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INSUNEWS

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INSIDE THE ISSUE

IRDA Regulation

Insurance broking to become more flexible with new norms - Business Standard

The insurance broking business will become more professional and flexible with the new norms coming into force, according to those in the sector.

A recent report by the Insurance Regulatory and Development Authority (Irda) committee on insurance broking, chaired by Suresh Mathur, suggested certain amendments to the broking regulations. While the ceiling on business from one client has been increased to 50 per cent, the period of re-application for licence by a broker has been set at after one year from the date of cancellation.

Interestingly, the report has said banks can become brokers as well. Sanjay Kedia, country head and chief executive officer (CEO), Marsh India Insurance Brokers, said the report had brought more clarity on the regulatory aspects of the broking business. On banks to be allowed to become brokers, he added it had plus and minus sides.

"On the one hand, we will have large corporates like banks in the space. But this would also increase competition," Kedia said. The report said banks wishing to become insurance brokers may have to segregate a broking arm, which would be an independent accountable unit.

Among other instructions, the report has put a limit of placement of business with one insurance company to not more than 25 per cent of total business. According to Rishi Piparaiya, director-marketing and bancassurance, Aviva India, the restriction will ensure brokers offer multiple options to customers, based on their need analysis.

Voicing a similar opinion, G V Nageswara Rao, managing director and CEO of IDBI Federal Life Insurance, said this would enable brokers to sell the most appropriate product for a particular customer, according to his/her needs. "This is in the interest of the customer," Rao said.

However, there is a concern that since re-application would be done only after one year, this could lead to increase in the number of orphaned policies. Rao explained while orphan policy servicing is being done, it should be ensured that the process of allotting such policies was easier. Others like Piparaiya feel servicing is smooth. "At Aviva, we have a robust process which ensures any orphaned policy is streamlined to the retention team for servicing," Piparaiya said.

The brokers' body is also satisfied with the regulations. But it has asked for certain other changes and is meeting Irda officials on Thursday to discuss these. Sohanlal Kadel, president, Insurance Brokers' Association of India (IBAI), said they wanted reduction in penalties and change in the 100-hour training for certain individuals in the broking community.

Another request to the authority is to consider a long-term licence in place of the present three-year one. Also, they have asked for premium and claim handling in direct broking by brokers, as this is the practice in other nations.

Further, the report said the annual fees would be reduced to 0.40 per cent of the preceding year revenue. The ceiling on business from a single client is proposed to be increased to a flat 50 per cent for any single group, while the business emanating from a government body or public sector company is excluded from this provision. Brokers' contribution in non-life insurance is 17.12 per cent in premium and 5.8 per cent in the number of policies. In life insurance, the ratio of business contributed by brokers is only 1.28 per cent.

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Irda to share info with global peers on insurance sector - Financial Chronicle

Strengthening its international co-operation, insurance sector regulator Irda has joined hands with some of its global peers for sharing and exchange of sectoral information.

Insurance Regulatory and Development Authority (Irda) has become a signatory to the global supervisory cooperation and information exchange agreement under the aegis of International Association of Insurance Supervisors (IAIS).

"There are now 37 jurisdictions admitted as signatories to the IAIS Multilateral Memorandum of Understanding (MMoU), representing more than 54 per cent of worldwide premium volume," IAIS said in a statement today.

The pact is a global framework for co-operation and information exchange between insurance supervisors. Besides, it sets minimum standards for the signatories.

"Through membership in the MMoU, jurisdictions are able to exchange relevant information with and provide assistance to other member jurisdictions, thereby promoting the financial stability of cross-border insurance operations for the benefit and protection of consumers," it said.

Irda Chairman T S Vijayan said the regulator attaches great importance to sharing and exchanging information among supervisors.

"...Joining the MMoU will further strengthen the supervisory role of the regulator in the home jurisdiction," he noted.

Other signatories to this pact include Australia, France, Germany, Japan and the United Kingdom. IAIS represents insurance regulators and supervisors spread across more than 200 jurisdictions.

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A bank should have only one broking licence: IRDA panel - The Hindu Business Line

A corporate bank should be allowed to have only one insurance broking licence, a panel set up by Insurance Regulatory and Development Authority has said.

The committee, constituted by the authority to review the IRDA Broking Regulations 2002, submitted its report a couple of weeks ago.As of now, banks are allowed to be corporate agent for only one insurer and there has been a demand to allow them to sell products of more than one. The panel's views assume significance as a decision is pending with the regulator.

