



# Insurance Institute of India

C - 46, G Block, Bandra-Kurla Complex, Mumbai - 400051

## INSUNEWS

- Weekly e-Newsletter

6<sup>th</sup> - 12<sup>th</sup> January 2018

### • Quote for the Week •

**“Every accomplishment starts with the decision to try ”**

**Gail Devers**

### INSIDE THE ISSUE

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#### **India: 15 insurers in financial sector's first blockchain project - Asia Insurance Review**

Fifteen Indian insurers have jointly begun the country's first blockchain project in the financial services industry to share medical records and to enable fast approval or denial decisions.

This means lower costs for insurers, as one medical examination would be now enough for all insurance providers involved in the project. Currently, each insurer in India commissions separate medical tests for potential customers.

Using blockchain technology, basically, the medical records of insurers would be saved and accessed, which will allow swift data sharing without compromising on security aspects.

The insurers involved include ICICI Prudential Life, HDFC Life and SBI Life Insurance. They have tied up with IBM and Cateina Technologies to create a blockchain-based solution. The concept is based on distributed ledger technology, and helps participants to work on common areas of interest. It is expected to help in improving business by providing customer KYC, claims history, medical records, and agent track records while flagging fraudulent transactions.

Mr Subrat Mohanty, senior executive vice president, head-strategy, at HDFC Life, said that blockchain would reduce these inefficiencies and provide a record of information that can be accessed in a secure manner.

Although the blockchain technology is still in its nascent stages of commercial deployment, insurers say there is a need to form policies and procedures to ensure that personally identifiable information and health information are always protected.

"This platform will give insurance companies the option of cutting down on operational costs on getting information that is core to the underwriting process in a trusted manner by keeping in line with the privacy regulations. On scaling up, if we can create social scorecards of medical providers, then one can actually rate them for future customer reference," said Jitan Chandnani, Blockchain Leader at IBM.

An incentive-based data retrieval process would be set up, wherein the provider which provides the data using the blockchain platform would be provided an incentive for sharing its data. Through the system, fraud and fake medical records would be sorted out and filtered, so that insurance firms can detect scams easily.

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#### **Deposit insurance cover will continue: Centre - The Hindu Business Line - 11th January 2018**

The existing deposit insurance coverage of Rs 1lakh will continue till it is revised, the Centre has assured the Joint Committee of Parliament on the Financial Resolution and Deposit Insurance (FRDI) Bill.

This was in response to queries by stakeholders, including the RBI, during their interactions with the members on the panel. The Centre is learnt to have told the panel that Clause 29(1) of the Bill gives scope for enhancement of the deposit insurance level of a depositor. The Clause says that the proposed Resolution Corporation (RC) shall, in consultation with the appropriate regulator, specify the total amount payable by the Corporation with respect to any one depositor, as to his deposit insured under this Act.

The Bill replaces the Deposit and Credit Insurance and Credit Guarantee Corporation (DICGC) Act of 1961 and the proposed RC will subsume the powers of the DICGC.

The RBI, it is learnt, told the members that the DICGC was an extended arm of the RBI and there was a high level of coordination between the two in cases of merger, acquisition, liquidation, etc., of banks. The RBI said that when the RC takes over this role, there should be proper harmonisation of roles and responsibilities between the RBI and the RC.

The RBI also suggested that a new provision should be added to the FRDI Bill to ensure that the Rs 1 lakh limit continues. The RBI pointed out that there is no clarity in the Bill on the time up to which a service provider will be required to pay resolution fee.

#### **LIC's concern**

LIC said the basis of premium calculation has not been provided in the Bill and felt this will increase the expenses and affect the returns and investment of the insurance company. It said there should be a distinction between insurance companies that follow stringent investment norms and other financial institutions.

SBI warned that including non-banking financial companies in deposit insurance may adversely impact commercial banks deposit franchise.

The bank demanded that considering the overall strength and low-risk profile of SBI, the fee or premium payable should be at the lowest end. Union Bank of India complained about the provision for steep penalty of eight per cent for delay in payment of deposit premium. It said there is an anomaly that the RC, which is a super regulator for insurance firms, may end up being regulated by the Insurance Regulatory and Development Authority of India (IRDAI) as there is nothing in the FRDI Bill that exempts the RC from the applicability of the Insurance Act of 1938.

Source

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### ***FRDI: depositor trust is key to banking – The Hindu – 8th January 2018***

The banking system of any country is built on an edifice of trust that depositors have in their banks. The confidence that money is safe, keeps depositors away from withdrawing their funds unless they really need it. Meanwhile, it allows banks to lend out the money to borrowers which generates interest income for the depositor, profit for the bank and larger economic growth.

However, the 'bail-in' clause in the government's Financial Resolution and Deposit Insurance (FRDI) Bill has created confusion. Section 52 of the Bill allows the proposed Resolution Corporation to cancel the liability owed by a failed bank. Since the main liability of a bank is the ordinary depositor's money, it naturally causes concern whether depositors stand to lose their money beyond what is insured in the event of a bank failure. Unless nipped in the bud, a panic reaction could destabilise the banking system.

Why should depositor liability be cancelled at all? When a failed bank does not have any assets left to pay its creditors, it is natural that depositors will not get back all or part of their money.

#### **'Guard against signals'**

The government can never commit to pay out all depositors in such an event. "Such a commitment would signal to banks that it is acceptable to take more risks because, in case they go belly-up, the government will pay out depositors; the level of risk in the banking system would simply explode," said Dr. Rudra Sensarma, Professor of Economics, Indian Institute of Management, Kozhikode. Hence, "depositors have to take some hit if a bank fails." This is formalised in the Bill's bail-in clause.

"The intentions are good," said Dr. K. Cherian Varghese, former CMD of Union Bank of India and Corporation Bank. "The new provision of 'bail-in' is welcome. However, when the banking system is struggling with the larger issue of non-performing assets, it is better to concentrate on recovery and also encourage bankers grant fresh loans for that the economy grows at faster pace.

"The proposed law may be taken up later when there are no apprehensions in the minds of depositors," he said. Yet, it is important for the depositor to believe that the need for a bail-in will never arise. Here lies the role of trust in the banking system.

How can banks convince depositors that their money is safe? One way is through prudential regulations such as capital requirements and supervision. The other way is to guarantee through an insurance scheme that the insured part of deposits will be paid out to depositors by an insurance company.

### **Comparison with income**

In India, up to Rs. 1 lakh of a depositor's money is protected by insurance provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC), a subsidiary of the Reserve Bank of India. However, this insurance limit has not been changed since 1993 even while income and deposit levels have grown substantially.

Many countries revised their deposit insurance limits after the global financial crisis of 2008 but India did not do so. Deposits up to \$250,000 are protected by insurance in the U.S. while the figure is \$1,15,000 in the U.K. But the accurate comparison should take into account the average income in a country.

Deposit insurance limit is 3-4 times the average income levels in the U.K. and the U.S. In the case of emerging countries like Brazil and China, the insurance limit is 9 times the per capita income. Compare that with India where the insurance limit is actually a little less than its per capita income.

"Perhaps the government may review the present limit of insurance cover for deposits and enhance it," said Dr. Varghese, who was also former Chairman of the Board for Industrial & Financial Reconstruction.

Anil Gupta, vice president, Sector Head - Financial Sector Ratings, ICRA, said that the government should increase the deposit insurance limit under the Bill, considering that at about \$1,600, it is at a much lower level than some of the other developing or larger economies.

Further, there should be provision for a periodic review to raise the quantum of deposits covered by insurance. "With private sector banks gaining market share in loans and deposits, a higher deposit insurance amount in the Bill goes in favour of depositors; otherwise the precedence reflects that the failure of a private bank has put the onus of bail-out on the regulator rather than the shareholders."

