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# J. B. BODA

## MEDIAN

Issue 94 April 2015

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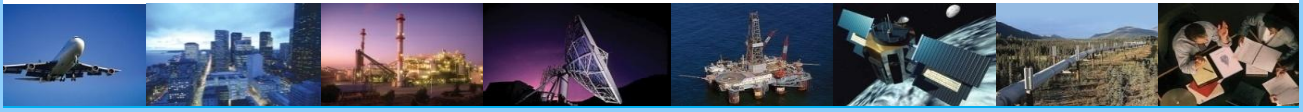

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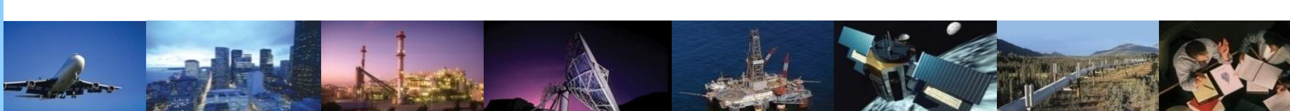
# NEWS AT JBB

## "List of foreign visitors" in March 2015

| Company | Country |
|---|---|
| Pragati Insurance | Bangladesh |
| Ingosstrakh | Russia |
| Emirates Re | Dubai |
| Trust Re | Bahrain |
| East Africa Re | Kenya |
| Green Delta | Bangladesh |
| United International Brokers | Saudi Arabia |
| Allied Insurance Co. of Maldives | Maldives |
| Eastland Insurance | Bangladesh |



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# PRIME STORY

After a wait of seven years, Parliament passed the *Insurance* Laws (Amendment) Bill to raise the foreign direct investment (FDI) limit in the sector from 26% to 49%. The *government* had earlier issued an ordinance in December to raise the FDI cap in the sector. The hike in the FDI limit will increase the confidence of foreign *insurance companies* looking to tap the *Indian* market, provide a major boost to the capital-strapped domestic insurance industry and also benefit policyholders.

**GROWTH LEAP**

The insurance sector since it was opened to foreign investment

| | 2000 | Now |
|---|---|---|
| Number of insurance firms | 22 (11 life, 10 non-life, 1 reinsurer) | 53 (24 life, 28 non-life, 1 reinsurer) |
| FDI limit | 26% | 49% |
| Private sector's market share by annual premium | 0.02% | 24.61% |
| Private non-life insurers annual premium (₹ crore) | 7.13 | 32,010.30 |

Source: IRDAI Annual Reports

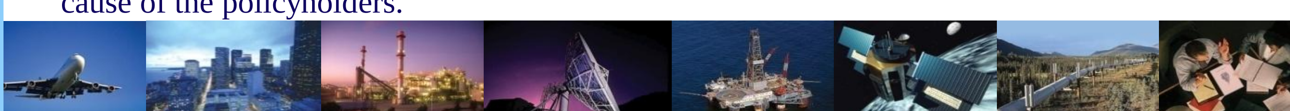
Let us see the salient features and how does it affects us all on our different roles in the economy:

**As a Consumer – The Policyholders:**

1. **More on the platter:** Higher FDI would mean more foreign companies investing in this sector, which **would result in wider choice and better products**. Historically, increased competition between companies has resulted in better services for consumers.

2. **Reduce delays:** The **Bill has removed two types of nominees — beneficiary and the collector**. Earlier, this was the bone of contention for many claims, leading to litigation and delays. The Bill ensures that the beneficiary gets full legal rights over the insurance proceeds in the event of the policyholder's death. This clause, apart from reducing delays, also **lets the policyholder create an inheritance**, thus giving an added reason to invest in insurance.

3. **Mis-selling: Not just the agent, but the company too is responsible:** Earlier, **it was just the agent who was held responsible for mis-selling**. This, obviously, caused a lot of discontent among the policyholders who felt cheated by the agent and the insurance company also acted in a disconcerting way. The Bill now brings relief to the policyholder by making insurance companies responsible for mis-selling. Companies can't reject a claim because it was mis-sold by their agent. This clause will curtail mis-selling and uphold the cause of the policyholders.



