Insurance Institute of India
C – 46, G Block, Bandra-Kurla Complex, Mumbai – 400051
INSUNEWS
- Weekly e-Newsletter
8th – 14th November 2013

INSIDE THE ISSUE

News	Pg.
Insu Indst	1
IRDA Reg	4
Reinsu	4
IRDA Cir	5
Global News	5

Insurance Industry

Life insurers back on growth path after 3 years: IRDA – The Hindu Business Line

After three years of decline, life insurance business is back on the growth path, according to the Insurance Regulatory and Development Authority (IRDA).

"After September 2013, all companies have shown positive growth. The feel-good factor has come back, driven by the new product regime," Sudhin Roy Choudhury, Member (Life), told Business Line on the sidelines of the convocation at the Institute of Insurance and Risk Management (IIRM) here on Thursday. The new product design norms for traditional products, which are being implemented, are more 'customer-friendly' and helping in the revival of new business. They also provide for death benefit of at least ten times of the premium.

"There is greater business being done by agents as we have relaxed some of the norms for agents' appointments. Bancassurance is also doing well," he said, explaining the drivers of growth. The industry witnessed a steep fall in business after the introduction of new guidelines in September 2010 for unit-linked insurance plans, stipulating, among others, lower commission for agents and higher lock-in periods.

Unit-linked plans, at that time, accounted for over 80 per cent of business of private life insurers. The overall premium income declined from Rs 2.91-lakh crore in 2010-11 to Rs 2.87-lakh crore in 2011-12, mainly due to a fall in Ulip sales, which are yet to recover.

The first year premium underwritten by life insurers declined 6.32 per cent to Rs 1,07,013 crore in the financial year ended March 31, 2013, from Rs 1,14,234 crore in the previous year. This resulted in substantial downsizing of the industry, including a reduction in workforce and closure of branches.

"We have cleared about 400 new life products as per the new design norms, and only a few are pending," Choudhury said, adding that sales would go up in the remaining quarters.

SUSTAINABLE?
But will the growth trend sustain? Industry seems confident it would.

"What is important is the underlying mood of the market which is positive," said Sandeep Bakshi, Managing Director, ICICI Prudential Life Insurance Company. The better understanding of Ulip products and attractive traditional products now being offered would boost business," he said. Manoj Kumar Jain, Chief Executive Officer, Shriram Life Insurance, also believes that the industry is set to grow. "We are also expecting 10 per cent growth in business this year," he added.

Source

Back

Banks offer overseas staff training for high insurance sales - The Financial Express

As regulators prepare final norms to check mis-selling of third party financial products by bank employees, some banking majors are offering overseas training programmes for staff meeting high insurance sale targets.

These training programmes are being organised at exotic locations abroad, as also within India, depending on the quantum of insurance sales brought in by the employee.

Some of the most frequented places for such programmes include Singapore, Switzerland and Kuala Lumpur, as also exotic domestic locations like Goa.

While it is common for insurance companies to offer their staff members participation in such training programmes, organised by global entities like Million Dollar Round Table (MDRT), a few banks have also offered MDRT programmes for its staff bringing in high insurance sales, the latest being leading private sector lender HDFC Bank.

When contacted, HDFC Bank denied violations of any rules with such a training programme and said: "Our proposed engagement with MDRT is a training programme aimed at engaging employees in higher learning, an area that has always been a focus for the Bank.

"It is intended to nurture expertise in customer service and develop specialised skills such advisory roles require. Also, the entire cost of the programme is to be borne by the (HDFC) Bank," it added.

The bank also said that MDRT is "regarded as a global standard of excellence, and leading financial services companies both in India and abroad have been participating in it".

MDRT is a US-based premier association of financial professionals from across the world and its members include employees of many top insurers from across the world, including Indian insurance majors like LIC, SBI Life, ICICI Prudential, HDFC Life and Reliance Life Insurance.

In the past, state-run State Bank of India (SBI) has even felicitated some staff members for getting MDRT membership, while its life insurance venture SBI Life has figured among the top insurers globally in terms of MDRT memberships.

Officials said that SBI and a few other banks have stopped sending their own staff members for MDRT programmes, which are now mostly being attended by employees of their insurance ventures.

