Insurance Institute of India

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INSUNEWS

- Weekly e-Newsletter

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● Quote for the Week ●

"Once you start a working on something, don't be afraid of failure and don't abandon it. People who work sincerely are the happiest."

Chanakya

INSIDE THE ISSUE

Insurance Industry

Trading in interest rate swap market set to rise on RBI push to bring in more participants - The Economic Times – 5th May 2016

Trading in the interest rate swap market, where banks and bond houses cut deals to cover the risk from rate fluctuations, will rise with RBI paving the way for insurers and large financial institutions to participate in such transactions.

"It has been decided to enable any institutional entity regulated by RBI, the Securities and Exchange Board of India, the Insurance Regulatory and Development Authority of India, the Pension Fund Regulatory and Development Authority and the National Housing Bank to trade in interest rate swaps on electronic trading platforms," the central bank said in a notification on Thursday. Those regulated institutional entities, should apply for membership of electronic trading platforms in IRS.

In an electronically traded platform, investors maintain margins with the central counterparty, which will be much lower than the capital set aside for credit risk from OTC trades, where totoal daily volumes run in few thousands of crores with little liquidity.

In IRS market, investors take a view on fall or rise in interest rates and enter into a transaction with another party having the opposite view. Any move in interest rate thereafter leads to gains or losses depending on their position in the IRS. IRS is primarily a hedging tool for portfolio investors.

"With the latest permit, more institutional investors will participate in IRS" said Badrish Kulhalli, a fixed-income fund manager at HDFC Standard Life Insurance Company. "The move will make IRS market more liquid, transparent and robust. Unlike in OTC market, the credit risk on electronically traded platform with a central clearing house, is significantly lower. "Hence, the capital to be set aside for credit risk will be far lower", he said.

Earlier in the bi-monthly policy on April 05, RBI mentioned of broadening the market, seen as illiquid with no significant interest from investors. So far there are only over-the-counter transactions where two investors cut deals individually. At present regulated entities, other than scheduled banks, are unable to conduct transactions on electronic platforms for interest rate swaps (IRS) as one party to such transactions has to be either the Reserve Bank of India (RBI) or a scheduled bank or such other agency..., RBI said. In this context, RBI has specified that the Clearing Corporation of India as an approved counterparty for IRS transactions undertaken on electronic trading platforms where CCIL is the central counterparty.

Source

Back

PSU insurance cos to see Rs 675 crore outgo on 13.5% wage hike - The Economic Times – 2nd May 2016

The employees of five public sector insurance companies have got the wage hike of 13.5 per cent with retrospective effect from August 2012, involving an outgo of Rs 675 crore including the arrears.

The wage settlement was implemented in February, but effective August 2012, as in the case of the banks and LIC, according to the General Insurance (PSU) Association (Gipsa).

The new wage pact will benefit around 63,000 employees of the four state-run general insurers (New India Assurance, United India Insurance, Oriental Insurance and National Insurance) and the sole re-insurer GIC Re.

"As per the agreement, all the employees will be getting around 13.5 per cent hike in their wages effective from August 2012 and the same has been implemented since February 2016," the newly appointed Gipsa chairman A K Saxena told PTI.

N4chairman of Gipsa on March 30, replacing G Srinivasan, the chairman and managing director of New India Assurance.

"As per the wage revision, their basic salary has been revised by merging the DA with their basic pay for all employees," said Saxena, who is also the chairman and managing director of Oriental Insurance Company.

Source

Earlier, the management of LIC and the unions representing around 1 lakh employees of the insurance behemoth had agreed on a 15 per cent wage hike, which was effective from August 2012.

Back

IRDAI Regulation

Regulatory Authority may allow insurance companies buy bank's AT1 bonds – The Times of India – 5th May 2016

The Insurance Regulatory and Development Authority of India (IRDAI) was considering allowing insurers to buy hybrid Additional Tier 1 bonds issued by banks.

"IRDAI would take a final decision in a month", said VR Iyer, an official at IRDAI.

Iyer also said that IRDAI has no plan to ease an existing rule that restricts insurance companies from buying bonds of companies rated below "AA."

Source

Some investors had expected the rules to be relaxed as India strives to get more investments into the infrastructure sector.

Back

Irdai okays 16 FDI proposals worth Rs 14,592 crore – The Economic Times – 3rd May 2016

Insurance regulator Irdai has approved as many as 16 proposals amounting to Rs 14,591.9 crore as foreign investment, Parliament was informed today.

"Post notification of the Insurance Laws (Amendment) Act, 2015, Irdai has approved 16 proposals amounting to Rs 14,591.89 crore as foreign investment in the insurance sector," Minister of State for Finance Jayant Sinha said in a written reply in the Rajya Sabha.

The Insurance Laws (Amendment) Act, 2015, provides for an increase of foreign investment cap in an Indian insurance company to 49 per cent from 26 per cent with the safeguard of Indian ownership and control, he said.

