned them from rating or reviewing policies. Web aggregator portals rake in big money from advertisements and by recommending policies. Policybazaar.com, for instance, earns 1 lakh a month for every policy it recommends. Under the new guidelines, which come into effect from 1 February 2012, it will only receive 1 lakh a year per product it lists on its Website. "The guidelines restrict free flow of information to the consumer and are designed to stamp out insurance comparison on the Web as an option," says Deepak Yohannan, founder of myinsuranceclub.com.

What aggregators find particularly galling is the 10 cap on income per lead given by them to insurance companies. When you visit an insurance aggregator site in search of a policy and give your contact details, the information is passed on to companies for amounts ranging from 90 to 150. IRDA says the portals cannot receive more than 10 per lead from insurers. "These guidelines are senseless. Nobody will stay in business," bristles Gurtej Singh, CEO of Delhi-based Big Insurance, which attracts the Internet traffic through ads on Google. His company pays 30-35 per click to Google and then passes on the contact details to insurance companies for 80-90 per lead.

The restrictions don't end here. If a lead generated by a Web aggregator converts to a sale, the portal will be paid only 25% of the commission otherwise payable to an agent. Aggregators are also not allowed to display ads. To prevent companies from circumventing these rules, IRDA has explicitly mentioned that an insurer cannot pay an aggregator in any other way than this. "The new guidelines from IRDA are slightly myopic," says Akshay Mehrotra, chief marketing officer of Policybazaar.com. "If aggregators shut shop, it will have an impact on the industry as well," he adds. Mehrotra points out that Policybazaar accounts for almost 70% of all term insurance plans sold online.

Insurers stance While insurance aggregators see these new rules as the beginning of the end, insurance companies are not overly worried by the development. "Aggregators may say that this is not feasible, but the fact remains that IRDA has given them an opportunity to earn a flat fee of 1 lakh a year for every product they list," says Suresh Agarwal, executive vice-president and head of strategic initiatives at Kotak Life Insurance. He says it is a reasonable move, which will ensure that the aggregation and selling functions are kept at an arm's length.

Others feel that aggregators should confine themselves to providing information instead of trying to review policies or rating products. "Reviews and ads on Websites might create an element of bias, given the nascent stage of online channel in our country," says Kamalji Sahay, managing director and CEO of Star Union Dai-ichi Life Insurance Company. He says the rule that aggregators must only display product information furnished to them by insurers should not be interpreted as restrictive. "On the contrary, it keeps the Web aggregator on the same page with the concerned product issuer, which is good for both," he says.

"The new guidelines are not meant to curtail the growth of online and digital channels, but regulate them more closely," says Yateesh Srivastava, chief marketing officer of Aegon Religare Life Insurance.

Impact on consumers Many customers look for advice while buying insurance online. Right now, the quality of advice offered is the only unique selling proposition of Web aggregators. However, this will be diluted by the new guidelines because aggregators won't be allowed to rate, review or recommend products. In short, they will be reduced to mere information sites with nothing to differentiate one from another.

“No doubt the information given to the consumer will be unbiased and standardised, but there will be no value addition from the aggregator’s side,” says Satkam Divya, business head of Rupeetalk.com. “Aggregators have a role to play and if they play it right, the customers will benefit. These portals need to make a basic minimum profit to stay in buisness,” says Sanjay Tripathi, CMO, HDFC Life.

IRDA’s move comes close on the heels of another proposal from Sebi, which seeks to separate the investment advisory and sales functions to prevent a conflict of interest in mutual fund distributors. A concept paper floated in October had proposed that an advisor who recommends investments cannot be the agent who sells them. This is meant to prevent mis-selling.

WHAT IRDA HAS PROPOSED

• Web aggregators should not rank, rate or review insurance products. They should restrict themselves to giving factual information about a policy.

IMPACT: Customers will get unbiased and standardised information. But the clampdown on reviews means there will be no value addition by the portals.
• An aggregator can give only the information that has been sourced from an insurance company. IMPACT: If a company does not want its product to be compared because it is not priced competitively, it can hold back the information.

• Aggregators must declare upfront that the buyer’s contact details will be shared with insurers. IMPACT: Buyer will know beforehand that registration could lead to pesky phone calls and SMSes from agents.

• The revenue earned by aggregators from insurance companies through different streams will be capped. They also can’t display ads.

IMPACT: The cap on income may drive some aggregators out of business. Many buyers depend on these aggregators for price comparisons.

Global News

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News	***Asia Pacific: Smarter use of technology by insurers predicted***
Newspaper	***E – daily Asia Insurance Review***
Source	***http://www.asiainsurancereview.com/pages/e-weekly-archive.asp***

Insurers in Asia Pacific will be thinking more strategically about organising, synchronising and consolidating disparate customer information, to better manage client relationships in 2012, according to International Data Corporation (IDC). IDC Financial Insights predicts that the insurers will also be making investments in analytics to gain deeper insights into their policyholders and to customise more appropriate products.

IDC Financial Insights Asia/Pacific CFA, Associate Research Director Li-May Chew says that as the very real possibility of another global downturn casts a pall over Asia Pacific's insurance sector, there is seen even greater urgency for players to forge ahead with a dynamic and lean business framework supported by the smart utilisation of technology. "Insurers will also be deeply engrossed in countering fraudulent activities, working on enhancing core insurance applications, and diversifying into ancillary lines of businesses," she says.

Meanwhile, the report predicts that technology spending by insurers will grow by 5-10% in 2012, and in countries where regulations do not restrict its use, some of this spending would be channelled into cost-effective technology architectures such as cloud computing.

The report indicates that the customer of the future is multimodal and insurers would need to expand and innovate on their indirect distribution network. It adds that risk management remains crucial despite or perhaps because of the current uncertain economic climate.

Insurers that wish to prosper during the turbulent times in 2012 would do well by having clear management actions to: refresh their customer focus, re-invent distribution and reduce capital expenditures, drive innovation in product design, review the product mix, and capture new opportunities.