Insurance Institute of India

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

INSUNEWS

- Weekly e-Newsletter

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● Quote for the Week ●

"Successful people do the things that unsuccessful people are unwilling to do."

– John C Maxwell

INSIDE THE ISSUE

Industry

As insurance payouts rise, so could your premiums – Mint – 10th April, 2017

From this financial year, your insurance agent is eligible to get a higher payout for selling you a policy, but did you know that this may increase your premium as well? Last month, the Insurance Regulatory and Development Authority of India (Irdai) in a series of circulars has allowed life and non-life companies to increase their premium from April.

The regulator feels that the new regulations may trigger insurers to revisit the pricing. To accommodate that, it has allowed insurers to adjust premiums by up to 5% without having to re-file the product. "In order to provide them relief from filing products on account of new regulations on commissions, we have advised them that if the change in premium rate is going to be plus minus 5%, the insurer can simply inform Irdai," said Nilesh Sathe, member life, Irdai. In the case of non-life products, the hike in premium would be applicable on renewal as well, as these are typically annual contracts, but insurers again needn't re-file for adjustments up to 5%. "So if an insurer needs to revise the premiums on account of extra pay-outs, the regulator has made it operationally easy.They just need to give a certificate to the regulator stating clearly that the hike is only due to the increase in payouts," said Antony Jacob, chief executive officer, Apollo Munich Health Insurance Co. Ltd. Does this mean you pay a higher premium? Perhaps not immediately, and not much.

New pay-out structure

Life insurance follows a front-loaded commission structure—the first year commission is largely unchanged. However, Irdai has introduced the reward system that can be paid in addition to the commissions, to encourage distributors to clock-in more sales. Now insurers can offer a maximum 'reward' of 20% of first-year commission and this increases the total payout in the first year to a peak rate of 48%.

In case of health insurance, there is no hike in the commissions as such. "If you factor in the rewards of 30% of the commissions, the total pay-out from each policy comes to 19.5%. So the extra 4.5% pay-out can be pooled and paid to outperforming agents. The reward pay-outs from policies sold by intermediaries can't be used to pay the agents and vice-versa," added Jacob. In the case of motor insurance, the regulations have increased the commissions along with introducing rewards.

Will your premiums go up?

Two actuaries that we spoke to say the impact would be marginal. "The commission rates are capped at 35% and the industry has already been paying commissions in this range, so I don't expect insurers to increase premium rates for new customers," said Anil Singh, chief actuarial officer and appointed actuary, Birla Sun Life Insurance Co. Ltd.

Another actuary who didn't want to be named also said the hike at best would be marginal since the increase in payout would get amortised over the premium payment term.

In the case of non-life, according to an Irdai official we spoke to, so far insurers have not shown any enthusiasm to increase the premiums. But, some feel that this opportunity will be taken up by those with poor combined ratios. "There are multiple facets to customer acquisition cost, which are segregated into various buckets like commissions, marketing expenses, field sales and infrastructural support. Companies with adverse combined ratio may take this opportunity to consider increasing premiums instead of absorbing the additional pay-out," said Sandeep Patel, managing director and chief executive officer, Cigna TTK Health Insurance Co. Ltd.

"But if insurers focus on rewarding agents and also focus on technology for distribution optimization and efficiency, acquisition costs can be contained without having to increase premiums," he added. Combined ratio is the expense ratio plus the loss ratio and it indicates a product's profitability.

As per K.G. Krishnamoorthy Rao, managing director and chief executive officer, Future Generali India Insurance Co. Ltd, retail health could see a hike.

"Medical inflation is about 15% which is not fully factored in.... So the loss ratios go on increasing every year, making it difficult to absorb the costs of extra pay-outs to the distributor. Most insurers will possibly increase premiums for individual health insurance policy. I don't see any impact on motor insurance as insurers offer discounts on own damage premiums, so they will simply adjust for a higher payout by lowering the discounts," he said.

But according to Kapil Mehta, co-founder, SecureNow Insurance Broker Pvt. Ltd, motor insurance could see a hike too.

"Third party insurance is mandatory for all plying vehicles.... Increasing commissions and paying rewards may not be required. Moreover, increase in commission and incentives, will be passed on to customers as the loss ratios from third party component is already high," Mehta said.

Source

Even though the industry is adopting a wait and see approach, you might end up paying a slightly higher premium for certain products.

Back

General Insurance

IT majors to benefit from regulatory push for telematics – The Times of India – 12th April, 2017

IT majors and telecom companies in India are best poised to capitalise on the latest regulatory push towards telematics. With the government mandating public vehicles with more than six-seater capacity to have vehicle tracking devices, IT majors Cognizant, Wipro and Infosys, already have the know-it-all given that they have been providing telematics solutions to foreign insurers like AIG, Allianz, AXA and Munich Re for close to a decade.

From blackbox devices in cars to mobile apps, IOT SIM cards, telematics in India will reach $301.23 million by 2021, according to 6Wresearch. With market Research firm Technavio pegs commercial vehicle telematics market growth in India at a CAGR of 16% over the next four years, there should be no dearth of orders for Indian IT and telecom players.

