



Insurance Institute of India

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Newsletter

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News	Firewalls likely between banks, insurance firms
Newspaper	Financial Chronicle
Source	http://www.mydigitalfc.com/news/firewalls-likely-between-banks-insurance-firms-050

Finance ministry proposes to set up firewalls between banks and insurance companies by ending crossing holding to prevent spread of turmoil from one sector to another.

The government also hints at putting in place a mechanism to develop strong re-insurance business to lend long-term stability to the sector.

Economic survey said, "Inter-linkages between insurance and banking sectors are a matter of concern with many insurance companies being part of the financial conglomerates. Although, the Indian insurance sector is well capitalised, it is significantly exposed to the banking system."

De-linking insurance and banks seem to have been mooted in backdrop of contagion impact both sectors had in US and Europe during economic turmoil, massive rout in equity and debt markets.

Out of 24 private life insurance companies, 11 companies have banks stakeholders.

Amitabh Chaudhry, MD and CEO of HDFC Life Insurance said, "RBI has also expressed concerned over banks' exposure to insurance companies. As banks own most insurance companies, there is a concern that if either of the two sectors is in stress, it may impact the other too. RBI has proposed holding company structure to prevent banks and its subsidiaries from having cross exposure trouble in future, this will act as firewall. However, it is yet to be finalised and various issues are being worked out."

P Nandagopal, managing director and chief executive officer of India First Life Insurance said there is not much to worry due to over-exposure of banks in insurance companies. "Exposure of banks to insurance sector is very-very small compared with other sectors. In the fast expanding Indian economy, all sectors are inter-linked. You cannot separate one from another. However, both banking and insurance sector has been growing steadily and are in good financial health," he said. IndiaFirst Life insurance is a joint venture between Bank of Baroda, Andhra Bank and Legal and General. KG Krishnamoorthy Rao, MD and CEO of the general insurance company said, "Present regulations do not allow foreign re-insurer to open subsidiary in India. General Insurance Corporation is the only re-insurer and it has limited capacity available."

Life Insurance

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News	Money-back life cover lose tax edge
Newspaper	Financial Chronicle
Source	http://www.mydigitalfc.com/news/money-back-life-cover-lose-tax-edge-376

Several money back life insurance policies, shorter term endowment plans, limited premium payment life insurance plans and single premium plans will not be able to offer tax benefits from next financial year. The budget has proposed to increase the sum assured (insurance cover) to at least 10 times the premium paid from the current regulation of five times for life insurance policies to enjoy tax benefits.

This will require life insurance companies to make changes to their existing products that are not compliant with the new norms and file them with the insurance regulator for approval. But given the fact that the norms get effective from April 1, 2012, this gives insurers only two weeks time for the new change.

Rajesh Sud, chief executive officer and managing director of Max New York Life, said, "Between the regulator and the ministry, a practical way should be formed to transit the industry to this new requirement. This is an aggressive time line for change."

"Since we already have some products that are compliant with the new norms proposed we will not face a major problem," added Sud.

"Pure term insurance plans, whole life plans will remain compliant as the cover is more than 10 times the premium in these. The problem will be with money back and endowment plans (a policy that pays a lump sum after a specified term on maturity or on

death). Most insurance products are not compliant with this requirement and will have to be refiled," said V Srinivasan, CFO, Bharti Axa Life.

SB Mathur, secretary general of Life Insurance Council (an association of life insurers) said, "Since not much of business happens in April, I don't see any major impact. If life insurance companies face a problem, the council will approach the Irda."

If the new conditions in the budget are not met from next month, a policyholder will not get any tax deduction on the premium and even the income from the policy will be taxable.

The finance bill has proposed to reduce the threshold of the premium payable to 10 per cent of the actual capital sum assured from 20 per cent of the actual capital sum assured in order to enjoy benefits under section 10(10D) and section 80C of the income-tax act. The bill has defined capital sum assured to mean the minimum amount assured under the policy when the insured event takes place at any time during the term of the policy.

Under the existing provision, Section 80C allow premiums paid towards a life insurance policy to qualify for a tax deduction up to Rs 1 lakh. But if the amount of premium paid in a financial year for a policy is in excess of 20 per cent of the sum assured, then tax deduction is allowed only for premiums paid for up to 20 per cent of the sum assured. As for the benefits, according to section 10(10D), death benefit in an insurance policy is tax-free, but any other benefit such as the maturity proceeds is tax-free if the premium is not above 20 per cent of the sum assured.

At present, all regular unit-linked insurance plans (Ulips) offer a sum assured of at least 10 times the premiums paid for individuals below 45 years of age. For those above 45 years of age, the sum assured being offered in Ulips is seven times the annual premium.

Insurance officials said not all purchases are done for tax saving purpose. Such customers could buy the current products available but without tax benefits. "First, products will have to be filed with the regulator for approval, IT systems will have to be changed, agents training will have to be changed. All this will require at least three-six months. We will lobby with the ministry for more time," said an official of a private life insurance firm.

General Insurance

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News	Motor insurance premiums set to go up from April 1
Newspaper	The Hindu Business Line
Source	http://www.thehindubusinessline.com/industry-and-economy/banking/article3017296.ece

Hyderabad/Mumbai, March 20:

Motor insurance premiums are set to go up by 15-20 per cent from April 1. Industry experts say that a variety of factors will drive the increase in various categories of motor insurance.

A major change will be the dismantling of the motor third party pool from March 31, 2012, which was announced by the Insurance Regulatory and Development Authority earlier.

