Insurance Institute of India

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INSUNEWS

- Weekly e-Newsletter

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● Quote for the Week ●

"We are shaped by our thoughts; we become what we think. When the mind is pure, joy follows like a shadow that never leaves."

Gautama Buddha

INSIDE THE ISSUE

News	Pg.
Industry	1
Regulation	3
Health	4
General	8
Survey	11
Circular	11
Global News	12

Insurance Industry

RBI notifies 49% FDI under automatic route in insurance – The Times of India – 31st March 2016

Reserve Bank has notified 49 per cent foreign direct investment (FDI) under automatic route in insurance sector.

"The extant FDI policy for insurance sector has since been reviewed by the Government of India and accordingly it has been decided to enhance the limit of foreign investment in insurance sector from 26 to 49 percent under the automatic route subject to certain terms and conditions which have been notified on March 30," RBI said in a notification today.

"No Indian Insurance company shall allow the aggregate holdings by way of total foreign investment in its equity shares by foreign investors, including portfolio investors, to exceed forty-nine percent of the paid up equity capital of such Indian Insurance company," it said.

"The foreign investment up to 49 percent of the total paid-up equity of the Indian Insurance Company shall be allowed on the automatic route subject to approval or verification by the Insurance Regulatory and Development Authority of India," it said.

The foreign equity investment cap of 49 per cent will apply on the same terms as above to Insurance Brokers, Third Party Administrators, Surveyors and Loss Assessors and Other Insurance Intermediaries appointed under the provisions of the Insurance Regulatory and Development Authority Act, 1999.

Earlier, only up to 26 per cent FDI was permitted through the automatic approval route. For FDI up to 49 per cent, the approval of the Foreign Investment Promotion Board was required.

There are 52 insurance companies operating in India, of which 24 are life insurance business and 28 in general insurance.

Source

Back

Counter Point - Disclosure Norms for Commission: Ball in IRDA Court - The Economic Times (Mumbai) – 31st March 20116

And as usual, discussion about `new mutual fund commission disclosure norms imposed by Sebi' has turned its direction and became a chorus against insurance industry and its regulator, IRDA. One mutual fund CEO even asked publicly whether "insurance companies are revealing commissions". Before getting into disclosure norms followed by insurance companies and possible improvements needed there, let us state unequivocally that the argument of "IRDA is not doing its work properly, so Sebi also should not do"is not an acceptable one.

Before demanding more disclosure from insurance companies, let us take a closer look at what is disclosed there right now. First, commission is disclosed very clearly in the last column of benefit illustrations for unit-linked insurance plans (ULIP). Since ULIP is the insurance product that is similar to mutual funds, this should answer one complaint from the mutual fund industry.

And this commission disclosure rule came into existence in 2010 itself, ie 6 years ahead of the Sebi's new rules. While the commission structure will be visible for ULIPs, it is not the case for other products. This is a major lacuna and IRDA should fix this problem soon. Due to commission disclosure and also the recent reduction of ULIP commissions, insurance agents have stopped selling them and have started pushing `traditional plans', which offers better commissions. The revealing of commission in traditional plans will help customers to understand why the agents `who were praising ULIPs earlier are praising traditional plans now'.

Just like mutual funds distributors, insurance agents are also supposed to reveal the commission received on any product, if `demanded by the client'. Since the probability of agents revealing the full commission is low, IRDA should remove this `demand rule' and make this disclosure as part of the benefit illustration for all products. Since there are no benefit illustration for term plans, its commission structure need to be disclosed separately.

The content of the benefit illustration is another area that needs IRDA's immediate attention, more importantly with regard to the plans that offers `guaranteed benefits'. For example, the `guaranteed maturity benefit' offered by one traditional plan is only Rs 5,93,081 against the total investment of Rs 7,20,000 over the 20 years. However, the same benefit illustration contains `non-guaranteed bonuses' at 4% and 8%. Agents may misuse this `non-guaranteed bonuses' by showcasing it as possible high return in future. So guaranteed products should be allowed showcase only the `guaranteed returns'.

Introduction of `direct plans' for all existing insurance products can be another welcome move. Though there are some online insurance plans available now, they are separate products. Customers will be able to understand the cost differential only if both options are from same product.

As of now, insurance is a push product (i.e. a product that needs to be sold and customers will not buy themselves). This is because the data is not freely available. This problem can be solved and be converted into a pull product easily by asking insurance companies to publish all details on company's website itself. Any potential customers should be able to generate benefit illustrations by entering their own details. This will help customers to compare policies from different companies without spending too much time.

Source

Back

Insurers rush to finalize tie-ups with niche banks – Business Standard – 26th March 2016

Insurance companies are rushing up to finalize tie ups with payments and small finance banks to sell their insurance products via these new channel. While it is not clear whether they would be incorporated into the corporate agency channels, these niche banks' branch network will be used to sell products.

