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# Insurance Institute of India

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# INSUNEWS

- Weekly e-Newsletter

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**• Quote for the Week •**

*"Try not to become a person of success, but rather try to become a person of value."*

*Albert Einstein*

**INSIDE THE ISSUE**



## Insurance Industry

### *Insurance firms face new consumer liability issue – Business Standard*

Bankers had earlier said that insurance was not a core competence of their personnel and, hence, they were not in a position to take liability for policies being sold through their network

If the Reserve Bank's proposed charter of customer rights takes effect, banks will be liable for the policies they sell on behalf of insurance companies.
Under the current bancassurance norms, banks are not responsible for the policies sold as a corporate agent. RBI's charter proposes that a customer have a right to hold the financial services provider accountable for the products offered, And, to have a clear and easy way to have any valid grievance redressed.

The regulator said the provider should also facilitate the redress of grievances stemming from its sale of third-party products.

"Banks have been resisting becoming a broker for a long time since their officials would be held responsible for claims, grievances related to mis-selling and others. Now that the banking regulator has talked about liability for sale of third-party products, they would have to look into servicing all needs of customers," said the chief executive of a private life insurance company.

At present, banks follow a corporate agent model, where they are allowed to tie-up with only one life, one non-life and one health insurer each. The finance ministry had in December 2013 sent a circular to the heads of public sector banks to also become insurance brokers. The idea was to boost insurance penetration by using banks' branch networks. Later, the insurance regulator also floated a proposal for all banks being mandated to become such brokers.

There had been discussion between the regulator and bankers on this issue. But several banks were against the proposal, since they would be liable for each policy sold.

Bankers had earlier said that insurance was not a core competence of their personnel and, hence, they were not in a position to take liability for policies being sold through their network. Insurance executives said companies that have a bank partner through a corporate agency or joint venture agreement would be immediately impacted if this charter was made mandatory.

"The insurance ombudsman services and Integrated Grievance Management System would have to be accessed by banks to record customer grievances and provide solutions to their concerns. They might incur additional costs, since automated systems will have to be set up to link their servers to the insurance networks," said the chief distribution officer of a large private general insurer.

Around half of insurance sales are made through the bank network. Banks sell these products through their branch network and also offer these products as combination deals with core products like savings bank accounts and loans.

Source

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## *There's more to the insurance Bill than just hike in FDI - Mint*

A government with a majority not withstanding, the Insurance Laws (Amendment) Bill couldn't make it through Parliament yet again. This time it got stuck in Rajya Sabha, and was subsequently referred to a select committee which would look into the amendments to the Bill, primarily in the foreign direct investment (FDI) limit hike from 26% at present to 49%. The political drama is pivoted on allowing more foreign money into the sector, but what is being held hostage here is the much needed wave of insurance reforms, although it's good to know that the finance minister is hopeful that the Bill will be passed by the end of the year.

The insurance Bill gives more power to the Insurance Regulatory and Development Authority (Irda) to decide on expenses of the insurers. This, among other things, allows the regulator to stitch a new commission structure for distributors. These are currently hard-coded in the Insurance Act of 1938 and any change needs the deliberation of Parliament.

As of now, according to the Insurance Act, agent commission in the first year is up to 40% if the insurer is less than 10 years old. Subsequently, in the second and the third years, the commission drops to 7.5% of the premium, and to 5% for the rest of the term. If the insurer is more than 10 years old, the first-year commission is capped at 35%. Staying within the overall caps, Irda in its product regulations of 2013 pegged the quantum of the first-year commission to the premium payment term: longer the policy, more the commission. The second and the third year commissions, however, remained intact. If the Bill goes through, Irda will have the freedom to institute fresh incentives. It could reduce incentives altogether to be aligned with the structures of other products.

Irda could even change the front-loaded structure: make it even- or back-loaded. A review of the commission structure is important given the havoc a front-loaded product such as insurance, coupled with the industry's greed for sales, has wreaked upon customers. A fat first-year commission with impunity on a mis-sold policy has tarnished the industry's reputation.