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4. **Insurance companies can't reject a claim:** This is a big move towards protecting policyholder's rights. **Insurance companies will have first three years to detect a fraud and, after that, they can't reject a claim**. The earlier time-frame was five years. Usually, it is the policyholder who gets unnecessarily caught in this web.

5. **Allows partial assignment of your policies:** The new **Bill allows you to partially assign your life insurance policies to banks or lenders**. This is a departure from the present law, which allowed for total assignment of insurance policies, i.e. if you took a loan against your life insurance policy, the whole policy had to be assigned to the lender.

6. The **new norms further allow you to transfer your life insurance policy to another person**. However, to ensure ethical use of such an allowance and prevent people from trading in insurance policies, the Bill also empowers the insurers to reject an assignment request if the person fails to present a genuine reason for such a transfer.

7. **More safety for your money:** The **Bill ensures stronger and stricter norms around asset management** of different businesses in an insurance company. As per the new norms, all insurers would now need to maintain assets of each business separately and distinct from other assets of the insurer. To explain by way of an example, a **general insurer would need to keep and maintain assets of its fire and health insurance businesses separately. There cannot be mixed pool for both businesses.** This protects the policyholder from an unforeseen eventuality where the insurer might incur a big loss in one line of business.

8. **Insurance goes e-way:** The insurance Bill brings more transparency to the working of the sector by asking the **companies to maintain all records online. These records should be publically available to policyholders through company's website**.

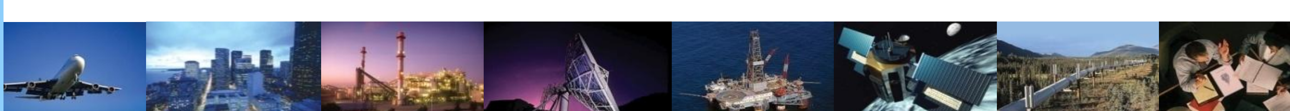
9. **Indian customers to benefit from global reinsurers:** To get better pricing, products suited for the market based on global expertise

10. **Clause that directly impacts policyholders, relates to information provided by them at policy inception**

This Bill, overall, has kept the rights as a policyholder central and taken cogent steps to protect them.

**As an Investor:**

After passage of Bill raising cap on foreign investment to 49% in the sector, experts say this money can be raised in the next 3years; top five can make gains of ₹ 20k cr



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After the passage of the insurance Bill, Indian promoters of life insurance companies are expected to see inflows of around ₹ 50,000 crore through stake sale to foreign partners or other financial intermediaries and issue of more shares. However, new insurance law a positive but big gains for investors some time away.

The Street is, however, confident about the long-term prospects and potential for gains.

It is believed that the insurance Bill inculcates significant reforms that will ease the operating and regulatory environment for insurance companies (the fine print for further details awaited).

Deal valuations will be a function of multiple factors, such as market share and profitability. Most large players are making profits on a sustainable basis in the life insurance business and have high solvency ratios, indicating sufficient cash flow to service liabilities.

REINSURERS

The Indian market will now also have more than one reinsurer. IRDAI sources say that Lloyd is considering the idea of setting up operations in India.

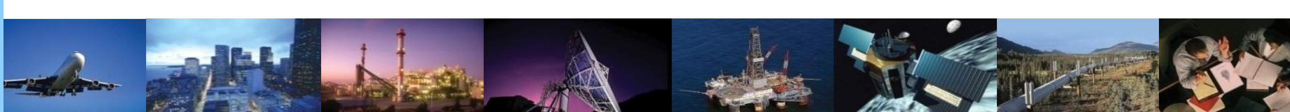
Reinsurer Swiss Re plans to enter India to apply for a branch licence for life and non-life reinsurance. Zurich-based Swiss Re has been providing reinsurance support to the Indian market for more than 85 years. It has worked with the local insurance industry to provide a number of innovative insurance and reinsurance solutions in areas of life, health, agriculture and infrastructure.

The reinsurance segment in India is likely to see heightened action in the next few months with not only international reinsurers, but also domestic entities planning to enter the reinsurance space.

**GREY AREAS, THE THICK AND THINS**

Under the proposed amendments, the management team in an insurance firm will have to function under the board, which is dominated by the Indian promoter. The industry has been lobbying that higher foreign limits will give them enough capital to grow the business. But the question is, how many companies are really in need of it?