This comes at a time when there were apprehensions expressed by the insurance regulator saying that these tie-ups with these niche banks may not be very successful. The chief executive of a mid-size life insurance company said that there were doubts earlier whether the regulator would give a nod to tying with these specialist banks since their processes and operations would differ from those of a large bank. "We now have begun talks and tie-ups would be finalised in the next few weeks. However, in the beginning only pure term and endowment products would be sold and based on the response we would launch unit-linked insurance products and mediclaim policies at a later stage," he said.

However, now the talks between the insurance companies and payments banks have begun and the deals are likely to be finanlised in the next few weeks. Nilesh Sathe, member-life, Insurance Regulatory and Development Authority of India (IRDAI) said that more than 40 banks including those who are promoters of insurance companies have expressed interest to follow open architecture. However, they are yet to make a formal request to do so.

Earlier, banks were allowed to sell products of one life, one non-life and one standalone health insurer. It is expected that the same norms will also be applicable to payments banks and small finance banks as well. Arijit Basu, MD & CEO of SBI Life said that these banks offer a new opportunity to grow and that they are in talks with them for possible tie-ups. Insurance companies and their bank partners will be part of a new regime from April 1 when the new corporate agency norms come into existence.

The regulatory body has seen existing banks including private sector and public sector banks to open their branches to more than one insurance company in life, non-life and standalone health. From April 1, new norms

for corporate agency channels will come into place which includes banks, wherein they will be liable for all the products that they sell.

Rishi Gupta, Chief Executive Officer of Fino Paytech also confirmed that they have begun talks with insurance companies. "Selling of third-party products like insurance is one of the key revenue channels and that is why we have begun talks already. Since we already have ICICI Bank as partner we have started talking to ICICI Lombard and ICICI Prudential for a tie-up."

However, considering that the target customer base for these niche banks will be different, they will be mainly selling small ticket or vanilla insurance product. "Our focus will be on selling products like two-wheeler insurance cover, mico-insurance, small ticket health insurance product," added Gupta.

Payments banks can accept deposits of up to Rs 1 lakh and offer current and savings account deposits. They can also issue debit cards and offer internet banking. But they are not allowed to lend or issue credit cards and therefore selling third party products will be an important revenue generator for them. On the other hand, Small Finance Banks will be similar to existing commercial lenders and will undertake basic banking activities such as accepting deposits and lending to the un-served and under-served sections.

Another niche bank player said that they are in talks with insurance companies and are looking at finalising the deal in the next month. "Considering that we will have a much deeper reach in the hinterland and far-flung areas where the existing players do not necessarily have a presence therefore it makes sense for the insurance companies also to tie up," said the top executive at another niche banks.

After the insurance industry opened up in 2000, the first ones in the private insurance space rushed in and established tie-ups with banks. Further, some were even promoted by banks including ICICI Prudential Life Insurance, SBI Life, IDBI Federal Life among others.

IRDAI has said that from FY17 onwards, bank boards will be required to give a clear plan as to how and by when would they open up their branch network to more than one insurer in each category-life, non-life and standalone health. This is because even after Insurance Regulatory and Development Authority of India (IRDAI) opened up the bancassurance network to more insurers, no bank has approached the regulator for additional tie-ups.

However, the regulator has clarified that each bank employee who sells insurance will be responsible for the policy that they sell. They can be called into question if there is any complaint of misselling on the policy that they have sold. Bank boards have also been asked to disclose the approach in having single or multiple tie-ups, the partners in the tie-ups, the business mix, the type of products sold, grievance redressal mechanism and reporting requirements.

Similarly, small finance banks and payments banks would also require their staff selling insurance to undergo some training on the products being sold. Such training programmes would be sponsored by the insurers they are tying up with.

Source

Back

IRDAI Regulation

India: Regulator issues set of rules for Lloyd's – Asia Insurance Review

The India insurance regulator has issued long-awaited regulations to enable specialist insurance market Lloyd's to set up business in India. The move comes about a year after the insurance law was amended to allow Lloyd's to operate in the country. The IRDAI regulations stipulate that each Lloyd's syndicate has to retain a minimum of either 30% or 50% of the Indian reinsurance business depending on the type of the certificate or registration it holds.

In addition, Lloyd’s India, being a market, shall ensure that the market and the constituents are housed within an office location of Lloyd’s India for the conduct of reinsurance business, IRDAI said. The constituents of Lloyd’s India include members of Lloyd’s, as well as service companies and syndicates of Lloyd’s India.

Syndicates of Lloyd’s India through their service company would transact reinsurance business with Indian insurers, as well as reinsurance business outside India in accordance with their laid down underwriting policy, said IRDAI.

The regulator said every Indian insurer, in order of preference, should offer for participation in its facultative and treaty surpluses to Lloyd's India on par with branch offices of foreign reinsurers. Any syndicate or service company opened with IRDAI's approval is to be closed only with its prior approval.

The appointment, reappointment, removal and managerial remuneration of the chief executive officer of Lloyd's India would need IRDAI approval. The regulations also stipulate that Lloyd's syndicates have to retain core activities, such as underwriting, claims settlement and regulatory compliance. They will be allowed to outsource functions such as back-office servicing, investment, IT, accounts, marketing, human resources, administration and publicity.

