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FIRST ON PROTECTION

J. B. BODA

MEDIAN

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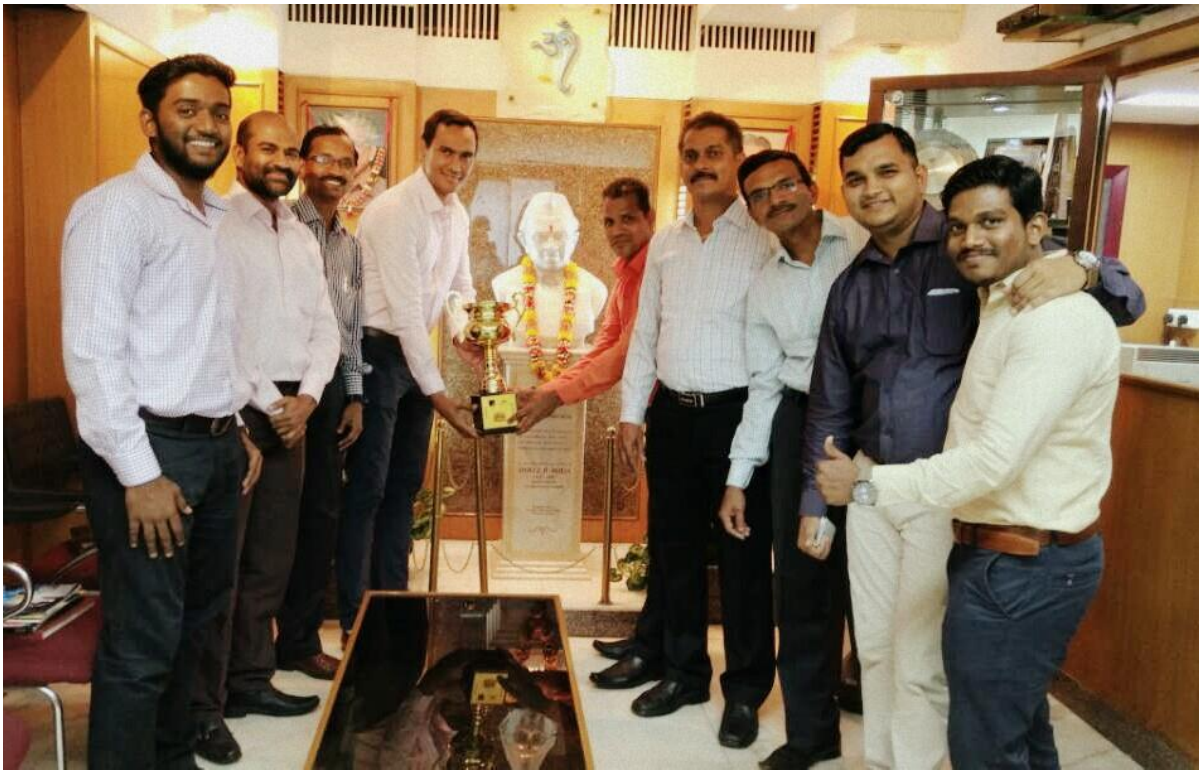
NEWS AT JBB

We had an all India branch meet for J. B. Boda Insurance Surveyors and Loss Assessors on the 12th May 2017, to plan and budget for the year ahead and discuss about the opportunities, challenges and threats of the changing market scenario, and collectively how do we address and arrest some of these challenges.

The discussion was a complete engagement program and each one of them participated whole heartedly towards the achievement of common goal of the group.

On the other side, we had our cricket team participating in the IW Corporate Cricket League 2016-17 and the team got us a runner up cup. The final match was played on the 29th April 2017. Keep up your performance team… WELL DONE!!!



ON "WRITE" SIDE

WannaCry could be a catalyst for a new approach to cyber risks

The global cyberattack caused by the virulent new strain of self-replicating ransomware known as Wanna Decryptor, WannaCry, or WCry, could be just the catalyst that the insurance and reinsurance market needs to stimulate a new approach to cyber risks, according to experts.

