60 years of Insurance Education & Training
Diamond Jubilee
[1955 - 2015]

# Insurance Institute of India

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

# INSUNEWS

- Weekly e-Newsletter

13th – 19th March 2015

**• Quote for the Week •**

**"If you want to live a happy life, tie it to a goal, not to people or things."**

**Albert Einstein**

INSIDE THE ISSUE



## Insurance Industry

### *India: Insurers want new regulations to be introduced incrementally – Asia Insurance Review*

The Indian insurance regulator plans to announce about 40 new regulations through the next few months, to give effect to the new insurance law passed last Thursday by lawmakers.

Insurers hope that the Insurance Regulatory and Development Authority of India (IRDAI) would introduce the new rules in phases and to allow an adequate period for them to make the transition to the new regime.

The regulations need to be revamped because — apart from the landmark move to increase the foreign investment ceiling in local insurance companies to 49% from 26% — the new law has made several changes to insurance operations, such as empowering IRDAI to define the limits on management expenses, commission limits for agents, the qualifications of agents and surveyors, and the extent of the motor third-party liability, among other provisions.

Mr Rohan Sachdev, partner & India insurance leader, EY, told Business Standard: "As the regulator comes up with new guidelines on these aspects, insurance companies will have to respond quickly through appropriate changes to their operating model."

Mr Rajesh Sud, CEO and Managing Director of Max Life Insurance, said: "We are hopeful, that to nurture the sector and ready it for a growth trajectory, IRDAI will follow a phased regulatory agenda, allowing stability and growth, deepening access and eventually, strengthening the structure of the sector." In the past, there were occasions when insurers were given only a few weeks to implement new regulations.

"Expense management and agent remuneration directly affect the books of companies. Therefore, it is only fair that we be given at least six months to shift to a new set of regulations," said the chief executive of a private life insurance company.

Regulatory officials have said that rules governing expense management and the remuneration of agents will be among the first to be rolled out. This will be followed by rules for claims management.

Areas covered by the new insurance law include:

- 49% foreign investment ceiling
- Branch set-ups for reinsurers
- Fund raising by insurers
- Expansion of scope of intermediaries
- Obligatory underwriting of auto third party insurance
- No repudiation of claims after three years of insurance policy coming into force
- New powers for IRDAI
- Revised penalties for misconduct
- Life Insurance Council and General Insurance Council made self-regulating bodies.

Source

### *India: Increases in foreign holdings in insurers being worked out - Asia Insurance Review*

Investors in Indian insurance joint ventures are busy planning to increase the foreign investments in the ventures, in the wake of the newly amended insurance law which raises the foreign investment ceiling in the insurers to 49% from 26% previously.

Currently, out of the 24 life-insurance companies in India, 22 have foreign partners and many of them would be looking at more foreign funds, reported the Financial Express citing analysts. General insurers will also benefit from foreign capital: among 28 companies in the sector, 18 have foreign partners.

The first such announcement was made by the Bharti Group, which said that its foreign partner, Paris-headquartered Axa intends to increase its equity to 49%. Similarly, Max Group, which has a JV with the UK-based Bupa in the health insurance segment, said that Bupa would increase its stake in Max Bupa from 26% to 49%.

Mr Arijit Basu, Managing Director and CEO of SBI Life Insurance, said that BNP Paribas Cardif would definitely like to hike its stake in the company but discussions are at preliminary stages. SBI Life Insurance is a joint venture between State Bank of India and BNP Paribas Cardif in a 74%-26% split.

Meanwhile, Reuters reported that several Indian life insurance firms are courting private equity investors to boost their capital ahead of potential initial public offers (IPOs), which have become more feasible under the new insurance law.

Bankers and executives said that the more nimble private equity firms are better placed to help raise capital in the short term.

"If our shareholders decide that IPO is to happen in the next 12 to 15 months, then only a private equity transaction or a private equity-like transaction we might do," Amitabh Chaudhry, CEO of HDFC Life, told Reuters. The company is a joint venture between Housing Development Finance Corp Ltd and Standard Life.

According a Bloomberg news report, ICICI Bank that owns a 74% stake in ICICI Prudential Life Insurance is in advance talks to sell a 5% stake in the insurance company to Singapore's Temasek Holdings and France's Carmignac Gestion for about US$300 million.

Source

According to the Insurance Regulatory and Development Authority of India, there are 53 insurers — 24 life, 28 non-life and one reinsurer— in India.