Source

Back

Health Insurance

Delhi government to launch universal health insurance scheme, to cover 40 lakh families – The Indian Express – 30th March 2016

The Delhi government is launching a universal health insurance scheme that will cover an estimated 40 lakh families in the capital, for four years in its first stage. The Health Department has opened a Request For Qualification (RFQ) to shortlist insurance companies who can bid for the scheme till end of May, in the first stage of screening.

Titled the Aam Aadmi Swasthya Bima Yojana, the scheme will be open to families below an income group that have not been specified in the RFQ. According to the terms, families above the threshold income level can also apply for the scheme, if they can pay the premium which the government will be covering for all families below this income level.

"The scheme will cover treatment in identified empanelled hospitals, which will include all government hospitals, and some identified private centres. We estimate at least 1,700 packages of hospitalisation during the contract with the government," a senior health official explained.

A senior health department official said the coverage of the number of families and the estimated packages can, however, be revised later. The project was conceived by the Delhi Dialogue Commission (DDC), a policy think tank associated with the Delhi government. The proposal for this wider insurance scheme was suggested by the DDC keeping in view the gap in coverage of existing treatment support provisions like the Delhi Arogya Nidhi and the Rashtria Swasthya Bima Yojana.

Officials said a "token premium" may be charged from beneficiaries below the threshold income. According to officials, the project is estimated to cost around Rs 500 crore annually. The companies which apply for the initial screening for the project, will have to identify the packages they can cover.

"We are looking at coverage for diseases like cancer and neurological diseases, cardiac problems or organ transplants which are cost intensive and often complete treatment cannot be met under existing health insurance schemes," the health department official said. Officials said they were also looking at expanding the ambit of treatment to tertiary level private hospitals.

"We are waiting for the kind of packages that companies mention in their proposal. But we are looking at coverage at an economy-level ward for diseases that existing government health coverage schemes do not meet," the official said. Sources said the government was looking at provision of cashless treatment for identified beneficiaries. According to the RFQ, after the first stage, around six companies will be shortlisted, who will have to bid in the second stage of the program.

Source

Back

Non-gazetted employees welcome cashless medical insurance – The Tribune – 30th March 2016

The non-gazetted employees of the state have welcomed the decision of Governor NN Vohra of approving the cashless medical insurance facility, which will benefit more than 3.5 lakh employees of Jammu and Kashmir. The significant decision was taken in the meeting of the State Administrative Council (SAC), headed by Governor NN Vohra, on Monday.

The scheme presently covers only the officer cadre, but now about 3.5 non-gazetted employees of the state government will also be covered under the scheme. The scheme would cover about 20 lakh persons, comprising employees and their family members, which is a very significant percentage of the entire population of the state.

“We are thankful to the Governor for taking this big initiative. This will benefit more than 3.5 lakh families of the state,” said Gafoor Dar, an employees’ leader. “Earlier, the reimbursement process used to take more than a year and poor employees had to pay the amount from their own pocket at the time of treatment. Now this cashless treatment will help them get better treatment in best hospitals of the country without paying a single penny from their own pocket,” he added.

Under the proposed scheme, an employee along with five members of his or her family would be covered for an amount of Rs 5 lakh cashless treatment in well-known hospitals within and outside the state.

The SAC also noted that the stamp duty and service tax of Rs 30 crore, which the state exchequer would have accrued annually, will be waived with a view to reduce the burden of the premium payable by the employees. Further, for the non-gazetted employees the annual premium of Rs 5,403 would be allowed to be paid in 12 monthly instalments, which comes to Rs 450 per month. The medical reimbursement as admissible to employees at the rate of Rs 300 per month will be continued to be paid. The employees will also be eligible to income tax rebate for the full amount of the premium paid by them.

Source

Back

Health insurance reach confined to just 5 states – The Times of India (Bangalore) – 29th May 2016

Health insurance in India is skewed with the top five states -Maharashtra, Tamil Nadu, Karnataka, Delhi and Gujarat contributing 71% of total premium, while the rest of the 31 states and union territories contributed only 29%, according to data with the Insurance Regulatory and Development Authority of India (IRDA).

While Maharashtra contributed Rs 6,575 crore (33%) of the total premium, the combined premium from the eight north-eastern states was only Rs 158 crore (0.79%) for 2014-15. A marginal improvement from last year's contribution where they pooled in 118 crore (0.60%).

“It is not just about literacy levels. For instance north-eastern states like Mizoram have 91.58% lite racy and Tripura 87.75%, compared to Karnataka's 75.60% or Gujarat's 79.31%.It's more about access to financial products,“ says a senior IRDA official The top five states have been seeing a remarkable rise in health insurance penetration Karnataka saw a 20% hike in premiums collected to 2,123 crore from the previous year. The national health insurance programme RSBY for unorganized workers is implemented in 30 districts in Karnataka including Ballari and Chikmagalur. When it came to group medi-claims, Maharashtra (Rs 3,468 crore) led again while Karnataka came second (Rs 1,521 crore).