Initially, telematics was meant to locate vehicle and track routes. But today, a telematics solution — which can be any device transmitting real-time data — to track vehicle location, provide geo-fencing, car driving pattern, alert emergency services in case of accidents, call for towing and give engine/battery health indicators, etc. For our crowded intra-city roads, road analytics, live-streaming of traffic data can prove really beneficial for emergency services like fire, ambulances. Many a time, when fire trucks get stuck trying to enter narrow lanes or dense traffic turns — alternative route mapping is possible like in the case of Mapmyindia's work with Kolkata fire department

With 5,000 enterprise customers, Mapmyindia offers telematics solutions to a range of clients from Ola, Safexpress, schools and municipal corporations. "We have two products — one which is deep installed in the vehicle and a plug and play device. From merely tracking, our device can give information like temperature, whether the doors were opened, driving habits etc," said Rohan Verma, executive director, Mapmyindia. For taxi aggregators, fleet owners it solves a major pain point by letting them track their drivers' behaviour, including driving patterns, head-on collusions, possible sexual assault on passengers.

Cognizant and Infosys are currently working with global insurers around driving behaviours, driver safety, fleet management, and usage-based insurance. "It is an end-to-end telematics solution comprising data collection, data management, insurer solutions and customer applications," said Muthu Kumaran, global practice head, insurance, Cognizant. Technology has also come a long way from the cumbersome black boxes that were deployed earlier. When Liberty Videocon General Insurance launched a project in 2013, it did not take off as most dealers, automakers and customers were reluctant to insert a device into their car and risk losing their warranty, besides raising privacy concerns. Liberty Videocon is now looking at a mobile-based telematics app. Vodafone India for instance has partnered with agriculture equipment maker JCB for usage of its IoT SIM cards in all its machines. "The telematics solution has made it easier to manage working-versus-idle time, fuel usage, and identify small problems before they cause unscheduled downtime. The IoT platform has also helped them identify maintenance areas in advance, save additional overheads, offer better customer service and manage business better," said Satish Mitral, senior vice president and chief technology officer, Vodafone business services.

And its not just about the vehicle, Infosys for instance has been working on an Advanced Driver Assist Systems (ADAS) enabled services for ensuring safety on the road. "We have a solution for detecting driver fatigue using facial analysis. Facial analysis software detects eye blinks, yawning and facial expressions and triggers a notification either through haptic (vibration) alert on the smart watch or beeps on the head unit panel," said Sudip Singh, SVP and global head of engineering services, Infosys in an earlier interview with TOI.

Source

Back

Govt set to expand crop insurance as El Nino threat looms – Financial Chronicle – 10th April, 2017

The significance of the Prime Minister's Crop Insurance Scheme may come to the fore this year if an El Nino-induced below normal monsoon impacts crops. Realising this, the government is on an overdrive to increase the area so that more farmers are insured. In the first year of the launch of the scheme in 2016, the area was increased by 10 per cent. This year too, the target is to raise it by another 10 per cent to 40 per cent of the grossed crop area, an official said, adding the next target is taking it to 50 per cent. The country's gross cropped area is estimated at about 194 million hectares, out of which 140 million hectares are the net sown area.

Under the Prime Minister Fasal Bima Yojana, crop insurance is compulsory for farmers availing of loans in notified areas and voluntary for non-loanee farmers.

Notified insurance unit has been reduced to village or panchayat for major crops. Under this new plan, the risk coverage has been increased by covering pre-sowing to post-harvest losses.

Farmers pay a maximum of 2 per cent of the premium fixed by insurance companies for all the crops grown during kharif season and 1.5 per cent for rabi crops. However, for horticultural and commercial crops they pay a premium at 5 per cent of the amount quoted by insurance companies. The remaining amount of premium is subsidised by both the Centre and state under 50:50 plan.

"Since our target is covering all the farmers, we have decided to focus on area so that they get the insurance benefits," the official said. Barring Tamil Nadu, all other states had received good rainfall in 2016 and fortunately no other natural calamity reported. So, the importance of crop insurance was not felt much.

Three officials in the agriculture ministry —joint secretary Ashish Bhutani, additional secretary Ashok Dalwai and secretary SK Pattanayak —are directly monitoring the progress of the PMFBY scheme almost on daily basis. They are guided by the direct supervision from the prime minister's office, sources said.

As the government plans to hold its annual two-day kharif conference from April 25, where state government officials from all over the country participate, the Centre would guide them the way forward in meeting the increased target in coverage of areas, sources said.

Another area, which the government is likely to focus, is covering more number of crops so that automatically the area is increased. Citing an example, the official said most of the states are yet to include any horticulture crops other than onion and potato under the PMFBY scheme. "There are some hardy crops like guar, which can grow in less water. So, many farmers are reluctant to insure such crops. There is a need to create awareness that crop insurance is also useful against pest attack, hailstorm, flooding and other natural calamities," the official quoted earlier said.

Source

In the first year of PMFBY, 23 states implemented the scheme in kharif benefiting 3.9 crore farmers and 25 states during rabi season with 1.67 crore farmers.

Back

With growing attacks on film sets, producers rush for insurance cover – Business Line – 7th April, 2017

In the film industry creativity comes at a price. The rising cost of insurance cover is among the latest.

With sporadic incidents of violence being witnessed on the sets of high-profile movies and growing risks attached to the realistic action sequences, the film industry in India is increasingly opting for insurance cover.

The size of the Indian film industry, including Bollywood and regional productions, is estimated at around ₹14,200 crore, with annual production of about 1,500-2,000 movies. While the industry is growing at a sluggish pace of 3 per cent, insurance policies for movies have grown by double-digits in 2016-17.

