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13th – 19th February 2015

• Quote for the Week •

"Everything that is excellent will come when this sleeping soul is aroused to self-conscious activity"

Swami Vivekananda

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Source

Insurance Industry

India: Agent numbers to get boost – Asia Insurance Review

The number of insurance agents in India may soon see a boost with insurance companies being allowed to appoint them without having to approach the industry regulator. The Insurance Laws (Amendment) Ordinance, passed last December, states that agents cannot sell similar products of two companies (for example, a health product of a standalone health insurer and general insurer). This restriction will lead to the appointment of more agents, reported Business Standard.

"The insurance sector would be able to appoint agents according to individual needs. Since compensation structures may also be revised, this will attract people to treat agency as a permanent job and not part-time work," said the head of an agency at a private life insurance firm.

As at the end of January, the life insurance sector had 2.1 million individual agents compared with 2.18 million in April 2014, according to data from the Life Insurance Council. Between April 2014 and January 2015, there were 503,130 new agents. On the other hand, the number of agents who left the industry during the period was 583,009.

The Insurance Regulatory and Development Authority of India (IRDAI) had recently issued a set of proposals for the appointment of agents. According to the draft, no individual shall act as an agent for more than one life insurer, one general insurer, one health insurer and one of each of other mono-line insurers. IRDAI has said that the high attrition of agents could adversely affect life insurers' business, policy persistency and public perception of the agency channel as a stable career.

Back

IRDAI Regulation

High Court poser to IRDA on lifetime coverage scheme for vehicles - The Economic Times – 18th February 2015

The Madras High Court today asked Insurance Regulatory Development Authority why lifetime insurance coverage scheme for vehicles should not be implemented as for lifetime payment of vehicle tax.

"It should be everybody's endeavor to prevent accidents and ply vehicles on the road with relevant insurance coverage and to see that the accident claim awards are paid in time easily without any problem to victims of road accidents," Justice N Kirubakaran said.

He stated this while passing interim orders on an appeal by Oriental Insurance Company Limited, Third party claims Cell, Thiruvallur, challenging the judgment of Motor Accident Claims Tribunal, Subordinate Judge, Ponneri.

The matter pertains to an accident on January 30, 2012 in Ponneri in which a motorbike was hit from the rear by a tanker lorry, resulting in injuries to the rider, requiring 17 days hospitalisation.

Doctors assessed his disability at 65 per cent but the Tribunal, considering the nature of injuries, fixed it at 45 per cent and awarded Rs 2,24,500 against his claim for Rs 3 lakh.

The insurance firm challenged it, stating there was no insurance coverage as on date of accident to the lorry, which expired on November 17 2011. It occurred only on January 30, 2012 and therefore liability should not have been 'fastened' on them.

Justice Kirubakaran while granting conditional interim stay directed the firm to deposit the award by the Tribunal within two weeks together with interest to the credit of the related case and also warned that failure to deposit it would result in automatically vacating the stay.

"In the absence of any mechanism to verify the existence of the policy, it is appropriate to make owners of vehicles pay the amount for lifetime insurance coverage in the interest of the general public," he said.

The Judge impleaded suo motu IRDA, Ministry of Law, Justice and Company Affairs, Ministry of Road and Surface Transport, State Secretary Transport Department, DGP as respondents and issued notice to reply to 10 queries including number of vehicles registered in India, how many have not renewed policies and whether it was a fact that almost one third vehicles do not have subsisting mandatory act policies. The Judge then posted the matter for further hearing to March 4 2015.

Source

Back

Insurers told to follow prescribed limits in bank deposits - The Hindu Business Line - 17th February 2015

Insurers will have to follow the upper limits of 3 per cent and 10 per cent for their fixed and current deposits in any bank, according to Insurance Regulatory and Development Authority of India (IRDAI).

In a circular addressed to the chief executive officers of insurance company, the regulatory said the existing sections of 27A and 27B of the Insurance Act which prescribe the limits for bank deposit will continue to be applicable despite the Insurance Laws (Amendment) Ordinance, 2014. The Ordinance is effective from December 26, 2014.

Source

Back

Move towards open architecture - Irdai may Ask Banks to Sell Policies of Multiple Insurers - The Economic Times (Bangalore) – 17th February 2015

India's insurance regulator is considering making it mandatory for banks to adopt open architecture under which they will have to sell products of multiple insurance companies.

The Insurance Regulatory and Development Authority (Irdai) said this to the chief executives of about 50 insurance companies at a meeting last week. “The regulator has clearly said that they are going to make open architecture mandatory in order to give choice to customers and boost insurance penetration,“ said a private sector life insurance company's CEO, who attended the meeting.

The share of banks in total individual new business went down to 15.62% in 2013-14 from 16.18% in 2012-13, according to Irda's latest annual report. Confirming the move to make open architecture mandatory, an Irdai official said, “Making open architecture mandatory was discussed during the meeting. Irdai can ask banks to sell products of more than one insurance company.“ The regulator may ask banks to sell products of three companies, with one not exceeding 50% for the promoter company, said the official, who did not wish to be named.

Under the corporate agency tie-up, banks sell one life insurance, one non-life insurance and one specialised insurance like standalone health insurance.

If Irda goes ahead with its plan, customers will get more choice. However, many companies that have paid hefty amounts for the bank partnership are unlikely to cheer the move. Recently, the Reserve Bank of India allowed banks to become brokers if they so choose. “The broking model could provide an opportunity to the banks to increase their fee-based income while providing a greater product choice and taking on the fiduciary responsibility towards the consumers,” said Tarun Chugh, managing director and CEO of PNB MetLife India Insurance.

Broking is expensive as it involves training and educating staff. Banks will have to hire dedicated manpower since they are already short-staffed. In August 2013, Irda had released the final guidelines on bancassurance. According to the rules, business done with a promoter bank is capped at 25% while the bank can do 50% with another insurance company and 25% with the third company.