The government had notified the Indian Insurance Companies (Foreign Investment) Rules, 2015, to facilitate foreign investment in the insurance sector.

"Indian Insurance Companies (Foreign Investment) Rules, 2015, have been amended on March 16, 2016, to allow foreign investment up to 49 per cent through automatic route in the insurance sector," Sinha said.

To bring clarity on 'Indian owned and controlled', the Insurance Regulatory and Development Authority of India (Irdai) has issued guidelines on the same.

Source

In December, Irdai chief T S Vijayan had said higher foreign participation in the insurance sector will attract more capital and increase sectoral penetration in India.

Life Insurance

Insurers promoted by non-bank entities to gain from easier bancassurance tie-up norms – The Hindu Business Line – 4th May 2016

Insurers, particularly those promoted by non-banking companies, are likely to see a major boost in insurance distribution, as banks can now start selling products of multiple insurers.

On Tuesday, Future Generali Life, which did not have a bancassurance partner, announced a partnership with Saraswat Bank, which has a tie-up with HDFC Life for distribution of life insurance products.

Industry experts say that other non-bank-promoted insurers, such as Birla Sun Life, Reliance Life, Bajaj Allianz, Aegon Life and Shriram Life, are also likely to get into similar tie-ups with leading banks.

From April, the insurance regulator has allowed banks to tie up with three life insurers, three general insurers and three standalone health insurers to distribute insurance products. Earlier, banks were allowed to have tie-ups with one insurer in each category of life, non-life and standalone health.

Nilesh Sathe, Member-Life at the Insurance Regulatory and Development Authority of India (IRDAI), said 25-30 banks will start distributing products of more than one insurer.

Incidentally, while the regulator has been pushing for an open architecture for distribution of insurance products, most major banks, which have promoted insurance companies, were hesitant to tie up with other insurers as it was a part of the agreement with their foreign joint venture partners.

More favourable

Anup Rau, CEO, Reliance Life, said that insurers not promoted by banks are likely to be looked at favourably as there will be no conflict of interest. However, the process will take some time as it is not mandatory for banks to tie up with more than one insurer, he added.

At present, most major public and private sector banks, such as State Bank of India, Union Bank of India, Bank of Baroda, Canara Bank, Bank of India, Punjab National Bank, Andhra Bank, ICICI Bank and IDBI Bank, have promoted insurance companies.

Arijit Basu, MD and CEO of SBI Life, said that SBI has opted not to go for three insurance tie-ups. However, he said that in the next three years the bank may look at multiple insurance partners as it gains more expertise cross-selling insurance products.

Insurers have also begun talks to tie up with the recently licensed payments and small finance banks.

Tarun Chugh, MD and CEO, PNB MetLife, said the industry is likely to see the launch of simple OTC products, which can also be bought online with the new payment banks. However, Jyoti Punja, Chief Distribution Officer at standalone health insurer Cigna TTK, said that open architecture may also lead to complexities because the bank will now have to deal with more than two to three insurers.

Source

Back

First-year premium of life insurance companies grows - The Financial Express – 29th April 2016

Private insurance companies reported 14% year-on-year (y-o-y) growth in annualised first-year premium. State-owned LIC reported 10% growth as individual and group business picked up pace in the second half of the fiscal. Private insurers gained market share because of high growth in bancassurance. For the industry, low-margin group insurance premium increased 46% in March this year with private insurers witnessing 31% y-o-y growth and LIC witnessing 50% growth. LIC continues to have a high share of single premium at 79% in March.

Source

Back

India: Life sector reports robust 22% growth in first-year premiums for FY2015-16 – Asia Insurance Review

Life insurers in India reported growth of 22.6% in total first-year premium collection to INR1,387 billion (US$21 billion) for the year ended March 2016 as compared to the previous financial year, according to IRDAI data.

Individual non-single premium collection increased by 8.6% for FY2015-16 to INR425 billion, reported Business Today citing the data.

State-owned LIC continues to be the leader with a market share of 77%. LIC issued more than 20 million new policies as against 6.2 million policies issued by private-sector insurers for FY2015-16. Its first-year life business grew by 24.7% as against 17.6% for private insurers for the year. LIC's total first-year premiums for FY2015-16 stood at INR976.74 billion, including INR201 billion from non-single premium policies.

Source

SBI Life, HDFC Life and ICICI Pru Life remained market leaders among the 23 private-sector players with shares of 4.7%, 4.3% and 2.1% in total first-year business.