Back

### *Hike in FDI limit in insurance will drive consolidation - Financial Chronicle – 17th March 2015*

The passage of the insurance reforms in Parliament last week is a key milestone in the development of the insurance sector. Over the past 14 years, since the business was opened to private sector and foreign investment, the industry has attracted over Rs 33,749 crore of capital and the lifting of the foreign investment cap from the existing 26 per cent to 49 per cent is expected to result in inflows of around Rs 40,000 crore in the next 5-10 years.

Fresh capital infusion is more relevant for mid and small size life insurers and non-life insurance companies who are still booking losses and whose Indian promoters might be unwilling to commit further equity capital. The top seven players do not require any capital over the medium term given that they are profitable and declaring dividends. These players are, however, likely to either opt for listing or transfer of shares from the Indian promoter to the foreign partner at a premium.

According to estimates, assuming that the Indian promoter reduces its stake from 74 per cent to 51 per cent, the top five private players (ICICI Prudential Life, HDFC Life, SBI Life, Max Life and Bajaj Life) could recognise capital gains of Rs 20,000 crore. Financial Chronicle reported on Monday that sovereign wealth funds from Bahrain, Qatar and Japan are interested in Indian insurance companies. Large foreign private equity funds such as Portchester Equity, Rockefeller private equity and General Atlantic might also be interested. Their interest is driven by the vast under penetration of the Indian insurance market that points to growth opportunities, and thus, rising valuations.

The insurance industry is highly fragmented with several small players holding less than one per cent market share in life insurance. In other cases, foreign promoters of certain insurance companies might be facing financial problems back home. Such players will revisit their business plans and exit in favour of a larger player or merge with another entity. Foreign partners in existing ventures have already brought in actuarial skills, product designing skills and created product innovation in the past 14 years. In the next phase, insurance companies will focus on distribution rather than product designing with health insurance being the exception. With financial inclusion proceeding in full measure, the timing of FDI is a blessing, as it will help increase insurance penetration, better pricing of products and lowering distribution costs.

A hike in FDI in insurance will help narrow the current disparity between the insurance industry and the banks in the financial sector. Other key provisions in the amended law equip the regulator, IRDA, with power to define among others, the limits on management expenses, commission limits for agents, qualifications of agents and surveyors and the extent of obligation of motor third party liability. The hike in FDI limit in insurance concomitantly hikes FDI in the pension sector. In fact, by virtue of Section 24 of the PFRDA Act, the increase in FDI limit in pension funds under PFRDA is implicit if FDI in insurance sector is hiked to 49 per cent through the FIPB route. We expect the government to now provide a level-playing field to public sector insurance companies by making them truly autonomous.

Source

Back

### *Insurers get ready for barrage of new regulations - Business Standard - 17th March 2015*

With the insurance Bill being approved by both Houses of Parliament, the sector is preparing for a host of new regulations by the Insurance Regulatory and Development Authority of India (Irdai). It has, however, sought more time for adoption of the norms being rolled out. Rohan Sachdev, partner & India insurance leader, EY, said the Bill empowered Irdai to define the limits on management expenses, commission limits for agents, the qualifications of agents and surveyors and the extent of the motor third-party liability, among others. “As the regulator comes up with new guidelines on these aspects, insurance companies will have to respond quickly through appropriate changes to their operating model,” he said.

Regulatory officials say norms on expense management and the remuneration of agents will be among the first to be rolled out. This will be followed by claims management under Section 45 and norms relating to penalties. The final guidelines on appointment of agents were brought out on Tuesday. Rajesh Sud, chief executive and managing director, Max Life Insurance, said the Bill, by mandating Irdai to prescribe regulations on a number of insurance-related subjects, had equipped it to go for a course correction. “We are hopeful, that to nurture the sector and ready it for a growth trajectory, Irdai will follow a phased regulatory agenda, allowing stability and growth, deepening access and eventually, strengthening the structure of the sector.”

At recent interactions with regulatory officials, executives from the sector have said while new norms conforming to the Bill are inevitable, companies need adequate time to adopt those. In the past, there have been instances when insurers were given only a few weeks to implement norms. Irdai plans to announce about 40 regulations through the next few months. Apart from changes in the foreign direct investment structure, the Act will also effect several other changes. An ordinance in this regard had given more freedom to insurance companies to appoint agents and put corporate agents into the intermediary space.

