



Insurance Institute of India

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Insurance Industry

Irda wants kirana shops, chemists to sell micro insurance - The Economic Times

To promote penetration of insurance in the country, IRDA today proposed to rope in kirana shopowners, chemists shops and petrol pump operators to sell micro insurance products.

Micro insurance products are schemes with low ticket size and targeted towards rural and urban poor.

"In order to broadbase the micro insurance business there is a case to expand the micro insurance agency base by adding few more distribution partners or Individuals," IRDA said in an exposure draft on Micro Insurance Regulations.

The Insurance Regulatory and Development Authority (IRDA) proposes to allow individual owners of kirana shops, fair price shops, medical shops, petrol pumps, individual public call office (PCO) operators to be categorized as micro insurance agents.

"Since, these individuals have a physical presence and standing in these specific market segments as those of the existing Standalone Micro Insurance Agents, it is considered that they stand on similar footing along with standalone micro insurance agents," the IRDA said.

Currently some entities like non-government organisations (NGOs), Micro Finance Institutions (MFIs) and Self help Groups (SHGs) currently work as micro insurance agent.

District Cooperative banks, Regional Rural Banks, primary Agricultural Cooperative societies, individual agents too work as micro insurance agents. It said that the intent of regulation in the sector is yet to take off since the notification of the Micro Insurance regulations in November, 2005.

For the year ending march 2011, 36.50 lakh new policies were issues by collecting Rs 130.40 crore of new business under individual life insurance business. In respect of group policies, micro insurance covered 1.53 crore lives and garnered Rs 155.22 crore premium.

Source -

http://articles.economictimes.indiatimes.com/2012-07-26/news/32869416_1_insurance-agents-insurance-products-insurance-business

Life Insurance

Fair game - The Financial Express

After issuing the framework for life insurance companies to raise capital through initial public offering in November last year, the Insurance Regulatory and Development Authority (Irda) has now come out with the disclosure requirements to make the process of capital-raising transparent.

A life insurer will now have to mention up front the risks associated with the industry and the company. For example, the issuer will have to mention the liquidity risk, which would be the adverse impact on earnings due to difference in future actual claims resulting from the assumptions used in pricing and establish reserves for insurance and annuity products. The company will also have to mention the concentrated surrenders that policyholders could make.

Before going to the capital market to raise funds, the insurer will have to mention the material impact on profitability or cash flow due to catastrophic losses which may arise. Moreover, if the insurer fails to obtain reinsurance on a timely basis, the risk should be mentioned so that customers could take an informed decision. In case of default by one or more insurer, the impact of such an act will have to be mentioned up front.

Life insurance companies make economic assumptions like future interest rates, investment returns, inflation, exchange rate, taxation. The embedded value information is based on several assumptions and may vary significantly as the underlying assumptions are changed. The insurance company will have to clearly mention the embedded value risk.

The insurers will have a choice of raising capital through a public issue, a divestment of promoters' share, or private placement. The insurance regulator had last year stipulated that only those life insurers that have completed 10 years of operations will be allowed to float IPOs. Such companies

should have an embedded value — the sum of the present value of the future profit and the adjusted net worth of a company — of at least twice the paid-up capital. The regulator had also said in the guidelines that insurer willing to tap the capital market will have to get its Enterprise Value reviewed by two independent actuarial experts, apart from internal valuation exercises. The insurance regulator's approval for an IPO will be valid for a year, within which the company can approach Securities and Exchange Board of India to file the draft red herring prospectus and get the market regulator's approval. The insurer will also have to mandatorily disclose a record of policyholder protection and the pendency of the policyholder complaints for the last five years in the draft red herring prospectus which has to be filed with Sebi.

Currently, there are 23 private and one public sector (Life Insurance Corporation) life insurance companies in India with total assets worth over R13 lakh crore. Private insurers like ICICI Prudential Life Insurance, HDFC Standard Life Insurance and Reliance Life Insurance have shown interest to tap the markets to raise capital for their expansion needs. LIC, despite being India's largest life insurer, is fully owned by the government and is not a company under the Companies Act, but is governed by the LIC Act. The regulator, in the recent notification, said that an insurance company willing to tap the market will have to mention the material effects due to regulatory changes and even the regulatory investigations and the resulting sanctions or penalties that may adversely affect the reputation, business, results of operations and financial conditions of the insurance company.

Even the solvency risk has to be mentioned. Currently, the solvency ratio — the ratio of the amount of available solvency margin to the amount of required solvency margin — set by Irda is 1.5 times and all the insurance companies have adequate solvency margin. The distribution risk, such as over-dependence on certain distribution channels, will have to be mentioned clearly. Analysts say, currently, the distribution model is highly dependent on agents or fleet-on-street. To mitigate the risks, experts say insurers will have to tap the online distribution channel and innovate other channels like mallassurance. Analysts say while the new notification will bring in transparency in the way life insurers will tap the market, the current volatility in the markets and low investors' confidence will work against life insurers raising money from the capital market.

