# Insurance Institute of India

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# INSUNEWS

- Weekly e-Newsletter

8th – 14th January 2016


● Quote for the Week ●

"Success is not final, failure is not fatal: it is the courage to continue that counts"

Winston Churchill

INSIDE THE ISSUE



## Insurance Industry

### *Digitisation drives efficiency in insurance - The Financial Express – 8th January 2015*

Technology can play a critical role in life insurance right from pricing, to risk management and to consumer interaction. Life insurers have been slow adopters of the innovations that technology advances offer. Going forward, a Swiss Re report says insurers will have to review their investments in technology, rethink talent strategy and adapt their business models. For instance, data sharing platforms for end consumers will reduce the cost of collecting health information and provide a complete view of customers for more accurate risk assessment and pricing.

Source

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## Insurance Regulation

### *Irdai issues draft norms on agent commissions - Financial Chronicle – 13th January 2016*

Insurance regulator Irdai has framed draft regulations for payment of commission or remuneration to insurance agents and intermediaries, including corporate agents, brokers, web aggregators and marketing firms.

In an interesting move, the regulator has proposed capping the 'reward' paid by insurers over and above commission or remuneration at 20 per cent of first year commission/remuneration in case of individual insurance agents. For insurance intermediaries, the watchdog is planning to limit the reward at not more than 40 per cent of first year commission or remuneration.Irdai is also clear that these so-called rewards must be based on an objective and transparent criterion.

Rewards means the amounts paid as an incentive (or whatever name called by an insurer) to the insurance agent or the insurance intermediary towards benefits such as gratuity, term insurance cover, group life insurance cover, group personal accident cover, group health insurance cover, telephone charges, office allowance, sales and promotion gift items and such other items. At present, insurance companies pay these rewards based on volume of business from agent/intermediary and it varies across insurers as well as products, said Santosh Kumar Sahoo, chief operating officer, GIPL, an insurance broking firm.

The Insurance Regulatory and Development Authority of India (Irdai) also wants insurance companies to have a board approved policy, which includes the manner and conditions regarding payment of commission or remuneration to insurance agents and insurance intermediaries, renewal commission, if any, to insurance agents after termination of agency and hereditary commission to the heirs of an insurance agent in the event of the death of the insurance agent, among others.

The maximum commission or remuneration as a percentage of premium that is allowed for life insurance products offered by life insurers varies from mostly 2-10 per cent for single premium policies, and 30-50 per cent for regular premium policies (for first year) and 5-10 per cent (for subsequent renewals).

According to a top life insurance company official, these regulations have come because the industry had demanded some uniformity as regards the segments of business vis-à-vis the expenses of management, commissions and manner of computation of solvency margin.

Irdai wants companies to pay same commission and remuneration for insurance agent and insurance intermediary. It also wants to bring parity in commission remuneration to health segment being solicited under the life insurance category and general stand-alone category.

The maximum commission or remuneration as a percentage of premium that is allowed for health insurance products offered by general insurers or stand-alone health insurers is 10-15 per cent (first year) for retail health policies. The rates are lower for group health policies but subject to a cap of Rs 2 lakh per scheme per policy year. There are also rates for fire, marine and motor insurance products.

"The objectives of the (board approved) policy shall include the utilisation of insurance agents and insurance intermediaries in the manner that: a) increases insurance penetration and density in the country; b) is in the interests of the policyholders; c) is commensurate with the business strategy; d) brings cost efficiencies in the conduct of business and simplification of the administration of insurance business; e) gives an indication on the relative degree of importance placed on each of them," Irdai said.

Irdai also proposed that no insurer shall pay both commissions to an insurance agent and remuneration to an insurance intermediary on the same insurance policy.

However, Irdai is of the view that higher rewards are justified for insurance intermediary vis-à-vis insurance agent as the insurance intermediary has higher establishment costs and compliance requirements. The regulator has also mentioned various safeguards for an individual insurance agent.

Source

These regulations shall not be applicable to insurance products specified under Irdai's (Micro Insurance) Regulations, 2015 and Irdai's (Insurance Services by Common Service Centre) Regulations 2015.

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## Life Insurance

### *Irdai, insurers push for protection-based plans - Business Standard – 13th January 2016*

Insurance Regulatory and Development Authority of India (Irdai) and insurers are focussing on long-term and systematic protection-based plans. The regulator has more than doubled the number of approvals given for such products.

There has been more than 160 per cent rise in the number of protection-based products and riders in the industry approved by Irdai in calendar year 2015. Irdai approved about 97 protection-based plans/riders in 2015, compared with 37 protection-based plans/riders a year ago.

