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Edmund Burke

INSIDE THE ISSUE

Insurance Industry

Insurers can now get listed on bourses - The Times of India

State-owned general insurance companies can now get listed on the stock exchanges with the recent promulgation of the ordinance on the Insurance Bill. "There is an enablement by the government for dilution of stake. The government can now take a call on divestment," said G Srinivasan, chairman, New India Assurance.

According to G Srinivasan there is no pressure to raise fresh capital as the company already has a solvency margin of 2.6 times the statutory requirement. This means that present levels of capital are enough to meet next few years of growth requirement. Adding that listing was a topic that was discussed with the government in the past, Srinivasan acknowledged that public issue brought in benefits other than capital mobilization. "Being listed does bring some recognition and improves brand value," said G Srinivasan.

Besides hiking foreign investment limits the Insurance Bill contains a clause which amends Section 10 of the General Insurance Business Nationalisation Act of 1972 allowing government shareholding in General Insurance Corporation, New India Assurance, National Insurance, Oriental Insurance and United India Insurance to fall up to 51%. "The honour of possible partial privatization is thus confined to General Insurance Corporation and four public sector companies and not Life Insurance Corporation," KK Srinivasan, former member, IRDA. He added that if the public sector companies are listed FIIs can also invest in them.

Industry experts say that listing will bring in benefits far beyond enabling fund raising for the government and insurance companies. The chase for topline growth among the four public sector companies by giving up on profitability is expected to come down. It would enable companies to reward employees with performance incentives through stock options. According to G Srinivasan, all the state-owned general insurance companies are already following all the requirements of a listed company. "We are bringing our results every quarter. All the necessary disclosures are there and in most respects we are at par with a listed company," he said. He added that should the company decide to go for a listing there would not be much preparation required.

Compared to the PSU insurers the private sector life companies face a much bigger challenge in getting listed. "The companies considering IPOs will need to work with SEBI (Securities and Exchange Board of India) and the IRDA to get the necessary approvals. The disclosure requirements for IPOs as outlined in the Actuarial Practice Standard 10 (APS10) issued by the Institute of Actuaries of India are also somewhat onerous, with companies needing to start and plan work well in advance of any planned listing date," said management consultancy firm Milliman.

Source

Back

Insurers can hold only 5% in Promoter Company, stipulates new insurance ordinance - The Economic Times

The new insurance ordinance stipulates that no insurer can acquire more than 5% in the promoter company but gives them some leeway on holdings in other firms. The Insurance does not prescribe any limit on how much of its parent company an insurer can own. To be sure, the Insurance Regulatory and Development Authority (Irda) has fixed a ceiling of 5% of the total-owned fund of the insurer. Experts said that the move to fix a 5% cap is aimed at preventing a contagion risk and preventing subsidiaries from propping up the shares of parent companies. At the same time, the ordinance has done away with the existing 10% cap on the equity stake that insurers can hold in other companies. Instead, it gives regulator Irda the discretion to fix a ceiling on investments in other companies.

The Insurance Act 1938, which currently prevails, says that an insurance company can acquire 10% of the issued capital of a company or bank or 10% of its own investible funds, whichever is lower. In the past, Irda contemplated a higher investment limit to accommodate Life Insurance Corporation (LIC) of India, which had crossed the 10% investment cap.

Traditionally, LIC had been holding sizable equity in several companies at the behest of the government. Any move to lower the stake to below 10% would have resulted in a sharp reduction in share prices. To prevent this, a special dispensation was made for LIC under Section 21 and 46 of the LIC Act giving absolute powers to the central government on matters relating to the state-owned company, including investments. LIC manages a corpus of Rs 20 lakh crore and has crossed the equity threshold of 10% in several banks One expert sounded a warning.

"If Irda is not firm, powerful corporates can arm-twist Irda to approve large investments in a single company," said Srinivasan Kalambur, former whole-time member of Irda. Others said that the cap of 5% on a promoter company and removal of the 10% cap on holding of another company complements each other.

Source

Back

India: Higher foreign investment cap to boost finances, practices - Asia Insurance Review

India's move to increase the foreign investment cap in the insurance sector will increase the capital strength of insurance companies and improve underwriting practices and product innovation, said international rating firm, Moody's Investors Service, yesterday.

Last month, Indian President Pranab Mukherjee signed an ordinance approving the Insurance Laws (Amendment) Bill, which aims to raise the foreign investment cap in the sector to 49% from the current level of 26%. This ordinance is now pending passage by Parliament.

“These improvements are key to boosting insurance usage in India, where insurance penetration has remained low amid uneven business growth in recent years," the rating agency said.

Moody's also said increased foreign investment would add to the firms' buffers against potential investment losses from the volatile capital markets.

