Insurance Institute of India

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Newsletter

06-May-2011 to 12-May-2011

Insurance Industry

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Date – 06-May-2011

News	Insurers want to cut share of single premium products
Newspaper	The Economic Times
Source	http://articles.economictimes.indiatimes.com/2011-05-06/news/29517233_1_single-premium-regular-premium-sbi-life-md

MUMBAI: After a huge surge in income from single premium unitlinked insurance products (Ulips), insurance companies are now looking to reduce their exposure to these products. Single premium products have one-time premium paying term whereas the premium is paid on a periodic interval in a regular premium product. The surge is mainly due to the narrowing of the difference in commission on single and regular premium products.

After the regulatory changes in 2010 which brought down the commission for regular premium products to 5-8 % from 12-15 %, there has been a fall in sale of regular premium products. Single premium product fetch agents 2% commission. According to the latest data by the insurance regulator, the share of income from single premium products has gone up from 36% in 2009-10 to 43% in 2010-11 . Private sector companies reported an even higher increase from 10% in 2009-10 to 27% in 2010-11 .

Insurance Regulation

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Date – 06-May-2011

News	High Court directs IRDA to provide nomination facility in motor insurance policy
Newspaper	The Economic Times
Source	http://articles.economictimes.indiatimes.com/2011-05-05/news/29512708_1_nomination-facility-vehicle-owners-motor-insurance-policy

LUCKNOW: In a judgement, which would help provide speedy and enhanced compensation to motor vehicle owners killed in a road accident, the Lucknow bench of the Allahabad High Court has directed the IRDA to provide nomination facility in all motor policies.

A public interest litigation (PIL) was filed in Lucknow bench of Allahabad High Court, challenging the non availability of nomination facility in the personal accident policy which is sold compulsorily along with motor insurance policy to vehicle owners.

Advocate Dhruv Kumar in his petition said that July 2002, an additional premium of Rs 50 and Rs 100 is being charged under the Indian Motor Tariff from owners of the two wheeler and four wheelers for compulsory personal accident insurance for the sum insured of Rs 1 lac and Rs 2 lacs, respectively.

Date – 07-May-2011

News	Insurers await norms on pension products
Newspaper	Financial Chronicle
Source	http://www.mydigitalfc.com/banking/insurers-await-norms-pension-products-948

Life insurers are waiting for revised guidelines from the Insurance Regulatory and Development Authority (Irda) before they can come out with regular unit-linked (Ulip) pension products.

Sales of pension products, which have been growth drivers for life insurers and were among highest selling products, have fallen in the absence of products on shelf for sale. Only LIC has regular Ulip pension product. Private insurance companies are selling traditional pension products, which are non-transparent and often have high charges.

Few private players such as HDFC Life, ICICI Prudential Life have launched single premium Ulip pension plan.

Since September 1, 2010, new guidelines from Irda came into effect, which mandated all Ulip pension products to offer a minimum guarantee of 4.5 per cent.

Despite these guidelines being in place for over 10 months, no private life insurance company has launched a product. Insurers say that they have not been able to calculate a profitable formula to design such a product.

"Offering guarantee on regular Ulip pension has create asset-liability mismatch. No one can guarantee minimum return of 4.5 per cent. What if the interest rate is low in debt products or equity is not giving good return. We are waiting for Irda to make changes in the guidelines," said Sunil Sharma, head- actuary, ICICI Prudential Life Insurance.

"We are waiting for new guidelines on pension plans. It is a important product category. Irda has also understood that none of private players have come out with a product due to though guidelines. Changes are expected soon," said a senior official of a private insurance company.

Irda is working on new guidelines and expected to come out with final version within a month.

As per the latest data, individual new business premium collected by life insurers stood at Rs 69297 crore during April-February compared with Rs 62914 crore a year ago.

News	***IRDA issues guidelines on distance marketing of insurance products***
Newspaper	***The Hindu Business Line***
Source	***http://www.thehindubusinessline.com/industry-and-economy/banking/article1605440.ece***

Hyderabad, April 6: The sale of insurance products through telemarketing, SMS, Internet or through any other modes of distance marketing will soon be more reliable.