Sandeep Batra, executive director, ICICI Prudential Life Insurance said the industry needs to do more in the protection-based space. "However, there is good news as there is a three-fold increase in the number of protection products approved by Irdai in the year 2015," he said.

In 2015, about 215 products were approved, compared with 137 in 2014 by the Irdai. Protection-based plans provide full safeguard and financial stability to the subscriber's family in case of unforeseen events like death. These include pure term insurance plans which are usually low-cost in nature.

Global reinsurer Swiss Re has found big gaps in insurance coverage (pure protection) in Indian households. The mortality protection gap report for Asia Pacific by Swiss Re has found that the gap in India was $8,555 billion in 2014.

Clarence Wong, head of economic research and consulting, Asia Pacific, Swiss Re had earlier said while there was an increase in insurance coverage in India, it has not been adequate to fill the protection gap — the extent to which families were insufficiently covered for death of their earning members.

The study said the sum insured per working person with dependents in India was $2101 in 2014 (about Rs 1.3 lakh), which is much lower than other APAC countries like Australia, which has a sum insured of $303,401 per working person with dependents.

For a typical Indian household, for every $100 needed for protection, only $7.8 of savings and insurance is in place. Anup Rau, CEO, Reliance Life said there has been an emphasis on selling protection-based plans. Rau explained that ever since the focus has shifted away from unit-linked insurance plans, regulations were tightened in September 2010, insurers have turned to long-term and systematic protection-based plans. Protection-based plans are now close to half of the total products available in the life insurance segment. Compared to 27 per cent in 2014, they now comprise 45 per cent of total life insurance offerings.

Batra said customers need to understand that they should at least have an insurance cover that is 10 times their annual income, just to sustain their current lifestyle. "We are grossly underinsured. Hence, we as an industry are working to bridge the protection gap. As a company too, we recently launched iProtect Smart, to bridge this gap," he said. Insurance penetration, measured as a percentage of premiums to a country's gross domestic product (GDP), has been on a constant drop in India. According to the latest study from global reinsurer Swiss Re, India's insurance penetration fell to 3.3 per cent in FY15, compared to 3.9 per cent in FY14.

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### *Insurers seek separate tax limits for pension, life policies - The Hindu Business Line – 8th January 2016*

The Life Insurance Council has asked the Finance Ministry to carve out separate tax exemption limits for life insurance and pension policies. It wants a separate tax exemption limit of Rs. 1.5 lakh for premiums in the coming Budget to help attract more flows into life insurance policies. It has also proposed a separate limit of Rs. 1.5 lakh for investments in pension plans.

"The most crucial recommendation which has been made over the years is to increase tax benefits around long-term savings to spur demand for life insurance products. The additional leeway in Section 80C will encourage people to buy more life insurance to protect their family's future, while getting a tax benefit," said Tarun Chugh, MD and CEO, PNB MetLife.

V Manickam, Secretary-General, Life Insurance Council, said the need for a separate limit for life insurance arises as the current exemption limit of Rs. 1.5 lakh includes investments in bank deposits, tax-saving deposits, PPF, NSC, infrastructure bonds, equity-linked savings schemes and home loan principal repayment.

The life insurance industry has also asked the Centre to relook the current provision of Section 10(10D), which stipulates that the sum assured or life cover has to be at least 10 times the premium in the first year in order to attract tax benefits. "We would request the government to relook this limit and bring it down to five times.

"This would help in increasing insurance penetration and avoid double taxation, as the customer is now taxed at the time of buying the policy and also on maturity, if the limit is not met. "This has impacted the growth of the industry, as now people are reluctant to purchase insurance products which provide living benefits through long-term savings," said Chugh.

**Service tax cut**

Further, the council has asked for a reduction in service tax to 1.75 per cent (where the risk component is not separately identifiable) for first-year premiums, single premium policies and lumpsum amount received to purchase annuity.

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## Health Insurance

### *Health insurers to pass on discounts given by hospitals to policyholders - The Hindu Business Line – 13th January 2016*

The discounts given by hospitals to health insurers will soon get reflected in policyholders' medical bills. This development comes in the wake of the regulator asking insurance companies and third-party administrators in June last year to pass on discounts received by them from hospitals to policyholders.

Insurers get discounts of around 15 per cent from hospitals for bringing volumes to them, said Segar Sampathkumar, General Manager at New India Assurance.

Suresh Sugathan, Head of Health Insurance at Bajaj Allianz, said: "We pass on to the policyholder the discount or negotiated package rate that we get from hospitals. As a result of this, the sum insured would go down by a lower amount after making a claim." A senior official from a general insurance company said that often third-party administrators (TPAs) do not pass on the discounts given to insurers by hospitals to policyholders to bring down costs. However, the Insurance Regulatory and Development Authority of India (IRDAI) recently clarified that claim settlements can be done only by the insurer and not by the TPA.

