Insurance Institute of India
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INSIDE THE ISSUE

Source

Insurance Industry

Study group for setting up insurance marketing firm - Business Standard

The Insurance Regulatory and Development Authority (Irda) today constituted a working group to explore the possibility of introducing an intermediary, called Insurance Marketing Firm (IMF), in the sector.

The working group will also study the report of the Govardhan Committee on distribution channels, which was constituted in 2007, said Irda member (distribution) D D Singh in an order issued on Thursday. It will submit the recommendations by February 28.

The group will study the issue and recommend to the authority on requirement of capital, geographical spread within which the Insurance Marketing Firm can operate and distribution costs among other related aspects of the proposal.

A senior official of an insurance company who is part of the working group said that it still needs to be ascertained whether these insurance marketing firms will have to commit to the business for a certain number of years. "The onus of a policy that has been sold through this new channel will also have to be taken by the Insurance Marketing Firm," the official added.

In a meeting held with insurance executives recently, Irda has looked into sprucing up the insurance distribution channels including new players like insurance marketing firms and tying up with Common Service Centres (CSCs).

The Govardhan committee was asked to look into the strengths and weaknesses of the existing distribution channels of insurance products, namely agency, corporate agency, bancassurance, referrals, direct sales, according to the regulator.

The committee will submit its report by February 28, 2014 to the regulator.

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FIU asks insurance companies to do more on money laundering – The Financial Express

Government investigation agencies have begun to advice insurance companies, both life and non-life about their responsibilities to block money laundering.

In the meetings held in Mumbai and Delhi by the Financial Intelligence Unit, India's lead agency to prevent money laundering, officers have advised the firms that their CEOs could land in trouble in this score. FIU has found cases where clients have approached the firms to take out single premium life policies with huge sum insured.

The companies have not bothered to check out if the person had a declared source of income to back such payments. Data from a global fraud survey by PricewaterhouseCoopers show that insurance is the second-most affected sector by money laundering and terrorist financing. The diversity of products launched by insurers, a heavy reliance on intermediaries, and the difficulty in detecting sources of funds contribute to make the industry attractive for dubious finance. The size of the domestic insurance sector in FY13 was Rs 4,35,000 crore as per Irda figures.

However, so far, the FIU has found no evidence of money laundering in the sector. In a follow up to the FIU developments, the insurance regulator has asked Birla Sun Life Insurance Company to strengthen procedures for complying with the anti-money laundering norms.

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A report by PTI quotes a recent Irda order which says, “authority advises Birla Sun Life to lay adequate emphasis on effective procedures for strengthening the compliance norms of the anti-money laundering master circular…”. In another order, the Irda has directed Future Generali India Life Insurance to put in place fair compliance system while submitting information.

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IRDA officials meet RBI, bank chiefs to discuss concerns over insurance broking - The Hindu Business Line

The top brass of the Insurance Regulatory and Development Authority (IRDA) met their counterparts from the Reserve Bank of India and chiefs of public and private sector banks on Monday to address their concerns on banks taking the broking route for selling insurance policies.

The three major concerns put forth by the banks were related to their contracts with joint venture partners, equity arrangement and non-compete clause with insurance companies. The other major concern is the IRDA provision that banks will have to cap business from their own group companies at 25 per cent for life insurance with a similar cap on non-life insurance business too. “To ensure that there would be no disruption in business, we explained that 25 per cent cap can be implemented in a phased manner in three-five years,” said a senior IRDA official.

Banks, as insurance brokers, will also have a fiduciary responsibility to the customer for the policies sold by them. “We explained to them that brokers already exist in the insurance market and they are required to take a professional indemnity policy to cover their liabilities,” the IRDA official said.

“On selling products of multiple insurers, we said that the customer will have more choice and will be able to choose the product best suited to his needs rather than the insurer’s product with whom the bank has a an exclusive tie up. On training bank personnel, we explained that comparison is enabled by IT systems,” he added.

Guidelines

While IRDA and RBI cleared the decks by issuing guidelines for banks to become insurance brokers, banks have not shown any interest so far.

At present, 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.

Under the present system of distribution of insurance products through bank branches (bancassurance), banks act as corporate agents and sell the policies of only one life insurer, one non-life insurer and a standalone health insurer.

Source

While many of the older bank-promoted insurance companies have an exclusive tie up with a bank for the use of its branches for distribution, some of the newer insurance entities do not have a tie up with a bank.

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Insurers struggle to get microinsurance agents – Business Standard

Microinsurance, which aims to extend insurance coverage to low-income households in rural areas, has failed to enthuse distributors due to its comparatively small size and lower commissions.

