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NEWS IN GENERAL

Paris Climate Change Conference - November 2015

The twenty-first session of the Conference of the Parties (COP) and the eleventh session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) is currently being organized from 30 November to 11 December 2015, in Paris, France.

An unprecedented coalition of close to 40 governments, hundreds of businesses and influential international organizations called for accelerated action to phase out fossil fuel subsidies, a move that would help bridge the gap to keep global temperature rise below 2°C.

The Fossil Fuel Subsidy Reform Communiqué, presented by John Key, Prime Minister of New Zealand, calls on the international community to increase efforts to phase out perverse subsidies to fossil fuels by promoting policy transparency, ambitious reform and targeted support for the poorest.

Governments spend over $500 billion of public resources a year to keep domestic prices for oil, gas and coal artificially low. Removing fossil fuel subsidies would reduce greenhouse gas emission by 10 per cent by 2050. It would also free up resources to invest in social and physical capital like education, healthcare and infrastructure, while levelling the playing field for renewable energy.

Eleven donors, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Sweden, Switzerland, United Kingdom, and the United States of America, have pledged close to $250 USD million in new money for adaptation support to the most vulnerable countries on the planet giving a welcome boost to the start of the climate talks here in Paris. The countries announced their contributions to the Least Developed Countries Fund (LDCF), a climate fund hosted by the Global Environment Facility (GEF).

http://newsroom.unfccc.int/

PRIME STORY

In depth: Uncertain prospects pose fundamental questions for reinsurers (PART – II / III)

Table 3 looks at half-year results for a selection of international insurers and reinsurers, showing underwriting profit as a percentage of net premium income and overall net profit. The relationship between underwriting success and overall profitability is particularly interesting as it reveals wider variation in the market than might have been expected, even accounting for the different models of the continental Europeans, Bermudians and London market players.

Shaking up the trading landscape for international insurers and reinsurers this year has been the high volume and value of acquisition deals. Key features have been companies seeking to concentrate their expertise in a given area or diversifying into new lines or regions through takeover. Reinsurance capital is either at or near an all-time high and rates are softening, but the high purchase prices and multiples of book value suggest plenty of companies believe reinsurance continues to offer good returns for the future. Negative outlooks for the reinsurance market from all the leading rating agencies have not dampened acquisition activity.

Over the years, reinsurers have tended to overestimate the profit potential of their product, often leading to unwise expansion plans and persistence even when rates were well below economic levels, so it is noteworthy some of the current interest is coming from outside the sector.

Exor's determination to acquire PartnerRe is a shot in the arm for the traditional reinsurance model at a time when alternative capital structures appeared to have carried the day. Similarly, Chinese investors Fosun and China Minsheng Investment have taken large commitments in the international market recently, the latter through its proposed $2.2bn acquisition of Bermudian reinsurer Sirius from White Mountains.

The three Japanese mega-insurers, traditionally focused on the domestic market, are keen to expand internationally into reinsurance and specialty lines, and have also made significant acquisitions this year, the latest being Mitsui Sumitomo's £3.5 bid for Amlin.

Mergers among primary insurers are often said to be bad for reinsurers as the enlarged cedant may try to use its financial strength to retain more business. Several large primary insurers have announced they are looking to cut their outwards spend by centralising their reinsurance purchasing. Table 4 shows the gross and net premium income at the half-year mark for a selection of major primary companies but does not reveal a clear trend, with seven companies ceding less business this year and six ceding more.

One factor keeping cessions fairly high may be the softness of the reinsurance market, allowing cedants to buy additional or extended cover for little or no extra premium, but the companies making the most of the soft reinsurance conditions seem to be reinsurers themselves, many of which have moved opportunistically to buy cheap retro or use sidecars and the insurance-linked securities market.
Acquisition is just one element of the reinsurance market's development. This year has seen several announcements of new company formations and expansion plans, as well as alternative capital vehicle launches, such as ABR Re, set up by Ace and BlackRock.

ANV, is working with investors to set up Exin, described as a similar vehicle to ABR Re. And Fidelis has attracted $1.5bn in initial capital for its new venture.

Chinese group Oceanwide Holdings has raised about $1.6bn to fund a new regional reinsurer, Asia-Pacific Re, expected to be ready to underwrite for the beginning of 2016.