### **Banking supervision**

The current elevated level of non-performing assets and mounting losses of banks indicate that the RBI could have been more proactive in its supervision, said Mr. Gupta. "More frequent audits with public disclosure of audit findings would improve transparency... Further, depositors should also evaluate performance of banks at least on a yearly basis and take informed decisions."

So far, it has been up to the RBI to act in the instance of a bank failure as it deemed fit. The FRDI is meant to formalise the existing process and improve it further. "But tactless wording in the Bill and inadequate clarifications have created confusion in the minds of depositors," said Dr. Sensarma.

People were taken by surprise at the explicit recognition of a bail-in process which was thus far implicitly present. The government tried to soothe nerves by talking about implicit guarantees for deposits in PSU banks. There are two problems with this clarification.

First, the implicit guarantee cannot be emphasised beyond a point lest it creates a moral hazard in the form of risky behaviour by banks and lazy monitoring of banks by depositors. Second, what about private banks who hold 25% share of total deposits in the country? Are their customers not deserving of the same protection from the government?

"The government must increase deposit insurance limits immediately or at least give a firm commitment that it will happen," he said, adding that deposit insurance can also generate moral hazard by creating a false sense of security among banks and depositors as in the case of a government guarantee.

One option, he said, was to make riskier banks pay a higher insurance premium. But the aim must be to ensure that the relatively less affluent have 100% insurance coverage and the affluent investors diversify across asset classes. However, Mr. Gupta disagree with this suggestion.

"It's not [the point] about affluent or less affluent which needs to drive the deposit protection; rather it's the faith which needs to be built in the system about the safety of the deposits. Else, the financialisation of our savings will be impacted and the savings will get channelised to less productive assets like gold, real estate etc and as a country we will remain starved of capital for investment."

Source

### **India: Regulator forms taskforce to study use of wearables – Asia Insurance Review**

The IRDAI has formed a working group on innovations, particularly the application of wearable and/or portable devices in insurance.

Insurance companies have suggested that usage of these devices should lead to benefits, such as a discount on premiums, being offered to policyholders, reported Moneycontrol.

The working group will look at how technological advancements, particularly wearable and portable devices, may be treated from the point of view of risk improvement, risk assessment and use/distribution of such devices as part of policy design.

Further, it will understand the practices of other jurisdictions in this area and suggest the policy framework that needs to be put in place, keeping in view the interests of policyholders.

“Currently, we put all policyholders under one bracket irrespective of what their fitness levels are. Hence, we have suggested that individual health metrics also be measured and differential pricing be offered,” said the chief executive of a large life insurance company.

At present, mortality tables are used by life insurance companies to look at the premium that would be charged for each age bracket of customers. Insurers also either require the policyholder to undergo a complete medical examination or rely on the disclosures given by prospective policyholders.

The IRDAI has said in the context of both health insurance and life insurance, wearable devices could be used to measure personal fitness, incorporate a healthy lifestyle, among others. In motor insurance, recently the IRDAI had put up a discussion paper on the application of telematics.

“Innovation is encouraged, but policyholder interests and how exactly the products will be designed need to be looked into. Proper data will have to be analysed,” said a senior official.

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## **Insurance Regulation**

### **Regulators fret over role overlap in FRDI Bill - The Hindu Business Line - 11th January 2018**

The proposed Financial Resolution and Deposit Insurance (FRDI) Bill is set to be the next big political faultline, with all the main stakeholders — regulators, banks, stock exchanges, insurance companies and depositories — voicing serious objections to various clauses of the Bill.

The stakeholders have outlined these objections before a joint parliamentary committee (JPC) and the issues raised have led to a heated debate within the panel. The ruling NDA coalition has a clear majority in the 30-member JPC, which is headed by BJP MP Bhupendra Yadav.

BusinessLine has reliably learnt that the key objections pertain to regulatory overlap/areas of conflict between the proposed Resolution Corporation (RC), the sector regulators and the Centre; issues related to deposit insurance; bail-in and bail-out provisions; matters relating to cooperative banks and the criteria for classification of a specific service provider into low/moderate/material/imminent and critical risk to viability.

#### **Kill bill: Opposition**

The Opposition is clear that given the nature and seriousness of objections, the Bill should be killed. An Opposition MP told BusinessLine that they will urge the panel to recommend that the Centre reject the Bill. “Almost all institutions that will be party to this Bill have opposed it. We (the Opposition) will recommend that the Bill be rejected. These institutions deserve appreciation for speaking their minds,” the member said.

However, the ruling coalition is not ceding ground. An MP who supports the Bill said the Department of Economic Affairs has countered every objection raised by the regulators. He blamed certain “Left-wing trade unions” for “spreading lies” about the Bill.

“The Centre has answered all the queries put by us and the regulators. The FRDI Bill is necessary as our regulatory mechanism needs to be strengthened. We are sure the panel will submit a unanimous report after hearing every stakeholder,” the member said.

### Specific objections

But the fine-print has several red flags. A closer examination of the nature of the objections reveals that it is not just the unions, but every major stakeholder, including the RBI, that has objected to specific clauses of the Bill. For instance, the RBI has questioned the possible overlap and clubbing together of functions if a Resolution Corporation is formed.

The dual regulatory structure may even have an impact on ‘ease of doing business’, ICICI Bank has warned. Banks have also expressed reservation on the Bill omitting the mention of deposits till Rs. 1 lakh being insured. On the bail-in provision, they have demanded clarity.

The RBI has sought amendments to clause 36(5) of the Bill, which equips the RC with powers to specify the criteria of classification of risk of a particular service provider. Currently, the sector regulator decides on such matters.

The RBI said the ‘risk to viability’ should be determined by the appropriate regulator, in consultation with the RC, and said the classification of risk up to the ‘imminent’ stage should be left to the regulator. The Indian Banks’ Association has backed this proposal of the RBI.

Simultaneously, the Union Bank of India has termed the powers vested with the RC as “draconian” and said that it should be subject to the overarching power of the Centre, otherwise confidence in the financial system will crumble. It also said that Chapter 6 of the FRDI Bill creates an unwarranted conflict zone between the regulator and the RC.

### ‘Limit RC role’

Regulators, according to Union Bank of India, are better suited to job risk categorisation and the RC’s role should be confined to resolution and liquidation.

The Insurance Regulatory and Development Authority of India (IRDAI) has questioned Clause 14(1) that gives the RC the power of investigation.

On deposit insurance, the Centre is learnt to have told the panel that Clause 29(1) of the Bill gives scope for enhancement of the deposit insurance level of a depositor. The RBI suggested that a new provision should be added to the FRDI Bill to ensure that the Rs 1 lakh limit continues.

The RBI also pointed out that there is no clarity on the duration for which a service provider will be required to pay a resolution fee.

The RBI is learnt to have sought a clarification on ‘eligible cooperative banks’ under the FRDI’s ambit. It has also suggested that such banks may not be contributing to the resolution fund, and so the ‘corporation insurance fund’ could be used under the resolution scheme, as is currently being done under the Deposit and Credit Insurance and Credit Guarantee Corporation (DICGC) Act, 1961.

### Hot issue

The nature of objections before the parliamentary panel suggests that the ruling coalition may not be able to force the Bill’s passage through its brute majority in the Lok Sabha.

### Source

Already, street agitations have begun on the issue, with the principal opposition party, the Congress, staging a demonstration before the RBI office in Kolkata last month.

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### *India: IRDAI kicks off process of shifting to RBC regime – Asia Insurance Review*

Insurance companies will soon have to adhere to more stringent, global standards in capital requirements, with the insurance regulator IRDAI set to introduce a Risk Based Capital (RBC) regime.

Kicking off the process, the IRDAI has called for Expressions of Interest from consultancies, agencies and institutions for the implementation of the RBC regime, reported Hindu Business Line.

“IRDAI shall make the transition to RBC to conform to the principles followed in jurisdictions across the globe and consistent with the prevalent core insurance principles of the International Association of Insurers,” the regulator said, adding that suitable adjustments will be made in the Indian context.