Insiders maintain that since the time of popular Hindi period movie Mughal-E-Azam (1960) to the upcoming Sanjay Leela Bhansali production Padmavati, Hindi cinema has faced financial losses arising from natural disasters, accidents and public outrage over the contents of a movie.

Noted director-producer Mahesh Bhatt highlighted the need for insurance as well as State monitoring and control to make it conducive for film-makers to produce films. "Earlier, we used to have insurance against natural disasters. But the environment today has become very hostile. Attacks on sets and vandalism are man-made losses. Life-long investments and hard work of people are put in jeopardy."

"Once the insurance guys get a whiff of some mischief brewing around a movie, they set a limit for offering cover. This is something for which the law and order system has to be accountable. We can't find a solution by putting it on the insurance companies to pay for the losses," Bhatt told BusinessLine.

Gaining traction

According to insurance companies, cover for movie production has gained traction even among small-budget producers and makers of regional cinema.

"Producers, both big and small, face unique circumstances, varying from damage or theft of expensive equipment to actors falling ill to vandalism on the sets by miscreants. An insurance policy covers all the risks associated with the movie in its production stage," said Sasikumar Adidamu, Chief Technical Officer, Non-Motor, Bajaj Allianz GIC, which started film insurance with the Aamir Khan-starrer Taare Zameen Par (2007).

Bajaj Allianz has so far insured over 100 regional and Hindi movies. "Over the past year, there has been an uptake in the number of film insurance policies. Bajaj Allianz GIC saw 10-12 per cent growth in 2016-17 over last year in the number of policies," said Adidamu.

Film insurance policies are usually packaged policies offering a range of covers — for cast, equipment, props, sets, wardrobes, film tapes and negatives, against incidents such as fire, natural disasters, accidents, riots and strikes, among others.

New generation film maker Abhishek Jain of Cineman Productions, which makes Gujarati films, underlined some basic challenges involved in availing insurance for films. "It is a challenge to decide the terms of insurance. This is an uncertain industry and the incidents are unpredictable and unique."

Regional cinema

According to Jain, regional cinema faces greater risk of financial loss because unlike Hindi cinema, which gets bank finance, regional cinema is mostly self-financed. "People put in their own money. Also, the nature of Gujarati films is such that it does not require sets. They are mostly shot on real locations. So, insurance is not always viable for such movies," said Jain.

Source

Back

Soon, drunk drivers will not be eligible for insurance claims – The Economic Times – 8th April, 2017

Drunk drivers will have to pay the entire compensation for causing death or injury in a road crash. According to the Motor Vehicles (Amendment) Bill introduced in the Lok Sabha on Friday, insurance companies will not pay any compensation in such cases awarded by the Motors Accident Claims Tribunal (MACT).

However, the road transport ministry has not included the provision of trying drunk drivers for "culpable homicide not amounting to murder" in case of death caused by them in a crash, which is a non-bailable offence and attracts 10-year jail term. Though the ministry had accepted the recommendation of a parliamentary panel, it referred the suggestion to the home ministry as it requires an amendment in the Indian Penal Code.

Experts said while the provision of holding drunk drivers to pay the full compensation is likely to act as a deterrent, there is also a fear that in many cases victims may end up getting little compensation since it will depend on the income and paying capacity of the accused driver. "Why is the government putting such a provision when it's aware of the income of professional drivers? This will indirectly benefit the insurance companies. Any single drunk driver hitting road is a failure of the government authorities," said S P Singh of IFTRT, a Delhi-based think tank on transport issues.

Introducing the bill, Road Transport Minister Nitin Gadkari said the objective behind the proposed law is to reduce road fatalities by half. The bill provides for stringent penalties, including jail term and suspension of driving licence, for offences such as juvenile driving, speeding, dangerous driving and double penalty on enforcement personnel for committing any offence. The proposed law will also have provision for regulating taxi aggregators.

Another new change that the road transport ministry has introduced is imposition of Rs 1 lakh penalty each on vehicle owner and dealer for getting registration based on false documents. Similarly, the bill provides for a fine of up to Rs 1 lakh for road owning or maintenance agencies where faulty design or maintenance results in death or injury.

This fine is to be deposited with the Motor vehicle Accident Fund, which will be constituted.

Source

Though the government has done away with the the earlier provision of limiting liability of insurance companies for paying compensation to the third party, it has incorporated a clause which gives an option to the victims or their kin to reach a quick settlement with the insurance company concerned by accepting compensation of Rs 2.5 lakh for injuries and Rs 5 lakh for death. This amount will have to be disbursed within three months.

After taking such compensation, their case in the MACT shall lapse.

Back

Centre's vehicle tracking mandate set to prove a boon for insurers – The Times of India – 7th April, 2017

With the government mandating all public transport vehicles with over six-seater capacity should have location tracking devices, insurance companies in India are best positioned to capitalise on this growth.

The new regulation, coming into effect from April 1, 2018, will be applicable for state transport buses, school vans, ambulance and other special purpose public carriers. And insurers like Bajaj Allianz, ICICI Lombard and Liberty Videocon have already live-tested telematics solutions on the road.