Source

Back

Irdai allows TPAs to process foreigners' health claims – Business Standard – 29th March 2016

The Insurance Regulatory and Development Authority of India (Irdai) has allowed third party administrators (TPAs) to process health claims of foreigners who have taken policies from Indian life insurance companies. The regulator also said a TPA can provide health services to multiple insurers. Similarly, an insurer can engage multiple TPAs for providing health services to its policyholders.

The regulator said a TPA can extend its services for foreign travel policies and health policies issued by Indian insurers covering medical treatment or hospitalisation outside India. This includes health services under travel insurance issued by foreign insurers to those visiting India. However, such services shall be restricted to the treatment required during the India stay of an international policyholder.

Irdai said insurers and TPAs should ensure that discounts, if any, from hospitals are passed on to policyholders or claimants. For this, insurers and TPAs would have to ask hospitals to reflect such discounts in the final bill of each claim.

In cases where the claim is more than the sum insured, the regulator said, the agreed discount would have to be effected on the gross amount of the bill, before letting the policyholder or the claimant bear the extra cost.

Similarly, in cases where underlying health insurance policies have co-payment or deductible conditions, insurer or TPA must ensure that the co-payment or deductible is effected only after netting off the discounts offered by a hospital.

On complaints saying that TPAs forced some customers to go to specific hospitals, Irdai said TPAs should refrain from acting in a manner which may influence a policyholder to migrate from one insurer to another. It said TPAs should also refrain from discouraging policyholders from approaching a hospital of their choice.

Source

A TPA is required to maintain minimum paid-up equity share capital of Rs 4 crore. Further, at least one director of a TPA must hold an MBBS degree.

Back

Personal accident plans get a leg up with PMSBY – Financial Chronicle – 27th March 2016

The pradhan mantri suraksha bima yojana (PMSBY) is giving a leg-up to personal accident cover, which has remained under-penetrated for years. Both awareness level and penetration have started building up with the new scheme. However, personal accident cover itself is not enough to derisk an individual and his family against untoward incidents. Experts suggest a combination of either term plan or health indemnity policy and a personal accident cover to ensure financial security.

"We have observed an increase in demand for personal accident policies owing to the rise in awareness level, which has primarily been fuelled by the PMSBY. Also, as a personal accident policy provides a cover for loss of income due to short-term or long-term disability, it is gaining popularity. Many people also opt for a personal accident policy while taking a loan to cover factors, which may hamper repayment of the loan. Till date, the company has sold over 14 lakh personal accident policies under the PMSBY scheme," said Suresh Sugathan, head of health insurance at Bajaj Allianz General Insurance.

The PMSBY, a social security scheme, which was launched early this year, has done well in increasing the number of people covered, said M Ravichandran, president, insurance, TATA AIG General Insurance. Approximately 10 crore people have brought cover under the PMSBY scheme. In our view this would help people gain appreciation of the utility of insurance and thus in the medium term the penetration of insurance would increase, he added.

"PMSBY is an excellent scheme provided by the government ensuring that insurance covers the last mile of the populace. It serves twin purpose — it not only aids in strengthening the existing market by building greater awareness; but also creates newer markets by facilitating better penetration. We need a good mix of policies catering to all segments of the population", said Nikhil Apte, chief product officer, Royal Sundaram General Insurance.

According to Shreeraj Deshpande, head of health insurance, Future Generali India Insurance, apart from PMSBY, certain group personal accident schemes floated by various state governments covering certain sections of the society such as farmers also have created increased awareness of the benefits of personal accident policies.

However, the awareness about the need for a personal accident insurance policy is still at desired level. Until 2014, around 14 crore people had bought personal accident policies despite India having the dubious distinction of witnessing the worst record of road safety in the world. Poor road infrastructure and rash driving take a toll on the lives of drivers, passengers and pedestrians.

Accidents may lead to an immediate death or a permanent disability, which makes one totally incapacitated to earn a living. Road accidents and serious injuries place a huge strain on the economic and social fabric of the family and the society at large. The family loses the source of income in addition to their loved one. All these factors have led to an increase in the number of people opting for securing oneself against such eventualities through insurance. We have seen year-on-year 20 per cent increase in our personal accident portfolio, said Mukesh Kumar, executive director, HDFC ERGO General Insurance Company.

"Overall, the penetration of health insurance including personal accident cover, in India, is not more than 5-6 per cent for private insurers. However, with the launch of the PMSBY scheme, there has been considerable rise in awareness, which will in turn aid in improving the penetration of personal accident in the country," hoped Sugathan.

Most of the personal accident policies available in the market cover death, permanent and temporary disabilities, loss of income due to disability, hospitalisation due to accidents and daily cash benefit during hospitalisation. Minor accidents like falling off a bicycle and breaking an arm, or fracturing a leg to disabilities due to natural catastrophes are covered by the policy. However, many insurers are revisiting their products, making them more appealing to customers by addressing most of the eventualities arising out of accidents.

