Insurance Institute of India

C – 46, G Block, Bandra-Kurla Complex, Mumbai – 400051

INSUNEWS

- Weekly e-Newsletter

18th – 24th April 2014

• Quote for the Week •

"Education is the most powerful weapon which you can use to change the world"

Nelson Mandela

INSIDE THE ISSUE

News	Pg.
Insu Indst	1
Life Insu	2
Health Insu	3
Genral Insu	4
Survey	6
IRDA Cir	6
Global News	8

Insurance Industry

Banks may be allowed to act as corporate agents for multiple insurers - The Hindu Business Line

In a bid to ensure that banks offer more choice in insurance products through their branches, a proposal is likely to be made to allow banks to tie up with multiple insurers, as corporate agents.

A committee set up by the Finance Ministry to break the deadlock in insurance broking is likely to suggest this model as an alternative to the broking model, which most banks have been hesitant to take up, said a senior industry official close to the development.

The committee, headed by RBI General Manager Reena Banerji, also includes other RBI officials, bankers and a senior representative from the insurance regulator. The panel is expected to submit its report to the Finance Ministry shortly.

Irritant for banks

The insurance broking issue has become a major irritant for banks. Though the Finance Ministry wants banks to sell policies of multiple insurance companies as brokers, banks are opposed to the idea on the ground that they have exclusivity contracts with the foreign insurance companies through joint ventures. Also, banks feel that as brokers they will have to play a much bigger role in the insurance sales process as they will have a fiduciary responsibility to the customer.

This would entail setting up a separate vertical, making a provision for risk capital and buying a professional indemnity policy. If banks continue as as agents, the responsibility for mis-selling and the cost of setting up the insurance infrastructure primarily rests with the insurer. Under the present system of distribution through bank branches (bancassurance), banks act as corporate agents and exclusively sell the policies of only one life insurer, one non-life insurer and a standalone health insurer.

No partners

While most life insurance companies, including ICICI Prudential, SBI Life, HDFC Life and Max Life have either tied up or been promoted by banks, other life insurance companies have been struggling to find a bank partner.

To make it a level playing field and open up the banking network to other insurers, Finance Minister P Chidambaram had announced in last year's Budget that banks would be allowed to become insurance brokers. However, banks are not keen on this as their commissions are lower under broking regulations and their cost of compliance jumps significantly.

Says Anup Rau, CEO of Reliance Life insurance: "Ultimately, customers need to be offered choice at bank branches. So, a model that works for everyone (banks and insurers) is important to achieve it."

Manoj Jain, CEO of Shriram Life Insurance, said that at present, out of the 130,000 bank branches, only 30,000 are used to sell insurance products. By opening up bancassurance, he says, other insurers will be able to utilise the rest.

Source

Specialised insurance cos to boost next phase of growth: Irda chief - The Financial Express

Insurance Regulatory and Development Authority (Irda) chairman TS Vijayan has pushed for specialised insurance companies for the next phase of growth in the country. The specialised firms would offer unique products in areas such as export credit, disaster management, agri-business and health.

Speaking at the inauguration of the bank business branch of Export Credit Guarantee Corporation of India (ECGC), he said the importance for specialised insurance companies is rising by the day. The insurance regulator stressed on the need to increase exports to overcome the current account deficit problem with insurance playing a pivotal role in credit guarantee. ECGC got registered with Irda in 2002 and is promoting Indian exports with a variety of insurance products to exporters and bankers. It provides export credit insurance facilities to exporters and banks in the country.

On the sector trends, Vijayan said growth has returned in the insurance industry as both life and non-life segments performed better in 2013-14. New premium collections in the life insurance sector grew by 12% for the year ended March, 2014, compared to a 6% drop in new premium collections in the year-ago period. The growth in the non-life sector was around 13%. During 2012-13, the total premium in life and non-life insurance stood at Rs 2.87 lakh crore and Rs 63,000 crore.

