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INSURANCE INSTITUTE OF INDIA

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INSUNEWS

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• Quote for the Week •

"Our greatest weakness lies in giving up. The most certain way to succeed is always to try just one more time"

Thomas A. Edison

INSIDE THE ISSUE

Insurance Industry

Fund houses, insurers fail to tap bond market rally - Business Standard

Fund houses and insurance companies have not been able to tap the recent rally in the bond market due to an earlier decision of duration-cut in their debt papers. According to industry sources, this was because they did not expect the Reserve Bank of India (RBI) to take a dovish stance in the monetary policy review earlier this month.

Duration is measured in number of years and it is a measure of the sensitivity of the price of fixed-income instruments to a change in interest rates. Most bond market experts had expected RBI to hold key policy rates on June 3, but they had also expected the guidance to be hawkish.

According to a senior official with a fund house, the pace of adjustment has been quite fast and fund houses that were running long duration did better than those who had cut duration. "The pace of the rally in the bond market was so fast that even if those who were running short duration wanted to re-orient their portfolio, they would have taken a little bit of time and that time was not there." Very few fund managers had average maturity of about 10 years and above in long-term funds. They gained the most when RBI announced a dovish stance. Most fund managers were holding average duration in the range of 4-8 years due to which gains were limited for them.

Some insurance companies had begun to cut duration after the Urijit Patel committee recommendations on consumer price index inflation-based monetary policy and RBI's decision to increase repo rates.

However, insurance officials say they have been able to book profits on the Ulip fund side thanks to their ability to take an immediate call on the fund positions. A senior investment official explained that the Ulip portfolio has generated returns much more than expected, due to the bond market rally.

On one hand, while life insurers may look at an average tenure of six-to-eight years, general insurers would prefer shorter tenures of one to two years. This is because according to Insurance Regulatory and Development Authority (Irda) rules, life insurers cannot focus too much on short-term and very short-term durations as part of their asset liability management.

Insurance company executives point out that asset liability management over a long period of time is more difficult than over a short period. This is due to market volatility and long-term nature of the bonds.

Source

Back

Cover all insurers from Day 1 of new FDI cap, says DFS - The Financial Express

The department of financial services (DFS), in its suggestion to finance minister Arun Jaitley, said the proposed hike in foreign investment in insurance from 26% to 49% should cover life, health and non-life segments from the very beginning and be devoid of any riders.

Only such a wholehearted approach would bring the desired dividends by attracting long-term capital and the latest technology from serious overseas investors, the department said.

The finance ministry has been considering a proposal to increase the foreign investment level in the sector to 49% but with a condition that voting rights of foreigners will remain restricted at 26%. Another proposal was to first ease the cap to 49% only in the non-life insurance segment, then extend it to health and finally to life insurance.

Though the DFS is keen that the provision to hike the foreign investment to 49% “is not compromised”, a final decision by the minister will take into consideration the political ramifications of such a move, officials involved in the discussions told FE.

The DFS has also sought the tabling of the Insurance Laws (Amendment) Bill “as it is” in Parliament in the Budget session itself. The Bill, among other things, seeks to raise the foreign investment cap.

Foreign investors, citing the young population and the low penetration, are more keen on life insurance as they see a greater opportunity there compared to non-life. It is learnt that investors were also not enthusiastic to commit huge long-term capital in the sector without the proportionate voting rights as it will be difficult for them take major decisions with just 26% voting rights if their Indian joint venture partner is holding a 74% voting rights stake.

“The industry believes that any increase in foreign investment should be coupled with a commensurate increase in voting rights,” Anish Thacker, partner (tax and regulatory services), EY. He added that the life insurance business needs more foreign capital as it is usually more capital intensive and takes longer to break even than the non-life business.

Prashant Tripathy, senior director and CFO, Max Life Insurance, said that allowing 49% foreign investment will have a snowballing effect of more capital to other sectors when Indian shareholders decide to sell their stake and bring it down to 51% from 74%.

