



Insurance Institute of India

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INSUNEWS

- Weekly e-Newsletter

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• Quote for the Week •

"Happiness is not something readymade. It comes from your own actions"
Dalai Lama

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Insurance Industry

Multiple Insurance Broking may have to Wait - The Economic Times (Bangalore edition)

Banks and insurance companies may breathe easy. The order mandating banks to sell insurance policies of multiple companies may come into force five years from now, helping those with bancassurance tieups to reap the benefits of their ventures.

However, those without such tie-ups such as Birla SunLife may find it tough to gain market share in a cut-throat industry. The committee set up by the finance ministry to break the deadlock between the finance ministry and banks on insurance broking is likely to suggest that banks will have to sell covers of multiple insurance companies, but they should be given five years to migrate to this model, said a senior bank official familiar with the report, who didn't want to be named.

Over the past two months, the finance ministry and banks are at loggerheads over the insurance broking issue: while the ministry wants banks to sell cover of multiple insurance companies, banks are opposed to the idea on the ground that different banks are tied to different insurance companies for exclusively dealing in their products.

Rajiv Takru, secretary, financial services, had set up a committee headed by Reena Banerji, general manager, RBI, to suggest a solution for banks to adopt this model. The panel has members from the Reserve Bank of India, the Insurance Regulatory and Development Authority (Irda), Indian Banks' Association and senior officials from commercial banks. "The committee is in the process of finalising its report and it will be submitted to the finance ministry very soon," said a banker.

The report suggests that banks should be given five years to achieve 25% ceiling on the extent of business that a bank can do with an insurance company. Meanwhile, Takru also made it clear that private banks will also have to follow the insurance broking model since Irda and the finance ministry are on the same page on this.

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IRDA Regulation

Irda issues draft norms for insurance marketing firms - Business Standard

Paving the way for a new distribution system, Insurance Regulatory and Development Authority on Wednesday brought out draft guidelines for setting up insurance marketing firms (IMFs). Under these norms, IMFs can market and service insurance, apart from marketing other financial products. These include products of mutual fund companies; pension products of PFRDA; and other financial products marketed by Investment advisors of Securities and Exchange Board of India through the financial service executives (FSE) engaged by an IMF. Irda asked all stakeholders to provide their views on the draft by April 15.

Irda said it had been mulling over allowing distribution companies to have multiple tie-ups with insurers — a model akin to independent financial advisor, based on the recommendations of the Govardhan Committee on distribution. In this connection, meetings were held with representatives of life and non-life insurance companies and with a cross-section of marketing personnel in life and general insurance industry at

Hyderabad. A working group was constituted having five CEOs each from life and non-life insurance companies to study the concept and recommend a suitable model.

Here, insurance sales person (ISP) will be an individual employed by IMF to undertake solicitation or marketing of insurance products who is granted a certificate issued by the authority. Further, FSE would be an individual employed by an IMF authorised to undertake financial service activities such as investment advice through an investment advisor who is granted licence by Sebi, mutual fund salespersons holding a certification under Association of Mutual Funds in India (AMFI) and registered with an association of asset management companies of mutual funds.

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General Insurance

IRDA moderates steep hike in third party motor insurance premium rates - The Hindu Business Line

General insurers are in a fix as the Insurance Regulatory and Development Authority has moderated the premium hike for third party motor insurance (liability only cover). While the regulator had initially proposed to hike premium rates for private cars and two-wheelers by 26 to 137 per cent in its draft circular, the regulator finally lowered the proposed increase to 9 to 20 per cent in its final circular released on Thursday.

The new rates will be effective from April 1. The regulator also raised rates for commercial vehicles such as goods-carriers, the most vocal and organised segment, by 10 to 13 per cent, which insurers feel is inadequate. In November, IRDA sharply increased the provisioning (the money general insurance companies need to set aside to meet the high level of claims) to 210 per cent of the claims from 145 per cent, based on the loss estimates by an actuarial committee.

“Looking into the sudden and adverse impact on the policyholders of such an increase in rates and considering comments on the exposure draft, the Authority decided to moderate the rate increase...,” the insurance regulator said in a circular.

Re-look

Motor insurance in India has two components: own damage cover and third-party cover. The latter is compulsory, to cover third-party damage in terms of property or life. While own damage is a profitable portfolio for insurance companies, third-party motor insurance is highly unprofitable as the rates are fixed by the insurance regulator.

The claim ratios in third-party motor insurance are around 140 per cent (for every 100 collected as premium, the insurer pays out 140). So, due to the high claims from commercial vehicles, insurance companies provide them cover from a common declined pool and not from their own books.