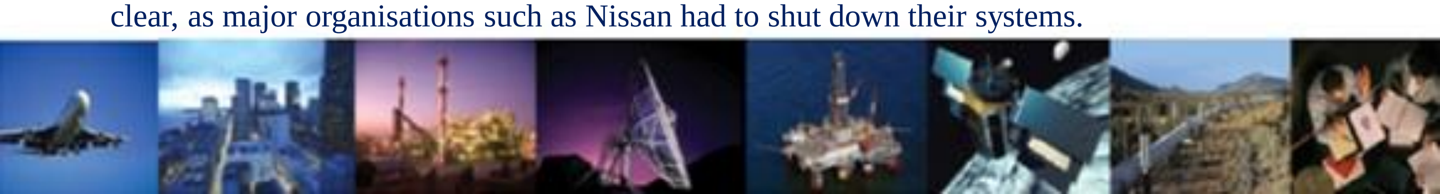
The WannaCry ransomware has impacted more than 150 countries around the globe, making it perhaps the most widespread cyberattack in history and raising questions about the ability of insurance and reinsurance markets to cover this type of systemic cyber exposure and the approach to understanding cyber exposures taken by risk modelling and underwriting companies.

Insurance, reinsurance and capital market underwriting and cyber focused data and analytics company Sciemus Cyber has a unique view on the event and believes that it highlights the need for a holistic view of cybersecurity, one that is more closely aligned with business risk and core business processes.

As a result, cyberattacks like WannaCry (WCry) provide evidence of the potential for cross-class cyber exposures, something insurance and reinsurance underwriters need to be extremely wary of and warns that "The Lloyd's of London's and Prudential Regulatory Authority's demarcation of "silent" and "affirmative" cyber exposures is especially pertinent."

The potential for an event such as WCry to cause meaningful losses in insurance and reinsurance markets, as cyber coverage expands and the market grows an event such as this could see escalating losses due to business interruption costs, brand reputation and remediation costs.

As a result, every business sector can have exposure to such an event, not just the highly publicised NHS healthcare exposure. With attacks reported across over 150 countries in the world now, the reach of an attack like WCry highlights the potential for a truly major industry loss for re/insurers from this kind of incident as the cyber risk market grows, the need for a disciplined approach to underwriting and a new thinking around how to analyse, understand and quantify cyber exposures. The potential for business interruption losses to re/insurers is clear, as major organisations such as Nissan had to shut down their systems.



The WCry event also demonstrates that, on questions of aggregation and accumulations, “a traditional insurance industry focussed lens is relatively immaterial”. The impact of an attack like WCry is “tied to the underlying reliance on technology for core business processes and each entity’s respective cybersecurity posture” which can vary wildly across sector and industry. What data they carry or records they hold is immaterial here.

The WannaCry event also demonstrates the need for the cyber insurance industry to be cognizant of the issues surrounding legacy systems and the difficulty in removing them in many sectors and businesses. These legacy systems and their exposures are going to be part of the underwriting landscape for years to come and so underwriters need to appreciate and understand how they affect the overall exposure base.

Being a worm that self-propagates, WCry will also raise fears of so-called “silent” cyber losses. This “in the wild”, non-targeted aspect of WCry will create concerns around accumulation for that insurance capital providing “silent cyber” coverage for “cyber all-risks” exposures such as system failure. As events such as this could increase in number and prevalence, as crime actors see them as an easy way to have a massive impact across sectors and borders, the insurance and reinsurance implications are huge (even if losses aren’t right now).

The need for a fresh approach to cyber risks; “WCry will hopefully serve as the catalyst for an approach to exposure modelling that focuses on an understanding of these attacks rather than an indeterminate view of impact observed, particularly when the approach to underwriting, risk and capital management is heterogeneous. “Cyber risk modelling should appropriately capture or reflect an exposure such as WCry; ultimately, cyber risk management is increasingly centric to enterprise risk management with the convergence of engineering and technology.”

Essentially, WannaCry forces a new look at cyber and a fresh approach is required. In the context of this type of attack; underwriters cannot rely on catch-all exclusions, including cyber for free in property covers is downright dangerous to underwriters businesses and real expertise is required to understand the method, meaning and mode of cyberattack. “WannaCry is helping (re)insurance capital model cyber risk in the context of converged cyber exposure rather than the more narrow actuarial focus on de-linked outcomes,” Sciemus concluded.