It is estimated that the average capital required by the life insurance industry is around 4-5 times that of non-life. Also, while it takes only around 3-5 years for investments to break-even in the non-life segment, in the life insurance business the same requires around a decade.

The UPA government had tried to get the Bill passed by Parliament, but the BJP, mainly its senior leader and former finance minister Yashwant Sinha had opposed the move. The parliamentary standing committee on finance headed by Sinha had recommended that the foreign equity ceiling be retained at 26%. However, later, just before the general elections, top BJP leaders had indicated that the party may consider a higher ceiling if it comes to power, adding that their concerns on foreign investment was mainly regarding the retail sector.

Source

The RBI recently said that "effective from February 4, foreign investment by way of FDI, investment by FIIs/FPIs and NRIs up to 26% under automatic route shall be permitted in insurance sector”. The country's insurance sector needs capital of around $12 billion up to 2020. Increasing the foreign investment cap to 49% is expected to lead to foreign investment of around $3 billion immediately, most of it in life insurance sector.

Back

Centre may make it less taxing for insurance firms in Budget - The Financial Express

The government may give a boost to the insurance sector in the upcoming Budget with a host of tax incentives.

Official sources told FE that in the Budgetary recommendations to the department of revenue, the department of financial services (DFS) has mooted the removal of service tax on micro-insurance, reduction of the service tax burden on life insurance premium, increasing the deduction limit to senior citizens and individuals for health insurance as well as a separate deduction limit of Rs 1 lakh under the Income Tax Act (I-T Act) for insurance premium.

At present, investments in insurance premium are included in the consolidated deductions under Section 80C (of I-T Act) for which the limit is Rs 1 lakh. Apart from insurance premium, the Rs 1-lakh limit includes investments in mutual funds, public provident fund and small savings among other things.

Pointing out that insurance is product that has to be ‘sold’ and therefore a ‘push’ product and not one which is ‘bought’ and thereby called a ‘pull’ product, the DFS has said that only a major incentive by way of a separate deduction limit will help in increasing insurance penetration in the country.

Insurance penetration had declined to 3.96% of gross domestic product in 2012 from 4.1% in 2011. The life insurance penetration as a percentage of GDP slipped to a paltry 3.17% in 2012 from 3.4% in 2011, while non-life insurance penetration increased marginally from a minuscule 0.7% in 2011 to 0.78% in 2012. The DFS also suggested a reduction of service tax on the gross premium of life insurance policies.

From April 1, 2012, the service tax to be paid in the first year on the amount of gross premium of life insurance policies is 3% and 1.5% for the subsequent years (Prior to that it was 1.5% for the first and subsequent years).

The DFS has recommended a flat service tax of 3% for only in the first year and sought the removal of the 1.5% service tax in the subsequent years saying this is an additional burden and therefore a disincentive. Life insurers can now avail the concessional rate in composite policies where the policyholder is not given the break-up of risk and investment components. However, where the policyholder pays the gross premium just for the risk-cover in life insurance, then normal rate of service tax – 12.36%- is levied.

The third suggestion is to do away with the service tax (12.36% including education cess) on micro-insurance products to take forward the financial inclusion programme and increase insurance penetration especially among the rural and urban poor. A micro-insurance policy is a life or general insurance policy where the sum assured is Rs 50,000 or less. On health insurance, currently while an individual can avail a maximum deduction of Rs 15,000 (including for the assessee, spouse and children) under Section 80D (of the I-T Act), for senior citizens the permissible benefit is Rs 20,000.

An additional deduction of Rs 15,000 can be availed by an individual for premium paid for parents (the limit is Rs 20,000 if either of the parents are senior citizens or both are senior citizens). The DFS has suggested that the deduction limit be increased to Rs 50,000 for individuals (including the premium paid for spouse, children and parents whether or not they are senior citizens/dependents) and for senior citizens the limit be hiked to Rs 40,000.