Amit Bhandari, Head of Health Underwriting and Claims at ICICI Lombard, said that at present the discount is given to an insurance company's payment as hospitals link it to the volumes that insurers bring in. "So, if the claim amount is Rs. 5 lakh, then we are asking hospitals to give discounts on that amount instead of the amount that we pay, especially in cases where the medical bill is higher than the sum assured in the insurance policy," he said.

Source

According to Shreeraj Deshpande, Head of Health Insurance at Future Generali India Insurance, the benefit for the retail policyholder is that they will now have a higher balance sum insured in the policy after a claim in that year, while for corporates the net savings will help in lowering their premium outgo during renewals.

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### *Complaints against health insurers rise 2% in FY15 - Financial Chronicle – 10th January 2015*

The number of customer complaints against health insurers, the second-largest portfolio in the Rs 87,000-cr non-life insurance industry, went up by 2 per cent to 25,600 in fiscal 2015 over the previous year. According to data from General Insurance Council around 11,000 or 44 per cent complaints registered in 2014-15 were related to claim settlement, up from about 10,000 complaints in 2013-14. The health segment commands 25 per cent of the non-life insurance business.

In policy terms, 7,000 or 29 per cent complaints were registered in 2014-15 as against 6,000 or 26 per cent complaints in the year-ago, the data showed. However, industry players have blamed "lack of understanding" among the customers regarding the policies as the main reason for the spike in complaints.

"In health insurance, the number of complaints have gone up mainly because of the lack of understanding among the insured about the policies issued to them," General Insurance Council Secretary General R Chandrasekaran told PTI. Topping the list is the customer demanding to cover even the room rentals, which is not covered under his or her policy.

Health insurance grew by about 40 per cent in case of standalone health insurers, whereas the general insurers have grown by 25-30 per cent during last one year, he said. The industry feels that complaints are still not alarming and they believe that the recently launched ROHINI initiative will improve things in future.

"I can only say the complaints are not alarming in both the cases and I do hope the ROHINI initiative will help addressing the complaint-related issues in the case of health insurance on time in future, as it will make the things transparent which will act as a win-win situation for both the insurers and the insured," Chandrasekaran said.

In contrast, the industry witnessed decline in the absolute number of complaints reported during the year under motor insurance segment, which is the largest portfolio for the insurers with around 40 per cent share of the industry.

Moreover, the industry saw a fall in complaints, as the number of claims handled under the segment during the year also declined.

In 2014-15, the total number of policies stood at 12.60 crore, while in 2013-14, it was around 11.50 crore. But the number of complaints remained same in terms of percentage.

Similarly, the percentage of claims settled under motor insurance also fell from 0.14 per cent in 2013-14 to 0.10 per cent in 2014-15. At 24,647 in FY15, it showed a 30 per cent fall from about 28,000 previous year, in terms of the number of complaints received by the industry during the year.

Source

In the segment, 47 per cent or 11,611 complaints are claim-related, while 33 per cent or 8,000 complaints are policy-related.

## General Insurance

### *Farmers will draw maximum benefit for minimum premium: Amit Shah - The Indian Express – 14th January 2016*

Worried over the increasing uneasiness among the farmer community towards the party and the government, BJP president Amit Shah used the crop insurance scheme, cleared by the Narendra Modi government on Wednesday, to reach out to the farmers saying that the scheme, which he termed as the biggest step taken by any government in independent India for the community and that they will draw "maximum benefit by paying minimal premium."

Shah, who called the media at his residence to praise the Union Cabinet decision to clear Pradhan Mantri Fasal Bima Yojana, said it is a comprehensive pro-farmer scheme that will help the farmers to reduce their burden.

"It will ease the farmers of the complex rules of the earlier crop insurance scheme and can avail maximum benefits," the minister said. "For years, farmers were caught in the complexities of existing insurance schemes and were not able to avail all benefits. Now the government has come out with a scheme under which they will be able to draw the maximum benefits by paying minimal premium."

"Under the scheme, simple and smart technology will be used to expedite the settlement of the claims," Shah said. "I think this decision will rank among the biggest decisions taken for the welfare of farmers since Independence," he said.

The BJP had to face criticism for its Land Acquisition bill with the Opposition led by Congress vice president Rahul Gandhi projecting it as "anti farmer" government. The government was forced to withdraw the proposed changes in the bill. Party hopes that today's cabinet decision will help it to regain the trust of farmers.

Shah, who projected the BJP as a pro-farmer party at a meeting of farmers two days ago in Uttar Pradesh, where his stakes are high in the assembly election due next year, briefed the media on how the new scheme would be different from the old one launched by the previous UPA government. He said the "capping" clause in the crop insurance earlier had blocked the farmers from getting adequate compensation for their crop loss.

