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11th – 17th Sept 2015

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"Happiness depends upon ourselves"

Aristotle

INSIDE THE ISSUE

Insurance Industry

Corporate agents can now sell policies of up to 3 insurers - The Hindu Business Line – 15th September 2015

The Insurance Regulatory and Development Authority of India (IRDAI) on Tuesday notified new norms for corporate agents allowing them to tie up with up to three insurers each in life, non-life and health insurance segments. At present, corporate agents are allowed to sell policies of only one life insurance and one non-life insurance company. According to the new norms, an applicant for corporate agency, who is engaged exclusively in insurance distribution, shall have a minimum net worth of Rs. 50 lakh.

Exclusive distribution

In the case of an applicant exclusively doing insurance distribution, the aggregate holdings of equity shares or contribution by foreign investors, including portfolio investors, shall be prescribed by the Central Government from time to time, the authority said.

If insurance sale is done as an ancillary business by an entity which is engaged in a different business (such as a bank), conflict of interest should be avoided. All corporate agents will have to be registered with the regulator before entering into distribution agreements with the individual insurers. Apart from insurers, the new norms are likely to impact customers and banks.

"Industry requirement is that it should be made mandatory for corporate agents to have tie-ups with more than one insurer. According to the new norms, this is only optional. It is still a positive development," Manoj Kumar Jain, CEO of Shriram Life Insurance Company, told BusinessLine. Though there are about 250 corporate agents today, the new norms could trigger increased traction in marketing pacts between insurance companies and banks.

However, the CEO of a bank-promoted life insurance firm, who did not want to be named, said he does not see any major impact. "This might lead to mis-selling as selling insurance is not an easy task," he said. According to RM Vishaka, MD and CEO of IndiaFirst Life Insurance, these norms are "enabling provisions for more tie-ups". On customer choice, she said: "Choice has always been there for a customer post-liberalisation with 24 insurers."

Insurance penetration

It remains to be seen if these norms will improve insurance penetration in the country. Insurance penetration is currently at around 3.9 per cent of the gross domestic product.

Source

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Insurers back to buying equities after 5 years - The Hindu Business Line – 11th September 2015

After being sellers of equity for five years, insurance players have turned buyers this fiscal on a cumulative basis. According to SEBI data, between FY-11 and FY-15, domestic institutional investors net sold $29 billon worth of shares. According to market participants, a majority of the selling ($24-25 billion) was by insurance players.

Redemption pressures

Experts attribute the heavy selling by insurance companies to redemption pressures post the financial crisis.

However, in 2015-16 till date, insurance players have turned buyers of equity. Of the $6.7 billion DIIs invested in the market, about 20 per cent was by insurance players. This despite insurance players dumping stocks worth $740 million in July.

The renewed buying activity by insurance players is attributable mainly to increased fund flows after IRDA made changes to guidelines favouring unit linked insurance products. In 2013, the Insurance Regulatory and Development Authority of India amended guidelines increasing the lock-in period to five years from three.

This reduced the redemption pressure on insurance companies. Besides, charges to ULIPs are now evenly distributed during the lock-in period to ensure there is no high front ending of expenses. “ULIPs have become attractive products from a cost and taxation perspective post IRDA guidelines,” said Aneesh Srivastava, Chief Investment Officer at IDBI Federal Life Insurance.

Source

The buying trend is also sustainable due to completion of redemption of old policies, according to Manoj Jain, CEO at Shriram Life insurance. Mutual funds have bought equity worth $5.3 billion so far this fiscal. In contrast, foreign institutional investors have been hitting the exit door, selling Indian equity worth $3.6 billion from April till September 9.

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IRDAI Regulation

Will direct any life insurer to list if needed: Irdai draft doc - Business Standard - 12th September 2015

The Insurance Regulatory and Development Authority of India (Irdai) might mandate some life insurance companies to go for a public issue, the regulator said in exposure draft on 'Issuance of Capital by Indian Insurance Companies transacting Life Insurance Business'.

"The Authority may direct an Indian insurance company transacting the life insurance business to go for public issue if the circumstance so warrant. Such company shall within a period of one year from the date of such direction comply with direction issued," it said in the draft.

Source

While it was earlier anticipated life insurers would bring out initial public offerings (IPOs) soon after they complete 10 years in the sector, none of them did so. This was due to stress in business, no higher foreign direct investment (which has now been raised to 49 per cent) and poor market conditions, among others.

