Insurance Institute of India

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Newsletter

10th – 16h February 2012

News Categories

Insurance Regulation

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News	Irda hints at paperless policies within a year
Newspaper	The Hindu Business Line
Source	http://www.thehindubusinessline.com/industry-and-economy/banking/article2879987.ece

You can expect your insurance transactions to be paperless in the next one year, thanks to an initiative by the Insurance Regulatory and Development Authority.

"We are working on making insurance paperless and have short-listed about four data repositories, including National Securities Depository Ltd, for the purpose," Mr J. Hari Narayan, Chairman, IRDA, told newspersons on the sidelines of a roundtable on distribution in insurance organised by the Confederation of Indian Industry here on Friday.

Data repositories and data warehouses are vital for making insurance online or paperless, he added.

The first priority for the regulator with regard to distribution channels is bancassurance, which means distribution of insurance by banks.

BANCASSURANCE

"By the beginning of the next financial year, we will have a new regulatory regime for bancassurance," the IRDA chief said.

In the draft guidelines issued earlier, IRDA favoured limited opening up of bancassurance.

Referring to decline in the life insurance industry in the first nine months of the current fiscal ended December 31, 2011, he said that the industry would close the year with about 13 per cent de-growth.

Earlier, while addressing the delegates, he said the IRDA was also taking a re-look at the nature of regulation, especially in the distribution segment.

The widening of the broking channel was needed as the existing regulation for opening branches was causing financial strain on the small brokers," he said.

PENETRATION

Referring to insurance penetration of about 4.2 per cent, he said it was not low as a percentage of the Gross Domestic Product.

Asking insurers to build trust, he said: "Insurance depends on trust. This is a bigger issue than distribution."

He also released a CII report on addressing distribution challenges in insurance.

News	Irda plans mentoring scheme for junior agents to curb mis-selling
Newspaper	Financial Chronicle
Source	http://www.mydigitalfc.com/insurance/irda-plans-mentoring-scheme-junior-agents-curb-misselling-673

Insurance regulatory and development authority (Irda) is in the midst of finalising norms for mentoring junior agents by their seniors. This will come into operation beginning April 1.

A senior agent with five years experience and 100 per cent renewal ratio will be allowed to mentor up to 15 agents and will be entitled to 25 per cent of the first-year commission earned by his or her junior.

The mentoring of agents will be applicable to agents of both life and non-life insurance companies. Irda had first mooted the idea in November last year and asked the insurance companies to send their feedback.

“Based on the feedback we got from insurers, we will soon come with final guidelines. We will tweak draft regulations a bit. This is a workable idea. This will also help in curbing misselling as junior agents will be mentored by seniors with 100 per cent renewal track record,” said an Irda official.

The move is expected to help agents scale up their productivity and help entry of new agents. For most insurers, agents are the biggest contributors to overall sales.

“Regulation, that introduces efficiency and persistency, is always welcome. The draft regulations indicate that performing agents will be incentivised, and by doing so, fixed cost incurred on non-performing branch heads may be reduced. However, minimum five years experience might be a bit high since it has been only 10 years since the industry was opened for private players,” said Vijay Sinha, senior vice-president and head of marketing at Tata AIG Life Insurance.

Huge chunk of agents went out of business last year when Insurance regulatory and development authority introduced new charge structure for unit-linked insurance policies (Ulips) in September 2010. This move brought down overall agents commission by two-thirds.

Reinsurance

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News	Reinsurers to set cap on liability claim for disasters
Newspaper	The Economic Times
Source	http://articles.economictimes.indiatimes.com/2012-02-11/news/31050098_1_reinsurers-gaurav-garg-limit

MUMBAI: Stung by mammoth claims from natural calamities in Japan, Thailand and Australia last year, global reinsurers are imposing a limit on the maximum liability that non-life insurers can claim for a catastrophe, said industry sources.

Following suit is India's sole reinsurance firm General Insurance Corp, which, for the first time, is planning to put a cap on catastrophe insurance limit.

"Reinsurers want to put a limit on maximum liability that is payable in terms of large claims," said KG Krishnamoorthy Rao, managing director and CEO, Future Generali General Insurance.

Liability limits for natural disasters would be around 2-5 times its treaty limit, said people familiar with the matter. Treaty limit is decided by insurer and the reinsurer for every reinsurance contract. The reinsurer then covers all the insurance policies coming within the scope of that contract, within the treaty limit.

For example, if an insurance firm takes a treaty limit of Rs 200 crore and liability limit or so-called event limit is set at twice the treaty limit, the reinsurer will have to pay Rs 400 crore and the rest of the insured loss will be paid by the insurance company.