Source

He said the focus was back into the group policies in the life insurance segment while traditional life products were showing good traction of late and expected health insurance would lead the insurance sector's growth in the current year. As per the provisional figures, in the non-life segment, the growth in total business premium collections in 2013-14 was around 13% at Rs 63,000 crore.

Back

Life Insurance

Growth is back in insurance sector, says Irda chief - Business Standard

Insurance Regulatory and Development Authority (Irda) Chairman T S Vijayan on Saturday said the growth has returned to the insurance industry, as both life and non-life segments performed well in 2013-14.

The chairman said the new premium collections in the life insurance sector grew by 12.5 per cent in the year ended March, 2014, as compared to a six-per cent drop in new premium collections in the year-ago period.

The life insurance business is almost five times bigger than that of the non-life sector, hence any turnaround in this segment will have a significant impact on the insurance industry's expansion in the country.

According to Vijayan, the total premium — that include the premiums of the old policies as well as the new ones collected in 2013-14 by all the 24 life insurance companies — stood at Rs 2.87 lakh crore.

He said the focus was back into the group policies in the life insurance segment, while traditional life products were showing good traction of late.

In the non-life segment, the growth in total business premium collections during 2013-14 was around 13 per cent at Rs 63,000 crore. However, he cautioned that the audited numbers might vary from the preliminary data. The non-life sector, which include health, motor, fire among other sub-segments was growing in double digits even while the life insurance industry had shown a de-growth in the last couple of years.

However, the preliminary figures indicated some slowdown in the non-life business in the last year. According to the previous data, the general insurance companies collected Rs 61,885 crore in total premium in the period between April, 2012 and February, 2013.

"Except the health insurance, other categories of non-life business have been closely linked to the trends in industrial production," Vijayan said on the sidelines of the Irda's Foundation Day celebrations. He also said the health insurance would lead the insurance sector's growth in the current year.

Source

Responding to a question on the banks' response to the change in the distribution model in bankassurance, Vijayan said the regulator was trying to push the ''open architecture" model, where each bank could sell the products of multiple companies.

Insurance: New premiums not to be impacted by Jan diktat - Business Standard

Life insurance companies' new business premiums for April 1, 2013, to March 31, 2014, would not be impacted by the new product guidelines implemented from January 1, 2014, onwards, say those in the sector.

"With transparency being facilitated by the new product guidelines, there is an increased interest in customers to buy traditional products. While it is difficult to quantify the increase in new premiums, double digit growth will be continued," said the chief distribution officer of a private life insurance firm.

The Insurance Regulatory and Development Authority (Irda) implemented the traditional product guidelines from January, after several delays as opposed to its earlier implementation date of October 1, 2013. These guidelines enabled new insurance policies to disclose all benefits and fund value calculations upfront. This was to ensure customers were buying the products they needed.

The new guidelines categorised life insurance products into three broad categories — traditional insurance plans, variable insurance plans and unit-linked plans. The new traditional products will have a higher death cover, which industry players said, had customers interested.

According to the chief executive of a small life insurance company, there was an anticipation that the new products that were filed would not be approved on time, leading to lesser number of products for prospective customers. "The approval process was smooth and each player has at least 7-10 products in place. New premiums have also been growing at a healthy pace since January, hence the phase of contraction is far away," he added.

On one hand, while new premiums are healthy, industry players also said that since there was a sudden spike in premiums during the December quarter, the industry ended the financial year with a positive year-on-year premium growth. The chief financial officer of a private life insurer said that since both, public and private life insurers saw a good December quarter for new premiums, overall growth would be in the range of 10-15 per cent for the sector.

Data by Irda showed that the life insurance sector saw a 6.3 per cent drop in new business premiums for the 2012-13 financial year. Life insurers collected new premiums of Rs 1,07,010 crore for the year ended March 31 against Rs 1,14,232 crore collected in the corresponding period of the previous financial year. For the April to December 2013 period, life insurers collected new premiums of Rs 84,725 crore, up by 22.4 per cent from the previous year.