India has considerable room for growth in the insurance sector, Moody's said, citing estimates of Swiss Reinsurance Company. According to the Swiss reinsurer, India's total insurance penetration — premiums as a percentage of GDP — fell to 3.9% in 2013 from 5.2% in 2009, versus a total penetration of 5.5% in Thailand and 4.8% in Malaysia during 2013.

Of India's 46 private insurers, 31 currently have foreign ownership at the 26% threshold or close to it, placing them in the group that will immediately benefit from the lifting of the foreign investment ceiling cap, Moody's said.

Non-life insurers

For non-life insurers, the government's move is even more important given their relatively pressured capitalisation and poor underwriting performance, Moody's said. "They (non-life insurers) are likely to see a stronger improvement in their credit profiles from increased foreign investment. Their financial performance has worsened in recent years due to broad underwriting losses."

It was the intense competition following the 2007 de-tariffication on all insurance products, except third-party motor insurance, that led to broad underwriting losses, Moody's noted.

As a result, the sector's ability to generate internal capital has been undermined. Among the private non-life insurers, their combined ratio was high, between 117.7% and 106.4% over the past five fiscal years, and their average solvency margin ratios fell to 200% as of the end of September 2014 from 275% as of the end of March 2013, versus the regulatory requirement of 150%. Their widened access to foreign capital would also allow them to lower their dependence on domestic funds.

Source

In addition to the immediate prospects for capital strengthening, Moody's also expects broader and deeper foreign participation to strengthen the insurers' underwriting practices and product innovation. This would particularly benefit the health insurance sector, where there is strong demand for healthcare products. The healthcare segment has become the industry's major growth driver and now accounts for around 22% of total premiums in India.

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IRDA Regulation

Irda to revise agents' commission norms - Business Standard

The Insurance Laws (Amendment) Ordinance, which has suggested structural changes in the way the sector functions, has omitted Section 40A of the earlier Insurance Act, which talks about commission to insurance agents. So, the Insurance Regulatory and Development Authority of India (Irdai) is currently working on a revised commission structure. Under Section 40A of the earlier Act, no insurance agent would get a commission exceeding seven and a half per cent of the first year's premium, and two per cent of each renewal premium payable on the policy, where the latter grants a deferred annuity in consideration or more than one premium.

Rajeev Kumar, chief and appointed actuary at Bharti AXA Life Insurance, said it had been proposed to Irdai that there be a balance between the first-year and second-year commissions. “This will motivate the agent to persuade the customer to keep paying the premiums even in the second year, where the cases of lapsation are high,” he said. Under the traditional product guidelines in force since January 1, 2014, commissions are linked to the tenure of a policy. The higher the duration, the higher is the commission. Irdai has said commission rates for policies with longer tenure would be higher than those for short-term policies. For policies with tenures of at least 12 years, the commissions would be 35 per cent of the premium.

There has also been talk about a fixed salary structure for agents, to retain them longer. The need has been suggested at several forums, said a senior executive in a private life insurance firm, but a consensus had not been arrived at. “While further details are awaited on how the commissions would be structured after 40A was omitted, some re-framing of the guidelines would be done," he said. There are also proposals on having a commission expense cap, rather than a fixed percentage of commissions.

First-year commissions for life insurance premium are the highest, which then taper from the second and third year onwards. Hence, the bulk of first-year premiums in a policy go towards commissions. Tarun Chugh, managing director and chief operating officer, PNB MetLife said it appears Irdai would frame regulations hopefully allowing a lot more flexibility for companies to design performance-based remuneration models, suiting each channel within an overall expense cap. “This is likely to help Insurers increase productivity of its channels further which will result in the overall increase of Insurance Penetration in the country,” he said. Most insurance executives agree that there is a need to have a more balanced approach towards commission structures, so that they are not skewed towards the first year. Fixed salary structure doesn’t seem to have too many takers.

The chief distribution officer at a mid-size private life insurer said that with large public and private life insurance companies having a large agency-force, fixed salary can set them back by a huge expense. They would, then, have to drastically reduce the number of agents, affecting the overall business, he added. During 2013-14, the life insurance sector reported an increase in the expenses of management in proportion to the rise in gross premium collected. Commission expenses as a percentage of premiums decreased marginally to 6.63 per cent from 6.71 per cent in 2012-13. While commission expenses rose in the case of regular premium and renewal premium, there has been a fall in the commission paid towards single-premium products.

Source

According to Irda’s Annual Report for 2013-14, individual agents’ contribution to new business premium went up slightly to 78.40 per cent during 2013-14 from 77.53 per cent in 2012-13. The Life Insurance Corporation of India had procured 95.99 per cent of its individual new business premium through agents, while for private insurers, the share of individual agents was 40.09 per cent.

