Insurance Institute of India

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Newsletter

09th– 15th March 2012

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Life Insurance

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News	Life insurers hail move to reduce ratio of premium paid to sum assured
Newspaper	The Hindu Business Line
Source	http://www.thehindubusinessline.com/industry-and-economy/banking/article2988540.ece

Mumbai, March 12:

The report of the Standing Committee on Finance, released recently, has given life insurance companies a reason to rejoice. The Committee has recommended that for insurance policies to be eligible for tax exemption the sum assured should be 10 times the annual premium.

In the Direct Taxes Code, this limit was set higher, at 20 times the annual premium.

The Committee said increasing the ratio of premium paid to sum assured to 20 is too drastic a change and will have an adverse impact on the life insurance sector. Hence, it has recommended a more reasonable multiple/ratio of 10 times the annual premium, which will fulfil the desired objective of ensuring adequate protection in insurance.

Most insurance companies feel this recommendation, if accepted, would help both policyholders and insurance companies.

Mr Amitabh Chaudhry, Managing Director and CEO, HDFC Life, said it is a fair recommendation if tax rates are kept at the currentlevel.

"Reducing the ratio of the premium to sum assured from 20 times to 10 times is very welcome," he said.

According to Mr Kamalji Sahay, Director and CEO, Star Union Dai-ichi Life Insurance, the ratio of 20 times was too stiff. Reducing it to 10 will help insurance companies in designing suitable products. It is also customer-friendly and will allow customers more flexibility in choosing policies.

"Earlier, companies were selling policies which offered a sum assured of just five times the premium. Now they would have to increase it to 10 times, so the tenure of the policy too would have to increase to at least 10 years. This will suit both consumers and companies," he said.

Mr P. Nandagopal, MD and CEO, India First Life Insurance, said that this reduction is in line with recommendations of the Life Insurance Council as well as guidelines of the IRDA.

It would also ensure that consumers' who have already purchased policies, where the ratio between premium and the sum assured is less than 20 times, would not suffer.

"More than the ratio between the sum assured and the premium, the focus should be more on the tenure. Essentially, tax exemption should be given for long-term policies, maybe 10 years or more," he said.

Insurance Regulation

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News	IRDA to streamline servicing of 'orphaned' life insurance policies
Newspaper	The Hindu Business Line
Source	http://www.thehindubusinessline.com/industry-and-economy/banking/article2988383.ece

Hyderabad, March 12:

If your agent stopped servicing life insurance policy after making you buy it, there is nothing to worry.

Such policies, which are 'orphaned' due to exit of an agent from the profession after selling a policy, should be well-serviced by the insurers by allotting them to other agents, the Insurance Regulatory and Development Authority said.

In its exposure draft on servicing of orphaned policies, the regulator said a large number of agents were discontinuing their services with a given insurance company before completing the minimum service prescribed.

At present, a minimum period of five years is must for an agent to get renewal commission.

Due to this, some policies are left ‘orphan' and the policyholder suffers from lack of proper assistance in the servicing of the policy.

The insurance company also suffers because of the drop of persistency which might occur in such cases.

“It is important and in the interest of such policy holders to provide for a system where they are not denied the benefit of having an agent to look after their policy service issues in the best interest of policyholders,'' IRDA said.

The life insurers shall notify the particulars of ‘allottee agent' to the concerned policy holders as well.

While allotting the policies for servicing, the life insurers should direct the allottee agents that all policy services shall be rendered similar to how an insurance agent would render to those policies that were otherwise effected by him / her.

The insurers should put in place procedures for capturing the details of the policy allotted agents who are servicing the allotted policies, in order to ensure that the objectives of allotment are met, the draft said.

Global News

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Asia

News	Japan: Insurers and govt working to improve residential quake cover
Newspaper	Air e-daily Asia Insurance Review
Source	http://www.asiainsurancereview.com/pages/e-weekly-archive.asp

Ahead of the first anniversary of the 11 March earthquake and tsunami in northeastern Japan, Fitch Ratings has issued a special report saying that non-life insurers and the Ministry of Finance have started discussions on how to improve Japan's residential earthquake insurance. The panel will consider raising claim limits, which are currently set at 30%-50% of the amount insured for the homes that are quake-absorbing. At the same time, premiums for earthquake insurance are likely to be raised for areas that face higher earthquake risks. Details of the reforms will be determined by end-March 2012.

The report, titled "Japan Earthquake Insurance: The Great Tohoku's Effects", says that given the magnitude of earthquake risk coupled with limited availability of reliable statistics, Japanese non-life insurers have been conservative in underwriting earthquake riders other than on residential earthquake insurance.