“Expense management and agent remuneration directly affect the books of companies. Therefore, it is only fair that we be given at least six months to shift to a new set of regulations; we have expressed this directly and through the council,” said the chief executive of a private life insurance company.

**Fresh regulations on the anvil:**

- **Expense management:** Further caps on expenses of insurers, to be decided by the regulator **Agent appointment and remuneration:** Norms to be decided afresh by regulator; additional penalties for mis-selling of products. Final guidelines on appointment of agents have been brought out
- **Insurance intermediaries:** Banks will be considered as insurance intermediaries and will be liable for the policies sold
- **Rejection of claims:** Revised Section 45 says no claim can be repudiated after three years of the policy being in force, even if a fraud is detected
- **Imposition of penalties and aggrieved parties:** Irdai will have the right to revise insurance penalties based on the violations and is expected to bring out norms on the same

Source

### *Insurance Cap Hike May Drive M&As, Capital Market Activity – The Economic Times (Mumbai) - 17th March 2015*

The recent increase in the ownership cap in insurance to 49% from 26% is expected to result in value unlocking in the sector.For large insurance players, this development may pave way for initial public offerings or listing on the exchanges. This may also result in selling their stake to strategic investors such as private equity investors.

For smaller insurance players, there is a high possibility of raising capital through stake sale.Given the fragmented nature of the industry, this development may also result in consolidation, which means small players merging with players smaller than them. CLSA, a foreign brokerage, in its note said, "This can drive $2 billion of capital market activity, mostly secondary sales, besides some listings; primary raisings may be limited as capitalisation levels are healthy". The brokerage further added that HDFC Standard Life, Max Life and ICICI Prudential Life may be frontrunners in capital market transactions. Moreover, stateowned banks may also monetise their stakes in the insurance joint ventures to improve capitalisation at bank level and M&A activity is also likely to pick up.

Analysts believe that small players will calibrate their business or exit the busi ness. Kotak Institutional Equities wrote in a note, "We expect these players to revisit their business plans and consider raising growth capital or exiting the business to a larger player (either through a stake sale to another shareholder or merger with another player). The insurance act gives leeway to IRDA to facilitate M&As in the sector."

Source

Surprisingly, the Parliament has hiked ownership when private insurance firms are witnessing anuualised new business premium grow by 13% in the first nine months of FY15 after four years of decline.

Back

### *Insurance firms to lose control over councils - The Indian Express – 16th March 2015*

Life Insurance Council and General Insurance Council will no longer be monopolistic trade bodies of insurance firms with the enactment of the new Insurance Bill. With the passage of the Insurance Bill, these councils will be structured on the lines of self-regulatory organisations (SROs). Currently, all insurance firms are members of their respective councils and they use these councils as a platform to take care of their interests without taking on board other stakeholders.

As per the new structure, there will be only four representatives of 24 life insurers in the executive committee of Life Insurance Council. While one person should be an eminent person not connected with insurance business, nominated by the Insurance Regulatory and Development Authority (Irda), three persons will represent insurance agents, intermediaries and policyholders nominated by the Irda.

There will be one representative each from self-help groups and insurance co-operative societies. In the case of General Insurance Council executive committee, there will be four nominees from 28 general insurers, one non-insurance person and four persons to represent insurance agents, third party administrators, surveyors and loss assessors and policyholders nominated by the Irda.

Source

Back

### *Companies with insurance arms to benefit from passage of Insurance Bill - The Hindu Business Line – 13th March 2015*

The insurance sector has finally got what it was hankering after. The long- pending Insurance Laws (Amendment) Bill, 2015 was passed in the Rajya Sabha on Thursday, which has now increased the FDI limit in insurance from 26 per cent to 49 per cent. The passage of the Bill has brought banking and financial stocks in focus, as this could unlock value in their insurance subsidiaries either through a stake sale or primary market listings. There has been a lot of buzz around stocks such as Max India, Reliance Capital and Bajaj Finserv.

Insurance subsidiaries of many financial conglomerates are still undervalued, in spite of accounting for a substantial portion of their earnings. There have been two main reasons for this. One, after the insurance sector opened up in 2000, both life and general insurance have gone though a series of regulatory changes which impacted their business. Until recently only few insurance players were profitable. The second reason has been the lack of valuation benchmarks in the listed space, which has kept investor interest tepid.

