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# J. B. BODA GROUP

## MEDIAN

Issue -91

January 2015

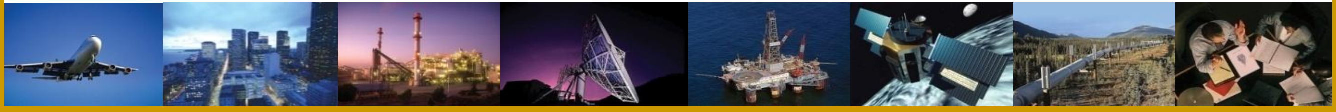
## The Management & Our Team at

## J. B. Boda Group

## WISH OUR READERS


## A HAPPY & PROSPEROUS

## NEW YEAR – 2015



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CONTENTS PAGE NOS.



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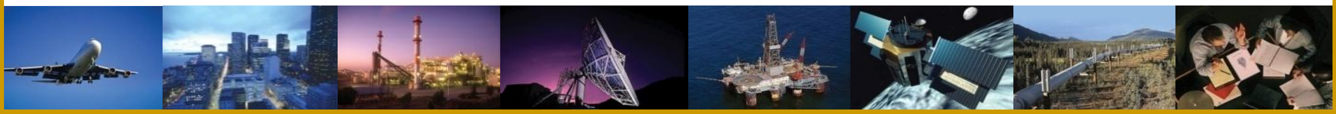

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# ON "WRITE" SIDE

## The reality of insurance reforms

It seems that one way or another, sooner or later, the Insurance Laws (Amendment) Bill, 2008 will become a law. This Bill is often described as critical whose passage is necessary for the whole economic reforms process to move forward. In fact, for many years now, this Bill has been referred to as a litmus test of whether the government of the day was serious about economic reforms.

On the flip side, opposition the insurance Bill has been a given among those against economic reforms. And the reasons for opposition haven't been coherently put forward often, but they tend either to be a general anti-FDI stand or that it is against the interests of millions of LIC agents. The interests of millions of policyholders is also sometimes mentioned, although the exact mechanism by which FDI will damage their interests is not mentioned.

On the other side of the debate, the logic of these insurance reforms is articulated clearly. The stated logic is that after more than a decade of the insurance business being opened up, Indians remain underinsured.

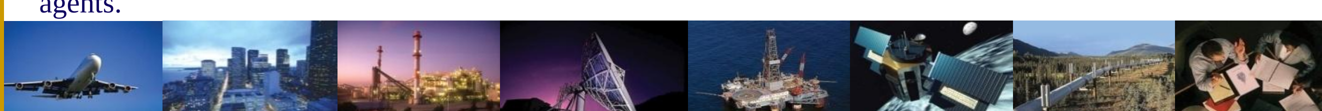
The numbers that are quoted in support of this logic are that one, India's insurance density, which is the per capita premium underwritten as well premium underwritten as the ratio of GDP are both far below the global average. This is true not only of the industry's own statements, but also of media coverage and IRDA reports. The IRDA takes these two metrics — insurance penetration and insurance density as indicators of the 'potential and performance' of the industry.

This means that industry and the regulator measure success by how much money insurers have taken from customers, rather than how much insurance they have delivered and to how many people. Premium payment is what the customer gives, not what he gets. These numbers are not indicative of the security. The reason that this industry exists is to deliver insurance. Which is, when a customer dies, how much money does his family get? How many customers have what amount of this cover? The premium data do not tell you that because they lump together everything that a customer pays, including his investments as well as commissions and other charges.

My guess is that the need for this information — how much life cover is actually provided to how many people — will never even be acknowledged by the insurance industry and its regulator. The nature of commissions and compensation in this industry is such that there is a huge incentive for insurance companies and agents to divert more of the premia towards investment and away from cover. Even though the Insurance Amendment Bill is being sold as a 'reform', there's very little of the sort from the customer's perspective.

