Insurance Institute of India

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INSUNEWS

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• Quote for the Week •

"Definiteness of purpose is the starting point of all achievement"

W. Clement Stone

INSIDE THE ISSUE

Source

Insurance Industry

Finance Ministry looking at insurance funding without raising FDI cap - The Economic Times

The Finance Ministry is looking at ways in which private insurance companies can be allowed to raise more funds without hiking the foreign direct investment cap in the sector to 49 per cent.

"Now we have to look afresh on this (insurance sector) ...whether there could be some other instrument (to permit private companies to raise funds) without raising (FDI cap) to 49 per cent. All these issues we have to address and then come back to the government," Financial Services Secretary GS Sandhu said.

He spoke to reporters after making a presentation to Finance Minister Arun Jaitley on issues related to the banking and insurance sector. Observing that no decision was taken at the meeting, Sandhu said, "We have to examine a few issues on what are the other options available to attract capital. Whether there are other options available, whether we could go in a more gradual manner. So we have to look at some other options. We are not ruling out. Neither are we saying yes nor no."

Sandhu said one option could be to raise the FDI limit in various insurance segments in a phased manner."We will see whether we need to take up this whole hog in all categories of insurance or we can start in some particular categories first. We have to examine that. Then we have to talk to major players and see what could be other options apart from this," Sandhu said.

The ruling Bharatiya Janata Party is opposed to raising the FDI cap in the insurance sector from 26 per cent to 49 per cent. A proposal to hike the FDI cap in the sector was mooted by the previous United Progressive Alliance government and has been pending in Parliament since 2008.

The Standing Committee on Finance had earlier rejected the proposal, saying it may not have the desired effect and could expose the economy to global vulnerability. The insurance sector was opened up to the private sector in 2000 after the enactment of the Insurance Regulatory and Development Authority Act, 1999. The insurance industry has sought an increase in the FDI limit to raise funds for expansion.

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Finance Ministry may pitch for 49% FDI in insurance with riders – The Economic Times

The finance ministry could recommend an increase in the limit on foreign direct investment (FDI) in insurance sector to 49% from 26%, albeit with a few restrictions to push the crucial reform. The ministry is likely to propose capping of voting rights for foreign investors, a senior finance ministry official said, explaining that the rationale is to ensure that the control of the critical sector involving lifetime's savings of a large number of people does not pass into foreign hands.

"The concern is that a foreign partner may get a big controlling stake even at 49%, if the Indian promoter decides to dilute its stake in favour of other Indian investors," said the official, who did not wish to be identified.

The finance ministry officials on Saturday met representatives of the insurance sector, including the Insurance Regulatory and Development Authority (IRDA), two days after finance minister Arun Jaitley had asked them to explore all options to raise funds for the sector.

The ministry will now present to Jaitley the possible options, including capping of voting rights or even a staggered increase in FDI over a period of five to 10 years, the official said. "The basic idea is that insurance companies should remain under Indian control. Within this framework we are looking at all possible options," the official said, adding that the staggered increase could be implemented in conjunction with the capping of voting rights.

Experts say that such an option will give more confidence to foreign investors even as 49% share will not give them dramatically enhanced legal rights to control the ventures. "This will serve as an indication of intent towards further opening up of the sector as well as bring about larger economic participation from the foreign insurers during the interim period," said Vivek Gupta, partner, BMR Advisors. Not all insurers are convinced with such an arrangement, though.

"It will be very difficult to convince our foreign partners," said a chairman of an insurance firm, requesting anonymity. The government will also discuss the feasibility of allowing 49% foreign investment in the sector with FDI retained at 26% and rest through foreign institutional investors (FII). "Since no insurance firm has opted for a public offer so far, we have to see how effectively this can be used over a longer tenure," the official said. If the government decides to keep the FDI cap at 26% in insurance, the limit will be applicable to the pension sector as well.

Source

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Most insurance companies want FDI limit raised from 26% to 49% - The Times of India

A majority of insurance sector companies have backed raising the foreign direct investment limit in the insurance sector to 49% from the current 26%, sources said. At a meeting with the GS Sandhu, secretary department of financial services on Saturday, chiefs of leading private insurance companies said the country could see $8bn to $10bn of inflows into the life and non-life insurance business in the next five years if the government passed the bill to amend the insurance Act.