“We have launched a long-term personal accident policy to cover self and family for one, two and three years. We have also bought in a few important benefits/riders including child tuition benefit, which is payable in the event of the unfortunate death of the insured member. We also offer a lot of customised and bundled personal accident insurance protection products – be it passengers buying a bus ticket online, or people buying prepaid SIM cards,” said Ravichandran of Tata AIG.

“We are planning to revise the existing personal accident cover to offer higher sum insured like Rs 5 crore or Rs 10 crore based on the financial underwriting as we see some demand from high networth individuals (HNIs) and ultra HNIs. We are also planning to revise the product to provide coverage linked to loan outstanding,” said Apte of Royal Sundaram. Apart from the basic benefits, Future Generali also offers repatriation benefit, funeral expenses, child education support, life support benefit, loan protector, adaptation allowance and family transportation allowance.

Personal accident policies are low priced products — for as little as Rs. 500, one can get a cover of Rs 10,00,000 personal accident policies. It will cost lesser than term plan, which in turn will cost lesser than endowment plan. The premiums are calculated on the basis of the income and the risk levels determined by occupation. A dependent spouse or kids, students, senior citizens or working professionals would fall under the low risk category. Self-employed people, blue collar workers or individuals exposed to occupational hazards are considered medium to high risks. One can take a cover up to 10 times of the annual salary, said Sugathan.

Nevertheless, a personal accident policy is not enough to derisk the individual and family from all unforeseen events for the simple reason that it only covers eventualities arising out of accidents. A combination of personal accident with term plan or health indemnity plan will help, say insurers.

Term plans are a critical investment for financial security for one’s family in the event of policyholder’s death. However, In case of any accidental disability, a term plan would fail to trigger and a health insurance will cover only the hospitalisation expenses. So a combination of these plans help. “Given that a term plan along with personal accident policy offers a comprehensive cover against death and disabilities, many people are opting for this combination,” said Sugathan.

A traditional term plan is a typical conventional cover to financially secure a person's family while he is no more. With the average life expectancy of Indians going up, this cover, typically covering natural death; becomes slightly deficient in comparison to the other obvious perils like accidents. A personal accident policy would help one while one is alive and actually facing the eventuality, shielding one to face the financial crisis,” said Mukesh Kumar. “A basic health indemnity policy shall take care of reimbursements of all in-patient hospitalisation costs. Hence a combination of a health indemnity policy along with a personal accident plan would be an extremely secure cover,’ he added.

“Personal accident policies used to be the trend, a couple of years back. With the increasing affordability and awareness, customers are now seeking more comprehensive products to cover against any eventualities. The growth rate is in the range of 10-12 per cent to 12 per cent only. People are more inclined towards a term plan, which will cover all the eventualities rather than just taking a personal accident cover,” finds Apte.

“Term plan covers all the eventualities which a personal accident policy provides. Hence it does not make sense to take term and personal accident policy. Term plan along with comprehensive health indemnity policy will help customer to completely derisk”, added Apte.

However, savvy individuals who prefer to defer taking an adequate full life cover, under a term plan, till a later stage in their lives for their personal reasons such as good health and confidence to sustain it, may yet want to protect themselves and their family members from the external risks arising out of events such as accidents and the unforeseen circumstances emanating from them. For them, the personal accident policies would continue to hold attraction as a separate product in itself.

Source

General Insurance

Agriculture Ministry asks States to issue tenders for PM crop insurance - The Hindu Business Line – 31st March 2016

The Agriculture Ministry has set the ball rolling for implementing the Prime Minister's ambitious crop insurance scheme in the new fiscal.

It has instructed all States to start the tendering process to select insurance companies so that the scheme can be rolled out before the sowing season starts in June.

It is also working with the States on an awareness drive, which kicked off this week, to spread information about the scheme among farmers, an Agriculture Ministry official told BusinessLine.

"Letters have gone to all States from the Centre instructing them to start issuing tenders as the entire process will take at least a couple of months and we want the product to be ready when sowing starts in June," the official said. The PM Fasal Bima Yojana (PMFBY) was launched in January to insure farmers against the vagaries of nature, at a highly subsidised rate. The premium to be paid by farmers is just 2 per cent of the insured value for the kharif crop and 1.5 per cent for the rabi season.

The remaining premium charged by the insurance companies is to be shared by the Centre and States in equal measure.

Lower premium

The premium for farmers under the PMFBY is much lower than the 3.5 per cent to 8 per cent payable under the current insurance schemes, which would now be discontinued.

"The tendering process will decide what the exact premium amount will be and how much cross-subsidy has to be given by the government. The Centre will disburse its share once the premium amount is determined," the official said.

The government hopes to cover 50 per cent of the country's farmers in the next three years. Once that happens, the Centre's financial liability is likely to increase from the present ₹3,100 crore (covering 23 per cent of farmers) to an estimated Rs 8,800 crore.

