Weekly e-Newsletter

Insurance Institute of India

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Newsletter

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Life Insurance

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News	Life insurers in deficit can declare bonus till 12 yrs
Newspaper	Financial Chronicle
Source	http://www.mydigitalfc.com/insurance/life-insurers-deficit-can-declare-bonus-till-12-yrs-435

The Insurance Regulatory and Development Authority (Irda) has decided to allow private life insurers to declare bonus to policyholders for another two years where the life fund is in deficit. Prior to this, private life insurers could declare bonus up to 10 years from the commencement of operations.

After the industry got privatized in 2001, the regulator had allowed companies to declare bonus up to five years, which was ex tended to seven years, then to 10 years and now up to 12 years of operations.

While laying down the condition of five years, it was expected that after five years, the operations of the life insurers would have stabilized, thereby, enabling declaration of bonus from generation of surplus within the life fund, without recourse to contribution from the shareholders. But this did not happen and life insurers took 12 years to breakeven due to high expenses.

News	Wary of assured returns rider, insurers avoid pension products
Newspaper	Hindustan Times
Source	http://www.hindustantimes.com/business-news/CorporateNews/Wary-of-assured-returns-rider-insurers-avoid-pension-products/Article1-834000.aspx

Private insurance majors have shied away from launching individual pension policies in the current fiscal after the Insurance Regulatory and Development Authority (IRDA) made it mandatory for them to offer a guaranteed return of 4.5%. The total number of individual pension policies sold in the current fiscal year (till December 31) has dropped to 0.1 million from 3.4 million in the year-ago period. The drop in such products is also said to have hit the life insurance sector's overall growth in 2011-12, sources said.

Total premium collected during the first nine month period of the current fiscal year also decreased by 3% to R1, 80,240 crore from R1,86,396 crore , according to data released by the Life Insurance Council.

Pension products constituted 25-30% of the total premium collected by the industry. In 2009-10 around R65,000 crore came from the sale of pension products — representing a quarter of the total premium collection of R2,61,025 crore.
"The new pension attempted to provide choice in the way insurers should provide guarantees on pension products," said V Viswanand, director and head, products and persistency management, Max New York Life Insurance. "However the choice of providing a guaranteed annuity rate at the time of purchase of the deferred annuity contract is a guarantee that is difficult to assess, quantify, mitigate and manage due to the uncertainty associated with longevity risk and interest rate risk."

Companies would have to move away from equities and increase debt exposure, in case they have to provide guaranteed returns. “This would affect profitability,” he said.

Firms have said that to provide a guaranteed return of 4.5%, companies would have to earn about 6.75%-7%.

Insurance companies also held that an underdeveloped long-term debt market offers limited options for them to park their money that would ensure a steady risk-free return for tenures extending up to 30 years.

According to regulatory requirements, companies were mandated to adhere to the new ULIP norms by September 2010.

General Insurance

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News	Motor insurance premium rates to go up from 1 April
Newspaper	Mint
Source	http://www.livemint.com/2012/04/01163647/Motor-insurance-premium-rates.html

New Delhi: Owners of cars, commercial vehicles and two-wheelers will have to pay more towards insurance with enhanced motor insurance rates coming into effect from Sunday. The premium rates for third party motor insurance in certain cases will go up by as much as 40% from 1 April, 2012, as per the notification of the Insurance Regulatory and Development Authority (Irda).

The Irda had earlier announced that the new rates of third party motor insurance premium would be revised at the end of every fiscal year.

Third-party insurance cover protects the vehicle owner from any financial liability, in case of damage to life or property in an accident to the third person.

As per the new rates, private car owners would have to pay premium depending on the size of the vehicles. The hike would be in the range of 6-40%. Owners of cars up to 1,000 cc engine capacity will have to shell out a third party premium of Rs. 784. It would be Rs. 925 for cars with engine capacity of above 1,000 cc and up to 1,500 cc. For cars exceeding 1,500 cc, the premium rate will be Rs. 2,853 per year.

The Irda also notified the enhanced premium rates for vehicles such as trailers, four-wheeler passenger carriages (depending on their engine capacity and seating capability), motorised two-and three-wheeler vehicles for carrying passenger for hire among others.

