Insurance Institute of India

G Block, Plot No. C-46, Bandra Kurla Complex,
Bandra (East), Mumbai – 400051.

Weekly e-Newsletter

14th – 20th September, 2012

INSIDE THIS ISSUE:

News Categories	Page
Insurance Industry	1
IRDA Regulation	1
IRDA Circular	2
Global News	2

Insurance Industry

Govt. to Rewrite Life Insurance Norms

Along with retail and aviation, the insurance sector is set to see an overhaul following a finance ministry intervention. The sector has been characterised by dwindling sales in the past two years.

After a meeting with public and private sector life insurers, the finance ministry has set up eight committees headed by chief executives of insurance companies to examine issues plaguing the sector. The panels will look into a wide range of issues from distribution to product approval, taxation to bancassurance, among others.

Interestingly, none of the panels are headed by representatives from the sector regulator Irda (Insurance Regu-latory and Development Authority).

According to insurers, the Irda's latest suggestions regarding changing norms for traditional products triggered the need to re-look at the issues as those norms, if implemented, would severely affect the sector's growth. In the regulator's draft norms on traditional products (the draft was revised four times), it is proposed the guaranteed surrender value of a traditional product needs to be increased and that traditional product holders would get the premium and bonus after seven years. The move would affect margins and agents' commission.

In terms of product guidelines, insurers have suggested the regulator approve or reject a product within a specific period. In addition, an aggressive strategy for approving pension products has also been suggested.

"We have proposed the regulator not take such a long time to approve products. It should either quickly approve a product or immediately reject it if there is a problem. Though the guidelines call for the filing and use of a product, they always go through the filing, approval and use stage. Therefore, we suggested certain categories of products that should be under 'file and use' and others under 'file, approve and use'," said the head of a life insurance company.

The ministry decided a comprehensive note capturing issues, likely suggestions and who the subject-wise authority would be (the Irda or the tax department), must be prepared by each CEO.

The insurance industry has grappled with changes in regulations in the past two years. In September 2010, the Irda capped charges and commissions on unit-linked products (Ulips), as a result of which the average commission on Ulips as a percentage of premiums collected fell to four per cent in 2011-12 from nearly 10 per cent in 2009-10. The average commission on traditional plans as a percentage of the premium, around 8.5 per cent in 2009-10 for the private sector; increased to around 12.5 per cent in 2011-12. Private insurance companies changed their product mix in favour of traditional plans. During April-July this year, life insurance companies collected Rs 31,180 crore by writing new policies and traditional plans accounted for nearly 80 per cent.

The Irda is trying to introduce new norms and product design guidelines to improve transparency and curb mis-selling.

Source -
http://www.business-standard.com/india/news/govt-to-rewrite-life-insurance-norms/486897/

IRDA Regulation

Irda attempts to create investor-friendly insurance policy

Insurance Regulatory and Development Authority (Irda) is looking at making insurance policies more investor friendly by introducing tax exemptions on insurance policies. While Irda is still considering a proposal by the Life Insurance Corporation to link the tax relief to term of the life insurance policy, media reports suggest that Irda has backed a move to introduce separate tax exemption limit on life insurance policies.
Recent reports said that since life insurers have been seeking a separate income tax exemption limit of Rs 50,000 for premiums, the latest move will help promote insurance plans as tax-saving instruments. Presently, investments in instruments like insurance policies, pension plans, provident fund, National Savings Certificates are eligible for combined deduction of Rs 1 lakh. The budget proposed that all insurance policies, except pension plans would have to offer a cover of at least 10 times the annual premium to be eligible for tax benefits under section 80C and 10 (10D).

It is to be noted that all these exceptions would not be valid under the present version of the Direct Taxes Code (DTC). The latest version of the DTC was released last year.

LIC Chairman D K Mehrotra had earlier told Business Standard, "We have recommended that rather than linking it to the sum assured, link it to the term of the policy. You can always say that a tax relief is given to a proposal where the term is more than 10 years." He had added that this would help the continuous flow of premium and the persistency will also go up. Other sector players including HDFC Life Insurance have said that the LIC proposal should be considered.

Insurance industry players have said that though insurance policies offer low returns in comparison to other products, both the regulator and the finance ministry is trying to make it more investor-friendly by allowing tax exemptions. But, insurers explained that protection was the first goal of an insurance policy and investment came later. "Hence individuals need to be clear about what they want. If they want pure investment, then what needs to be kept in mind is that insurance may not be the best bet for them," said the chief executive officer of a private life insurance company.

The executive, however, added that the new proposal for introducing new tax exemptions separately for life insurance policies, the ministry and the regulator would certainly help in increasing the penetration of life insurance in the country.