"The awareness drive that we are helping the States to hold plays a vital role in spreading awareness about this scheme among farmers so that they know what they stand to gain by subscribing to it," the official said.

The information dissemination exercise is being held at the block level and attempts have been made to involve farmers across the country.

"The Prime Minister has written to all Panchayat heads enumerating the benefits of the schemes and asking for their cooperation in disseminating information," the official said.

Source

Back

Companies take cover in terrorism insurance - Business Standard – 30th March 2016

An increase in global political uncertainty has led to a rise in political violence insurance covers being taken by Indian companies. These policies are taken by firms that have investments in foreign markets and exposure to such risks.

Ketan Kale, practice leader-credit, political & security risk, JLT Independent Insurers Brokers, said Indian firms are increasingly coming forward to insure their assets globally, especially in regions such as West Asia and Africa. While proposals for covers in volatile markets are not denied, premia are comparatively much higher — by as much as 100-600 per cent.

JLT Independent recently offered such a policy to a pharma client for Yemen. It was a $10-million cover for political violence.

Sanjay Datta, chief underwriting & claims, ICICI Lombard GIC Ltd, says there has been a good demand for these products. "Capacity is not a problem since we have a terrorism pool in place. This pool size may increase to Rs 2,000 crore from Rs 1,500 crore."

The Indian Market Terrorism Risk Insurance Pool is likely to see an uptick in capacity with a rise in global terror incidents. The pool was formed following an initiative by non-life insurance firms in India in April 2002, after terrorism cover was withdrawn by international reinsurers in the aftermath of the 9/11 attack. The pool has completed 13 years of successful operation. All non-life insurance companies of the country and General Insurance Corporation of India (GIC Re) are members of the pool.

Threats from Islamic State militants, the Syrian conflict, violence by Boko Haram and the migrant crisis in Europe are among the recent risks worrying companies. A recent newsletter on terrorism by global insurance broker JLT has said that traditional terrorism policies were designed to protect against terrorist events where property damage was a major loss component and business interruption a direct consequence of the physical damage sustained during an attack. This is no longer the case, it has added. "Evidence that insurance is absorbing only a fraction of the economic impacts that have followed recent terror attacks indicate the (re)insurance sector has been slow to respond to evolving risk dynamics and current products are not meeting the needs of corporations," it said.

Source

Back

Motor cover gets costly; risk pool drains – Mint – 29th March 2016

A circular by Insurance Regulatory and Development Authority of India (Irdai), dated 15 March, dismantled the declined risk pool that was set up in financial year (FY) 2013 for standalone commercial third-party motor insurance policies. Then, a 28 March notification increased the premium for third-party motor insurance. For private cars the hike has been up to 40%. So, for cars of capacity 1,000-1,500 CC, like a Honda city, the third-party insurance premium for FY17 is Rs.2,237, up from Rs.1,598 currently.

While the first notification may not have a direct impact on you as a customer, the second one means you have to pay more when you renew your policy next year. However, both notifications are important to understand as they point the direction in which the industry is moving.

Here's a look at how Irdai doing away with the declined risk pool may increase the focus on claims management. But before that, let's understand third-party motor insurance cover and third-party pool.

Third-party pool

According to the Motor Vehicles Act, 1988, any vehicle that plies on the road needs a third-party cover. This insurance covers you from any financial liability in case your vehicle causes any damage to life or property of a third person. The claim amount or the liability is unlimited in case of bodily injury or loss of life. The amount of claim paid by the insurer is decided taking into consideration factors like the earning capacity and age of the injured or deceased person. The premium of motor third-party insurance is controlled by Irdai and is tariffed. For other motor insurance covers, such as own-damage, which insures your vehicle against theft or damage, the premiums are decided by the insurer.

Given the unlimited liability but fixed premium, there were instances where insurers refused to underwrite third-party covers, especially in the case of commercial vehicles. So, to address supply side constraints, Irdai set up a third-party pool for commercial vehicles. In other words, third-party premiums were pooled or ceded to a common pool and the claims were paid from this. "Since these premiums were tariffed and insurers were not enthusiastic about underwriting commercial vehicles policies, it was felt that a third-party pool for both comprehensive and standalone third-party risk of commercial vehicles could manage claims better, but the losses only increased as insurers didn't focus on claims management," said Sanjay Datta, chief underwriting and claims, ICICI Lombard General Insurance Co. Ltd. This proved counter-productive, especially for insurers with a significant market share as the claims had to be paid according to the market share.

So, in FY13, the pool was dismantled and replaced by a declined risk pool in which the insurers had to retain most of the risk, and only a part of the standalone third-party covers for commercial vehicles, which insurers found unviable to underwrite, could be ceded. "The declined risk pool was for standalone third-party risk of commercial vehicles. It made sure that only the bad risks could be ceded to the pool and insurers would share the pool according to their market share and motor share," said Datta.

The declined risk pool consisted of adverse risks, and if an insurer didn't meet its target, it would have to make good the difference by taking some of the risk from the pool. But since the pool had the worst policies in the system, nobody wanted to do that, resulting in better target meeting. "It actually put the onus on the insurers

to underwrite most of their business themselves. Even the premium hike every year encouraged insurers to do this," added Datta.

