



## Insurance Institute of India

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# Weekly e-Newsletter

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### INSIDE THIS ISSUE:

News Categories	Page
<a href="#">Insurance Industry</a>	1
<a href="#">Life Insurance</a>	2
<a href="#">General Insurance</a>	3
<a href="#">Survey &amp; Reports</a>	3
<a href="#">IRDA Circulars</a>	4
<a href="#">Global News</a>	4

## Insurance Industry

### **Insurers, MFs run risk of contagion from banks: RBI - The Hindu Business Line**

Insurance companies and mutual funds run the risk of contagion from the banking sector, cautioned the Reserve Bank of India.

Random failure of a bank which has large borrowings from insurance companies and mutual funds may have significant implications for the entire financial system, said the RBI's Financial Stability Report.

Banks increased reliance on borrowed funds, especially short-term funds, due to disproportionate slowdown in deposit growth (at less than 14 per cent as at March-end 2012) vis-à-vis credit growth (16.3 per cent). This could translate into rollover and liquidity risks for banks.

#### **Gold loan cos**

Another example of interconnectedness cited by the RBI is between gold loan companies (non-banking finance companies) and banks.

The high dependence of gold loan companies on the banking system for funds could pose risks to the latter, in case the business model of these companies falters.

The exponential growth in the balance-sheets of the NBFCs, which are lending against gold, in recent years coupled with the rapid rise in gold prices along with expansion in the number of their branches is a cause of concern

### **The Challenges**

Going into 2012-13, the operating conditions for the Indian banks are expected to remain challenging given the weakening global economic outlook, adverse domestic macroeconomic conditions and policy uncertainties.

Banks in India are likely to be affected due to de-leveraging in advanced countries, though the direct impact is expected to be limited.

The RBI said concerns on loan quality persist as the growth of non-performing loans (up by 43.9 per cent as at March-end 2012) accelerated and continued to outpace growth. The increase in NPLs in FY12 was largely from priority sector, retail and real estate sectors.

Going forward, power and airlines sectors are likely to continue to face funding constraints and could also be affected by prevalent policy uncertainties. These could pose challenges to the banks' loan quality.

### **Risks to stability**

The combined effect of the dismal global macroeconomic situation and the muted domestic economic performance has caused marginal increase in the risks to the stability of the financial system.

The threats to stability are posed by the global sovereign debt problem and risk aversion, domestic fiscal position, widening current account deficit and structural aspects of food inflation.

The RBI said the downside risks to growth may persist given the headwinds from the global economy and moderation in private and government consumption and investment demand.

The persistence of overall inflation in the face of significant growth slowdown points to serious supply bottlenecks and sticky inflation expectations.

#### **Source -**

<http://www.thehindubusinessline.com/industry-and-economy/banking/article3581684.ece?homepage=true>

### **Insurance reforms back on govt menu - The Times of India (Bangalore edition)**

The finance ministry has revived plans to increase the foreign investment ceiling for insurance sector from

26% to 49%, and align the cap for pensions business with this.

Although North Block was earlier planning to stick to the 26% limit after the parliamentary standing committee voiced its concern over tweaking the rules, it subsequently changed its position and circulated a fresh Cabinet note, which is yet to be discussed by the ministers.

An official said that the note was sent to the Cabinet Secretariat a few weeks ago, but the Cabinet is yet to discuss it.

Higher foreign investment ceiling for insurance has been in the pipeline for close to a decade now, and the UPA has been pushing it since 2004. But the proposal first ran into opposition from the Left parties and then Trinamool Congress boss Mamata Banerjee held up a decision. Similarly, the government move to introduce the Pension Bill, which will lay down the foreign investment rules and provide statutory backing to the regulator, has been held up for several years.

Although Prime Minister Manmohan Singh, who took charge of the finance ministry earlier this week, has talked of reviving investor sentiment, he has remained silent on the issue of introducing these two Bills in Parliament.