The measure to prevent repudiation of a policy after three years is good, as are the fines for mis-selling even though the efficacy of the latter depends on IRDA's hitherto weak regulation.

In reality, more money will come in and finance a high-pressure sales process which will extract more premia for investment products that are disguised as insurance. To measure the success or failure of the opening up of India's insurance sector, we need to know how many Indians have actual, meaningful amounts of life cover, rather than how much premium has been collected by an ever-growing army of agents.



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# REINSURANCE

## Nepal Reinsurance Company to help reduce outflow of fund

KATHMANDU: At a time when a large sum of money is flowing abroad from insurance companies through the premium for reinsurance, the government has opened a new company to make such service available within the country.

After a four-year long preparation, ´Nepal Reinsurance Company Ltd´ (NRCL) finally got an operating license from the insurance market regulator Beema Samiti (BS) on Sunday the 21st December, 2014. Finance Minister Ram Sharan Mahat is scheduled to inaugurate the company amid a ceremony on 22nd December, 2014.

Reinsurance is insurance purchased by insurers from other insurers to limit the total loss an insurer would suffer in case of a disaster.

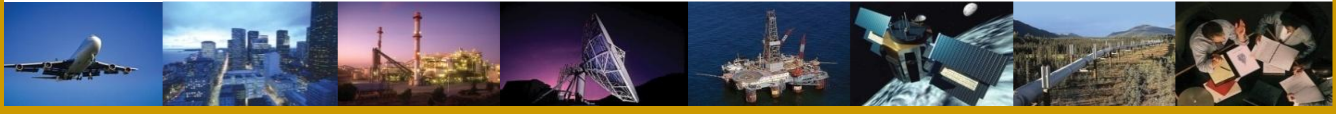
The government has converted the fund of the Insurance Pool into capital of the newly established NRCL. The pool was set up by the government 11 years ago to cover the risk related to terrorism when the insurgency was at a peak and the international reinsurance companies were reluctant to bear the risks related to terrorism. The government had put 50 percent into the Pool as its equity while Nepali insurance companies owned the remaining shares.

In its budget speech of FY 2014/15, the government has announced to transform the Insurance Pool fund into Reinsurance Company in partnership with other insurance companies.

"The major reason behind opening this company is to retain the money that the insurance companies are paying to international reinsurance companies to reduce their risks," Ramesh Lamsal, CEO of Nepal Reinsurance Company, told Republica.

According to the data of the BS, insurance companies had paid a total of Rs 1.3 billion (USD 0.013 billion) as reinsurance premiums to the international companies in the fiscal year 2013/14 compared to the net outflow of Rs 1.11 billion (USD 0.011 billion) of such premiums in the last fiscal year 2012/13.

As the insurance companies had already struck reinsurance deals with international companies for the current fiscal year 2014/15, the domestic reinsurer is planning to get a bulk of reinsurance business from the insurance companies in the next fiscal year 2015/16. "We expect to get 15-20 percent of the total reinsurance business of the country whereas in next three years we will try to receive reinsurance business from other South Asian nations," said NRCL´s CEO Lamsal, adding that the company also eyes international market in the long run.



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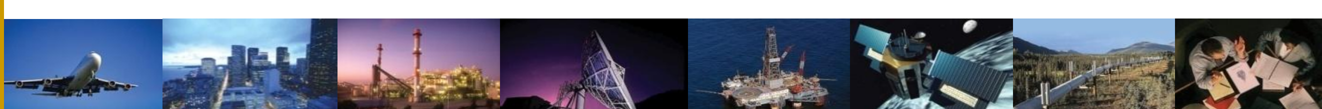
NRCL has a paid-up capital of Rs 2.1 billion (USD 0.021 billion). The government owns 43 percent stake in the company while 17 non-life-insurance companies owns 39 percent stake. Similarly, the company has also allocated 18 percent shares to life insurance companies.