Higher increase

General insurers had asked the insurance regulator for at least a 50 to 60 per cent premium increase in third party premium rates to compensate for the high losses in the portfolio. “The numbers which have come out are not commensurate with the experience that we have in the market. So, we will go back to the regulator to look into it,” said KK Mishra, MD and CEO of TATA AIG General Insurance. Last year, third-party motor insurance rates had gone up by an average 18-20 per cent after transporters opposed the 60 per cent hike demanded by the insurers.

Source

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Can't ignore concerns of vehicle owners: IRDA - The Times of India

The IRDA, while raising third-party motor insurance, said insurers must be mindful of the concerns expressed by vehicle owners about the rates and availability of insurance since motor TP is a mandatory cover. Further, the regulator warned of serious action if any company tries to deny or delay the cover for those seeking it. It added that considering the sudden and adverse impact of the hike on policyholders and taking into account their response, it had decided to revise the rates proposed in the draft in February.

Source

In the case of goods-carrying private vehicles (other than two-wheelers) and motorized two-wheelers hired for carrying passengers, the authority has decided to moderate the rate reductions. However, for four or more-wheeled vehicles hired to carry over six passengers, the authority has decided against changing the rates.

[Back](#)***Pay 20 per cent more for third-party insurance for your vehicle – The Economic Times***

The cost of buying the mandatory third-party (TP) motor insurance will rise from April 1 with the Insurance Regulatory and Development Authority (IRDA) notifying the new rates on Thursday night. The increase is around 20% for small cars and 10% for two-wheelers and vehicles carrying goods. The positive news for car owners is that the new rates are much lower than what was proposed in February.

Industry officials said the IRDA appears to have avoided disruptive changes in pricing, keeping in mind that it is an election year and also the fact that has proposed to free pricing of motor TP insurance rates in the future.

The insurance regulator said that it had received mixed response to the schedule of rates proposed in February 2014. "Overall, consumers have conveyed their dissent over the plan to increase rates. The general insurers conveyed that the current premium rates are inadequate and a revision in rates matching ultimate liability is required," the regulator said.

It added that insurers have to be mindful of the concerns expressed by vehicle owners about the rates and availability of insurance since motor TP is a mandatory cover and the IRDA would take serious action if any company tries to deny or delay the cover for those seeking it. It added that considering the sudden and adverse impact of the hike on policyholders and taking into account their response, it had decided to revise the rates proposed in the draft.

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[Back](#)***Safety Rating System planned for cars may be linked to insurance – The Economic Times***

The government plans to formulate a safety rating system for cars based on their robustness, in the light of several issues being raised over the quality of vehicles made in the country, and the rules if implemented may be linked to lower insurance premiums.

Source

Talks will be held with the Insurance Regulatory and Development Authority (IRDA) on improving safety and lower insurance premiums to entice the customer.

[Back](#)**Reinsurance*****Reinsurance cost for India Inc falls by 20%: GIC chief - The Indian Express***

The reinsurance cover for India Inc has become 20 per cent cheaper in 2014-15 at a time when inflation has impacted the economy.

"We have seen the reinsurance pricing falling 20 per cent at the time of the renewal for the new fiscal. There is a softening of reinsurance pricing as globally there are not many claims and there's too much of capital in the reinsurance industry. All the global reinsurers have seen their income falling. We have to work harder and get into new regions to maintain our portfolio," AK Roy, chairman and MD, GIC Re, said after inaugurating the new headquarters of its subsidiary GIC Housing Finance.

GIC Re, with a global balance sheet size of around Rs 12,000 crore, has its domestic and international business in the ratio of 50:50 and going ahead, it would like to grow its global portfolio and shrink the domestic business to achieve stability in the business. GIC Re is at present doing business in over 180 countries.

Source

Currently, GIC is trying to acquire a syndicate in London's Lloyd's market to develop its international muscle. "We are looking for the right company with the right price in London. We are also examining to raise funds from international market in the form of catastrophic bond," he said.

Survey & Reports

Digital channels will influence three in every four insurance purchases by 2020: Report - The Times of India

The exploding popularity of smartphones and other devices is set to have a major impact on the insurance sector in India, according to a report by Boston Consulting Group (BCG) and Google India.

"It is estimated that three in every four insurance policies sold by 2020 would be influenced by digital channels during either the pre-purchase stage, purchase or renewal stages," according to the report.

The report, titled 'Digital@Insurance-20X By 2020,' states that the influence of digital channels is already big and is getting bigger, exponentially in terms of user growth and time taken.

"This connected online population of over two billion users forms a brand new market that cuts across borders. India is no different, and has one of the largest digital user populations.

Technology adoption curves are also becoming highly accelerated, and internet's influence can no longer be ignored, it is now at the very core and is a necessity," the report stated.