The forecasts for global cyber insurance underwriting suggest a $14 billion market by 2022 and an attack like WannaCry will stimulate demand for cyber cover. The need for a fresh approach to underwriting is highlighted, both to provide better cyber risk transfer products to clients and to ensure underwriters have a clear understanding of the exposure they are assuming.

NATIONAL

Irdai to form actuary panels for life, general insurers

General and life insurance companies will be able to engage actuaries as the regulator Irdai will soon form panel of such analysts. The Insurance Regulatory and Development Authority of India (Irdai) has invited bids from actuaries and firms employing such analysts to form a 'Panel of Actuaries'.

Separate panels will be formed for life and general insurance (including health insurance). The tenure of each panel will be for a period of three years from 1 April 2017 to 31 March 2020, said the bid document.

The panel would be required to give an opinion on products filed by an insurer. Further, the regulator may ask any actuary panel to investigate financial position of any insurer or to give an opinion on valuation.

"If the insurers are not able to appoint Appointed Actuary... They can use services of any actuary from the panel of actuaries for estimation of reserves, solvency margins and preparation of reports... As well as vetting of products to be filed by the insurer," Irdai said.

Appointed Actuaries (AAs) are entrusted with the responsibility of maintaining solvency position of the company. There are other jobs such as new product approval, which need inputs and certification from Appointed Actuaries.

The panel will be engaged in estimation of reserves and solvency margin at the end of financial year as well as preparation of reports which are normally required under the current regulations and guidelines in respect of one or more insurance companies.

Govt looks to scrap deposit insurance norm under company law

The government is considering doing away with the mandatory deposit insurance requirement for deposit-taking firms under the company law. The deposit insurance provision is part of the Companies Act, 2013 but is yet to be made operational. The Corporate Affairs Ministry, which is implementing the Act, has been extending the deadline for implementation of this particular provision. Sources said the ministry is looking at scrapping the deposit insurance requirement as suitable insurance product for the purpose is not available in the market. The view has emerged that it would be difficult to have such an insurance product, they added. Implementation of the deposit insurance provision has been delayed over the years. A significant part of the Companies Act came into force from April 1, 2014. This provision of the Act was made as part of larger efforts to safeguard the interest of investors amid instances of ponzi schemes. In a notification issued on May 11, 2017 the ministry again extended the deadline for complying with the deposit insurance norm to March 2018.

Proposal for govt & insurers to cooperate in home insurance

The government can consider introducing affordable home insurance schemes in association with insurance companies that would cover losses to property due to catastrophic events, a senior insurance industry executive has proposed.

The index-based home insurance schemes could be set up similar to the weather based crop insurance schemes. This could be implemented by states which can opt for covers that best suit their NAT Cat exposures. The schemes can be implemented in association with insurance providers and the premium can be collected along with property tax.

For instance, a pre-decided amount of rainfall in a flood prone area or an earthquake of a certain magnitude in the earthquake prone parts of the country, if crossed, could trigger the property damage claim making the insurance company liable to pay. Having these pre-decided terms will ensure transparency and physical survey/inspection will not be required, leading to faster relief to the affected.

In this regard, the Real Estate Regulation and Development Act (RERA), seen as a boon to homebuyers, will also be able to help increase insurance penetration in the country. It is said that if RERA authorities partner with insurance companies to address and include the aspect of securing the home in their purview, the move could be instrumental in changing the landscape.

The floods that ravaged Chennai in Nov-Dec 2015 caused massive catastrophic losses. Of the nearly 8,000 claims paid in the aftermath of the Chennai floods, only 1% pertained to home insurance cover, stated an insurance company.

Currently, for losses incurred after a natural disaster, payouts are made from the Prime Minister Relief funds and National Disaster Management Agency's (NDMA) funds. According to a recent United Nations Office for Disaster Risk Reduction report, India had 19 events of natural disasters, including floods, droughts and heat waves, in 2015 and an economic loss to the state exchequer of more than US$3 billion from these disasters.