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### *Insurance firms to get cluster of districts – Mint – 14th January 2016*

The agriculture ministry will divide all districts of India into clusters and give it to insurance companies in order to make the Prime Minister's Crop Insurance Scheme a success.

Between 15-20 districts will be clubbed together and given to one insurance company for providing crop insurance to farmers, agriculture minister Radha Mohan Singh said after the cabinet meeting in New Delhi.

The move can be beneficial from three key points of view—similar geographies will lead to similar weather and thus an identical claim pattern, second, it will be easier to track and pay the sum assured to farmers of a cluster, and third, there may be fewer chances of fraud—either by the insurance company or a farmer.

Singh said the government had evaluated different aspects of the scheme and thought that instead of awarding individual companies a district, a cluster of districts would be awarded.

"Maybe one insurance company will get one state and a bigger state like Uttar Pradesh may go to two insurance companies," the agriculture minister said.

Singh said selection of insurance companies would be done through an open bidding system and his ministry is putting in place the details of the new scheme. The award of clusters will be for a "longer duration", the minister said, which means insurance companies may be allowed to serve a cluster for more than one crop season or one year.

An official with a state-owned insurance company said that a cluster approach will work well.

"There will be economies of scale for companies as insured farmers will be in a concentrated area. This will help an insurance company focus all its resources in one particular area. Instances of discrepancy between crops insured and the crop sown area can also be addressed easily. Claims assessment will also be easier as weather conditions will be similar. One will have to wait and watch for more details to understand what kind of premiums will be available under the scheme," the official said.

On the kind of business opportunity it offers to insurers, the official said it will eventually depend on the area covered under the insurance scheme over the years.

Agriculture secretary Siraj Hussain said the government aims to insure 50% of the agriculture land in the next three years from the current 23%. He said the central government expenditure for the purpose will go up from "around Rs.3,000 crore now to Rs.8,000 crore in next three years".

In the first year, the target is to insure 30% of the agriculture land, 40% in the second year and 50% in the third year. "Mitigation of risk against inclement weather and faster payout to farmers will be two key characteristics of the Prime Minister Crop insurance Scheme. This will take into account farmers' worries from sowing of seeds to post harvest," urban development minister M. Venkaiah Naidu said.

Source

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## *New crop cover scheme gets nod; Centre, States to split Rs 8,000-cr bill - The Hindu Business Line – 13th January 2016*

The Centre on Wednesday unveiled a new crop insurance scheme that restricts the premium to be paid by farmers at a standard 2 per cent for kharif crops and 1.5 per cent for rabi crops. The decision was taken at a meeting of the Union Cabinet, which also renamed the scheme as the Pradhan Mantri Fasal Bima Yojna.

The annual premium for commercial and horticultural crops has been fixed at 5 per cent.

The Centre and States will equally share the estimated expenditure of Rs 8,000 crore as premium. Currently, the Centre pays about Rs 3,000 crore as premium.

Prime Minister Narendra Modi said the new scheme includes successful aspects of the existing ones while effectively addressing their deficiencies. "The scheme has the lowest premium. It entails easy use of technology like mobile phone, quick assessment of damage and disbursement within a timeframe," he said in a series of tweets. Agriculture Minister Radha Mohan Singh told reporters there is no upper limit on the government subsidy. "Even if the balance premium is 90 per cent, it will be borne by the government. This will help farmers claim the full sum insured," he said.

Under the scheme, 25 per cent of the compensation will be paid directly into the farmer's bank account. It will also provide coverage against localised risks of hailstorms, landslides and inundation as well as post-harvest losses of cyclonic and unseasonal rains.

"The reduced premium and inclusion of localised calamities and post-harvest losses for insurance will certainly help farmers to overcome their distress," said Food Minister Ram Vilas Paswan.

The scheme will use tech products such as smart phones to capture and upload data of crop cutting in order to reduce delays in claim payments to farmers. "Remote sensing will be used to reduce the number of crop cutting experiments," said an official statement. The Centre aims to double the coverage of the scheme to 50 per cent of the total crop area of 194.40 million hectares from the current level of about 23 per cent.

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## *Editorial: Insuring agriculture works – The Financial Express - 13th January 2016*

The government's ambitious crop insurance scheme, should it be cleared later today, will be a big move in curing India's agriculture of its biggest problem—a policy-induced distortion that favours cultivation of wheat and rice above other crops. Farmers grow wheat and rice in preference to other crops not because these are the most lucrative or the most suitable to the agro-climatic conditions—indeed, overuse of water to grow wheat and rice has rendered large tracts of land in Punjab and Haryana unsuitable for cultivation—but because the overall risk is the least. In 4-5 states, where the Food Corporation of India (FCI) or state agencies procure grain, there is no price uncertainty for farmers; in the case of other crops where there is no government procurement, in contrast, the farmer faces both a crop risk as well as a price risk. Crop insurance takes crop-failure risk out of the farmers' equation which makes it that much easier to move to other crops.