The old ways of selling insurance are becoming less sustainable. Traditional business models are being challenged by the emergence of trends such as lesser relevance of physical footprint, mobile internet, analytics, social platforms and disruptive players.

"As insurers seek new avenues to grow profitably, they have a unique opportunity to embrace and benefit from the digital wave, which also addresses many key issues that plague the offline world today.

We estimate that digital adoption could result in potential savings of 15%-20% of total costs in the case of life insurance and 20%-30% in the case of non life, thereby showing the path towards profitability for the industry", Alpesh Shah, senior partner and director of BCG and author of the report, said.

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IRDA Circular

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IRDA released the circular regarding reporting of transactions in corporate bonds & securitised debt to the CEOs of all Insurers.

Source

Irda issued exposure draft regarding IRDA (Insurance Marketing firm) Regulations 2014

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Global News

Indonesia: Foreign insurers to be allowed to open branches – Asia Insurance Review

Following the establishment of the ASEAN Economic Community (AEC) in 2015, the Financial Services Authority (OJK) will allow foreign insurers to open a branch office in Indonesia.

Currently, foreign insurance corporations are prohibited from opening a branch in Indonesia. They can establish operations in the country by setting up a joint venture in which the foreign ownership cap is 80 percent.

The AEC will transform ASEAN into a region with free movement of goods, services, investment, skilled labour, as well as a freer flow of capital.

Meanwhile, OJK is preparing regulations for the minimum capital requirements for foreign insurance companies that will open branch offices in the country, reported a local news organisation, Bisnis.

OJK also wants to discuss, with insurance regulators of other Southeast Asian countries, matters like minimum capital requirements to avert the possibility that an insurance branch might be opened by a foreign company

that is not in a healthy condition. Similarly, when an Indonesian insurance company wants to open branches in other ASEAN countries, it will need to face the same regulatory framework.

"There must be a mutual agreement," said Mr Firdaus Djaelani, OJK commissioner in charge of non-bank financial supervision.

Source

At present in Indonesia, there are 18 life insurance joint ventures out of a total of 44 life insurers and 18 general insurance joint ventures out of a total of 64 non-life companies.

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Missing plane insured losses may hit \$450m: S&P - www.reactionsnet.com

Losses from the missing Malaysia Airlines jet are expected to "to be manageable" for the global reinsurance market, Standard & Poor's said.

The rating agency pitched total losses of between \$250m and \$450m to be spread between insurers and reinsurers.

"The losses will be well spread throughout the global aviation insurance and reinsurance markets, resulting in a limited credit impact on individual insurance and reinsurers," said Standard & Poor's (S&P) credit analyst Dennis Sugrue.

"The impact on smaller rated Asian insurers and reinsurers that have a share of the potential losses should be manageable because their reinsurance or retrocession protection is likely to keep their net loss relatively low."

The industry is facing about \$100m payout for the loss of the aircraft itself, but the vast majority of the payments will be for liability claims from bereaved family members.

However, if the disaster was demonstrated to have been caused by terrorists, hijacking, or pilot suicide costs could be far bigger, said the rating agency.

This would trigger the aviation war risk insurance market which is relatively small with limited players and pool of premiums (market estimates are less than \$100m annually globally).

"If the Malaysian event is classified as a war loss, then it would be one of the largest losses in this class of business since the terrorist attacks on the World Trade Center in 2001. The loss would most likely lead to rate increases in aviation war policies in coming months," said Standard & Pooers.

The war underwriters for Malaysia Airlines flight MH370 is led by Lloyd's insurer Atrium, which has reportedly already paid half of the \$100m hull loss owing to the continued uncertainty over the cause of the plane crash.

The rest of the claim has been already fully paid by the underwriters of the all-risk policy, with Allianz as the leader.

Source

If it was proven that there was terrorist involvement Atrium and the other war insurers would pay the full plane loss.

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National Lloyds outlook 'negative' says AM Best - www.reactionsnet.com

AM Best has revised the outlook to negative from stable of US-based National Lloyds Insurance Co due to poor underwriting performance.

The ratings agency also affirmed the financial strength rating of 'A' for the company.

The revised outlook is a reflection of "its volatile operating results primarily due to continuation of adverse underwriting performance, as well as its declining risk-adjusted capitalization trend in recent years" said the AM Best report.

The company has been hit hard by weather-related incidents, particularly tornado, hail and windstorm losses that occurred in recent years. It has subsequently reported "sizeable" underwriting losses for the past three years.

Source

AM Best said a removal of the negative outlook is possible if the company is able to address its adverse underwriting results and overall risk-adjusted capitalization.

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