Nearly three-fourths of the insurance companies operating in the country are `capital surplus', that is, they do not need any fresh capital. In other cases, foreign shareholders may not be interested in increasing stake because of trouble in their home markets. Indian shareholders will have to either rope in a new investor or list the shares on stock exchanges.



Two foreign promoters, ING and New York Life, have exited India. ING's exit was done in distress, when it had to sell its stake at a discount.

There is little doubt that more greenbacks will flow into India, but the process could create some flutter in boardrooms. Overseas investors will not invest just to remain minority partners without management control over the business for a long time which is still a grey area for the investors.

Further, there should be no surprise if murmurs of the need for 74% foreign holding in insurance get louder even before the ink is dry on the current bill.

Regulatory officials say norms on expense management and the remuneration of agents will be among the first to be rolled out. This will be followed by claims management under Section 45 and norms relating to penalties.

At recent interactions with regulatory officials, executives from the sector have said while new norms conforming to the Bill are inevitable, companies need adequate time to adopt those. In the past, there have been instances when insurers were given only a few weeks to implement norms.

Irdai plans to announce about 40 regulations through the next few months. Apart from changes in the foreign direct investment structure, the Act will also effect several other changes. An ordinance in this regard had given more freedom to insurance companies to appoint agents and put corporate agents into the intermediary space.

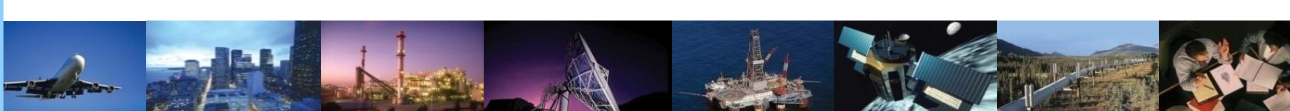
## SALIENT FEATURES

### Insurers see a change agent in new FDI rules

The most tangible change will be the consolidation in the sector and will be driven by four aspects.

1. In joint ventures, the existing foreign partner may exit and new investors may take its place.
2. An insurance company that does not have any alliance partner may rope in a foreign partner.
3. Global mergers and acquisitions could have an effect on insurance tie- ups. And finally,
4. An insurance company with a diverse portfolio could decide to shed a business or businesses

Bill provides more fund-raising avenues to smaller players (with less than one per cent market share), some might end up being acquired, leading to consolidation in the sector



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The Insurance Regulatory and Development Authority of India (Irdai) is mulling newer options for the open architecture of bancassurance (the selling of insurance products through banks).

The insurance Bill, is a major long term positive for the sector, as it could lead to increased technical know-how from foreign players and more funds for the venture or the domestic owner

Bill also mandates management control be retained by the domestic player

Separate definition of Health Cover likely to spawn better products.  The Bill has also reduced the capital requirement for setting up a health insurance company.

The highlight of the new definition is that it stipulates that health insurance policies could now cover sickness benefits on account of domestic as well as international travel.  This, however, doesn't mean that all indemnity plans would provide worldwide coverage. Some plans will still be restricted to India.

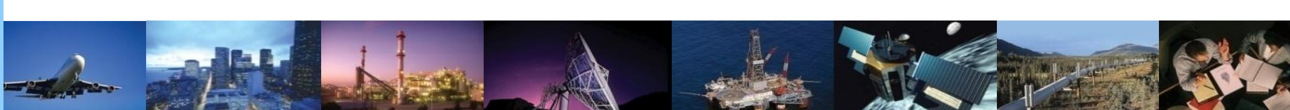
In case of a death claim, the onus of disproving the charge of fraud will fall on the nominee.

Insurance Agents may See Rise in Commissions

IRDA will get more powers; can impose higher penalties for violations now

Compared with the Insurance Act of 1938, the new legislation will give more teeth to the Insurance Regulatory and Development Authority of India, or IRDAI. It equips the regulator with the power to define the limits on management expenses, commission limits for agents, qualifications of agents and surveyors, extent of obligation of motor third party liability and impose additional penalties for fraudulent practices and violations by stakeholders.

IRDAI plans to bring in 38 - 40 regulations in the next few months. A primary target would be a cap on management expenses to help reduce overall expenses and improve the solvency ratio.