But now many players, both in the life and general insurance space have now turned profitable. The much-awaited increase in FDI limit in insurance to 49 per cent is a huge trigger for listing of insurance companies. The value at which foreign investors buy stakes in these companies will provide a better benchmark to value these companies and hence kindle investor interest in the space. Smaller companies in need of capital will also be able to access it more easily to increase their penetration and develop new products.

Parent companies are hence likely to see substantial unlocking of value in their insurance subsidiaries. But the extent to which these companies will benefit will depend on the proportion of the contribution of the insurance business to the company's overall business.

Companies such as Max India, Reliance Capital and Bajaj Finserv derive about 44 per cent to 85 per cent of their fair value (calculated on the basis of sum-of-parts value), from the insurance businesses---both life and non-life. Other companies such as Sundaram Finance, which recently acquired an additional 26 per cent stake in Royal Sundaram, draws about 11 per cent from the general insurance business. Other banking stocks such as SBI, HDFC and ICICI Bank derive a lesser share from their insurance businesses-- about 8 per cent to 14 per cent of their SOTP value.

Hence, companies with a higher contribution, to their implied value, from their insurance subsidiaries will see substantial value unlocking. For instance more than 75 per cent of Max India's value (sum-of-the-parts) valuation comes from the life insurance business. For Bajaj Finserv, about 40 per cent of its value comes from the life insurance business and 26 per cent from the general insurance business. For Reliance Capital about a third of its value comes from the life insurance business and 13 per cent comes from the general insurance business.

**Deal consideration**

In recent times, deals in the life insurance space have happened at one to three times the embedded value of the life insurance business. In 2012, New York Life sold its 26 per cent stake in Max Life to Mitsui Sumitomo for about 2.8 times the embedded value (net assets plus present value of future profits). This was lower than the 3.5 times embedded value that Nippon Life had paid for the 26 per cent stake in Reliance Life in 2011. In 2013, Exide Industries had paid one time embedded value to acquire ING's stake.

Source

Back

## *How policy holders stand to benefit from new Insurance Law - The Economic Times – 13th March 2015*

The hike in the foreign direct investment (FDI) limit in Indian insurance companies to 49% from 26% is the most talked-about aspect of the Insurance Laws (Amendment) Bill 2015, passed by the Rajya Sabha on Thursday, but it has several implications for the policyholders, too. For one, higher participation from foreign partners could translate into innovative products, better services and technology and improved customer service standards. "With more capital and domain knowledge flowing in, you could see more competitive products in the market. We could also see product innovations and better use of technology," said Vighnesh Shahane, CEO and whole-time director, IDBI Federal Life.

The new law also makes provisions for levying stiffer penalties, ranging from Rs 1 crore to Rs 25 crore for various violations, including mis-selling and misrepresentation. This could act as a deterrent against the rampant mis-selling menace which has resulted in many policyholders being duped into buying unsuitable products.

"The Insurance Bill says that insurers will be held responsible for mis-selling by agents. We have asked for clarification on this matter. It remains to be seen whether penalties will be levied even after the insurer has taken appropriate action against the erring distributors," said Arijit Basu, managing director and CEO, SBI Life.

Another clause that directly impacts policyholders relates to information provided by them at policy inception. Insurers will not be able to call a life policy into question after three years, on any grounds. Within three years, doubts can be raised in case of frauds. In such cases, the insurance company will have to give in writing the grounds on which it has based the decision.

A policyholder can prevent the repudiation if she is able to prove that she did not knowingly make a wrong statement, suppress material important facts or that necessary disclosures were made to the insurer. In case of a death claim, the onus of disproving the charge of fraud will fall on the nominee.

"It works in favour of honest policyholders as their claim settlement will become smoother," said Basu. However, many insurers also fear that fraud syndicate rings could exploit this clause to their advantage.

Source

The new law has also paved the way for easier nomination process. At present, the nominees are not beneficiaries, but mere receivers of the proceeds. The insurance company is discharged of its legal liabilities once the payment was made to the nominee.

Back

### *Industry hails Parliament's nod for insurance Bill - The Hindu Business Line – 12th March 2015*

The passage of insurance bill by Parliament was widely welcomed by insurance industry honchos, who felt that the long pending reforms ushered in by the latest legislative action would augur well for the entire insurance sector. Shachindra Nathj, Group -CEO, Religare Enterprises Limited said that the Parliament's nod to the insurance Bill has finally ushered in long pending reform and paved the way to hike foreign investment limit insurance to 49 percent.