Source

Large foreign banks have entered into long-term agreements as part of regional deals which are not available to insurance companies for a longer duration.

Back

India: Regulator seeks voluntary adoption of open bancassurance – Asia Insurance Review – 16th February 2015

The insurance regulator is likely to issue new guidelines for life insurers concerning distribution tie-ups with banks, while open bancassurance architecture may be made mandatory to allow banks to sell products of more than one insurance company.

Mr TS Vijayan, Chairman of the Insurance Regulatory and Development Authority of India (IRDAI) has made it clear that voluntary compliance to "open infrastructure" is a preferred option, the lack of it could force the regulator to make it mandatory, reported Press Trust of India. "The industry can expect some guidelines regarding the same shortly," sources said.

The issue is reported to have been discussed at a meeting last week between Mr TS Vijayan, Chairman of the Insurance Regulatory and Development Authority of India (IRDAI) and 30-35 CEOs of life and non-life insurance companies. The consultative meeting was held to discuss the formulation of regulations in the wake of the issue last December of the Insurance Ordinance.

The Insurance Laws (Amendment) Ordinance 2014 was promulgated to amend the Insurance Act, 1938, the General Insurance Business (Nationalisation) Act, 1972 and the Insurance Regulatory and Development Authority Act, 1999, in accordance with the Insurance Laws (Amendment) Bill 2008. Some of the key elements of the Ordinance include increasing the foreign equity cap from 26% to 49%; allowing insurance companies to raise capital through new and innovative instruments; and empowering IRDAI to regulate key aspects of insurance company operations in areas like solvency, investments, expenses and commissions. It also substantially enhances penalty provisions to ensure compliance with the insurance law.

Source

Back

IRDAI bats for banks as brokers - Business Standard – 13th February 2015

The Insurance Regulatory and Development Authority of India (Irdai) has asked insurers to pursue an open architecture model in bancassurance. In a meeting between the insurance regulator and industry players in Hyderabad on Thursday, T S Vijayan, chairman of Irdai, said guidelines to facilitate this would be issued soon.

"The insurance regulator had allowed banks to become brokers a long time back. However, the response wasn't there," said an insurance player at the meeting. Irdai had issued guidelines for banks as brokers in August 2013. Said another: "The Irdai chairman has strongly recommended that banks work as brokers to increase the penetration."

Penetration in life insurance has been steadily declining in recent years. According to data from Swiss Re, between 2009 and 2013, life insurance penetration declined from 4.6 per cent to 3.1 per cent. For general insurance, the rise has been marginal, from 0.78 per cent in 2012 to 0.80 per cent in 2013.

"There are various ways in which this can be implemented. In some countries, an insurance company is allowed to sell five-six insurers' products. In others, commissions from our own subsidiary are capped to encourage sales of other insurers' products. Realising the importance of the banking distribution system, we had thought of dividing it geographically, in which one insurer can sell one company's product in only a certain region," said J Hari Narayan, former Irdai chairman. He, however, believes the open architecture model might be good for banks but not necessarily for customers.

This is on the heels of the Reserve Bank of India's guidelines of January 16, that banks may become insurance brokers and sell multiple products. According to the norms, a bank can enter insurance broking only if the capital-to-risk (weighted) assets ratio is 10 per cent or above and the level of net non-performing assets is three per cent or below. RBI had also doubled the net worth requirement to Rs 1,000 crore, double the Rs 500 crore proposed earlier. At present, bancassurance follows a corporate agent structure. This allows banks to sell insurance products of only one life, one general and one health insurance company each. Open architecture is when a single bank is allowed to sell products of multiple insurers from the same sector.

In the recently-promulgated insurance ordinance, the government has brought corporate agents within the definition of 'insurance intermediary', in line with brokers. "Insurance intermediary includes insurance brokers, re-insurance brokers, insurance consultants, corporate agents, third party administrators, surveyors and loss assessors, and such other entities as may be notified from time to time by the Authority," said the ordinance. Corporate agents were not defined as intermediary in the earlier definition.

Source

The call for open architecture has gathered momentum in the past couple of years, as several late entrants did not have a bank to tie-up with. Former finance minister. On December 20, 2013, a letter from the finance ministry, addressing public sector bank chief executives, said all these lenders should become insurance brokers.

Back

IRDA likely to issue new norms for insurers' bank tie-ups - The Economic Times – 13th February 2015

Regulator IRDA is likely to issue new guidelines for life insurers for distribution tie-ups with banks, while "open architecture" may be made mandatory to allow banks to sell products of more than one insurance company. The issue is believed to have been discussed today in a meeting of IRDA Chairman T S Vijayan with CEOs of various insurance companies here on 'consultation for regulatory changes" in the wake of the Insurance Ordinance.

The IRDA chief made it very clear that voluntary compliance to 'open infrastructure' was a preferred option, the lack of it could force the regulator to make it mandatory. "The industry can expect some guidelines regarding the same shortly," sources said. Under the open architecture model, banks can act as insurance brokers for more than one insurer.

Today's meeting, attended by 30-35 CEOs from life and non-life insurance companies as also a similar number of other industry executives, was called for consultation on formulation of Regulations for the Insurance Laws (Amendment) Ordinance 2014.

"It was basically on the new Ordinance which has come into force. IRDA has to frame the regulation on that and it was a consultative meeting. IRDA sought the industry opinion," said an insurance company CEO after the meeting. The Insurance Laws (Amendment) Ordinance 2014 was promulgated to amend the Insurance Act, 1938, the General Insurance Business (Nationalisation) Act, 1972 and the Insurance Regulatory and Development Authority Act, 1999, in accordance with the Insurance Laws (Amendment) Bill 2008.