Premium hike

In 2011, to bring some parity between third-party premiums and claims, Irdai decided to review and fix the pricing of third-party cover every year. So, even as third-party insurance cover remains tariffed, the regulator arrives at the premium on a yearly basis on the basis of three parameters: average claims for each class of vehicle, frequency of claims for each class of vehicle and cost of inflation index for the year of review.

"In FY14, about Rs.375 crore of motor third-party business of the industry was ceded to the declined risk pool. In FY15, it came down by about 16%, and in the first six months of FY16, it came down further by about 18%. As premiums increase every year and we see a price correction, more and more third-party business will get underwritten by the insurers, which means supply will increase. And as more business gets underwritten, insurers will also focus on exercising due diligence in claims management," said M.S. Sreedhar, managing director and chief executive officer, Royal Sundaram General Insurance Co. Ltd.

For FY17, the average increase in motor third-party insurance premium is about 25%. "Last year, it was about 15%. This is primarily due to the fact that court awards are increasing due to several reasons, like increase in income and inflation," said K.G. Krishnamoorthy Rao, managing director and chief executive officer, Future Generali India Insurance Co. Ltd.

Also, the Insurance Laws (Amendment) Act, 2015, mandates that insurers have to do a certain minimum business of third-party motor business. "We need to do a minimum third-party business as per our market share and motor insurance share. This needs to be an average of at least half the market share and half the motor share," said Sreedhar.

Since supply side constraint is no longer a problem, Irdai decided to dismantle the pool from FY17. "Apart from specifying the minimum quota that each insurer has to do, each insurer has to allow people to buy third-party motor cover on its website and no insurer can deny third-party cover," said Rao.

What this means for you

In terms of premiums, until the liability continues to be unlimited, it's unlikely that you will see premiums fall. "In a few categories of vehicles, the premiums have come down by 10%, but overall, it's unlikely that premiums will fall till such time third-party liability is unlimited and accidents are on the rise," added Rao.

While dismantling of the declined risk pool may not have a direct bearing on you, it is bound to increase insurers' focus on claims management. "Since the claims were paid from the pool, insurers were not efficient with claims. Having a declined risk pool changed that, and insurers became more proactive; this will only improve further. Insurers will focus on fraud detection and management, out of court settlements and timely settlement of claims to minimise overall claims outgo," said Rao.

Source

So, as you gear up to pay a higher premium for third-party motor insurance, you can look forward to some more proactive measures in claim handling.

Back

India: Largest state-owned non-life insurer to list in FY2016-17 – Asia Insurance Review

New India Assurance, the country's largest general insurer, has confirmed that it is all set to be publicly listed in the next fiscal year which starts on 1 April, according to a top company official.

"We are in the early stages of formalities for listing. The valuation process is yet to start. We expect it to go through quickly once the process starts," the Hindu Business Line reported, citing Mr G Srinivasan, Chairman and Managing Director of the company.

Mumbai-headquartered New India Assurance is expected to be the first among the country's four state-owned general insurance companies to get listed. The other three are National Insurance Company, The Oriental Insurance Company, and United India Insurance.

In his Budget speech delivered on 29 February, Finance Minister Arun Jaitley announced that the central government plans to list all four companies to ensure higher transparency and accountability.

Mr Srinivasan had said after the Budget announcement that the company was ready for disinvestment as its financials were healthy with its market share expanding in both domestic and international markets.

Although the insurance law, amended last year, allows the four companies to raise capital subject to the government equity "not being less than 51% at any time", the local media cited Finance Ministry officials as having said that the government plans to offload 10% of its stake in the four companies.

Source

No insurance company is currently listed on the Indian stock market.

Back

Survey & Reports

Chennai floods largest natural catastrophe in India in 2015: Swiss Re - The Hindu Business Line – 30th March 2016

India's total economic losses from all disasters, including natural and man-made events exceeded USD 6.2 billion (or 6.8 per cent of worldwide losses) in 2015, down from USD 13.4 billion (11.9 per cent of global losses) in 2014, said a study by Swiss Re.

The global reinsurer said that the total insured losses in India were USD 1 billion in 2015, up from USD 971 million the year before. The severe flash floods in Chennai in November were the largest disaster, causing estimated economic losses of USD 2.2 billion. Insured losses were estimated at around USD 755 million, making these floods the second costliest insurance event in India and a large part of the losses originated from commercial lines. The event highlighted the vulnerability of rapidly growing urban areas to flash floods caused by heavy rains, said the company in its report.

Vulnerability to earthquake hazards

In India, uninsured losses from all catastrophes and man-made disasters were 84 per cent of the total losses in 2015, down from 93 per cent in 2014. Although the protection gap was smaller last year than in 2014, it was still high relative to global and regional standards. The global protection gap was around 60 per cent in 2015, down from 68 per cent in 2014. In Asia, the gap was at 81 per cent in 2015, down from 90 per cent in 2014.