While pointing out that functioning of banks as insurance brokers would help increase insurance reach, it pointed out that there could be conflict of interest when a bank forms a broking firm as they are also promoters of some insurance companies. "The Reserve Bank of India's position on banks as broking firm also needs to be ascertained as it is the primary regulator of banks,'' it suggested.

INDEPENDENT UNIT
The broking arm of banks should be an independent, account unit to be manned by exclusive staff trained by institutes imparting insurance related education.

The banks should have a board-approved policy in place to address the issues related to conflict of interest and the same should be filed with the authority, it said.

On sub-broking, the committee said it should be allowed for all insurance products and not merely retail personal products. Small banks such as cooperative banks and regional rural banks should be allowed as sub-brokers. There should be a cap of Rs 1 lakh premium on policies to be procured by the sub-brokers, it said.

On the whole, the panel was in favour of bancassurance channel. "As they are separately regulated by RBI, there may be enhanced efficiency in insurance business and higher accountability to the policyholder as compared to the agency channel,'' it said.

Banks accounted for 11.25 per cent of total new business premium collected by life insurers during 2011-12. The share was 36 per cent for private life insurers and 1.51 per cent for Life Insurance Corporation.

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Life Insurance

Standardisation of life insurance products likely by August - The Hindu Business Line

To fast-track the product approval process, the Insurance Regulatory and Development Authority (IRDA) has set the ball rolling by unveiling the standard parameters for five key life insurance products.

After discussions with the Finance Ministry last year, the insurance regulator had set up four working groups, with representatives from the life insurance industry and IRDA, for standardisation of 18 products.

Under the IRDA's 'use and file' process, life insurers filing products based on standard parameters will automatically be deemed to have been approved after 15 days of intimating the regulator.

"The working group committees were expected to come up with benchmark for products by April, but parameters for only one product could be standardised. Hence, the actuarial department of IRDA has attempted to standardise five products, which will be released to the industry for their views shortly," said a senior regulatory official.

"The regulator has conveyed to us that expediting product approvals is a priority and the whole process of standardising 18 life insurance products will be completed by August this year," said an actuary from a leading life insurance company.

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Health Insurance

Traditional medicines find place in mediclaim - The Pioneer

In a move that would further bolster the prospects of the Indian traditional medicines which are being increasingly used for critical illnesses including those related to tumors and heart diseases, the Insurance Regulatory & Development Authority (IRDA) has issued a notification for the inclusion of the non-allopathic system in the mediclaim insurance policy.

The alternate medicine system in the country forms an important part in the Government's health flagship programme, National Rural Health Programme (NRHM). Alternative treatments are referred to as Ayush (Ayurveda, Unani, Sidha and Homeopathy).

However, as per the notification, insurance coverage will be provided only if non-allopathic treatments are taken in a Government hospital or in any institute recognised by government and or is accredited by Quality Council of India (QCI), National Accreditation Board on Health (NABH) or any other suitable institutions.

While several health insurance majors such as Apollo Munich, Reliance General Insurance and Bajaj Allianz are already providing cover for alternate treatment in a limited way, the IRDA's recent notification is expected to encourage many others to follow suit.

Till now many private insurance companies have been reluctant in covering ayurvedic treatments as parameters of these treatments doesn't match with the main stream medicines and diseases and they even do not have standard pricing. "It is a major development in the sector. Recently, WHO has also recognized the power of Yoga and Ayurveda and identified two national institutes at Delhi and Gujarat as its collaborating centres," said Joint advisor, DC Katoch in the Ayush Department.

The department is now drafting specifications for ayurvedic treatment that can be reimbursed like any other treatment. It is also setting standards for alternative medical hospitals so that it can be covered by private health insurers, he said.

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General Insurance

General insurers report better profits for FY13 – Financial Chronicle

Dismantling of the third-party motor insurance pool, and prudent underwriting helped non-life insurance companies post higher profits for 2012-13. State-owned New India Assurance (NIA), the country's largest non-life insurance company, has seen its net profit rise by 370 per cent to Rs 844 crore for 2012-13. This was the highest reported by NIA in five years. NIA had a net profit of Rs 179.31 crore in 2011-12. Oriental Insurance Company's net profit grew by 129 per cent to Rs 533.8 crore for 2012-13 compared to Rs 233 crore in 2011-12.

Speaking to FC, AK Saxena, chairman and managing director, Oriental Insurance said, "We were not aggressively chasing topline in 2012-13 but were focussing on underwriting good business. As a result, although our topline grew by just 8 per cent to Rs 6,543 crore for 2012-13, our profits more than doubled to Rs 533.8 crore. I would say, a claims-free year and prudent underwriting were the main reasons for registering higher profits."