Back

General Insurance

Health, motor drive growth for non-life insurers in FY16 -Financial Chronicle – 4th May 2016

Health insurance, motor insurance drove the growth for the non-life insurance industry during 2015-16. A rise in car sales and an increase in motor third party premium rates helped non-life insurance companies to grow their motor insurance business by 14 per cent with a gross premium of Rs 42411 crore during 2015-16 compared to Rs 37314 crore, a year ago. In the overall motor business, the mandatory motor third party insurance grew by 19 per cent with a gross premium of Rs 21242.31 crore during the year compared to Rs 17901 crore in the year ago period.The insurance regulator last year had increased the motor third party premium rates by 40-50 per cent in various segments. Motor own damage grew by 9 per cent to 21168.28 crore during the year. Motor insurance continued as the largest component of the general insurance market with a share of 44 per cent during 2015-16 (44.1 per cent in 2014-15) and is linked to the growth in the automobile industry.

According to the society of India automobile manufacturers, car sales in India grew at the fastest pace in five years, up 7.87 per cent in 2015-16 driven by new model launches and heavy discounts in a challenging environment. The domestic car sales stood at 20.25 lakh units in 2015-16 as compared to 18.77 lakh units in 2014-15. According to the data, the total passenger vehicle sales, which include cars, utility vehicles and vans, registered a growth of 7.24 percent to 2,789,678 units. KG Krishnamoorthy Rao, managing director and chief executive officer, Future Generali India Insurance said, “I expect the general insurance industry to grow by 15-20 per cent in 2016-17 as the industry’s growth is linked to the economic growth which is picking up. Project insurance is likely to pick up, auto industry may do better going ahead. The government is also pushing for more penetration in the weather insurance that could aid growth this year.”

Sanjay Datta, chief underwriting claims and reinsurance at ICICI Lombard General Insurance said, “I expect growth rate for this year to be similar or better than last year.” Health insurance business increased by 22 per cent with a gross premium of Rs 24784.02 crore during FY16 compared to Rs 20347.57 crore in FY15. This was lower than previous years that saw health growing by 25-30 per cent. Experts said the growth rates were affected as the present government discontinued the mass health insurance scheme of the UPA government — rashtriya swasthya bima yojana in several districts. In addition, insurers continued to offer steep discounts to corporates for buying group health insurance covers for insuring their employees. Severe competition among insurers to grab property insurance business that led to a drop in premium rates, resulted in fire insurance business growing by mere 8.7 per cent at a gross premium of Rs 8728.39 crore during the year.

Insurance grew by 22 per cent at a gross premium of Rs 2585 crore. Miscellaneous insurance portfolio driven largely by weather insurance clocked a growth of 11 per cent at a gross premium of Rs 1769 crore. Miscellaneous insurance also includes home insurance, extended warranty insurance, workman compensation. The gross premium underwritten by non-life insurance companies grew by 14 per cent to Rs 96393.94 crore during 2015-16 compared to Rs 84693.44 crore in 2014-15. Four public sector insurers--New India Assurance, Oriental Insurance, United India Insurance and National Insurance had a market share of 50 per cent.

Source

Back

States award contracts for crop insurance - The Financial Express – 2nd May 2016

States such as Andhra Pradesh, Jharkhand, Odisha, West Bengal, Himachal Pradesh, Uttarakhand and Andhra Pradesh have already awarded contracts to the designated insurance companies to provide crop insurance coverage to farmers in the forthcoming kharif season under the NDA government’s flagship programme Pradhan Mantri Fasal Bima Yojana (PMFBY).

Sources told FE that Punjab, however, won't roll out the new crop insurance scheme while Haryana is yet undecided. "The Punjab government has decided not to implement PMFBY while it is discussing implementing Weather Based Crop Insurance Scheme (WBCIS) whose premium has been brought on a par with PMFBY," a source said.

Under the new scheme launched by the Modi government this January, the premia paid by farmers would be reduced to 2% of the insured value for the more rain-dependent kharif crop and 1.5% for the rabi season, compared with 3.5-8% under the previous schemes.

Subsidy from the government would now be "unlimited" and grow a steep 183% to `8,800 crore by FY19. The premium, including the subsidy by the government, would be around 10% of the sum assured, incentive enough for insurance firms. The subsidy would be borne by the Centre and the state government concerned equally.

In the case of Haryana, the state-level coordination committee on crop insurance meetings were held last month and it is yet to decide on rolling out the mega crop insurance scheme.

However, Maharashtra, which had received deficient rainfall during the last few years leading to destruction of crops, has recently decided to implement PMFBY.

In Gujarat, Uttar Pradesh and Chhattisgarh, the bidding process to identify insurance companies has been completed and notifications are expected shortly. The rollout of the crop insurance scheme would commence in Tamil Nadu and Assam only after the state elections.

The Centre has named state-owned Agriculture Insurance Company of India (AIC) and 10 private companies, including ICICI-Lombard General Insurance, HDFC-ERGO General Insurance, IFFCO-Tokio General Insurance and SBI General Insurance, for implementation of the mega scheme. PMFBY stipulates a uniform premium of 2% to be paid by farmers for kharif crops, and 1.5% for rabi crops. The premium for annual commercial and horticultural crops will be capped at 5%.