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IRDAI asks insurers to maintain policies in electronic form - The Economic Times – 10th September 2015

Sector regulator IRDAI has asked insurers to maintain all records of policies and claims in electronic form for easy retrieval and compliance with various regulations. "Every insurer shall maintain a record of every policy issued and a record of every claim made .in electronic form irrespective of maintenance in any other form," IRDA said in a notification.

Notifying IRDAI (Maintenance of Insurance Records) Regulations, 2015, the regulator said the system of maintenance in electronic format should have necessary security features. To ensure safety of data, it said, the records including those held in electronic mode, pertaining to all the policies issued and all claims made in India shall be held in data centres located and maintained in India only.

"Every insurer should ensure that the records held are organised in such a manner as may be required for business use and easy retrieval so as to support policyholder service and compliance with the various laws, regulations, circulars, guidelines and such other regulatory framework as applicable from time to time," it said.

Source

With regard to the storage of records in electronic form, it said that insurers should maintain privacy and security of policyholder data, handling virus, vulnerability issues, security of hardware and software and backups, disaster recovery and business continuity and data archival. "Every insurer should within 90 days from the date of notification of these regulations, file with the Authority, their board approved policy on maintenance and storage of such records," it said. Where such a policy undergoes change, the same should be filed with the Authority, within 30 days from the date of such revision by the board, it added.

Life Insurance

Irdai to make listing a must for large insurers - Business Standard – 14th September 2015

The Insurance Regulatory and Development Authority of India (Irdai) will make it mandatory for large life insurance companies to list within a specific period. So far, none of them, barring one, has shown interest in going to public, even after completing 10 years of operations. According to sources familiar with the developments, private-sector life insurance companies with assets under management (AUMs) of more than Rs 60,000 crore will be the first ones that will have to list. The three largest insurance companies at present are SBI Life Insurance,ICICI Prudential Life Insurance and HDFC Life. Only HDFC Life has so far shown any inclination to list.

As on March 31, 2015, SBI Life had a total AUM of Rs 71,339 crore, HDFC Life had Rs 67,000 crore, and ICICI Prudential Life had Rs 1,00,183 crore. According to Irdai norms, a company has to be in the insurance business for 10 years to be eligible to list on the equity market. The regulator considers the financial performance, capital structure after offer and solvency margin, among other factors, to give its approval.

Regulatory officials said this was an enabling provision and they would use it if required. "For life insurers with huge operations, we do not want one or two partners to share the risks and returns. It should be listed so that the capital could be shared with shareholders," an official said. In an exposure draft 'Issuance of Capital by Indian Insurance Companies transacting Life Insurance Business', Irdai said it would do so if needed. Such a company has to, within a period of one year from the date of such direction, comply with the direction issued.

"The authority might direct an Indian insurance company transacting in the life insurance business to go for a public issue if the circumstance so warrants," Irdai said in the exposure draft. It is not clear if Life Insurance Corporation (LIC) will come under the purview of this direction. Being a state-owned entity, LIC's initial public offering (IPO) decisions will be taken by the government. However, Irdai does have the power to direct with respect to its public issue.

Though it was earlier anticipated that life insurers would bring out IPOs soon after completing 10 years in the industry, none of them did so. That was due to stress in business, low foreign direct investment cap (it has now been raised to 49 per cent) and poor market conditions, among other things.

Insurance officials said this was a step by the regulator to increase transparency. "It was implicit that each life insurer would bring out an IPO after completing 10 years. However, even after 10-12 years, only one-two companies have shown intent. The regulator wants to nudge large players to list, so that others follow suit," said the chief executive of a private life insurer.

Earlier, HDFC had shown intent to bring out an IPO for its life insurance company, HDFC Life, though HDFC Chairman Deepak Parekh said in the company's annual general meeting in July that an issue was at least a year away. SBI Life has said it is not looking to list immediately, though its parent State Bank of India (SBI) is divesting a stake of up to 10 per cent in SBI Life Insurance.

Irdai chairman T S Vijayan had recently said that listing of insurers would bring about greater transparency and accountability. He had also said listing of insurers would bring in the scrutiny required for efficient management of companies.

The chief executive of a bank-promoted insurer explained that all companies had entered the life insurance business with a long-term view of listing. "At least the top four-five players are ready for listing. This will improve the corporate-governance structure," he added.