To this effect, the amendments to the Bill also take a very stringent view on mis-selling. It holds the insurer responsible for the defrauding agent and makes it liable to a penalty of up to Rs.1 crore. "Insurers shall be responsible for all the acts and omissions of their agents including violation of code of conduct. They shall be liable to a penalty of up to Rs.1 crore for such acts and omissions of their agents," states the Bill.

The industry has seen blatant and unabated accounts of mis-selling but punitive damages on the erring party have been few and far between. Accountability is needed to bring fair market practices to the industry. The Bill puts pressure on the insurer to audit its agents' sales. It also increases the overall penalty that Irda can impose: from the current Rs.5 lakh per incident of violation to Rs.1 lakh per day per incident of violation going up to a maximum of Rs.1 crore per incident of violation. Irda desperately needs more muscle, and resolve, to bring the erring parties to book.

The regulator has stepped up its inspection capabilities and is able to segregate violations and penalize insurers for each violation, unlike the earlier Rs.5-lakh blanket penalty, which neither hurt nor shamed the penalized. With an increase in quantum, Irda can really make the fine bite, but for that to happen, Irda also needs to be more of a regulator and less of a developer so that customers are not forced to take every battle to court because they perceive Irda to be one with the industry.

The Bill also puts the onus on the insurer to tighten its underwriting norms. Currently, an insurer has a window of two years after a policy is bought to reject a claim on grounds of any mis-statement or fraud. After two years, the insurer can still reject a claim on grounds of fraud such as intentional suppression of material information. The Bill, however, gives insurers three years to establish this, after which the insurer will not be able to reject a claim on any grounds. This will curb the practice of underwriting a customer at the time of claim instead of at the time of buying the policy. At present, many policies are sold with "no medicals" as an attraction. While this saves the customer the hassle of a medical check-up, it comes back to haunt at the time of a claim when the insurer exercises all due diligence before settling the claim. With the insurance Bill, this will change: the insurer will have do all the due diligence when you buy the policy; not when you make a claim.

The Bill and the proposed amendments gives more power to the regulator and brings in several customer-friendly reforms. It defines quantum of penalty on specific violations such as insurance sale through unlicensed entities and clearly prohibits damaging sales practices such as multi-level marketing. But the

Source

political focus seems to be centred only around FDI and not on the next big wave of reform in the insurance industry.

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## Life Insurance

### *Life insurance cos await Irda nod on infra bonds – The Financial Express*

Life insurance companies are awaiting a nod from Insurance Regulatory Development Authority (Irda) to invest in infrastructure bonds issued by banks. Currently, infrastructure bonds have not been given 'infra' status by Irda.

Aneesh Srivastava, chief investment officer at IDBI Fortis Life Insurance, said there has been an ongoing dialogue between the government and the insurance regulator and bank infra-structure bonds will be given infrastructure status soon.

Kunal Shah, fund manager for debt instruments at Kotak Life Insurance, said the insurance companies have to invest 15% of their non-unit linked bonds with bonds which have been given infrastructure status. "If the bank infrastructure bonds are given that status, it will provide a captive market for insurance companies," Shah added. Kotak Life Insurance has not invested in any infrastructure bonds issued by banks.

Sanjay Kumar, head of investments at PNB Met Life Insurance, said once the infra status is granted by the regulator, the bonds will become more attractive and allow insurance companies to diversify their portfolio. "We have not invested in infra bonds, but we are evaluating them," he added.

Bonds issued by public sector entities such as Power Finance Corporation (PFC), Rural Electrification Corporation (REC) are given infra status by Irda as the proceeds are for primarily financing the infrastructure sector. Recently, Irda also issued a circular which said onshore rupee-denominated bonds by Asian Development Bank and International Finance Corporation can be considered infrastructure bonds.