Currently, Bajaj Allianz General Insurance Co has nearly 6,000 vehicles of its policyholders fitted out with telematics devices — which track vehicle location, driving pattern, provide geo-fencing, engine/battery health indicators, towing services and alert emergency services in case of accidents. While currently the policy is for cars, the company can adapt usage for light and heavy commercial vehicles too.

"We launched 'Drive Smart' in October and we've seen a fair amount of interest from our customers. Tracking vehicle usage can result in fuel savings and possible reduction in premiums in future — if the data collected shows the person to be a safe and cautious driver. But, most of our customers are kicked about the geo-fencing feature," said Sourabh Chatterjee, head, IT, digital marketing, Bajaj Allianz General.

"With geo-fencing, parents are able to track their kids movement if they have sent them with their driver to school or tuitions. Spouses can feel reassured when they are able to see the vehicle location and movement, if their partner is returning home late from work on a highway. Also in case of weak phone signals/inability to contact in case of a flat tyre or a serious accident, the device can trigger an SOS alert," said Chatterjee.

With the potential for the Indian telematics market expected to touch $113.7 million by 2018, insurers see a huge opportunity for themselves. Telematics adoption would not be a far stretch for insurance companies as most of them already have a vehicle distribution network, tie-ups with dealerships and run multiple telematics pilots to validate their business plans.

"There are two key features when it comes to telematics. One is that it will help us better manage our risk. We'll know, which of our policyholders over-speed, take sharp turns, drink n' drive. For users the benefit is their premiums could go down if there is data/evidence that they are safe and credible drivers. Over the long-term, it could improve road safety and instill better driving behaviour," said Sanjay Datta, chief - underwriting and claims, ICICI Lombard General Insurance Co, which ran a pilot telematics project in 2013 for commercial vehicles. "Tracking vehicles can also lower chances of theft, hijacks and road accidents," said Datta.

A new survey conducted by the US Insurance Research Council (IRC) has found that 56% of drivers who have employed telematics devices have adjusted their driving habits as a result of those devices. "Installing devices definitely makes drivers more cognizant of their driving behaviour," said Muthu Kumaran, global practice head, insurance, Cognizant.

Players also said there could be a paradigm shift towards telematics mobile-apps from devices fitted in vehicles — given the difficulty when it comes to adoption from customers and auto manufacturers. Liberty Videocon General Insurance, which had launched a telematics project in 2013, did not see it take off, primarily because it was a physical device that had to be fitted to the vehicle. "We failed earlier, as many people were reluctant to insert a device into their car and risk losing their warranty. But we are planning to launch a new telematics solution. This time we will be using RFID stickers on the windscreen and mobile-app based tracker to monitor driving patterns," said Roopam Asthana, CEO, Liberty Videocon in an earlier interview to TOI.

Source

Back

Draft Motor Vehicles Bill: Government removes proposed cap on third party motor insurance claims in case of death, injury – The Financial Express – 11th April, 2017

The government has removed the proposed cap on third-party motor insurance claims in case of death or injury — though the current law has no such cap, a cap of Rs 10 lakh for death and Rs 5 lakh for grievous injuries was proposed in the draft Motor Vehicles (Amendment) Bill. Under what is now proposed, a victim/kin can straightaway approach insurance firms for cash compensation of Rs 5 lakh in case of death and Rs 2.5 lakh in case of injuries. If not satisfied, they can subsequently approach the motor accident claims tribunal for a higher amount.

Currently, victims have to go first to the claims tribunal, which makes an award. Insurance companies have been demanding the capping of claims as over the years they have been rising, making third-party mandatory motor insurance an unprofitable business.

The Lok Sabha on Monday approved the reworked amendment Bill, which will now go the Rajya Sabha for approval before it becomes an Act. Analysts said that the approved version of the Bill would provide relief to accident victims as currently it takes five to six years to get an award from the tribunal.

The Motor Vehicles (Amendment) Bill, was first introduced in the Lok Sabha on August 9, 2016, as the government wanted to bring about an omnibus reform in Motor Vehicle Act that includes weeding out of issuance of bogus driving licences, slapping heavy penalty for traffic violations and protecting good Samaritans helping accident victims. On average, 5 lakh road accidents in the country claim 1.5 lakh lives every year.

The Insurance Regulatory and Development Authority of India has allowed insurance firms to increase third-party insurance premium rate by 40-50% from April 1, said Kapil Mehta, co-founder of SecureNow Insurance Broker. This was aimed at providing some sort of cushion to the insurance firms as claims are on the rise.

Source

Motor third-party insurance premiums grew 19% on-year to Rs 21,242 crore in FY16. It typically goes up 10-15% every year to reduce the burden on insurers. As a result, the claims to premium ratio are now 140%, much lower than a few years ago.

Back

Health Insurance

Insurance cover for mental illness could raise premium costs – The Hindu – 7th April, 2017

More than 150 million patients with mental illnesses could soon get help with coverage under health insurances, but at a cost — insurers are hinting at an increase in premium.

The Mental Healthcare Bill 2016, which got Lok Sabha's nod last week, will become law once it receives Presidential assent. The Bill makes it mandatory for insurers to provide insurance to the mentally ill. Health insurers are gearing up to bring mental illness, such as depression and anxiety, under insurance cover.

The progressive provision, however, may result in more expensive insurance products.