Source -
http://www.business-standard.com/india/news/irda-attempts-to-create-investor-friendly-insurance-policy/186613/on

---

IRDA Issues Draft IPO Norms for General Insurance Cos

NEW DELHI: General insurance companies planning to tap the capital market for funds should have a 10 year experience and will have to seek prior approval from the sector regulator, IRDA said in its draft guidelines.

"No general insurance company shall approach theSEBI for public issue of shares and for any subsequent issue ... without the specific previous written approval of the Authority," IRDA said in the draft norms for initial public offering (IPO) of non-life insurers.

The draft norms -- IRDA (Issuance of Capital by General Insurance Companies) Regulations, 2012 -- states that the regulator would take into account the insurer's financial position, its capital structure and regulatory record before permitting them to come out with the share sale.

Further, the Insurance Regulatory and Development Authority (IRDA) has kept with it the powers to prescribe the extent to which the promoters shall dilute their respective shareholding and the shares that can be alloted to foreign investors.

Further, the IRDA would also prescribe the minimum lock-in period for the promoters after the share sale. The IRDA would also look into the purpose for which the insurer is proposing to raise the funds from the market and the insurer's capital structure.

"An applicant company proposing to raise share capital through a public issue may do so only on completion of 10 years from the date of commencement of business," the IRDA said, adding that the approval granted by the Authority shall have a validity period of one year.

The regulator has also prescribed additional information -- risk factors specific to insurance companies, an overview of the insurance industry and a glossary of terms used in the insurance sector -- in the offer document for companies to come out with share sale offer.

The IRDA has invited comments from general insurance companies by September 30 on the exposure draft. Last year, the IRDA had notified the guidelines for life insurance companies to tap the capital market.

Source -
http://economictimes.indiatimes.com/markets/ipos/fpos/rights-issues/irda-issues-draft-ipo-norms-for-general-insurance-companies/articleshow/16465005.cms

IRDA Circular

In exercise of powers conferred under section 14 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), read with sections 6AA and 114A of the Insurance Act, 1938, the Authority, in consultation with the Insurance Advisory Committee, hereby makes the regulations, namely the IRDA (Issuance of Capital by General Insurance Companies) Regulations, 2012. Accordingly, the Authority has prepared the Draft Regulations for the same. In this regard, comments/suggestions of all stakeholders (including insurers, policyholders, academics, analysts etc.) on the Exposure Draft are invited. The comments/suggestions on the said draft may be forwarded at mamta@irda.gov.in by September 30, 2012.

Source -
http://www.irda.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo1786

Global News

South East Asia

Myanmar: Foreign insurers to be allowed by 2015

Myanmar will likely permit foreign investors into its insurance industry by 2015 after 12 privately-owned domestic insurers have had time to establish themselves, reported Reuters, citing the country's Deputy Minister of Finance and Revenue.

Dr Maung Maung Thein said that the country needs to give the newly licensed domestic companies a chance to gain experience in the insurance business before opening the market to foreign investors, which he said would likely happen in 2015.

Prudential, which received approval from the Cambodian government recently to open a wholly foreign-owned life insurance operation there, said that it was also considering a move into Myanmar. CEO Tidjane Thiam said that less developed Asian economies have stronger growth potential as more people insure themselves.

Japanese non-life insurers Sompo Japan Insurance, Mitsui Sumitomo Insurance and Tokio Marine & Nichido Fire Insurance have representative offices in Yangon.

Before nationalisation in 1963, there were more than 70 local and foreign private insurers operating in Myanmar. The government-owned Myanma Insurance had a monopoly of the insurance business thereafter.

Source -
http://www.asiainsurancereview.com/pages/e-weekly-archive.asp

Australia

Australia: Super-regulator proposed

Mr Bill Shorten, Financial Services Minister, has tabled about 100 proposals for a supercharged regulator with powers to investigate and prosecute insurers, superannuation funds and banks, reported Insurance News Online.

The 184-page discussion paper, Strengthening APRA's Crisis Management Powers, proposes to increase oversight of the general insurance, life insurance, superannuation and banking sectors.

The proposal will give APRA new powers to take pre-emptive action against a company's directors or trustees through the elimination of the "show cause" clause, which currently gives a company time to demonstrate why it should not be investigated for a potential breach of prudential regulation.

Down from the current period of four weeks, a stressed company would be given only four days to respond to APRA requests.

Besides granting APRA greater authority, liability exemptions would be extended to directors and officers, providing them immunity from possible legal action if and when they comply with APRA directions. The Australian regulator would also have the power to ban guilty parties from all the industries it administers.

Source -
http://www.asiainsurancereview.com/pages/e-weekly-archive.asp