Insurance Institute of India

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INSUNEWS

- Weekly e-Newsletter

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• Quote for the Week •

"Death is not extinguishing the light; it is only putting out the lamp because the dawn has come.

– Rabindranath Tagore

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Insurance Industry

V K Sharma appointed LIC chief for 5 years – Deccan Herald – 14th December, 2016

Government today appointed V K Sharma as the Chairman of state-owned behemoth Life Insurance Corporation (LIC) for five years.

Managing Director at LIC, Sharma was already acting as chairman since September 16 when the then chairman S K Roy was relieved of his duties.

Roy had resigned in June, nearly two years ahead of his retirement.

"The Appointments Committee of the Cabinet (ACC) has approved the proposal of the Department of Financial Services for appointment of V K Sharma, MD, LIC, as Chairman, LIC in fixed pay of Rs 80,000 (pre-revised) for a period of five years...or up to the date of his superannuation, or until further orders..," said an official statement. Sharma has been serving as LIC's MD since November 2013.

Having joined the body as a direct recruit officer in 1981, Sharma has served as the chief executive of its mortgage subsidiary LIC Housing Finance and zonal manager in charge of the south zone.

Roy, appointed by previous UPA government, had resigned nearly two years ahead of completion of his five-year term. He was serving as the chairman since June 2013.

LIC is the largest financial institution in the country with over Rs 22.10 lakh crore in assets, which is over 15 per cent of India's GDP of Rs 134 lakh crore.

With around Rs 40,000 crore profit last fiscal, LIC is the most profitable entity in the country, next only to the RBI which transferred Rs 66,000 crore of its surplus profit to the government in the past fiscal. With such huge asset base and practically no debt, even a 10 per cent divestment in LIC can net the government billions of dollars and can massively catapult the market capitalisation on BSE.

LIC's total income stood at Rs 4,31,435 crore, of which premium income constituted Rs 2,66,225 crore, investment income Rs 1,50,963 crore and other income Rs 14,247 crore for the financial year ended March 2016.

Source

Back

Falling interest rates could have an impact on insurance premiums and bonuses – Mint – 9th December, 2016

With the overall trajectory of interest rates in India moving downward, the life insurance industry in India could witness a re-pricing of existing products and could also lower the bonuses on traditional insurance plans, according to research by Milliman, an actuarial services company.

Since January 2015, the Reserve Bank of India (RBI) has cut the policy rates by 175 basis points. One of the reasons for the interest rates coming down could be the demonetisation of old high-denomination currency notes. The move has resulted in a surge of liquidity in the banking system, which could also be a reason for the decline of interest rates.

"The sudden reduction in the interest rates can be expected to have an adverse impact on life insurance companies operating in the market," Milliman said in a research note, adding that lower yields on fixed-interest assets may make it challenging for companies to meet any existing investment guarantees, especially if reinvestment yields fall below those assumed for pricing or reserving.

A.K. Sridhar, chief investment officer, IndiaFirst Life Insurance, said that reduction in interest rates has always been a cause of concern for the insurance industry globally. "In India, it has got a very different impact for different companies and different product categories," he said.

S.P. Prabhu, head-debt funds, IDBI Federal Life Insurance, said that if yields fall sharply, then perhaps insurance companies will have to launch new products with lower guaranteed returns.

The falling yields in fixed-income securities can be gauged from the fact that the 10-year government bond yields fell to around 6.2% on 5 December, from around 7.5% per annum on 31 March 2016 .

"For longer-term non-participating savings investment-oriented products, this would be a particular challenge," the note said. A life insurance policy, which also doubles as a savings plan, can be classified in two ways: participating and non-participating plans.

Simply put, a participating plan is one in which bonuses are declared at the discretion of the insurer. In the case of a non-participating plan, the benefits of the policy are defined upfront.

The research note points out that 80-85% of life insurers' participating funds are invested in fixed income securities, which would be expected to yield less. "In line with their internal bonus management frameworks, companies are required to actively manage the bonuses to be declared on participating business. With a possible expectation of lower investment returns in the future, companies may need to reduce the future bonus rates in order to control the future buildup of guarantees," the Milliman note said.

Lower yields may further squeeze the profitability for the shareholders of insurance companies. "Nonetheless, most companies will need to consider whether it is necessary to re-price existing products, especially savings oriented participating and non-participating products, to either offer lower benefits or increase the premium rates," Milliman said.