What makes the scheme attractive, going by some of the numbers doing the rounds, is that the government has worked with insurance companies to dramatically lower the premium that needs to be paid. While it would be advisable to wait for the finer details to be made public, a lower premium will encourage greater crop insurance—ideally, most of this should be paid by the central and state governments and, in any case, insuring 70% of India's total farm area will cost around Rs 20,000 crore a year which is not large in comparison to the annual subsidy expenditure. Lowering the premium, while good, is not going to be the real clincher though—the speed at which the insurance claims are paid out is critical. If the government uses weather stations—covering the entire country will cost a mere Rs 350 crore—or drones, this can quickly give data on rainfall to the insurance company; claims that will no longer be based on assessment of damage to crop, but on quickly verifiable non-subjective rainfall data, can then be sent directly to the Jan Dhan bank accounts of farmers within 2-3 days of the rain failure.

What would dramatically change the farm equation is the government combining crop insurance with lowering FCI purchases—consumers could be given direct cash transfers instead of physical wheat/rice—and use the money saved to give farmers cash transfers based on the size of their holdings. Once FCI purchases of wheat/rice are reduced dramatically, the price-risk becomes equal across all crops—that means farmers will react to market signals. It is not clear whether the government has the guts to reduce FCI purchases since rich—and politically strong—farmers will protest, especially in states like Punjab which will go to polls soon. But crop insurance is a good first step towards the next green revolution.

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### *Budget 2016: Government mulling to sell stakes in General Insurance as part of disinvestment plan - The Economic Times – 13th January 2016*

The government is working on an ambitious disinvestment agenda for the next fiscal year, and proposals it is considering include selling stakes in state-owned general insurers.

As a first step, government has decided to convert the country's only reinsurer, General Insurance Corporation of India, into a public limited company. It has also approved reducing face value of each GIC Re share to Rs 1 from Rs 1,000. GIC Re was incorporated under the Companies Act, 1956, as a private company.

"The Insurance Amendment Act allows bringing down the government stake to 51% in state-owned general insurers. If any firm wants to get listed, we will support them and any such issue will depend on market conditions," said a finance ministry official, speaking on the condition of anonymity.

The government has allowed up to 49% foreign direct investment in insurance and, according to market estimates, around Rs 10,000 crore is expected to flow into the sector through such investments. According to the Insurance Regulatory and Development Authority of India, total foreign direct investment in the insurance sector as on March 31, 2015, was about Rs 8,031 crore.

"Insurance and market regulators are on the same page on listing norms for insurance firms. We are hopeful some firms will take lead," the finance ministry official said. The net worth of General Insurance Corporation is estimated to be around Rs 65,000 crore, and the reinsurer may look to tap the markets early next fiscal year.

"No plans have been formalised on our listing," a senior official at GIC Re, however, said. There are four state-run general insurers: New India Assurance, National Insurance, Oriental Insurance Co and United India Insurance. The government is facing a massive shortfall in its divestment target in the current fiscal year through March. It was hoping to raise Rs 69,500 crore through divestment, including Rs 28,000 crore from strategic sales. However, it has so far raised only Rs 12,700 crore, selling stakes in four companies.

"We will fix an achievable target next fiscal and more action will be visible on strategic sales," said another finance ministry official. Last week, the finance ministry asked central public sector enterprises (CPSEs) to shell out a 30% dividend to the government and those with large cash reserves and sustainable profit to issue bonus shares.

The government has committed itself to fiscal deficit target of 3.9% this financial year. However, in the mid-year review, the finance ministry raised concerns over meeting the target of 3.5% next year, pointing out that a slower-than-anticipated GDP growth would itself raise the deficit target by 0.2% of GDP.

In a letter to all CPSEs, the finance ministry noted that there were huge variations in dividend paid by them and there was a need for a clear policy on this matter. The ministry said due account should be taken of cash and free reserves with central public sector enterprises and, accordingly, a special dividend should be paid to the government as a return for its investments.

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### *Crop insurance scheme falters as farmers pay high premium - The Economic Times – 11th January 2016*

The existing crop insurance scheme remains unsuccessful as it is being implemented in only six states because farmers are forced to pay a higher premium and get a very small amount of claim due to capping of the sum insured, a senior Agriculture Ministry official said. The Modified National Agricultural Insurance Scheme (MNAIS) is being implemented since 2013-14 rabi season in Andhra Pradesh, Rajasthan, Uttar Pradesh, Uttarakhand, Goa and Kerala.