According to NRCL officials, the company does not have immediate plans to issue initial public offering (IPO). “The insurance companies which have stake in NRCL have already floated shares to the public so we can say there is indirect public stake in the reinsurance company. While we do not have any immediate plan to float IPO, I cannot rule out future possibility of going to public when we will need more capital,” he added.

Insurance companies have also hailed the opening of the reinsurance company in the country. According to Nepal Insurers´ Association´s President Vijaya Bahadur Shah, the establishment of the reinsurance company in the country will help to increase the credibility of the insurance sector of Nepal. He, however, said the insurance companies will not be in position to transfer complete obligations to a single reinsurance company.

“Once the reinsurance company comes into operation, it will help persuade international reinsurance companies that Nepal´s business is of acceptable risk,” said Shah, who is also the CEO of NLG Insurance Company Limited. “Apart from retaining a large portion of the reinsurance payment, the settlement of insurance claim from the next door can be relatively fast compared to reinsurance with foreign companies,” he added.



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# NATIONAL

## Govt might take ordinance route for insurance Bill

Faced with an “obdurate Opposition” and no signs of an end to the impasse in the Rajya Sabha, the government isn’t ruling out taking the ordinance route for the insurance Bill, say sources.

The President has the power to promulgate an ordinance, which lapses within six weeks of the reassembling of Parliament.

For the National Democratic Alliance government, keen to get the insurance Bill passed before US President Barack Obama’s visit to the country in January, an ordinance could be a viable option. The government has been stressing the need for such a Bill, saying it will bring investment into the insurance sector and increase its penetration.

Source: Business Standard

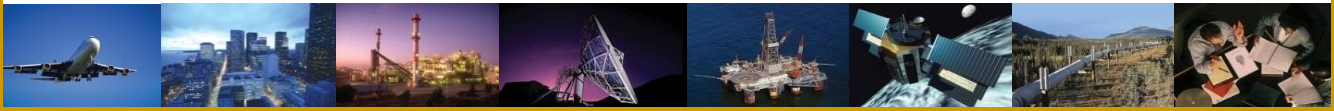
## 60K crore needed for insurance penetration

The domestic insurance sector needs investments worth up to Rs. 60,000 crore (USD 9.47 billion) in the next five years to increase the penetration levels substantially from the current 3.9 per cent, Insurance Regulatory and Development Authority Chairman T S Vijayan has said.

Vijayan also predicted that the insurance sector will be in a better position in 2015, in terms of premium collection for all the three verticals of the industry - life, non-life and health.

“Our calculation was that, in the next five years, to increase the penetration, Rs. 50,000 crore (USD 7.85 billion) to Rs. 60,000 crore (USD 9.47 billion) is required. This was our calculation some time ago.

Source: Business Standard



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# LIFE

## Canara HSBC OBC Life fined Rs. 31 lakh (USD 0.049 million)

The Insurance Regulatory and Development Authority (IRDA) has imposed a fine of Rs. 31 lakh (USD 0.049 million) on Canara HSBC OBC Life Insurance, for violation of certain provisions of the insurance regulations. The insurer has been asked to make the payment in 30 days.

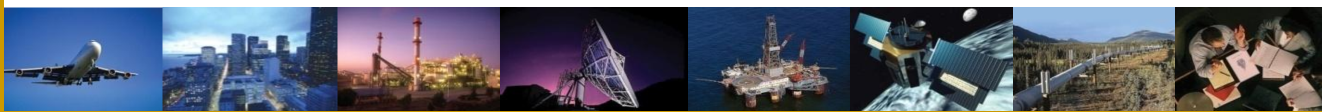
Source: Business Standard

## PremjiInvest to Buy 1% in HDFC Life

Deal, pegged at Rs 185 cr (USD 29 million), is seen as a precursor to the company going public and marks Premji's entry into insurance business

Wipro founder Azim Premji's PremjiInvest, a family office specialising in private equity and venture capital investments, will purchase a 1% stake in India's HDFC Standard Life Insurance for 185 crore (USD 29 million), valuing the firm at 18,500 crore (2901 million), two sources with direct knowledge of the development said. The stake sale is a precursor to taking the company public, they said.