The Irda has also asked the insurers to ”ensure that motor third party insurance is made available at their underwriting offices”. Earlier in December, the insurance regulator had decided to scrap the common pool used by insurers to settle accident claims. The pool was formed in early 2007 to ensure availability of third-party cover for commercial vehicles that had been refused third-party insurance. The major public and private sector insurance players have been demanding abolition of the third party insurance pool, arguing that the arrangement for sharing claims was denting their profits.

Insurance Regulation

Top

News	Irda seeks revision of new tax norms
Newspaper	Mint
Source	http://www.livemint.com/2012/04/02001531/Irda-seeks-revision-of-new-tax.html

Mumbai: To keep insurance affordable for middle-aged and older individuals, India’s Insurance Regulatory and Development Authority (Irda) is seeking a review of two key decisions announced in the national budget.

The regulator will meet finance ministry officials on 4 April to seek a revision of its decision to levy 18% minimum alternate tax (MAT) on insurers and to allow tax rebates only if the sum assured is at least 10 times the annual premium.

At present, there is no MAT levied on the business of insurers, and a policy with sum assured as minimum five times the annual premium, up to Rs1 lakh, is eligible to get tax rebate under Section 80CC.

“If the new rules are to be implemented in the current form, policies for the middle-aged and older individuals will be deprived of tax benefits. Again, at the time of maturity, they would be taxed,” said J. Hari Narayan, chairman of Irda. “This is a genuine concern and we are taking up the issue with the finance ministry to examine ways of dealing with the matter.”

“There is a flaw in the Finance Bill with regards to the announcement on linking tax rebates to only certain categories of life insurance policies,” he added. “The ministry should let Irda decide on matters related to sum assured and premium.”

Irda’s presentation to the ministry will follow its discussion with the insurers last week.

“Policyholders, especially those above 40, will be doubly-taxed if the new rules were to be followed. This may deter the sales and growth of the industry. We have discussed the issue and it is likely to be resolved soon,” said S.B. Mathur, secretary, Life Insurance Council, the representative industry body.

The new rules will discourage middle-aged and older individuals from buying life insurance policies as they will become expensive. If they were to avail a tax benefit, the sum assured under the policy will have to be increased without increasing the annual premium. But if that is done, such policies will no longer conform with the mortality rates.

This liability mismatch could pose a serious systemic risk for the industry.

For instance, the risk cover component for a 45-year-old and a 30-year-old policyholder will be different. For a given sum assured, say Rs10 lakh, the premia will vary, according to the ages of the policyholders. Older policyholders pay more premium than the younger ones for the same sum assured under a policy.

Also, if a policyholder is diagnosed with any health problem, the premium goes up.

Currently, most of the policies enjoy a tax benefit of up to Rs1 lakh against an annual premium paid. The new rules, if implemented, will discourage a large mass of the middle-aged and older policyholders from buying insurance.

There are 23 life insurers in India with total assets of Rs13 trillion spread over at least 320 million policies. The industry’s concerns exclude term covers as the sum assured for such policies is always more than 10 times the annual premium.

“There should be some leeway for designing policies for the middle-aged and older customers. If the sum assured is 10 times the premium for younger customers, it could be around seven-eight times for customers above the age of 45. Otherwise, the sum assured will have to be increased, and that is risky,” said Amitabh Chaudhry, managing director and chief executive, HDFC Standard Life Insurance Co. Ltd.

The second budgetary proposal to levy MAT of about 18% on all companies, including insurance firms, is also strongly opposed by the industry and the regulator.

At present, all Indian companies, except insurers, pay 30% as the normal rate of income tax, an education cess of 2% and a secondary and higher education cess of 1% on the tax payable, giving an effective rate of 30.9%.

If profits exceed Rs1 crore, a surcharge of 10% is applied to the tax payable at the normal rate, with education cesses, translating into an effective rate of about 33.22%.

MAT applies to a company whose tax liability is less than 18% of its book profit. The tax is calculated initially at 18% of the book profit, and with education cesses, the effective rate becomes 18.54%. If the book profit exceeds Rs1 crore, the tax rate is 19.9305%.
Insurers currently pay a normal tax of 12.5%, but don’t need to pay MAT.