Under MNAIS, premium rates to be paid by farmers are 2-15 per cent while the actuarial premium is up to 57 per cent depending on high-risk crops and areas. "In MNAIS, premium rates have been capped and if the actuarial premium rate is higher than the capped rate, the sum insured would get reduced in the same proportion. This would lead to lower payments in the case of calamity in spite of higher premium rates," the official said.

For example, the actuarial premium of paddy in Lalitpur district of Uttar Pradesh was 22 per cent for Kharif 2014 and sum insured per hectare was Rs 30,000. Since premium was capped at 11 per cent under MNAIS, the sum insured accordingly was reduced to Rs 15,000, he said. The official further said a farmer would have paid a premium of Rs 825 for the reduced sum insured of Rs 15,000. For the crop loss of 70 per cent, he would have got a maximum claim of Rs 10,500 instead of Rs 21,000.

In Bhilwara district in Rajasthan, the actuarial premium for sesame seed was 42.34 per cent in Kharif 2014 and sum insured per hectare was Rs 27,000. Due to capping, the sum insured came down to Rs 7,015 and accordingly, the claim amount also got reduced to Rs 4,910 from Rs 18,900. "Since actuarial premium rates are high for more risky areas and having high variability in yield, the sum insured also gets reduced proportionately due to capping system and therefore, farmers in these districts do not get the full benefit of crop insurance," the official explained.

That apart, there is a huge difference in the premium rates for different crops in adjacent districts since tendering is done at the district level, he said. Farmers find it difficult to know the premium rate they have to pay due to variation in rates from one district to another, he added.

Stating that there is a huge delay in settlement of the claims under MNAIS, the official said there is a time lag in providing yield data from crop cutting experiments. Although the insurance urea area for crop cutting experiments has been reduced to the village level, many states have expressed inability to do this exercise, he said.

Besides MNAIS, the Centre is implementing the National Agricultural Insurance Scheme (NAIS) since 1999 under which premium rates are fixed at 1.5-3.5 per cent for foodgrains and oilseeds crops and actuarial rates for horticultural and cash crops but all claim liability is on the government. NAIS is being implemented in 14 states. In 2014-15, the insurance coverage was for only 23 per cent of the total gross area of 194 million hectares.

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### *India: Odd-even vehicle rule could lead to lower motor premiums – Asia Insurance Review*

The odd-even scheme for cars, if fully implemented, might lead to a reduction in motor insurance premiums in the near future, as risks would be cut when vehicles can ply only on alternate days, according to industry players. In a pilot run which started on 1 January in New Delhi, only cars with odd-numbered licence plates will be allowed on the roads on odd-numbered dates and those with even-numbered plates on the other days, except on Sundays when the rule does not apply. The pilot, which lasts till 15 January, is aimed at seeing how the odd-even scheme would work as the government tries to cut smog in the world's most polluted capital.

Mr Mukesh Kumar, Executive Director at HDFC ERGO General Insurance, said: “The cars would be out on the streets only for half the number of days than before. This may bring down the risks of accidents and there is a case for premium revisions downwards.”

He added that comprehensive motor insurance cover might see a reduction in premiums, reported the Business Standard. Insurers offer own-damage and third party liability covers as a comprehensive cover.
Mr K G Krishnamoorthy Rao, Managing Director & CEO of Future Generali India Insurance, said that over a period of time, there is a case for premiums to be revised based on data received, if there is a decline in the number of motor accidents. However, he did not rule out the possibility of speeding as there would be fewer vehicles on roads.

A Supreme Court ban on the registration of large diesel vehicles in Delhi-National Capital Region might also have an impact on insurance. Mr Rao explained that with fewer such vehicles on the road, spreads would reduce, leading to an increase in average premiums.

**Impact of Chennai floods**
In a separate development, vehicle owners in the metropolises of Mumbai, New Delhi, Chennai and Kolkata may have to pay 15% higher premiums than those in other parts of the country as insurance companies believe the risk of insuring cars in big metros are higher after the Chennai floods last year, reported The Economic Times. "We will have to build in the factor of flood for all big cities that are developing fast and premiums should go up by 10-15%," said Mr Vijay Kumar, head of motor insurance at Bajaj Allianz General Insurance.

"After the Chennai experience, we know that the severity of claims is higher in metros, so there will be an increase in premiums," said Mr SS Gopalaratnam, Managing Director & CEO of Cholamandalam MS. "We are trying to see if flood-related policy rates could be revised both in motor and property, because losses are higher by up to 10%."