Responding to BusinessLine in an email, Antony Jacob, CEO of Apollo Munich Health Insurance, said: "The inclusion of expenses related to mental health could impact the premiums and some insurers may raise premiums. Currently, most of the mental health conditions are treated on an out-patient basis."

While adding that Apollo Munich's customised group health insurance plans already cover mental illness, he added that the company was reviewing the Bill to chart out ways to include mental health under its products.

Max Bupa Health Insurance is also in the process of complying with the Bill. Ashish Mehrotra, Managing Director and CEO, said: "There are various ways an insurance company can provide coverage to the people with mental illness, starting from basic hospitalisation coverage to comprehensive managed care services with counselling sessions and medical consultations that would help them get the best treatment for their mental condition. We are evaluating the key parameters and the best way to offer the most comprehensive coverage to such customers."

While Mehrotra estimates that 5-6 per cent of the population suffers from some mental health concern, a recent survey conducted by the National Institute of Mental Health and Neuro Sciences (NIMHANS) puts the figure at a much higher 13.7 per cent of the adult population, of which, at least 150 million need immediate medical intervention. This vast number is likely to put pressure on the health insurance providers.

Johnson Thomas, Director and Co-Founder, Aasra Helpline, which works towards prevention of suicides, said while the inclusion under the insurance was a positive step in improving access to mental healthcare for patients, the potential increase in premiums was a concern.

Source

He added that the Bill is a start to a more organised mental health sector which is currently dominated by mom-and-pop shop kind of establishments.

Back

Regulations

IRDAI asks insurers to appoint data security officer by April 30 – The Economic Times – 9th April, 2017

Insurance firms will have to mandatorily appoint a chief information security officer by April 30 whose main job would be ensuring data protection.

This is part of sector regulator Insurance Regulatory and Development Authority of India (Irdai) cyber security guidelines that will be implemented in series, the first phase of which begins on April 30 and complete a full circle by end-March 2018.

"By March 31, all insurance companies will have to appoint a Chief Information Security Officer (CISO) who will be responsible for articulating and enforcing the policies to protect their information assets and formation of Information Security Committee (ISC)," Irdai said in circular.

The guidelines entail data, applications, operating systems and network layers. Security audit and legal aspects on cyber security are other aspects of the guidelines.

Insurance firms who are in existence for less than three years, however, have been exempted from the requirement of a full-time appointment of a CISO.

However, they can give responsibility of CISO to any of the functionaries reporting to Board, Irdai said.

Data security is important and needs proper guard against theft and misuse as insurers and related entities share significant amount of personal and confidential policy holder information, at times even sensitive health-related ones, with third parties.

Besides, insurance repositories, call centres and common service centres also have access to policy holders' data.

Source

"While information sharing is essential for conducting the business operations, it is essential to ensure that adequate systems and procedures are in place for ensuing that there is no leakage of information and information is shared only on need-to-know basis," Irdai said.

Back

Irda issues cyber security norms of insurers – The Economic Times – 10th April, 2017

The Insurance Regulatory and Development Authority of India has asked insurance companies to have board approved information/cyber security policy by 31 July 2017.

It has asked insurers to appoint chief information security officer who would be responsible for enforcing policies to protect information assets. CISO would be head of risk management and will have working relationship with CIO.

The regulator laid down cyber security guidelines classifying critical systems, cyber resilience program, identification, detection and protection.

The regulator has asked insurers to segregate IT & Information Security functions. Also, information security as a function cannot be outsourced.

Source

It has asked insurers to form information security committee comprising of operations, IT, legal, finance, compliance etc. – headed by a senior official reporting into Board.

Back

IRDAI relief for truckers, not pvt car owners – The Times of India – 11th April, 2017

Truckers prevailed in their battle against the country's insurance regulator, forcing it to lower the third-party premium for insurance for heavy commercial vehicles after threatening to go on a nationwide strike. But there is no respite for most of the private vehicle owners and they have to pay 40% more premium than last year simply because no one took up their case with the Insurance Regulatory and Development Authority (IRDA).

Source

TOI has learnt that IRDA accepted the demand of truckers' organisation to cut the proposed premium from 41% to only 27% on Friday night after the road transport ministry intervened. Country's truckers' associations have been demanding IRDA should stop fixing third party premium.

Back

Pension

Small Savings Schemes: A downturn in interest earnings – The Indian Express – 7th April, 2017

The interest earning for small investors is clearly on a downward trajectory. After the government announced a 10-basis point cut in the interest earning on small savings schemes including on the public provident fund (PPF), there are now chances that employees' provident fund (EPF) rates might also witness a substantial cut and the cut could be as high as 50 bps, which may bring down the interest offering on it from the current 8.65 per cent to around 8.15 per cent.

On Thursday, this newspaper reported that that the finance ministry has written to the labour ministry recommending a possible cut in the rate by around 50 bps. In February, the former had sought clarifications from the latter pertaining to the Employees' Provident Fund Organisation's (EPFO) ability to pay an interest rate of 8.65 per cent.