Source

Some of the key elements of the Ordinance include enhancement of the foreign equity cap from 26 per cent to 49 per cent, allowing insurance companies to raise capital through new and innovative instruments and empowering IRDA to regulate key aspects of insurance company operations in areas like solvency, investments, expenses and commissions. It will also substantially enhance penalty provisions to ensure compliance with Insurance Laws by companies, which is essential to uphold the consumer interest.

Back

IRDAI to roll out mega campaign to curb mis-selling, spurious calls - The Hindu Business Line – 13th February 2015

The Insurance Regulatory and Development Authority of India (IRDAI) will be launching a pan-India awareness campaign to tackle the menace of spurious calls.

The procurement committee of the regulator had sanctioned about Rs 8 crore for a television commercial titled 'policeman', according to the minutes of its meeting held early this week. A total of Rs 10 crore was earmarked for the purpose. Of late, there has been a spurt in mis-selling and spurious calls from unauthorised and fake representatives, citing the name of reputed insurers like Life Insurance Corporation of India, asking people to make payments on false grounds.

The proposed initiative is being taken up with support from LIC as it already had empanelled agencies. An agency, Prachar Communications, has produced the commercial. A media plan to telecast the television commercial has now been approved by the committee.

Besides Doordarshan, it will be aired on 56 other English, Hindi and other regional language channels.
An additional Rs 3 crore budget was also approved for rolling out an insurance awareness campaign by advertising in Delhi Metro and other stations.

The authority is also exploring social media channels such as Facebook and mass SMS campaigns to spread awareness. It has also been noticed that there have been attempts to cheat the policyholders of some insurance companies by impersonating as representatives of the authority through fake login ids such as crc@irda.org.in, which is almost similar to the official domain, www.irda.gov.in.

Source

The modus operandi of the fraudsters is to send fictitious offers of large sum of money by e-mail posing as IRDAI's officers.

Back

Life Insurance

Life Insurance industry is ready to shift gears in 2015 - The Economic Times (Bangalore) – 18th February 2015

The life insurance industry has seen several phases since the entry of private players into the sector at the turn of the millennium. Hence, before we talk about 2015, it is worthwhile spending sometime on the years that have preceded it.

Broadly, these can be classified under three phases. The first phase was one where private players started to establish themselves in the marketplace. The second phase coincided with the growth in the equity market where new business premiums grew on the back of investment-linked product selling. This was a phase when insurers, regulators and customers believed nothing could go wrong. More insurers and distributors entered the industry, increasing the reach of insurance products multi-fold.

In hindsight, a major proportion of the growth trajectory was based on `riding the wave' and left several customers dissatisfied once the global financial crisis hit home. So it was not surprising that just as the party had got going, the regulator stepped in to take away the punch bowl. This in effect laid the stage for phase three, which has lasted longer than most industry watchers would have expected.

Regulatory intervention is now taken as a fait accompli post the tectonic shift in regulations since 2010. Margins of Indian life insurers companies are amongst the lowest in the world. Several agents exited the industry in its aftermath as their earnings ability declined. An industry that prided itself on bringing protection to individuals and households saw a long phase of stagnation in new business premium collections.

But as they say, one tends to learn more from one crisis than from multiple successes. Phase three also helped segregate the men from the boys. You could clearly see the large private players breaking out of the pack as market share started to polarize in their favour. These are players who today are in a position to innovate and offer a balanced product mix to consumers. New segments such as term plans, annuities, health plans, low-cost Ulips have started to reignite growth for them.

These players have the ability and financial muscle to invest in improving processes, next generation technology and digitisation. They players have the wherewithal to reach out to customers and manage high persistency levels and drive growth through renewal premiums.

Large private players now have well-known brands which can compete in most markets with the market leader as a new set of consumers enter the insurable population. These players are also well integrated with bancassurance partners besides having a diversified channel mix. We have already seen the market share of this segment grow in the current financial year and this should pick up more steam in 2015.

As the cost of regulation becomes even more onerous through further caps on expense management, insurers will need to fine-tune their business models further. As we exited 2014, an As we exited 2014, an ordinance of insurance laws (amendment) was issued by the government. Beyond the head line on increasing foreign investments to 49%, the ordinance offers more teeth and flexibility to the regulator to frame guidelines around commissions and expenses, customer experience management and citizen charters, claims settlement, and so on. This would require insurers to be nimble enough to adjust their business processes.

As the industry starts to attract more foreign capital and if a few insurers decide to go in for a public listing, there will be a need for the players to disclose more financial and non-financial data than what is required currently. This will increase the levels of transparency and the understanding of how an insurance industry operates amongst analysts and the media.

I believe the industry should be able to sustain a smooth upward growth curve growing at 12-15% CAGR over the next five to six years on the back of relatively stable economic policy and industry regulations. 2015 could potentially be that year when we see a distinct shift to the next phase of the life insurance industry.

Source

Back

India: Life insurance ticket sizes growing – Asia Insurance Review – 17th February 2015

The ticket size in the life insurance sector is growing, with the average premium per policy in the case of regular policies soaring by 79% to INR17,320 (US$279) during the April-December period in 2014, according to data analysed by the Financial Chronicle newspaper.

The average premium per policy for the government-owned Life Insurance Corporation of India (LIC), grew by 62% to INR11,582 during April-December 2014. The ticket size for private life insurers increased by 30% to INR35,288 during the same period. Several reasons are advanced for the increased ticket sizes.

Mr Rajesh Sud, Chief Executive Officer and Managing Director of Max Life Insurance, said: "During the current financial year, the sales of Ulips (unit linked insurance plans) have increased across all the leading companies ...This has been driven by a general mood of optimism due to a stable government at the centre and a significant upside in stock markets. It has been observed that the ticket size is always higher in the case of Ulips as compared to traditional products."

Mr Arnav Pandya, a certified financial planner, attributed the bigger ticket size to a higher tax exemption limit. As a result, tax savers who have a fondness for insurance are buying a higher amount of insurance.