Sridhar said that all the traditional products that have long-term assurance and guarantees will see an impact. "The existing customers could benefit. For new customers, if the company chooses to continue with the product, they can benefit. But any company would like to re-file the product with higher premiums, or reduce the guarantee," he said. The Insurance Regulatory and Development Authority of India does not allow insurance companies to change the premiums themselves. So the companies will have to withdraw the existing product and file a new product.

Source

However, insurers said that there would be only a marginal impact on term insurance premiums. "For term plans, there will be only a marginal impact because most insurance companies would have built some flexibility while pricing the product. If there is a sharp fall in rates, perhaps the premiums may go up marginally. But it will be minimal, not dramatic," Prabhu said.

Back

Modi government's big 11-point digital push post demonetisation: From cheaper petrol, insurance to railway tickets – The Financial Express – 9th December, 2016

Marking a month since Prime Minister Narendra Modi announced the move to 'demonetise' old Rs 500 and Rs 1000 currency notes, FM Arun Jaitley today announced 11-point measures to push people to adopt digital transactions. With an aim to promote cashless transactions, the Modi government has announced a slew of measures such as incentives on purchasing petrol and diesel through cards and using digital modes to recharge your RFID cards and buy railway tickets. Steps have also been announced to promote the use of RuPay by farmers. The government has faced criticism for its implementation of the demonetisation which has caused widespread pain and discomfort to the common man. The steps announced today would certainly help the government in meeting its goal of pushing people towards cashless transactions. From cheaper petrol, diesel, highway toll to railway tickets and other measures, we take a look at 11 steps as released by the Finance Ministry today:

1. The Central Government Petroleum PSUs shall give incentive by offering a discount at the rate of 0.75% of the sale price to consumers on purchase of petrol/diesel if payment is made through digital means.

Nearly 4.5 crore customers buy petrol or diesel at such petrol pumps per day who can take benefit of this incentive scheme. It is estimated that petrol/diesel worth Rs.1800 crore is sold per day to the customers out of which nearly 20% was being paid through digital means. In the month of November 2016 it has increased to 40% and the cash transaction of Rs 360 crore per day have got shifted to cashless transaction methods. The incentive scheme has the potential of shifting at least 30% more customer to digital means which will further reduce the cash requirement of nearly Rs 2 lakh crore per year at the petrol pumps.

2. To expand digital payment infrastructure in rural areas, the Central Government through NABARD will extend financial support to eligible banks for deployment of 2 POS devices each in 1 Lakh villages with population of less than 10,000. These POS machines are intended to be deployed at primary cooperative societies/milk societies/agricultural input dealers to facilitate agri-related transactions through digital means.

This will benefit farmers of one lakh village covering a total population of nearly 75 crore who will have facility to transact cashlessly in their villages for their agri needs.

3. The Central Government through NABARD will also support Rural Regional Banks and Cooperative Banks to issue "Rupay Kisan Cards" to 4.32 crore Kisan Credit Card holders to enable them to make digital transactions at POS machines/Micro ATMs/ATMs.

4. Railway through its sub urban railway network shall provide incentive by way of discount upto 0.5% to customers for monthly or seasonal tickets from January 1, 2017, if payment is made through digital means.

Nearly 80 lakh passengers use seasonal or monthly ticket on suburban railways, largely in cash, spending worth nearly Rs 2,000 crore per year. As more and more passengers will shift to digital means the cash requirement may get reduced by Rs 1,000 crore per year in near future.

5. All railway passengers buying online ticket shall be given free accidental insurance cover of upto Rs 10 lakh.

Nearly 14 lakh railway passengers are buying tickets everyday out of which 58% tickets are bought online through digital means. It is expected that another 20% passengers may shift to digital payment methods of buying railway tickets. Hence nearly 11 lakh passengers per day will be covered under the accidental insurance scheme.

6. For paid services e.g. catering, accommodation, retiring rooms etc. being offered by railways through its affiliated entities/corporations to the passengers, it will provide a discount of 5% for payment of these services through digital means.

All the passengers travelling on railways availing these services may avail the benefit.

7. Public sector insurance companies will provide incentive, by way of discount or credit, upto 10% of the premium in general insurance policies and 8% in new life policies of Life Insurance Corporation sold through the customer portals, in case payment is made through digital means.

8. The Central Government Departments and Central Public Sector Undertakings will ensure that transactions fee/MDR charges associated with payment through digital means shall not be passed on to the consumers and all such expenses shall be borne by them. State Governments are being advised that the State Governments and its organizations should also consider to absorb the transaction fee/MDR charges related to digital payment to them and consumer should not be asked to bear it.

9. Public sector banks are advised that merchant should not be required to pay more than Rs 100 per month as monthly rental for PoS terminals/Micro ATMs/mobile POS from the merchants to bring small merchant on board the digital payment eco system.