PremjiInvest, with assets worth over $2 billion under management, has been investing in high-growth, listed and unlisted companies in India as well as growth-stage companies in China and the US with a focus on consumer, technology, financial services and healthcare.



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# NON LIFE

## ICICI Lombard on e-cashless mode

Having an e-cashless module in hospitals will soon become common, says an industry outlook by ICICI Lombard General Insurance. According to it, while some hospitals already use electronic format to deal with cashless claims, this will become more common in 2015.

Sanjay Datta, chief (underwriting and claims) at ICICI Lombard General Insurance, said, “As we look ahead, we see exciting times for the general insurance industry, driven by improving Consumer demand, policy enablers and new initiatives by insurers

Source: Business Standard

## Insurers Double Premium for HMEL Refinery

Insurers led by New India Assurance have more than doubled the premium charged to HPCL Mittal Energy (HMEL) after a major fire broke out at its refinery in June that led to a significant payout by insurers.

Source: Economic Times

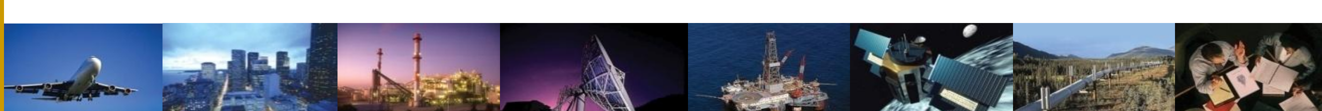
## Insurance cover for day-care procedures is expensive

Check all details while choosing a policy. Maintain all records to ensure claim is reimbursed.

Imagine this: Your family doctor advises your mother to go for a MRI scan, the bill for which is huge.  As your mother is covered under a family floater health insurance policy, you submit the bills to the insurer, who, however, rejects the claim as no treatment was prescribed.

Diagnostic tests like this may or may not lead to any treatment, classified under the outpatient department (OPD) or day care procedure. As many of them are quiet expensive, is it wise to buy a policy that covers OPD treatment?

"For an insurance company, the key is whether or not a line of treatment has been applied. If there is some intervention, it is likely that the claim will be reimbursed, even if there is no 24-hour hospitalisation," said Arvind Laddha, chief executive officer (CEO), Vantage Insurance Brokers.



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He explained the first clause in most health insurance policies is 24-hour hospitalisation. Earlier, there were a lot of surgical procedures that required the patient to be admitted to the hospital. Now, many of these can be done in the OPD or in day care, and does not require hospitalisation. So, technically, many of these claims could be rejected as there is no hospitalisation

Most insurance policies do not offer OPD coverage, as it includes doctor's consultation and leads to issues about lack of transparency and documentation.

"OPD is a wide term, not something that can be listed. It is usually anything that requires you to go to the doctor.  Roughly only 50 per cent of the policies available offer OPD cover," aid Renuka Kanvinde, assistant vice-president, health administration team, Bajaj Allianz General Insurance.

Since OPD treatments are done by general physicians and private practitioners, documentation is poor, unlike in hospitals. Even from the point-of-view of patients, maintaining the bills and receipts can be a logistical problem. These documents are essential to ensure that your OPD claim is reimbursed.

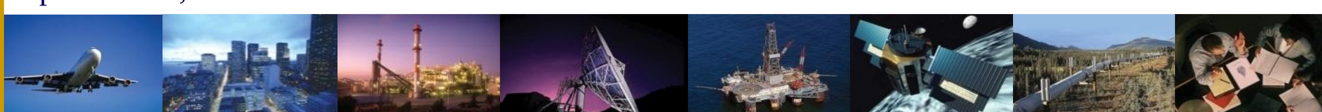
Mansije Mishra, CEO, Max Bupa Health Insurance, agrees that the difference between OPD and day care is a grey area, since primary health care is still unorganised in India. Many a times, injections or other diagnostic tests that are expensive are not reimbursed if there is no OPD cover in the policy. Many insurers have a limited list of procedures that they cover and some don't cover them at all.