RBI on July 15 had issued guidelines for the issuances of long-term bonds (with a minimum maturity of seven years) for financing infra projects and for affordable housing by scheduled commercial banks. Generally, life insurance companies invest in longer tenure bonds which are over seven years.

India's largest private sector bank has already hit the bond market twice with its issue of infrastructure bonds. Earlier this week, ICICI Bank issued 10-year bonds worth Rs 2,000 crore on a private placement basis with a coupon rating of 9.25% and in July the bank issued seven year bonds with a base size of Rs 500 crore with a green shoe option of Rs 500 crore with a coupon rate of 9.75%. Kotak mahindra Bank too, raised Rs 300 crore through infra bonds and was rated AAA by Crisil.

Source

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## General Insurance

### *Ganpati mandals in Mumbai secure bumper insurance – Business Standard*

The 10-day Ganesh Chaturthi festival set to begin from Friday has seen a bumper season for insurance in the city. Sector officials said about Rs 450 crore worth of cover has been taken by mandals across Mumbai.
Last year, the Ganpati puja organisers had taken Rs 375 crore worth of insurance coverage, which offers protection against damage to idol and pandal due to fire or other incidents, jewellery, personal accident for devotees, apart from coverage for terrorist acts.

The most popular Ganesh mandal, Lalbaugcha Raja, situated in Lalbaug area of Mumbai, has been insured for Rs 51 crore by New India Assurance, similar to last year. This includes Rs 3.5 crore coverage for the set, pandal, settings and electricals, and Rs 10 crore for third-party risks (prasad or edible offerings for incidents of poisoning). Further, the organisers have also taken an accident insurance of Rs 30 crore covering security officials, local residents of that area, volunteers, and devotees. To protect the idol's jewellery and other valuables, an insurance coverage of Rs 7.5 crore has been taken.

From last year onwards, Lalbaugcha Raja SarvajanikGaneshotsav Mandal has taken insurance for immersion activities of all Ganesh mandals in Mumbai. The size of the coverage is Rs 10 crore, taken from United India Insurance.

Under this, if there is death or disability due to any accident during immersion processions, a compensation of Rs 2 lakh would be provided.

Officials from the mandal said this would cover immersion-related incidents on all days of immersion including second day, fifth day, seventh day, 10th day and 11th day and would also give protection against drowning-related accidents/death. Different mandals have different dates for immersion of the Ganesh idol. GSB Seva Mandal in the King's Circle area, with one of the richest Ganpati deities in Mumbai, has taken a coverage of Rs 258.9 crore from a nationalised general insurer. It is called the Gold Ganpati Mandal, thanks to the fact that the deity is bedecked with at least 50 kg of gold.

Satish Nayak from the GSB Seva Mandal King's Circle Ganeshotsav explained its insurance coverage will include risks such as fire and allied perils, burglary, theft accidental external damage and terrorism. Further, public liability and accident insurance would be covered. Last year, the mandal had taken Rs 223-crore insurance.

A senior official from a public general insurance company said the number of Ganesh mandals taking insurance had seen a 30-40 per cent rise. "While the sum assured might not be very high, mandals usually have an average cover of Rs 50 lakh to Rs 1 crore. We are now seeing smaller mandals also taken basic covers for fire, theft and personal accident, since the footfalls have increased across mandals" said the official. Other mandals are also beefing up insurance. G S B Sarvajanik Ganeshotsav at Shri Ram Mandir at Wadala has taken a coverage of Rs 25 crore compared to Rs 15 crore last year. This would include the idol, jewellery and coverage against man-made accidents.

Source

For these insurance policies, the premium can range between a few thousand and several lakhs depending on the size of the coverage. For a coverage of Rs 10 crore, the premium could be Rs 12-15 lakh, even though it is on for a period of 10 days. "The risks associated with the festival are very high. Hence, premiums are also rising by 10-15 per cent. However, sudden rainfall or other natural catastrophe-related causes are usually not covered," said a general manager at a public general insurance firm.
The Ganeshotsav, which will begin from Ganesh Chaturthi on Friday, will continue for the next 10 days till Anantha Chaturdashi on September 9.