Source

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IRDA Regulation

Insurance Regulatory allows insurers to hedge interest rate risks - The Financial Express

Insurance Regulatory and Development Authority (IRDA) today allowed insurance companies to hedge their interest risks by participating in interest rate derivatives of a longer tenure.

As per existent norms, insurers are permitted to enter Forward Rate Agreements (FRAs), Interest Rate Swaps (IRS) and Exchange Traded Interest Rate Futures (IRF) with a maximum tenure of one year.

However, as per the final guidelines insurers would be able participate in interest rate derivatives over one year. However, there is no upper cap for maturities of such instruments.

Participation in interest rate derivatives would help such companies to protect their return due to fluctuation in the interest rates and protect financial health.

Commenting on the guidelines, ICICI Prudential Executive Director Sandeep Batra said "It is a welcome move. It will help insurance companies to hedge their long-term interest rate risks."

Some of the products of insurance companies provide guranteed return. However, due to fluctuation in the interest rates, returns can come down. This can put pressure on the finances companies.

As per the guidelines, the objective of any use of the listed derivatives is that they must be used for hedging purposes only to reduce the interest rate risk.

"Companies enter into these agreements to hedge the interest rate risk on investments and the forecast transactions. Hedging interest rate risk of investment in fixed income securities would cover fixed income derivative positions that are designed to offset the potential losses from existing fixed income investments of them," it said.

Putting conditions, the guidelines said, a participant's dealings in interest rate derivatives would not exceed an outstanding notional principal amount equivalent to 100 per cent of the book value of the fixed income investments of the insurance company under the policyholders fund, it said.

This would exclude ULIP funds in case of life insurers and the shareholders funds taken together, it added. The mark-to market gain or loss arising out of the effective hedge would be borne by the respective fund only.

Exposure limits pertaining to single issuer, group and industry will be applicable for the exposure through FRA and IRS contracts, it said.

No contracts shall be entered with promoter group entities either directly or indirectly, it added.

Source

"The guidelines are fairly comprehensive and there is a fair amount of checks and balances so that insurance companies do run into the risk of overexposures of such instruments," Batra said.

Back

Irda tightens policy norms for insurance agents - The Economic Times

Seeking to safeguard interest of customers, Irda has made it mandatory for agents to provide full details in transparent manner before persuading policyholders to shift to another life insurance firm. Tightening of replacement norms would help in retaining the life insurance policy.

"To protect the long-term interests of life insurance policyholders and to discourage intermediaries persuading lapsing, surrendering or making paid-up of an existing life insurance policy with the intent of canvassing or soliciting a new life insurance policy on the same life," Irda said in a draft exposure.

Source

The guidelines envisage the full disclosure and transparent information to the policyholder to avoid a possible misrepresentation as to the factual position of financial consequences of replacing an existing life insurance policy, it said.

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Irda tightens norms for replacement of life insurance policy - The Financial Express

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The guidelines envisage the full disclosure and transparent information to the policyholder to avoid a possible misrepresentation as to the factual position of financial consequences of replacing an existing life insurance policy, it said.

"It is also envisaged that these guidelines encourage fair market conduct and fair business practices amongst life insurers and insurance intermediaries," it added. The draft said, "no life insurance agent, insurance intermediary or an insurer is permitted to replace a life insurance policy, except, if it is in the interest of the policyholder".

Every insurance intermediary or an individual agent would make every reasonable effort to keep in force the existing life insurance policy, it said. Replacement, if required, would be subject to certain conditions, including obtaining a written consent from the prospect for replacing existing policies.

Besides, it said, there is need to obtain the particulars of all existing life insurance contracts of the prospect and details of those policies that are proposed to be replaced. "Notify the existing insurer (old insurer) whose policies are proposed to be replaced along with the particulars of policies and also by enclosing a copy of the consent of the prospect as obtained in 'Annexure – A' 15 days prior to submitting new proposal forms," it said.

Other condition include submission of the proposal form to the insurer (new insurer) replacing the existing life policies contracts after the expiry of 15 days from the date of notifying the insurer (old insurer) whose policies are proposed to be replaced.