"Every tele-caller should be trained by any institute accredited by the Authority," Mr J. Hari Narayan, Chairman, Insurance Regulatory and Development Authority (IRDA), said in the new guidelines on distance marketing of insurance products released on Wednesday.

The insurers, brokers and corporate agents should maintain a register of all persons engaged by them or by the telemarketers hired by them for the purpose of lead generation/solicitation of insurance business. Further, all calls would have to be recorded to be transferred to the insurer. "The price comparison charts that are displayed shall be up-to-date and reflect a true picture of all the available and suitable products under each category," he said.

The insurers shall specifically identify the proposals procured by brokers over distance mode.

All the relevant records pertaining to such policies should be maintained to be produced before the Authority in case of dispute involving alleged violation of breach of conduct by the broker.

NO HARASSMENT

The clients should be extended an option to continue with the subject or exit the page at every stage in case of electronic modes. "The hours during which calls are made shall be in accordance with orders issued by TRAI/DoT from time to time," the guidelines said. Tele callers need to inform clients that the call is being recorded and that the client is entitled to a voice copy, if he so desires, at any time during the term of the policy or until a satisfactory settlement of claim.

ULIP

The IRDA had also barred the insurers from soliciting Unit-Linked Insurance Products (ULIPs) of non-single premium type for annualised premiums exceeding Rs 50,000 over telephonic mode (voice as well as SMS). The single premium ULIPs shall not be solicited for a premium of more than Rs 1 lakh over telephonic mode.

No variable insurance product shall be solicited or sold over distance marketing mode, according to the guidelines, which would come into effect from October 1, 2011.

Date – 12-May-2011

News	***HC directs IRDA to reply on cover to HIV patients***
Newspaper	***The Pioneer***
Source	***http://www.dailypioneer.com/338111/HC-directs-IRDA-to-reply-on-cover-to-HIV-patients.html***

The Delhi High Court has sought a reply from the Insurance Regulatory and Development Authority (IRDA) on a petition seeking insurance cover for HIV positive patients. A Division Bench of Chief Justice Dipak Misra and Justice Sanjiv Khanna on Wednesday sought a reply from the Centre and the IRDA by July 27.

The petition, filed by Dr Rajeev Sharma through advocate Tariq Adeeb, has challenged the practice of the insurance sector of excluding people living with HIV/AIDS from health insurance benefits. According to the petition an estimated 2.39 million people in India are living with HIV/AIDS and account for roughly half of Asia's HIV/AIDS affected population.

The petition also pointed out that many existing insurance policies include an exclusion clause specifically excluding insurance benefits of HIV/AIDS.

Health Insurance

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Date – 07-May-2011

News	*PwC seeks regulator for Indian healthcare sector*
Newspaper	*The Hindu Business Line*
Source	*http://www.thehindubusinessline.com/industry-and-economy/banking/article1605397.ece*

Hyderabad, April 6: Health insurance companies need to work on new business models to expand the demand for health cover, according to a white paper on health insurance released by PricewaterhouseCoopers (PwC) and India Health Progress.

Presenting the main recommendations in the paper here on Wednesday, Mr Sujay Shetty, Leader, Pharmaceutical & Life Sciences, PwC India, said health insurers should provide tailor-made policies for people at affordable price points.

"There are 23 community health insurance schemes being run by various State Governments in India. Public, private participation models should be designed," he said.

New policies that cover preventive check-ups and out-patient treatment should also be introduced, as pre-hospitalisation and post-discharge costs form a big chunk of medical expenditure.

A system of checks and balances must be put in place to increase compliance and prevent fraud, he added.

Tax incentives

To popularise health insurance, especially among the young, tax incentives should be increase from current Rs 15,000. "The Govt may also consider making provision of health insurance coverage for private sector employees who are in excess of 50 mandatory," he added.

At present, less than 15 per cent of population is covered under some form of health insurance, including government-supported schemes.

Under private health insurance, only 2.2 per cent of the population is covered, he added.