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## *Two-wheeler insurance policies to get cheaper, easier to buy – Business Standard*

Comprehensive two-wheeler insurance policies would soon get cheaper once policies with three-year validity come into effect. Large insurance companies such as ICICI Lombard and Tata AIG General Insurance, apart from government-owned companies, are planning to launch policies with riders for customers.

To enable long-term motor insurance for two-wheelers, the Insurance Regulatory and Development Authority (Irda) has introduced a long-term motor third-party insurance policy for two-wheelers with a three-year term. Irda said the total premium charged for the third-party coverage would be three times the annual third-party premium for two-wheelers as decided by the regulator. Motor third-party premium is regulated by Irda and the regulator brings out revised rates for these policies every year based on the claims experience. Third-party motor insurance is mandatory in India.

The insurance regulator also said that the premium would not be revised upwards or downwards during the period of the policy. According to insurance industry executives, two-wheeler owners would opt for these, since there would not be any premium fluctuations for the three-year term unlike one-year policies where the premium would be revised every year.

Sector officials said the firms would save costs by not having to renew policies every year. This, they said, would be passed on to customers in the form of discounts on the 'own damage' front. Customers would also get an option to stay with their one-year policy or opt for a three-year policy.

Third-party motor insurance includes two parts, own damage that protects the driver/owner from accidents and third-party cover that covers liability from third-party accidents. Third-party cover is mandatory, while own damage is optional.

General insurance companies have already planned to launch products. Madhukar Sinha, national head (personal lines) at Tata AIG General Insurance, said his company would file a product in tandem with the Irda guidelines.

He added add-ons could be offered with the policies, subject to Irda approvals.
"With respect to the pricing of the product, we are analysing the past trends for a suitable pricing mechanism."

From April 1, 2014, third-party premiums in the two-wheeler category were raised by 9-10 per cent, compared with the proposed 1-45 per cent across segments - sub-75cc, 75-150cc, 150-350cc, and more than 350cc.

Sanjay Datta, head of underwriting and claims at ICICI Lombard, had earlier said the insurer would launch a motor third-party policy for two-wheelers after filing the product with Irda. Thereafter, the company would file a comprehensive two-wheeler plan, he added.

Irda also said that the entire premium would have to be paid in one installment and insurers would not be able to cancel the standalone third-party cover in any circumstances except for 'total loss'. In case of cancellation of policy under total loss, premiums for the full unexpired years would be refunded. Non-life companies wanting to introduce these policies will have to submit a letter of intent to Irda.

Source

According to the regulator, since there is also a need to have long-term comprehensive cover including own damage and third-party covers, insurers can also file three-year term comprehensive policy for two-wheelers. While the 'own-damage' motor segment covers losses to self during accidents, motor third-party covers liability to a third-party caused by a vehicle owner during an accident.

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### *Jan Dhan Yojana: Personal accident cover doubled to Rs 2 –The Economic Times*

To make the Pradhan Mantri Jan Dhan Yojana (PMJDY) a mega success, the government has doubled the personal accident cover to Rs 2 lakh per person if the bank account is opened within the first 100 days of the massive financial inclusion programme being launched Thursday.

"Those who open bank accounts with any of the public sector banks under the financial inclusion drive within the first 100 days from August 28, will get personal accident cover worth Rs 2 lakh," National Payment Corporation (NPCI) chief executive AP Hota told PTI.

A formal government announcement on this is likely to come tomorrow, he added.

The Reserve Bank-promoted NPCI is the nodal agency working on the payment side of the plan, as all the accounts will be tied to RuPay.

Towards this, NPCI has already tied up with private sector general insurer HDFC Ergo for the first Rs 1 lakh accident cover which will be issued with the RuPay card of the account holder, Hota said, adding the other Rs 1 lakh cover will be provided by any of the four state-owned general insurers.

