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FIRST ON PROTECTION

J. B. BODA

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CONTENTS — PAGE NOS.

NEWS AT JBB

Visitors and Guests

Names of the visitor	Company	Country
Ms. SiewFun Yu and Mr. Jamie Robinson	SOP Club	London
Mr. Souvik Banerjea	Continental Re	Kenya
Mr. Jonathan Andrews	Steamship Mutual	London
Mr. Sanjay Sharma	Tanzindia	Tanzania
Mr. Yewondwossen Eteffa, Mr. Shiferaw Bante, Mr. Mesfin & Mrs. Azeb Wogayehu	Ethio Re	Ethiopia
Mr. Saifuddin Zoomkawala	EFU	Pakistan

ON “WRITE” SIDE

Getting the perspective right

Life insurance company may come across a set of people who carry a very strong dislike for this industry or the ones who are staunch believers in this industry.

Thinking about these two categories, the life insurance business is about three aspects, protection, long-term savings and investment.

Focusing on the protection first. Though the life insurance industry has been in existence for decades, including the private sector industry for a couple of decades, awareness about protection is not as widespread as one would expect a focused industry of this size to execute.

There are only few who are educated about the importance of financially protecting their dependents when they are no more available or are incapable of providing for the dependents. Penetration of protection in terms of number of lives covered as well as the amount they are covered for is far below expectations.

One has to go through a few claims experience, which is at the heart of an insurance company to be able to appreciate the importance of this aspect. The state of financial dependents and the importance of financial protection are only experienced when an event occurs, however low the probability may be.

Financially, it can be seen as low probability but a high impact event. The emotional loss is recovered over time but a financial loss may take years for the family to recover. All earning individuals should make a pledge to protect their families from the financial impact they will have after his or her demise.

The level of protection should also be enhanced at each life stage of an individual, which is often ignored once a basic life cover has been taken.

Looking at the savings now. The savings-to-GDP ratio of India is reasonably adequate. The challenge, however, is most of the savings is not goal-based, neither is it focused on appropriate assets. There are no adequate retirement schemes in our country.

However, if we observe the amount of withdrawals (though there have been efforts to restrict) in the provident fund savings during working life, it reflects the behavioural aspect of lack of discipline for goal- based savings even when it is a mandatory retirement savings (for a few who are covered).

A savings product of an insurance company, whether guaranteed or participating, can be a good tool to save for specific goals and for a long term to ensure the compounding effect is at work. Here again, the number of people who stick to their goals like any other savings product needs a lot of effort.

In fact, the cost of acquisition is too high at this stage, which needs to be worked on, but it is primarily also due to the effort required to convert people to buy a savings product and stick to it. The effort required and the number of meetings required to convert a customer needs a lot of improvement, which is primarily the reason for lack of productivity. Efforts are also required from insurance companies to improve awareness and also work on better ways to distribute with lower costs.

Moving on to investments, Ulips offered by life insurance companies are primarily investment products and tools to create wealth. Design-related cost issues faced by traditional savings products do not exist here, since the ticket size is higher leading to lower cost.

This product is addressed to customers who have taken care of their protection and savings needs. These are informed customers who are willing to take market risks to enhance returns. In fact, on the cost front for a policy of 10 years and above, the cost of a Ulip product can be lower or at par with any other financial product, which is sold through distributors.

Various degrees and varieties of equity and debt products are available to ensure appropriate asset allocation to reach ones goals.

NATIONAL

Linkage of Aadhaar number with insurance policies

Earlier, Regulator Insurance Regulatory and Development Authority of India (IRDA) had said that linkage of Aadhaar number with insurance policies is mandatory and asked insurers to comply with the statutory norms. “The Authority clarifies that, linkage of Aadhaar number to insurance policies is mandatory under the Prevention of Money Laundering (Maintenance of Records) Second Amendment Rules, 2017,” the IRDA had said.

The government had notified in the month of June 2017 about the Prevention of Money Laundering (Maintenance of Records) Second Amendment Rules, 2017, making Aadhaar and PAN/Form 60 mandatory for availing financial services including insurance and also for linking the existing policies with the same.

In a communication to all life and general insurance companies, IRDA had said that the rules have statutory force and as such, they have to implement them without awaiting further instructions.