Officials said there is no upper limit on the government's subsidy for this scheme. "The provision of capping the premium rate, which existed in earlier schemes and resulted in low claims being paid to farmers, has been done away with," an official said. The official added that farmers will get claims against the full sum insured, without any reduction.

For PMFBY, finance minister Arun Jaitley had allocated Rs 5,501 crore in 2016-17 while Rs 2,995 crore was allocated for various crop insurance schemes in the last fiscal.

Sources said many drought-hit states have increased fund allocation under PMFBY significantly. Maharashtra has allocated a higher amount of `1,855 crore in the 2016-17 Budget for PMFBY while only Rs 725 crore was earmarked in 2015-16. Madhya Pradesh has allocated `1,898 crore next fiscal for the crop insurance which is substantially higher from the current fiscal. Karnataka, Uttar Pradesh and Odisha have also increased allocations for the crop insurance.

Only 20 million of an estimated 140 million farmers in the country — earning for a population four-five times as many — had crop insurance cover in 2014-15, even as the facility was just against the cost of cultivation and barely provided any income protection.

According to agriculture ministry data, most of the farmers who took crop insurance were in Rajasthan, Bihar, Uttar Pradesh, Maharashtra, Karnataka and Andhra Pradesh.

'Onus is on banks now'

The Centre is now going to entrust the responsibility of getting more number of farmers under the Pradhan Mantri Fasal Bima Yojana (PMFBY) with banks, a senior agriculture ministry has said.

"Banks will be squarely responsible. In case there is crop loss to a loanee farmer who is not insured, the bank will have to make good the losses. The onus is now on banks and insurance companies to deliver," Ashish Kumar Bhutani, joint secretary in the agriculture ministry, said at a seminar organised by the PHD chamber of commerce and industry.

He said the government is trying to bring non-loanee farmers such as share-croppers too within the PMFBY fold.

Source

Reinsurance

India: Insurers urged to avoid international reinsurance pacts in which they lack a say – Asia Insurance Review

The insurance regulator has asked insurers to refrain from entering into common reinsurance arrangements on a global basis with foreign entities in cases where they lack sufficient say in making vital decisions.

Several insurers have approached IRDAI seeking its approval to exempt them from having to comply with certain regulations, citing their inability to comply with the stipulations, as they were executing reinsurance treaties on a global basis where they along with their foreign promoter entity/subsidiaries/group companies enter into a common reinsurance agreement with one or more reinsurers.

In a statement issued earlier this week, IRDAI said: "The reinsurance needs of the Indian Insurance company may vary from that of their foreign partner or group companies located in other countries. The terms, conditions, exclusions, claims experience etc of the underlying products for which the reinsurance protection is sought may also vary from one insurance company to another.

"Moreover, it has been observed that in such arrangements, where Indian insurer enters into reinsurance arrangements on a global basis, along with their promoter company/ies, the Indian entity is unlikely to have much say in taking vital decisions on matters like the choice of the reinsurer, terms of treaty, the quantum of placement with any reinsurer etc. Hence, compliance of various provisions of the reinsurance regulations, other guidelines and circulars issued by the Authority on matters related to reinsurers, may not be possible for the Indian Insurers.

"Therefore, insurers are hereby advised to refrain from entering into such reinsurance arrangements. The Authority shall not entertain any request for exemption from the application of provisions of reinsurance regulations/guidelines/circulars, if such non-compliance is on account of the insurer's participation in such reinsurance arrangements."

Source

Back

Survey & Reports

India tops Cigna well-being list - The Financial Express – 4th May 2016

Cigna TTK health insurance on Tuesday came out with the Cigna 360° Well-being score, where India leads the well-being score with 72.8 compared to 10 other countries. The report also says 53% of Indians are not prepared for any large unexpected medical expenses. The Cigna 360° Well-being score is designed to take an annual and holistic look at health and well-being of people across the country. The study is based on five key indices — physical, social, family, financial and workplace well-being, providing an overall score measuring consumers' perceptions. Ipsos conducted an independent study in 10 Indian cities with a sample size of 3,021 respondents.

"We are committed to our Indian customers by offering world-class individual health care services and well-being solutions. The score helps us to better understand our customers' personal perceptions about total health and well-being at a regional level," Jason Sadler, president of Cigna International Markets, said. In the country-wise list, India is followed by China and Indonesia, in the second and third positions, respectively.

The findings from the United Nations and the European Union suggest that happiness is a U-shaped curve with the middle age group (40+) being least happy as compared to the young and old. However, India seems to deviate from the usual "happiness U-curve". The 60+ Indian generation seems to feel the bulk of the strain where the overall well-being score drops (35%).

Commenting on the survey, Sandeep Patel, managing director & chief executive officer of Cigna TTK Health Insurance said, "At Cigna TTK Health Insurance, we believe in partnering our customers in illness and in wellness. We will leverage insights from the Cigna 360° Well-being study to create customised health insurance solutions and services that are simple, easy to access, affordable and provide a sense of security for our customers. This study supports our overarching strategy of delivering a differentiated value proposition to help our customers live healthier and happier lives." Senior officials added that, Cigna will be looking at increasing the stake in the joint venture soon.