“If not completely removed, MAT could be levied on a proportionate basis. If other companies pay MAT of 18% on a normal tax of 30%, insurers should be allowed to pay 7.7% on 12.5% normal tax. At the rate of 18% MAT, we will never be able to set off the costs,” Chaudhry of HDFC Life said.

This could affect the customers further as premium is set to go up with service tax.
“Life insurers take 10-12 years to break even. Under such a scenario, if they are required to pay MAT, it will adversely affect the finances and profitability of insurers,” said Mathur.

Health Insurance Top

News	Nasscom creates health cover plan for IT sector
Newspaper	Times of India
Source	http://epaper.timesofindia.com/Default/Scripting/ArticleWin.asp?From=Archive&Source=Page&Skin=TOINEW&BaseHref=TOIBG/2012/04/04&PageLabel=19&EntityId=Ar01903&ViewMode=HTML

Bangalore: In what may be a first of its kind initiative by an industry body, Nasscom has created a health insurance plan in association with Oriental Insurance for the 2.5-million people industry.

Insurance premiums come down when more people are part of a plan, and given the scale of the IT sector, Nasscom's TechieHealth Plan will bring down substantially the cost of providing insurance especially for small and medium businesses (SMBs).

Nasscom said over 200 companies have already committed to join the plan. The association's target is to bring 1,000 SMBs under the scheme in 15 months.

"The scheme offers a 30% to 50% cost savings to companies with up to 100 employees. It will have a cover of up to Rs 3 lakh for employees and their spouses and children," said Sangeeta Gupta, senior vice president, Nasscom.

There are different kinds of plans, and the cost of the plan for a 100-employee company would vary between Rs 1.5 lakh and Rs 9.5 lakh based on the plan.

The employees will not have to pay any premium unless they want to top up the plan for more benefits. Depending on the plan, 3 to 7 family members will be covered. The plan is fairly comprehensive, covering even pre-existing ailments, maternity and new borns.

Insurance broking company Medimanage and third party administrator Mediassist will also be involved in implementing the scheme.

Healthcare costs have risen phenomenally, especially in private hospitals, making insurance almost a necessity for middle class Indians who seek better healthcare services. "Employee health and wellness is a key priority for the industry. We will have roadshows across the country to popularize this health insurance plan," said Gupta.

ECONOMIES OF SCALE

- The plan is fairly comprehensive, covering even pre-existing ailments, maternity and new borns
- Over 200 companies have already committed to join the plan
- Employees need not pay any premium unless they want to top up the plan for more benefits

IRDA Circulars Top

News	Declaration of bonus under Section49 of the Insurance Act 1938
Source	http://www.irda.gov.in/ADMINCMS/cms/Circulars_Layout.aspx?page=PageNo1674

With a view to facilitating declaration of bonus by an insurance company, where the Life Fund is in deficit, the Authority has laid down the manner of funding of the bonus subject to specified conditions to be strictly complied with. This special dispensation was available to the insurers for the first ten financial years, beginning from the year in which the life insurance company commences operations.

The same has now been extended for another two years i.e up to 12th year of operations.

Global News

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Asia

News	Singapore: Financial advisory services review gathers momentum
Newspaper	Air e-daily Asia Insurance Review
Source	http://www.asiainsurancereview.com/pages/e-Weekly.asp?country=10

The regulator in Singapore has given impetus to its Financial Advisory Industry Review (FAIR), by naming 14 panel members to carry out the review. The panel Chairman is the Monetary Authority of Singapore (MAS) Assistant Managing Director for capital markets, Mr Lee Chuan Teck.

In an MAS statement, Mr Lee says: "Our vision is for financial institutions to put customers first, and for customers to have access to affordable life insurance and investments to meet their financial planning and retirement needs. We are not there yet. Preliminary findings in a recent mystery shopping exercise that we commissioned show that up to one third of recommendations by FA representatives were ‘clearly unsuitable’ and representatives were not upfront in disclosing fees and charges.”

The panel members comprise representatives from industry associations, consumer bodies, the investment community, academia, media, and other stakeholders. Among them are Mr Tan Hak Leh, President of the Life Insurance Association Singapore and Mr Augustine Lee, President of the Association of Financial Advisers.