Reassuring for property buyers – assigning policy to the new property owner

Property owners can now get an extended warranty for buildings in the form of an insurance policy against structural defects. Private insurer HDFC Ergo has launched a policy that compensates for the cost of repairing, restoring or strengthening of a building due to structural defect.

Speaking to TOI, executive director of one of the general insurance company said that under the new Real Estate Regulation Act (RERA), builders are liable for any structural flaws detected up to five years from the date of giving possession. While the policy is designed to cover the developer's liability, unlike other liability covers the claim will be paid without the property owners taking legal action against the developer.

The cover is different from the standard property insurance cover, which is a fire insurance policy with added risks. The inherent defects policy covers all those risks that are not covered by the fire policy. Besides structural defect, this will include poor workmanship. Since even small damages are covered, the premium is higher than what is paid out for property insurance, and will be in the range of 0.6-1% of the project cost, depending on the risk features of the project.

What could be reassuring for property buyers is that the policy can be assigned to the new property owners. This means that if an apartment block is sold and the property transferred to a cooperative society, the policy can be transferred to the society. Another reassurance from the policy provider is the knowledge that the project has been audited at the time of construction. The insurance company will appoint an independent technical inspection service to carry out monitoring activities on the quality of the building during the course of construction. This will include services ranging from sample design checks to witnessing tests at site.

The new policy can be obtained by the developer prior to the start of construction and will have a five-year validity, which is co-terminus with the liability of the promoter under the new law.

First-ever micro-insurance plan ‘insurance khata’

One of the unique change in the insurance industry is the micro-insurance plan ‘insurance khata’ targeted at those in the informal sector and agricultural labourers with seasonal incomes. This micro-insurance plan will be distributed exclusively through the 2.4 lakh common service centres (CSC) across the country.

Flexible premium

The novelty of this new micro-insurance plan, which has been primarily designed for distribution across CSC, is that it provides individuals with the flexibility to pay premium in parts, as and when possible.

At an individual platform with an entry level minimum premium of Rs 500, this is the first of its kind product in the industry.

Taking into account possibilities of monetary limitations of the target segment, the plan is designed to return the paid premium amount at the end of the term, while ensuring life insurance coverage, during the term.

In industry parlance this insurance is a recurring single premium term with return of premium (TROP). For customers, it is a plan where they can keep on increasing the sum insured they had paid and keep on getting back the premium paid as and when they mature.

‘Padmavati’ delay can trigger insurance claim

'Padmavati' distributors can make a claim for losses due to the delay in the movie's release, thanks to a new insurance cover that has evolved in the last decade. An Insurance company, which is facing claims of Rs 30 million following damage to the film's sets by protesters, has also insured the movie for Rs 800 million loss in box office collections if screening is affected or if the public cannot access the theatres.

Until a decade ago, film-making was treated as project insurance, where the cover ceased on completion. Once production was completed, the producer recovered money spent on it by selling various rights of the film. In 2009, after an outbreak of Swine Flu, the Maharashtra government had ordered a shutdown of public places including schools and theatres. The move had hit the collections of two releases. This unexpected risk prompted the development of the 'distributor's loss of profit' cover.

Officials confirmed that they are in receipt of claims for Rs 30 million at the production stage, which was insured for Rs 1.4 billion. The state-owned insurer has also covered Sanjay Leela Bhansali's historical fantasy for Rs 800 million for distributor's loss of profits. The policy covers a strike or riot situation and would also cover weather-related events, but it does not cover any loss if the film is banned by any government. Also, the cover comes into effect only after the film is released.

The distributor's loss of profit policy has evolved quite well over the last eight-nine years. The distributor forecasts the revenue according to territory. A claim occurs if, due to any of the listed perils, the general public is not able to reach the theatre. A Mumbai weekend would account for nearly 25% of a movie's revenues. However, if in the subsequent weeks, revenue picks up so that the total two-month revenue is in line with the projected earnings, no claim are paid.

In addition to covering box office losses due to insured events, the policy will also reimburse the producer the cost of promotion. If for any of the perils mentioned the release date is delayed, the producers are compensated the cost of promoting the film — advertisements, posters and promotional events. But even here the money is paid after two months of release.

Industry officials say that movie-making in India is quite different compared to the West. In the West, movies are researched for two years and the shooting is completed in 60 days. In India, the research takes a few months and the production takes a much longer time with changes made during the shooting. Also, contracts are very loose and stars do not return the money paid to them

INTERNATIONAL

Malaysia: Insurers offer 10 easy and affordable plans

Malaysia-based insurance companies have rolled out 10 affordable protection plans under Perlindungan Tenang - a national initiative supported by Bank Negara Malaysia to serve the needs of all Malaysians.