"In case of hospitalisation where there is no intervention, for instance only for observation or monitoring, we check the clinical symptoms to see how serious the patient was before deciding on the claim," Mishra said.

If you are looking for OPD cover, it is better to opt for a comprehensive health insurance. Usually, OPD coverage is a certain percentage of the total sum assured. You must insist on records of the medicine prescribed, bills from doctors and chemists to make the claim under OPD cover.

Also, check if the waiting period and pre-existing diseases (PED) are different for OPD and in-hospitalisation.  Ideally, for OPD clams there should be no waiting period, Kanvinde said.

Keep in mind that the premium for policies with OPD is higher. For instance, in case of Bajaj Allianz's individual policy Health Guard, for a 35-year old, with a sum assured of Rs. 5 lakh (USD 7845), the premium is Rs. 6,917 (USD 108.5), while for Health Care Supreme the premium is Rs. 12,402 (USD 195). The latter includes additional benefits like OPD, day care procedures, ambulance service and others.



Now, many corporates offer OPD benefits in the form of pre-paid cards, which can be used in specific network hospitals for specific treatment. This allows employees to get treatment at a lower rate.

Source: Business Standard

**Insurance cover for organ transplants to ease donor costs**

Health insurance experts are of the view that it is advisable to buy a policy that will cover the medical expenses of both the donor and the donee

The expenses of both organ donors and donees can now be covered under a wide variety of products being offered by the insurers because of the increasing numbers of transplant.

Insurers have started offering covers - earlier only add-ons or a small portion of the cover - as part of comprehensive health insurance plans. Usually, a donee had to bear the burden of the donor's medical expense, along with their own.

But an insurance policy that covers organ transplant treatment is very helpful. Though the donor's medical expense - 20 to 40 per cent of the total treatment cost -still has to be borne by the donee.

K G Krishnamoorthy Rao, managing director and chief executive officer, Future Generali India Insurance, said almost all insurers cover organ donation expenses in health policy, especially since organ transplants are gaining popularity in the country.

The number of transplants in India is around 15,000-20,000 every year. According to media reports, about 2,00,000 people need a new kidney and about 1,00,000 need a new liver every year. However, a very small per cent of the demand is met. The number of donors are few and the high cost of treatment is a barrier.

Health insurance experts are of the view that it is advisable to buy a policy that will cover the medical expenses of both the donor and the donee.

Hospitals also prefer organ donors who have an insurance cover against unexpected medical expenses so that the liability can be shared. While this is not mandated, hospital authorities say that since such covers are available, it should be easier to be insured than before.

With the insurance regulator mandating that general insurers cover at least 12 critical illnesses, organ donor expenses is also included under its ambit by companies.

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Industry sources said that earlier there were several cases of organ donors being rejected a cover by the general insurance companies due to the risks involved.

"Now, with the advancement of technology, both public and private companies are now averse to providing a cover. But, the individual has to disclose this at the very beginning to avoid rejection of claims in the future," said the chief executive of a mid-size private general insurance firm.

Even new products coming into the market have such features. For instance, Liberty Videocon General Insurance which recently entered the retail health space with the launch of its product covers organ donation expenses up to the sum assured.

Roopam Asthana, director and chief executive officer, Liberty Videocon General Insurance, explained that their Health Connect policy covers expenses incurred towards organ donor's screening and treatment for harvesting of the organ donated.