All companies except for one were in favour of allowing higher FDI. One private insurer is however understood to have favoured higher investment from foreign institutional investors over FDI. An increase in foreign investment limits for insurance companies would translate into higher limits for pension as well as other insurance intermediaries as well.

The meeting was convened to get the industry feedback on the issue of raising the FDI cap. Sources said the department of financial services has asked them to send across their detailed views and after that some more interaction would be held before a decision is taken by the government on the issue.

"The purpose was to discuss how to ensure growth in the sector which is an import social security. We discussed the pros and cons and various options and greater FDI flow in the sector," said Sandhu, adding that a final view was yet to be taken. The meeting also discussed ways to make insurance attractive through tax breaks and the impact of service tax on the sector. Issues related to dwindling agents and improving the distribution network was also debated.

A bill to raise the FDI cap in the sector is pending in parliament and whatever decision the government takes they will have to make changes in the bill and get cabinet approval before presenting it in parliament. The meeting was attended by chiefs of Birla Sun Life, HDFC Standard Life, Reliance Life Insurance, Metlife and representatives from public sector insurance companies and the Insurance Regulatory and Development Authority. Some of the insurance companies are of the view that the government can move ahead with the bill which is pending in parliament.

The Insurance Laws Amendment Bill was introduced in the Rajya Sabha on 22nd December 2008 however the UPA government was not able to generate a consensus around the legislation. The parliamentary standing committee on finance headed by BJP leader Yashwant Sinha had concluded that there was no case for higher FDI in insurance. Industry officials however say that restricting higher stake to FIIs would not help much as none of the life insurance companies had managed to list themselves.

State-owned insurance companies have not raised any objections to increase of FDI. In the past, the main objection to higher FDI was from the left parties. In the previous Lok Sabha although the UPA government was not dependent on left parties it could not garner support from BJP.

Source

Narendra Modi govt in no hurry to hike FDI in insurance - The Financial Express

The Modi government seems to be in no hurry to hike foreign investment in the insurance sector from 26% to 49% as the financial services secretary G S Sandhu said the plan is to explore other options to help the sector raise capital. He said the government is considering a proposal to relax the foreign investment cap in a calibrated manner by restricting the easing of curbs in certain sub-sectors first and then extending it to others.

The insurance sector is broadly divided into life and non-life, of which the latter includes health, motor, fire, home and travel insurance. Many foreign players and western countries were lobbying hard for relaxing the foreign investment curbs in the sector saying it will ensure that foreign shareholders will have greater commitment in the sector, while the domestic insurance sector gains product and technical expertise besides the much needed capital.

It is estimated that the country's insurance sector needs capital worth around $12 billion up to 2020 and hiking of the cap is expected to bring in around $3 billion immediately.

However, some experts have argued that the new government needs to first look at strengthening the domestic insurance sector first before permitting more FDI so that promoters and other stakeholders benefit from the move. They have also argued for more FDI investment that is long-term in nature than allowing foreign institutional investors whose stay is for a short duration.

The domestic players had given several suggestions, including the government diluting its stake in public sector insurance companies, to raise money through such a divestment.

At the fag end of UPA's tenure, when it wanted to pass the Insurance Laws (Amendment) Bill to relax the FDI ceiling to 49% in the sector among other things, the BJP had staunchly opposed the move. Though the Bill was first introduced in 2008 in the Rajya Sabha, and the cabinet had approved the FDI cap hike in October 2012, the UPA could not ensure political consensus for it. The parliamentary standing committee on finance headed by senior BJP leader and former finance minister Yashwant Sinha had recommended that the FDI ceiling be retained at 26%.

Source

"That (increasing FDI in insurance) was discussed, but no decision was taken. We have to examine a few issues, including the options available to attract capital apart from hiking the FDI to 49% and whether we could go (about relaxing the cap) in a graduated manner," Sandhu said.