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# NATIONAL

**Insurance penetration in India at 3.9 percent, below world average**

Insurance penetration in India at 3.9 percent was below the world average of 6.3 percent in 2013. The level of insurance penetration depends on a large number of factors like level of economic development of the country, the extent of the savings in financial instruments and the size and reach of the insurance sector. Insurance penetration, measured as the ratio of premium to Gross Domestic Product, was 3.1 percent of life insurance and 0.8 percent for general insurance in 2013.

Health insurance is a part of general insurance. In relation to BRICS countries, India's insurance penetration was better than China and Russia but well below South Africa and only a tad lower than Brazil.

Source: Business Standard

**Insurance employees oppose FDI**

Insurance Employees staged a protest against Foreign Direct Investment (FDI) in the insurance sector. Addressing the gathering, it was said the government’s policies would hamper the economic interests of the nation. The insurance companies were playing a pivotal role in the development of country. However, the Central government’s decision to raise the FDI in the insurance sector would hit them badly.

Source: The Hindu

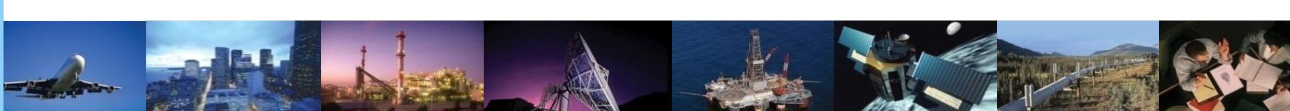
**Did you know LPG consumers get an insurance coverage?**

LPG accident victims are covered for death and accident but it’s not exorbitant as is being spread in social media messages and messaging apps.

As a consumer of liquefied petroleum gas (LPG) or cooking gas, you are protected for accidental death and injury in case the gas cylinder bursts. In their Citizen Charter, both Indian Oil Corp (Indane Gas) and Hindustan Petroleum Corp Ltd (HP Gas) maintain that "All registered LPG consumers are covered under an insurance policy taken by the public sector undertaking (PSU) oil Companies." There, however, is no mention of any amount either for the coverage or the annual premium. In addition, all LPG distributors also have third party liability insurance to cover losses in the event of an LPG accident, the Citizen Charter says.

All PSU oil-marketing companies (OMCs) have two types of accident insurance policies, no fault liability and legal liability.

Source: Moneylife



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**Income guarantee, not doles, the answer**

In Uttar Pradesh, about half the standing crop in 22 districts was completely destroyed by the recent bout of unseasonal rains and hailstorms. Crops in Haryana and Maharashtra were damaged, too.

The government should identify the affected pockets and get an estimate of the damage due to unseasonal rains and hails. Then, it should quickly provide interim relief from the state disaster response fund and, subsequently, assess losses and provide relief according to the norms of the National Disaster Relief Fund said the National Institute of Agricultural Economics and Policy Research. Farmers should have access to the market and get weather and price insurance.

Source: Business Standard

**Insurers may get targets for motor cover underwriting**

The Insurance Regulatory and Development Authority of India (Irdai) has brought out an exposure draft on insurers' obligation with respect to motor third-party (TP) insurance business. According to this, every insurer will have a new minimum percentage of business, which it should underwrite every financial year. Irdai said that insurers should underwrite such minimum percentage in 90 per cent of the overall motor TP insurance business premium of the sector for the immediate preceding financial year.

Source: Business Standard

**THIRD-PARTY MOTOR INSURANCE - Premiums may See Only Modest Hike**

Though a rise of up to 108% is proposed, experts don't see it exceeding 20%

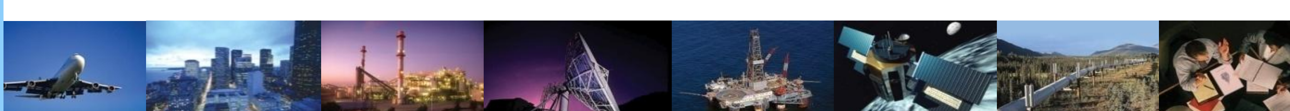
The insurance regulator has invited responses to a proposal to increase the third-party motor insurance premium by 14% to 108%. However, industry observers believe that the hike will not be so steep and the final hike was only around 20%.