Source

The January guidelines by Irda required almost 75-80 per cent of the product portfolio of life insurers to be re-filed to conform to the regulations.

Back

Health Insurance

Steep discounts in group health insurance set to go - The Hindu Business Line

The insurance regulator's intervention to curb heavy discounts in group health insurance is likely to force general insurers to end the practice of cross-subsidising the portfolio.

Despite losses in the group health insurance space, increasing competition among general insurers to ramp up the top-line has resulted in severe undercutting in the segment with premium rates having declined by 5-10 per cent so far this fiscal, said industry experts.

Group health insurance is attractive for both the employer and the insurer.As far as the employer is concerned, it covers pre-existing diseases from day one, unlike individual policies which have a waiting period of four years.

For the insurance company, it brings in a large pool of employees under its cover in one go.

Generally, insurers cross-subsidise group health insurance as they get other businesses too, such as fire and property insurance, from corporates.

On the other hand, individual health insurance is a profitable segment for most insurers, and they have been raising the premium rates over the last three years.

Many complaints
Recently, TS Vijayan, Chairman of the Insurance Regulatory and Development Authority (IRDA), said the regulator had received many complaints on the unfair discounts given to group policies and, therefore, wanted to ensure that there are no distortions in the premiums paid for individual policies and group policies.

The IRDA has written to insurance companies, through the General Insurance Council, seeking details on the pricing of these policies.

The regulator is planning a meeting with all non-life insurers on May 16 to address the issue.

Insurers' view
A senior official at a private general insurance company said that the move by the regulator will ensure that general insurers raise rates in the group health insurance segment.

"We have been unable to raise rates even on loss-making accounts as there is intense competition and other insurers queue up to lap up the business," said a senior official of a public sector general insurance company.

Activist Gaurang Damani, who has filed a public interest litigation in the Bombay High Court seeking transparency in health insurance, said general insurers give priority to group health insurance customers in order to retain the accounts; individual customers at the retail level are not in a position to take on the insurer.

Source

The health insurance industry in India is a highly competitive with 23 general insurance companies and five standalone health insurance companies.

Back

General Insurance

Non-life insurers: Down, but not out - Business Standard

The non-life insurance sector saw a dip in total premium collection in April-February 2014. Tepid growth in the automobile segment, the main contributor to total premiums, was one of the reasons. While private general insurers saw 16.1 per cent growth, public general insurers recorded 11.7 per cent growth during the period. The sector saw double-digit growth in FY13.

Source

Back

Irda forms working group for simple products in general insurance - Business Standard

Insurance sector regulator Irda has formed a working group to review 'File & Use' (F&U) guidelines to ensure availability of simple products in the general insurance category.

The Insurance Regulatory and Development Authority (Irda) said it was required to review the extant guidelines on F&U requirements for general insurance products.

"It is felt by the Authority that a review of extant guidelines has to be undertaken to ensure that products are designed, marketed, sold and serviced ensuring that a viable, simple and useful product is available to consumers and is sustainable for insurers," says a circular issued by Irda.

Earlier in 2007, Irda had withdrawn tariff structure for general insurance products under fire, engineering, motor and workmen compensation and gave insurers authority to decide premium rates for their products.

The eight member working group will be chaired by Irda member Suresh Mathur. Among others, the working group will be chaired by Irda member Suresh Mathur. Among others, the working group would consist one member from the Authority and six from general insurance industry.

Source

The working group is expected to submit its report to Member (Non-Life) in three months.

Govt may decide on Nuclear Insurance Pool to deal with mishaps - The Hindu Business Line

Moving to address the liability issue that has held up deals with various countries, the government has decided to form a Nuclear Insurance Pool which will have a number of stakeholders to meet the requirement of huge financial cover in case of a mishap.