The move, which comes ahead of mandatory placement of reinsurance programme review by insurers with regulator Insurance Regulatory and Development Authority before February 15, could lead to a spurt in premium rates on insurance covers.

"Insurers will end up paying more to reinsurers. This result will increase the premium rates," Rao said. Indian insurance companies have to mandatorily reinsure 10% of their risk with GIC.

"This is the first time reinsurers are insisting on event limit in India," said Gaurav Garg, MD and CEO, Tata AIG General Insurance Co. GIC took a hit of more than Rs 1,500 crore in 2011 due to natural disasters in Japan, Thailand, Australia and New Zealand.

Bancassurance

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News	Banks oppose Irda norms on retailing policies
Newspaper	Mint
Source	http://www.livemint.com/2012/02/14234400/Banks-oppose-Irda-norms-on-ret.html?h=A1

New Delhi/Mumbai: Concerned about possible dual regulatory supervision and resistance from foreign partners in their insurance joint ventures (JVs), Indian banks have opposed the proposed revision in guidelines for distribution tie-ups between insurance companies and banks for the sale of insurance policies.

The Insurance Regulatory and Development Authority (Irda) had, in a bid to create a level playing field, proposed a state-wise arrangement for such distribution tie-ups, known as bancassurance. With their extensive national networks, commercial banks provide an ideal platform for insurance companies to sell their products.

With many banks starting their own insurance ventures, newer, non-bank promoted insurers have been finding it difficult to find distribution partners with a wide network. This is because existing regulations deem that one bank can tie up with only one life and one non-life insurance company across the country.

The banks, through industry lobby Indian Banks' Association (IBA), have written to Irda, opposing most of the draft guidelines issued by the regulator in November, said two people familiar with the development.

Irda's draft bancassurance guidelines divide Indian states into three zones and place a cap on the number of states in which an insurance company can tie up with one bank. As per the draft, no insurance company can tie up with any bancassurance agent in more than nine states in zone A and six states in zone B.

The draft guidelines give Irda the power to inspect the premises, books of accounts, records and documents of the bancassurance agent to check if the activities are carried in line with regulations. Banks are concerned that this will ensure that they are effectively under the supervision of two regulators, the Reserve Bank of India (RBI) and Irda.

The draft guidelines also put the onus of any mis-selling on banks rather than insurance companies, which the lenders are opposing.

"We've written to Irda detailing banks' objections and marked a copy to RBI and the finance ministry," said a senior IBA official who did not want to be identified.

Prominent Indian banks, besides being corporate agents, also have their own insurance ventures with foreign partners. The proposed zone-wise ceiling on the number of tie-ups will effectively ensure that promoter banks cannot sell the policies of their JV companies in all the states.

After the insurance industry was opened up for private participation in 2000, the number of companies in the life insurance space have increased to 24 from one, and in general insurance to 24 from four. Big banks that have insurance subsidiaries in the life and non-life space include India's two biggest lenders—State Bank of India (SBI Life Insurance Co. Ltd and SBI General Insurance Co. Ltd) and ICICI Bank Ltd (ICICI Prudential Life Insurance Co. Ltd and ICICI Lombard General Insurance Co. Ltd).

In the first nine months of this fiscal, new business premium collection of life insurance firms was Rs. 71,953 crore. The gross underwritten premium of general insurance companies was Rs. 42,023 crore.

"The foreign JV partners are not comfortable with the guidelines issued by Irda," the IBA official said.

"At the time of the tie-up, they were assured of (access to) the full branch network of banks. But if these guidelines get passed, there will be no difference between insurance companies set up by big banks and small banks," he said. "Now there's a fear among banks that the foreign partner may insist to renegotiate contracts."

Besides, the memorandum of understanding between the JV partners is binding and is against an open architecture.

"After having invested time, money, effort and strategic intent in a JV, the foreign partners would not want the banks to sell other products," said Ravi Trivedy, partner at KPMG Advisory Services.

For bank-promoted insurance companies, on an average, more than 50% of the business comes through the bancassurance channel. For non-bank promoted ones, bancassurance contributes around 20-25% of business.

With key stakeholders unanimously opposing the move, the guidelines are unlikely to go through in the current form.

Irda chairman J. Hari Narayan confirmed that banks had expressed their opposition.

"While banks continue to complain about the limited means of enhancing distribution, some of them are opposed to the arrangement proposed by Irda," he said.

According to him, the option of not going ahead with the bancassurance model does not exist as there is a need to address the distribution needs of the industry. "We will address all the concerns of the banks reasonably and we have not yet taken a firm view on the changes in the draft. We will give companies enough time to rework internally and align to the policy shift," he added.