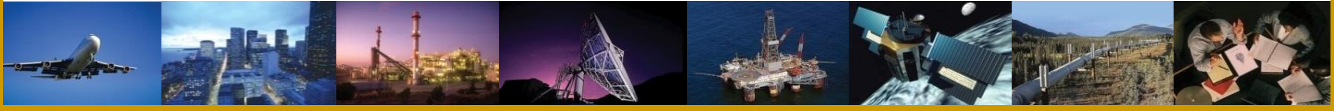
**<u>Third-party insurance to be offered to e-rickshaws</u>**

With the Lok Sabha passing the Motor Vehicles Amendment Bill, 2014, on Thursday, paving the way for regularisation of e-rickshaws that had been banned by Delhi High Court on safety grounds, third-party insurance policies will also be offered to these vehicles.

A senior general insurance executive said earlier, when the vehicles were banned, insurance policies were not offered to the drivers/owners of the vehicles. “Now that the amendment Bill has been passed, e-rickshaws will begin plying on the road. They would have to first register with the Regional Transport Office or RTO (Motor Vehicles Department), after which covers will be offered,” said the official. According to the Motor Vehicles Act, 1988, no vehicle is allowed to ply on Indian roads without taking a third-party insurance cover. This cover protects the vehicle's owner from liability arising from accidents involving the vehicle.

According to insurance company executives, if these vehicles are allowed in Mumbai, it would be a risky proposition to offer insurance because the traffic situation will worsen.

“If they are introduced in places like Bengaluru or Mumbai, we will be mandated to provide a cover. In that case, premiums for a comprehensive cover may be higher,” said the general manager of a public general insurance company.



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Third-party insurance cover pricing is regulated by the Insurance Regulatory and Development Authority (IRDA), while the 'own damage' cover is not. A comprehensive cover includes both own damage and third-party coverage.

E-rickshaws are likely to come under the auto-rickshaw category (not carrying more than six passengers), where there was a 10 per cent hike in third-party premiums for the current financial year.

## India might sway US firms with N-power insurance

India is offering to set up an insurance pool to indemnify global nuclear suppliers against liability in the case of a nuclear accident, in a bid to unblock billions of dollars in trade held up by concerns over exposure to risk.

Prime Minister Narendra Modi’s government is hoping the plan will be enough to convince major US companies such as General Electric to enter the Indian market ahead of President Barack Obama’s visit at the end of next month.

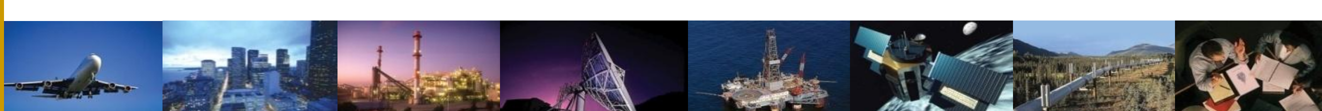
Under a 2010 nuclear liability law, nuclear equipment suppliers are liable for damages from an accident, which companies say is a sharp deviation from international norms that put the onus on the operator to maintain safety.

From the 1950s, when the United States was the only exporter of nuclear reactors, liability has been channelled to plant operators across the world.

## Fire insurance rates to go up for firms

The insurance regulator’s whip on insurers to better price fire, property and group health risk might prove to be costly for customers. Since heavy discounts up to 90 per cent are being offered to customers in fire portfolio, estimates show that these corporates would see an increase of 200-300 per cent in their rates on an average.

Insurance Regulatory and Development Authority (IRDA), in its guidelines on pricing of risk, has said industry-wise loss cost must be the starting point and should be considered for pricing a product. Burning costs must be looked into. The burning cost is the estimated cost of claims in the forthcoming insurance period, calculated from previous years’ experience adjusted for changes in the numbers insured, the nature of cover and rate of medical inflation. This is a ratio used by insurers to protect themselves from larger claims that exceed premiums paid.