This will surely send a positive signal to global insurance players in particular and foreign investors in general, he said. Sandeep Bakshi, Managing Director and CEO, ICICI Prudential Life said that the passage of the insurance bill is a welcome development at many levels. "It indicates the intent of the Government to push the economic revival agenda forward. As the Indian insurance industry expands, there will be need for additional capital in order to build this scale.

The increased FDI limit will provide the much needed flexibility to raise this capital. Customers too will benefit as it will translate into delivery of better products and services to them", he said. Rajesh Sud, Managing Director and CEO, Max Life Insurance, said the approval of the insurance Bill is a welcome step as it ends uncertainty.

"This shows the Government's resolve to take forward its reform agenda. The increase in FDI limit will enable flow of long term capital into the insurance sector and provide flexibility in capital structures", he said. Ajay Bimbhet, Managing Director, Royal Sundaram Alliance Insurance Company Ltd said the passing of the insurance bill is a historic move for the Indian insurance industry. "Universal health being one of the primary motives of the new government, we can expect sizeable FDI inflow into insurance industry. The investment would be channelled towards product innovations and increase market penetration', he said.

V Manickam, Secretary General, Life Insurance Council, said the passage of the Bill is a big morale booster for life insurance industry. "Life insurance industry will witness increased capital infusion. Players will open new branches in rural and semi urban geographies and help enhance penetration. With hike in FDI, foreign partners would also bring in technical knowhow and superior risk management practices", he said, adding that the passage of the Bill would foment financial inclusion agenda of the Government.

Deepak Mitral, Managing Director and CEO, Edelweiss Tokio Life Insurance said the passage of the Bill was long awaited from the perspective of international investor community. The hike in foreign investment limit will lead to capital inflows which could be used to expand distribution and invest in technology and service infrastructure. Tarun Chugh, Managing Director and CEO, PNB MetLife said the passage of the Bill will deliver significant benefits to the Indian economy.

Source

On MetLife plans, he said MetLife has been committed to the Indian market and "in line with our strategy in fast growth markets, we will evaluate our options to strengthen our business in the country".

Back

### *Rajya Sabha passes Insurance Bill - The Hindu Business Line – 12th March 2015*

The Opposition Congress joined hands with the ruling BJP in the Rajya Sabha to pass the Insurance Laws (Amendment) Bill, 2015, legislation that has been pending for close to a decade. The Bill envisages 49 per cent FDI in the insurance sector.

Reacting to the news, State Bank of India Chairperson Arundhati Bhattacharya said: "The FDI limit hike in insurance could result in an immediate inflow of around Rs 20,000 crore."

The new law also allows PSU general insurers to tap the capital market.

Soon after the Bill was passed, Sunil Bharti Mittal said that his company Bharti and its French partner AXA remain fully committed to their insurance joint venture and confirmed that AXA would step up its equity investment to 49 per cent. Bharti said it would shortly move the application to the Foreign Investment Promotion Board. Bharti now owns 74 per cent in the venture and AXA 26 per cent.

Minister of State for Finance Jayant Sinha said the Bill would help expand the insurance ambit.

Left parties, however, alleged that the Bill would hamper the financial sector by making it vulnerable to foreign markets.

Source

To ensure passage of the Bill, the Centre withdrew a pending legislation on the same subject. The amendments moved by the Left parties were voted negative by NDA and UPA members. Members of Trinamool Congress, SP, BSP, JD (U) and DMK walked out during the vote.

Back

## IRDAI Regulation

### *IRDAI releases draft guidelines on e-settlement system - The Economic Times – 16th March 2015*

The Insurance Regulatory and Development Authority (IRDA) has released a draft guidelines on participation in its Electronic Transaction Administration and Settlement System (ETASS) here today. The ETASS is essentially an electronic platform deployed for insurance-related clearing house operations. "The authority intends to provide the regulatory framework governing various aspects of conduct of the ETASS system," the IRDA website said. The IRDA has requested all interested parties to provide their feedback on the topic by April 4.

Source

The IRDA had initiated setting up of ETASS for co-insurance and re-insurance transactions. The development of ETASS is currently underway and the co-insurance module for the fire insurance portfolio is expected to be operational in a short time, the IRDA website said. The general insurers, reinsurance brokers and reinsurers would have to participate in the ETASS system for co-insurance and re-insurance business which they transact, the IRDA website said.