The Life Insurance Association of Malaysia (LIAM), Malaysian Takaful Association (MTA) and General Insurance Association of Malaysia (PIAM) are jointly committing to develop a sustainable market where insurers and takaful operators offer product choice through various distribution channels, good protection value, and administrative ease during the purchase and claims process.

The batch includes six life insurance products, three family takaful products and one general insurance product, according to a joint statement by LIAM, MTA and PIAM.

"Riding on three basic criteria of being affordable, accessible and simple, the products available under Perlindungan Tenang were developed by insurers and takaful operators to enhance financial inclusion of underserved segments in Malaysia, particularly the bottom 40% of household," it said.

The initiative aims to reach out to eight million working-age Malaysians and over 700,000 micro enterprises that currently need insurance and takaful protection against key risks in life.

"Ultimately, it would help to fulfil the nation's aspiration of reducing the protection gap and insuring 75% of the population by 2020," the statement said.

"In the next few months, more products from the insurance and takaful companies will be added to the list to serve the various needs of Malaysians," the statement said.

Australia: Excellent public hospitals crowding out health insurance

The public hospital system is now so good Australians can get away with not purchasing private health insurance, major investment bank Morgan Stanley has found.

In a 63-page analysis obtained by News Corp the investment bank warns “many people now see the free public hospital system as adequate catastrophe cover”.

Morgan Stanley's executive Director Daniel Toohey says the private health industry has become lazy and the government should refuse any premium rises for three years to force the industry to sort itself out.

The report even dismisses the government's tax penalty that forces higher income Australians into private health cover as losing its sting as premiums skyrocket.

The revelations come as health funds are under fire for covering less and less of their member's health bills as profits surge.

Rising premiums and declining value is behind a continuing fall in health fund membership, which has declined from a peak of 47.4% in 2015 to 45.8% in September 2017.

Morgan Stanley predicts health fund membership will continue to fall placing pressure on private hospitals but it says public hospitals will be able to cope with increased demand.

"Our analysis suggests that under a status quo scenario, the public sector could feasibly absorb the excess demand caused by an ageing population and falling participation in the private hospital sector," the analysis says.

Recent multi-billion dollar state government investment in public hospitals means they now have more single rooms placing private hospitals under threat.

Morocco: Intermediaries face regulatory challenges

The insurance intermediary sector faces multiple challenges related in particular to regulatory developments and the digital revolution, Mr Hassan Boubrik, President of the Insurance and Social Insurance Supervisory Authority, has said.

Speaking at an annual meeting of the National Federation of Insurance Agents and Brokers in Morocco (FNACAM), held in Marrakesh last week, he said that amendments to the insurance law would lead to new operating conditions for intermediaries. For instance, while new regulations eliminate exams for agents, they focus on training and companies in the sector are obliged to provide adequate training to agents and brokers.

Mr Boubrik stressed that the sector can not develop without a relationship of trust between the insured on the one hand and intermediaries and insurance companies on the other side.

He also said that insurance will be among the industries most affected by the digital revolution. "We are very late in catching on in this area", he said. "The digital revolution opens the way to the exploitation of masses of data for a better analysis of risk, its calculation and its pricing," he added.

In this regard, ACAPS has set up a Web application to improve services for insurance intermediaries. To date, 95% of intermediaries have already registered for this application. This tool currently provides data on premiums generated in the previous quarter by region, by commune, and by branch.

He added that “much remains to be done, particularly in terms of increasing the insurance penetration rate, which is still low” and which stands at 3.5%.

Giving an update on takaful, Mr Boubrik said that all of the implementing texts for legislation regarding Islamic insurance have been submitted to the Ministry of Economy and Finance.

In his turn, FNACAM President Khalid Aouzal said that the association is calling for the development of a code of ethics for the sector. FNACAM represents a network of more than 2,000 brokers.

Representatives of the Moroccan Federation of Insurance and Reinsurance Companies (FMSAR) said that the introduction of new products will have to be done intelligently so as not to harm conventional insurance networks. Among new offerings, takaful insurance is considered a buoyant segment for the sector. Growth is also expected from the introduction of mandatory construction insurance.

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