Source

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India: Regulator may direct some life insurers to go public – Asia Insurance Review

The Insurance Regulatory and Development Authority of India (IRDAI) might mandate some life insurance companies to go for a public listing, the regulator said in an exposure draft titled "Issuance of capital by Indian insurance companies transacting life insurance business".

"The Authority may direct an Indian insurance company transacting life insurance business to go for a public issue if the circumstances so warrant. Such company shall within a period of one year from the date of such direction comply with direction issued," it said in the draft which is posted on the regulator's website. The circumstances under which an IPO would be ordered are not set out in the draft.

While it had been anticipated that life insurers would launch initial public offerings (IPOs) after they complete 10 years of operations in the sector, none of them have done so.

The draft regulations also state that an insurance company can issue the shares as fully paid up. In case partly paid-up shares are issued, the company shall not allow any period exceeding one year for payment of calls on the shares.

Criteria for consideration for approval of an IPO would include compliance with the "Indian owned & controlled" requirement under foreign investment regulations.

Source

In its application for an IPO, the insurer has to make additional disclosure regarding agent productivity; value of new business; investment in equity and bonds including details lile yield, exposure to each industry and total investment; reinsurance strategy; and significant accounting policies.

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Pensions

EPFO hikes insurance cover up to Rs 6 lakh from current limit of Rs 3.6 lakh - The Economic Times – 17th September 2015

The labour ministry has agreed to significantly enhance insurance benefits under the Employees Deposit Linked Insurance (EDLI) Scheme of the retirement fund body EPFO.

The proposed new limit is Rs 6 lakh, an over 66% from the current limit of Rs 3.6 lakh. The ministry has also agreed to do away with the mandatory requirement of continuous employment of one year under current employer before being eligible for insurance benefits.

The move is likely to give incentive to 4 crore subscribers of the scheme to stay put in the EPFO and comes at a time when the BJP-led NDA government is working towards making the National Pension System (NPS) as an alternative to EPFO, thus threatening the existence of the EPFO.

ET had reported in July that the proposal is being finalised to increase assurance benefits under the scheme. A decision to this effect was taken at a meeting of the EPFO central board of rustees (CBT) in Hyderabad on Wednesday. The meeting was chaired by labour minister Bandaru Dattatreya.

The CBT consists of 10 members of central trade unions, who represent the employees, nine members representing employers' associations, members from the central government and five state government representatives.

"In a major decision, the CBT enhanced the insurance benefits under the EDLI 1976 admissible to dependents of EPF members from the present maximum of Rs 3.6 lakh to Rs 6.0 lakh. This will benefit four crore EPF contributing members," an official statement said.

Last year, the EPFO paid Rs 180 crore to about 30,000 beneficiaries of the scheme.

According to the statement, the labour ministry will soon convene a special CBT meeting to approve cadre restructuring for EPFO employees that will result in promotion of 20,000 EPFO workers across India.

Source

A day before, EPFO had launched a mobile application that will enable EPF members activate their UAN and gain access to their accounts through missed call or SMS. Almost 5.4 crore UAN numbers have been issued till date and 1.8 crore of these have been activated. The EDLI scheme, which is applicable to all the factories and establishments to which the EPF & MP Act, 1952 applies, provides for a lump sum payment to the nominated beneficiary in the event of subscriber's death due to natural causes, illness or accident.

Survey & Reports

Cyber insurance to triple in size: PwC - Financial Chronicle – 14th September 2015

The global cyber insurance annual premium market will triple in size to $7.5 billion in five years' time and the insurance industry could face competition from disruptors if it does not act fast to develop cheaper or favorable products, a PwC report has said.

The digital revolution has created a highly interconnected world that is awash with data, much of it sensitive, and much of it vulnerable to fraud, theft and compromise. Add to that malware, denial of service and other malicious attacks, and cyber risk emerges as one of the biggest threats of this age.

"Cyber criminals are constantly probing for weaknesses and adapting their tactics. And while our image of the perpetrators often centres on activists or organised gangs, they could just as easily be employees. The targets are also broadening. A clear example came from the insurance sector itself when a company was hacked for the tracking data they held on cargo shipments," PwC said. All these factors make cyber crime a costly, hard to detect and difficult to combat threat. From an insurance perspective, while analogies are often made with terrorism or catastrophe risks, cyber risk is, in many ways, a risk like no other, it added.

Insurers and reinsurers are charging high prices for cyber cover and putting a ceiling on potential losses, deterring companies from buying cyber polices, PwC said in the report.