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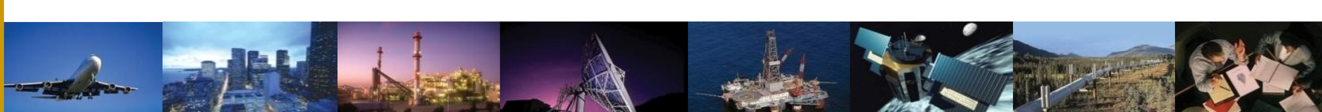
Pavan Dhingra, CEO, Prudent Insurance Brokers, said after applying these discount rates, at times there is a huge difference between the prevailing policy premiums and the burning cost. “Insurance premiums will go up massively for all customers in 2015 when burning cost is the start point,” he said.

Prudent has done an analysis to gauge how much of an increase customers will be hit with given the existing highly discounted tariffs and the fact that Industry Burning Cost will be the start point for determining tariffs, come January.

IRDA has said insurance companies can consider burning cost of a particular risk on its own past acceptances for all available products.

It further said since burning cost for property risks are published by Insurance Information Bureau (IIB) of India for perils other than natural catastrophe, insurers need to consider adequate pricing for the said risks, if offered.

Though this was to be enforced from January 2015, it has been postponed to February 2015. Dhingra said it needs to be seen as to how companies would implement it. The insurer’s own experience on procurement and management costs also needs to be considered to a large extent of current levels, said IRDA. The regulator said due to aggressive competition in the market, risks are not being adequately priced



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# INTERNATIONAL

## Future regulation for insurance brokers

Charles River Associates (CRA) was commissioned by the British Insurance Brokers' Association (BIBA) to conduct research into what appropriate and proportionate regulation might look like under the UK's new Financial Conduct Authority (FCA). In particular, CRA has been asked to assess whether the regulatory costs faced by general insurance intermediaries in the UK are proportionate to the risks imposed by the sector and to set out an overview of the desirable direction of future regulation.

Following the financial crisis, the Financial Services Authority (FSA) has changed its style of regulation and supervision to take a more intrusive approach. Not only has this been applied to firms directly involved in the credit crisis, but this increased intrusion has also applied to general insurance brokers resulting in significant increases in costs.

It is necessary to ensure that general insurance broking is well regulated but regulatory actions and the costs they impose need to be proportionate to the risks that they address. The industry has voiced substantial concerns that the burden of regulation is disproportionate to the risks within the sector and out of line with regulatory costs in other European countries, with recent changes to the regime exacerbating this concern.

## Systemically important reinsurers react to regulatory uncertainty

Munich Re and Swiss Re have both criticised the notion of a systemically important reinsurer following the news that the Financial Stability Board (FSB) has delayed publishing its list of such reinsurers.

Source: Global Insurance Intelligence

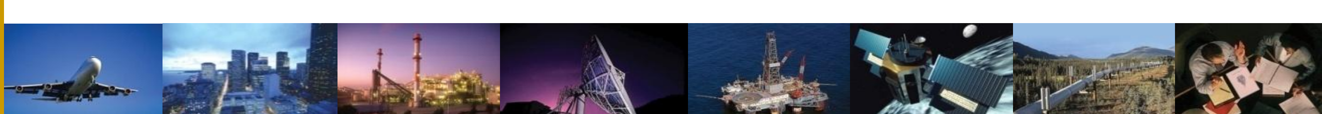
## Property catastrophe insurance rates to drop at Jan. 1 renewals: Swiss Re

LONDON – Property catastrophe reinsurance rates likely will continue to fall at the upcoming Jan. 1 renewals, but the rate of decrease at subsequent renewals is likely to slow, according to a report by Swiss Re Ltd.

## Winter storm insured losses could exceed $2.5B in 2014: III

NEW YORK – Insured losses from winter storms could exceed $2.5 billion in 2014 as severe storms gripped much of the nation last week, the Insurance Information Institute Inc. said Monday.

Winter storm claims, including those associated with freezing and ice damage, accounted for 6.4% of all insured catastrophe losses between 1994 and 2013, said Mr. Hartwig, placing such claims third behind hurricanes and tropical storms at 41% and tornadoes at 36% as the costliest natural disasters.