Source

For the purpose of execution of these guidelines all life insurers are requested to invariably designate officials involved in the solicitation of insurance business and make them accountable for proper discharge of insurers' obligations laid down, it said.

Life Insurance

Life insurers struggle to attract new inflows - The Hindu Business Line

Though mutual funds have been able to attract inflows from retail investors due to the rally in the equity markets, life insurers have had no such luck in unit-linked insurance plans (Ulips).

New products
Insurers are struggling to attract premium flows as they are facing problems related to selling new products and low commissions on Ulips.

Ulip sales have taken a hit since 2010, when the insurance regulator revamped norms by increasing the lock-in period and lowering commissions on their sales.

Ulip sales, which earlier constituted 90 per cent of private life insurers' overall product portfolio, has declined significantly to less than 10 per cent.

Amitabh Chaudhry, MD and CEO of HDFC Life insurance, said, "At present, most insurers are selling Ulips at a loss, as the cost of acquisition of customers is very high. So, most insurers have switched to selling participating products."

However, HDFC Life plans to launch a new Ulip product on the online platform, by eliminating distribution cost and stripping off all charges except fund management charge of 1.35 per cent and mortality charge.

"Every insurance company is charging the maximum that is allowed by the regulator. With an online Ulip plan, the overall charges will be cheaper than that of a mutual fund," said Chaudhry.

The move to sell online Ulip comes at a time when most agents have stopped selling these products due to lower commissions.

Social media
Chaudhry said HDFC life plans to use its distribution reach and social media platform to sell the product.

The Insurance Regulatory and Development Authority had ordered the discontinuation of sale of life insurance products that do not comply with its revised guidelinesfrom January 1. As a result, all life insurance companies had to re-work their product portfolios.

Interestingly, the country's largest life insurer, the Life Insurance Corporation of India (LIC), is not selling a single Ulip product as part of its new product portfolio.

Surrender of Ulips
However, a senior LIC official said with the expectation of a longer-term bull market, the insurer is considering a regular premium Ulip plan.

The life insurance industry has also seen a surge in the surrender of Ulips.

Pankaj Razdan, MD and CEO of Birla Sun Life Insurance, said, "There has been a rise in surrender (of Ulips) in the industry (to cash in on the returns due to the market rally) in the last couple of months. We need to create more awareness as Ulips are very good long-term products in the new structure."

Source

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Life insurers seek fresh capital to scale up - The Financial Express

Since 2001, life insurance companies in India have been investing based on the assumption that the foreign direct investment (FDI) cap would be raised from 26%, which will enable them to scale up their businesses.

With the majority of life insurers in the country still making losses and needing regular capital infusion, some foreign partners have either called off the relationship or trying to leave Indian shores.

Source

Health Insurance

Insurers go full steam to sell recharge health plans – The Times of India

After the acceptance of top up plans, health insurers are now looking to popularize recharge health option plans.

Under a recharge health plan, if the person insured exhausts his or her total sum insured, say Rs 3 lakh during a particular year, due to some hospitalization, the plan allows reinstatement of the sum insured. The entire Rs 3 lakh again can be utilized for subsequent hospitalization during the same year for a small charge.

Of course there are exceptions like the reinstated sum insured cannot be carried forward nor can the insured get claim benefits on account of previous illness for which the sum insured got exhausted earlier.

"We have introduced the recharge benefit in our newly launched health care supreme plan. The advantage for the insured is that he or she has some cover even if the sum insured gets exhausted during a particular year. Otherwise, he or she would have to wait till the next year," Renuka Kanvinde, associate VP, health insurance, Bajaj Allianz General Insurance said.

Rising health costs and growing demand for a comprehensive health cover is also driving up the demand for such offerings. HDFC Ergo will introduce an addon recharge policy soon. "Medical inflation is hovering around 15%. Hence people would certainly seek double layers of protection to safeguard themselves. As the average Indian life expectancy is steadily rising it is noted that morbidity i.e. disease prevalence is rising too.