G Srinivasan, chairman and managing director, New India Assurance had attributed the profitability to a strong investment income and operational profit. United India Insurance posted 36 per cent rise in its net profit at Rs 527 crore in 2012-13, compared with Rs 387 crore the previous year.

Private non-life insurers too were not far behind. ICICI Lombard General Insurance company reported a net profit of Rs 306 crore for FY 2013 compared to a net loss of Rs 416 crore during 2011-12. Bajaj Allianz General insurance reported 138 per cent increase in net profit to Rs 295 crore during 2012-13 compared to Rs 124 crore a year ago. However, Reliance General insurance posted a loss of Rs 93 crore for 2012-13 compared to a loss of Rs 342 crore for the year ended March 31, 2012.

KG Krishnamoorthy Rao, managing director and chief executive officer, Future Generali General Insurance said, "Dismantling of the motor third party insurance pool by the insurance regulator has helped the industry post higher profits. Secondly, most insurers worked on reducing cost which has helped. Otherwise, the premium rates have not been increased except in motor policies by 5-10 per cent during 2012-13."

Motor insurance business accounts for 60 per cent of the net premium underwritten by the non-life insurance companies. The non-life insurance firms had 18.6 per cent growth in the gross premium underwritten to Rs 64,688.24 crore for 2012-13 against Rs 54,537.53 crore in FY12.

Motor third party insurance covers are mandatory as per the law for all vehicles (except for government vehicles). The policy covers the financial liability of a vehicle-owner incase of death or injury to a third person. With third party premium rates being fixed by the insurance regulator, general insurance companies have been registering losses in this business and were declining providing third party covers. As a result, the regulator formed the third-party motor pool in 2007 where the losses in the pool were to be shared by insurance companies on the basis of their total market share. As a result, even firms that did not have a big motor insurance portfolio had to bear losses on the basis of their overall market share. The erstwhile motor third party pool had a loss ratio of 153 per cent and had affected the finances of insurance companies.

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Global News

Capital markets in reinsurance's "main tent"

Willis ILS report says $1.6bn of new cat bond issuance in the first quarter, and "2013 is roaring forward with a flurry of cat bond, sidecar, and collateralised reinsurance activity", with record issuance expected.

The insurance-linked securities (ILS) market had $1.6bn of new issuance non-life capacity marketed through five catastrophe bond transactions. This included three transactions marketed in the first quarter and closed at the beginning of the second quarter, according to Willis Capital Markets & Advisory (WCMA).

This compares with eight deals and a total of $1.3 billion in new non-life capacity in the first three months of last year, said WCMA in its latest ILS report. The report says new capacity is coming from two sources: new inflows to existing ILS specialists coupled with the return of generalist investors.

"The existing investors are reinvesting bond redemptions and return of collateral from collateralised reinsurance in both new collateralised reinsurance trades and cat bonds," says the report. "In contrast the generalists (both, those returning after a period of time, as well as those new to the class) value the price discovery of syndication and the transparency and liquidity of the bond structure. As these two investor sets clash in an effort to put their money to work, we see spreads dropping rapidly."

WCMA expects the catastrophe bond pipeline to convert into a record issuance over the course of the rest of the year.

"After a slow start, 2013 is roaring forward with a flurry of cat bond, sidecar, and collateralized reinsurance activity," said Bill Dubinsky, head of ILS at WCMA. "Collectively, capital markets insurance capacity significantly outsizes the surplus of the leading non-life reinsurers, excluding Berkshire Hathaway. Meanwhile, almost all major Bermuda reinsurers, except one, have third party capital initiatives in place. We may be witnessing the moment when the capital markets have moved from the sideshow to the main tent."

The report says non-investment grade cat bonds are again on pace to break records. "Brokers are restructuring programmes to bring in one-shot capacity and conversely capital markets investors are trying to meet them half way with second-event solutions to make this unnecessary," it says.

WRCM says cat bond spreads have now separated from traditional reinsurance pricing in instances where the cost of capital rather than underwriting expertise is the main driver of spreads such as such US hurricane risk deals.

"Not surprisingly, companies see this spread separation and are jumping in line to sponsor deals and access protection. To the extent this trend persists as we fully expect, the pipeline will convert to record cat bond issuance through the remainder of the year," says the report. "There is a delay in sponsor reaction to price signals. Even now we see both insurers and reinsurers gearing up for H2 deals. Over time, we would expect that the increase in attractively priced cat bond capacity will flow through to make insurance more available and affordable, stoking demand and creating a 'bigger pie' for everyone.