The Department of Atomic Energy (DAE) is pursuing the matter with the Ministry of Finance for creation of the pool after no single insurance company, including the General Insurance Company, expressed its ability to provide financial cover to the nuclear plants considering the huge monetary requirement.

Under the Liability Law, compensation of up to Rs 1500 crore will have to be paid in case of a mishap involving a nuclear plant. At present, India has 20 nuclear plants and their number is expected to grow as the industry expands.

Source

DAE and the Nuclear Power Corporation of India (NPCIL) had approached GIC for insurance. However, the public sector undertaking has said it does not have the capacity to insure the reactors in view of the high cost and also the number of reactors involved.

Back

Delays in settling crop insurance claims hurting farmers: IRDA - The Hindu Business Line

Farmers have for long been ruing the delays in settling crop insurance claims. Now, they find a supporter in the form of Insurance Regulatory and Development Authority (IRDA), which has asked governments and other agencies to speed up the process of settling the claims.

The delays are hurting farmers badly, the regulator said at a meeting with senior officials of the Department of Agriculture here last week.

"Our view is that there is an urgent need to improve the situation as the claims of a particular crop season are being settled almost after the expiry of the subsequent season. For example, claims of the kharif season are being settled only in the next kharif season," M Ramprasad, Member (Non-Life), IRDA, told Business Line here.

S Malla Reddy, Vice-President of All-India Kisan Sabha (AIKS), echoes this view. "If something bad happens to the crop this year, the farmers get compensation only next year. Also, the amount they get is too small to give them any succour," he said.

Crop productivity
The reasons for delay in claims settlement are many, which include the crop-cutting experiment process. This experiment is done in select areas by the Department of Agriculture and insurance company officials to arrive at crop productivity.

This would be used as a benchmark to arrive at any decision on crop failure to enable payment claims. "As of now, the data are being used for various purposes and have to be shared by the Central and State governments. All this is resulting in the delay," the IRDA member said.

It is not just about the delayed payments of the sum assured. The premium and the number of crops that are left out of the cover too are major issues that torment farmers.

Premium factor
Malla Reddy said governments should take care of the premium. "The Central and State governments should bear the burden equally. They should take the village as a unit for calculation of crop losses. They should also change the way they calculate the loss," he said.

The losses are assessed based on a threshold value (average crop value of five years), leaving scope for skewed numbers.

Source

"Premiums are so high that farmers are reluctant to go for insurance cover. Take turmeric, for example. They are charged ₹3,681 as premium for an acre. And for chillies, it is ₹3,086. Unable to bear the cost of premiums, farmers prefer to stay away," he said.

IRDA seeks to standardize description of non-life plans - The Times of India

Choosing a non-life insurance plan will get simpler with the insurance regulator set to bring in standardized wording for all retail general insurance products. The Insurance Regulatory and Development Authority (IRDA) has set up a panel to recommend measures to revise the system of product approvals.

Speaking to TOI, IRDA chairman T S Vijayan said, "The industry wants to have a system of 'file and use' for insurance policies. We had studied this and found that unless there was standard wording in the policy then there is no point in allowing file and use and companies will need to file their policies and obtain an approval before they start selling."

'File and use' is a system which allows insurance companies to come up with schemes which are within the framework of IRDA's principles and companies are free to start selling the product after lodging it with the regulator unless there are any adverse observations.

"Take, for instance, a personal accident policy. If someone is selling a personal accident cover, the prospective customer should be very clear on the definition of accident. If that clarity is not there, there is no purpose in having a 'file and use' system," said Vijayan. He said the industry would work on five or six categories of retail insurance policies. The IRDA has already brought about standardization of wordings in health insurance to ensure that one term has the same definition across companies.