Source

IRDAI Circular

Source

IRDAI issued terms and conditions of life products for F.Y. 2015-16.

Back

Global News

Australia: Govt promotes innovation in retirement income products – Asia Insurance Review

The Australian government will remove barriers to innovation in the creation of retirement income products, announced Treasurer Scott Morrison in his 2016-17 Budget speech earlier this week. From 1 July 2017, the tax exemption on earnings in the retirement phase will be extended to products such as deferred lifetime annuities and group self-annuitisation products.

"This will enhance choice and flexibility for Australian retirees looking to make the most of their superannuation savings and enhance their standard of living throughout their retirement," Mr Morrison said.

In announcing the extension on the tax exemptions, Mr Morrison said that rules and regulations currently restrict the development of new retirement income products. "These products could provide more flexibility and choice for Australian retirees, and help them to better manage consumption and risk in retirement. They can be of particular benefit for those who are concerned that they might outlive their superannuation fund savings," he said.

Enhancing flexibility

In addition, he noted that the superannuation system currently offers little flexibility for those who take time out of work, work part time, or have 'lumpy' income and therefore have periods in which they make no or limited contributions to superannuation. Women often experience breaks in work, or work part-time, which contributes to lower, on average, superannuation account balances than men.

Mr Morrison said that from 1 July 2017, the government will lift current restrictions and allow individuals under the age of 75 to claim tax deductions for personal superannuation contributions to eligible superannuation funds. This effectively allows all individuals, regardless of their employment circumstances, to make concessional super contributions up to the concessional cap.

The government will also introduce catch-up concessional superannuation contributions by allowing unused concessional contribution caps to be carried forward on a rolling basis for up to five years for those with account balances of A$500,000 (US$374,000) or less. This will allow those with lower contributions, interrupted work patterns or irregular capacity to make contributions to make 'catch-up' payments to boost their superannuation savings.

Older Australians

To assist older Australians prepare for their retirement by boosting their superannuation account balances, the government is lifting restrictions on their ability to contribute. Currently, there are minimum work requirements for Australians aged 65 to 74 who want to make voluntary superannuation contributions. Restrictions also apply to the bring-forward of non-concessional contributions. In addition, spouses aged over 70 cannot receive contributions. None of these restrictions apply to individuals aged under 65.

Mr Morrison said that the government will remove these restrictions and instead apply the same contribution acceptance rules for all individuals aged up to 75, from 1 July 2017. These changes will provide better incentives and more flexibility to all Australians to make superannuation contributions appropriate to their circumstances.

Source

Back

Philippines: Fewer non-life players as capital requirements rise – Asia Insurance Review

The Philippine non-life market has continued to consolidate, with a number of players struggling to meet the higher capital requirements and stricter regulations, according to Mr Michael F Rellosa, Deputy Chairman of the Philippine Insurers and Reinsurers Association (PIRA).

Latest data from the Insurance Commission indicates the number of local non-life insurers is now down to 62 as at the end of March 2016 from 70 in end-2014, reported A.M.Best.

"Our industry, as expected, has gotten smaller once again. This, of course, is due to the capital build-up programe that the government mandated, starting 2013 with the advent of the new insurance code," Mr Rellosa said in a speech at the 13th Philippine General Insurance Summit held in Manila last month.

The revised insurance code requires life and non-life insurers to increase their capital every three years until 2022. The requirement focuses on the level of net worth, not paid-up capital. From PHP250 million (US$5.5 million) in June 2013, the requirement for minimum net worth is set to increase to PHP550 million by the end of this year, PHP900 million by 2019 and PHP1.3 billion by 2022. A new insurer entering the market will need PHP1 billion in paid-up capital.

Mr Rellosa said he expects the number of companies and their net worth to change going forward as the capital build-up continues.

Returns

Separately, Mr Augusto Hidalgo, PIRA Chairman and President of the National Reinsurance Corp of the Philippines, said that the management of insurance companies will be asked by owners for some return on the additional capital they put in, reported Business Mirror.

"If you ask your board for an additional PHP500 million, then it is only right for your board to demand some return on that money," he said during the summit. He said that now is the time for companies to consider raising the risk they retain to make their capital work for them.

"Instead of asking 'How much cover should I buy?', we should start asking 'How much risk should I retain?'" he said. He said that in recent years, he could see an increase in the net premiums written by insurers, which is a sign that they are already beginning to increase the risk that they retain. He said more changes will happen, as the country's financial reporting framework and capital requirements change in the coming months.