New syndicates

Lloyd's has welcomed several new syndicates for 2015. Most recently syndicate 1492, known as Probitas, which is backed by Panamanian reinsurer Istmo Re, will start by focusing on emerging growth markets, writing direct and facultative risks. It has a stamp capacity of £22m for the rest of 2015.

Argo and Asia Capital Re (ACR) are intending to set up a special purpose syndicate (SPS), provisionally number 6127, to write Chinese risks. ACR currently writes a reinsurance portfolio from Chinese cedants and next year part of this will be written by Lloyd's China and then reinsured on a quota-share basis to Argo syndicate 1200, which in turn will cede 80% to the SPS. Argo plans to increase syndicate 1200's capacity for 2016 by £75m, mainly because of the SPS.

In addition to new syndicates, Lloyd's underwriters have formed several new consortiums this year. At the start of the year, the market set up its first consortium on the Lloyd's China platform, led by Catlin and Brit, to support domestic construction risks and Chinese foreign projects.

The Asia Pacific Excess Consortium is an excess of loss facility for commercial property risks, led by Atrium and supported by Talbot, Argo, Amlin and Argenta on the Lloyd's Asia platform in Singapore. This is the sixth consortium in operation at Lloyd's Asia.

A political violence/terrorism consortium offers a maximum sum insured of €500m for Dutch and other European risks, led by Catlin, with Beazley and Hiscox as co-consortium leaders and nine more syndicates providing support.

In Brazil, Navigators is leading what Lloyd's hopes is the first of several consortiums in Rio. The first facility offers $100m of capacity for offshore energy risks on behalf of Amlin, Aegis, Argo and Novae.

In the life sector, Philip Gass and Kostas Cheliotis secured an equity capital commitment of $750m from private US investment firm Golden Gate Capital to form Nassau Re, which has made two acquisitions already.

One lesson from recent reinsurance results is the importance of scale and diversity of operations, as the outperformance of the four major continental European reinsurers indicates. Their range stretches takes in primary as well as reinsurance and life as well as non-life underwriting, and they are well positioned in the fast-growing markets of Asia and Latin America. Tables 5 to 8 show the regional business breakdown for the four.

Emerging markets are forecast to deliver the strongest growth over the medium and longer term. Munich Re's insurance market outlook until 2025 forecast non-life markets in Asian emerging economies will grow the fastest of any region, at a compound annual rate of 7.7%, ahead of MENA (5.7%), sub-Saharan Africa (5.4%), Latin America (4.6%) and eastern Europe (4.2%), with mature markets bringing up the rear - Asia-Pacific (2%), North America (1.9%) and western Europe (1.6%).

The forecast for growth in the life sector follows a broadly similar pattern, with emerging Asia topping the list at 8.9%.

By 2025, emerging markets will have a 28.4% share of global primary insurance, the reinsurer forecasts.

But the example of Brazil shows that not all emerging markets offer instant opportunity and profit. Although the market has plenty of promise, with reinsurance growing at a faster rate than the primary market, prices have been highly competitive. This month state-backed reinsurer IRB Brasil Re pulled its plan to float a stake of up to $500m because of the poor state of the country's economy.

The continental reinsurers' global strategy is not one that can easily be reproduced. Axis this month reiterated its commitment to "the hybrid model under which insurance groups have both primary insurance and reinsurance activities" but announced it was withdrawing from the retail market in Australia, aiming to save $30m a year in annual costs.

That move may be conditioned by the need for Axis to enhance shareholder value in the wake of its failure to acquire PartnerRe so as to avoid becoming an acquisition target itself but the company's retrenchment is indicative of the pressure even large companies are under to run a wide range of profitable international operations.

Among the large primary insurers with international aspirations, Insurance Australia Group surprised the market last week with the announcement it would not pursue its plan to participate on a national basis in China and will not be looking to make further investment in the country, preferring to focus on the domestic market and other Asian countries.

Contd.....