Life Insurance

More agents join force to sell insurance - Business Standard

Selling insurance seems to be a gainful employment, attracting a large number of people to become agents of both private insurers as well as Life Insurance Corporation of India (LIC). According to the Insurance Regulatory and Development Authority of India (Irdai) Annual Report for 2013-14, the number of insurance agents have increased by 3.1 per cent, after a steady decline since FY11. As of March 31, 2014, India has 2.18 million insurance agents, up from 2.12 million on March 31 the previous year. Private insurers recorded an increase of 4.5 per cent and LIC two per cent in the numbers of their agents.

"LIC had a higher number of individual agents than all private life insurers put together," said Irdai in its report. At the end of FY14, the number of agents with LIC stood at 1.19 million, the corresponding number for private sector insurers was 0.99 million. In 2013-14, the total number of agents appointed was 0.72 million and the number of agents terminated was as high as 0.65 million. While private insurers appointed 0.38 million agents, about 0.34 million agents were terminated. At LIC, 0.31 million agents were terminated while it appointed 0.34 million agents.

The regulator has raised concerns about high levels of attrition among insurance agents. In the annual report, it said even though there was a net increase in the number of individual agents, such high attrition may adversely affect life insurers' business, policy persistency and public perception of the agency channel as a stable career. "It is, therefore, in the interest of all the stakeholders to work on reducing the turnover of agents and building a stable and growing agency force," said Irdai.

Life insurance companies have been making additional efforts to ensure that the longevity of an agent's career in the organisation and in the insurance sector. Apart from offering training and mentoring, financial and non-financial incentives are being offered to high-performing agents to attract and retain them in the sector. Agent attrition has been an ongoing issue in the life insurance sector.

Irdai has decided to remove minimum persistency criteria (the minimum number of policies sold by agents that have to be renewed), leaving it to the board of each life insurer to have their own norms on persistency, the insurance regulator said. efore this, agents were required to have a minimum persistency rate of at least 50 per cent to remain in the business.

Source

Back

Regulator red flags high agent attrition in life-insurance space - The Hindu Business Line

The insurance regulator has raised concerns over the high rate of agent attrition in the life insurance industry, and said that this may affect life insurers' business. In 2013-14, the total number of agents appointed by life insurers was 7.25 lakh, but those terminated was as high as 6.59 lakh. While private insurers appointed 3.83 lakh agents and terminated 3.40 lakh, LIC appointed 3.41 lakh and terminated 3.18 lakh.

"Even though there was a net increase in the number of individual agents, such high attrition may adversely affect life insurers' business, policy persistency and public perception of the agency channel as a stable career," said the Insurance Regulatory and Development Authority of India (IRDAI) in its 2013-14 annual report.

The industry needs to work on reducing the turnover of agents and build a stable and growing agency force, the report said. Agent attrition has been a major issue for the life insurance industry for the last three years, especially after the industry took a hit on the back of changing product regulations.

Regulatory action

To tackle this issue, the IRDAI had earlier reduced the pass percentage from 50 per cent to 35 per cent. It also decided to remove the persistency criteria (the minimum number of policies sold by agents who seek renewal), leaving it to the board of each life insurer to have their own norms on persistency. Before this, agents were required to have a minimum persistency rate of 50 per cent to remain in business.

Further, the regulator said that keeping in mind the gap created by the exit of insurance agents in servicing life insurance policies and also to promote persistency, it has prescribed that insurers allot lapsed orphan policies to individual insurance agents whose licence is in force. The allottee agent's details would be intimated by the insurer to the policyholder concerned.

Source

India: Insurance agent numbers see first growth since 2010 - Asia Insurance Review

The number of insurance agents in India increased by 3.1% to 2.18 million at the end of March last year, reversing a downward trend that had begun since the FY2010-11 fiscal year, according to the Insurance Regulatory and Development Authority of India (IRDAI). Private-sector insurers recorded an increase of 4.5% in the number of agents while the sole state-owned life insurer, LIC, saw a 2% increase at 31 March 2014, compared to a year ago, the Business Standard reported citing IRDAI's annual report for FY2013/14.

"LIC had a higher number of individual agents than all private life insurers put together," said IRDAI. At the end of FY2013/14, the number of agents with LIC stood at 1.19 million while the corresponding number for private sector-insurers was 990,000. During the year ended 31 March 2014, the total number of agents appointed by insurers was 720,000 million while the number of agents terminated was 650,000.

The regulator has raised concerns about high levels of attrition among insurance agents. In the annual report, IRDAI said that even though there was a net increase in the number of individual agents, the high attrition rate might adversely affect life insurers' business, policy persistency and public perception of the agency channel as providing a stable career. "It is, therefore, in the interests of all the stakeholders to work on reducing the turnover of agents and building a stable and growing agency force," said IRDAI.