Source -

<http://www.financialexpress.com/news/fair-game/980040/0>

Health Insurance

No clarity on accountability in draft medical insurance rules - The Times of India

Draft medical insurance regulations by the Insurance Regulatory and Development Authority (IRDA) has no clarity on accountability, the Bombay high court was informed on Thursday.

A division bench of Chief Justice Mohit Shah and Justice Nitin Jamdar was hearing a public interest litigation filed last year by activist Gaurang Damani on medical insurance woes. The PIL highlighted the plight of nearly 7 crore consumers paying Rs 13,000 crore as medical insurance after Third Party Administrators (TPA) stopped offering cashless mediclaim benefits. It also focused on the absence of any kind of regulation to govern this industry. Subsequent to the court's order, IRDA in June 2012 published on its website draft regulations which will govern the medical insurance industry.

Damani submitted that while the draft regulations are "good", some issues need to be addressed. "There is no clarity on accountability if there is violation on any of these new regulations. Just like SEBI enforces a fine on an errant corporate house, there should be something similar in the regulations, so that accountability is introduced," he explained. He also said there is no mention in the draft regulations about the method for fixing package rates for different ailments. "This was the primary reason this court was moved after the cashless facility was discontinued," said Damani.

To a query from the judges, Damani replied that he has sent these suggestions to IRDA but has not heard from them. The judges said he must await final regulations of IRDA. But Damani said there is no final date or indication when the final regulations will be implemented.

IRDA's advocate Paritosh Jaiswal said suggestions and objections have been invited to the draft regulations and will be considered accordingly. He said since the draft regulations are published, the PIL has achieved its purpose and must be disposed of. The judges have adjourned the hearing to September 6.

Source -

http://articles.timesofindia.indiatimes.com/2012-07-27/mumbai/32888723_1_medical-insurance-irda-cashless-mediclaim-benefits

Premium for group health cover may rise by 50 percent - The Economic Times

Premiums on group health insurance could rise by up to 50% as the finance ministry has told all public sector insurance companies to stop giving discounts on such policies.

The instruction, issued by the department of financial services to the chairman and managing directors of the four government insurers, talks about the strategy to be strictly adopted with immediate effect. It seeks to stop providing discounts on any policy where combined ratio, or the cost of a policy to the insurer, is more than 100%.

The combined ratio refers to costs on insurance claim, management expenses, commission to agents and to third party administrators (TPAs) and any other expenses that may have been incurred in servicing a policy.

According to the directive, all expenses are to be factored into the pricing of the products, hence the potential surge in premiums.

A study by the finance ministry has found that the combined ratio is now in the range of 140%-165% on average. The four PSUs — National Insurance Company, New India Assurance, Oriental Insurance and United India Insurance Company — have to slash this combined ratio to 95%, according to the directive.

The four insurers command more than 60% of the total health insurance segment in India. Group health insurance accounts for more than 50% of this business.

4 insurance PSUs had net loss of Rs 1.5k crore

In 2011-12, the total health insurance premium income of all the four PSU companies — National Insurance Company, New India Assurance, Oriental Insurance and United India Insurance Company — was Rs 8,145 crore, while the net combined loss for the year was Rs 1,500 crore (assuring a combined rate of 150%) to these firms.

A official at one public sector insurance company said each of them have issued directives to their field offices that "premium should be suitably loaded" to recover all expenses related to the insurance policy. The official said the increase in premiums could be as high 50%, but insurance experts said several factors will determine the actual hike.

"The directive predominantly talks about group health insurance policies. Premiums may go up significantly for these schemes and marginally for retail policies. While, the increase for group insurance premiums could be up to 35%, in case of individuals it is likely to be between 5%-10%," said V Ramakrishna, chairman of India Insure Risk Management and Broking Service. "This directive drastically reduces the choice available to group customers whose portfolio is healthy and the move is antifree market," he added.

"Prices should be worked out, duly taking into consideration the burning cost, management expenses, medical inflation to ensure that premium is revised and that the combined ratio will be less than 95%. Such policies otherwise shall not be renewed," says the finance ministry directive.

"Any cartelization of this sort where prices are determined uniformly may result in the business shifting to the private sector where the management cost is at least 20% less in comparison to the public sector insurers," the PSU company official said.

Source -

http://articles.economictimes.indiatimes.com/2012-07-29/news/32923523_1_health-insurance-premiums-public-sector-insurance

General Insurance

Ministry tweaks norms for ships bringing in crude oil from iran - The Hindu Business Line

Norms have been simplified for Indian ships wanting to carry crude oil from Iran. The External Affairs Ministry on Tuesday said that India will permit foreign ships carrying Iranian crude on a case-by-case basis now, instead of the general permission being granted earlier.