In the RBC regime, the minimum capital requirement will be based on the risks to which an insurer is exposed.

In a report on financial services in India released last month, both the International Monetary Fund and the World Bank suggested the adoption of risk-based solvency and supervision. They advised the IRDAI to formulate a strategy and timetable for the introduction of risk-based capital adequacy.

“It should develop a risk-based supervisory circle, using impact and risk assessment to determine supervisory focus. Skill and expertise should be upgraded to this end,” the global institutions said.

The IRDAI had initially constituted two committees: one to work on a roadmap for the risk-based capital approach in the insurance sector; and the other to handle a risk-based capital approach and market-consistent valuation of liabilities. Last September, the regulator had also constituted a 10-member steering committee to implement the RBC regime.

### Source

A timeline of March 2021 has been proposed for the implementation of the proposed RBC regime.

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## Life Insurance

### *IRDAI plans to revoke form for life products – The Hindu – 11th January 2018*

Insurance regulator IRDAI plans to withdraw the standard format for life insurance proposal form, four years after evolving and putting its implementation on the hold.

“It is now proposed to repeal the IRDA (Standard Proposal form for Life Insurance) Regulations, 2013,” Insurance Regulatory and Development Authority of India (IRDAI) said in an exposure draft on the repeal, while seeking comments and feedback of stakeholders by January 23.

Presently, life insurers file proposal forms with IRDAI which is reviewed under the File and Use procedure at the time of product clearance. “The proposal forms are customised by life insurers for the specific products and there is no useful purpose served by mandating a uniform proposal form format for all companies and products,” IRDAI said.

#### **Insurers’ feedback**

IRDAI had issued the regulations pertaining to the uniform proposal form in 2013. In their feedback, the insurers expressed concerns, including on how a single standard proposal form may not suit all types of products.

Another argument put forth by them was how for simple pure term policies, endowment and money back type, with no requirement of medical examinations, primarily catering to rural and micro insurance segments, getting a detailed 10 or 11 page proposal form filled would be difficult. Prospective customers may not be comfortable in sharing many granular details of income was another concern raised.

The insurers had also pointed to the huge cost involved in recasting all existing proposal forms and insurer systems.

### Source

Based on the feedback, IRDAI had in January 2014 deferred implementation of the regulations till further notice to facilitate a more comprehensive debate and consultations on various provisions of the said regulations.

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### *Life insurance being seen as protection instrument, not just a tax saver. Here is why – The Economic Times – 10th January 2018*

The number of life insurance policies sold in India fell in 2016-17 from the previous year but the total cover increased 14 percent in value, indicating that the domestic industry is maturing to being seen as a protection instrument from being just a tax saver.

The total number of policies sold during the year fell to 264.56 lakh from 267.38 lakh a year ago while the total cover increased to Rs 4,18,476.62 crore from Rs 3,66,943.23 crore, according to the latest annual report issued by the Insurance Regulatory and Development Authority.

A total of 264.65 lakh new life insurance policies were issued during the year, with the Life Insurance Corporation accounting for 201.32 lakh policies. The state-run corporation’s share fell 2.02 percentage points over the previous year to 76.1 percent.

Private sector life insurers issued 63.24 lakh or 23.9 percent of total new policies issued, with their share increasing 2.13 percentage points over the previous year. “The contribution of protection was abysmally low in the last decade,” said Birla Sun Life Insurance managing director Pankaj Razdan.

“Despite strong growth in premium, the protection gap has remained very high. With focus, scale and better life expectancy assumptions owing to improving healthcare, mortality charges are down 30-50 percent.” While LIC reported 12.78 percent growth in their premium income, private sector life insurers posted a 17.40 percent growth. On the basis of total premium income, the market share of LIC decreased to 71.81 percent in 2016-17 from 72.61 percent in 2015-16.

Source

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### ***Term insurance: its suitability and costs - Mint - 9th January 2018***

A term insurance policy is your best bet to financially protect your family against your untimely death. It's simple and the most affordable life insurance to buy, because it only charges you for insurance and does not charge anything extra for investments. This is why the experience of buying a term plan is very different when compared to a bundled insurance-cum-investment plan. Here are some pointers to keep in mind while buying a term plan.

Do you need it? Just because it's cheap, and of course the premium qualifies for a deduction under section 80C of the income tax Act, it doesn't mean everyone needs to buy it. If you are single with no dependants, you don't need life insurance. The same logic applies to those who are retired and not earning an income.

Are you fit for it: Insurance is about covering risks and the process by which the insurer determines risk, in order to price the policy, is called underwriting. Gauging your health is a very important part of underwriting and often in the case of term insurance cover, you would need to undergo a medical test.

The younger and healthier you are, the easier it is for you to buy term insurance. Even your income, education qualification and job profile play a role in underwriting. While these factors may not directly impact your suitability to buy term insurance, they are important to decide the amount of life insurance cover you can get.

Lump sum or staggered payout: Traditionally, a term policy pays a lump sum to the beneficiary on death of the policyholder during the policy term. However, of late there have been plans that break this assured lump sum into periodic payments to generate regular cash flows for the beneficiary for a fixed number of years.

A periodic income is easier to handle, especially if the nominee is not able to optimally utilise the lump sum. There are plans in the market that break the sum assured into a lump sum benefit, to cater to the immediate financial crunch and subsequently into periodic income for a fixed number of years.

Regular premium or single premium: A single premium policy takes all the payment upfront, whereas a regular premium policy takes a premium from you every year. In other words, when you buy a single-premium policy you pay upfront for a term that you may not need; if the death occurs in the 5th year, premiums for 20 years would have been paid already in a policy with a term of 20 years.

This is not the case in regular premium plans. Since a single premium plan takes the entire payment upfront, the total cost may appear cheaper compared to a regular plan but keep in mind the time value of money. Over time, as you factor in inflation, the annual premium option would actually appear to be cheaper.

Source

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### ***Is insurer with highest claim settlement ratio always the best choice? - The Economic Times - 8th January 2018***

Life insurance companies publish data on their claim settlement ratio every year in their annual reports. But while buying a life insurance policy, should one consider this figure at all and will insurers with high ratios always be the right choice?

The answer to this may not be as straightforward as it appears. An insurer with a high or low settlement ratio today may not always remain in the same range in the future. This is because there are a set of underwriting guidelines which are internal to the company and, therefore, varies among companies which may even be revised by them.

Further, a high settlement ratio means more claims are being paid out which could also mean that the insurance company's underwriting rules are moderate. This practice may bring in sub-standard lives into the insurance pool thereby increasing the overall risk.

Also, the number of claims settled in isolation may not mean much; it has to be seen in context with the total amount of claims settled, total policies in-force etc.

Soon, insurance companies could start advertising their own claims settlement figures which have to follow guidelines set by the insurance regulator. Earlier, insurers don't follow a set format as to how they will present their claims settlement data. The Insurance Regulatory and Development Authority of India (Irdai), had a few months ago, stated that insurers will have to stick to the new advertisement guidelines where they will have to follow a standard practice while communicating death claims data.

To maintain uniformity across the industry, life insurance companies can now only publish annual figures of death claims paid ratios (number of claims paid to number of claims received) based on the number of policies. Illustratively, if an insurer settles a certain number of claims, say, 5,599 in a year out of 6,699 received, then in the advertisement they need to show these figures, not the percentage of claims settled. In this case 83.5 percent.

The circular clearly states that no other information related to death claim payments, other than the number of policies can be a part of an insurance advertisement.

Now, from a policyholder point of view, how important is the claims settlement?

#### Is claim ratio enough?

Merely disclosing and advertising annual figures may not be of much use for buyer. The disclosures on claim settlement are silent on the nature of policies - whether they are endowment, unit-linked insurance plans (Ulips), or term insurance plans.