"We have tied up with HDFC Ergo to provide this additional Rs 1 lakh personal accident cover to all those who open their bank account during this period. However, the remaining Rs 1 lakh insurance cover will come from any of the four state-owned general insurers as per the agreement reached between NPCI and the insurers," Hota said.

Hota further explained that the additional Rs 1 lakh cover comes with a rider that the account-holder will have to do at least one transaction in 45 days.

Source

Prime Minister Narendra Modi will launch the Jan Dhan Yojana in New Delhi on August 28. The scheme, pushed by the government in a mission mode, seeks to provide two accounts to 7.5 crore identified households by August 2018.

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## Reinsurance

### *India will benefit if it develops as global reinsurance hub – The Hindu Business Line*

India needs to create a strong financial services platform and infrastructure, so as to attract the best reinsurers to come and set up operations here, which will benefit it enormously, says a study.

"The country will benefit enormously if it develops itself as a global reinsurance hub.

"But to achieve that it will have to create a strong financial services platform and infrastructure, so as to attract the best reinsurers to come and set up operations here," a joint consultative paper prepared by the Indian Merchants Chamber (IMC) and the City of London said.

Reinsurance is a cover that insurers take to transfer their risks to a third party.

The paper has also called for legislative and regulatory steps to develop India as a reinsurance hub and underlined the critical role reinsurance plays in supporting the faster economic growth and the country's financial system.

The paper is based on the premise that development of a country's reinsurance sector is deeply connected and critical to the insurance sector as well as for the overall development of its financial services sector.

Even as traditional financial centres like London, New York, Singapore, Frankfurt, Tokyo and Hong Kong have also evolved into well—developed international reinsurance hubs, several new centres like Dubai and Shanghai are fast developing into regional hubs.

Source

"We have great potentials to become a reinsurance hub. Singapore and Dubai have attracted huge investments from reinsurance players, which till recently was a monopoly of London," IMC President Pramod Thakker told PTI.

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## Regulation

### *FM expects House nod to insurance FDI by year-end – Financial Chronicle*

The insurance reform bill to hike the FDI cap to 49 per cent, now with a select committee of Rajya Sabha, will hopefully be passed by the end of the year, finance minister Arun Jaitley said on Tuesday. The passage of the bill will automatically enhance the FDI cap in the pension sector.

"Hopefully by the end of the year the amendments to the insurance Act get approved by Parliament and then notified. There is an intrinsic link between insurance and pension sector... The foreign direct investment limit in the insurance Act automatically applies to the pension sector," Jaitley said after launching a new user-friendly and informative website of PFRDA.

The increase in FDI limit will facilitate inflow of foreign capital, investment expertise and new technology, he said.

The insurance bill is expected to vetted by select committee and returned to the Upper House with its recommendations over the next few weeks, well in time for it to be passed in the winter session of Parliament in November-December by both Houses. The amendments proposed by the select committee have to be accepted and passed as recommended.

Ninety-seven amendments have been moved to the original bill, which has been pending since 2008.

Jaitley also released the first annual report of PFRDA for 2013-14 after notification of the PFRDA Act. He hoped that the pension regulatory authority would provide a conducive and enabling environment for the expansion in the pension industry with larger number of players.

Jaitley said considering that pension payouts, particularly unfunded and uncertain, are to be borne by the exchequer, pension reforms would mitigate this burden releasing resources for better deployment and utilisation in other social sectors.

He highlighted the need to build up a corpus of funded resources to eventually act as the source for pension payouts in future, and also as a source for financing critical sectors as infrastructure and also capital market.

Jaitley said the unorganised sector requires special support and urged PFRDA to promote swavalamban scheme vigorously across the country. The scheme signified an element of self-pride through participation of the less fortunate an excluded segments.

Source

He exhorted the industry to come up with more and more new products, which could compete with each other with benefit accruing to the pension subscribers.