While some banks are offering internal training programmes to their high-performing staff members, a few of them have proposed training programmes organised by MDRT.

While banks and insurers say that these staff training programmes are part of their HR practices, a senior official said the regulators are concerned that such offers could be tantamount to insurance sale targets being set for employees, especially when it comes to bank staff selling third-party financial products (insurance policies in this case.

"The matter is of greater concern today as RBI has already issued draft guidelines on marketing and distribution of third party products by bank employees, which talks about prohibition on cash and non-cash incentives to bank employees for bringing in such businesses," the official said.

These draft guidelines were issued by RBI in late June after investigating allegations that certain banks were involved in structuring transactions to aid tax evasion and fraudulent transfer of funds.

Insurance sector regulator IRDA also disallows any payments besides commission for sale of insurance products, and the commission too is subjected to a cap.

Many companies in the past have been found to have organised overseas and domestic trips to exotic locations in the guise of training programmes, but the number of such trips have come down after regulators termed them as incentives.

After Cobrapost sting operation earlier this year, RBI had summoned all bank CEOs and instructed them not to run any overseas trips or contests.

Subsequently, RBI had said after its monetary policy meeting in May that banks are allowed to market insurance and mutual fund products as agents of other entities on non-risk participation basis.

"It has been observed that in some cases, banks did not have clear segregation of duties of marketing personnel from other branch functions, and bank employees were directly receiving incentives from third parties such as insurance, mutual fund and other entities for selling their products.

"Such practices may lead to mis-selling and distortion of the staff incentive structure," RBI noted, while asking banks to ensure that their employees do not receive cash/non-cash incentives directly from insurance companies, mutual funds and other third party product providers.

Source

The banks were also asked to have a board approved policy to avoid mis-selling and conflict of interest in marketing and distribution of own or third party financial products.

New products in sync with modern times: IRDA - The Hindu

The Insurance Regulatory and Development Authority (IRDA) has so far cleared 400 renewed life insurance products ahead of December 31 deadline. It will clear the balance 60 and odd products well before the deadline, Sudhin Roy Chowdhury, Member (Life), IRDA, said here on Thursday.

Speaking on the sidelines of a conference here, he said, "Now the products are cleaned up and new ones with good designs are out. They are in sync with modern times. One of the key differences between the phased-out products and new ones is that there is higher death benefit for consumers which is ten times the total premium." The idea was to ensure a big sum for the customer at the time of adverse eventuality, he said. Following a request from the Life Insurance Council, the IRDA had extended the October 1 deadline till December 31 for insurance companies to make changes to traditional products and re-file them with the regulator.

The industry, after a three year de-growth, was showing positive trends from September. The new channels of sales such as bancassurance, intermediaries, web aggregators and online sales were expected to push growth in a big way, Mr. Chowdhury said. This apart, the insurance repository system, which was launched for life insurance policies on September 16, was also another key initiative by the IRDA to empower people, Mr. Chowdhury said.

The repository system facilitates policyholders to keep insurance policies in the electronic format. The system protects policyholders against loss of details in case of mutilation or loss of physical document. The IRDA has licensed five companies — NSDL Database Management, Central Insurance Repository, SHCIL Projects, CAMS Repository Services and Karvy Insurance Repository — to act as insurance repositories.

Source

Back

Universal cover to compensate for catastrophes coming - The Hindu Business Line

The Government may soon ensure universal insurance cover for people and properties affected by natural disasters. The trigger for this move has come after massive economic losses were witnessed during recent catastrophes such as Cyclone Phailin and the flash floods in Uttarakhand. The Insurance Regulatory and Development Authority and the National Disaster Management Authority had, in fact, recently finalised a report on setting up such a cover for people and properties not under the insurance blanket, according to a senior IRDA official.

IRDA has sent the report to the relevant ministries and expects a decision from them soon, said the official. Currently, the general insurance industry is discussing issues such as the modelling of such a cover, means of settling claims and premium, reimbursements to the NDMA and other authorities. "At present, the Government spends thousands of crores on relief packages after a disaster. We have been discussing whether a small portion of that, say 5 to 10 per cent, can be set aside as premium payment for an insurance cover. This will enhance the efforts to rebuild destroyed public utilities and provide pre-defined compensation to the victims," the official said.