The review panel will propose recommendations on the five key thrusts of FAIR, as outlined by MAS managing director, Mr Ravi Menon, on 26 March. These are to raise the competence of financial advisory (FA) representatives; raise the quality of FA firms; make FA a dedicated service; lower distribution costs and; promote a culture of fair dealing.

FAIR will build on the foundations laid by the industry-led Committee on Efficient Distribution of Life Insurance (CEDLI) which, in 2000, made far-reaching recommendations for the insurance industry on areas such as needs-based advisory process, disclosure practices, and training and competency requirements. FAIR will cover all firms engaged in the financial advisory business – including banks, insurers, stockbrokers, financial advisory firms – and their representatives, and all investment products regulated by MAS under the Financial Advisers Act.

News	China: Regulator pushes for consolidation of ancillary insurance service providers
Newspaper	Air e-daily Asia Insurance Review
Source	http://www.asiainsurancereview.com/pages/e-Weekly.asp?country=10

The CIRC is backing four insurance services companies in their plans to form ancillary insurance groups, saying that the move shows the determination of the insurance regulator in pushing for consolidation and greater professionalism in this segment.

The four insurance services firms are Shenzhen Mintaian Insurance Surveyors & Loss Adjusters, Guangzhou Meichen Investment Management and Consulting Co, the Beijing-headquartered Yingda Chang’an Insurance Broker and Beijing Union Insurance Broker. They are seen to have good business foundations.

According to CIRC regulations, an insurance services group must have at least five subsidiaries, two of which are professional insurance intermediary outfits. In addition, the revenue from ancillary insurance services must amount to over 50% of the group's total revenue. The minimum registered capital of the group is CNY100 million (US$15.87 million).

CIRC has described the current state of the segment as "small, fragmented, chaotic and inferior”. Consolidation would help expand the marketing and servicing capability of such companies, which would be in the interests of consumers, says a CIRC spokesman.

Last month, CIRC issued a directive saying that it is suspending for the moment the issue of new licences for ancillary insurance operations at the crowded regional level. During the suspension period, the regulator will solicit feedback on how the market can be improved and developed. It will continue to issue national licences to insurance agencies and other service providers.

Middle East

News	MENA insurers must start the march to be national champions and regional players - MICC Survey
Newspaper	e-Weekly Middle East
Source	http://www.asiainsurancereview.com/pages/e-Weekly.asp?country=8

The future of MENA Insurance market looks optimistic compared to the fragmented road the local companies took to get here as regional players. This was identified in a survey with members of MENA Insurance CEO Club (MICC) conducted by Oliver Wyman and MICC jointly last year.

The survey, entitled "A Successful Future", interviewed 12 leading CEOs in the market who gave the immediate outlook for the industry with a combination of apprehension and confidence. Although half the respondents thought the industry will face more challenges than opportunities, 85% were confident of optimism over the coming 12 months.
The survey was conducted to better understand their views on the outlook for the industry in the region. The survey feedback was gathered via a combination of an on-line questionnaire and intensive follow-up with respondents.

In view of the competitive landscape, the survey revealed that most MICC members felt that larger or more sophisticated insurers will cope with the challenges better. About two-third expected more foreign companies to enter the market and most were convinced of the need for improved insurance skills and capabilities.

On the issue of pricing, aside from intense competition, the pressure on pricing came from more broker participation as well as increasing price sensitivity of customers. There were also views that newcomers and the large global reinsurers are supporting weak pricing across the region.

They also felt that local industry needs to be more disciplined and bottom line focused. There were a host of issues raised about regulatory and legal environment with hopes that regulators can be more active in dealing with weaknesses in the market. Some identified who should lead best practices in the market and a possible legal environment where disputes could be settled quickly and effectively. Most participants felt that it would be desirable for regulators to take a stronger stance with regards to consumer fraud, statutory violations, fading insurance companies, improving risk management capabilities and reporting standards.

As for the future, many felt that there will be national champions, regional champions and fragmented specialists emerging through consolidation initially. They also felt there will be cross-border deals, leading to a small number of MENA champions with the capabilities to compete with the multinational insurers.

The growth of national champions caused by mergers within each market will lead the balance between market share and profitability. Hence, a more rational market with companies shifting from pricing to service is expected. There was also an unanimous view that local companies need to act now in order to improve their operational capabilities in order to face the challenges.