NATIONAL

Life insurers must disclose investment return details in ads: IRDAI

Insurance sector regulator IRDAI has directed life insurers in the country to mandatorily detail guaranteed and non-guaranteed benefits on investments in their advertisements. As per Insurance Regulatory and Development Authority of India (IRDAI) norms, it is mandated that all insurance products should provide the prospective policyholder a customised benefit illustration, depicting the guaranteed and non-guaranteed benefits at gross investment returns of 4 percent and 8 percent respectively. "However, it is observed that some of the advertisements containing illustrations being released in the market are not in tune with the spirit of the above regulations and hence fail to enable the prospects to compare both scenarios; so as to give better appreciation of possible benefit depending on the yield," IRDAI said in an order. Hence it is advised that wherever the illustration is given in advertisements, it must be with both the scenarios with investment returns of 4 percent and 8 percent with equal prominence in font size, at the same place and in the same page, it added. IRDAI said the order would come to effect from December 2015.

Source : The Economic Times

Embedded Value: Endowment policy empowers women with spending power

In India, buying an insurance cover is generally considered to be a man’s responsibility. However, a woman is generally the first beneficiary of all insurance policies. Certain myopia on the part of all concerned has pushed the buying process almost wholly into the hands of the man in the family. The practice needs a change now with fast changing socio-economic profile of women in the family. Insurance is a classical financial tool that has endured a couple of centuries and continues to exist in its core form in spite of sweeping changes taking place in the financial market. The concept of insurance in all its forms needs to be embraced by the masses, both male and female, to take maximum advantage of its unique utility in everyone’s life and even beyond. A life insurance policy is a fine saving instrument as it inculcates the habit of systematic saving. Once taken, the policyholder keeps paying the premium as per mode of her choice for a fairly long term. Putting in money has to be regular and uninterrupted to keep the inherent benefits of life cover and growth of fund by accrual of bonus or investment of fund.

Source : The Financial Express

Chennai floods: Insurers may face claims of Rs 500 crore

The general insurance industry is likely to see claims of around Rs 5 billion (after record rains caused massive flooding in Chennai and some areas in Tamil Nadu. A senior official from the General Insurance Corporation, the sole domestic reinsurer, said that the company is still receiving estimates from insurers but cumulative losses are likely to be under Rs. 5 billion for the industry. Most claims have come for automobiles and property and from small and medium enterprises (SMEs).

The magnitude of loss for general insurers may not be as big as that seen during Cyclone Hudhud which affected Andhra Pradesh and Odisha and the floods in Jammu and Kashmir as most claims have come from flooding in low-lying areas and there have been no major losses to industries, apart from small stock losses.

Source : The Hindu Business Line

IRDA mulls cover for infertility treatment

The Insurance Regulatory and Development Authority (IRDA) is considering issuing guidelines to insurance companies in India to include infertility as a disease in medical insurance policies. The agency informed the Punjab and Haryana High Court that the final decision will be taken shortly. Four public sector insurance companies, including life insurance, have also submitted that the matter is under active consideration and a decision in this regard would be taken soon. The development came about during the resumed hearing of a public interest litigation filed by an advocate seeking framing of a policy to provide insurance cover for the treatment of infertility. It was informed that the Centre has already written a letter to the IRDA and the four public sector insurance companies on August 5 to consider framing insurance policy for infertility treatment. The advocate has submitted that as per International Institute of Population Sciences’ report, infertility was growing at an alarming pace.

Source : The Indian Express

Irdai responds partially to sector feedback on rule changes

The Insurance Regulatory and Development Authority of India (Irdai) has dropped its earlier proposal to change the norm on incurred claims ratio.

Source : Business Standard

Product approvals slower as IRDAI focuses on big-bang regulations

Product approvals have been slower this year with the Irdai being busy with new regulations to implement the Insurance Laws (Amendment) Act, which was passed by Parliament in February this year.

Source : Business Standard

Health insurance scheme recommended by pay commission could become a reality

The health insurance scheme recommended by the Seventh Pay Commission that was submitted recently for employees might become a reality sooner rather than later. The health ministry has already drawn up the health insurance scheme for employees and pensioners after extensive discussions with insurance companies, the Niti Aayog and the finance ministry, and put it up for approval before the expenditure finance committee. The scheme would cover those who live in areas not covered by the central government health service.