Date – 11-May-2011

News	*State plans drive to register labourers, ensure their welfare*
Newspaper	*The Times of India (Mumbai Edition)*
Source	*http://epaper.timesofindia.com/Default/Scripting/ArticleWin.asp?From=Archive&Source=Page&Skin=TOINEW&BaseHref=TOIM/2011/05/11&PageLabel=8&EntityId=Ar00802&ViewMode=HTML&GZ=T*

Mumbai: The state government will conduct a drive for the registration of construction labourers in Maharashtra. A welfare board set up by the labour department will monitor the registration exercise.

Minister for labour welfare Hasan Mushrif said on Tuesday that the board, which is headed by the state labour commissioner, was set up recently to work out welfare schemes such as provident fund and health insurance for the construction workers.

The department has been levying 1% cess on private and public construction projects to fund the welfare schemes. The cess, which is collected from projects that cost above Rs 10 lakh, is levied on cost of the project, excluding the construction cost. "A total of Rs 141 crore has been collected as cess so far," said Mushrif, adding that the government expected to collect Rs 1,000 crore as cess every year.

The department has already received 18,121 applications for registration. "The total number of construction workers is expected to be around 20 lakh. We need a special drive to enroll all," said the minister.

Kavita Gupta, prinicipal secretary, labour department, said the registration exercise would require a certification from the employer. "The certificate can be obtained from district labour officers, ward officers, gram sevaks and recognised labour organizations and social outfits," said Gupta.

Customer Service

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Date – 09-May-2011

News	*Rejected insurance claims? Often both buyer and insurer are at fault*
Newspaper	*The Economic Times*
Source	*http://economictimes.indiatimes.com/personal-finance/insurance/analysis/rejected-insurance-claims-often-both-buyer-and-insurer-are-at-fault/articleshow/8190422.cms*

Nothing is as painful as the death of a loved one. An insurance company can add to the trauma by rejecting the life insurance claim filed by the nominee. However, companies don't reject insurance claims without a reason. There's usually a valid justification for turning down a claim, even though such an action could damage their image.

Typically, insurance claims are rejected because of suppression of information that defines the risk involved in insuring the individual. This could be health-related facts, family history or even the income level of the individual. Advisers and agents, who are the interface between the company and the policyholder, play a vital role here. Most of the time, they are the ones filling up the proposal forms with information provided by the buyer.

Some agents and advisers fill in incorrect information-either by mistake or deliberately. In many cases, the buyer is unaware of his own condition and, therefore, is not able to provide the information.

It is also possible that some agents advise buyers not to disclose crucial facts, such as too many deaths in the family at early ages or somebody undergoing treatment for a disease. They do so in the guise of helping the buyer, but in reality they are not acting in the true interest of their client.

It is advisable to fill up the proposal form yourself, or at least go through it carefully after it has been filled up. Don't forget to do this again when the policy document and photocopies of the proposal form are sent to you after the policy has been issued.

If there is a discrepancy, you have 15 days (free-look period) to return the policy. Even buyers tend to be tightfisted when it comes to revealing information. One of my clients refused to furnish his income details and, therefore, could not buy a life insurance policy.

An insurance company wants to know the buyer's income to determine whether his life is actually worth the cover he is seeking. After seven years of convincing, my client eventually reconciled to the idea and provided his proof of income.

Insurers too are no sacred cows and often infringe the rules they have themselves put in place. Towards the fag end of the financial year, when taxpayers are scrambling to buy insurance policies and the insurance companies need to notch up sales targets, some of the proposals are underwritten without adequate scrutiny.

The field force is encouraged to somehow grab as much business as possible. The policies that are issued in haste have a high probability of repudiation in case of a claim being raised. Most rejected claims are of policyholders who died within two years of buying the cover. Such claims are usually investigated thoroughly by the insurance company.

Never underestimate the efficiency of the insurer to dig out a reason to reject the claim. They are well-equipped to unearth anything that could have gone wrong at the proposal stage, and can put forth all possible reasons to disallow the claim if they find a flaw. Only in cases of accidental deaths, whether early or late, do they accept the claim without any hassle and give the sum insured.

According to Section 45 of the Insurance Act, 1938, policies cannot be called in question on the ground of mis-statement after two years. But don't bank on this as anything can happen in two years. Besides, this rule is not applicable if there is a break in the policy within two years of death and the plan is revived.

Every time a policy is revived, the policyholder has to give a fresh health declaration and go through a medical examination, if applicable. The two-year period commences from the date of the revival of the policy.