Source: Business Standard

**IRDA Imposes Fine on Health Insurance Company**

The insurance regulator has slapped a fine on health insurance company, for selling its policies through the website, which is not authorised to sell insurance.  In addition, the IRDA has imposed a penalty for soliciting business from agents whose licence had expired.

Source: The Economic Times



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**Insurance company told to pay the claim for car stolen while on rent**

Observing that nature of use of a vehicle cannot be ground for an insurance company to repudiate a theft claim, a consumer forum directed the general insurance company to pay a compensation to a resident whose car was stolen in 2012.

The owner provided the car on hire, the reason cited for repudiating the claim.

The forum however said even if there is breach of condition, in view of the law aid down by the Supreme Court, the complainant is entitled for the claim.

Source: The Times of India

**'Insurance next focus area after Jan Dhan'**

The Jan Dhan Yojana, focus would be on providing insurance to every household in the country. The finance minister in the Union Budget had said two new insurance schemes for lower income groups would be launched, a Suraksha Bima Yojana accident insurance scheme and a Jeevan Jyoti Bima Yojana, with a life insurance cover.

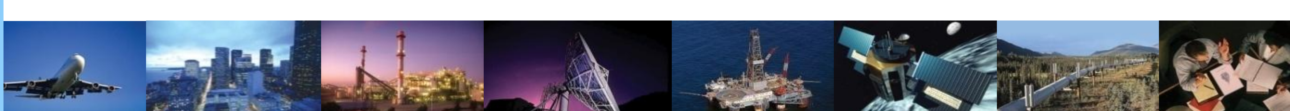
Source: Business Standard

**70% Indians have no health insurance: Study**

Seventy per cent of India's population have no health insurance and the country is short by 2 million beds compared with the global benchmark, according to a whitepaper released by a leading health sector body.

The report 'Aarogya Bharat 2015', released by NATHEALTH today, stated that India requires US$ 3 trillion in cumulative funding and has the potential to generate 15 to 20 million jobs by 2025.

Source: PTI



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# INTERNATIONAL

**Insurers sign up for China's heavy equipment co-insurance pilot**
Seven Chinese insurers have signed up for the country's first pilot scheme for co-insurance of heavy equipment, reported Asia Insurance Review citing the China Securities newspaper.

**Reinsurer stops writing business, cites market challenges**
A spokesman from U.S.-based AQR Capital Management has said that its Bermuda-based AQR Re Management Ltd. unit would wind down its operations because of the reinsurance sector's "consolidating market dynamics," reports The Royal Gazette.

**Emerging market growth driven by small insurers: Study**
A study found that smaller insurers are the main engines of growth in both emerging and developed markets, Asia Insurance Review reported.

**Insurers in Romania cede less reinsurance in 2014**
Data from Romania's Financial Supervision Authority has said that reinsurance cessions in the country made up 23.55% of total premiums written by insurers in 2014, 1asig.ro reports.

**U.K. government, insurers double down on cyber risk**
The U.K. government has announced a set of joint initiatives with the insurance sector aimed at improving the suitability and availability of cyber insurance and risk management against cyber attacks

Source: Insurance Age

**Allianz develops legal negligence product**
Product designed to enable consumers and businesses to take action against negligent law firms.

Allianz Legal Protection and Irwin Mitchell Solicitors have developed a product which they claimed enables consumers and businesses to take legal action against a law firm which fails a customer through negligence.

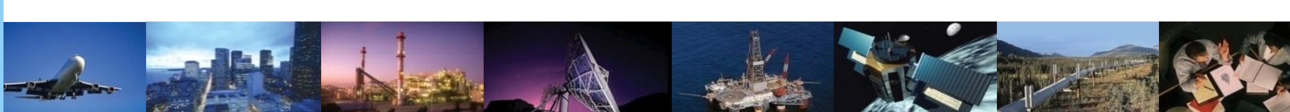
Source: Insurance Age

**PI Protect launches office insurance packages**
Three policies designed to cover the range of needs for workplace environments.

Professional Indemnity Protect (PI Protect) has launched a suite of insurance products which it stated had been designed to meet the specific coverage requirements of different workplace environments.

Coverage can include for office contents, portable equipment/laptops/mobile phones, increased cost of working, employers' liability and public liability.

Source: Insurance Age



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