Back

### *Insurance Bill: IRDA to get more powers; can impose higher penalties for violations now - The Economic Times – 13th March 2015*

The Insurance Regulatory Development Authority (IRDA) will get more teeth once the insurance reforms begin to attract more foreign funds in the sector. The regulator, for instance, will have more powers to levy higher penalty, impose a ceiling on expense management, and fix remuneration for agents. These moves will cheer insurance agents. As per the Bill, the manner and amount of remuneration, or reward, to be paid or received by way of commission or otherwise, to an insurance agent or an intermediary, will be decided by the regulator. The Bill has scrapped two Sections — 40 and 40 B — where limits can be prescribed by the IRDA.

TS Vijayan, chairman of IRDA, on November 24, 2014, had said that there should be some minimum protection for insurance agents. Companies should remunerate agents with minimum wages of Rs 10,000 per month. As per the Insurance Act, commission on traditional insurance plans is capped at 40% of the first year's premium. However, commission on unit-linked insurance plans (Ulips) is capped since 2010, when the regulator had imposed a ceiling on the overall charges, including policy administration and premium allocation charges. As on March 31, 2013, there were 21.2 lakh agents, according to the latest data provided by the insurance regulator.

Insurance companies will not be allowed to repudiate claims after three policy years. The Bill has amended Section 45 to state that no policy can be repudiated for any reason after three years of commencement of risk/date of reinstatement/date of issuance.

Source

The regulator will have more powers to penalise companies for various violations. For non-compliance, companies will have to shell out Rs 25 crore, up from Rs 5 lakh now. The penalty would be similar to violations of rural and social sector noncompliance. Agents or corporate agents mis-selling will have to cough up Rs 1 crore per case, up from Rs 1 lakh at present.

## Life Insurance

### *Life insurers seek quick capital fix from PE investors after law change - The Economic Times – 16th March 2015*

Several life insurance firms are courting private equity investors to boost their capital ahead of potential IPOs, which became more feasible after a new law allowing higher foreign ownership in a sector that last year was worth $50 billion. The law, approved last week, lets insurers including Britain's Prudential PLC, Standard Life and Canada's Sun Life Financial raise holdings in Indian joint ventures to as much as 49 percent from 26 percent, a change that makes a public offering less likely to significantly dilute the foreign partners' stake.

Bankers and executives, however, said the more nimble private equity firms were better placed to help raise capital in the short-term, which the companies need to get a valuation benchmark ahead of possible listings. The funds would also help the companies boost penetration of life insurance in a country of some 1.3 billion people beyond just 3.7 percent. By comparison, life insurance penetration in China and Hong Kong combined is around 12 percent.

"If our shareholders decide that IPO is to happen in the next 12 to 15 months, then only a private equity transaction or a private equity-like transaction we might do," Amitabh Chaudhry, CEO of HDFC Life, told Reuters. The company is a joint venture between Housing Development Finance Corp Ltd and Standard Life.

Life insurance penetration is muted in India due to relatively high costs and a lack of awareness. Insurers are now betting on a rapidly expanding, wealthier middle class and the easing of the foreign investment limits to boost profitability. Consultants BCG said they expect India's life insurance market to rank among the world's top three by 2020.

State Bank of India, the majority owner of SBI Life, has said it was in talks with investors about selling stakes in its insurance units. It gave no details. Bankers said ICICI Prudential Life, a joint venture between ICICI Bank Ltd and Prudential, is also in talks with investors including Singapore's Temasek Holdings.

Carlyle and Singapore's GIC Pte Ltd are also interested in the sector, the bankers added. ICICI Prudential did not respond to a request for comment. Temasek declined to comment. Spokeswomen for Carlyle and GIC also declined to comment. "You won't see foreign partners raising stake to 49 percent in all the companies," said the India M&A head at an European bank, who declined to be named as he was not authorised to speak to the media. "This will give some headroom to bring in an additional foreign investor at a better valuation ahead an IPO."

Source

Back

## Reinsurance

### *Online clearing house set to give major boost to reinsurance business - The Hindu Business Line – 17th March 2015*

Insurance regulator IRDAI's soon-to-be-launched electronic transaction administration and settlement system is set to lend greater momentum to reinsurance and co-insurance transactions and usher in more efficiency in the industry. It will be a clearing house for all reinsurance and co-insurance transactions in which all general insurers, reinsurance brokers and reinsurers participate. While the authority will own it, the general insurance council will be the administrator, according to an exposure draft issued by the regulator.