Source

Back

Pakistan: Regulator approves micro health insurance plan – Asia Insurance Review

The Securities and Exchange Commission of Pakistan (SECP) has approved a new micro-insurance plan that will cover the health costs of low-income customers of microfinance institutions. The programme, named, First Sehat Tahafuz Plan, is part of the government's aim of promoting microinsurance market in Pakistan, according to a SECP statement. The plan is in line with the objectives of the National Financial Inclusion Strategy (NFIS) recently adopted by the federal government. Under the NFIS, the government has committed to providing access to broad-based financial services, including insurance to consumers who are currently excluded from the financial sector.

Most low-income people face a number of risks events like illnesses, accidents, disability, deaths, natural disasters – all events with negative effects leading to a decline in income or a rise in expenditure or both. Low-income people are more vulnerable to these risks: they are exposed to a higher number of risks, to more severe risks, and to a higher probability of a risk occurring because of their more hazardous living and working conditions.

"Microinsurance can play a vital role in providing social and financial protection against losses by ensuring financial shock absorbency of low-income households to both predictable and unpredictable risk events and to maintain well-being. With the introduction of new microinsurance products in the market, it is envisaged that the uptake of insurance in the masses would increase manifold, thereby, having a positive impact on the insurance penetration and insurance density levels in Pakistan," said the statement.

Source

Back

South Asia: Economy to drive insurance growth in frontier marts - Asia Insurance Review

Insurance growth in the South Asian frontier markets of Bangladesh, Pakistan and Sri Lanka will continue to derive support from stable economic growth, averaging 5-7% over the next five years, according to Swiss Re.

In its sigma report entitled "Insuring the Frontier Markets", the global reinsurance giant says that other fundamentals, including high natural catastrophe exposures, increasing urbanisation and a rising middle income class, will add to demand for insurance. The implementation of higher capital and solvency standards, among other regulatory measures, will help to improve market efficiency and encourage consolidation.

Economic growth has remained fairly robust in the past decade, averaging at around 6% in Sri Lanka and Bangladesh, and 4% in Pakistan.

However, the near-term economic outlook for these countries is uncertain given the slowdown in China, the current strong El Nino affecting agricultural output, and financial volatility following the US interest rate rise in December 2015. Still, these markets have also benefited from the shift of manufacturing production from China to other, including these, lower-cost locations.

Swiss Re says that over the longer term, Bangladesh has the potential to achieve high growth, assuming numerous structural issues are resolved. To this aim, the government is targeting a 29.5% increase in tax revenue in 2015/16 to improve fiscal sustainability.

The medium-term outlook for Pakistan depends on structural and economic reform also, but needs political stability and an improving security situation. Business and consumer confidence must be bolstered to foster

private investment. Support from multilateral agencies like the IMF and Asia Development Bank along with access to the international capital markets will help.

Sri Lanka, meanwhile, has benefitted from the peace dividend and political stability since the end of the civil war in 2009. The economy achieved average annual growth of 7.3% between 2010 and 2014. However, slowing exports and rising fiscal deficits are current challenges.

Bangladesh, Pakistan and Sri Lanka are home to 370 million people. They are middle-low income markets, with highest per capita income in Sri Lanka (at more than US$3,600 in 2015). Total premiums collected in 2015 ranged from US$0.8 billion in Sri Lanka to US$2.3 billion in Pakistan. Overall insurance growth in the three markets averaged 8.8% in nominal terms between 2008 and 2015. Penetration is low, reflecting the early stage of insurance development.

Insurance market developments

Apart from low incomes, government initiatives and regulatory challenges are constraining penetration, says the sigma report.

In Sri Lanka, government provisions of free healthcare and education, and a pension scheme for public-sector employees, have reduced the incentive to sign up for private insurance. At the same time, insurers are facing pressures to meet various new regulatory requirements, including higher paid-up capital, the splitting of composite businesses and the introduction of a risk-based capital regime in 2016.

In Pakistan, a low paid-up capital requirement has led to a large number of small players which lack the resources to invest in underwriting and distribution. Nevertheless, there could be market consolidation with the pending requirement to increase paid-up capital to PKR500 million (US$4.8 million) for non-life companies, and PKR700 million for life players, by 31 December 2017. In addition, a high level of unpaid premiums (mainly in non-life) remains a concern.

The Bangladeshi market is similarly populated by many small players. For instance, there are 30 life insurers with the majority writing less than BDT500 million (US$6.1 million) in premiums. Consolidation is likely once new rules for solvency and capital take effect.

Source

Back

China: Short-term investments raising risks - Asia Insurance Review

Short-term investments linked to insurance policies are increasing risks for insurers and their clients, according to the investigative Caixin business publication.

There are dozens of private insurers that are involved in the short-term policy business since CIRC made investing easier in 2012. As much as CNY640 billion (US$99 billion) worth of premiums might have targeted this niche last year. Such short-term life insurance policies mirror wealth management plans and pay dividends to policyholders when the policies mature in a period as short as three months.