Speaking on the issue of banks becoming insurance brokers, Vijayan said that a panel was still to submit its findings. "RBI has not officially conveyed its thoughts on the issue. What we said in the meetings is that we are pushing for an open architecture system with a focus on the customer. The road map is clear, it can be in any form - broking, intermediary, or agency but the focus has to be on having an open architecture system with the focus on the customer," said Vijayan. Open architecture is an industry term used to describe a system where one bank can sell products of multiple insurance companies as against the present system which ties them down to one insurer each in the life, non-life and health segments.

Source

Vijayan said that the regulator has also received responses to its draft paper on insurance distribution firms. "We have received feedback for and against distribution companies. We will study all of those and come to a consensus," said Vijayan.

Back

Survey & Reports

Death of family member considered the highest risk: survey - Business Standard

Death of a family member has been ranked as the highest risk in an online survey conducted by a private sector general insurance company.

"Risk of Death of a family member (is) ranked number one on the risk parameter with respondents giving a rating of over 70 per cent," the survey conducted by ICICI Lombard said.

As per the company, the survey was conducted among more than 320 people on popular social media websites like Facebook and Twitter.

The survey said that risk of medical emergency, accidental disability, critical illness follow death, with rank numbers two, three and four, respectively.

Risk of financial burden is ranked number five by the participants in the survey.

"It is interesting to note that despite the economic slowdown resulting in increasing concern on job security, people still believe that health concerns supersedes financial and material issues, which would not have been a case about a decade ago," said vice president (health underwriting and claims) of ICICI Lombard, Amit Bhandari.

Source

"This clearly shows that there is a need for health and other non-life insurance products which can protect one against financial liabilities arising out of medical treatments and other exigencies," he added.

Life insurance products rule online purchases: Study - Business Standard

Life insurance has been ranked as the most popular financial product to be bought online, according to a study by Max Life Insurance and Nielsen.

In a survey across metros and smaller cities, it was found that life insurance was only below clothes/apparel and accessories in online purchases. Motor insurance, one of the popular insurance products bought online, also came much below life insurance on the list of products that people were willing to buy online. Life insurance was above shares, mutual funds, health insurance, electronics, books, kitchen appliances, bank fixed deposits and consumer goods among others.

The benefits of buying life insurance online, the study said, were that it was time-saving and people had to pay lower premiums. Other perceived benefits included the option of comparing, no agents and no paperwork. Lower premiums were perceived an important factor by people in the Rs 5-8 lakh income level.

In the survey, 47 per cent respondents said their families were adequately protected. However, there was a remarkable difference between confidence levels through income levels, since in the Rs 5-8 lakh income level, only 29 per cent respondents felt that their family did not need any more protection.

With respect to demographics, those who were young, had high income, were highly educated and internet-savvy, displayed higher confidence on family protection levels. On the basis of different zones, the east was the least confident.

The survey showed that there was a strong tendency to postpone life insurance purchase decisions. The tendency to buy later was stronger among younger populations than older ones. Industry experts say the earlier an insurance policy is bought, the better it is for customers, both on the basis of income accumulation and protection.

Among all financial products, life insurance is one of the most searched products, only behind shares. About 58 per cent respondents said they searched online for life insurance, which was higher than health insurance, bank fixed deposits and mutual funds.

Though there is a willingness to buy online, the survey revealed that there were some challenges in this medium. Lack of personal interaction during the purchase process is a big hindrance, due to which people, especially in the age group of 40-50 years, prefer to buy through agents.

Apart from this, delivery issues like lack of proper customer support, unclear purchase instructions and limited information were some other factors dissuading customers from buying online. A certain section of the respondents were also not comfortable with online payments, over some perceived security issues. However, even though several customers might buy offline, 84 per cent life insurance owners have searched the category over the internet prior to the last purchase. The websites of web aggregators have been popular for this process, since they offer information about multiple company products.

Source

Prospective customers do search online, but still prefer to buy offline. The survey showed that 76 per cent people did embark on an online purchase journey However, three fourths drop off before the purchase is made.