Many cities in northern India are located close to the seismic gap in the Himalayan range. A seismic gap is an area where plate movement has already produced land deformation but – as of yet – not released the associated energy in the form of an earthquake. The likelihood of earthquakes in seismic gaps is very high, and the expected magnitude of such an earthquake in the Himalayas is Mw 8.0–8.5. Many Indian cities, including the national capital, Delhi, are close to the gap and are vulnerable to earthquakes. According to the 2011 census data, around 90 per cent of Delhi's building stock falls in the category of unreinforced masonry, which is not earthquake-resistant.

Source

Back

IRDAI Circular

Source

IRDAI release the order of premium rates for motor third party liability insurance cover for FY 2016-17.

Source

IRDAI released the circular as per the provisions of IRDAI (Third Party Administrators – Health Services) Regulations, 2016 To all TPAs, Life, Non-Life and Stand alone Health Insurance Companies.

Source

Notification regarding Insurance Regulatory and Development Authority of India (Third Party Administrators - Health Services) Regulations, 2016 is available on IRDAI website.

Source

Notification regarding Insurance Regulatory and Development Authority of India (Lloyd's India) Regulations, 2016 is available on IRDAI website.

Source

IRDAI issued terms and conditions of Life Products for F.Y. 2015-16

Global News

Nepal: Subsidies fail to stimulate farm insurance growth – Asia Insurance Review

Crop insurance growth in Nepal has remained slow despite the government offering a subsidy of 75% on premiums. The slow growth is attributed to the lack of technical manpower and poor distribution channels.

Mr Shreeman Karki, Director at the Insurance Board (IB), speaking at a parliamentary committee meeting, said that the lack of technical manpower to calculate premiums and assess losses, and the small number of insurance agents in rural areas have resulted in slow growth in crop insurance, reported the Kathmandu Post. A total of 700 insurance agents and 100-150 para-veterinarians have been mobilised for agriculture insurance, he said.

Livestock insurance accounts for 85% of farm insurance this year. The rate is very low for crop insurance. This is despite the fact that two years ago, the government increased the subsidy on crop insurance premiums to 75% from 50%.

Mr Uttam Kumar Bhattarai, Secretary at the Ministry of Agriculture Development, said however that more people started taking the insurance scheme seriously only after the subsidy was raised. "Losses the farmers faced due to the 25 April earthquake last year further prompted them to go for the insurance scheme," he said. "And, the trend has been on the rise."

The government has allocated NPR120 million (US$1.1 million) for the farm insurance subsidy. As of now, insurance policies worth NPR1.51 billion have been issued. Premiums worth INR72.6 million have so far been collected, while the insurers have settled claims of INR21.6 million.

Government officials and lawmakers stressed the need to introduce integrated programmes along with a pricing mechanism for agricultural products, irrigation facilities and other logistical supplies for the effective implementation of farm insurance.

Mr Shyam Prasad Poudel, Secretary at the Ministry of Livestock Development, said the small presence of insurers in rural areas has impeded the government's goal to boost agro insurance. "The demand for insurance for dairy products, quadrupeds and poultry farming has grown of late," said Mr Poudel. "However, farmers have not been able to avail themselves of the service as insurers are focusing more on urban and sub-urban areas."

He stressed the need to allow microfinance institutions and cooperatives to conduct insurance business in order to promote agro insurance. These financial institutions are permitted to work as insurance agents.

Source

In response, Mr Surya Prasad Acharya, Joint Secretary at the Finance Ministry, said that his ministry is considering allowing microfinance and cooperatives to function as insurers.

Back

Philippines: Bright outlook for microinsurance – Asia Insurance Review

The insurance regulator expects microinsurance uptake to rise to 50 million people in the next two to three years, to cover roughly half the Philippine population. Around 30 million of the 38 million Filipinos covered by insurance carried some form of microinsurance at the end of last year, data from the Insurance Commission (IC) show.

While low-cost microinsurance products account for more than 75% of all policies issued, they represent only a fraction of combined premium revenues, at just 3% of the industry total, reported Business World.

According to current regulations, premiums for microinsurance products cannot exceed 7.5% of the daily non-agricultural minimum wage -- a policy aimed at encouraging uptake of insurance coverage among low-income earners.

However, increased awareness of coverage benefits and the broader range of products authorised by the IC are expected to boost the microinsurance segment's premium share to 5% or more by 2018.

The range of products approved by the IC has steadily increased in recent years, with nearly 170 options ratified by the regulator as of early 2014.

Life and non-life policies account for the majority of products sold, though the IC announced early this year that micro-agriculture, micro-health and micro-pre-need products, such as education and pension insurance, would soon be available in the market.

In anticipation of further segment expansion, the regulator has sought to clarify the governing framework.

At the end of January, revised microinsurance regulations were unveiled, clarifying the roles and responsibilities of agents and brokers; setting out rules for distribution channels; and establishing guidelines for product bundling and risk sharing between local and foreign insurers.

Source

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