Among the insurers which banked their growth on such investments is Shenzhen-headquartered Funde Sino Life which is China third biggest life insurer, reported Caixin. CIRC said about CNY81 billion (US$12.5 billion) of the CNY160 billion that Funde reported in paid insurance premiums last year were generated through short-term insurance policies.

Funde reported premiums from its estimated 8 million policyholders more than doubled between 2014 and last year to CNY160 billion, ranking the company behind only state-owned China Life Insurance and Ping An Life Insurance.

The recent detention of company founder and businessman Zhang Jun has raised doubts about Funde's business practices and growth trajectory.

He was detained on 5 February to "help the relevant Chinese authorities with an investigation". No details of the probe have been provided. A statement from Funde on 22 February said: "This is a personal matter of Mr Zhang."

Mr Zhang, 53, bought the former Sino Life Insurance in 2006 and later renamed it Funde. In July 2015, he established Funde Insurance Holdings to control a group which comprises Funde Sino Life, Funde Property & Casualty Insurance, Funde Asset Management (Hong Kong), Life Insurance Asset Management and Funde Insurance Sales. Mr Zhang and his business partners control more than 92% of Funde's shares.

On 21 March, CIRC issued a circular to curb with immediate effect the sale of life insurance products with a term of less than one year. In addition, the sales of products with a term to maturity of between one and three years have to be gradually reduced to 90%, 70% and 50% of the overall quota each year over the next three years, and within 50% thereafter. This is a bid to curb potential risks in aggressive insurers which invest heavily in stocks and long-term assets using short-term funds.

Source

Back

Malaysia: Rural market to boost takaful business - Asia Insurance Review

Malaysia's Islamic insurance industry is set to double its growth rate this year as takaful operators focus on selling cheaper policies in rural areas, according to the nation's takaful body.

The number of policies will rise by 10% to 5.05 million in 2016, compared with 4.3% growth in 2015 and a 1% estimated expansion of non-Islamic business, Mr Ahmad Rizlan Azman, Chairman of the Malaysian Takaful Association, said in an interview with Bloomberg in Kuala Lumpur. Insurers entering the micro-takaful market and the liberalisation of commission structures are the biggest drivers, he said.

Around a quarter of Malaysia's 31 million people live outside of cities and government efforts to boost the country's insurance penetration rate to 75% by 2020 from 55% are supporting demand.

"Growth prospects still remain positive just by the virtue of the fact that the takaful base is smaller relative to the overall insurance industry," said Mr Ahmad Rizlan, who is also CEO of Etiqa Takaful, Malaysia's biggest Islamic insurer.

There were 12.56 million non-Islamic insurance policies in Malaysia at the end of 2015, according to data from the association. Growth in takaful has pulled back from as fast as 8.3% in 2013.

This is due to the "slow expansion and development of agency distribution and the lack of awareness and understanding about takaful among consumers and their unwillingness to make the switch from conventional," said Mr Mohamed Hassan Kamil, Group Managing Director of Syarikat Takaful Malaysia.

The industry needs to improve distribution channels if it is to meet its goal of increasing the number of takaful policies to 8.5 million by 2020, said Mr Ahmad Rizlan. A new set of rules on commissions and allowing sales without advisory requirements will make achieving the target easier, he said.

Source

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New Zealand: Property/auto premiums set to rise due to fire levy – Asia Insurance Review

People with property, contents and motor insurance will have to pay more to fund the fire service from July 2018. The Minister of Internal Affairs, Peter Dunne, has announced the fire levy on insurance will be increased by NZ$161 million (US$113 million) over three years from July 2017. Levy collections totalled NZ$350 million last year, reported the interest co nz news website.

From July 2018, the fire levy will be broadened to include insurance on material damage. The levy on motor vehicle insurance will also be extended to include third party insurance. Mr Dunne said: "The new funding arrangements will be much fairer and will ensure that both large and small property owners and most motorists will pay their fair share towards the cost of fire and emergency services."

However the insurance industry, which has been lobbying the government to do away with the levy altogether and fund the fire service through general taxation, considers the announcement as a huge slap in the face. "Continuing to tax only those people who pay insurance to fund the fire service is blatantly unfair and well out of step with best policy practice internationally," the Insurance Council of New Zealand (ICNZ) said.

ICNZ's chief executive Tim Grafton said: "We're naturally disappointed the government only wants to tax people who take out insurance and allow those who don't insure to be free-loaders.

"There had been an option that was supported by officials to remove the tax from insured drivers and apply it to the annual licensing fee or 'rego', so all road users paid. Instead, the government has expanded the tax on motor insurance to third-party insurance on the misguided basis that this will reduce avoidance".

Source

Currently, 95% of the Fire Service's operations are funded by the levy, which is payable on all contracts of fire insurance for all assets insured in New Zealand.

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China: VAT applicable to insurance wef 1 May - Asia Insurance Review

Value Added Tax (VAT) has replaced business tax for insurance services with effect from 1 May, with the VAT rate set at 6% of premium income, under rules announced by the Ministry of Finance and the National Taxation Bureau in March. However, there are exemptions from VAT for life insurance policies with a term of more than one year, medical insurance, and insurance related to goods being exported.