Transactions such as automated negotiations, deal placements, binding of risks, documentation, accounting, reconciliation and settlement of balances, messaging, and risk management, among others, could be done on this mandatory platform in a transparent manner. General Insurance Corporation of India is the national reinsurer. Besides global private reinsurance players are also active in the market.

**Long-felt need**

The need for an electronic system has been felt since long. According to the senior executive of a public sector general insurer, the introduction has already been "delayed beyond reasonable period" which is affecting the efficacy of transactions. The regulator is also of the view that inter-company balances in reinsurance and co-insurance businesses are very high and have been on the rise.

"The inability of parties to the transactions to agree appears to be the primary reason for the growing inter-company balances. It is also noticed that lack of cooperation between the companies and inadequate documentation are posing problems in the effort to minimise these balances," the regulator said. Also, the insurers, reinsurers and insurance intermediaries do not have a common platform to handle the reinsurance and co-insurance transactions. Reinsurance is a risk-cover for insurers. In this, a reinsurer takes on all or part of the risk covered under a policy issued by an insurance company in consideration for a premium. It is important because the solvency ratio of an insurance company is assessed on a net of reinsurance basis. The coinsurance is the percentage of the costs one pays toward ones health care bill. The health insurance company then pays the remainder of the bill.

**New Bill**

IRDAI is also reviewing the reinsurance regulations pertaining to cross-border players operating in the country. According to its Chairman TS Vijayan, foreign reinsurers can set up branches in India without separate registration in India according to the new act. The Authority is in the process of effecting the necessary changes in the current regulations which will be notified soon.

Source

Back

## *Insurance Bill may open doors for global re-insurers to set up shop - The Hindu Business Line – 15th March 2015*

Global reinsurance giants can now get a foothold in India with the recently enacted insurance law paving the way for their setting up branches here. The passage of the insurance Bill by Parliament could herald the re-entry of Lloyd's — the world's specialist insurance market — into Indiasay insurance industry experts.

There are some comforting provisions in the insurance Bill for Lloyd's and that perhaps is the single most long-term impact of the new legislation, they said. Anuraag Sunder, Managing Consultant-Insurance, PwC India, said allowing foreign reinsurers to enter Indian market will benefit Indian consumers and corporates. "There is lot of interest among foreign reinsurers to enter India. One can now see new market entry by them and better risk assessment methodologies," Sunder told BusinessLine.

However, one would have to wait for the insurance regulator IRDAI to frame rules as regards minimum capital, profit repatriation etc for the reinsurers, he said. Currently, GIC Re is the sole reinsurer in India. Allowing foreign reinsurers will bring in competition to GIC Re and benefit consumers.

Shashwat Sharma, Partner-Management Consulting, KPMG in India, said "The new Bill will help reinsurance business evolve as more experienced reinsurance companies come as foreign branches." Monish Shah, Senior Director, Deloitte India, said allowing reinsurance companies to set up branches will help enhance the depth of reinsurance services in the domestic market.

**Lloyd's strategy**

Lloyd's has recognised that relying on cross border reinsurance business flowing into London will not by itself meet the aspirations of its Vision 2025. Increasing Lloyd's share of insurance business in developing markets will also be required. The role of brokers in London and in local markets is key to accessing new business as insurance markets develop in these economies, according to Inga Beale, CEO, Lloyd's.

Source

Back

## *Insurance Law: Reinsurance companies can now open branches in India - The Economic Times – 13th March 2015*

Reinsurance companies such as Munich Re and Swiss Re can open branches in India after the Rajya Sabha on Thursday passed the Insurance Laws (Amendment) Bill, 2015.

Entry of reinsurance companies into the Indian market will bring in knowledge and expertise together with underwriting capacities. Large reinsurance companies are present in India, but most of them, including Munich Re, Swiss Re and Hannover Re, operate as service companies in India. Some like Scor Re operate through representative offices.

The Insurance Regulatory and Development Authority currently does not regulate these reinsurers. The new policy does not specify capital requirement for these companies to open branches in the country; the only prescription is that parent reinsurance companies should have net worth of Rs 5,000 crore.

After the amendment, the Irda will formulate norms to regulate companies that open branches in the country. India already allows up to 26% foreign investment in reinsurance companies, but none of the global majors set up a joint venture in the country. companies such as Munich Re and Swiss Re can open branches in India after the Rajya Sabha on Thursday passed the Insurance Laws (Amendment) Bill, 2015.