Nearly 6.5 lakh machines by Public Sector Banks have been issued to merchants who will be benefitted by the lower rentals and promote digital transactions. With lower rentals, more merchants will install such machines and promote digital transactions.

10. Service tax will be charged on digital transaction charges/MDR for transactions upto Rs 2000 per transaction.

Source

11. For the payment of toll at Toll Plazas on National Highways using RFID card/Fast Tags, a discount of 10% will be available to users in the year 2016-17.

Back

E-commerce firms eye central registration – Business Standard – 9th December, 2016

Some e-commerce, telecom and insurance entities might escape the complex prerequisite of separate registration in each state under the proposed goods and services tax (GST) regime, with a leeway or scope for special provisions in the draft law. According to government officials in the GST Council, the demand of service providers, including e-commerce players, for a central registration might be met in the GST rules after discussion with states.

"We have provided for an enabling provision under the draft law to provide certain companies with centralised registration. There is basically a section for special procedure for certain companies which want to undergo a simplified compliance and registration procedure. The categories will have to be negotiated with the states," said an official. These will be part of the GST rules, if approved. He added that the intent was to make compliance simpler for these service providers and this would be addressed under the rules. The draft law says e-commerce companies, including Flipkart and Amazon, will be required to register in each state under the GST regime, as both central and state laws provide for tax and also collect at source.

*According to the draft law, an **e-commerce** operator is required to tax-collect at source one per cent of the net amount collected on behalf of the supplier of the good. However, it also provides a dispensation under which they may be exempted from registering in different states and to collect tax at one place.*

The provision says the central government or a state may, on recommendation of the Council, specify the category of persons who may be exempted from registering. It also mentions that there may be special procedures on filing of return.

*The draft has provided that the supplier would also be required to register under the **GST** law in that state irrespective of any exemption threshold limit. Firms with an annual turnover of up to ~20 lakh are to be exempt from GST.*

Source

*"The states must realise that multiple registration for **e-commerce** or telecom players might be unworkable, as compliance will be cumbersome. Besides, there might be lack of coordination within states, viewing the same transaction differently, further complicating it for these providers," said Bipin Sapra of consultancy EY.*

Back

Investors rush to put money in insurance, MF as deposit rates fall – The Economic Times – 12th December, 2016

Amid disconcerting news of a fall in loan disbursement, production cuts and job losses following the shortage of currency supply, the insurance companies and mutual fund houses emerge as the possible bright spot.

Premium collection of life insurance companies has more than doubled in November while investment in mutual funds grew by a three-fourth. Gross written premium for general insurance companies rose 29% year-on-year last month.

Prime Minister Narendra Modi's demonetisation drive has actually helped these financial services companies to attract massive investment while banks were compelled to cut deposit rates amid a deluge of deposits in old Rs 500 and Rs 1000 currency notes.

That fact that premium collection and mutual fund payment are mostly done in cheques also helped, while the cash-driven sectors are facing collateral damage.

Premium collection for all life insures taken together rose to Rs 16,061 crore from Rs 7,553 crore a year ago, and according to Life Insurance Council secretary general V Manickam, this was largely driven by the success of Life Insurance Corporation of India's single-premium annuity plan Jeevan Akshay.

LIC amassed a total of Rs 12,528 crore worth of premium in November, compared with Rs 5,182 crore in same month last year, after banking barometer State Bank of India slashed bulk deposit rates by nearly 200 basis points.

The pension scheme offered an average return of 7.5%, attracting investors in droves after LIC announced the new Jeevan Akshay scheme with average return of 7% from December. The highest deposit rate SBI offers at present is 7%, after the latest cut in the middle of last month.

Meanwhile, investment in mutual fund has shot up 75% to Rs 1,399419 crore last month compared with Rs 801,483 crore in the year-ago period.

Motilal Oswal Asset Management Company managing director Aashish Somaiyaa said he expects demonetisation to positively impact mutual fund business following sharp fall in deposit rates. The fall in consumption and production would also leave people with idle money.

Source

The general insurance sector has recorded a 29% rise in gross written premium to Rs 9147 crore. However, general insurance, which acts as a proxy to industrial activities, may not sustain this momentum. Car premium, which accounts for more than half of general insurance business, may trigger the fall with a 5.5% dip in car sales in November.

"There could be 2-3% impact on general insurance business," said Tapan Singhel, managing director of Bajaj Allianz General Insurance Company.