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# Educate Yourself

## A Consumer Guide to Fire Insurance — Top Things You Need to Know

Fire insurance is the most essential component of any house insurance policy. This makes perfect sense because fire is the most common hazard faced by all homeowners. It can strike anytime which could render you homeless.

You have two options when obtaining fire protection cover for you home. First, you get barebones home insurance with basic fire cover. This type of policy could be enough especially if you use your home as security for a loan.

Another option is to get standalone fire insurance. This provides extra protection that may include damages to your property caused by firefighters, smoke, heat, and loss of personal belongings during evacuation. Comprehensive fire coverage may also include full replacement of detached structures and reimbursement for living expenses after a fire disaster.

### Who Can Obtain Fire Insurance

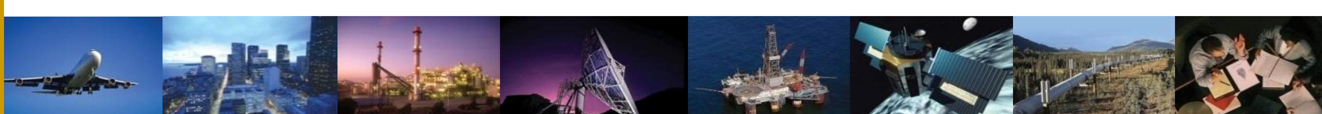
If you are the legal owner of the house, then you can get basic or comprehensive fire coverage. Basic home insurance with fire cover is mandatory for those who are applying for a home loan. Landlords and business owners should also get building insurance with fire cover.

If you are a tenant, it is also advisable to obtain fire insurance. However, your policy should only cover house content. Structural damage due to fire is already covered by the business insurance of your landlord. Your main concern is to protect the content of your rented home from fire damage.

### Why You Need Fire Insurance

This insurance provides excellent financial protection for you in case you suffer from fire disaster. The benefits you can get from it can help rebuild your home and you can regain the value of your damaged personal belongings. Additionally, your insurance will reimburse living expenses you incurred after the fire.

Basically, fire insurance allows you to completely rebuild your life after suffering from a great property loss. It is an important financial tool that all homeowners should have. Remember that a fire disaster can consume everything you own. So it makes sense to have insurance that will replace the actual value of your properties.



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## How to Obtain Cheap Fire Insurance

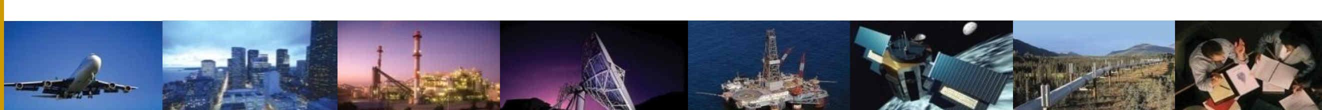
Comprehensive house insurance with generous fire coverage can be expensive. If you are getting a standalone policy for fire damage, then this will surely cost more money. Fortunately, there are ways how to make your insurance cheaper.

First of all, you need to shop around for the best deal. You can easily compare deals online. Use online insurance quotes in order to find insurance companies that offer sufficient coverage for fire damage.

Improving the safety of your home can also lower your premium payments. For example, installing a fire alarm system that is connected to the nearest fire station could substantially lower your premium. The installation of a basic water sprinkler system could also lower your fire insurance payments by as much as 10 percent.

So if you want to provide excellent protection for your property, then getting fire insurance is a must. You can avert financial ruin if your home has sufficient financial cover against total fire damage.

Source: Internet



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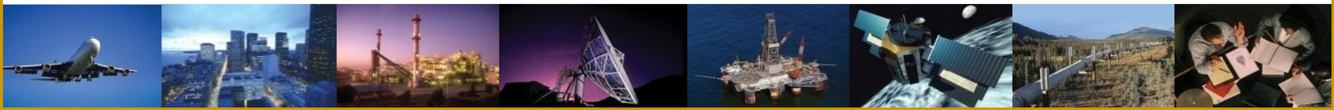

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