Also, with medical care becoming less invasive and more costly due to new technology, we envisage that the demand as well as popularity of such comprehensive health covers," Mukesh Kumar (member of the executive management and head, human resources, strategy planning and marketing), HDFC Ergo said.

Apollo Munich's Optima Restore benefit launched last year has a multiplier benefit under which if customers don't use their plan, the company increases the coverage by 50% the following year and doubles it the year after." Optima Restore has evolved as the fastest growing product in our portfolio and last year it accounted for about 30% of our total retail book," Antony Jacob, CEO of Apollo Munich Health Insurance said.

Insurers also state that such plans can turn out to be economical in the face of rising medical inflation. Cigna TTK Health Insurance has a restoration benefit under all its plans "Customers looking for sufficient cover at reasonable pricing will go for policies with recharge option".

"A restore/recharge option makes the health cover more comprehensive especially when you do not have any back up health cover. Persons who can bear some amount of their healthcare costs but are looking to fund the additional risks through an insurance plan will opt for top-up/deductible plans," Sandeep Patel, MD & CEO, Cigna TTK Health Insurance said.

Source

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Survey & Reports

Max Life- Nielsen survey on Digital Natives says online search for life insurance high but purchases low - The Times of India

Max Life Insurance, one of the leading life insurers in India, has released an extensive research that aimed to gauge knowledge, attitude and behavior of active internet users in India on 'protection and life insurance'.

The research imparts insights on awareness and attitude of Indian digital natives towards family protection. Max Life Insurance conducted this research in association with Nielsen India, India's premier market research institution.

The key findings from a sample of 1009 respondents have indicated that Life Insurance is one of the most searched financial product online, but does not translate into proportionate purchases. North India displays highest engagement on the online channel and is well aware of benefits received by purchasing life insurance online. However, despite this displayed sensitivity towards life insurance, it does not fare well in the action quotient. It showed that about 43% of North Indians display high confidence on family protection, however, the percentage cannot be considered high given that internet users are considered to have higher awareness and education levels. Reality shows that tendency of postponement is high with only 51% of underinsured people intending to buy Life Insurance after 6 months.

Casual attitude pertaining to protection is also reflected in North Indian search of financial products. Life Insurance ranks third amongst the most searched financial product by North Indians. The trend is opposite to that witnessed in India. A majority of North Indians believe that purchasing Life Insurance online enables consumers with benefits like quick turnaround and price competitiveness.

Interestingly, 90% of life insurance owners from North searched the category over internet prior to last purchase. Majority of them searched either through online retailer or the websites of life insurance companies. 76% people did embark on the online purchase journey however, three fourths drop off before the purchase was made. This reflects majority of North Indians find the purchase process tedious or difficult.

Lack of personal interaction and absence of seller are the major concerns shown by North Indians while buying insurance online. Also, ironically, a majority of Internet savvy Indians came to know about online life insurance from traditional sources like agent & peer group. Internet, thus, has marginal contribution in creating awareness about Online Life Insurance.

Contrary to common belief on higher awareness about online insurance, Agent Advisors are the most preferred channel of purchase for immediate planned purchases. 75% of North Indians prefer buying life insurance from Agents. They have the highest engagement on online channel.

Moreover an interesting finding is that older population is comparatively more comfortable transacting online than younger people. Inspite of the fact that they are highly active for paying premiums, checking NAV/Policy values and accessing premium payment receipts, only 16% have purchased policy online.

Commenting on the research findings, Anisha Motwani, director and head – market ing, direct sales and e-commerce, Max Life Insurance said, "The research findings are a crucial insight into the customer's behavioral psychology towards this evolving distribution channels and how people actually respond to it. These observations will, going ahead be the key in facilitating product development."

Source

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IRDA Circulars

Source

IRDA issued guidelines on Interest Rate Derivatives to the CEOs of all Insurers

Source

IRDA issued Exposure Draft on Guidelines on Replacement of Life Insurance Policies to all Stakeholders