"A reaction in some quarters is to dismiss the recent capital markets growth as unsustainable. This is a convenient reaction for those who see the world changing around them and are perhaps in denial. That said, it might of course be true that some investors will enter and exit over time. That is simply a sign of a healthy mature market. Is reinsurance being transformed by the capital markets in the same way as the Internet and cellphones have transformed the publishing industry? Perhaps some reinsurers lacking differentiating underwriting expertise are on their way to becoming the next Encyclopedia Britannica."

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Property insurers seek T&C changes: Marsh

US property insurance limits and deductibles remain stable, indicative of a competitive marketplace, with the exception of insureds in the north-east and those with significant flood exposures, says new Marsh report.

The property insurance market remained relatively stable and competitive in the first quarter of 2013, with few changes to limits purchased and deductibles, a new report from insurance broker Marsh has said.

Superstorm Sandy, despite being the second-costliest storm in US history, has not been a market-changing event in terms of rates. It has, however, prompted underwriters to closely analyse terms and conditions – particularly those related to flood and storm surge, said the broker.
Seventy percent of Marsh clients in the US renewing their property all-risk programmes in the first quarter of 2013 had no change in limits or purchased lower limits. Eighty-four percent of clients renewing in the first quarter also had no change in deductibles.

Marsh added that changes in terms and conditions sought by underwriters are generally limited to the north-east US and insureds elsewhere with significant flood exposures.

The post-Sandy rate environment has been relatively stable, with the biggest effects of the storm coming in the form of changes to deductibles, limits provided, and policy definitions. Average renewal rates in the first quarter were up 3.8% for insureds without catastrophe exposures, almost flat for moderately catastrophe-exposed programs, and up 3.6% for insureds with significant catastrophe exposures.

Clients in the north-east saw more sizable rate increases in the wake of Sandy and 2011's Hurricane Irene. The stable rate environment in part reflects that rates that had been rising steadily for some time in more catastrophe-exposed parts of the country have now reached a plateau. It is also reflective of the ample capacity in the market, which has kept rates competitive.

"Overall, insurers have had enough capital to absorb losses related to Sandy, and most are not likely to reduce capacity for the remainder of 2013, barring unforeseen events," said Marsh. "With capacity remaining high, rates in the second quarter are now beginning to soften.

Underwriters are focusing on the distinction between flood and storm surge, reports Marsh.

"Some policies may state that 'storm surge' is included within the definition of 'flood', while others consider it part of the 'named windstorm' definition. This distinction may determine the available limit and the deductible that will apply to the loss," said the broker. "This scrutiny of definitions and deductibles related to windstorm, flood, and storm surge is expected to continue for the next several months. Underwriters may also extend this discussion to consider whether tsunami belongs under the definition of either flood or earthquake. Risk managers should work with their insurance advisors to achieve 'contract certainty' – achieving a clear understanding of how various perils are defined under their policies."

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Insurers benefit from fraud risk profiling

New technology helps highlight more cases of insurance fraud

Hill Dickinson Fraud Unit (HDFU) has reported a 122% increase in suspected frauds identified through its Netfoil database over the first quarter of 2013 following the introduction of its fraud risk profiling model.

The new model, launched at the beginning of the year, identifies parameters of fraudulent claims from a database of 10 years worth of claims data. Suspect claims that contain these identified characteristics are then flagged by the model and reviewed by a HDFU analyst before being reported to the insurer for further investigation.

HDFU director of intelligence and complex fraud Chris Hallett said: "Where we profiled a fraud claim or fraudster we were able to say that a fraudulent claim would fit these parameters. Although we may not know the individual because he was made up yesterday, because he has provided this sort of surrounding information, there is a fairly good chance that the claim needs to be looked at."

The law firm's Netfoil mass data analysis (MDA) service can also be customised to individual insurers needs by adjusting the risk score at which claims are treated as suspect. This allows the volume of reported claims to be tailored to the clients individual risk appetite.

Hill Dickinson head of fraud Peter Oakes said: "This powerful fraud screening tool supports efficient, proactive claims handling, in turn leading to reduced claims life cycles. Fighting fraud can be an expensive business for insurers, but the ability to flex the Netfoil MDA scoring matrix to receive targeted results, aligned to their counter fraud strategy and available resource is invaluable."

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UK motor market to continue shrinking, says Deloitte

Premium drops £200m in 2012

The total amount of UK motor insurance premium fell £200m in 2012 to £13.1bn, according to Deloitte.

The Deloitte research showed that total motor premiums in 2011 were £13.3bn. Personal lines motor makes up 80% of the total.