The finance ministry had on March 31 cut interest rates on all small savings schemes for the quarter April-June 2017 by 10 bps, except the interest offering on savings deposit with banks which has been retained at 4 per cent. While the rates for PPF scheme and 5-year National Savings Certificate have been reduced to 7.9 per cent each for April-June quarter, from 8.0 per cent each for January-March, the interest rate for 5-year Senior Citizens Savings Scheme has been cut to 8.4 per cent, from 8.5 per cent earlier. The subscribers' Sukanya Samriddhi Account Scheme will also earn 8.4 per cent interest rate for the current quarter, which is lower by 10 bps against that in the last quarter. This reduction is in line with the government's aim to make the small savings interest rates market-linked. The finance ministry had in April 2016 moved to a quarterly review of small savings interest rates as opposed to an annual review earlier, saying that the rates of small savings schemes shall be linked to yields of government bonds.

While the government schemes are now seeing a cut in their interest offering, it is in line with the sharp decline in the interest offering by the banks on their fixed deposits (FDs) following the 175-bp cut in repo rate (the rate at which RBI lends to commercial banks) over the last 27 months. While the coupon rate on 1-year FDs with banks currently stands at around 7 per cent, that on a 5-year term deposit has gone down to around 6.5 per cent. The State Bank of India is offering 6.9 per cent on a 1-year FD and 6.5 per cent on five-year FD. ICICI Bank is offering 6.9 per cent on a 1-year FD and 6.75 per cent on a five year FD. Similarly, HDFC Bank is offering 6.9 per cent on a one-year FD and six per cent on a five-year FD.

Source

Back

Conduct special audit of PF trusts: parliamentary panel to labour ministry – Mint – 9th April, 2017

A parliamentary panel has asked the labour ministry to conduct special inspection or audit of private Employees' Provident Fund (EPF) trusts that have been found to be investing their workers' retirement savings in own firms through mutual funds.

The private trusts, regulated by the Employees' Provident Fund Organization (EPFO), maintain Provident Fund (PF) accounts and retirement savings and are required to invest these funds as per the investment pattern approved by the government.

These trusts are called exempted establishments because they do not deposit EPF contributions of their employees with the EPFO. "Investing in own business is improper and is being done to serve their own interest," the Parliamentary Standing Committee on Labour said in its report tabled in Parliament on 7 April .

The panel further said, "There is need to have special inspection or audit of all such companies and the EPFO should take early action on the requisite process for restricting investment through this route and take immediate corrective steps and re-divert such investments in other... instruments." It further observed: "From the list of 317 such firms, on whose board of trustees surcharge was levied (for deviating from the investment pattern), most of the establishments were closed against which the cancellation orders were issued... such futile exercise needs to be tackled with regular physical inspection."

As per the EPF scheme, the violation of not sticking to the investment template is only limited to three instances, and beyond that, the exemption granted to the firm can be cancelled. The panel suggested that the exemption given to these private EPF trusts should be reviewed after a prescribed period so that the EPFO is aware of the exact financial status of the firms, which will help in protecting the interest of employees.

It also suggested that it should be made mandatory to check the demat account of these trusts to verify the pattern of investments as well as the returns received by these trusts during the compliance audit.

The panel noted that as on December 31, 2016, the total corpus of these trusts was around Rs2.57 lakh crore, including the unclaimed EPF amount of Rs5,475 crore. It also called for a suitable amendment in the scheme without delay so that not just the name of the worker for whom unclaimed amount is available gets reflected in the annual account statement of the PF fund, but the funds get transferred to the EPFO after a specified period. It also asked the ministry to explore the possibility of depositing the unclaimed amount so revived in the special reserve fund (SRF).

Source

Back

Settling EPF claims via phone to be a reality soon – Financial Chronicle – 10th April, 2017

Government has asked all telecommunications companies to list at least a 25 per cent stake on the bourse to boost domestic ownership

Members of retirement fund body EPFO will soon be able to settle their claims like EPF withdrawal through mobile application Umang.

"The Employees' Provident Fund Organisation (EPFO) is developing online claims settlement process by receiving application online," labour minister Bandaru Dattatreya said in a written reply to the Lok Sabha.

The minister also said, "The application will be integrated with Unified Mobile App for new-age governance, (Umang) App, to receive the claims online. However, the timeframe to roll out the same has not been finalised."

The EPFO receives close to 1 crore applications manually for settlement of EPF withdrawals, pension fixation or getting group insurance benefit by the deceased.

A senior official said over 110 regional offices of the EPFO out of 123 field formations have already been connected with the central server. The official explained that it is a technical requirement for connecting all regional offices with the central server for rolling out the facility.

Earlier in February this year, EPFO Central Provident Fund Commissioner had said, "The process of connecting all field offices with a central server is going on. We may introduce the facility for online submission of all types of applications and claims like EPF withdrawal and pension settlement by May this year."

Source

The EPFO has an ambitious plan to settle the claims within a few hours after filing of the application.

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EPFO asks banks to treat banking correspondents as staff, extend benefits – Mint – 10th April, 2017

India's retirement fund manager has asked banks to treat banking correspondents (BCs) as their employees and extend all benefits due to them, three people familiar with the matter said, a move that could hurt lenders.

BCs are individuals authorized by banks to act as their representatives in places where they are not physically present. The central analysis and intelligence unit of the Employees Provident Fund Organisation, EPFO, in February wrote to banks and corporate BCs in this respect.

"The central government is serious about increasing the social security net for all kinds of workers," said a senior EPFO official, seeking anonymity. "If construction workers can be brought under provident fund benefit, why can't BCs of banks?"

Typically, banks follow a three-tier structure with banks at the apex level, corporate BCs as intermediary, and individual agents providing service to customers at the third level. In some cases, banks engage with agents directly.