The two earthquake riders are: 1) a rider attached to fire insurance that covers loss on fire from earthquake for residential, office and factories; and 2) extended cover to commercial insurance. The total amount of risk exposures covered under these two riders fall outside the Japan residential earthquake insurance scheme and are thus borne by the insurers.

The amount of earthquake claims recently incurred, followed by the sharp increase in earthquake reinsurance rates has restricted Japanese non-life insurers from writing additional earthquake insurance beyond their existing reinsurance arrangements. The increasing amount of unprotected earthquake risk is now largely borne by the industrial companies themselves.

Fitch says that the balance sheets of Japanese non-life insurers are well protected through reinsurance cover. Fitch Ratings had affirmed all of the five Japanese non-life insurers by June last year. The economic loss of the March 2011 earthquake was small compared to the PML as the seismic area was distant from the great Tokyo area. Furthermore, Japanese insurers are required to accumulate CAT reserves for earthquake insurance which is not covered by the residential insurance scheme.

The rating agency says that the insured loss of the earthquake amounted to JPY2.7 trillion (US$33.2 bllion), representing 16% of the economic loss incurred of JPY16.9 trillion. Compared to other significant earthquakes and tsunamis in the US and New Zealand, Japan's insured loss was smaller in proportion to the economic cost. The gross insured loss of the five major non-life insurers, excluding the residential pool, represented only 3.6% of the economic loss. Japanese non-life insurers managed to recover two-thirds of the gross insured loss via effective reinsurance arrangements.

Middle East

News	Jordan: Govt may liberalise prices of TPL
Newspaper	eWeekly Middle East
Source	http://www.asiainsurancereview.com/pages/e-Weekly.asp?country=8

The government is likely to liberalise prices of compulsory third party liability (TPL) insurance service this year, said media reports citing the head of Jordan Insurance Federation (JOIF), adding that the final decision is pending the outcome of a study.

The reports said the regulatory body, Insurance Commission of Jordan, will task a foreign consultancy firm to carry out a study on the insurance sector in the country to find solutions for stopping financial losses incurred by service providers. The study will take a few months, said JOIF President Othman Bdeir.

Mr Bdeir said the sector's losses in 2011 were around JOD28 million (US$39.5 million), while the projected losses for 2012 may exceed JOD30 million as a result of the current insurance system.

The current fixed rate of TPL insurance coverage to cars is currently JOD93. With only a handful of insurance companies in the market able to generate modest profits in 2011, the sector hopes the price liberalisation of TPL will improve the market situation.

Europe

News	***'Remember AIG' - EC defends Solvency II against attacks***
Newspaper	***Insurance Times***
Source	***http://www.insurancetimes.co.uk/remember-aig-ec-defends-solvency-ii-against-attacks/1395350.article***

The European Commission has released a statement defending Solvency II against a barrage of criticism that has come out of the UK over the past week.

The Commission said it “fundamentally disagrees with statements made by some insurance companies that Solvency II leaves them with no choice but to leave the EU”, insisting that Solvency II “will improve the international competitiveness of insurers, not undermine it”.

The statement is largely in response to Prudential’s announcement that it may consider leaving London for Hong Kong because of the impending Solvency II rules.

“There continues to be uncertainty in relation to the implementation of Solvency II and implications for the Group’s business,” said Prudential in its annual report. “Clarity on this issue is not expected in the near term.”

Following the Prudential’s statement, UK prime minister David Cameron described Solvency II as “ill thought-out” and said it was “endangering a great British business that should have its headquarters in the UK”.

In response to Cameron’s criticism, European Commission head of unit for insurance and pensions Karel Van Hulle insisted all parties had been involved “at each and every state of the process”.

His sentiments were echoed in this latest statement from the Commission. “Our proposals have not been plucked from the sky. Solvency II has been subject to more consultation and impact studies that any initiative carried out in the framework of financial services. They all show the benefits by far outweigh the costs.”

The current regulatory framework for insurers is outdated, it continued, and now is not the time for “complacency” in the financial sector.

“What we want to achieve with Solvency II is simple: good risk management and greater protection for policyholders. Ultimately, it’s taxpayers who will benefit too. And because we have a secure and sound framework, the EU will be a more attractive place for insurers to operate in.”

“Suggesting the Americans are doing nothing in this area is false,” it added. “Remember that the old American system gave us AIG. The US is also now regulating its insurance companies better, drawing the right lessons from the crisis.”

“There are a few issues which indeed remain to be solved,” it conceded. “But they should not be exaggerated. And we count on all parties involved, including Prudential, to work constructively in order to find suitable solutions to them. It’s up to Member States and the European Parliament to conclude negotiations now. But there is no need for alarm.”