Source -

<http://epaper.timesofindia.com/Default/Scripting/ArticleWin.asp?From=Archive&Source=Page&Skin=TOINew&BaseHref=TOIBG/2012/06/30&PageLabel=19&EntityId=Ar01907&ViewMode=HTML>

## Life Insurance

### *Irda for removal of loan against Ulips - Financial Chronicle*

Insurance companies may not give loan against your unit-linked policies in case Insurance Regulatory and Development Authority (Irda) puts into operation the latest draft guidelines on new products.

At present, a policyholder can get loan against saving and investment policies, both traditional and unit-linked insurance plans (Ulips) up to 85 per cent of the policies' surrender value.

Loans under Ulips shall not be allowed, said Irda in the second draft guidelines circulated to the insurance companies. After first draft of these norms was circulated last month, Irda had asked Life Insurance Council, the life insurance companies lobby group, to respond whether loans on Ulips be allowed or not.

The move to ban loans against Ulips has apparently been mooted to provide immunity cover to insurance companies from equity market volatility.

"Equities are volatile, and one cannot be sure about future value of policies. Fund value may drop substantially if market tanks. In such cases, fund value could be lesser than the loan value," said Gorakhnath Agarwal, chief actuary, Future Generali India Life Insurance.

But, Agarwal was silent on huge margins the insurance companies made when the equity markets were on a high.

This move to refuse loans against Ulips would deal a body blow to the policyholders as they would not be able to mobilise funds in case of an emergency. A customer cannot even surrender his Ulip policy and withdraw the fund value due to the five-year lock in period.

At present, in most cases, one is eligible for loan after sustaining the policy for three years. Interest charged on loan against insurance policy varies from company to company. At present, most company charge half-yearly interest of 9 per cent.

Policyholder needs to pay the interest along with the regular premium payments. At present, if an insurance company provides loan against Ulips, and market value of insurance policy slips below loan amount, the insurance contract is cancelled.

Life insurance companies are desperately waiting for guidelines on design of new products. Irda hasn't approved even a single product for launch in the market since the beginning of this financial year, as the insurance regulator wants all new products to comply with the new guidelines.

Some insurers say that the industry may not see new product launch till the end of the calendar year as it would take time to design products based on new guidelines. And, Irda will also take time to clear such products complying with the new guidelines.

Source -

<http://wrd.mydigitalfc.com/insurance/irda-removal-loan-against-ulips-188>

## General Insurance

### *Indian ships ferrying Iranian oil to get insurance cover - The Economic Times*

The government has directed public sector insurers to cover Indian ships carrying crude oil from Iran. The move is aimed at ensuring the commodity's uninterrupted supply, which is set to come under pressure after European insurers withdraw cover as part of the West's sanctions on the Gulf nation.

Iran is facing sanctions from the US and the EU over its nuclear programme. At present, cover for Indian ships transporting Iranian crude is provided only by Western insurance companies, which plan to withdraw it from July 1 to tighten sanctions.

"We have received confirmation from the finance ministry that we can provide insurance cover, subject to due diligence of assets and fixing of premium as in the normal course," a senior executive of General Insurance Corporation said

A finance ministry official confirmed the development.

Last week, Oil Minister Jaipal Reddy had said India would continue to import crude from Iran. "India observes only UN sanctions," Reddy said.

Iranian crude is important for India, which imports more than 80% of its petroleum requirements.

In its directive to general insurers, the finance ministry said they can seek re-insurance from other re-insurers operating in countries that are importing oil from Iran.

"There are some countries in south-east and central Asia that are importing oil from Iran, and a re-insurance cover from insurers based in such countries is being explored," the GIC executive said.

The finance ministry official, however, said no decision had been taken on GIC's request for a \$100-million sovereign guarantee. "We do not see a case for that as of now," the official said.

According to industry executives, the cost of insurance cover for hull and machinery, and protection and indemnity insurance, works out to about \$200 million. "We have already made arrangements through our own sources and through foreign re-insurers for about \$100 million. We were seeking the balance amount from the government," the GIC executive said.