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## IRDA News

### *Public Notice – With sample audio of spurious call*

Members of public have been receiving a lot of spurious calls in the name of officials of Insurance Regulatory and Development Authority making fraudulent claims and fictitious offers.

Source

IRDA issued a public notice on January 29, 2014 cautioning members of public from falling prey to such offers and issued advertisements in newspapers.

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## Global

### *China: Insurance fund investment policies to be out by year-end – e-Daily -Asia Insurance Review*

China's insurance regulator is studying ways to introduce innovative policies to facilitate insurance fund investments in the real economy. The new policies could be ready by the end of this year.

Mr Wang Zuji, Vice Chairman of the China Insurance Regulatory Commission (CIRC), speaking at a press conference earlier this week, said: “We will accelerate exploration and reform in this area. At the end of this year, I hope there will be some specific measures introduced.”

He said that the goal is to encourage more insurance fund investments in strategic and emerging sectors as well as major infrastructure projects, and other projects that would improve the livelihood of the people.

He noted that as at 30 June this year, insurance fund investments in the real economy had reached CNY3.6 trillion (US$586 billion). Around CNY678.9 billion have been invested in infrastructure projects between 2007 and last year.

CIRC's bid for new ways to allow more capital flows from the insurance sector to areas that would boost economic development follows a set of new measures announced on 13 August by the State Council, which is the Chinese cabinet, aimed at furthering the development of the insurance industry.

In recent years, CIRC has already been relaxing investment rules for insurers, allowing them to invest in new areas like real estate, infrastructure projects and private equity.

Source

CIRC data show that insurance funds totalled CNY8.59 trillion at 30 June this year, representing an increase of 11.75% from the start of the year. Of the total, bank deposits accounted for CNY2.56 trillion or 29.8%; bonds, CNY3.56 trillion (41.5%); stocks and securities investments, CNY804.86 billion (9.4%); other investments CNY1.66 trillion (19.3%).

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### *Indonesia: 800 actuaries needed over the next few years – e-daily – Asia Insurance Review*

Insurance industry executives believe that insurance companies in Indonesia need an estimated 800 actuarial experts over the next few years. Currently, there is a shortage of such expertise in the country.

According to the Society of Actuaries of Indonesia (PAI), there are 180 fellows and 200 associates of actuarial professionals who have earned recognition from the Fellowship of the Society of Actuaries of Indonesia (FSAI), reported the Jakarta Post.

Mr Kasman Ilyas, vice president of a major insurance company, said: “We are now hiring people from neighbouring countries.”

One of the reasons for the shortage of actuaries in the insurance sector is that many actuarial graduates are not working in the insurance industry. This compounds the problem that there is an insufficient number of students who graduate each year from actuarial studies.

“We only enroll one class consisting of 25-30 master’s degree candidates each year,” said a faculty member of a major actuarial school in Jakarta. “This programme is still relatively new; we will adapt to the market demand as required.”

To groom talent, insurance companies are actively teaming up with schools and universities in developing actuarial programmes. For instance, Prudential Indonesia has signed a partnership agreement with the University of Indonesia (UI) to support and improve faculty training, in which two lecturers annually will be sent to undergo international actuarial training, and the company will also bring an international lecturer to the UI campus. The release also said that the company has committed to at least two scholarships annually from 2015 for students in actuarial studies.

Another major insurer, Manulife, has linked up with the Faculty of Mathematics and Science at Gajah Mada University in Yogyakarta. The partnership is part of the company’s Actuarial Development Programme, which aims to enhance interest among university students in the actuarial field, starting from the undergraduate level, so as to produce actuaries.

Source

A Kelley Services Indonesia Salary survey showed that an actuarial manager with 5-7 years of experience could earn between IDR20 million (US$1,713) to IDR30 million per month. A senior actuary with 12 years of experience could earn IDR55 million-IDR80 million per month.

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