As the medical and financial underwriting of these plans are different, separate disclosures of their claim settlement ratios, especially term insurance plans, could help potential buyers make more informed decisions.

The claims ratio, in itself, may not be sufficient enough to take a call on which insurer to buy your policy from.

Here are few highlights of the individual death claims in 2016-17:

- Claim settlement ratio of the Life Insurance Corporation of India (LIC) was at 98.31 percent as at March 31, 2017 compared to 98.33 percent as at March 31, 2016. The repudiations or rejections have marginally come down to 0.97 percent in 2016-17 compared to the 0.98 percent in previous year.
- For private insurers, settlement ratio had gone up by 2.24 percent at 93.72 percent during the financial year 2016-17 compared to 91.48 percent during the previous year. The repudiations came down to 4.85 percent in the year 2016-17 compared to the 6.67 percent in previous year.
- The industry settlement ratio increased to 97.74 percent in 2016-17 from 97.43 percent in 2015-16 and the repudiation ratio decreased to 1.45 percent compared to the 1.73 percent in 2015-16.

INDIVIDUAL DEATH CLAIMS OF LIFE INSURERS 2016-17									
<i>(Figures in percent of policies)</i>									
Life Insurer	Total Claims	Claims paid	Claims repudiated/rejected	Claims Un-claimed	Claims pending at end of year	Break up of claims pending duration-wise (Policies)			
						< 3 mths	3 - < 6 mths	6 - < 1 yr	> 1 yr
Private Total	100.00	93.72	4.85	0.58	0.86	78.66	7.86	2.97	10.51
LIC	100.00	98.31	0.97	0.31	0.42	86.98	9.68	1.94	1.40
<b>Industry Total</b>	<b>100.00</b>	<b>97.74</b>	<b>1.45</b>	<b>0.34</b>	<b>0.47</b>	<b>85.09</b>	<b>9.26</b>	<b>2.17</b>	<b>3.47</b>

#### What should you do?

You can definitely take a cue from the claim numbers, but it should not be the only parameter you should look when buying an insurance policy. Instead, whichever insurer you have decided to buy the life insurance policy from, make sure you disclose all the material information about yourself and your family's medical history.

## Source

Insurance policies are for the long term and can run over several decades. Claims figures can change in a span of 1-3 years. Being transparent at the time of filling up the application form will help rather than relying on what the insurer claims about its claims record.

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### *Should insurance give or take away your money? – Mint – 8th January 2018*

Last month two important news items broke in the life insurance space. One was about misselling in the and the other was about consumer losing money due to high exit penalties. The case of misselling was reported on thewire.in. It said Rajasthan Police is investigating a case where bank officials allegedly sold insurance policies to customers who wanted to invest in fixed deposits.

Such a crime can hit you hard because, while fixed deposits are one-time investments and can be withdrawn by paying a penalty on the interest; regular premium life insurance policies need you to keep paying renewal premiums, else you can lose all the money. This is where the second news becomes relevant. In January 2017, the Insurance Regulatory and Development Authority of India (Irdai) constituted a committee of insurers to look into product regulations and recommend reforms. Its report was published in December 2017 and one of its concerns was high surrender cost in traditional plans, which bundle investment with insurance. “About 61% of the policies don’t stay till the end of 5 years, and with nearly 80% of the industry’s product mix sold in traditional product category, this (heavy surrender charge) has put industry’s reputation at risk affecting the viability of the business,” the report said.

However, as per the report, most insurers said that it wasn’t viable to reduce the surrender charge (exit load). Though the committee, in principle, favours reducing surrender costs, it put both points of view on the table. But why is reducing surrender costs important? To understand this, let’s look at the surrender charges in traditional plans.

<b>WHAT YOU GET IF YOU EXIT A TRADITIONAL BUNDLED INSURANCE POLICY EARLY</b>			
Premium in year one is Rs1 lakh	You paid so far	Surrender Cost	What you get back
You don't pay 2nd premium	Rs1 lakh	100% of the premiums paid	Nothing
You don't pay 3rd premium	Rs2 lakh	100% of the premiums paid	Nothing
You don't pay 4th premium	Rs3 lakh	70% of the premiums paid	Rs90,000
You don't pay 5th premium	Rs4 lakh	50% of the premiums paid	Rs2 lakh
You don't pay 6th premium	Rs5 lakh	50% of the premiums paid	Rs2.5 lakh
You don't pay 7th premium	Rs6 lakh	50% of the premiums paid	Rs3 lakh
You don't pay 8th premium	Rs7 lakh	50% of the premiums paid	Rs3.5 lakh
You don't pay 9th premium	Exit load as per insurer's discretion after approval from the regulator		

Premium payment term: 15 years. This is the guaranteed surrender value laid down by regulations although the insurers are free to offer more but in the initial years the special surrender value is marginally better  
Source: Mint Money research

#### **Exit penalty**

Irdai has defined the maximum that an insurer can charge for exiting a policy midway. For traditional policies, it depends on the premium payment term, but the exit load is 100% in initial years. There is no surrender value if at least 2-3 annual premiums have not been paid. If the policy’s premium payment term is more than 10 years, it acquires a surrender value after three annual premiums are paid. If you surrender a policy before that, you don’t get anything. If you surrender after 3 years, insurer has to pay back 30% of the total premiums: so the surrender charge is 70%. If premium paying term is less than 10 years, the policy acquires a surrender value after two annual premiums are paid and the guaranteed surrender value of 30% of the total premium is payable. Between fourth and the seventh year, in both cases, the surrender value is 50% of the premium paid. After seventh year, the insurer has to file a surrender charge and get it cleared by Irdai.

The exit penalties, said Kapil Mehta, co-founder, SecureNow.in, are very high and need to come down. “One can argue that high exit barriers encourage people to stay in a long-term product, but that’s a flawed model. To encourage people to stay in the policy, the industry needs to improve the return on investment on traditional plans, which is around 2-5%, and not through heavy surrender penalties. Penalties can’t be so high that they take away a huge portion of the capital of policyholders,” he said.

#### Ways to increase persistency

The committee report has not given a decisive recommendation to lower surrender costs. But given the poor persistency levels—more lapsation means more people pay huge surrender costs—and the fact that unit-linked insurance plans (Ulips) have capped the penalty to a bare minimum, the report is in favour of decreasing the surrender costs gradually. To this end, it has proposed two methods. The first recommends splitting risk and investment premium so that the first year premium or a large part of it can be utilised towards cost of mortality cover for the entire term, distribution costs and other expenses; while the subsequent premiums are earmarked for investment purposes. This way, high exit penalty is confined only to year one, but if you pay the second instalment then after a lock-in of 5 years, the second premium is refunded in full. Also, as you have paid for the insurance upfront, you would retain the risk cover through the policy term.

The second method comes with a longer waiting period but refunds 50% of the first-year premium and 100% in case of surrender in any subsequent year, but after a waiting period of 10 years. The committee recommends gradually decreasing this period to 7 years. In this case, risk cover is not available. According to Deepak Mittal, managing director and chief executive officer, Edelweiss Tokio Life Insurance Co. Ltd, there is merit in increasing the surrender value for customers “but it needs to be carried out in a phased manner.” The reason for high exit penalty in initial years is the acquisition cost that insurers incur. “However, one can explore returning the premium after a lock-in or on death or maturity,” he added.

The report also recommends streamlining the existing rules on surrender. For instance, it suggests a smooth progression of surrender values. So, instead of getting back 30% in the third year and 50% in fourth, it suggests a smooth progression of 30% of surrender value in year three, 35% in year four and so on. But this, for the customers, means higher penalty rather than lower.

#### What this means for you

Even under the two methods proposed by the committee, you would end up losing a substantial chunk of the first year premium. Whether the regulator moves to lower the costs, for you a high first-year exit penalty means you need to be careful. Our advice is to keep it simple and buy a term plan for your insurance needs. If you must buy a bundled plan, make sure you understand the product well and the kind of commitment it needs from you.