Mr Sandeep Ghosh, Managing Director and Chief Executive Officer of Bharti Axa Life Insurance, said: "In our case it is not Ulips or the tax limits that have helped us increase the ticket size. We are consciously working with our distribution partners targeting the middle income and affluent segments. Besides, we are also focussing on need-based selling and technology that have helped increase the ticket size."

Source

Back

Ulips, tax sops may arrest fall in life insurance biz - Financial Chronicle – 15th February 2015

Higher I-T deduction limit and increasing demand for unit-linked plans likely to reverse declining trend seen in 2014-15

A higher income tax deduction limit and a sustained stock market rally driving sales of unit linked insurance plans (Ulips) could arrest the declining penetration of life insurance in 2014-15, according to top officials of several companies.

Anuj Agarwal, managing director and chief executive officer, Bajaj Allianz Life Insurance told Financial Chronicle, "Since insurance is sold as an investment product, with the stock market rallying, the sale of Ulip policies has increased. In addition, a higher income tax deduction limit (under Section 80 C) announced last budget could also boost sales.

"The January-March quarter is important for life insurers as most of the buying happens during this period. The Irda has also been taking several measures on increasing insurance awareness. All these steps are likely to arrest the declining trend in insurance penetration in 2014-15."

With the Sensex giving more than 20 per cent returns since May 2014, private life insurance players promoted by banks or who have banks as distributors saw a strong growth in individual business (adjusted for 10 per cent single premium) driven by Ulip sales. For instance, ICICI Prudential Life Insurance logged a growth of 37 per cent to Rs 3,153 crore during the nine months in terms of individual adjusted premium and SBI Life grew eight per cent to Rs 2,306 crore, HDFC Life Insurance grew 34 per cent to Rs 2,066 crore and Max Life insurance surged 15 per cent to Rs 1,552 crore. The private life insurance players saw individual first-year premium grow by 11 per cent to Rs 1,2571 crore. The growth in individual first-year premium adjusted for 10 per cent single premium during April-December 2014 for the life insurance industry was -20 per cent to Rs 26,362 crore.

LIC's growth fell by 36 per cent to Rs 1,3791 crore during April-December 2014. The total premium (individual and group business) during April-December 2014 for private players grew 17 per cent to Rs 22,110 crore, LIC's growth declined by 21 per cent to Rs 51,667 crore while the total industry fell by 13 per cent to Rs 73,777 crore during the nine months ended December 31, 2014.

The ticket size or the average premium per policy is growing strongly. The average premium per policy in case of regular premium policies has grown by 79 per cent for the life insurance industry to Rs 17,320 during April-December 2014. While announcing the budget for 2014-15, finance minister Arun Jaitley raised the income tax deduction limit on investments in Section 80C instruments from Rs 1 lakh to Rs 1.5 lakh.

Insurance is among the most popular instruments that people buy to avail deduction under Section 80C. Moreover, according to the revised insurance product regulations 2013, the life cover has also been doubled. Thus for people below 45 years, a life insurance policy needs to have a cover of 10 times the annual premium to qualify for tax deduction benefit. For people above 45 years, an insurance policy should have a cover of seven times the annual premium to qualify for tax deduction.

"If the government creates a separate tax limit for buying insurance and does away with tax on annuities, it would further help increase insurance penetration," added Agarwal. In the first decade of insurance sector liberalisation, one saw an increase in penetration from 2.15 per cent in 2001 to 4.60 per cent in 2009. Since then, it has exhibited a declining trend reaching 3.1 per cent in 2013.

A similar trend was observed in the level of insurance density that reached the maximum of $64.4 in the year 2010 from the level of $11.5 in 2001. During the year under review (2013), the insurance density was $52.0. The density of life insurance business had gone up from $ 9.1 in 2001 to reach the peak at $55.7 in 2010. During 2013, the level of life insurance density was only $41.

Over the past 10 years, the penetration of non-life insurance sector in the country remained steady in the range of 0.5-0.8 per cent. However, its density has gone up from $ 2.4 in 2001 to $ 11.0 in 2013. The measure of insurance penetration and density reflects the level of development of the sector in a country. While the penetration is measured as the percentage of insurance premium to GDP, the density is calculated as the ratio of premium to population (per capita premium). At the end of March 2014, there are 53 insurance companies operating in India; of which 24 are in the life insurance business and 28 in the non-life segment.

The life insurance industry had recorded a premium income of Rs 3,14,283 crore during 2013-14 as against Rs 2,87,202 crore in the previous financial year, registering a growth of 9.43 per cent (0.05 per cent growth in previous year). While private sector insurers posted 1.35 per cent decline (6.87 per cent fall in the previous year) in their premium income, LIC recorded 13.48 per cent growth (2.92 per cent growth in previous year).

The Irda annual report blamed low financial literacy level, low insurance awareness and absence of private players in most districts as the reason for low non-life insurance penetration. Rakesh Jain, managing director and chief executive officer, Reliance General Insurance said, "We lack distribution. Customers have to be reached out to. We need to create awareness and choices for customers to increase non-life insurance penetration."

"When compared with life insurance, the proportion of districts covered by non-life insurers is less. While the four public sector non-life insurers have offices in 601 districts, out of 640 in the country (94 per cent), the private sector players cover only 45 per cent of the country by having offices in 286 districts," said the IRDA Report.

There are 39 districts (six per cent of districts) in the country, which do not have any non-life insurance office. Private sector insurance offices have not yet opened any offices in 354 districts. Further only 19 states/Union territories (out of 35 states/Union territories) have non-life insurance offices in all of their districts. "This lower level of coverage of districts by non-life insurers might also have led to the low non-life insurance penetration in the country, as compared to penetration of life insurance," rued the Irda annual report 2013-14.