Back

Oil firms, railways to stump up Rs 2,425-crore cashless freebies - Business Standard – 14th December, 2016

*If the sale of petrol and diesel becomes cashless, state-run oil companies will shoulder a yearly burden of Rs 2,400 crore because of the 0.75 per cent discount offered. The **railways** will bear Rs 25.2 crore for offering free insurance to passengers buying tickets online.*

Sources said when Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation announced the rebate on Tuesday night, the government had not issued formal instructions to them.

*Finance Minister Arun Jaitley had on December 8 announced a 0.75 per cent discount for **cashless** purchase of petrol and diesel. He did not say who would pay for it.*

*A finance ministry official said the central government would not absorb the **discounts** for **cashless** transactions and these would be borne by public sector insurance and oil companies and the railways.*

*"When you buy insurance online, you eliminate the agent. The amount you save can bear the cost of these discounts. The burden will be very small," the official said. The **discounts** are not temporary because the government wants to nudge people towards online transactions, according to another official. Petrol and diesel worth Rs 1,800 crore are bought daily in the country and 20 per cent is normally paid for by digital means. This share zoomed to 40 per cent in November and Rs 360 crore of transactions shifted to **cashless** methods.*

*"This (the discount) is likely to shift at least 30 per cent more customers to digital means, which will reduce the cash requirement by nearly Rs 200,000 crore a year at petrol pumps," the official added. Of the 53,000 petrol pumps fed by state-run oil companies, only 30,000 have card swiping machines. The oil companies have sought over 23,000 machines from banks in an effort to go completely digital. "Due to a rise in crude oil prices, diesel is likely to become dearer by Rs 1.4 a litre and petrol by Rs 1.6 a litre. Oil companies are likely to adjust the losses from the **cashless** drive against these hikes," said a Mumbai-based analyst who did not wish to be named.*

Source

Indian Railway Catering and Tourism Corporation may have to spend Rs 25.2 crore to provide free insurance to customers who buy tickets online. "For the time being, IRCTC will absorb it. The cost will come to around 70 paise per ticket," said a railway official.

The railway subsidiary may also have to absorb the 5 per cent discount for catering, accommodation and retiring rooms to customers paying online.

Life Insurance

Life insurers see 42% premium growth – Financial Chronicle – 15th December, 2016

Private life insurance companies delivered 42 per cent growth in individual annualised premium equivalent in November, as large balances in bank accounts post-demonetisation of high value notes prompted customers to look out for more productive avenues of fund deployment. However, the uncertainty on the impact of demonetisation makes it challenging to predict near-term growth, finds Kotak Institutional Equities.

Almost all players reported strong growth during November compared to 20 per cent growth between April and October. Most companies have capitalised on large inflows to the banking channel.

"We believe that inflows of funds to the formal/banking channel will drive higher investments in financial savings; the life insurance segment would likely be one of its key beneficiaries over the medium-term. We expect premium inflows to be somewhat lower over the next 1-2 months as compared to November; this is however challenging to predict at this stage. Life insurance companies with high dependence on cash collections may face some challenges," said the report.

Most private players reported 15-30 per cent y-o-y increase in average ticket size in the non-single individual segment; this likely implies that the preference was towards higher tickets, may largely be to ULIPs. ULIPs seem to have been a preferred option over mutual funds; net inflows to equity schemes of mutual funds were almost flat m-o-m.

Bajaj Allianz continued to remain strong with 60 per cent growth in November, in line with 40-80 per cent growth since May 2016. Birla SL moved up to 29 per cent yoy growth from 10-15 per cent over the past few months. ICICI Prudential Life capitalised the most amongst large players with 79 per cent yoy growth; ticket size was up 16 per cent y-o-y and 12 per cent q-o-q. Max Life reported 75 per cent growth and SBI Life's growth rate picked up to 46 per cent after a decline of 22-35 per cent over the past two months.

"November month has seen surge in select pockets, our total gross premium grew by 36 per cent (MTD) while some pockets we saw some pressure, I sense that the customers will be looking for more avenues for investments owing to large inflows, demonetisation will help more flows into financial assets and investments," Suresh Agarwal, Executive Vice President and Head of Distribution & Strategic Initiatives, Kotak Mahindra Old Mutual Life Insurance.

HDFC Life continued to be weak with 2% decline; the management highlighted that the bank was busy on the deposit side and hence the insurance business was out of focus, said the report. Reliance Life was flat but better than the 30 per cent decline over the past few months.

Source

Public sector giant LIC reported 38 per cent growth in the individual APE segment. LIC was giving 7.6 per cent interest rate on Jeevan Akshay VI till November. The sunset period of higher interest rates coupled with surplus liquidity with policyholders have driven strong premiums in November.