One reason for the increase in the number of agents in FY2013/14 is that IRDAI decided to remove minimum persistency criteria (the minimum number of policies sold by agents that has to be renewed), leaving it to the board of each life insurer to have its own persistency rules. Previously, agents were required to have a minimum persistency rate of at least 50% to remain in the business.

Source

The total number of agents in the life insurance industry stood at around 3 million at the end of March 2010. Following the capping of charges on unit-linked insurance plans in September 2010 that reduced the income of agents, thousands exited the industry.

Back

India: Regulator to revise agents' remuneration structure - Asia Insurance Review

The Insurance Regulatory and Development Authority of India (IRDAI) is currently revising the remuneration structure, including commissions, for insurance agents as the Insurance Laws (Amendment) Ordinance, passed last month, has omitted a section of the legislation which stipulates how commissions are to be paid. Mr Rajeev Kumar, chief and appointed actuary at Bharti AXA Life Insurance, said that it has been proposed to IRDAI that there should be a balance between the first-year and second-year commissions. Such a revision would " motivate the agent to persuade the customer to keep paying the premiums even in the second year, where the cases of lapses are high", he said.

First-year commissions on life insurance policies are the highest, which then taper from the second and third year onwards. For instance, among other provisions, the omitted section of the Insurance Act said that no insurance agent is to receive a commission exceeding 7.5% of the first year's premium, and 2% of each renewal premium payable on the policy, where the policy grants a deferred annuity in consideration of more than one premium, reported Business Standard.

In the insurance sector, there has also been talk about having a fixed salary structure for agents, in order to retain them for a longer duration. The need to have fixed salaries for agents has been suggested at several forums, said a senior executive in a private life insurance firm, but a consensus has yet to be reached. Mr Tarun Chugh, Managing Director & CEO of PNB MetLife, said that it appears that the IRDAI will frame regulations for insurance companies that will hopefully allow a lot more flexibility to insurance companies to design performance based remuneration models suiting each channel within an overall expense cap.

Source

"This is likely to help insurers increase productivity of their channels further, which will result in the overall increase of insurance penetration in the country," he said. According to IRDAI's Annual Report for the 2013-14 financial year, individual agents' contribution to new business premium increased slightly to 78.4% during 2013-14 from 77.5% in 2012-13. The only state-owned life insurer, Life Insurance Corporation of India, obtained 96% of its individual new business premium through agents, while for private insurers; the share brought in by individual agents was 40%.

General Insurance

Motor insurance business to remain flat over excise duty increase - Business Standard

The general insurance sector, which had hoped for a revival in this financial year's last quarter, would likely see a flat period with a excise duty across the vehicles segment. The sector was pinning its hope on a revival of the sales of automibles in the last quarter, leading to higher purchase of motor policies, which constitute the largest share of non-life premiums. But a rise in prices, thanks to the excise duty, will affect insurance sales, too.

From April to November last year, non-life insurers collected premiums of Rs 23,847.98 crore from the motor insurance segment. Of this, Rs 12539.37 crore came from the own-damage segment while the rest came from the mandatory third party segment. Motor insurance consists of two segments — own-damage and third party (or TP) cover. While the own-damage covers losses to self during accidents, TP covers liability to a third party caused by a vehicle owner during an accident.

The prices of cars and sports utility vehicles (SUVs) are beginning to soar by five to six per cent with the withdrawal of the excise duty concession in December. As the excise duty increased by at least four per cent from January 1, across vehicle segments, car prices have shot up by amounts between Rs 15,000 and Rs 1.3 lakh. Besides, other costs such as road tax and value-added tax have made the price increase steeper. While Hyundai, General Motors, Toyota Kirloskar, Honda Cars and Tata Motors have already passed on the increase to customers, SUV segment leaders Mahindra & Mahindra and Nissan are likely to increase prices this week.

Market leader Maruti Suzuki increased prices of its popular models on Tuesday. According to data from General Insurance Council, for the April to November period, general insurers collected cumulated premiums of Rs 54,959.57 crore, which was up by only 9.2 per cent compared to same period previous year. In 2013, the industry had seen a 12 to 15 per cent growth in premiums. "The industry was hopeful that from January-end onwards, we would see a better growth in car sales. However, the excise duty hike would be a dampener and our premiums would be directly affected. Due to this, a double-digit premium growth for this financial looks difficult," said the underwriting head at a private general insurance company. There are almost 55 to 60 per cent vehicles on Indian roads that are not insured. Hence, insurers depend on policy purchase from owners of new vehicles for expanding their business.