By definition, micro-insurance products are general or life insurance policies offering an assured sum of Rs 50,000 or less. The average ticket size of this category is Rs 2,000-4,000 a policy.

“Micro agents do not want to distribute these insurance products since there is a very low commission structure. At 15 per cent commission, there is no incentive to sell,” says K G Krishnamoorthy Rao, managing director and CEO, Future Generali India Insurance.

According to the Insurance Regulatory and Development Authority’s (Irda) micro-insurance regulations, the commission is capped at 15 per cent of the premium in the non-life segment and 20 per cent in the life segment.

Data from insurance company disclosures show a majority don't have microagents. While a handful does, the number is limited to three or four. According to regulations, district cooperative banks, non-governmental organisations (NGOs), microfinance institutions (MFIs), regional rural and urban co-operative banks, primary agricultural cooperative societies, companies appointed as banking correspondents and individual owners of kirana shops, medical shops, petrol pumps and public call offices in rural areas can act as micro-insurance agents.

As the business focus and model vary for NGOs and MFIs, insurance is not a core area for them, says a senior distribution head of a private life insurer. "While they help us in the initial phases, they are not ready to take on distributing insurance as they believe it is not an area of business for them."

According to experts, microinsurance guidelines, expected to be announced soon, could increase penetration in rural areas. The guidelines talk about enabling local kirana stores, fair-price and medical store owners (who also act like banking correspondents) to sell micro-insurance products. This will improve renewal of premiums, too, experts say.

The regulations prescribe a framework within which insurers can offer affordable micro insurance products to a targeted group of rural and urban insurable population. Due to the non-availability of distributors, insurers also do not have the economic viability to set up branches in rural areas to sell products.

Insurers said above the mandatory 25 per cent of new business in life insurance in rural areas and seven per cent of total business in general insurance, companies were not interested in selling more micro policies.

From a distributor's perspective, as these products have a term of five years and above, it is difficult to sell it to small households. A senior official of an MFI said customers do not want to buy products for a long term, since there is no guarantee of their income for such a long duration. MFIs have approached Irda for a solution and the regulator has assured them these changes would be part of the new microinsurance regulations, says the official quoted above.

Extant rules stipulate individual agents can only sell the products of one insurance company. If one quits his micro insurance agent, he can join another agent only after three months from the date of resignation. While Irda has allowed a tie-up of life and non-life insurers to offer micro-insurance products, regulatory officials point out there has been no significant progress in that area.

In order to improve persistency in this segment, Irda has proposed to link the renewal commissions in micro-insurance in life segment where agents with higher persistency would get more commissions. Recently, Irda chairman T S Vijayan had said it would be more effective to have a single policy, with options for customisation, which covers all basic insurance needs.

During the last financial year, life insurance firms issued about five million individual micro-insurance products and covered nearly 14 million people. Life insurers sold 25.7 per cent of new policies in 2012-13 in the rural sector. Out of the f 44.1 million new policies that life insurers underwrote in 2012-13, 11.3 million were in the rural sector. During the same period, non-life insurers underwrote a gross direct premium of Rs 8,196 crore in the rural sector, which is 12.69 per cent of the gross direct premium underwritten (Rs 64,583 crore).

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Private banks will also have to adopt insurance broking model: FinMin - The Economic Times

The finance ministry has tried to create a level playing field between private and public sector by stating that not only government owned banks but even the private sector banks will have to sell products of multiple insurance companies.

Finance ministry's mandate to the PSU banks, last month, to follow insurance broking model - wherein customer will have an option to choose products of several insurance companies - was largely criticised by large banks who said that they would be at a disadvantage to private banks who are not required to follow any such directive from finance ministry.

In a close door meeting with the chiefs of PSU banks, Rajiv Takru, secretary financial services indicate that 'private banks should not be under the illusion that they will not be required to sell products of multiple insurance companies,' said a bank chief who was present in the meeting but did not want to be named. "If they don't do it voluntarily, the regulator will issue a directive on it," said Takru according to officials present in the meeting.

Large commercial banks such as State Bank of India, ICICI Bank, Punjab National Bank, Canara Bank and Bank of Baroda have entered into contracts to exclusively sell insurance products of their joint venture partners. As a result, they follow a corporate agency model wherein they can sell insurance product of only one life and non-life company. Due to this arrangement, most banks have resisted to follow the finance ministry directive on adopting insurance broking model citing contractual obligation signed with their insurance partners.