Insurance mart forecast to hit US$80 billion in premiums

The Indian insurance industry is expected to see a quantum jump in premiums this year to about Rs. 5,500 billion(US$80 billion), forecasts India Insure Risk Management & Insurance Broking Services in its report on the insurance industry. This would represent an increase of nearly 20% over the current year.

The life insurance industry will contribute close to Rs. 4,250 billion in premiums while the non-life industry could very likely cross the Rs. 1-trillion mark contributing close to Rs. 1,250 billion.

Financial Year 2015-2016 saw a 14% growth in the non-life market and 12% growth in the life insurance segment, taking the overall industry size to Rs. 4,633 billion. Insurance penetration improved to 3.4% against 3.3% previously. The total reinsurance premiums ceded during 2015-2016 stood at over Rs. 200 billion.

Key growth drivers in 2017 for the non-life industry other than motor will be the health insurance and agriculture insurance.

With the health insurance market expected to maintain its 20% growth rate, IRDAI, with an aim to improving the penetration of this segment, has issued new guidelines for the health segment. This has generated some exciting opportunities for the industry in terms of creating innovative products, incentivising early buyers and designing credit-linked health plans. The key highlights of the regulations include offering innovative products on a pilot basis for a maximum period of five years and ‘entry-age’ based pricing.

The agriculture insurance segment is expected to surge by over 17% to Rs. 170 billion, owing to the new government-backed insurance scheme – Pradhan Mantri Fasal Bima Yojana (PMFBY). The key highlights of the scheme and the reasons that it is expected to be better than previous schemes are: it allows for both loanee and non-loanee farmers to be protected and provides full coverage for losses which include calamities such as hailstorm, landslide, inundation etc. which were not covered in the earlier schemes.

At the same time, classes such as aviation and liability will continue to see an upwards trajectory although their premium contribution to the overall industry will continue to be marginal.

Reinsurance sector to get “very interesting”

With licenses for branches of foreign reinsurers soon to be finalised by the regulator, the reinsurance renewal season in 2017 is expected to be a very interesting one.

The industry is waiting with bated breath to see how the final rollout of the Right of First Refusal happens. Will the foreign reinsurers start writing business which they stayed away from all these years (like proportional treaty programmes) or will they just be more aggressive on lines that they have been focusing on for all these years, is right now anybody’s guess.

There is also an expectation of further clarity being introduced as to the role of brokers and their remuneration.

INTERNATIONAL

Crackdown tightens on sales of foreign insurance products - China

Officials of the Chinese insurance regulator CIRC have recently visited foreign life insurance firms and intermediaries in Beijing as part of investigations into the illegal sale of insurance products in Hong Kong to mainland Chinese. The investigation arm of CIRC found that some insurers were mis-selling insurance products, using underhanded marketing methods.

China, which has ramped up a crackdown on illegal outflows of funds this year, is concerned that buying overseas insurance has become a way for Chinese to move money abroad, avoiding capital restrictions. Regulators have uncovered illegal capital outflows totaling $8.43 billion so far this year. The national bank card association China Union Pay said that it would stop mainland Chinese customers from using their mainland-issued debit and credit cards to purchase insurance products in Hong Kong, except for overseas insurance products related to tourism, such as those covering accident and illness.

In May 2017, CIRC issued a notice to its local bureau saying that cases involving insurance intermediaries - whether individual or corporate, engaging in consultancy, wealth management and insurance, which hold product shows, summits, seminars or other promotional events on the mainland; promote the products of companies not based in China; or arrange for customers to go abroad to buy such products-need to be investigated, prohibited and penalised.

CIRC rules ban the sales of insurance and wealth management products within China that are offered by overseas institutions that do not have an operating licence on the mainland.

Life insurers to develop integrated insurance website - Malaysia

The Life Insurance Association of Malaysia (LIAM) and the Malaysian Takaful Association (MTA) are developing an integrated financial website. The website will have self-assessment tools to guide consumers in choosing suitable life insurance products.

Additionally, the associations would also introduce an online insurance product which would allow consumers to compare prices and product features, said LIAM management committee member.

Advances in digital technology and the rise of the millennials are changing the demand and expectation for life insurance products and services, and these changes would bring about new challenges and demand to a career in life insurance sales.

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