Ritesh Kumar, managing director and chief executive officer, HDFC Ergo General Insurance said, "Health penetration is low, but for de-tariffing it would have been higher. Third party motor insurance is being offered at subsidised rates. Rural penetration is at 0.2 per cent of GDP and therefore we require distribution reforms besides product reforms."

There are several initiatives from IRDA that could boost insurance penetration. For instance, 'Licensing of Insurance Marketing Firm Regulations 2014' would be introduced in the coming months to encourage young entrepreneurs and also industry veterans to take up insurance distribution. Irda is also using a strategy of publicity and consumer education encompassing both in-house programmes and supporting/sponsoring external programmes to promote insurance awareness. During FY 2013-14, Irda took a number of consumer education initiatives under the brand name Bima Bemisaal.

The Life Insurance Council has rolled out Irda's Common Service Centre (CSC) SPV Model, where village-level entrepreneurs (more than 100,000 across the country) are likely to be allowed to sell insurance products of any company. This would help in rural penetration in a big way.

The Indian economy continued to witness a modest growth of 4.7 per cent during 2013-14. As per the RBI annual report 2013-14, the household financial saving remained low at 7.2 per cent of GDP in 2013-14 compared to 7.1 per cent of GDP in 2012-13 and 7.0 per cent of GDP in 2011-12. The gross domestic saving rate as per central statistics office's (CSO's) estimates declined to 30.1 per cent in 2012-13 from 31.3 per cent in 2011-12, mainly on account of a decline in the rate of household physical savings. The rate dipped to the lowest in the past nine years and has accentuated macroeconomic imbalances.

The household saving rate had generally hovered around 23 per cent since 2003-04. Following a one-off sharp increase to 25.2 per cent in 2009-10, it declined to 21.9 per cent in 2012-13.

As per the Swiss Re Global Insurance Report, the prospect for life premium growth is expected to resume in the advanced markets and improve in the emerging ones. The firming economy and labour markets in North America and Western Europe will support growth in life and non-life; and growth should hold up in emerging markets also. In the life sector, China and India in particular could see notable strengthening in premium growth.

Source

Back

General Insurance

Accident claims: Centre may soon cap insurers' liability - The Hindu Business Line – 17th February 2015

The Centre plans to go ahead and fix a limit on the liability arising from road accidents in a move that will come as a relief to insurers facing heavy losses from third-party motor insurance.

The Centre first mooted the idea in the draft Road Transport Safety Bill released last year, where it mentioned the need to fix the maximum liability limit in consultation with the insurance regulator and proposed steep penalties and fines for driving violations. After stiff opposition from transporter associations, the latest draft of the Bill released recently has moderated the penalties for driving violations but retained the maximum liability provision. It also proposes that vehicle owners buy additional insurance cover to protect themselves from additional liability.

Current provisions allow unlimited liability as decided by courts. In the case of road accidents, compensation as high as ₹50 crore has been awarded, depending on parameters such as income and future earnings potential of the victim.

"Having a maximum liability limit in third party motor insurance will help moderate the premium increases," said Vijay Kumar, Chief Technical Officer (Motor Insurance), Bajaj Allianz General Insurance, pointing out that while the value of claims rose by about 25 per cent every year, the increase in premium fixed by the regulator rose only by about 10 per cent.

Insurers are also seeking a 40 per cent increase in third party motor insurance premiums this year as they have been bleeding with a claims ratio of around 120 per cent and estimated losses of ₹12,000 crore.

Limiting time provision

Amitabh Jain, Head — Motor Underwriting and Claims, ICICI Lombard, said limiting the time-period in reporting the claim was an important provision in the Bill, as otherwise it not only increases the chances of fraudulent claims but insurers also cannot estimate the liabilities that they might face in the next few years.

Third-party motor insurance coverage is mandatory by law and the premium is decided by the Insurance Regulatory and Development Authority.

Madhukar Sinha, National Head — Personal Lines at Tata AIG, said restricting the liability will ensure that vehicle owners are more concerned about their driving habits, helping reduce the number of accidents.

Source

A possible reduction in insurance premiums will also help address the issue of the large number of uninsured vehicles, said Mukesh Kumar, Executive Director, HDFC ERGO General Insurance.

Back

Companies struggle to get deposit insurance - Business Standard – 13th February 2015

Even though the Companies Act 2013 mandates companies to have deposit insurance for deposit schemes, they are still struggling to find an appropriate product in the market. Insurance companies consider this a risky proposition, due to which no such product is being sold in the market. Presently, deposit insurance is only offered to banks through the Deposit Insurance and Credit Guarantee Corporation (DICGC), a wholly owned subsidiary of Reserve Bank of India (RBI).

The companies through industry chambers and bodies have approached the corporate affairs ministry to initiate a process wherein an insurance cover can be offered to them also. Senior officials of the ministry of corporate affairs (MCA) said that they had written to both RBI and insurance regulatory and development authority of India (IRDAI) to seek a solution to this issue, after industry bodies sought insurance covers for the non-bank companies too.

The insurance regulator was also asked, said MCA officials, if they could request insurance companies to launch such policies for these corporates. All commercial banks including branches of foreign banks functioning in India, local area banks and regional rural banks are insured by DICGC.

DICGC insures all deposits such as savings, fixed, current, recurring deposits except deposits of foreign governments, deposits of central/state governments, inter-bank deposits, deposits of the state land development banks with the State co-operative bank among others.

Each depositor in a bank is insured up to a maximum of Rs 1 lakh for both principal and interest amount held by him in the same right and same capacity as on the date of liquidation/cancellation of bank's licence or the date on which the scheme of amalgamation/merger/reconstruction comes into force.

Deposit insurance premium is borne entirely by the insured bank. If a bank goes into liquidation, the DICGC is liable to pay to each depositor the amount of his deposit up to Rs 1 lakh within two months from the date of receipt of claim list from the liquidator.