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Health Insurance

Finmin may pitch for higher tax exemption on health insurance - The Economic Times (Delhi)

The finance ministry is likely to pitch for a substantial increase in the income-tax exemption limit for health insurance as part of its plan to deepen insurance coverage. The ministry is examining a proposal that seeks to double the limit to Rs. 30,000 from Rs. 15,000.

According to a senior finance ministry official, the department of financial services had proposed a separate limit of Rs. 1.5 lakh for investment in life insurance and pension schemes. At present, all investment exemptions have a combined limit Rs. 1 lakh.

"The view that emerged from that consultation was that there is an impending need to push health insurance and various measures including tax benefits should be examined, "said an official aware of the deliberations.

According to the Insurance Regulatory and Development Authority (IRDA), health insurance had a 22% share in non-life market in 2012-13, which declined by around 8 basis points from a year ago. The penetration of non-life insurance, which includes health insurance, has remained near constant in the range of 0.55-0.72% over the last decade.

A final decision on the issue will be taken after considering the revenue loss from the proposal. "We have to look into it. There will be some rebate but only afterwider consultations it will be decided whether the limit can be doubled or not, "another official said.

The premium paid for a health insurance policy can be deducted from the total income under Section 80D of the Income-tax Act of 1961, over and above the one available under Section 80C, which is for a limit of up to Rs. 1 lakh.

For individuals who are less than 65 years, the deduction available is up to Rs. 15,000 on health policy for self, spouse and dependent children. A further deduction of Rs. 15,000 can be claimed for paying the premium for one's parents. The limit goes up to Rs. 20,000 if either parent is a senior citizen, irrespective of the dependency status. "Other slabs will also be adjusted automatically, "the finance ministry official quoted earlier said.

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General Insurance

Health, motor insurance big growth drivers - The Times of India

General insurers are betting big on retail health insurance policies, home and marine insurance to drive growth in the space this fiscal. "This year, we are hoping the new products we launch will be the major growth drivers. Within just a few months of launch, our surgical protection plan and MyHome insurance policies have started picking up. We have planned to launch more products in personal lines that will propel the retail business," Tapan Singhel, managing director and chief executive officer, Bajaj Allianz General Insurance said.

Similarly, Star Health is also focusing its efforts on the individual healthcare segment. "We have now completely shifted our focus to the retail segment," V Jagannathan, chairman and managing director, Star Health and Allied Insurance, said. The company is planning to do GWP (gross written premiums) of Rs 1,500 crore this fiscal, of which 80% would be from renewals.

Source

Industry observers expect health insurance, motor renewal premiums and new categories such as marine to be the main growth drivers. "While the number of claims in marine insurance tend to be high, the value is not so. Also, with claims sizes being contained, private insurers do well in this segment," Rahul Aggarwal, chief executive officer, Optima Insurance Brokers said.

The general insurance industry clocked a growth rate of 12.23% in GWP last fiscal to 77,538.25 crore as against 69,088.69 during 2012-13, as per data from Irda (Insurance Regulatory and Development Authority). While the general insurance industry clocked a double-digit growth last fiscal, industry observers say the growth has been lower compared to earlier years on account of the prevailing economic conditions.

"The general insurance industry has been growing at 15% annually for quite some time now. Last fiscal, the growth rate was slower on account of slowdown in business," Kalyani Narayanan, chief executive officer of insurance advisory outfit Easyinsuranceindia said.

In terms of growth in GWP in the general insurance sector, the private sector reported a higher growth of 15.37% last fiscal to 34,246.01 crore as compared to 29,682.99 crore during FY13. On the other hand, public insurers reported a growth of 9.86% last fiscal to 43,292.24 crore as against 39,405.70 crore during FY13.

"The business in the general insurance space is getting segregated with private companies now moving towards retail insurance while public insurers are moving towards corporate insurance (that includes fire and marine) and group health insurance policies. Also, growth last year was driven by the retail segment that included motor premium renewals and individual healthcare policies. These aided growth of private insurers," Aggarwal said.

Some private insurers like Royal Sundaram and Shriram General have reported a dip in gross written premiums of 7.95% and 2% last fiscal respectively, as per data from Irda. Other private companies like Bajaj Allianz's growth during FY14 mirrored the overall industry. "We have been able to control our costs by leveraging technology. The EeeZee Tab launched in the second half helped our agents procure new business instantly. It was also extended to manage motor claims, which lowered turnaround time in claims settlement," Singhel said. The company's GWP grew 12.87% to Rs 4,516.45 during FY14 as compared to Rs 4,001.40 crore during FY13.