STATE GOVT HELP

"We are in discussions with various State Governments and the centre for finalising the mechanism and formation methodology of the insurance fund. We expect the insurance cover to help in faster reconstruction and rehabilitation, especially of public properties where it takes a lot of time for funds to be released currently," said a senior NDMA official. At present, insurance against natural disasters is a part of property insurance. However, currently the penetration of property insurance is very low.

General Insurance Corporation (GIC Re), the national re-insurer, is expected to tackle the reinsurance side of such a cover. "There are issues regarding who has to be brought into the insurance cover and who will pay the premium. The consensus is that the entire population of India should be brought under this cover," said Ashok Kumar Roy, Chairman and Managing Director, GIC Re.

G. Srinivasan, Chairman and Managing Director, New India Assurance, said: "The economic losses during catastrophes far exceed insured losses internationally, but in India, this ratio is more drastic due to poor penetration of general insurance. So, especially, for the large population who cannot afford insurance, the Government has to step in. They have done this with health insurance. We will have to wait for a few months for the scheme to be finalised, but it will definitely take shape soon."

Source

IRDA Regulation

IRDA moots Insurance Clearing House - The Hindu Business Line

In view of the inter-company balances in re-insurance and co-insurance business, the Insurance Regulatory and Development Authority has proposed to set up an Insurance Clearing House.

"The inability of the parties to the transactions to agree appears to be the primary reason for the growing inter-company balances. It is also noticed that lack of cooperation between the companies and inadequate documentation is posing a great problem towards the efforts to minimise these balances,'' IRDA said in the draft guidelines on ICH.

ICH would ensure timely and effective reconciliation of the inter-company re-insurance and co-insurance balances and their timely and efficient settlement of these balances, it said.

It would be registered under the Companies Act 1956 as a public limited company with a minimum paid-up share capital of Rs 100 crore and licensed under the provisions of these guidelines to act as an Insurance Clearing House.

It would be promoted by Indian insurers, reinsurers and the Authority. The Authority may offload its stake gradually over a period of time. No single insurer or reinsurer would have more than 10 per cent of the paid-up capital. The holding would be restricted to entities in insurance business licensed in India, the draft guidelines said.

Source

Back

IRDA norms for non-life covers likely - The Times of India (Mumbai edition)

After cracking down on charges on unit-linked and traditional policies sold by life insurers, the insurance regulator is shifting focus to the non-life sector. According to sources, the Insurance Regulatory and Development Authority (IRDA) will come out with new distribution norms that seek to bring uniformity in pricing for individual cover and bulk covers.

Sources said that the regulator has observed that there is a significant difference in rates although the risk assumed by the insurance company is identical. The thinking in regulatory circles is that insurance companies are taking a lazy approach to increasing top line by accepting bulk business at lower rates. The discounting for bulk business is taking place in motor and health insurance. Groups and car dealerships manage to get cover at a fraction of the price paid by individuals. As a result of this discounted rate for wholesale cover, the industry is reporting a higher claims ratio. This, in turn, pushes up rates across the board.

"In health insurance, the individual business is profitable. But because of the discounts given to groups, the claims ratio worsens. This result in higher rates," said a source.

Source

Back

Reinsurance

BRICS nations keen to set up Reinsurance Company - The Economic Times

After proposing a development bank, the BRICS countries are preparing to strike out on their own in reinsurance as well. India has suggested to other BRICS members (Brazil, Russia, China and South Africa) that a reinsurer will cover large infrastructure projects that the emerging economies are focused on and counter sanctions imposed by western countries such as those related to Iran, which is a key oil supplier to India and other countries.

The proposal was discussed at a meeting held in South Africa last week, according to a senior government official. "It was a part of the discussions. The proposal is in a very formative stage and no final decision was taken," said the official, adding that it was too early to put a number on the capital or the specifics of the proposed reinsurance firm.

The move comes close on the heels of the BRICS Development Bank. In September, the countries decided to capitalise the bank with $50 billion. This is part of the $100-billion foreign exchange reserve pool, to which

Russia, Brazil and India will contribute $18 billion each, South Africa $5 billion and China, the largest amount at $41 billion. "There is no timeline on this (reinsurance firm). It has been almost a year since the idea of the development bank has been mooted but there are more regulatory issues with the bank. So, if the bank is finalised, this should follow soon," the official added.