With the Government withdrawing general permission granted to public sector oil companies on cost, insurance and freight (CIF) basis, Indian ships stand to benefit. This is because, in the earlier scenario, the foreign flagged vessels used to win crude transport contracts as they offered lower rates.

INSURANCE COVER KEY

Indian shipping companies will be able to cash in now provided they are able to get the desired level of insurance cover to import Iranian crude.

"If we get the desired insurance cover, Indian flag bearers could benefit by moving this cargo," Mr S.C Hajara, CMD, Shipping Corporation of India, told Business Line.

"We understand that there are some issues yet to be resolved between national insurance companies and the ship owners regarding the terms of the insurance cover to be provided to Indian ships for carrying Iranian crude oil to India," stated an External Affairs Ministry release.

With the European Union sanctions, which came into effect on July 1, the Europe-based Protection and Indemnity (P&I) clubs that offer third party liability cover to 90 per cent of the world's fleet, including Indian flag carriers, stopped offering cover to ships carrying Iranian cargo.

These P&I clubs offer third-party cover of up to \$1 billion. Public sector insurers have told shipping companies that they may not be able to provide cover of even \$50 million for vessels carrying Iranian crude.

Indian shipping lines had sought limited insurance cover of \$50 million from the Government-owned insurance companies after the P&I clubs decided to withdraw their insurance cover.

Earlier, Indian ship-owners had asked for a sovereign guarantee for transport of Iranian cargo, which the Government had turned down.

Source -

http://www.thehindubusinessline.com/industry-and-economy/logistics/article3708345.ece?homepage=true&ref=wl_home

IRDA Circular

27.07.2012

The Insurance Regulatory and Development Authority of India (IRDA) has issued Exposure Draft to all stakeholders on Micro Insurance (Modification) Regulations to review the IRDA (Micro Insurance) Regulations, 2005.

Source -

http://www.irda.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo1750

Global News

China

Chinese Insurers to Benefit From More Investment Options

Chinese insurers should be able to match the duration of their assets and liabilities more accurately, and may benefit from improved earnings stability, following a decision to relax restrictions on the investments they can hold, Fitch Ratings says. However, insurers will need to improve their risk-management practices in light of the greater complexity of the assets they are now allowed to own.

The new rules, among other changes, allow insurers to invest in hybrid and convertible bonds, and raise the ceiling for investment in unsecured bonds, private equity, infrastructure-related debt and real estate. This increased flexibility will give insurers the ability to invest in bonds with a wider range of tenors, reducing the risk of asset/liability mismatches.

Chinese insurers' earnings have been volatile over the last few years because of sharp fluctuations in the stock market. The rule changes could reduce this volatility if they drive a further reallocation of assets from equities to bonds or even real estate – asset classes which can generate relatively stable interest or rental income.

The changes are timely, as strong premium growth has increased insurers' needs for suitable investment vehicles. The lift in the ceiling on unsecured bond investments, in particular, will allow insurers to enhance yields. However, this greater freedom must be matched by improved risk-assessment practices and tighter investment discipline.

Internal controls to prevent insurers taking undue risks are particularly important because China's solvency rules do not take account of the specific investment risks of insurers' invested assets, although there will be a required minimum solvency ratio of 120% to invest in unsecured bonds, private equity and real estate.

Source -

<http://www.fitchratings.com/web/en/dynamic/articles/Chines-e-Insurers-to-Benefit-From-More-Investment-Options.jsp>

Vietnam

Insurers eye rising outbound travel market

The rising number of Vietnamese who travel abroad and low penetration of travel insurance in the country have attracted the attention of insurers, says a report by VietnamNet Bridge.

At present, most Vietnamese travellers buy travel insurance when they have to. Such insurance is necessary for them when applying for visas to travel. Also, current regulations require travellers who go abroad in tours organised by travel firms to buy global insurance policies for the duration of the tour. Most Vietnamese travellers have no interest in the insurance, according to the report. Do Thi Kim Lien, Chairman of AAA Insurance, says that the slow sale of insurance policies should be attributed to the insurers themselves. In many cases, insurers do not give sufficient advice to clients for the latter to make reasonable decisions. He adds that there are numerous competing travel insurance policies offered by several insurers. The insurance packages are diversified with different premium rates, conditions and services. As a result, the Vietnamese find it difficult to choose the insurance policies suitable for them.

In general, domestic travel firms choose domestic insurers to take insurance policies, because the companies offer high insurance liability and high commissions. Generally, the premium charged on travel insurance amounts to 1% of the total expenses of the trip and 0.04% of the maximum liability insurers have to bear in case of accident.

Source -

<http://www.asiainsurancereview.com/pages/e-weekly-archive.asp>

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