Source

All standalone heath insurers reported growth in their GWP. This was largely aided by growth in the individual health insurance segment.

IRDA Circular

Source

IRDA updated the gross direct premium underwritten for and upto the month of April, 2014 of non life insurers.

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Global News

China: Insurers warned against underestimating risk – Asia Insurance Review

Although the Chinese insurance industry as a whole has seen some positive changes this year, experts warn that attention should be paid to risk as the industry is at present undergoing deep-rooted reform.

This caution was sounded at a meeting last month in Beijing of the industry risk assessment expert committee of the China Insurance Protection Fund Company (CIPF). Representatives of life and non-life insurance companies, China Insurance Regulatory Commission, the Ministry of Finance and the People's Bank of China, attended the meeting.

In a briefing on the industry's performance, the meeting heard that premiums from ordinary life insurance policies totalled CNY228.21 billion (US$36.53 billion) for the first four months of this year, representing an increase of 32% over the corresponding period last year. Premiums in the non-life sector grew by 16.8% for the January to April period this year.

Experts believe that life insurance companies in China lack the dynamism to develop their operations, with their development goals and strategies unclear. Operating costs are rising. Given the high proportion of single-premium policies sold, the sustainable growth of premiums needs to be monitored.

At the same time, the sales of high cash-value products need to be curbed because of the high surrender rates of such products which would increase the risk of asset-liability mismatch, reported China Insurance News citing the CIPF. In addition, during the first four months of the year, the surrender rate rose by 0.64 percentage points to 2.10%.

In the property and casualty insurance market, experts believe that the situation has shown signs of improvement but has not yet stabilised. Competition in the market is still mainly price competition. Policy acquisition costs are rising and the outlook for this year's financial performance in the sector is not optimistic. For the first four months of the year, small and medium-sized insurance companies still find operating conditions tough.

Among non-life insurers which have an annual premium volume of less than CNY1 billion, there are 34 companies which have reported a combined ratio of more than 100%, mainly due to the high expense ratio. Overall, there are around 60 non-life insurers in China.

Meanwhile, business restructuring is difficult in the short term. Motor insurance accounts for more than 70% of total non-life premiums. Experts believe that given the macroeconomic environment which encourages consumption, motor business is expected to continue to grow faster than non-auto insurance businesses in the long term.

China set up an insurance protection fund in 2005, administered by the CIRC. The aim is to provide some protection to policyholders in the event of the collapse of any insurance company. In 2008, the fund's operations were corporatised when CIPF was formally established. Its board members are from the CIRC, Ministry of Finance, People's Bank of China, State Taxation Bureau, the Legislative Affairs Office of the State Council and three other issuance companies.

Source

At 30 April this year, CIPF had an insurance guarantee fund balance of CNY51.06 billion, of which CNY30.57 billion was for non-life insurance and the remainder for life insurance. The industry risk assessment expert committee was established in May last year.

Life insurance sector resilient despite military coup - Asia Insurance Review

The Thai Life Assurance Association (TLAA) has predicted that the industry will grow by 12% this year as it believes that domestic purchasing power will recover from the current political tension in the country, including the 22 May bloodless military coup.

Mr Sara Lamsam, president of the association, said that the life insurance industry will maintain its 2014 target for gross premium income because the industry showed healthy growth in the first quarter, expanding 23% year on year, reported The Nation newspaper.

Even though the results for April are yet to be announced, Sara believes premium income will continue to grow because several life insurers have introduced various policies to meet customer requirements, various distribution channels are well placed and it is convenient for customers to make premium payments.

The political and economic situation has not affected the life insurance industry much, with the consistency rate in the first four months of the year remaining stable at 87%.

Source

Mr Sara, who is also the chief executive officer of Muang Thai Life Assurance, said that premiums from policy renewals in the first four months grew by 19%. Therefore, the projection of 12% growth in gross premiums this year is possible to achieve.