Earlier, oil secretary GC Chaturvedi had said that the government was considering sovereign guarantee for

Indian vessels. "We are providing for contingency. We are taking all steps to ensure supplies are not hit," Chaturvedi had said.

Source -

[http://articles.economictimes.indiatimes.com/2012-06-29/news/32472493\\_1\\_indian-ships-public-sector-insurers-sovereign-guarantee](http://articles.economictimes.indiatimes.com/2012-06-29/news/32472493_1_indian-ships-public-sector-insurers-sovereign-guarantee)

## Survey & Reports

### *Number of motor injury claims soars 18%*

#### **Number of third-party bodily injury claims up 18% and payout costs for small claims up 9% from 2010 to 2011.**

Claims inflation on motor bodily injury is still rising rapidly, a report by the Faculty of Actuaries reveals today.

The report reveals that third-party accidents involving bodily injury soared 18% between 2010 to 2011.

There was also a 9% increase in the average cost of small third-party bodily injury claims. All of this was against a backdrop of an 11% decrease in third-party damage claim frequencies.

The report found there were "claims clusters" in places such as include Oldham, Liverpool, Manchester, Sunderland and Wigan, where claims management companies are at their most prevalent.

Injury claim rates were lowest in Aberdeen, Kingston upon Thames, Dorchester, Cambridge and Exeter.

The Institute's chairman, David Brown, said: "The increase in costs to insurers is likely to result in a rise in motor insurance premiums for drivers.

"The clear correlation between claims management office locations and the 'hotspots' for bodily injury claims suggests the two are interlinked. We expect to see legislation coming soon which will affect the way these companies do business."

#### **The report also found that:**

Third-party damage claim amounts increased by 12.5%, a dramatic rise from 2010. The data also points to a slowing down in third party property damage settlement rates.

For the third year in a row payment protection order awards that were settled in the UK motor insurance market totalled around the 70 mark, suggesting that a 'mercury level' has been reached.

There is evidence of stabilisation in the average PPO awards. The average age of PPO claimants increased only slightly from 34.4 years in 2010 to 35.2 years in 2011. Consistent with this increase, there was a slight decrease in future life expectancy in the 2011 data from the previous year reducing from 41.5 years to 40.4 years.

The average size of an annual PPO payment in 2011 was £78,700 – almost identical to the 2010 data.

Source - <http://www.insurancetimes.co.uk/biba-slams-europe-for-railroading-mandatory-disclosure/1397401.article>

## IRDA Circulars

The Insurance Regulatory and Development Authority of India (IRDA) vide its Circular dated 29th June, 2012 published list of accredited Agents Training Institutes (offline) approved by the authority.

Source - <http://www.irda.gov.in/ADMINCMS/cms/NormalData/Layout.aspx?page=PageNo709>

## Global News

### Asia

#### *Asia Pacific life insurance facing challenging times*

Key life insurance markets in Asia-Pacific are facing challenges associated with weakening or slowing economic conditions and volatility in investment markets, Standard & Poor's said. The ratings agency said it sees these economic and investment market factors adversely affecting growth momentum, weakening capitalisation and hampering earning prospects to varying degrees in the region. "Our expectation is such that our stable credit outlook for the Asia-Pacific life insurance sector is moving towards a negative bias," said the report Asia-Pacific's Life Insurance Market Faces a Challenging Outlook For 2012. "We have revised to negative from stable the outlook on the life insurance sectors in China and Taiwan" said Standard & Poor's credit analyst, Michael Vine.

"In the same vein, we have revised to stable from positive the outlook on the life sector in Korea, and maintained our stable outlooks on remaining life sectors covered in the region - on the basis of ongoing growth prospects and supportive capitalization in those markets."

The move to a negative outlook reflects weakening capitalisation and projected lower growth in the short term for China's life sector, while for Taiwan's life sector, pressure on capitalisation and growth as well as exposure to investment market volatility. Japan's life sector outlook remains negative for economic and sovereign rating issues, although the sector's fundamentals are stable with moderate premium growth expected.