From April onwards, when there will be a revision in the motor premiums, the rise in vehicle prices will also be taken into consideration. The general manager at a public general insurance company said the cost of the vehicle is also looked into, while pricing a cover. "In a comprehensive policy — where both own-damage and TP cover are offered — the prices will see a hike with the annual TP pricing revision and also due to own-damage price correction with a car price hike." Since motor TP segment is not yet de-tariffed, Insurance Regulatory and Development Authority of India (Idra) increases the premium every year. For this financial year, Irda has hiked premiums in the range of nine to 20 per cent for different categories of vehicles.

EXPENSIVE AFFAIR

- Prices of cars & sports utility vehicles are beginning to soar by five to six per cent with the withdrawal of the excise duty concession in Dec
- Car prices have shot up by Rs 15,000-Rs 1.3 lakh across segments

Source

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Insuring nuclear power - The Financial Express

Given the relatively low level of political capital it has in the Rajya Sabha, and the backdrop of the Bhopal gas tragedy and recent tragedies such as the Fukushima disaster in 2011, it seems unlikely the government is going to go out of its way to try and amend the Civil Liability of Nuclear Damage Act in a hurry—the Act has once again come to the forefront with US President Barack Obama coming to the Republic Day function. Since no US firm is going to build nuclear plants in India until Section 17(b) of the Act allows the Nuclear Power Corporation of India Limited (NPCIL) to take action against them in case of a nuclear accident, revoking this has been on the US agenda for a long time. Apart from the political sensitivity around such an action, as finance minister Arun Jaitley acknowledged at a seminar on the Act earlier this week, both the BJP and the Congress had passed the Act—so changing an integral part of the Act doesn't look as if it is on the cards.

In which case, various other solutions need to be looked at. The previous government sought to fix matters through the Rules to the Act, and Rule 24 limits the liability to R1,500 crore or to the value of the contract, whichever is lower—the R1,500 crore comes from the fact that, under the Act, in case of a nuclear accident, NPCIL will make an initial 'no faults' payment of this amount. But, as the Vidhi Centre for Legal Policy, that arranged the seminar Jaitley spoke at, points out, this is ultra vires since the Rule cannot go beyond the Act. The Vidhi Centre points out that it is possible to strengthen the Act to ensure liability remains only under the Act and not the general law of torts—this is certainly a suggestion worth considering. Another possibility, though it is not clear if this will suffice, is to form a fund of the type contemplated under the Convention on Supplementary Compensation for Nuclear Damage (the CSC has not yet come into force)—the CSC's architecture involves creating a fund with contributions from every country which can be used in case of an accident. While India has not yet ratified the CSC since its nuclear liability Act is not in conformity with the Convention, one solution is to start an Indian nuclear fund with an initial government contribution and create a cess on all electricity production to provide a continuous stream of funding towards it. This may still not be enough, but if India needs to produce nuclear power, and if Indian firms need to contribute in developing these plants, it needs to make a start at untangling the knots created by the nuclear liability Act.

Source

Back

India: Regulator proposes revamping terror risk insurance pool - Asia Insurance Review

The Insurance Regulatory and Development Authority of India (IRDAI) is likely to revamp the Indian Market Terrorism Risk Insurance Pool due to changing circumstances. "It is now proposed to revise the pool's capacity per location, the rates, deductibles and terms and coverage," Business Standard reported, citing the regulator.

The pool's premium income has decreased from INR4.825 billion (US$76.3 million) in 2012-13 to INR4.711 billion in 2013-14, a decrease of 2.36%, according to IRDAI. Claims paid by the pool during 2013-14 stood at INR22.2 million and no major losses were reported to the pool during the year which ended on 31 March 2014, IRDAI said.

The Indian Market Terrorism Risk Insurance Pool was formed as an initiative by all non-life insurance companies in India in April 2002, after terrorism cover was withdrawn by international reinsurers after the 11 September 2001 attack on the US. The pool offered indemnity up to INR7.5 billion per location for terrorism risk till 31 March, 2012. From 1 April 2012, the cover was increased to INR10 billion and from 1 April 2014 to INR15 billion. All Indian non-life insurance companies are members of the pool while the state-owned GIC administers it. The pool provides for terrorism risk covered under property insurance policies.

Source

Back

Crop insurance schemes for farmers in Kerala - The Hindu

The weather-based crop insurance scheme (WBCIS) and the modified national agriculture insurance scheme (MNAIS), the two components of the National Crop Insurance Programme of the Union government, are being extended to farmers in the State for the ongoing crop season. Paddy, plantain, cashew, sugarcane, mango, and tapioca are covered under the scheme.

Particulars of the applicability of the scheme for crops in various districts have been specified by the State Level Coordination Committee on Crop Insurances. Agricultural Insurance Company of India Ltd., a Union government enterprise, will be the implementing agency. While farmers who have taken agriculture loans from banks and approved financial institutions are covered under the scheme, for other ryots it is voluntary. The scheme is being implemented jointly by the Union and the State governments.