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### *India: Engineering insurance biz to rebound on economic growth – Asia Insurance Review*

Engineering and fire insurance is expected to pick up this year, after a decline in growth of 10-12% last year that was the result of few projects taking off in the country, according to industry players. Mr K G Krishnamoorthy Rao, Managing Director & CEO of Future Generali India Insurance, said: "Stalled infrastructure projects would finally kick off in 2016, thereby boosting the engineering insurance sector as well."

Overall, industrial production numbers are also seeing positive signs now. Insurers have also been offering heavy discounts in insurance premium rates for fire and engineering business, reported Business Standard.

This segment largely covers manufacturing plants and large-scale industrial projects from fire and other risks associated with construction and maintenance. Other than manufacturing, fire and engineering policies are offered to sectors such as auto, oil & gas, power, and infrastructure.

The World Bank last week projected that India will grow by a robust 7.8% in 2016 and 7.9% in the next two years, and become the fastest growing economy in the world in the next three years. For the current fiscal year ending in March, the latest estimates peg India's GDP growth rate at 7-7.5%.

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## Reinsurance

### *Indian reinsurers may get priority - Business Standard – 9th January 2016*

Indian reinsurers might be given the right of first refusal in treaties with insurers. The insurance regulator held a board meeting last week where this matter was discussed and a final decision will be taken soon. Foreign reinsurers have written to the government and the insurance regulator and met finance ministry officials on this issue.

The Insurance Regulatory and Development Authority of India (IRDAI) has added a new proposal in guidelines on branch licences for foreign reinsurers where it said first preference would be given to Indian reinsurers in their treaty surpluses.

If this proposal goes through, first preference in all such agreements between reinsurers and insurers will be given to Indian reinsurers. Only if a risk is rejected by an Indian reinsurer will it be passed on to others.

Swiss Re, Munich Re, Hannover Re, SCOR and RGA (Reinsurance Group of America) had applied for branch licences after the final guidelines were issued. These reinsurers have held several rounds of discussions among themselves on how to take up the matter with the regulator.

The reinsurance industry is about Rs 18,000 crore in India of which life insurance constitutes about Rs 1,200 crore. In its Registration and Operations of Branch offices of Foreign Reinsurers other than Lloyd's Regulations 2015, the Insurance Regulatory and Development Authority of India had said with respect to order of preference for cessions, the insurer could offer it for participation to any Indian or international reinsurer with a branch presence.

Industry executives said even though it was a draft, since the regulator had said these changes were made on the advice of the government, the proposal was unlikely to be revised.

General Insurance Corporation of India is the sole Indian reinsurer. Regulatory norms require mandatory cession to GIC, which means a fixed percentage of the total risk has to be reinsured with it.

Source

This is fixed at five per cent now for non-life insurance.

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## IRDAI Circular

Source

IRDAI issued exposure draft regarding Insurance Regulatory And Development Authority Of India (Payment Of Commission Or Remuneration Or Reward To Insurance Agents And Insurance Intermediaries) Regulations, 2016.

Source

IRDAI issued circular of Filing of Micro Insurance Products Subsequent To the Implementation of IRDAI (Micro Insurance) Regulations, 2015 to All the Non-Life/Health Insurers.

Source

IRDAI issued exposure draft of 'Insurance Regulatory and Development Authority of India (Appointment of Insurance Agents) Regulations, 2016'.

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## Global News

### *South Korea: Life insurers demand tougher fraud penalties – Asia Insurance Review*

The Korea Life Insurance Association (KLIA), which represents the country's life insurance industry, has called for stiffer punishment for insurance fraud.

"Insurance fraud is a grave crime that undermines public interest, but its relatively weak penalties are fuelling moral hazards among a wide range of ordinary people," reported the Korea Herald citing a KLIA press release.

In 2014, authorities caught insurance fraud cases involving KRW600 billion (US$500 million), up 15.6% from a year ago. Yet that number accounts for only 18.7% of the KRW3.2 trillion which KLIA has estimated as the total insurance fraud losses of that year. The KRW3.2-trillion insurance fraud losses could cause an extra KRW200,000 in insurance fees per household, according to the association.

KLIA said that it is seeing an increasing number of people and higher insurance fraud losses, particularly because of a legal loophole. Local criminal law does not include a separate article for insurance fraud, classifying the crime under common fraud. As a result, lighter charges are imposed for insurance crime compared to other fraudulent gains.

To curb insurance crime, KLIA members have increased the number of special investigation units from two in 2002 to 19 at present. Thanks to the special investigators, hired at the cost of insurance companies, an increasing number of insurance fraud cases were caught and turned over to the police. These investigators, however, lack legal investigative authority, leading to difficulties in investigation, KLIA added.