To address the stalemate, during the meeting with bankers, Takru announced setting up of a committee, which will look into a 'workable solution' for banks adopt the insurance broking model. The committee will include members from Reserve Bank of India (RBI), Insurance Regulatory Development Authority (IRDA) and senior bankers.

In December finance ministry had directed PSU banks to disband the corporate agency model and adopt that insurance broking model. This they said was aimed to prevent mis-selling of insurance covers and improve penetration. Even, IRDA, the insurance regulator, in a recent meeting said that it is favour banks adopting insurance broking model. However, the RBI is in favour of only those banks with strong financial parameters to enter the insurance broking business. In its draft norms, RBI said that only those banks with bad loans below 3% and capital adequacy ratio above 10% would be allowed to adopt the insurance broking model.

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IRDA Regulation

Irda asks insurers to warn customers about fraud - Business Standard

The Insurance Regulatory and Development Authority (Irda) has asked life insurance companies to warn their customers against falling prey to fictitious calls and false offers.

The regulator has asked all insurers to highlight warning messages in their product advertisements on the same.

According to the notice, the messages should include the statement that Irda or its officials do not involve in activities like sale of any kind of insurance or financial products nor invest premiums. Further, it would say that Irda does not announce any bonus. Also, it would have to state that the those receiving such phone calls "are requested to lodge a police complaint along with details of phone call and number".

Insurers have been asked to include the above messages, along with voice-over of this content in clear terms with every advertisement/commercial issued in electronic media (TV/cinema halls, etc). All ads/commercial issued from February 1, 2014, should contain this message.

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Irda unveils simplified, standard products for rural markets - The Economic Times

Regulator Irda today unveiled simplified, standard products designed to be sold by life insurance companies through nearly one lakh Common Services Centers so as to enhance insurance penetration in rural area.

Under this distribution model two kinds of products with low ticket size will be offered for sale. One savings product and a term plan will be available for sale.

"The product to be marketed through the CSC distribution model shall be prefixed with the word 'CSC' to clearly distinguish these products as exclusive CSC products," Irda said in a notification.

"Every insurer shall file the products under the current file and use procedure for distribution under this channel," it said.

According to Max Life Insurance Managing Director Rajesh Sud this would be another business opportunity for companies to expand reach beyond cities.

The regulator has simplified products and made it relevant to suit the targeted clientele, he said, adding that products have been designed taking into consideration their lumpy income.

This model is on completely voluntary basis, he said. Besides the commission to be paid to CSC to procure the new business, there would be service charges for post sale services of the policy.

The maximum commission in the first year will not be more than 5 per cent of the premiums paid in the first year. There will not be any commission from the second year onwards, Irda said.

The service charges shall be a fixed amount for every activity that would be undertaken by the CSC, it added.

For standard savings product, the term would be between 5-15 years and the maximum premium would be 20,000.

As far as standard term insurance product is concerned, the maximum sum assured would be Rs 2 lakh.

The guidelines are issued to study the entire business sourced through the CSC distribution on a pilot basis for a period of at least one year, it said.

Source

The Authority shall review the business sourced through the CSC distribution on a regular basis and review the guidelines, if required, it added.

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Life Insurance

New regime likely to squeeze insurers' margins - The Financial Express

Life insurance companies are likely to see erosion of margins per product under the new regulatory regime, which started from January as now they have to pass on certain minimum benefits to the customers, a senior executive of Max Life Insurance said on Thursday. "New products and new regulatory regime will squeeze the industry's margins per product. Certainly insurance companies' margins will erode as under the new norms margins that a company can keep has come down," said Max Life Insurance senior director & chief distribution officer Ashish Vohra. The life insurance industry's net profit grew 16.3 % to R6,948 crore during the last fiscal year from R5,975 crore in the previous year. According to the annual report of the Irda for 2012-13, of the 24 life insurance companies in operation, 17 reported profits.

Source

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Better returns from new ULIPs - The Economic Times

The insurance regulator, Irda, have given a more customer-friendly avatar to the unit-linked insurance plans, or, ULIPs. One of the major reforms in the guidelines was the introduction of cap on charges and commissions that could not be front-loaded and had to be evenly distributed throughout the policy term. Also, the regulator mandated a higher death benefit and a longer lock-in period.

As a result, compared to the old Ulips, the new ones provide better avenues for wealth creation along with adequate cover. With reduced cost structure, there is more that gets invested and therefore makes a significant difference to the returns earned in the long term.

The upfront charges are now uniformly distributed over the five year lock-in period. So, a good portion of the first year premium will be invested and your money starts to grow from day one.