In the March edition of its China Tax Alert report, international accounting firm KPMG said: "From the perspective of claims paid by insurers, the new VAT rules provide that claims are not subject to VAT. While the new rules do not say this specifically, it would seem to suggest that the provision of goods or services in settlement of a claim is not subject to VAT, though the insurer may be able to claim input VAT credits for goods or services they purchase in settling claims. This provides a strong incentive to change the way claims are settled (from cash to goods/services), though there is still a risk the tax authorities may seek to apply the deemed sales rules. Either way, effectively the VAT for insurance services settled by way of cash settlement is a gross premium tax, not a "value added" tax.

"While insurers may not be able to claim input VAT credits for cash claims paid to an insured, they should still be eligible for input VAT credits for their claims related expenses. In other words, their general administration expenses. Identifying and apportioning expenses between those which are made in payment of claims, and those which are claims related, will be difficult to administer from a systems and compliance perspective.

Brokers

"Insurers will also need to manage increased compliance costs in relation to the brokers and agents they engage. Not only will the commission or fees paid to those brokers or agents be subject to VAT (and in many cases, the brokers or agents will be small scale VAT taxpayers), but the insurers also need to obtain the information on policies being sold on a timely basis so as to be able to account for VAT on their premium income.

"Ensuring that VAT is accounted for on gross premiums, rather than on the net amount received after the broker or agent has deducted their commission or fee, will represent a further compliance challenge."

Reinsurance

KPMG noted in the March write-up that the rules do not specifically deal with reinsurance. It said that this is an area where clarification is urgently needed.

The international accounting firm also said: "There is no VAT exemption in the rules for exported financial services. This suggests that products such as international travel insurance, and insurance for goods which are being transported internationally, will not benefit from an exemption from VAT. This is a curious outcome given that in each case the consumption of the insurance really takes place outside of China. There is a general VAT rule which allows services which are consumed wholly outside of China to not be subject to VAT, but that may be difficult to satisfy in these cases."

China has been rolling out a VAT system in phases across all industries that previously had a business tax, in an overhaul of its tax regime. The final four sectors to adopt VAT are construction, property, finance and life services which include the insurance and healthcare sectors, with the changes taking effect from yesterday. The government first began experimenting with VAT in 1979 and started applying the tax to specific sectors in 2012, reported Reuters.

Source

A business tax directly taxes businesses, whereas VAT is borne by the end consumer, reducing the burden on companies which are facing rising costs and a slowing economy. The government hopes the reforms will cut the tax burden of businesses by more than CNY500 billion (US$77 billion) this year.

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Philippines: New rules out for low-cost pre-need and health plans - Asia Insurance Review

The Insurance Commission has released the rules governing the sale of cheaper health insurance and pre-need products to better protect consumers. The rules, advised through separate circulars, cover micro pre-need products as well as health microinsurance or micro-health products.

For education, memorial and pension plans in the micro pre-need product category, the maximum gross contract prices computed on a daily basis should not exceed 7.5% of the daily minimum wage rate for non-agricultural workers in Metro Manila, or about PHP34 (72 US cents), reported the Business Inquirer.

The maximum benefit—or the total education benefit for education plans, plan value for memorial plans, and maturity benefit for pension—must not exceed 1,000 times the daily minimum wage rate for non-agricultural workers in Metro Manila, the regulator added.

The Insurance Commission also ordered claims for micro pre-need contracts to be settled within 10 working days upon receipt of complete documentation by the pre-need provider.

Source

Separately, the regulator said that products to be introduced as micro-health plans should broaden the insurance coverage for eligible illnesses and accident-related injuries; increase access to health financing services to cover appropriate drugs, medical supplies and transportation; enhance the benefit package of the insured; and reduce out-of-pocket expenses. Insurance Commissioner Emmanuel Dooc earlier said that the number of Filipinos covered by microinsurance policies stood at about 30 million at the end of last year. This is expected to reach 50 million in the next two to three years.

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Pakistan: Regulator mulls group health insurance claims register - Asia Insurance Review

The Securities and Exchange Commission of Pakistan (SECP) is contemplating expanding the scope of the Centralised Information Sharing Solution for Life Insurance Industry (CISSII) to include a register for group health insurance claims experience. In this regard, the SECP has solicited comments and suggestions of the life and non-life insurance companies so as to finalise the extent and frequency of the information, which would be shared on the health register, reported the Business Recorder.

Currently, there is no information sharing mechanism for group health insurance claims because of which, insurers face difficulty making pricing and underwriting decisions in respect of group health insurance business.

Source

The addition of a health insurance register is another step in the development of a transparent, efficient, tech-savvy and more informed insurance sector. At present, the CISSII has four registers covering declined or postponed risks, group life claims experience, early death claims, and malpractices of agents.