Weather-based

Parameters have been stipulated for the weather-based insurance and data are collected with the help of nearly 130 weather stations across the State, D. Rajesh, head of the State-level regional office of the agricultural insurance company, told The Hindu. Four or five panchayats come under each weather station for the implementation of the scheme. While the WBCIS scheme is segregated for crops under kharif and rabi seasons, it is applicable to some crops such as cashew in Kerala on an extended time frame. For instance, the December-May period is taken into account for cashew, he said.

Yield the criterion
Under the MNAIS scheme, the yield of the particular crop, as decided by the authorities, is the criterion and all the farmers insured under the scheme will be eligible for compensation if the yield falls below the stipulated limit. The second paddy crop is brought under the WBCIS scheme in districts other than Alappuzha, Pathanamthitta, and Kottayam, where the MNAIS scheme will be applicable.

Under the WBCIS scheme, Rs.10,000 will be the insured amount for an acre and the insurance premium is Rs.200. The insurance amount for plantain for an acre is Rs.40,000 and the premium is Rs.2,200, and the scheme will be applicable in districts other than Alappuzha, Pathanamthitta, and Kottayam.

For cashew and sugarcane, the insurance coverage for an acre will be Rs.20,000 and Rs.12,000, respectively, while the premium will be Rs.1,100 and Rs.660, respectively. The scheme for cashew will be applicable in Palakkad, Kozhikode, Kannur, Kasaragod, and Malappuram districts. The scheme for sugarcane is applicable in Idukki and Palakkad. For tapioca, covered under the MNAIS, the insurance amount for an acre is Rs.97,309. The scheme is applicable in all the districts.

Source

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Reinsurance

For India Inc, premiums may not rise this year as reinsurance rates fall - The Hindu Business Line

Falling global reinsurance rates are likely to ensure that general insurance premiums of large corporates will not see a sharp rise this year. Reinsurance premium rates are expected to decline this year even though India has seen high economic losses due to catastrophes such as Cyclone Hudhud and Jammu and Kashmir floods.

Insurers apportion a part of their risk to re-insurers by sharing a slice of their business (premium) with the latter so that they don't have to bear the entire loss in case of an adverse event.

Big catastrophes
According to data from global re-insurer, Munich Re, in terms of overall damage and losses, India witnessed the world's largest and third largest catastrophes of 2014 (Cyclone Hudhud in October and the Jammu & Kashmir floods of September). The premium paid by large corporates, which typically take mega risk insurance policies to cover their industrial assets, is largely reinsurance driven.

Ashok Kumar Roy, Chairman and Managing Director of General Insurance Corporation, the country's sole domestic re-insurer, said internationally reinsurance rates have softened by 20-25 per cent amid overcapacity as global re-insurers did not see significant losses during the year. This could lead to softer rates when the reinsurance contracts for Indian general insurers come up for renewals in April.

G Srinivasan, Chairman and Managing Director of New India Assurance, the country's largest domestic general insurer, also said that he does not anticipate a hardening in reinsurance rates despite high catastrophe losses in the Indian market due to fall in re-insurance rates globally.

Munich Re said that insurance industry losses from natural catastrophes declined 21 per cent to $31 billion last year. Cyclone Hudhud, which hit India's east coast in October 2014, caused $7 billion in economic damages. However, while Hudhud was the costliest single natural catastrophe globally in 2014, low insurance penetration in India meant that just $530 million was insured.

Gurpal Dhingra, Director of Prudent Insurance Brokers, said that risk awareness and insurance penetration are still abysmally low in India compared to more developed nations. The September floods in Kashmir caused estimated losses of a little over $5 billion but insured losses were a mere 6.5 per cent of that.

In comparison, the proportion of insured losses to overall losses in countries such as Japan was much higher at 52.5 per cent for winter damage, 74 per cent for storm damage in the US and 80 per cent for severe storm damage across Western Europe in June.

Source

Survey & Reports

Life insurance most preferred investment for affluent Indians: Survey – The Economic Times

Life insurance has emerged as the most preferred investment option for Indian households with an income up to Rs 25 lakh, says a survey. Seventy per cent of affluent population of the country, who hold investments other than cash, have put their money in life insurance, while 64 per cent among them have gone for fixed deposits, according to the DSP BlackRock India Investor Pulse Survey. It is followed by their investments in other financial instruments like shares (46 per cent), equity mutual funds (33 per cent), fixed maturity plans (27 per cent), tax-free bonds (25 per cent) and so on, it said.