Figures presented at Deloitte's motor insurance seminar showed that the motor insurance market's combined operating ratio improved last year by 1%, to 105%.

Deloitte predicted that motor insurance premiums are likely to fall further in the next 12 months, as competition increases.

Deloitte insurance partner James Rakow said: "Motor insurers are on average paying £105 of claims and underwriting expenses for every £100 of premium and 2012 may well mark the top of the underwriting cycle.

"Based on a Deloitte survey, motor insurance premiums are likely to fall for the remainder of 2013. Our survey indicates that the market at present is evenly split on whether premiums will rise or fall this year, but the momentum is currently favouring reductions, which consumers will welcome. In the past, once the market starts lowering premiums, it has been difficult to reverse the trend."

Rakow said that insurers needed to make their profits from core underwriting or by selling extra policies such as breakdown cover and legal expenses.

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Deloitte based its findings on insurer data supplied in FSA returns, representing around 80% of the 2012 UK motor market premium.

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China: CIRC issues 2nd-generation solvency supervision framework

CIRC has formally issued a framework for a second-generation solvency regulatory system for insurers, in its first step towards insurance supervision reforms, following a year of study and consultation on the subject.

Mr Xiang Junbo, Chairman of CIRC, last week issued the "Overall Framework of the Second-Generation Solvency Supervision System of China". A draft of the Framework had been circulated to the industry for their comments in March.

While the Framework does not stipulate any calculation method for solvency or any technical requirement, it affirms the basis of the new regulatory system which is management of insurers' solvency. It also sets out three pillars for the regulation of solvency, namely: quantitative capital requirements, qualitative requirements and market discipline mechanisms. These would require insurers to ensure that their capital adequacy is commensurate with their risk profile, that risk is properly analysed and managed and that there is sufficient information disclosure for decision making.

Under the new risk-based system, insurers with different business structures, risk profiles and risk management capabilities will face different solvency requirements. Their market behaviour will also be taken into consideration.

With the Framework nailed down, CIRC's next step is to study more than 10 technical standards to effect the new solvency regime. It plans to issue draft technical standards by the end of the year, according to Chinese media reports. CIRC, which began work on the proposed reforms in April last year, plans to take three to five years to develop a new solvency supervision system which would be in line with international standards and suitable for the development of the Chinese insurance market as well.

Although the Framework provides a blueprint for Solvency II in the Chinese insurance industry, several industry players feel that its implementation would not be easy. They say that parties with vested interests are expected to step up their lobbying to ensure that the regulations that would eventually be issued would not be detrimental to their business. Some insurers are concerned that the new system would require them to increase their capital and thus affect their cashflow and operations.

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International Forum of Insurance Guarantee Schemes Launches

The International Forum of Insurance Guarantee Schemes (IFIGS) was officially launched today. IFIGS was established by leading insurance guarantee schemes from around the world interested in sharing their experiences in providing protection to policyholders in the event their insurance company fails.

IFIGS will facilitate and promote international cooperation between insurance guarantee schemes and other stakeholders with an interest in policyholder protection.

"The launch of IFIGS will further strengthen relationships between insurance guarantee schemes around the world," said Gordon Dunning, President & CEO of Assuris, an IFIGS member that protects Canadian life insurance policyholders against loss of benefits due to the financial failure of their insurance company. "It will be a very valuable platform for exchanging ideas and discussing common issues."

Current IFIGS members include insurance guarantee schemes and other stakeholders from Australia, Canada, Chinese Taipei, France, Germany, Greece, Korea, Malaysia, Norway, Poland, Romania, Singapore, Spain, United Kingdom and the United States of America. Organizations from other countries that have an established insurance guarantee scheme or are contemplating one may join IFIGS.

Following an initial meeting of interested international parties in Toronto, Canada, in November 2011, IFIGS has held regional meetings in Germany, Malaysia and Greece. The 2(nd) International Forum of Insurance Guarantee Schemes will be held October 21-22, 2013, in Chinese Taipei, where the group will create a formal Committee to direct its activities.

An insurance guarantee scheme is a body mandated to provide policyholders with last-resort protection against loss of part or all of their insurance benefits when an insurer is unable, or likely to become unable, to fulfil its insurance contract commitments. In such cases, an insurance guarantee scheme provides protection by paying compensation or by securing the continuity of the insurance contracts.

For further information on IFIGS and its membership application procedures, please visit www.ifigs.org or email info@ifigs.org.

Founded in 1990, Assuris is a not for profit corporation funded by the Canadian life insurance industry. Since its inception, Assuris has protected almost three million Canadians through four member company failures.

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