Source

As an alternative, the association called for the setting up of expert units for insurance crime investigation at the prosecutors' office and police, to secure efficiency and professionalism. Strengthening the law against insurance fraud is another pressing agenda, the association stressed.

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## *China: Internet insurance premiums surge past US$30 bln in 2015 – Asia Insurance Review*

Online insurance premiums in China raced past the CNY200-billion (US$30.5 billion) mark last year, more than double the CNY85.89-billion reported for the whole of 2014, according to the Insurance Association of China (IAC).

IAC Secretary General, Liu Qi, speaking at an insurance forum, said that with further reforms in the Chinese insurance market, such as in the motor sector and life insurance, the number of insurance products will increase and the frequency of new products brought to the market will rise. These moves will lead to more insurance demand. Online insurance will become an important tool in life cycle management and wealth management.

The number of insurance firms with online operations exceeded 100 at the end of last year from 85 at the end of 2014. There are around 130 life and non-life insurers in China in total.

Source

Total premium income in 2015 stood at more than CNY2.2 trillion, according to official data. In the first half of last year, online insurance premiums amounted to CNY81.6 billion, representing 4.7% of the total premiums in the overall insurance market during the period.

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## *Japan: Insurers eyeing more M&A deals overseas – Asia Insurance Review*

Japan's top insurance companies are eager to keep pursuing mergers and acquisitions abroad because the domestic market is expected to shrink.

Nippon Life Insurance's President Yoshinobu Tsutsui hinted that the insurance giant is seeking M&A deals in the US, as that "is the largest market in the world", reported Kyodo News Agency.

Last year, Nippon Life Insurance bought smaller rival Mitsui Life Insurance and National Australia Bank's insurance business, but still has JPY1 trillion (US$8.3 billion) to spend on further acquisitions, said Mr Tsutsui.

Tokio Marine Holdings' President Tsuyoshi Nagano said that his company is "always looking for (M&A deals) in Asia and Latin America, including Mexico".

Last year, Tokio Marine purchased US-based HCC Insurance Holdings for around $7.5 billion, making it the largest overseas acquisition by a Japanese insurer. HCC, which operates mainly in the US, British and Spanish markets, is strong in specialty insurance such as director and officer liability, as well as in agriculture and aviation lines of coverage.

MS&AD Insurance Group Holdings too is "aiming for M&A deals in the US" whose weight in the group's business has fallen since it moved last September to acquire Amlin, a major British non-life insurer, said Mr Yasuyoshi Karasawa, the group's President. He said that the planned purchase of Amlin has "placed the firm in a higher rank" globally. "We'd like to expand our businesses in emerging markets as well and further raise our profile," he added.

Source

Mr Koichiro Watanabe, President of Dai-ichi Life Insurance, indicated that the company will seek further M&A deals in the US through mid-size American life insurer Protective Life, which it acquired last February. In that way, the company will not face any risk of exchange rate fluctuations in making an investment, he said.

## *Thailand: Non-life insurance sector approaching turning point – Asia Insurance Review*

The non-life insurance industry in Thailand is nearing a turning point because the economy is no longer growing as quickly as in the past, according to Mr Arnon Vangvasu, President of the Thai General Insurance Association.

The sector, in which motor insurance plays a critical role, also saw a decline in auto sales over the past two years, reported The Nation newspaper. The sector enjoyed premium income growth of 28% in 2012 and 13.15% in 2013 due to the previous elected government's first-car-buyer tax-break scheme. However, auto sales in 2014 and 2015 fell sharply because of the market saturation resulting from the scheme. The non-life insurance industry during those years witnessed growth of 1.13% and 2% respectively.

The sector was able to maintain premium income growth because some insurance companies cut prices and increased commission fees for their agents. Mr Arnon said that competition in the insurance industry must change, and pricing with high commissions should not be raised as a strategy by operators.

The Thai insurance industry is also facing new regulations forcing operators to increase their capital against the risk, which will have an impact on profits. Therefore, insurers should seek innovations to lessen the impact. The non-life insurance industry has high operating costs and loss ratios from claims.

The loss ratio in Thailand is 62%. Although the ratio averages 72% in developed countries, insurers in those markets enjoy high profits because they rely more on technology than manpower and that has helped reduce costs.

**Going digital**
Buying insurance, collecting premiums and processing claims should all be done on digital platforms, especially smartphones, to reduce expenses, the Association said. It will spearhead the establishment of a digital system for non-life insurers, first for motor and personal accident insurance plans.

Digital processes will help reduce operating costs, so even if the loss ratio stays at 62%, insurers can remain profitable, Mr Arnon said. To help manage the cost of insurance claims, the Association will ask the Office of the Insurance Commission to revise motor insurance pricing to reflect the actual cost of auto parts, which have increased every year while premiums have not kept pace.

Source