Also, the maximum reduction in yield at maturity, that is, the difference between the gross yield and the net yield has been capped at 3% for policies whose tenure is less than or equal to 10 years, whereas, for plans whose tenure exceed 10 years, the total charges can't exceed 2.25%. This means, the IRR, or, internal rate of return cannot be less than 7.75% in any case.

The lock-in period has increased from 3 years to 5 years which ensures that these policies have long-term orientations and enjoy greater compounding benefits—higher the returns the more your earnings get re-invested.

Insurers have launched plans with lower charges than the cap. In fact, there are online ULIPs in the market where you do not have to pay any commission. So the whole money gets invested and you are able to get higher compounding benefits.

They have also become more flexible offering different cover sizes and premium paying terms. Also, there are more fund options to cater to different risk appetites along with top-up options to invest additional premiums. A few insurers are also offering unlimited number of partial withdrawals and higher death benefit as much as up to 40 times the yearly premium.

Being essentially an insurance product, they haven't lost their core component either. A requirement of minimum sum assured should now be at least ten-times the yearly premium paid ensures they are provide adequate protection as well.

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Reinsurance

Premium bonanza ahead for companies as resinsurance rates tumble - The Hindu Business Line

Falling global reinsurance rates this year is likely to allow general insurance companies to offer discounts in premium for large corporates. However, general insurers may find it difficult to offer discounts on retail policies such as health and motor insurance as the market has seen undercutting in pricing due to severe competition. Premium paid by large corporates, which typically take a mega risk insurance policy to cover their industrial assets, is largely reinsurance-driven.

AK Roy, Chairman and Managing Director of General Insurance Corporation, said internationally reinsurance rates have softened by 20 per cent amid over capacity as global re-insurers did not see significant losses in 2013 as there were no major calamities. This could lead to softer rates when the reinsurance contracts for Indian general insurers come up for renewals.

According to global reinsurance specialists Guy Carpenter, the reinsurance industry had about $322 billion in dedicated capital at the end of 2013, a near-record level. Global insured losses were about $40 billion this year, $20 billion less than the 10-year average.

Insurance companies pass on part of their risk to reinsurers to mitigate risks associated with high losses. The general insurance premium typically depends on the reinsurance rates being offered by the General Insurance Corporation, the sole domestic reinsurer and other global reinsurers.

Unlike the Western market, where the reinsurance treaties are signed in January, most Indian reinsurance treaties are signed in April.

A senior official from a public sector general insurer said that despite two large catastrophes in India during the last year, the Uttarakahand flooding, where the insured losses was ₹2,000 crore and Phailin cyclone at ₹1,000 crore, the overall losses for the domestic industry in the global context is very small.

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IRDA Circular

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IRDA released Guidelines-Process to be followed for filing of Life Products under the CSC Distribution Model to all CEOs of Life Insurance Companies.

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IRDA uploaded Monthly Business Figures - Non Life of gross direct premium underwritten for and upto the month of December, 2013.

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IRDA issued public notice regarding cautions against spurious calls and fictitious offers.

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The Insurance Regulatory and Development Authority (IRDA) and the Financial Intelligence Unit, India (FIU-IND) signed a Memorandum of Understanding (MoU) on Mutual Cooperation, today i.e., 29th January 2014 at IRDA's Head Office, Hyderabad, as part of continued coordinated efforts in effective implementation of requirements of the Prevention of Money Laundering Act and the Rules framed thereunder.

Global News

China: Medical liability insurance to be made mandatory – Asia Insurance Review

Being a doctor is one of the top 10 most dangerous jobs in China, and to correct the situation, the Chinese government is planning on making medical liability insurance compulsory for hospitals and medical practitioners. For several years now, medical professionals across China have increasingly become victims of physical violence at the hands of angry patients or their family members. Attacks on medical staff, often bloody and mostly by angry relatives, killed seven people and injured 28 in 2012, according to the National Health and Family Planning Commission. A survey by the Chinese Hospital Association said that there were 27.3 assaults on medical staff – per hospital – in 2012.

Doctors are often blamed if a patient fails to recover or dies – even if the ailment is terminal and no malpractice has occurred. The reasons for the violence include resentment over expensive and hard-to-access medical treatment, the need to pay bribes to guarantee good service, and anger at the death of a loved one who was under medical treatment. There are also “fists for hire” with gang members recruited to beat up doctors because patients or their next of kin are afraid that medical institutions would not make financial compensation fast enough, or at all, for botched or unsuccessful operations.