Back

General Insurance

Risk management in the new world – Mint – 14th December, 2016

We live in the times when cars drive themselves, gadgets monitor and control each other, armbands determine our diet and satellite feeds calculate our cab fare. The Internet of Things (IoT) revolution has resulted in technology taking over all domains by storm. Recently, the world witnessed robotic car road tests in Singapore and Pittsburgh (US) as well as goods delivery using a driverless truck in the US. As we speak, disruptive technologies are getting incorporated into various forms of physical goods and services to provide tomorrow-ready solutions. We are at the brink of the Fourth Industrial Revolution, characterised by cyber-physical systems that will radically change the nature of human interactions and, along with it, the rules of business.

While all this surely means enhanced convenience and productivity, it also gives rise to many potential risks. Even as we await the mass production of automated vehicles, the quantification of risk from driverless cars looms as a major challenge. According to analyst firm Gartner Inc., over 26 billion devices across the world will be connected by 2020. With such large-scale interconnectivity, risks to cyber security and data privacy increase manifold. The *recent distributed denial of service attack using IoT devices such as CCTV video cameras and digital video recorders is possibly just the tip of that iceberg.*

We need to ask ourselves: what kind of risks do emerging technologies pose? What are the risk-mitigating mechanisms needed to protect society from these risks? Do we need new safety standards, norms and regulations? Which industry will take the lead in mitigating these new and more complex risks so that these technological advancements can serve their intended purpose with limited trade-offs? What role will the insurance industry play in this development?

The insurance industry globally has been at the forefront of identifying risks and defining safety and risk mitigation standards. But as the winds of change usher innovations and the associated risks, the industry needs to play a lead role in addressing potential risks. It has done so in the past and must continue to do so in the future.

In the early days, when the industry was evolving, the Great Fire of London in 1666 resulted in the definition and creation of property insurance. Insurance companies also took the lead in forming private fire brigades to fight fires at buildings insured by them. Similarly, as the introduction of the automobile created enhanced risks for pedestrians, the sector developed liability insurance in response.

The developments around evolution of electricity and insurance are also a case in point. Fires caused by electrical sparks were becoming a common occurrence. Moving away from the restrictive model of individual or captive insurance, the industry innovated to bring the subscription-based model of insurance, while taking the lead in developing fire safety standards. It also played a significant role in the industrial revolution of the 17th century by introducing risk-mitigation measures as production of goods went through a sea change. More importantly, insurers were instrumental in designing and implementing safety and operational standards that were adopted by factories as a norm.

This time, globally and in India, some insurers are introducing solutions that harness the potential of technological breakthroughs for efficiency, convenience and risk management. Unmanned aerial vehicles (UAVs), i.e., drones are a case in point. Insurers are already using UAVs to streamline insurance related processes—from claims management to risk engineering to post-catastrophe claims settlement—in segments such as property and crop insurance. Similarly, some insurers are using telematics in transportation solutions to minimise marine cargo loss during transit of goods. They are tracking trucks in real time using embedded devices to prevent incidents of hijack, cargo theft and pilferage, thereby reducing losses as well as supply chain interruptions.

As technology costs decline, as they usually do, insurers can use the enhanced capabilities to further transform their offerings. For instance, on-board telematics devices will enhance transparency for both insurers and insured, given that sophisticated sensors can identify and record exactly what went wrong in an accident. This will eliminate the need for further investigations, facilitate faster claim settlement and most importantly make it possible to introduce advanced risk mitigation solutions.

Again, the use of wearable healthcare gadgets directly linked to medical providers to help monitor patients' conditions present a unique opportunity. Insurers can drive the change by defining privacy, quality and health tracking standards for the entire ecosystem.

As risks evolve and consumer preferences change, insurers are taking the lead in deliberating on the need for new regulations, safety standards and risk mitigation tools. As we speak, the World Economic Forum is engaging with insurance industry leaders from across the world along with academia, policymakers and technology companies to define and draft recommendations on mitigating risks in the innovation economy. While global norms are useful, it may be the right time for policymakers here to initiate the same for India.

Source

As Albert Einstein once said, "It has become appallingly obvious that our technology has exceeded our humanity." We are moving into times when technology will become an integral part of our existence. It is important that we develop mechanisms to address the underlying risks so that technology truly benefits humanity, not exceed it. Specifically for insurers, this entails evolving to not only embrace change, but more importantly, lead the change.