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### General Insurance

#### *Irda clarifies motor insurance guidelines - The Economic Times – 11th January 2018*

The insurance regulator today further clarified the guidelines on motor insurance asking automobile dealers who have turned into motor insurance service provider and insurance intermediary not to enter into an agreement with the original equipment manufacturers which has an influence on the sale of motor insurance policies. This has opened up auto dealership to the entire insurance industry.

The insurance regulator wants the tie-up to be between insurance companies, intermediaries and automobile dealers who have turned into MISP.

"It is reported that the Original Equipment Manufacturers -OEM's are exercising undue influence both on the insurance intermediary and the automobiles dealer who have become MISP without having corresponding accountability for their actions," said regulator in a circular issued on Thursday. "In order to ensure that MISP guidelines work in the interest of the customers, it is advised that no MISP or the insurance intermediary can enter into an agreement with the OEM which has an influence or bearing on the sale of motor insurance policies."

Insurance companies had approached the regulator stating that they are not included in the panel of Insurance brokers, MISP's as it is not compulsory for Insurance broker, MISP to empanel all insurance companies for selling motor insurance policies.

The regulator has capped payments by insurers to agents and dealers at 19.5% for cars and 22.5% for two wheelers and brought them under its purview as motor insurance service providers from November 2017.

Irda said that it is of the view that with the remuneration levels for the insurance intermediaries and MISIP being stipulated, the creation of a panel of insurers is restrictive, which can lead to undesirable market practices.

"To remove misgivings in the minds of the stakeholders it is clarified that neither the insurance broker nor the MISIP can create such a panel of insurer for selling motor insurance policies. However, the insurance companies should enter into service level agreements with insurance brokers/ MISIPs based on transparent and objective criteria," the regulator said.

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### ***Looking ahead: General Insurance – Data-driven world to ensure mass customization - Financial Express – 9th January 2018***

If you had attended any marketing event in the late 90s or early 2000s, you may recall something called ‘mass customisation’. It was a dream. Marketers looked at the surging middle-class world over and imagined selling customised products to individuals. While the internet grew rapidly, the availability of bandwidth to individuals did not match up to help marketers realise that dream. A dot-com bubble bust meant everyone had to wait. Cut to 2018. India has over 30 crore smartphone users. They not only have internet access but also leave a digital footprint like never before. A biometric identification process using Aadhaar means there is little to doubt identity. One can already feel the undercurrent of a revolution that is being ushered in by new technologies—artificial intelligence, Internet of Things (IoT), wearable technology, electric cars and mobile apps—that put practically everything at self-service. It means a whole new world for insurance marketers.

#### **New service standards**

The banking, financial services and insurance segment is already in the thick of a revolution. As a customer, you may have already noticed companies reaching out to you as soon as you log on to an insurance company website or search for something related on the browser. Most companies are gearing up for mapping the customer’s digital footprint and use predictive intelligence to design response to services.

‘Chatbots’ are already making their presence felt. Artificial intelligence plays a key role here. As insurance marketers, we wanted a simple solution to customer service. Bots installed on mobile messengers can instantly cut unnecessary communication threads. Simple queries can instantly be tackled and reduce the burden on customer services. From a customer’s standpoint, this is convenient. As a policyholder, you got to simply ‘ping’ in your query.

#### **A whole new data-driven world**

IoT ends up connecting devices at homes or factories or cars. Real-time data received can help insurance companies produce quality products as they bring them closer to customers. The wearable devices or personal technology that captures information like steps taken, heartbeat and other personal information is already revolutionising healthcare and insurance associated with that.

Imagine a scenario where you pay an insurance premium amount in line with your car usage. Your premium may go down further if you keep your car in a secured parking area.

Driverless cars could usher in a whole new world. It could redefine how car insurance is designed or structured. Similarly, if you keep track of your diet on an app or the time you spend working out or doing any physical activity, it may be in your interest to share it with your insurer. You could pay a very low medical insurance premium.

The intimacy achieved by technology is set to redefine a lot of things in the insurance business. Firstly, an increasingly connected world helps in risk mitigation. This, in turn, can help insurance companies to make a realistic assessment when offering an insurance product. ‘Not aware of the customer need’ will no longer be an excuse.

Secondly, a lot can be predicted about the individual or the business or property that is likely to be insured using data. This has rather serious ramifications for the claims settlement process. A successful insurance company has to get this right at all times.

The new data-driven world is all set to help make the claim settlement processes effective. This is great news for a customer.

### **2018 and beyond**

Anything new in technology is predicted to cause disruption these days. This is good for the insurance business. It is even better for customers. Insurance companies can take their relationship with customers to an unprecedented level of closeness.

The real-time data gathering achieved through this will help insurers design better products. The year 2018 is most likely to see usage-based insurance achieve traction. The prediction is that as technology gets more and more personal, insurance too would ride on it.

Source

'Mass customisation' is all set to become a reality sooner than later in the insurance business.

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### ***India: Insurers cuts 'own damage' motor premiums – Asia Insurance Review***

Domestic general insurers have decided to slash their premiums in the 'own damage' motor insurance segment by 5-20% for existing and new customers who own private and commercial vehicles.

The move follows new regulations issued by the IRDAI that have led to a cut in the commissions offered by insurers to auto dealers which serve as insurance agencies, reported Indian Express.

In the IRDAI's MISP (Motor Insurance Service Provider) circular, the regulator capped distribution fees payable to auto dealers at 22.5% for two-wheelers and 19.5% for four-wheelers and sports utility vehicles (SUVs). Previously, general insurers paid distribution fees in the range of 30-40%.

Source

According to industry officials, this is the first time that almost all the general insurers, including New India Assurance, United India Assurance, Bajaj Allianz General Insurance, ICICI Lombard, Tata AIG and SBI General Insurance have revised their 'own damage' premiums on vehicles downward despite incurring higher claims.

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### ***'Linking insurance policies with Aadhaar, a mammoth task' - The Hindu Business Line – 5th January 2018***

General insurance companies are understood to have sought an extension of the March 31 deadline for seeding the policyholders' accounts with Aadhaar.

G Srinivasan, Chairman and Managing Director of New India Assurance Company, said, "It will be a mammoth task considering that we do not have the technology in place for seeding of accounts with Aadhaar and in many cases, we do not have the contact number of the policyholder to get on to the job on a war footing.

"We have, over the last couple of weeks, started collecting details from customers who have either sought to renew their existing policy or bought a new policy. Only when the technology is in place, will we be able to link the customer's account with the Aadhaar number."

While the company is in the process of putting in place a technology solution to address this issue, Srinivasan said, "When a policy is bought online or when an individual takes delivery of a vehicle, the dealer helps the buyer with the insurance cover. In such instances, we hardly get to see the customer. The seeding of the policy with Aadhaar is therefore, going to be an uphill task for insurance companies."

Source

The company services 2.7 crore policies, and all these will have to be linked with Aadhaar within the next 11 weeks.

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### ***India: Insurers ordered to provide easy access to MTPL insurance – Asia Insurance Review***

The insurance regulator IRDAI has said that insurance companies must ensure easy availability of mandatory motor third-party liability cover, including online, and under no circumstance should they deny a request for third-party cover.

Hitherto, insurance companies were offering only comprehensive motor cover online.

The IRDAI circular follows a directive from the Supreme Court Committee on Road Safety requiring state governments to conduct checks on vehicle to ensure that all of them have the mandatory third-party insurance, reported Times of India. The circular also follows complaints by states that the cumbersome process of obtaining third party insurance is hampering the implementation of the apex court order.

The committee said that in case a vehicle does not have third party insurance, the vehicle should be detained until such time the third party insurance certificate is produced by the vehicle owner. At present, traffic authorities merely penalise the vehicle owner in case he is not able to produce a valid third party insurance cover.