A few Indian companies also offer cyber insurance policies but uptick of this specialized product in India has been slow.

"Cyber insurance capacity will continue to increase over the next few years, which is likely to put downward pressure on premium rates and encourage some insurers to relax limits, exclusions and other terms and conditions as they compete for business," the report said. Looking further ahead, the market will eventually reach the data maturity needed to price more accurately and hence reduce the need for a premium cushion.

Source

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IRDAI Circular

Source

IRDAI uploaded the list of life insurance products released during the financial year 2015 – 2016

Source

IRDAI released notification of Insurance Regulatory and Development Authority of India (Registration of Corporate Agents) Regulations, 2015

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Global News

China: Regulator allows insurers to set up private equity funds - Asia Insurance Review

The China Insurance Regulatory Commission (CIRC) has issued rules allowing insurance companies to establish private equity (PE) funds to invest in key strategic industries supported by the government. The purpose is to broaden investment channels for insurance funds and to provide funding for the country's major infrastructure projects, cash-strapped smaller companies and emerging industries such as Internet finance, reported the China Daily citing CIRC official, Mr Zeng Yujin, who spoke at a news conference last week.

"Insurance funds previously had very limited investment channels such as bank deposits or bonds. The new guideline will allow them to invest in companies' equities so that insurance funds can better serve the economy," Mr Zeng said. The regulator has approved two insurance asset management companies to establish PE funds, and more applications are already in the pipeline, he said.

Sun Life Everbright Life Insurance was the first insurance company to establish a PE fund earlier this year. Its initial fund managed to raise CNY500 million (US$78.4 billion), which invests in a share transfer system for unlisted companies. The total asset value of China's insurance sector reached CNY10 trillion last year. Insurance companies are allowed to invest up to 30% of their total assets in equities, which means that more than CNY3 trilliom can be allocated to equity-related assets. CIRC said that insurance funds are also encouraged to invest in asset-backed securities to diversify their asset allocation channels.

Source

China: Reinsurance mart to grow rapidly driven by primary business - Asia Insurance Review

China's reinsurance market is expected to grow rapidly with reinsurance premiums to increase at an average of 10-15% over the next three years, driven by primary market development, increasing risk awareness and more risk-based solvency requirements, according to Dagong Europe Credit Rating. The credit rating agency estimates that in 2014, reinsurers in China wrote about CNY160 billion (US$25 billion) in gross premium written. In 2013, the figure was CNY123.8 billion.

Profitability

Overall, the reinsurance industry's profitability is satisfactory, mainly driven by investment income. According to Dagong Europe's analysis, in general the most profitable reinsurance business is from the foreign-owned primary insurers, and in general non-life is more profitable than life. "We expect profitability to be challenged in the next few years by increasing competition, reducing domestic interest rates and volatile domestic equity markets," said Dagong Europe in its report titled "China's Reinsurance Market Overview – A Double Edged Sword".

Competition

Competition is high and Dagong Europe expects it to further increase, as new players are entering the market, with the number of domestic and mainland-based foreign reinsurers to grow. In 2014, the market consisted of eight players, of which the only domestic player was China Re (excluding Taiping Reinsurance, which is Hong Kong-based but has operations in China). China Re dominates the market with 38% of the overall market share. However, its market share has been gradually falling due to the opening up of the market. The market share of the seven foreign-funded reinsurers registered in mainland China and about 200 foreign ones reached around 60% in 2014.

Dagong Europe says that China's insurance and reinsurance markets are immature and would benefit from foreign expertise and help to accelerate market development. "We believe that foreign reinsurers have a big role to play due to their global and regional expertise and experience in product development, relationship and risk management. We see the greatest potential for those with specialty lines, related to natural disasters, health, agriculture property and engineering," the report said.

Capital strengthening

Dagong Europe added that due to the implementation of China's Risk-Oriented Solvency System (CROSS), the capitalisation levels in the industry are likely to rise, due to higher regulatory capital requirements and improved risk management. "We expect a change in the mix of business lines reinsured and increased sophistication and use of reinsurance protection at primary level."

The report said: "In our view, the industry has a large capital base and good and improving risk management expertise, in particular brought by leading global reinsurers. Although the final risk charges and specific calibration of C-ROSS and its impact is yet to be seen, we do not expect it to create significant challenges to the main reinsurers. However, we might see capital strengthening from medium and smaller-size reinsurers."

Source