Back

‘Insurance sector prefers more mature workforce’ – The Hindu – Business Lines – 14th December, 2016

While the IT sector prefers young workers, insurance companies prefer those in the 30-35 age bracket, said G Srinivasan, Chairman-cum-Managing Director of New India Assurance Company.

“Youngsters are not keen on agency business in the first place; even if they do, they quit within three months or as soon as a better offer comes their way. Our efforts at training youngsters goes waste,” Srinivasan said.

He said the company targets those beyond 30 years of age as most in the mid-30s are fairly settled in life and take their jobs more seriously. He added that retention rate was better amongst older people.

“Retired government servants and those who have served in financial services sector can actually be active at least for 10-15 years after retirement. And they take agency business more seriously. Our agent force includes retired LIC agents and mutual fund advisers. Many of them offer a gamut of services,” Srinivasan added.

Source

The company plans to add 10,000 agents to its existing 70,000 this fiscal. “We have already added 7,000. The rest will happen in the next couple of months,” he said.

Back

Insurance Regulation

Incentives, discounts to make health insurance universal: IRDAI – The Economic Times – 9th December, 2016

IRDAI Chairman T S Vijayan today said there is a need to incentivise people who are not inclined to buy health insurance in form of free check-ups or discounts as part of efforts to deepen market penetration in this particular segment.

The spending on healthcare is seen as a superior good and only taken by people who are risk-taking, so it is required to incentivise those who don't buy health insurance, Vijayan said at FICCI's Annual Health Conference here today.

"For the people who are risk averse, it is important to incentivize them by offering some value to them like free health check-ups or discounts, which will help in realising our goal to make health insurance universal," he said.

The New India Assurance CMD G Srinivasan, said it is a socio-economic challenge in India that health insurance is not accessible to all and it lacks sustainability as well. Srinivasan who is also the Chairman of the FICCI Health Insurance Committee said health insurance sector can only grow, if it is commercially viable for all stakeholders.

UIDAI DDG for Enrollment & Updation Division and Direct Benefit Transfer Cell Narendra Bhooshan in his keynote address said Aadhaar is the biggest disruptor as well as enabler in digital society today and health insurance sector is one of the biggest beneficiaries.

"Integrating Aadhaar with health insurance enrolment, beneficiary identification, claim processing, hospital reimbursement, E-KYC will ensure a paperless, cashless, interoperable, secure, healthcare ecosystem in the country, and ultimately help in the growth in the health insurance sector," Bhooshan said.

The Conference also saw release of FICCI-QuintilesIMS knowledge paper 'Health Insurance in Digital India' said the Unique Identification (UID) of stakeholders within healthcare ecosystem such as providers, diagnostic centers and doctors will play a critical role in the growth of digitisation of health insurance in India.

According to the study, digitization and IT are changing the landscape of healthcare and health insurance ecosystem in the country.

Source

"This will enable seamless interoperability of data that will facilitate patient safety and lead to better patient outcomes. With the health insurance sector poised for major growth in the coming decade, demand for more efficient systems of data storage and transfer is set to increase," said the study.

Back

Pension

EPFO asks labour ministry to raise mandatory wage ceiling to Rs 25,000 per month – The Financial Express – 9th December, 2016

The Employees' Provident Fund Organisation has asked the labour ministry to raise the wage ceiling for mandatory EPF cover to R25,000 a month from R15,000 now for organised-sector workers. The proposal, if implemented, would raise the number of active EPF subscribers by around 50 lakh to 4.5 crore.

A subscriber contributes 12% of her basic salary to the EPF and the employer makes a matching contribution. However, of the 12% employers' contribution, 8.33% goes to the Employees' Pension Scheme (EPS) and the remaining towards the PF account. The Centre also pays 1.16% to the EPS for an employee. Although the threshold exists for mandatory cover, employers and workers can opt for the scheme even if the salary levels are higher.

The EPFO's wage threshold was last raised in November 2014 from Rs 6,500 a month. The wage threshold for medical/cash and insurance benefits under the Employees' State Insurance Corporation (ESIC) was raised earlier this year to Rs 21,000 per month from Rs 15,000 previously.

"We have written to the labour ministry for raising the EPF wage limit to R25,000," central provident fund commissioner VP Joy told FE. He said hiking the threshold had become an imperative given the recent hike in the minimum wages by the Centre for workers in 45 scheduled employment categories.

Sources said the proposal to raise the EPF limit could face some resistance from employers' representatives as many believe that this would be a great pain, particularly for small-scale industries.

Source

As reported by FE earlier, the EPFO is also planning to make inroads into the unorganised sector — a segment where it has no presence and where retirement benefits are given only under the National Pension System (NPS).