Entry of reinsurance companies into the Indian market will bring in knowledge and expertise together with underwriting capacities. Large reinsurance companies are present in India, but most of them, including Munich Re, Swiss Re and Hannover Re, operate as service companies in India. Some like Scor Re operate through representative offices.

Source

Back

## Survey & Report

### *Rs 60,000 cr inflow likely in 5 years to insurance sector - Financial Chronicle – 13th March 2015*

The foreign investment limit hike in insurance to 49 per cent is likely to result in capital inflows of up to Rs 60,000 crore over the next five years, SBI said in a research report `Ecowrap'. "The FDI limit hike could result in inflows of Rs 40,000 crore to Rs 60,000 crore over five years and immediate inflows of around Rs 20,000 crore," the report stated.

The insurance industry over the last 14 years (since it was opened to FDI and private players) has attracted over Rs 33,749 crore of capital and over the next 5-10 years it requires as much, if not more, in fresh capital to be able to fund its growth and expansion, the report said. During 2000-01 to 2013-14, the life insurance business registered a growth of 1 per cent in total premium and 21 per cent in new business premium collections and non-life segment grew by 16 per cent.

This growth was driven by entry of new players with significant growth aspirations and capital commitments, which showed in the improvement in both insurance penetration and density of India, it said. However, compared to the developed countries like the US (7.5 per cent), UK (11.5 per cent) and South Africa (15.4 per cent), the Indian insurance industry is still under-developed in terms of penetration (3.90 per cent in 2012-13).

"Most of the private players have accumulated losses, not due to inefficiency but due to the nature of this business. For further expansion, the insurer needs capital, which is a challenging task for the promoters to infuse," it said. The report said by virtue of Section 24 of the PFRDA Act, the increase in foreign limit in pension funds under PFRDA is implicit if foreign investment limit in the insurance sector is hiked to 49 per cent through the FIPB route and the passage of Insurance Bill opens the pension sector also for foreign investment.

Source

Back

## IRDAI Circular

Source

IRDAI uploaded guidelines called "Guidelines on Appointment of Insurance Agents, 2015.

Source

IRDAI released Exposure Draft on Revision of Premium Rates for Motor Third Party Insurance Covers for the Financial Year 2015-16

Back

## Global News

### *China: Deposit insurance scheme to be launched in H1 – Asia Insurance Review*

China is expected to implement the deposit insurance scheme in the first half of this year, said central bank governor Zhou Xiaochuan, in the first indication of a firmer timeframe for the move which has been debated for several years. Public response to draft deposit insurance regulations was generally positive, Mr Zhou said at a press conference on the sidelines of the country's annual parliamentary session.

At the end of last November, the Legislative Affairs Office of the State Council published the draft regulations for public opinion. According to the draft, banks will pay insurance premiums and an agency will manage the money. The fund will pay maximum compensation of CNY500,000 (US$81,500) per depositor if a bank suffers insolvency.

Deposit insurance is an important step in China's wide-ranging financial reforms, the Xinhua News Agency reported, citing Mr Zhou. It is considered a precondition for China to free up deposit rates — the last step in interest rate liberalization in the country.

Source

Back

## *Indonesia: Govt to ease investment rules for insurance funds - Asia Insurance Review*

Indonesia's financial services authority plans to make it easier for insurance and pension funds to invest in riskier products in a bid to boost the local capital market, a senior regulatory official has said.

"Our market is not liquid enough because there are not enough products and not enough investors," Mr Nurhaida, the capital market supervisor, told Reuters in an interview last week. "Pension or insurance funds can only invest in bonds with a certain rating, but many with lower ratings are actually quite safe. We will try to ease the investment (rules)."

One of the measures being considered is to allow funds to invest in mortgage-backed securities issued by PT Sarana Multigriya Finansial, a finance company mandated by the government to raise funds from the capital market to support mortgage lenders and help increase home ownership.

The regulator will also try to push for more municipal bond issuance to finance infrastructure development, Mr Nurhaida said.

President Joko Widodo needs to "mobilize the hundreds of trillions of rupiah in the non-bank sector" to fund his infrastructure development plan, Mr Tom Lembong, CEO of private equity firm Quvat Management, told Reuters.

"It is urgently needed as the pension sector and the insurance sector are still sitting on too much short-duration assets to back up their long-term liabilities," Mr Tom said.

Source