The proposed reinsurance firm will pool resources to diversify risk and cover large infrastructure and sustainable development projects. According to a report by PwC, the value of insurable plant and infrastructure in China, India and Brazil has surged since 2005 on the back of nearly $20 trillion of investment. "Besides, such a firm can provide reinsurance cover in cases similar to oil import sanctions from Iran," the official said. Because of the US and EU-led sanctions on oil imports from Iran, global insurers provide reinsurance to crude shipments from the country with a "sanction clause", which limits the amount they would pay should a claim arise.

The Indian government had set up a Rs 2,000-crore Energy Insurance Pool to facilitate cover for crude purchases from Iran. India wants to import 13 million tonnes of crude oil from Iran in the current financial year.

Source

India is also hopeful that such a firm can help the country as it has abysmally low general insurance penetration - insurance premium as a percentage of GDP - at 0.71%. The density of general insurance in India is less than $9 while it is $53 in China.

Back

IRDA Circular

Source

The IRDA has uploaded the Exposure Draft on "Insurance Clearing House" to all interested parties and stakeholders and invites comments and suggestions on the draft guidelines.

Source

IRDA has given the status of Insurance Brokers as on 31st October 2013

Source

IRDA Has given status of Insurance Surveyors as on 12.11.2013

Source

IRDA has uploaded the figures of First Year Premium of Life Insurers for the Period ended September, 2013

Back

Global News

China: Deposit insurance ready but for decision on saving ceiling – Asia Insurance Review

The design of China's deposit insurance system is basically completed, with the decision on the maximum amount of deposits that would qualify for the insurance being the final hurdle to cross.

An official of the People's Bank of China, has said that the central bank is considering making the deposit insurance scheme cover 100 percent of the deposits owned by 98 percent of all savers. Experts have analysed that savers with deposits of up to CNY50,000 (US$8,208) represented 98 percent of all savers. This seems to indicate that the maximum amount of deposits to be covered by the proposed insurance scheme would be CNY50,000, reported the Caixin news website.

However, there are views opposing the idea of providing 100-percent coverage of savings. The argument is that moral hazard exists in such a proposal as banks would be encouraged to take on greater risks.

Debate rages fiercely too over which entity would provide the deposit insurance coverage. On the one hand, there are suggestions for a specialised deposit insurer to be set up; on the other hand, the arguments are that a standalone deposit insurer would not be able to generate sufficient business.

Source

China is planning to establish the deposit insurance scheme as it is eyeing further liberalisation of the financial sector. The reforms would include the establishment of more privately owned banks and allowing the banking industry to set interest rates freely. The fear is that looser regulations would contribute to greater risks in the financial sector which could be to the detriment of savers.

Florida law to reduce PIP fraud credit positive: Fitch - http://www.reactionsnet.com

New Florida laws designed to reduce loss cost volatility and claims fraud in the no-fault auto insurance system would be credit positive for property and casualty insurers, Fitch Ratings said.

Florida has the fifth worst direct underwriting results in the US in private passenger automobile insurance from 2008 to 2012.

The laws will not be fully effective until mid-2014 when he no-fault auto insurance system (commonly referred to as personal injury protection or PIP) prices are required to decrease by 25% and initial implementation will have some seasoning.

“Still, some industry participants have reported seeing a reduction in the cost of some claims,” said Fitch.

The legislation was designed to target abuse in Florida PIP, which has been estimated as high as $1bn a year, according to Fitch.

Major changes in response to this law include requirements that accident victims must begin receiving treatment within 14 days of injury.

Available benefit payments of $10,000 per claimant are only available for medical emergencies and are $2,500 otherwise.

Acupuncture and massage therapy are also no longer considered payable sources of treatment.

The law also increased penalties for fraud and set limits on attorney fees.

Florida is the third largest state for private passenger auto insurance based on direct written premiums, Fitch reported.

The largest five writers in Florida account for over 60% of the market and include National Indemnity Company with a 17% market share, State Farm Mutual Insurance with 16%, Progressive Insurance Group with 13%, Allstate Insurance Group with 11%, and United Services Automobile Association with 5%.

Source

Fitch said it will continue to monitor developments related to the Florida PIP market to determine what impact, if any, it could have on ratings.