The labour ministry has proposed that provident fund, pension and insurance benefits, currently being accorded to a section of organised-sector workers, be extended to the entire working population by 2030. Given the current level of the workforce and labour force growth, this would mean that an additional 50 crore people would enjoy the above benefits given under state patronage over the next one and a half decades.

Back

EPFO to decide rate of interest on December 19 – The Hindu - Business Lines – 13th December, 2016

Retirement fund body EPFO is likely to take a decision on the rate of interest on PF deposits for 2016-17 fiscal in its trustees' meet on Monday.

Sources said that the interest rate could be at least 8.8 per cent which was fixed for the last fiscal.

Besides, the EPFO will also consider a proposal to reduce the administrative charges to 0.65 per cent of total wage on which contributions are payable from 0.85 per cent at present.

This will result in total annual savings of Rs. 1,000 crore for around six lakh employers covered by the EPFO.

The proposal to finalise the rate of interest for 2016-17 is listed on the agenda of the meeting of the Employees' Provident Fund Organisation's (EPFO) apex decision making body, the Central Board of Trustees (CBT), headed by the Labour Minister, on December 19.

"EPFO is still working on income projections for the current fiscal and will place the proposal before the CBT on Monday," EPFO's Central Provident Fund Commissioner V P Joy told PTI.

However, sources in the Labour Ministry said that the rate of interest for the current fiscal cannot be lower than 8.8 per cent provided last fiscal because there is no decline in income of body in this financial year so far.

Earlier this year, after drawing flak from working class, the government had rolled back its decision to lower interest rate on EPF deposits to 8.7 per cent for 2015-16 and fixed it at 8.8 per cent as approved by the CBT.

There were speculations that Labour Ministry may align the EPF interest rate for the current fiscal with other small saving schemes of the government like Public Provident Fund.

Earlier in September, government had decided to reduce the interest rates on small savings schemes marginally by 0.1 per cent for the October-December quarter of 2016-17, which resulted in lower returns on PPF, Kisan Vikas Patra, Sukanya Samriddhi Account, among others.

The rate of interest on popular PPF was reduced to 8 per cent in the third quarter of the current fiscal as against 8.1 per cent in the previous three-months period.

Similarly interest rate on Kisan Vikas Patra has been brought down to 7.7 per cent from 7.8 per cent. As a result the KVP will now mature in 112 months instead of 110 months.

The trustee will also consider the proposal to abolish administrative charges on firms to fund expenditure in implementing the Employees' Deposit Linked Insurance Scheme (EDLI), 1976.

The agenda says that this could be seen as an attempt to promote the "Ease Of Doing Business in India" and to make Indian business more competitive.

It said that all administrative expenses of EDLI may be met from interest of EDLI corpus.

Source

The administrative charges to run EDLI scheme is 0.01 per cent while inspection charges is 0.005 per cent for firms, which subscribes to insurance schemes in lieu of EDLI Scheme.

The total corpus in EDLI administration account as on March 31, 2016 is Rs. 2372.83 crore. The interest generated on such a corpus would be around 17.5 crores annually.

Back

EPFO committee suggests reduction in interest rate – The Indian Express – 15th December, 2016

The Central Board of Trustees of Employees' Provident Fund Organisation (EPFO), which is headed by labour minister Bandaru Dattatreya, will meet on Monday to decide on the interest rate for the provident fund deposits for the financial year 2016-17.

The finance, investment and audit committee (FIAC) of the EPFO in its meeting on Tuesday discussed the interest rate for provident fund deposits and has suggested at least a 10 basis points reduction in the interest rate for provident fund deposits.

The expectation has been that the labour ministry will bring the interest rate for provident fund deposits in line with other small savings schemes.

In September, the government had reduced interest rates on small savings schemes by 0.1 per cent for October-December.

Interest rate on Kisan Vikas Patra was brought down to 7.7 per cent from 7.8 per cent, while that for Public Provident Fund was reduced to 8 percent for October-December as against 8.1 percent in the previous quarter. The interest rate on Sukanya Samriddhi Account Scheme is 8.5 per cent, while that on term deposits is 7-7.8 per cent.

Source

Earlier this year, the finance ministry had approved a lower employees' provident fund (EPF) rate of 8.70 per cent for 2015-16, after the labour ministry had announced 8.80 per cent rate of interest. After several protests by trade unions, however, the finance ministry reverted to the initially announced 8.8 per cent interest rate for 2015-16.