Product

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Date – 11-May-2011

News	Ulips' charges may be down, but they still have many limitations
Newspaper	The Economic Times (Delhi Edition)
Source	http://epaper.timesofindia.com/Default/Scripting/ArticleWin.asp?From=Archive&Source=Page&Skin=ETNEW&BaseHref=ETD/2011/05/11&PageLabel=17&EntityId=Ar01702&ViewMode=HTML

As planners, we are often asked if options like unit-linked insurance plans, which combine insurance with investment, are good or if it is better to treat investments and insurances separately. This question needs some examination.

CHARGES: Charges in Ulips have come down since September 2010. Even then the charges on premium allocation and policy administration are still as high as 35% to 50% on an average, for the first five years. The surrender charges have also come down drastically, although the surrendered amount will be available only after five policy years. Besides, there are the fund management charges that range between 1% and 1.35% pa and mortality charges as applicable every year. Now that the charges have come down, do Ulips, being a combination product usually with a focus on a particular goal, make a good choice?

The answer is not straight forward. We need to compare Ulips with alternative product bouquet that gives similar benefits. The alternative is to choose two products — one for term insurance and the other for investments. Term insurance premiums have come down in the recent past. For a 35-year-old male, the premium for a . 50 lakh cover is about . 8,000 a year. This makes the proposition pretty attractive. As for investments, the options are many. One could invest in equity, mutual funds, PPF, FDs, other debt products, properties, commodities, etc. The investment mix would be dictated by investors' goals and the appropriate investment choices over time. This gives tremendous flexibility to the investor. But, this could also result in confusion and decision paralysis.

From a pure cost point of view, assuming similar returns on the funds deployed in equity mutual funds and Ulips, some calculations indicate that Ulips can match and even better the returns of a portfolio consisting of a term insurance and an investment product after 12-15 years.

The costs associated with direct equity investments are far less, and Ulips will not be able to match them at all in the foreseeable future.

PERFORMANCE: Mutual fund schemes have a long performance history and have outperformed Ulip funds. It may be because Ulip funds are differently managed and take long-term calls, which is factual. Large-cap equity mutual funds that have completed 10 years have given average returns of 23% CAGR.

The Sensex has returned about 18% plus CAGR in 10 years. The returns from the index since 1979, too, are incidentally about 18% plus. Most Ulip funds do not have such a long-term record.

There are other issues with Ulips apart from performance. Some Ulip funds may perform well at some points in time. But there is a huge problem if the funds underperform, since, in Ulips, you cannot shift from scheme A of one fund house to scheme B of another fund house (like in mutual funds). The investor is then stuck. How can the investor know in advance which funds will perform well over a 20-year period?

Performance, however, is not the only argument in favour of the option to separate insurance from investment. In Ulips, the investments go into a couple of funds throughout the tenure. This results in a huge concentration risk. Should the funds underperform, the investor would be adversely affected, considering the huge exposure.

While investing for the long term, an investor must be able to review the performs of funds, and rebalance allocations if needed.

LIMITED CHOICES: Moreover, in Ulips, the choices are limited to the funds in a plan. But other investment options such as PPF, commodities, properties, direct equity (where costs will be very low in a buy and hold situation), etc, offer choices that ensure better diversification at lower costs.

Many Ulips have limitation when it comes to surrendering investments or partially cashing out. Taking out the surrendered amount is possible only after five years. Should the funds be required, an Ulip can impose unnecessary conditions and penalties. The charges, once you invest in a Ulip, will not change. But that may not be such a good thing, after all. Charges in Ulips have come down in the last six months.

But, if you had bought the product prior to that, the higher charges will apply throughout the plan's term. This limitation is not there in other investments. You could simply migrate to lower cost products. You could also redo your term insurance at a lower premium, in case it comes down.

FLEXIBILITY: Lastly, many people find it difficult to keep aside every month the amount required for a goal, due to commitments like a home/car loan payments. But, later in life, if they have surplus funds and want to increase their investment in Ulips, they may not be able to. Ulips allow top-ups, but there are limitations. But that is not the case with other investment avenues like mutual funds, where investors can increase the investment amount according to one's capacity.