A total of 480,652 road accidents took place in India in 2016, resulting in the loss of 150,785 lives and inflicting serious injuries on 494,624. This has resulted in motor insurance being an unprofitable portfolio for insurance companies. Although the regulator has taken measures to offset the losses, insurance companies do not go out to acquire this business as the administrative costs are high, particularly in the case of two-wheelers.

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## Health Insurance

### ***Health insurance: Outpatient coverage will be a big bet in 2018 - Financial Express – 10th January 2018***

At present, 27% of Indians possess health insurance and majority of these are covered under some government or corporate scheme and only 5% possess any form of private health insurance. To bring in more customers into the fold, we saw disease-specific and wellness linked covers being launched by a few players.

However, with the increasing uptake in medical cover by individuals, only the most focused players will survive. The need of the hour, given the rising medical inflation and escalating healthcare costs, are comprehensive products, with limited exclusions and lowest waiting periods, which are easy to understand, given the abysmal level of health insurance penetration in the country.

#### **Health insurance this year**

Outpatient coverage will be a big bet in 2018. Health insurance needs to evolve to become an intrinsic part of customers' lives. While we have seen added features and expanded scope for health insurance products, these (products) need to become more comprehensive and usable to attract more buyers. At present, claims are basis IPD treatment but we expect greater work and development in the space of OPD coverage.

#### **Health savings account**

Most existing health insurance plans in India only offer in-patient coverage. There is no ecosystem available to manage out-patient expenses such as OPD, pharma bills and diagnostics.

Given the potential increase in healthcare expenditure over time with an ageing population and disease burden shift from communicable to lifestyle diseases, it is imperative to look at options for building a corpus which can be utilised by individuals for their healthcare needs. The industry is already strongly contemplating the introduction of "Health Savings Account" in India with a focus on financial security in the wake of medical emergencies.

#### **Products for younger people**

Young customers are now increasingly demanding interactive and better experiential benefits for goods and services. They expect the health insurance players to deliver much higher value and partner them in their quest for a healthier lifestyle. Products will have to be created keeping the younger audiences' needs in mind, and the delivery/ outreach method would also need to evolve to be able to tap the right audience at the right place and time.

#### **Greater technology influx**

Using predictive analytics, companies will aim to unleash the power of intelligence to process complex data source variables and convert them into relevant data for actionable insights. This would help them predict what could happen next and what the best decision should be. In the insurance industry, predictive consulting is offered to customers to facilitate 24-hour customer service and this will greatly define the customer experience in the coming years.

The insurance sector is focusing on Blockchain technology to empower the future of insurance. Blockchain will bring greater participation in the health ecosystem, bring more agility and speed in executing transactions. It will also help with consistency in health records management for the customer.

#### Digitalisation and wearables

In December 2017, Irdai set up a working group to examine the role of wearable devices in risk assessment and product design. This will allow companies to include features rewarding customers based on data collected from wearable devices or mobile apps.

Today, the biggest complaint against health insurance is that there is no differentiated ROI for healthy customers who maintain a healthy lifestyle and have no claims. In the absence of accurate data about customers' health parameters, the only way companies can reward such customers is by offering a higher sum assured at the time of renewal. But if companies can access customers' vital physical statistics and track their physical activity, then rewarding and encouraging customers to maintain a healthy lifestyle will become easier. Companies can also offer customers guidance and advice on healthy living based on this data.

Source

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#### IRDAI Circular

Source

Exposure Draft on Insurance Regulatory and Development Authority of India (Minimum Information for Inspection or Investigation) Regulations 2018 is available on IRDAI website.

Source

IRDAI issued circular on clarification on MISP guidelines

Source

An Exposure Draft on repealing of IRDA (Standard Proposal form for Life Insurance) Regulations 2013 is available on IRDAI website.

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#### Global News

##### *South Korea: Action expected this year on insurance M&A scene – Asia Insurance Review*

The mergers and acquisitions (M&A) market in South Korea's financial area, especially in insurance, is expected to heat up this year as financial groups escalate their efforts to get ahead of the competition, heralding aggressive shopping. At the same time, the insurance market has a number of firms available for acquisition, reported The Korea Times. Among them is ING Life Korea. Its largest shareholder is private equity fund MBK Partners with a 59.15% stake in the insurer. MBK failed to exit ING through a sale to Chinese bidders in recent years. However, KB Financial has already showed its interest in ING Life Korea through an unsuccessful attempt to acquire the insurer in 2012 when MBK Partners purchased the insurer.

Another insurer up for sale is KDB Life. Its largest stakeholder, Korea Development Bank (KDB), has expressed its intention to sell the life unit through its sales attempts in recent years. Last month, KDB increased the attractiveness of KDB Life by issuing rights shares worth KRW300 billion to strengthen its capital.

Among non-life insurers, Lotte Insurance is set to be placed on the block. The Lotte Group has pledged to list Hotel Lotte, the largest stakeholder of Lotte Insurance. The group plans to place the hotel under its new holding company, Lotte Corp. This requires Hotel Lotte to sell its stake in Lotte Insurance within four years because of the country's law prohibiting a non-financial holding firm from owning a financial firm.

##### **Financial groups' plans**

Among the financial groups, KB Financial Group merged with Hyundai Securities, and nonlife insurer KB Insurance merged with LIG Insurance in 2016. KB Financial has overtaken Shinhan Financial to become the largest player in Korea thanks largely to these moves to strengthen its stake in insurers and securities houses. Last November, KB Financial Group Chairman Yoon Jong-kyoo said that "there have been voices that our life insurance unit is weak and we have every intention to strengthen it".

At the end of the third quarter last year, KB Life Insurance's assets under management stood at KRW9.07 trillion (US\$8.5 billion), 17th largest among 25 life insurers in the country. In terms of net profit, it logged KRW23.3 billion for the first nine months of 2017, which accounted for a mere 0.84% of the group's net profit of KRW2.76 trillion during the same period.

M&As are also the strategy for Shinhan Financial. Shinhan has set non-banking M&As as one of its growth strategies for this year. Though the group has not said which non-banking sector it is eyeing, industry officials say brokerage and non-life insurance are likely because its brokerage unit, Shinhan Investment Corp, is relatively small compared to the group's size and it has no non-life insurance units in its portfolio. Hana Financial Group is another expected player in the M&A market. Its Chairman Kim Jung-tai has pledged to raise the share of non-banking profits in the group from 5% to 30%, dropping hints of expanding its securities unit or the existing life insurance unit of Hana Life.

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### *Indonesia: Life insurers lobby for investment relaxation – Asia Insurance Review*

The Indonesian Life Insurance Association (AAJI) has asked the Financial Services Authority (OJK) to relax its stipulation for insurers to invest in government securities (SBN). Under OJK rules, life insurance companies must place a minimum 30% of their total investment funds into SBN.

AAJI Chairman Hendrisman Rahim revealed that the ratio of investment funds placed in SBN by life insurers had exceeded 20% at the end of 2017, but this was not yet close to 30%, reported CNN Indonesia. "So we want OJK to review this condition. In fact the industry wants to meet the SBN portfolio requirement but faces many obstacles," said Mr Hendrisman.

He said that SBN instruments are not easily obtainable by life insurance companies. In addition, the prices of these instruments are too costly, and insurers are concerned that the returns on the instruments may not be able to cover the purchase price of SBN. While the OJK has relaxed its stance by allowing life insurance companies to invest in bonds issued by state-owned enterprises (BUMN) as a replacement for SBN, privately-held insurers find it difficult to obtain such bonds.

For this year, Mr Hendrisman is still pessimistic that life insurers would be able to meet the OJK's SBN targets for them. He expects that the majority of life insurance companies will re-invest funds in mutual funds this year because these are still fairly stable compared to other investment types, such as stocks.