“Opening up of the bancassurance channel will benefit the industry as each bank will have to tie up with at least two or three insurance companies and segment the customer base state/city-wise”, said V. Philip, chief executive officer of Bajaj Allianz Life Insurance Co. Ltd. “Penetration would increase as each insurance company in these states would have an aspiration to push business out of their universe.”

Banks also feel that zone-wise tie-ups will hinder their ability to service policyholders in case the customer shifts to a different town. “Most of the banks are on core banking solutions (CBS). Dividing the country into zones does not fit in with CBS and makes policy servicing difficult,” the IBA official said.

“For a nationalized bank that has presence across the length and breadth of the country, it is difficult to not sell their products in certain zones that are not allotted to them. The model, though designed to address the needs of the industry, needs tuning and is unacceptable in its present form,” Trivedy said. “Since all the major banks already have JV insurance companies in place, it is hard to figure out who these guidelines will benefit.”

To boost their distribution networks, non-bank promoted insurance companies have been entering long-term strategic bancassurance tie-ups with lenders that do not have their own insurance subsidiaries. As part of a long-term bancassurance tie-up, Axis Bank Ltd bought a 4% stake in Max New York Life Insurance Co. Ltd and Punjab National Bank is awaiting regulatory approvals to pick up a 30% stake in MetLife India Insurance Co. Ltd.

Global News

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Asia

News	China: Regulator wants insurers to improve accounting functions
Newspaper	e-daily Asia Insurance Review
Source	http://www.asiainsurancereview.com/pages/e-weekly-archive.asp

The CIRC wants to insurance companies to improve their accounting functions so as to consolidate accounting foundations and raise risk management statements.

In a statement, CIRC says that some measures which insurers have to take include establishing an internal audit system headed by the chairman or general manager of the company; setting clear rules for investment accounting; defining insurance funds, investment funds, investment assets and non-investment assets, and laying down requirements for managing solvency ratios and investment management.
The statement also says that funds placed with non-financial payment institutions should not exceed 1% of an insurer's total assets.

A CIRC spokesman says that financial management is at the heart of the risk management function of insurance companies. The regulator will urge insurers to continually improve on their fundamental accounting work, raise the quality of accounting information, as well as strengthen internal control and risk management.

Meanwhile, the Hong Kong Standard has reported that mainland insurers will face restrictions on property investments under a new regulatory requirement. Citing the CIRC, the newspaper reports that the "combined book value of insurers' fixed assets and property projects under construction" must not exceed 50% of their net asset value. The regulator says that insurers should place "self-use properties and those for investment in different asset management accounts."

The CIRC also rolled out limits on insurers' bank deposits. Life insurers with total assets of at least CNY10 billion (US$1.59 billion); property and casualty insurers with assets exceeding CNY2 billion; and reinsurers will not be allowed to deposit more than 20% of their cash in a single bank that does not have a nation-wide operating licence.

Europe

News	Government agrees measures to slash motor compensation culture
Newspaper	Insurance Times
Source	http://www.insurancetimes.co.uk/government-agrees-measures-to-slash-motor-compensation-culture/1394854.article

Prime Minister David Cameron met with insurers, consumer and business groups at 10 Downing St yesterday evening, promising to take action to tackle the compensation culture.

Cameron told representatives at the meeting there was “no silver bullet” to tackle soaring premiums, reports the BBC.

“Government has got to help sort out the legal issues, some steps have been taken by insurance companies already in terms of referral fees, [and] there’s quite a lot of space for individual action - personal responsibility, not making false claims - so I think there’s a whole set of issues and if we work together we can actually deliver,” he said.

Measures agreed by the group include insurers committing to passing on savings to customers through premium reductions, reflecting the Government’s commitment to reducing the current £1200 legal fee from small personal injury claims.

The group committed to working together to identify ways to reduce the number and cost of whiplash claims. Options include improved medical evidence, technological breakthroughs and setting a threshold for claims or the speed of accidents with the Government promising progress on this “will be made in the coming months”.

The Government and insurers also agreed to look at reducing young drivers’ risk including wider use of telematics technology.

Attendees representing the UK general insurance market included:

- ABI director general, Otto Thoresen
- RBS Insurance chief executive, Paul Geddes
- Admiral chief operating officer, David Stevens
- Aviva UK chief executive, Trevor Matthews
- Axa UK and Ireland group chief executive, Paul Evans
- Zurich UK chief executive,Stephen Lewis
- CBI director general, John Cridland
- Co-operative Insurance director of General Insurance, David Neave

Britain is now the whiplash capital of Europe, with more than 1,500 claims a day, with people claiming for whiplash injuries sustained in the most minor of incidents.

According to the ABI the cost to the industry from whiplash claims is £2bn, adding £90 to the average premium.