Meanwhile, IRDAI officials have said that deposit insurance will be offered by insurance companies only if it is commercially viable for them. Insurance companies will not be mandated to offer a cover. The General Insurance Council, the umbrella body of the non-life insurance companies, is working on mechanisms to resolve this situation. They would look into whether such a product would be viable and what would be its pricing among other issues.

Insurance company executives said that there is an issue of financial failure, due to which they are not very comfortable with launching such a product. A senior general insurance company official added that there were high risks associated with the product and if they were mandated to launch products, large claims would affect their books.

Moreover, it is difficult to gather an estimate of the amount raised through deposit schemes as the companies which are involved in it are from diverse areas and completely spread out, said V. Balaji, Partner, Deloitte Haskins & Sells.

The corporate affairs ministry had said last year that in view of the suggestions received from the stakeholders to give transitional period for complying with the deposit insurance requirements, the amendment in the relevant rule has been made, allowing companies to accept deposits without deposit insurance for one year, till March 31, 2015. Experts are of the opinion that MCA will have to extend this deadline for one more year as there are no products available.

Source

However, even as the deadline is just a few weeks away, there is no clarity on who would be the appropriate body to provide the cover. Insurance companies are not too keen to provide a cover on an immediate basis.

Back

Longer-term motor policies could be cheaper - Business Standard – 13th February 2015

Motor insurance policyholders are likely to get three-year term comprehensive insurance products soon. With the Insurance Regulatory and Development Authority of India (Irdai) allowing insurers to come out with these products for two wheelers, a number of companies have already starting filing for this product. Till now, policyholders had to renew the policy every year. Comprehensive motor policies include motor third party (TP) and motor own damage (OD) policies. After two-wheelers, long-term motor products for private cars might also be allowed by the end of this year with similar conditions.

The good news is that the new products might turn out to be cheaper. “The product would be priced at least 2.5 times higher than regular premiums for one-year products on an average. This is accounting for claims in that segment, historical data and other losses,” said the head of claims in a private general insurance company. New India Assurance, India’s largest general insurer, has already got the regulator’s nod for a comprehensive two-wheeler policy with a term of three years. This will be launched after a few weeks. Here too, the pricing is expected to be twice or above that of the one-year product. While the OD segment covers losses to self during accidents, motor TP covers liability to a third party caused by a vehicle owner during an accident.

The regulator also said the premium would not be revised upwards or downwards during the period of the policy. While a three-year policy means no requirement for renewals every year, it also means there would be no change in premiums on a yearly basis. Hence, insurers would price the product taking into consideration the future expected claims and inflation, if any. Since three-year products’ premium will be paid at one go, this might work out cheaper if insurers price it at two or 2.5 times the existing one-year premium. Buying such a policy will also insulate the policyholder from any rises that the insurer might introduce on an annual basis.

However, insurers might bring in changes in the way add-on covers are tackled now. Some insurers said that given the longer-term nature of the products, add-on covers to these three-year policies would be limited in nature and they would be priced at a premium compared to one-year policies. There could be variants as well, in terms of both plain vanilla comprehensive long-term covers with third-party and OD facilities, apart from those with a higher personal accident variable.

Source

Irdai had said the total premium charged for the TP coverage would be three times the annual TP premium for two-wheelers, as decided by the regulator. Motor TP premium is regulated by Irdai and the regulator brings out revised rates for these policies every year, based on the claims experience. TP motor insurance is mandatory in India.

Back

India: Insurers wary of 3rd party auto cover market-share rule – Asia Insurance Review – 13th February 2015

The insurance regulator is proposing that each general insurer in the country conduct third-party motor liability business in proportion to the insurer's market share, heightening apprehension in the insurers which are already weighed down by losses in the class of business.

The move, which follows the issuance last December of an Insurance Ordinance, would increase the underwriting losses of the insurers, as the third-party motor portfolio is already a loss-making business, reported The Economic Times. On average, the claim outgoing is almost 130% for the portfolio.

"General insurers have to conduct the third-party motor business mandatorily to the proportion of their market share. If one company has a 10% market share, then this cover must also be in that proportion," Mr TS Vijayan, Chairman of the Insurance Regulatory and Development Authority of India, said recently.

Reliance General Insurance's CEO, Mr Rakesh Jain, told The Economic Times: "We provide cover under third-party motor cover to the tune of 4%, while our market share is only 3.5%. We feel that this segment requires a proper correction in the premium price as this segment is critical for us."

Source

Tata AIG General Insurance has asked for a white paper on third-party motor liability insurance, to help the industry understand the segment well, said the insurer's Chief Executive, Mr KK Mishra.

Back

Reinsurance

State-owned GIC Re to foray into US market - The Economic Times - 12th February 2015

At a time when global reinsurers are lining up to open their branches in the country, state-owned reinsurer GIC Re has decided to make a foray into the US, world's largest general insurance market. "We are also in the process of having a branch operation in the US. It is fiercely competitive yet a profitable market," GIC Re chairman and managing director A K Roy told. GIC Re has already established a sound base in SAARC countries, Africa and Latin America. GIC Re's global operations contribute 50 per cent of its premium income and the US operations will help strengthen its global presence.

"Soon we will have a branch operation in Brazil and through our new acquisition in South Africa, we would like to be the market leader in Africa," Roy said adding "our plan to acquire a syndicate is very much on and it would be completed after getting the right company. The company has to be available for us to buy out and it should suit our budget."

The global reinsurance is growing highly competitive. Only those will survive who are big. Survival for smaller companies going to be more difficult now, he said. GIC Re is repositioning itself in the Indian market after the Insurance Ordinance allowed the entry of global reinsurers into the country. "Considering the future Indian growth scenario and slow revival of global growth, we are working out strategies to increase our exposure in the Indian market beyond the current 50 per cent level. If Indian economy can grow at 7-8 per cent, the domestic general insurance industry can expand at 15-20 per cent, pushing the country's reinsurance market growth to over 30 per cent y-o-y," Roy said. The insurance ordinance allows the global reinsurers to open their branches in the country.