Source

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### *Australia: Splitting medical insurance coverage can save money – Asia Insurance Review*

A consumer can save some money each year--without compromising the quality of protection--by avoiding combined cover and instead taking out hospital and extras policies with different insurers, according to new analysis by the consumer group Choice.

A person looking for top hospital insurance and mid-level extras who dropped their bundled A\$199 (US\$157) a month policy with Bupa and switched their hospital cover to Mildura Health Fund and their extras to Australian Unity would get a comparable level of cover for A\$150 per month.

"When you consider that the average price increase is likely to be around 4% next year, splitting your policies between insurers can give you a healthy saving of around A\$588 and you'll effectively beat the price hike," said Choice spokesman Mr Tom Godfrey.

"When it comes to shopping for health insurance, it always pays to shop around. Don't just look at the health fund's bundles because they usually aren't the best deals on the market," he said. "Health insurance premiums are set to increase again next year, with the cumulative increase since 2008 likely to be in excess of 70%, anything you can do to ease your premium pain is a good thing."

Choice's new independent health insurance comparison tool automatically checks whether there are savings on offer via split coverage. However, it has been found for most customers any benefit is quickly outweighed by the inconvenience and hassle of having two memberships with two different funds, with two separate payments and membership numbers. Last year, only 1.6% of all its private health customers opted to purchase separate hospital and extras products from different funds.

Source

### ***China: Ageing society to lead to changes in insurance coverage – Asia Insurance Review***

The insurance industry is extending the age range of life products and including cover for more diseases and for mental illness, to cater to the needs of the ageing population in mainland China and Hong Kong, according to a senior executive at global reinsurer Swiss Re.

Mr Robert Burr, the Managing Director and head of life and health reinsurance client markets in Asia, told the South China Morning Post in a recent interview that many Hong Kong insurance companies would start offering policies that cover the whole life of a policyholder, instead of the current practice of only covering them until the age of 100.

“Medical policies could also expand to cover more commonly seen diseases for the elderly such as heart attacks or strokes or mental illness,” he said. While some traditional medical policies do not cover mental illness, he said the trend has been changing since in ageing populations people may be physically stable but have mental disorders when they grow older.

“We are going to see it change so that more medical policies would cover mental illnesses. Insurance companies would also provide more products to meet changes in technology in medical diagnosis and in drugs for customers to choose what they think is best for their old-age medical cover,” he said. He also said with longer life spans, it would be a trend that people would need to start saving for retirement earlier or risk not having sufficient protection after retirement.

Source

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### ***China: CIRC to allow viatical settlement pilot scheme – Asia Insurance Review***

China's top insurance regulator has said that it would allow the trial of viatical settlement that could lead to an increase in premiums and strong returns.

A viatical settlement allows a third party to invest in another person's life insurance policy at a discount from its face value. The buyer of the policy however continues to pay the monthly premium but receives the full benefits when the original policyholder dies.

The CIRC on Monday posted a draft rule on its website on the upcoming two-year trial programme of viatical settlement, and is soliciting public opinion until 26 January, reported the South China Morning Post.

Under the new trial planned by CIRC, analysts said consumers will have an incentive to buy insurance products as policies become tradeable, thus shoring up premiums for insurers. Market watchers expect premium growth and investment return to remain strong this year.

“The new practice, once put into effect, can make insurance products more attractive,” said Mr Kelvin Chu, an analyst at UBS, in Shanghai.

Source

To take part in the trial, institutions must have a minimum registered capital of CNY500 million (US\$77 million).

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### ***Indonesia: General insurance sector to set brokers' commissions – Asia Insurance Review***

General insurance players plan to set the commission rates for broking channels in an effort to establish healthier cooperation with insurance brokers. The Chairman of the Association of Insurance and Reinsurance Brokerage Companies of Indonesia (Apparindo), Mr Harry Purwanto, said that his association had talked with the Indonesian Association of General Insurance (AAUI) on the issue, reported Kompas. According to Mr Harry, the two associations want to find a middle ground to resolve the issue.

A proposal, he added, could be submitted to the Financial Services Authority (OJK) this month. “We want the market to be more secure and orderly,” he said.

He hopes that professional insurance brokers can receive higher commissions than those for other distribution channels such as banks or agencies. He explained that this is because insurance brokers have to abide by certain rules and regulations set by the OJK. They also pay fees to the OJK.

AAUI Chairman Dadang Sukresna said that to date there has been no uniformity about the commissions paid to insurance brokers. This has caused several difficulties for the insurance industry, including the lack of certainty

about the amounts of commissions due to insurance brokers. The commission amounts are changed often, affecting the net premiums received by insurers.

He said that setting commission rates would make the system more clear and stable. Feedback is being sought from insurance companies and brokers on the issue. Rules about commission rates are expected to be released later this year.

Source

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### ***Global: Rise in reinsurance pricing at Jan renewals expected to be shortlived – Asia Insurance Review***

The January reinsurance renewals though late were orderly, with strong competition evident in many sectors, according to Aon Benfield, the world's leading reinsurance intermediary and full service capital advisor.

Reinsurance pricing has moved up in lines and territories most affected by recent losses, but Aon Benfield expects this trend to be relatively short-lived, given the amount of new capital entering the sector. This may have long-term consequences for the structure of the reinsurance market, it says in a report released yesterday titled "Reinsurance Market Outlook – Reinsurance Proves Its Worth".

The report notes that these developments take place against a backdrop in which, based on current Impact Forecasting estimates, natural catastrophe events caused economic losses of around US\$320 billion globally in 2017. Insured losses, covered in both the private market and by government-sponsored programmes, are estimated at \$28 billion, making it the third most costly year behind 2011 and 2005.

The insurance recovery ratio of 40% once again highlights the protection gap evident in even the most developed markets. As in 2005, the main driver of losses in 2017 was three Atlantic hurricanes in the third quarter – Harvey, Irma and Maria – which are estimated to have caused economic losses of \$200 billion and insured losses of \$80 billion. Record-breaking wildfires in California rounded out the year.

The ultimate size and distribution of claims from these recent events remains uncertain, but it is already apparent that they are manageable and well-spread. The continuity and responsiveness demonstrated by the industry has clearly benefitted policyholders.

The scale of the reinsured portion of these losses is difficult to determine, partly because most providers of reinsurance capacity also write insurance business. However, it is clear that traditional reinsurers were well-capitalised going into these events and that, relative to 2005, more risk was being retained by primary insurers and more catastrophe exposure had been laid-off into the capital markets.

As a result, the losses in 2017 have been absorbed without compromising the availability of reinsurance capacity. Recent events provide the first real test of an alternative capital sector that supplied almost \$90 billion of capacity in 2017, up from only \$10 billion in 2005. Significant funds backing fully collateralised reinsurance and retrocession contracts have been lost or trapped, but investors have responded by showing strong appetite for an asset class that is now viewed as being relatively more attractive.

Source

The sector has therefore proved its worth and come of age as a committed source of reinsurance capacity, says the report.

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### ***Australia: FSC finalises life insurance APL guidelines – Asia Insurance Review***

The Financial Services Council (FSC) has finalised its standard for life insurance approved product lists (APLs). The standard supports APL construction practices that promote competitive access and choice for advisers and their clients. The APL commenced on 1 January 2018, with compliance being compulsory from 1 July 2018, says the FSC in a statement.

Following an extensive consultation process, the final standard requires FSC members' life insurance APLs to contain a choice of three or more life insurance providers and to be supported by robust off-APL processes. This enables advisers to recommend alternative products or insurance providers which are not on the APL to meet best interest duty obligations. The majority of FSC advice licensee members already offer a choice of three or more providers on their APLs.

To ensure consumers have full transparency to make an informed choice, disclosure of the number of products and providers on the life insurance APL will also be included in the advice process. Additionally, there is a requirement for APLs to have a reasonable basis and to be formulated with the best interest duty in mind. The standard also sets out best practice principles, which are not mandatory, but are intended to assist with creating and maintaining a life insurance APL.