At an annual work conference of insurance regulatory officials this month, Mr Xiang Junbo, chairman of the China Insurance Regulatory Commission, said that one goal this year would be to promote compulsory medical liability insurance with medical institutions and doctors required to purchase such cover. This is to ensure that victims of medical malpractice would be assured of compensation with the ultimate goal of stamping out violence in medical establishments, according to local media reports. In 2013, premiums collected for all forms of liability insurance in China totalled CNY21.66 billion (US$3.6 billion), comprising 3.5 percent of the total non-life premiums of CNY621.2 billion for the year. This shows the potential for growth of liability insurance in the country.

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Pakistan: Govt to start health insurance scheme for the poor - Asia Insurance Review

The federal government is working on a a national health insurance scheme to provide cover to 112 million poor people for medical treatment including cardiac bypasses, cancer and hepatitis care and other surgery.''

Sources say that 60 percent of the country who earn US$2 per day will be covered under the scheme and each eligible person will get a unique insurance card that could be used at state-of-the-art inpatient facilities in the country, reported The News International. Outpatient services will not be covered under the scheme because government hospitals are already providing such services for almost free.

Prime Minister Nawaz Sharif has given four weeks to the Ministry of National Health Services to draw up a detailed plan for the ambitious scheme. A four-member core committee has already been formed by the ministry on the directions of the prime minister who has directed the committee to study Indian and Turkish models of social health insurance. Insurance companies to be involved in the national health insurance scheme will be selected through open bidding in a transparent manner.

According to a government official, funding for the scheme will be provided by the federal government while the implementation will be executed by the provinces. He says that the scheme will not place a heavy burden on the national budget as according to estimates, the government may have to pay PKR1,000 (US$9.48) per head annually to insurance companies. Insurers will then fund the medical treatment and sign contracts with private and public hospitals.

Source

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Decline in UK motor premium is credit negative - www.reactionsnet.com

The average quoted motor insurance premium rate fell a record 14.1% in 2013 the British Automobile Association (BAA) revealed. Rating agency Moody’s has declared that this is credit negative for UK auto insurers despite a new wave of civil reforms taking place to reduce the frequency of claims farming in the UK. Claims farming involves market participants, such as brokers, claims management companies and even insurers, searching for potential compensation cases and selling them to legal firms, Moody's said. However the reforms are not likely to be in place quick enough to counteract the fall in premiums according to Moody's.

"These reforms will not reduce the frequency and cost of motor claims as quickly as premiums have been falling," said the rating agency. "As such, the slide in motor insurance rates is credit negative for general insurers because it increases pricing risk and threatens profitability." The government's reforms have a relatively complex mix of positive and negative implications, said Moody's. The rating agency commented that for insurers, the ultimate effects, and the timing and degree of claims cost reductions remain uncertain.

Since the UK motor insurance industry is highly competitive insurers are under pressure to cut premiums to retain business and thus have already passed reform benefits onto policyholders through rate reductions, as reflected in the AA index. This would be problematic for insurers if the government reforms are not as successful as has been predicted. "If the ultimate effect of the government's reforms is not as successful as insurers expect, the decline in premiums would not be matched by a commensurate reduction in claims, and would lead to a further deterioration in underwriting results for an industry that has not been profitable for the past 18 years," said Moody's.

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Insurers heavily investing in data, analytics - www.reactionsnet.com

Insurers are investing heavily in data and analytics to keep pace, State Street found in a survey of insurers. In the last three years 75% of insurers said they have slightly increased investments on data and analytics and 13% said they have considerably increased these investments. Order and execution management systems were prioritised for major investment increase by 49% of insurers and prioritised for a slight investment increase by 34%. "This is a surprise," says Martha Whitman, State Street's head of insurance solutions, EMEA.

"Insurer's strategies are changing and they are doing things differently. Our clients' portfolios are still significantly fixed income which is still relatively easy to trade. A lot of it is done over the phone. "But if an insurer is expanding out its investment portfolio it probably does not have the infrastructure in place," says Whitman. Insurers are increasingly consolidating operations and controlling them a group level to make efficiencies, for example with reinsurance purchasing, Whitman notes. Risk analytics was the lowest ranking investment priority for insurers with only 15% respondents reporting it and 46% reported a slight increase.

"This was a bit of a surprise but if you think it through, risk is their business so most of them already feel they already have decent risk systems and technology in place," Whitman says. Data and analytics are viewed as a high strategic priority by 82% and the most important strategic priority by 31%, the survey found. Only 21% of insurers are reaping the full benefits from their data and analytics capabilities. "We can bash insurers and say, "what is their problem?" But it's much easier for alternative investment managers as they're much smaller or have a very narrow view of what their investment structure is," says Whitman. "When you have a global insurer they have lots of different challenges with pockets of data in different places," she adds.

Source