Source - <http://www.business-standard.com/india/news/asia-pacifics-life-insurance-mkt-in-for-testing-times/479321/>

### Middle East

#### *Gulf Insurance Company wins the Best Insurance Provider in the Middle East 2012 Award*

Gulf insurance company, the leading insurance company in Kuwait, has recently won the "Best Insurance Provider in the Middle East 2012" Award by Global Banking and Finance Review. An annual award given to selected distinguished companies around the world in the banking and finance industry.

Furthermore, these accomplishments have not come by coincidence, but by the huge efforts of the customer service's team and the uniqueness of this well established company, and it came as a testament to the confidence in the company's performance, and as a clear mark that GIC applies a great strategic work plan in the insurance industry, and also as recognition to its ongoing record of success.

Commenting on this achievement, the Manager of the Corporate Communications & Investor Relations Department at GIC, Khalid Al Sanousi said, "This international award comes as recognition of the company's qualitative leap. Considering that GIC was chosen after a series of assessments by industry analysts consisting of, detailed research on Quality, Performance, Claims experience, Customer Service, Innovation, Market Share and Quality of Product offering. This indicates that GIC has been successful and has proven to be a top player in the Region."

It is noteworthy to point out that Gulf Insurance Company has recently received an A- rating from Standard and Poor's, one of the top rating agencies, along with an A- rating from A.M. Best. This outstanding achievement makes GIC the only insurance company in Kuwait that has a double Global Credit rating of (A-) from two of the top rating agencies, Standard & Poor's as well as A.M. Best.

Additionally, GIC recently launched its custom made iPhone application in to ensure customer convenience

where they can issue and renew Motor and Boat TPL insurance, renew Motor comprehensive insurance, and issue Travel Assist insurance and many other services on the move.

Global Banking and Finance Review is an online portal which has evolved from the growing need to have a more balanced view for informative and independent news for the global banking and finance industry. It is read in over 190 different countries in the world and gets around 250,000 to 500,000 page views on a monthly basis.

Source –

<http://www.ameinfo.com/gulf-insurance-company-wins-insurance-provider-305239>

## UK

### ***Biba slams Europe for railroading mandatory disclosure***

Brokers now face a five-year timetable to prepare for mandatory disclosure to clients

Biba today hit out at the European Commission's revised plans to push through mandatory disclosure for general insurance brokers.

The Commission's revised Insurance Mediation Directive (IMD II) wants mandatory disclosure from brokers.

The European Commission has set a five-year timetable for its implementation once the IMD is rubber-stamped by Brussels.

It means brokers will have to reveal to customers remuneration on a transaction, probably by 2019 at the latest.

Biba is demanding that insurers disclose details of remuneration when customers buy a policy direct, creating a "level playing field".

Biba training and compliance head Steve White said: "We are pleased that the majority of points that we have made to the Commission have been taken on board in this text, but we still have major concerns in some areas. "Our primary concern is around mandatory disclosure and where it is imperative from a European perspective that a level playing field is established with insurers when selling direct."

Biba said it was "extremely concerned" that the Commission had ignored the views of EIOPA (the European Insurance and Occupational Pension Authority), HM Treasury, the Financial Services

Authority and all the leading insurance broking representative bodies in Europe.

Biba chief executive Eric Galbraith said: "Biba alongside BIPAR (European Federation of Insurance and Financial Intermediaries), will in the coming months, continue to actively promote its detailed views during the final stages towards the definitive adoption of the Directive by the EU co-legislators, the European Parliament and the Council of Ministers."

Biba said it was pleased that travel agents and price comparison sites were part of the directive. It means both industries will have to show greater transparency when selling products.

The IMD text now enters the European legislative process and is expected to be finalised and published in late 2013 or early 2014, with an implementation no later than two years after.

Source –

<http://www.insurancetimes.co.uk/biba-slams-europe-for-railroading-mandatory-disclosure/1397401.article>

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