Examples of best practice principles include:

1. Having an investment and product committee of experienced research professionals to assist with a licensee's internal research process;
2. Licensees are encouraged to develop and utilise benchmark methodology in identifying which products are suitable for inclusion on the APL;
3. Considering a range of factors when reviewing the suitability of an insurance product/provider for inclusion on the APL (such as claims payout ratios, pricing, and corporate strength).

APLs serve as a risk management tool for advisers and licensees whereby products have been assessed for suitability prior to being included on the list. They also offer cost savings for licensees and efficiencies to advisers, providing them with comfort that the products on the list have been reviewed and approved by the licensee's own internal governance and research process and deemed suitable for inclusion on the APL.

The standard will be reviewed within 18 months of commencement.

The FSC has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing almost A\$3 trillion (US\$2.35 trillion) on behalf of more than 14.8 million Australians. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

Source

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### ***Taiwan: Regulator assesses US tax reform impact on insurers – Asia Insurance Review***

Taiwan's insurers and other financial institutions are unlikely to be significantly affected by US tax reforms, the Financial Supervisory Commission (FSC) has said, adding that the potential risks should be manageable.

The Commission tallied the nation's exposure to the US economy at about NT\$6.89 trillion (US\$232.84 billion), with the insurance sector having the greatest exposure at about NT\$5.57 trillion, reported The Taipei Times.

The US tax overhaul could make it attractive for US companies to remit a larger portion of their overseas profits back to the US, boosting the country's economy, Insurance Bureau Deputy Director-General Tsai Li-ling said at a news conference.

While no immediate downsides have been identified, the bureau would ask insurers to bolster medium to long-term risk management measures, Ms Tsai said.

As funds flow back into the US, the greenback is expected to begin strengthening, she said, adding that at the same time, the tax cut would likely widen the deficit of the US federal budget, leading to higher US Treasuries yields.

These factors should benefit local life insurers, which grappled with foreign exchange-related losses in their massive overseas and US dollar-denominated investments as the New Taiwan dollar remained strong against the greenback throughout last year, she said.

Source

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### ***Vietnam: Insurance industry gallops at hot pace – Asia Insurance Review***

The Vietnamese insurance market maintained a high growth rate of 21.2% in 2017, with total revenue of VND105.61 trillion (US\$4.65 billion), a senior Finance Ministry official has said.

This year, the target of the insurance sector is to achieve total revenue of VND129.24 trillion, up by 22.38% from 2017. The insurance industry is also expected to benefit from the country's projected economic growth of more than 6% annually over the next three years.

The figures were released at a recent meeting hosted by the Ministry of Finance's Insurance Supervisory Authority (ISA) to review the sector's performance in 2017 and to set business targets for 2018.

Of the 2017 total revenue, non-life insurance premiums stood at VND40.56 trillion, representing an increase of 10.61%, and life insurance premiums totalled VND65.05 trillion, rising by 28.9%, said Mr Pham Thu Phuong, Deputy Director of the Ministry of Finance's Insurance Supervisory Authority (ISA).

In addition, total assets of insurance companies are estimated to have risen by 23.44% to VND302.94 trillion, reported Vietnam News Agency citing Mr Phuong. The companies re-invested VND247.8 trillion in the economy, which is a rise of 26.74% from 2016.

The insurers also paid VND29.42 trillion to customers in 2017, or 14.92% higher than in 2016.

For 2018, the insurance sector plans to re-invest VND305.49 trillion into the economy. Insurers are also targeting an increase in their total assets to VND370.81 trillion by the end of this year.

To reach the targets, the insurance industry will focus on building and streamlining policies, restructuring insurance firms, besides developing new products and improving the quality of services.

However, there remain many challenges to further growth of this sector.

Director of ISA Phung Ngoc Khanh said that awareness among Vietnamese people about life insurance may have increased, but most still do not believe that it is worth the expense. In fact, almost all Vietnamese people are wary of it and think it unnecessary to buy insurance because they do not have a thorough understanding of its importance, he explained.

Life insurance products usually involve a long-term contract, so many customers are also concerned about their financial capacity to upkeep the policy into the future, Mr Khanh said. Doubts about the commitment of foreign life insurers to permanently operate in Vietnam also contribute to the low penetration rate, which stands at less than 1%.

However, life insurers have started partnering with commercial banks to increase sales and promote products, besides traditional sales methods.

Though the bancassurance market in Vietnam has remained sluggish, contributing only 2% to the total turnover of the insurance market, analysts believe that this channel holds great potential, and now some 35 commercial banks and financial institutions are collaborating with insurers.

According to experts, the target of more than 20% growth in the insurance sector in 2018 is feasible as the operational scale and the distribution channels of insurers have been expanding, particularly amid an anticipated bancassurance boom.

Source

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### ***China: National database to be built to boost social insurance – Asia Insurance Review***

China is building a database that will cover everyone who is eligible for social insurance, according to the Ministry of Human Resources and Social Security. Officials will use the latest technology, including big data, to reach those without social insurance and to ensure universal coverage by 2020, according to the Ministry's Social Insurance Management Centre.

The Ministry launched a four-year campaign aimed at registering all Chinese residents eligible for social insurance in a national database in 2014. This year, efforts will be made to input all the data collected into the database, reported China Daily citing a statement from the Centre.

While big data and the Internet will play a role in locating those not yet registered in the system, the ministry will also promote data exchanges among its employment-related departments and the Ministry of Public Security, the Centre said.

About 900 million people are included in the state-run social endowment insurance system (which is the basic pension system), and more than 1.3 billion are covered by medical insurance at present.

"No matter whether they are urban or rural residents, which region they are from, what their gender is and what their jobs are, all Chinese citizens have a special endowment insurance," the Centre said.

However, the Centre added that it will be challenging to include the remaining 10% in the social endowment insurance system. Those 100 million people are mostly migrant workers in flexible employment, employed in new forms of industry, such as e-commerce or express delivery, or employed by small and medium-sized enterprises.

### Source

Research and investigative tours will be made to reach those employed in new forms of industry to find why they have not been covered by the social endowment insurance system and mobilise them to join it.

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### *Australia: Industry body considers database to track claims trends – Asia Insurance Review*

The Financial Services Council (FSC) is considering the viability of an industry-wide database to monitor trends in life insurance claims, such as the surging number of mental health claims. But industry experts warn insurers may be unwilling to share this information.

Australia's largest life insurer TAL last week backed the establishment a database where companies would provide granular claims and policy information, to better understand risks to the sector, reported The Australian Financial Review. This comes as the number of mental health claims continues to surge and is a major threat to the sustainability of the A\$30 billion (US\$23.6 billion) sector.

Mr Jesse Krncevic, senior policy manager for life insurance at the FSC, which is the peak body for the life insurance sector, said: "It would be helpful because we would be able to give clarity to consumers about how much we pay out for mental health as a whole. At the moment, we only have individual insurers saying how much they pay out." "They [individual insurers] know, but there is no centralised place where information is collated."

In the year ended last September, life insurers paid out A\$9.4 billion in claims. Some in the industry say up to half of this related to illnesses like anxiety and depression. But life insurer TAL's general manager for health services Sally Phillips told The Australian Financial Review that there is little uniformity in the way life insurers define different health problems.

"I don't think there is an issue around providing [information] ... it's more to ensure we're calling the same thing the same thing," she said. But getting "relevant and reliable" evidence should not be difficult if there is co-operation from stakeholders, according to Mr Geoff Atkins, the co-author of a report by the Actuaries Institute on mental health and insurance.

"My impression is there are several different initiatives being undertaken, which would be far more effective if different organisations could get together and agree to one solution that everybody uses," he said.

### Source

"Life insurers are quite competitive with each other, so they are quite reluctant to share information outside of the company because they feel it's of value to their competitive position."

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