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Global

ASEAN: CGIF signs its first reinsurance treaty with world leading reinsurers – E-daily – 13th December, 2016

Manila-based Credit Guarantee and Investment Facility (CGIF), in a ground breaking move, has executed its inaugural reinsurance treaty, with a panel of market leading private reinsurers, led by the specialist credit reinsurance team of Munich Re.

Under this treaty, CGIF has reinsured a portion of its guarantee portfolio allowing it to issue more guarantees, thereby enhancing its ability to perform its unique catalytic role in the development of ASEAN local currency bond markets.

The treaty, which incepted on 1 October 2016, covers all guarantees issued up to the end of 2017, says CGIF in a statement. Its highly rated reinsurance partners are among the world's largest and most reputable, with ratings ranging from S&P AA- to A.

CGIF was established in 2010 by the 10 members of ASEAN together with China, Japan, South Korea (ASEAN+3) and Asian Development Bank (ADB). A key component of the Asian Bond Markets Initiative (ABMI) of the ASEAN+3 cooperation, its main function is to provide credit guarantees for local currency denominated bonds issued by investment grade companies in ASEAN+3 countries.

"The successful inception of this treaty demonstrates the attractiveness of CGIF's guarantee portfolio to private reinsurers", said Mr Kiyoshi Nishimura, CEO of CGIF. "It also validates the strength of CGIF's guarantee operations in terms of its selection, assessment and monitoring of the region's local currency corporate bond exposures", he added.

Mr Thomas Lallinger, Munich Re's Head of Financial Risk Division, said: "We do very much appreciate closely supporting CGIF as it is a very professional trust fund of ADB with the special mandate to develop local Asian bond markets. This perfectly goes along with Munich Re's strategic ambition to further expand business opportunities in the Asian region."

Source

The reinsurance treaty was brokered by Guy Carpenter and heralds a new beginning for specialty reinsurance in Asia.

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Building resilience in the face of climate change – AIR-ARM – 14th December, 2016

Financial industry players and policymakers need to integrate resilience in their work in the face of climate change, says a new report by ClimateWise, the network of insurance industry organisations convened by the University of Cambridge Institute for Sustainability Leadership to address climate risk issues.

The report, Investing for Resilience, says that the insurance industry has a role to play to reduce the growing US$100 billion annual climate risk "protection gap", It also calls for the introduction of a resilience rating system to help asset managers and policymakers integrate resilience as a consideration into their investment portfolios.

The report also highlights ways that insurers can start to align their asset management, underwriting and risk management activities to support greater investments in resilience across financial markets. Recommendations include support for green bonds, resilience impact bonds and investments in resilience-enhancing infrastructure.

"The insurance industry will inevitably be impacted by the physical, transition and liability risks that climate change presents," said Mr John Scott, ClimateWise's 'Investing for Resilience' Chair and Chief Risk Officer, Zurich Global Corporate, Zurich Insurance Group. "Finding viable ways to help society adapt and become more resilient to the inevitable changes related to ongoing climate change is vital."

ClimateWise suggested that closer alignment between the underwriting and asset management sides of the industry must play a greater role in the response to climate change.

"Industry leaders now have the opportunity to step up to the challenge outlined by the Paris Climate Agreement," Mr Tom Herbstein, Programme Manager of ClimateWise added. "In particular, the industry must help shift capital

flows into climate-resilient assets and resilience-enhancing investments rather than simply struggling to maintain its current underwriting exposure."

Since the 1950s, the frequency of weather-related catastrophes, such as windstorms and floods, has increased six-fold. As climate-related risks occur more often and predictably, previously insurable assets are becoming uninsurable, or those already underinsured further compromised .

The economic impact of these natural catastrophes is growing quickly, with total losses increasing five-fold since the 1980s to around $170bn today. According to ClimateWise member Swiss Re, over the same period, the average annual protection gap has widened quickly from $23bn to $100bn today.

"The insurance industry's role as society's risk manager is under threat," said Mr Maurice Tulloch, Chairman of Global General Insurance at Aviva and Chair of ClimateWise. "Our sector will struggle to reduce this protection gap if our response is limited to avoiding, rather than managing, society's exposure to climate risk. As a risk carrier and risk manager, the insurance industry has significant, and as yet untapped, potential to lead others, in reducing this gap."

Source

ClimateWise was established in 2008 by the Cambridge Institute for Sustainability Leadership. Since 2009, its industry members have been benchmarking their response to the protection gap in line with the six ClimateWise Principles. ClimateWise also supports industry innovation via its Societal Resilience Programme, which commissions research into how the insurance industry can better leverage its risk carrying, risk management and investment activities.

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