Source

"All the global reinsurers are already present in the country with their representative offices. They are doing the business for past two decades even without having branches. We will be competing with them. So, there is nothing new for us in the ordinance. We have rather welcomed their arrival on our soil with branches," he said.

Back

IRDAI Circular

Source

IRDAI upload the circular regarding Transitory Investment Provisions - The Insurance Laws (Amendment) Ordinance, 2014 to the CEOs of all Insurance Companies.

Back

Global News

Vietnam: Insurance mart forecast to grow by robust 12.6% this year – Asia Insurance Review

The Insurance Supervisory Authority (ISA) has forecast that the insurance market will attain a two-digit growth rate this year. Premiums are expected to reach VND59.3 trillion (US$2.79 billion), increasing by 12.6% from 2014. Premiums for non-life insurance are expected to increase by 10% and life insurance by 15%.

The insurance industry restructuring process this year will focus on creating policies and regulations, according to the ISA. The Ministry of Finance will issue guidelines on the implementation of micro insurance products, as well as propose guidelines related to construction insurance, reported the Vietnam News Service.

Mr Back Jong Kook, General Director of Hanwha Life Vietnam, said that there were three reasons to be optimistic about the insurance sector this year: the growing middle class, the Vietnamese government's preferential tax policies and more diversified and high-quality insurance products.

In 2014, several restructuring measures were implemented. They included enhancing insurance companies' financial solvency and investment efficiency, expanding insurance business activities, implementing management and governance activities and improving insurance product quality. The ISA completed classifying insurance companies into groups in line with their ability to meet solvency ratios.

Last year, the insurance industry reported total premiums of VND52.7 trillion, representing a year-on-year increase of 14.2%. The non-life insurance market expanded by 10.5% while the life insurance sector grew by 18%.

Source

Back

China: Transition to implementation of new solvency system starts - Asia Insurance Review

The transitional period to the full adoption of China's second generation solvency regime, called the China Risk Oriented Solvency System (C-ROSS), has begun, announced the China Insurance Regulatory Commission (CIRC).

The transitional period started on 13 February when C-ROSS regulations were published, said the regulator in a notice to insurance companies. During the period, insurance companies are to submit solvency reports in a parallel run, that is, both in accordance with the existing solvency regulations and with C-ROSS. CIRC will decide when to adopt C-ROSS in full, based on the experience obtained during the trial period.

CIRC said that as the implementation of C-ROSS is a complicated process, each insurance company should set up a task force by the company chairman or general manager and made up of personnel from the finance, actuarial, risk management, investment, business and information technology and other related departments. This is to ensure the smooth implementation of the new system.

C-ROSS aims to ensure the solvency of China's insurance industry while improving its overall competitiveness, and promote risk management across the industry. It adopts a qualitative supervisory approach complementing the quantitative assessment of an insurance company's solvency position. The new solvency system also promotes capital efficiency by linking capital requirements more closely to risks, with the valuation of assets and liabilities reflecting actual risk profiles.

Last month, Mr Chen Wenhui, a CIRC Vice Chairman said that the implementation of C-ROSS would allow insurers to release redundant capital totalling CNY550 billion (US$87.9 billion). The life insurance industry would be able to release CNY500 billion in excess funds while the non-life insurance sector would find that CNY50 billion is redundant capital.

Source

Back

South Korea: Insurers' net gains jump by 16.9% in 2014 - Asia Insurance Review

South Korean insurance companies saw their net income jump 16.9% last year from a year earlier on the back of increased investment-related earnings, according to the financial watchdog, the Financial Supervisory Service (FSS).

The combined net income of local life and non-life insurers reached KRW5.6 trillion (US$5 billion) in 2014, compared with KRW4.8 trillion the previous year.

Life insurers posted a 15.7% on-year rise in their net profit to KRW3.2 trillion last year, while non-life insurance firms' net profit surged by 18.5% year-on-year to KRW2.4 trillion, reported Yonhap News Agency.

The FSS said that the strong bottom line was largely due to increased income from investments, as life insurers earned a combined KRW21.5 trillion from investments last year, up by 7.2% from a year earlier.

Non-life insurance firms did better, logging a 16.3% on-year gain in investment returns over the same period to KRW5.7 trillion.

Source

Australia: P&C insurers see improved profitability - Asia Insurance Review

Australian property and casualty (P&C) insurers have recovered from the significant catastrophe losses recorded in 2011, but the industry faces some cyclical challenges in the year ahead, according to Moody's Investors Service.

"We've seen profitability steadily recovering, although the recent Brisbane storms will temper some of that improvement," said Mr Frank Mirenzi, a Moody's Vice President. "Still, relatively benign weather conditions since 2011, coupled with disciplined underwriting and comprehensive reinsurance programmes, have supported insurers' profitability and balance sheets."

In its sectoral profile titled "Australian Property and Casualty Insurance Industry", Moody's notes that on average, since 2008, payments from reinsurers have reduced the gross claims paid by general insurers by 22%. Falling reinsurance premium rates also provide more pricing flexibility for primary insurers, allowing them to pass on cost savings to consumers.

These positives are reflected in the industry's combined ratio, currently at a historical low, in addition to the industry's relatively homogenous motor and home insurance products, which support appropriate pricing and management of underwriting risks.

In addition, Australian P&C insurers maintain relatively healthy balance sheets, with conservative investment risk profiles and low financial leverage. The industry's regulatory capital position has steadily improved following recent years of strong profitability.