This model enables a bank to expand reach and offer banking services at a low cost, as setting up a physical branch may not be viable in all cases.

According to latest data with the Banking Correspondent Federation of India (BCFI), there are 70 corporate BCs and 285,000 individual agents working for banks.

BCFI is an association representing all banking correspondents.

Bringing individual BCs under the ambit of the Employees‟ Provident Funds and Miscellaneous Provisions Act, 1952, will make them eligible for benefits including minimum wage, gratuity, bonus and leave entitlements, besides provident fund.

"Currently, BCs get paid a minimum remuneration of Rs5,000 in addition to a commission amount which is dependent on the number of transactions," said Anand Shrivastav, chairman, Banking Correspondent Federation of India.

"With BCs coming under EPFO, a minimum wage will be fixed as per the Minimum Wages Act for skilled workers at Rs12,000. Other additional benefits including PF will be over and above this," Shrivastav said.

The Indian Banks Association (IBA) and BCFI have since written to the Prime Minister's Office, labour ministry, finance ministry and the Reserve Bank of India, arguing why this move will make the banking correspondents model an unviable business.

"EPF & MP Act 1952 is not applicable to BCs as well as corporate BCs as they are independent entrepreneurs with an agreement to operate BC services," BCFI wrote to the Prime Minister on 31 March.

"Bringing BCs under the ambit of EPFO will, inter alia, make them as de jure employees of banks/corporate BCs and raise other problems for the banks/corporate BCs and government as well," the BCFI letter noted.

The content of the IBA letter, according to an IBA official who did not want to be named, was similar.

The Reserve Bank of (RBI) India too has written to the labour ministry to exempt BCs appointed by banks from provident fund coverage, said one of the three people cited earlier.

In January 2006, RBI permitted banks to engage BCs as intermediaries for providing financial and banking services. Initially, only individuals were allowed to act as BCs, which was later expanded to include for-profit companies to provide door-step delivery of services.

Currently, 126,000 of the total 285,000 BCs are engaged only for activities under the Pradhan Mantri Jan Dhan Yojana (PMJDY) programme. According to recent Pradhan Mantri Jan-Dhan Yojana (PMJDY) data, public sector banks engage nearly 79,826 active BCs for opening accounts, cash withdrawal through Rupay cards and Aadhaar authentication, while regional rural banks engage 29,807 BCs. Private sector banks engage only 2987 BCs.

Source

Any change in regulation to bring BCs under EPFO will therefore severely affect the profitability of government-owned banks, the person mentioned above argued. Viability of the BC model has also been a challenge due to the high transaction cost for banks and customers. According to the BCFI report, BCs receive only 0.5% of the transaction value for providing services under PMJDY, where as banks receive 1%.

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EPFO should provide unemployment insurance, gratuity: House panel – Financial Chronicle – 12th April, 2017

A Parliamentary panel has recommended amendments in social security schemes run by retirement fund body EPFO to include unemployment insurance and gratuity benefits.

At present, the Employees' Provident Fund Organisation provides retirement fund (EPF), pension and group insurance under its three schemes.

These schemes are Employees' Provident Fund Scheme 1952, Employees' Pension Scheme 1995 and Employees Deposit Linked Insurance Scheme 1976.

The public accounts committee in its report tabled in Parliament today said, "The scheme should be reviewed/modified so as to include unemployment insurance and gratuity under the scheme."

However, the labour ministry in its response to the panel said that unemployment insurance is not under the present EDLI Scheme in which insurance is linked to the deposits and thus it is not feasible at this juncture.

The ministry has also explained that the payment of gratuity is governed by the Payment of Gratuity Act, 1972 which is administered by labour departments of states.

However, the panel said that all benefits related to superannuation/death/sickness/disability of the employees should be covered under one scheme.

Flagging long delays in annual valuation of the Employees' Pension Fund, the committee has recommended exemplary disciplinary action against those responsible for such huge delays and disclosure of annual valuation reports for ensuring transparency.

It also recommended that whenever an establishment (firm) is set up, they should be compulsorily be registered with the EPFO also as they register with sales tax/VAT departments etc.

The panel was of the view that making restoration mandatory at the time of setting up would ensure coverage of all establishments and consequently maximum number of workers would be covered under the scheme.

However, the ministry apprised the panel that this would require an amendment regarding coverage of establishments under the EPF & MP Act.

Source

At present all those firms which employ 20 or more employees come under the purview of the EPFO.

However, the ministry has told the panel that a bill to amend the Act to provide for reducing the 20-employee threshold for coverage under the EPFO to 10 has been sent to the Union cabinet for approval.

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PAC pitches for reducing Centre's contribution to EPFO pension fund – The Hindu – 12th April, 2017

To reduce the 'burden' on the Centre to contribute to EPFO pension funds and "eventually do away with it", the Public Accounts Committee (PAC), headed by KV Thomas, has reiterated its call for more efficient management of retirement funds.

The Centre contributes 1.16 per cent of the basic wage to the Employees Pension Scheme (EPS) 1995.

The Employees Provident Fund Organisation (EPFO) "has such huge funds (₹7.42 lakh crore) and can earn handsome returns…, the burden on the Central government to contribute towards pension funds may be reduced in the first instance and eventually done away with," said the PAC's 72nd action taken report on its recommendations by the Ministry of Labour and Employment, tabled in Parliament.