Third party premiums are governed by the regulator. "We are expecting some correction (upward revision) in the annual review by the regulator on the basis on escalation," Mr Mukesh Kumar, Head of Strategy, HDFC ERGO General Insurance, told Business Line on Tuesday.

In view of inflation and other factors, the regulated premium in this segment could go up by 10-15 per cent as part "automatic correction in line with IRDA's formula," he added.

The higher claims ratios in various other segment of motor insurance could also lead to an increase.

The own-damage vehicle insurance premium in the commercial vehicle segment is also going to be dearer.

According to Mr Amitabh Jain, Vice-President-Motor, ICICI Lombard, there could be 15-20 per cent hike in premiums in this segment. Some other experts feel that this could go up even higher.

Most of the insurers have till recently been offering discounts in premiums anywhere between 20 and 30 per cent. This may not happen now, which means that the premium would go up.

DECLINED POOL

In an order issued in December last year, IRDA created a Motor Third Party Declined Risk Insurance Pool to provide mandatory third-party cover for commercial vehicles.

It would be applicable to all commercial vehicles for standalone third party insurance which is mandatory as per the Motor Act.

The reason for dismantling of motor third party pool was the huge losses for the insurers.

Total motor premium during 2010-11 was at Rs 16,879 crore, while the expected ultimate loss is Rs 17,432 crore.

Mr J. Hari Narayan, Chairman, IRDA, told Business Line recently that he expected the situation to improve with the creation of the declined pool.

"I am sure that time will confirm our belief that the declined pool mechanism would lead to better management of third party claims to the benefit of all stakeholders," he said.

Global News

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Asia

News	China: Insurance trade body releases draft rules on auto cover
Newspaper	Air e-daily Asia Insurance Review
Source	http://www.asiainsurancereview.com/pages/e-weekly-archive.asp

The China Insurance Association has published a draft for regulations on vehicle insurance to solicit public opinion as it aims to improve China's commercial car insurance market. The draft new regulations for motor insurance contains a series of important modifications for both the insured and insurers.

One new provision, which has attracted hot debate, will enforce full value compensation to all damaged cars for insurance holders, replacing the widely discredited "No liability, No compensation" clause. The current stipulation states that those who are insured for damage shall be compensated only when they are at fault and that compensation is proportional to the relative liability.

Another new requirement is for insurers to set their premiums and compensation sums according to a cars actual value. Under current regulations, whether the car is new or old, the insurance premiums are set for the car as if it were new, meaning higher payments to be made by the insurance buyer. Yet, the compensation is based on actual value. The draft rule could lead to a decline in premium rates.

Insurance expert Pan Hao told China Radio International that there are still loopholes in the proposed regulations. The draft says the insurance company must cover car damage from rainstorms and floods but not damage caused by water-filled engines. Pan Hao says this is too vague and that clauses must be exact, detailed and in clear language, otherwise these loopholes will cause major problems in the future.

The association plans to produce, at least once every two years, a loss rate table for commercial motor insurance. Insurers will be able to use this to set their premium rates.

Middle East

News	Bahrain marks first-ever 'Insurance Day'
Newspaper	e-Weekly Takaful
Source	http://www.asiainsurancereview.com/pages/e-Weekly.asp?country=9

Bahrain Insurance Association has announced the inaugural launch of "Bahraini Insurance Day" which will be celebrated annually on 21 March, in a positive move to enhance the awareness of insurance among the various segments of society throughout the Kingdom.

The BIA which comes under the auspices of CBB will jointly host the event to be held in The Gulf Hotel to feature an exhibition that will document the rich insurance history in Bahrain.

His Excellency Mr. Rasheed Al Maraj, Governor of Central Bank of Bahrain will inaugurate the '1st Bahraini Insurance Day' which will be attended by invited insurance experts and specialists.

Preparation and arrangements for the event are based on the productive effort being actively undertaken towards making Bahrain a regional center for insurance in addition to creating awareness of insurance, while also celebrating the achievements and successes of the insurance market of Bahrain.

The prosperity of insurance companies in the Kingdom of Bahrain is due to the availability of the right atmosphere and the wise policy of the Government through reinforcing the open and multi economy under the supervision of Central Bank of Bahrain, which is the base of the Bahraini economy in the regional and global markets

On this occasion, the Assembly stresses the importance of communication with the Central Bank of Bahrain and the competent authorities and other bodies for the development of the insurance sector and promotes public awareness in Bahrain.

Europe

News	Budget 2012: Government affirms drive to tackle compensation culture
Newspaper	Insurance Times
Source	http://www.insurancetimes.co.uk/budget-2012-government-affirms-drive-to-tackle-compensation-culture/1395489.article

The government has affirmed its commitment to work with the insurance industry to stamp out compensation culture in the 2012 Budget.

It said it had agreed with insurers that the industry “commits to challenge vexatious civil claims in order to tackle the compensation culture” and that it was “working with business and the ABI to build confidence in challenging such claims and ensure businesses have access to the right guidance and support”.

The budget also said that insurers are to produce guidance for SMEs about the level of health and safety compliance required to obtain insurance cover.

The measure, as with the drive to tackle compensation culture, is part of the government’s plans to scrap or improve 84% of health and safety regulation.

Insurers agreed to produce the guidance at the prime minister’s insurance summit held at 10 Downing Street in February. The summit was mainly aimed at stamping out compensation culture and, ultimately, lowering insurance premiums.

According to the budget, insurers will set out for SMEs “what is and is not required to demonstrate compliance with health and safety law when obtaining insurance cover”.

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