"But we note that slowing premium growth, rising competition for motor and home insurance clients, and low interest rates will challenge the industry," added Mr Mirenzi. "Recent data and industry surveys suggest that premium rates are softening as smaller competitors offer significant premium discounts to win business."

In addition, increasing exposure to higher-risk assets may pressure capital and profitability, says Moody's.

The Australian P&C insurance market is led by four large players that together account for 65% of premiums. The largest individual risk product lines are primarily short-tail personal lines, with motor and home insurance accounting for 23% and 22% of premiums. Long-tail commercial lines are well diversified across a large number of different product lines.

Source

Back

Indonesia: Insurance policy protection plan being worked out - Asia Insurance Review

Details for the protection of insurance policies in Indonesia are currently being discussed, including the likelihood of the Finance Ministry appointing the Deposit Insurance Corporation (Lembaga Penjamin Simpanan or LPS) as the designated institution dealing with insurance policy protection for general and life insurance companies.

At present, LPS provides protection for bank deposits with a maximum limit of IDR2 billion (US$156,000) and for those that do not exceed the LPS rate for each customer. LPS's Eexecutive Chairman Mr Kartika "Tiko" Wirjoatmodjo said that the ministry had not made an official statement related to expected appointment, reported The Jakarta Post. "However, the ministry has signaled the LPS will become the agency that protects insurance policies," he added.

Insurance policy protection has become part of the country's future integrated protection plan proposed by the LPS to ensure customers' funds in financial institutions will be protected under one roof. The establishment of an agency to protect insurance policies is mandated in the country's new Insurance Law, even though the law stipulates the body will not commence its activities within the next three years. According to Mr Tiko, LPS will work out details of protection measures for insurance policies, which will be different than the bank deposit protection scheme.

"We're still discussing with the Financial Services Authority [OJK] and the insurance industry regarding the best design to protect insurance policies, because the activity will be a lot different from what we do now," he said. Data from the Indonesian Life Insurance Association (AAJI) and the Association of Indonesian General Insurance Companies (AAUI) show that there are 47 life insurers and 80 general insurance companies across the country.

Source

AAUI executive director Julian Noor said that many details regarding the insurance policy protection mechanism require further discussion, especially for general insurance, which has a different model of business to life insurance.

Back

China: Rate reform starts today for universal life policies - Asia Insurance Review

China's insurance regulator has liberalised interest rates offered on universal life insurance policies, in the second step it is taking in personal insurance rate policy reform.

China Insurance Regulatory Commission (CIRC) said last Friday that with the approval of the State Council, it is abolishing the guaranteed minimum interest rate of 2.5% on such life insurance products with effect from today.

CIRC said that, henceforth, insurers will determine the minimum guaranteed interest rate based on product characteristics, degree of risk, as well as solvency and reserve requirements. The higher the guaranteed interest rate offered by an insurer, the higher the need to provide for reserves, it said.

In August 2013, in the first step towards interest rate liberalisation in insurance, CIRC eliminated the upper limit of 2.5% on pre-determined rates for standard life insurance products.

Source

CIRC said that the next step would be for it to remove the 2.5% limit on participating life insurance products, so that life insurance rates would be fully market-oriented.

Back

Cambodia: Insurance sector grows at fastest pace in 2014 - Asia Insurance Review

Cambodia's insurance sector increased its revenue by the fastest rate of 26.7% to US$53 million for 2014 compared to the previous year, according to a report released by the Insurance Association of Cambodia (IAC). The nascent insurance market has grown by double digits every year since 2009.

With premiums of US$18 million, fire insurance remained the largest portion of the total revenue, rising 32% year-on-year, and comprising a third of total intake, reported the Cambodia Daily citing the association's report. Engineering, health, motor vehicle, personal accident and miscellaneous premiums grew at 12-21% in 2014.

Marine cargo insurance premiums grew by 316% compared to the year before, but at US$2.9 million made up just 13% of total revenue. Mr Oeurn Chanvisoth, secretary-general of IAC, said that the growth in marine-cargo insurance was due to surging demand for imported vehicles. The industry paid out a total of US$18.3 million in claims last year, or 34.6% of revenue, on par with 2013.

Source

Mr Ty Atith, director of operations at Cambodia Reinsurance, said the growth in the sector last year beat his firm’s expectations. He cautioned that profit margins in the health and motor vehicle insurance sectors could start to shrink due to the high rate of road accidents, and that competition among the country’s seven insurance firms would keep premiums low.

Back

US P&C market to be stable and profitable in 2015 - www.reactionsnet.com

The commercial property/casualty insurance market in the US is likely be stable and profitable this year, according to a new report from Wells Fargo Insurance. The report noted that abundant capacity and an improving US economy is fuelling positive market conditions.

"With record high market capacity and improving economic conditions, the commercial insurance industry is positioned for an extended soft market in 2015," said Kevin Brogan, head of the property and casualty national practice at Wells Fargo Insurance.

"Despite rate reductions - forecast to be in the high single to low double digits - the market should see sustained underwriting profitability and attract new capital as a result of GDP growth and rising interest rates."

The report found that casualty rates for primary general liability and auto liability and workers' compensation could decrease by 5% to 10%. It added that policyholder surplus continues to rise as the market has ample capacity in all but the most challenging of industries, such as life sciences, energy and chemical companies.

Despite continued underwriting discipline, insurers are well-capitalised and competition is increasing across all liability lines, said the report. For property, Wells Fargo said that significant premium reductions will be achievable in almost all classes.

But for commercial catastrophe lines, premiums may be close to their lowest possible level. "From a cost of capital perspective, catastrophic property pricing may be getting near a floor when contemplating required returns and carrier expenses," said the report. "While there remains an abundance of capacity, the models along with these capital requirements may slow some of the decreases in that arena.

Source

In the professional risk market, the report notes that buyer friendly market conditions will largely continue. It anticipates stable or improved pricing in 2015, combined with ongoing improvements in coverage terms.