At present, 69 per cent of the retirement savings of EPFO are with the government, which are being utilised for development activities. However, the Labour Ministry's Pension Division's told the PAC that the actuary had projected an impact of ₹32,365.66 crore if the Centre's share of 1.16 per cent in EPS 1995 is done away with.
For 2016-17 alone, the impact assessed was more than ₹4,300 crore, the Minstry added.

"This impact will increase every year in future due to increase in number of EPS members and the corresponding increase in contribution due to increase in pensionable salary each year," the Ministry told the PAC.

However, the PAC was of the firm view that the EPFO should strive for efficient management of funds to ensure maximum returns on investments with a view to reducing the burden on the Centre.

As of now, roughly ₹1.15 lakh crore (15.5 per cent of the total) is invested in scheduled commercial banks, about ₹55,000 crore (7.5 per cent) is invested in the power sector, ₹17,000 crore (2.4 per cent) in sectors, such as housing, agro and railway finance, said the report.

Source

The Committee, therefore, desired that the Labour Ministry deliberate on the issue and come out with options for investing in developmental projects and apprise the PAC on its decisions within two months.

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No document required for withdrawal from General Provident Fund – Deccan Chronicle – 13th April, 2017

No documentary proof is required for getting advance or withdrawal from General Provident Fund (GPF), Union Minister Jitendra Singh today said.

The government has with effect from March 7, 2017, simplified and liberalised the conditions for taking advance from the fund for education, illness and purchase of consumer durables.

"Conditions and procedures for withdrawal from the fund for the purpose of education, illness, housing, purchase of motor vehicles etc. have also been liberalised.

"No documentary proof is required to be submitted now for advance and withdrawal applications. A simple declaration by the subscriber is sufficient," the minister said in a written reply to Lok Sabha.

A time limit for sanction and payment of advance or withdrawal has also been fixed, said Singh, the Minister of State for Personnel.

He said there is no proposal under consideration of the government to increase/link the rate of interest on GPF at parity with that of Employees' Provident Fund (EPF).

Source

"The interest rates on EPF are decided on the recommendations of the Central Board of Trustees taking into account the yearly income from the investment made by EPFO. The GPF interest rate is presently fixed at par with that of PPF interest rate," said Singh.

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Circular

Source

Guidelines on Information and Cyber Security for insurers – Circular Ref: IRDA/IT/GDL/MISC/082/04/2017 dated 7th April, 2017

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Source

Circular on Filing of online application for Insurance Self Networking Platform (ISNP)as per IRDAI's Guidelines on Insurance e-commerce dated 9th March, 2017 Circular Ref: IRDA/INT/CIR/ECM/083/04/2017 dated 12th April, 2017

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Global

Increase in frequency of major vessel casualties challenge marine insurers – AIR – Asia Risk – 12th April, 2017

A rise in major vessel casualties and the increase cargo accumulation risk onboard vessels and in port continue to challenge marine insurers, data from the recent International Union of Marine Insurance (IUMI) annual spring meeting has shown.

Hull

The frequency of major vessel casualties rose again in 2016 for the second consecutive year. They had enjoyed a year-on-year decline until 2015 when they recorded a sharp upturn which was continued in 2016. Conversely, the trend in total vessel losses (from 2000 onwards) continued its downward trajectory through to 2016 notwithstanding a minor uptick in 2015.

In general, many markets reported a reduction in frequency of claims but an increase in the average cost of the claim. The main causes of the total losses to 2015 were weather related but the frequency of losses caused by grounding or machinery damage are now increasing faster than any other cause. This was followed by fire and explosion.

It was thought that recent increases in total losses caused by machinery damage may have been a reflection of reduced asset values and the consequent increase in constructive total loss risk following major damage.

Cargo

Accumulation losses both on board ship and in port continue to cause concern for cargo underwriters.

The new generation Ultra Large Container Carriers are capable of carrying 20,000 TEU with a potential cargo value estimated at $985 million. This represents a significant risk for cargo underwriters and one that continues to increase. Put in context, MSC Flaminia which suffered a fire in 2012 carried a cargo valued at $115 million.

Accumulation risk in ports, particularly Chinese ports, are thought to be even greater. It was estimated that the value of cargo throughput at Shanghai could reach $1.6 billion a day, Shenzhen $681 million and Tianjin $477 million. The explosion at Tianjin in 2015 also resulted in a significant loss but might have been much worse. The total cargo estimated to be onboard the 754 ships in the port on the day of the incident would have amounted to more than $53 billion.

Commenting on the issues raised, Donald Harrell, Chairman of IUMI's Facts & Figures committee said:
"Marine risks continue to grow both in size and complexity and it is vital that underwriters fully understand the potential losses that they are being asked to insure. It is gratifying to see the year-on-year decrease in total losses, but we must take particular notice of the recent increase in major casualties and the reasons for this.

The offshore sector continues to face challenges that look likely to get worse before they get better. Energy risks per se have not reduced, but the premium base from which they are settled, or reinsured, has shrunk dramatically.

The disaster in the port of Tianjin in 2015 serves as a reminder of the growing accumulation risk that continues to dog our sector and one that will only intensify over the coming years. As marine underwriters, we must continue to innovate and provide cost-effective insurance solutions to enable seaborne trade to continue without interruption."

Source

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