"Even though the larger current ownership is in insurance and fixed deposits, there is a growing awareness among the educated affluent category of investors in the country to move more money from cash and deposits to other form of investments like mutual fund and bond," said DSP BlackRock Executive Vice President, Head (Sales) and Co-Head (Marketing), Ajit Menon, while unveiling the survey report here today.

People living in the country invest 25 per cent of their monthly take home pay, which is higher than the global average of 17 per cent, it said. When it comes specifically to asset allocation, Indians are more likely to invest in property than the global average, it added. Equities and bonds are also important asset classes accounting for 13 per cent and five per cent of the total value of saving and investment products, the survey said.

Source

Majority of Indians (56 per cent) feel their economy is getting better, way ahead of the global average of 22 per cent. The huge margin of positivity extends to their financial future with 81 per cent of Indian respondents feeling positive as compared to 56 per cent globally, it added. A large proportion of Indian respondents also feel that they are in control of their finances (75 per cent) as compared to the global average of 55 per cent, second only to China (84 per cent).

Back

Global News

Indonesia: Regulator reviews insurers' plans for capital increases – Asia Insurance Review

Indonesia's Financial Services Authority (Otoritas Jasa Keuangan or OJK) has said that the regulator is currently reviewing plans for capital increases by insurance companies. Mr Dumoly Pardede, Deputy Commissioner for the Supervision of Non-Bank Financial Industries of the OJK, said that all insurance companies submitted a business plan last year to meet the minimum capital requirements, reported Bisnis.com, which provides business news.

In 2008, regulations were introduced that require insurance companies to incrementally increase their minimum capital levels to IDR100 billion (US$7.93 million) by December 2014. Reinsurers are required to have a minimum capitalisation of IDR200 billion by the same date. Mr Ahmad Fauzi Dervish, chairman of the General Insurance Association of Indonesia, said that based on last year's data, 15 non-life insurers had not met the capital requirements.

Source

Mr Duomoly said that OJK will explore further sources of funding for the capital increase. "We really need a healthy insurance industry. Moreover, we are also preparing for the ASEAN Economic Community," he said. “We target for insurance companies to meet the basic capital this year.” When the ASEAN Economic Community is established later this year, competition will increase as the doors will be open for a common market in ASEAN.

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China: Regulator to issue infrastructure investment trust rules - Asia Insurance Review

The China Insurance Regulatory Commission (CIRC) has drafted a new rule that would allow insurance funds to entrust third parties to invest in government infrastructure projects on their behalf. Insurance funds have so far not been allowed to directly invest in government infrastructure projects. The new regulation, on which CIRC is seeking public feedback, provides for infrastructure investments to be in the form of debt instruments, equity, asset-backed securities and other viable investment methods. The investments must be carried out indirectly through third parties, reported Shanghai Securities News.

CIRC said that regulations are necessary given the rapid growth of investments in infrastructure projects by insurance funds. The new regulation stipulates areas in which infrastructure investment is forbidden. These include: banned or restricted projects; projects which have not yet been officially licensed; projects which are unclear; projects with unclear ownership and in which legal risks exist; projects which are funded by a financing entity which does not qualify to provide funding; and other circumstances prescribed by the CIRC.

To prevent risks, the CIRC said that insurance fund principals should: not allow investment in unauthorised investment plans; not divert insurance capital to other purposes; not impede the execution of an investment plan agreed with the trustee; and not violate laws and administrative regulations; and not engage in conduct prohibited by CIRC. In addition, the regulator requires the trustee to establish appropriate fund management and risk capital mechanisms.

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China: Insurance law to be amended to raise criteria for majority shareholding - Asia Insurance Review

China's insurance regulator has drafted amendments to the insurance law that would raise the criteria for investors aiming to be majority shareholders of an insurance company, expand the business scope of insurers, and broaden the areas in which insurance funds can invest, among other changes. There are 52 proposed amendments in this latest round of revising the insurance law which was last overhauled in 2009. The amendments cover mainly issues involving operating and funding rules, supervision and management, and legal responsibility. Several of them represent ratification of regulations passed by the China Insurance Regulatory Commission (CIRC) in recent years that are not yet included in the legislation.

Expert meetings have been held on the draft amendments which are expected to be submitted in the middle of this year to the State Council Legislative Affairs Office, reported the Shanghai Securities News.

Majority shareholders

Under the current law, major shareholders of an insurance company are required to have (i) sustainable profitability; (ii) good reputation; (iii) net assets of not less than CNY200 million (US$32.2 million); and (iv) no record of significant breach of any laws and regulations in the three years immediately preceding becoming a shareholder of the insurance company.

The proposed amendments require those which aim to be major shareholders, to meet the following conditions: "for the most recent three years, the main operating revenue must not be less than CNY1 billion; the asset-liability ratio must not be more than 50% and net assets must not be less than CNY200 million and must be at least 10 times more than the amount to be invested".