Back

IRDA Circular

Source

IRDA uploaded updated List of Corporate Surveyors as on April 2014

Source

IRDA uploaded updated list of licensed - individual - surveyors as on 24.04.2014

Global News

China: Regulator mulls Web life insurance sales across provinces – Asia Insurance Review

China's insurance regulator has issued draft guidelines governing the sale of life insurance products over the Internet, that include allowing insurers to conduct sales country-wide, crossing provincial boundaries.

In a circular seeking public feedback on rules governing life insurance sales on the Web, the China Insurance Regulatory Commission (CIRC) said that insurance companies can expand their Internet business to territories where they have yet to set up offices or branches. However, this applies only to accident cover, term life insurance and wholelife insurance. At present, unless a re/insurer has a national licence, it will only be allowed to operate in provinces or regions in which it has a licence for the specific geographical area.

Observers say that allowing inter-provincial Internet life insurance sales is a boon for small and medium-sized insurers which lack the wherewithal for a wide physical branch network. Opening a branch is considered to be onerous and costly for insurers because of CIRC requirements.

In the draft, the regulator added that insurers, which carry out nationwide Internet sales, have to advise customers that their services may not be complete or adequate in geographical areas where they do not have a physical presence.

The CIRC circular indicates that insurers can also sell various different products over the Internet, but they would not be allowed to sell them nationwide unless the products are accident, term life or wholelife cover.

In all cases, insurers have to give clear descriptions of the nature of their products and the risks inherent in them. Previously, several insurers in their marketing, particularly of wealth management products, had tended to focus on the returns which could be earned on the products without mentioning the risks involved in purchasing them.

Insurers offering participating life insurance, equity linked insurance and universal life insurance have to state in clear print that the returns on these policies are not guaranteed. They also have to state that they would not compensate for any losses suffered on such products.

CIRC said that only life insurers which meet the minimum solvency requirement of 150 percent are allowed to conduct sales over the Internet. Other requirements of insurers mentioned in the circular include ensuring the integrity of IT systems, safeguarding customer data, and observing anti-money laundering regulations, etc.

Source

Back

US non-life industry profit soars - www.reactionsnet.com

The US non-life industry recorded its highest rate of return since the global economy was rocked by the financial crisis in 2008, new figures from Verisk Analytics company ISO and the Property Casualty Insurers Association of America (PCI) show.

Insurers' overall profitability when measured by their rate of return against average policyholders' surplus soared to 10.3% in 2013, up from 6.1% in the previous year. While the increase will be welcomed by US insurers, that the 10.3% is the highest rate of return since 2007's 12.4% is also a welcome indication the industry is once again reaching its pre-financial crisis heights.

The overall net after-tax income of the US non-life insurance sector reached $63.8bn in 2013, up from $35.1bn in 2012.

This increase in profit was mainly driven by an improvement in the technical result, ISO and PCI explained, with the underwriting gain of $15.5bn seen in 2013 a significant improvement on the technical loss of $15.4bn incurred last year.

"The swing to net gains on underwriting in 2013 is certainly welcome news for insurers, whose net investment income - primarily interest on bonds and dividends from stocks - peaked at $55.1bn in 2007 but totaled just $47.4bn last year as a consequence of the historically low investment yields brought about by the financial crisis, the Great Recession, and the economy's slow recovery from those events," explained Michael Murray, ISO's assistant vice president for financial analysis.

The industry-wide combined ratio improved by 6.8 percentage points year on year to 96.1%.

Net written premiums were up 4.6% in 2013 to $477.7bn, while net losses and loss adjustment expenses improved by 5.5% to $315bn. Underwriting expenses and dividends also rose last year.

"The $66.3bn increase in policyholders' surplus to a record-high $653.3bn at year-end 2013 is a testament to the strength and safety of insurers' commitment to policyholders," said Robert Gordon, PCI's senior vice president for policy development and research.

Source

"Insurers are strong, well capitalised, and well prepared to pay future claims."