The reason for adding this provision is to enhance the calibre of majority owners because in recent years, investors of different backgrounds have become shareholders of insurance companies. Some private investors regard insurance companies as a “pool of ready funds” and the authorities feel that this represents a risk which cannot be ignored.

In terms of business scope, among other things, the amendments will provide for annuity insurance to be within the scope of personal insurance. Companies offering personal insurance have to obtain the approval of the insurance regulator before they can offer medical liability insurance.

Investments and fundraising

The amendments provide for insurance companies to invest in equity funds and insurance asset management products. Insurers will have to strengthen asset-liability management, and establish and improve the insurance fund comprehensive risk management system. As for fundraising by insurance companies, the amendments state that insurers can issue equity, debt instruments as well as other capital raising instruments approved by the insurance regulator.

The amendments also state that where an insurance company faces a situation of serious liquidity risk, the insurance regulator is empowered to require the insurer to submit plans to improve liquidity, and may take the following regulatory measures depending on the circumstances: order the insurer to increase its capital; restrict the distribution of dividends to shareholders; restrict the use of insurance funds and require the company to improve its asset allocation.

Source

Taiwan: Insurers contribute 24% of financial sector's 2014 record gains – Asia Insurance Review

Taiwan's financial sector reported a record profit of NT$500 billion (US$15.6 billion) last year, of which insurance accounted for almost a quarter, according to the Financial Supervisory Commission (FSC), which oversees the insurance and other financial service sectors in Taiwan.

Mr William Tseng, FSC Chairman, said that based on his agency's latest estimate, the financial sector posted a profit of NT$502.2 billion in 2014. Of this total, insurance accounted for NT$120 billion, reported the China Post.

The banking sector contributed the lion's share of the profits with NT$332.8 billion while the securities sector reported net gains of NT$28.6 billion. Another NT$2.2 billion came through futures, NT$6 billion through investment trusts, and NT$12.6 billion through other financial services.

Prospects of life sector
Prospects look good for the insurance sector with the FSC considering relaxing real-estate investment rules for domestic life insurers. The Insurance Bureau is likely to finalize an evaluation report by the end of this month, reported the Taipei Times.

The commission in November 2012 enacted various rules for real-estate investments by life insurers. One of those rules raised the required minimum yield on investments from 2.125% to 2.875% as the regulator aimed to curb life insurers' investment in commercial properties.

"Since those rules have been implemented for more than two years, the commission will review whether they are still reasonable, as requested by several life insurers,"

Mr Tseng told reporters on the sidelines of an economic forum late last month. Other than the minimum yield requirement, the commission will also review the feasibility of other limitations, such as a requirement for life insurers to complete development of undeveloped land project in five years or they would be unable to transfer ownership of the real-estate asset for 10 years. If the relaxation is implemented, the move could help revitalize life insurers' investment momentum and boost market sentiment for commercial property, market watchers say.

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Fitch goes negative on London outlook - www.reactionsnet.com

Fitch Ratings has slipped its sector outlook for London's non-life insurance market to negative, while retaining a stable ratings outlook for the sector's insurers and reinsurers. The rating agency justified its sector view with an "expectation that an important proportion of this business will experience further significant pricing pressures".

"Fitch expects reinsurance in particular to see a decline in pricing adequacy and primary lines remain stable at best. The rating outlook remains stable, indicating that most ratings are likely to be affirmed in the next one to two years," said Fitch.

The rating agency's assessment suggests that the market's participants have the capital strength to weather the sector's expected weak performance, as well as a "sizeable" catastrophe loss event within the next year or two.

"The rating outlook is underpinned by broadly adequate margins overall, strong levels of risk-adjusted capitalisation, strong risk management and prudent investment allocations," said the rater.

Fitch is particularly bearish about reinsurance in its 'London Market Insurance Dashboard - 2015 Outlook', noting that reinsurance accounts for 37% of London's business.

"Intense market competition in reinsurance and sluggish cedent demand has resulted in a softening market," said Fitch.

Source

Fitch rates German non-life stable - www.reactionsnet.com

Fitch Ratings thinks German non-life insurance has a stable outlook, according to its "German Non-Life Insurance Dashboard - 2015 Outlook".

The rating agency cited strong underwriting profitability within Europe's largest economy.

The underwriting positives were "partly offset by decreasing investment income resulting from persistent low investment yields", said Fitch.

"Fitch expects the motor line to report underwriting profits for 2014 and 2015, after seven straight years of losses. However, a benign accident year in 2015 could lead to competitive pressures in pricing. This could

Source

result in declining premium rates for the portion of the motor book that has become profitable in recent years," added Fitch.