Source : Hindustan Times

Health insurance for govt employees

The pay panel has “strongly” recommended introduction of a health insurance scheme for Central employees and pensioners and has taken a grim view of the “tardiness” in implementing the plan, recommended earlier too. Earlier pay commissions and other committees too recommended a change in the open-ended healthcare system for central government employees, but there has been no movement. “The commission notes that although the committee of secretaries had given its `in principle' approval way back in 2011, and an amount of Rs 20.61 billion had been earmarked under the 12th FiveYear Plan, the scheme has still not been implemented,” it noted. While reiterating that an insurance scheme should cover in-patient as well as OPD treatment, the Seventh Pay Commission has proposed that the Central Government Health Scheme be strengthened so that pensioners living in areas which do not have CGHS dispensaries get access to empanelled hospitals and receive treatment on a cashless basis.

Source : The Times of India

Paris attacks fallout: Insurers foresee pick up in travel insurance

Insurers and industry-watchers expect a spike in demand for travel insurance in light of terror attacks in Paris, as international travellers wake up to the possibility of such threats across the globe, including high-sought-after destinations in developed nations. The unfortunate incident could prompt travellers to recognise the importance of travel insurance, even when they are travelling to countries where it is not mandatory. Travel insurance is compulsory for obtaining a Schengen visa, which covers 26 European nations, including France. After the recent terror attacks, travel insurance has become all the more important as it provides you financial cover and peace of mind if you get caught in such volatile situations. Insurance companies make a distinction between war, riots and terrorism. The latter is defined as an act of violence that causes loss of life and property where perpetrators belong to groups that seek to weaken control of established governments.

Source : The Economic Times

State govt plans free cashless insurance for 40 lakh families

In what appears to be another move to placate the distressed farmers, traders and workers, the state government has come out with a comprehensive social security plan for them. The agrarian economy took a hit after the billion-rupee pesticide scam resulted in whitefly attack on cotton crop. Under the plan, the government proposes to offer free cashless health and personal accident insurance cover to over 4 million families of peasants, traders and landless workers in the state. A proposal to this effect, prepared by the Departments of Agriculture, Excise and Taxation and Labour, would come up for approval at the meeting of the state Council of Ministers, scheduled, a top government functionary said.

Source : The Tribune

Health insurance terms demystified

Insurance terms are often difficult to understand. Moreover, terms, conditions and insurance specific jargons add to the misery of a layman when it comes to insurance contracts.

Source : Financial Chronicle

INTERNATIONAL

UK reinsurer Lloyd’s gets nod to set up branch office

The Insurance Regulatory and Development Authority of India (IRDAI) has permitted the UK-based reinsurer Lloyd’s to set up its branch office in India. The permission has been given in view of the promulgation of Insurance Laws (Amendment) Act, 2015, the regulator said in the latest circular issued. Lloyd’s is one of the major insurers in the UK and has been in business since 1688. It’s underwriters are permitted to write reinsurance in or from the UK. The UK market is currently ranked as the second largest source of revenue for Lloyd’s globally and the largest in Europe. The modalities of approval have been announced as an exposure draft by the IRDAI to serve as a basis for other applicants in future. The subsidiary of UK reinsurer, Lloyd’s India, will be granted certificate of registration to set up market and associated structures for conduct of reinsurance business in India and outside India, the circular said. The constituents of Lloyd’s India will also be granted recognition.

Source : The Hindu Business Line

Paris impact on insurers seen as ‘limited’

Insurers and reinsurers should brace itself for more terrorist attacks, according to a US-based industry expert. The Insurance Information Institute said that it was open whether the weekend terror attacks in Paris which killed 129 people and injured hundreds more were “the first event in a series” which might target Europe or America.

The impact of the Paris attacks on the industry would be “fairly limited”. The largest casualty was the individuals, shot, killed and injured as opposed to lots of property damage.

There is an active, growing terrorism risk insurance market. Businesses should protect themselves with insurance and that the US Government had this year renewed its terrorism risk insurance programme.

The renewed legislation, first enacted in 2002 after the terrorist attacks on the World Trade Centre the year before, was designed to maintain terrorism insurance market stability, affordability and availability. The updated provisions in the Terrorism Risk Insurance Act (TRIA) for acts of terrorism certified by Government officials will have a trigger which will gradually increase from the original $100 million to $200 million.

The Paris-based French insurer association Fédération Française des Sociétés d'Assurances said that victims of the attack, whether French nationals or not can claim compensation for attacks on French soil from Le Fonds de Garantie des Victimes des Actes de Terrorismes et d'Autres Infractions.

The country also has a state-backed reinsurer for property losses caused by terrorism, the Gestion de l'Assurance et de la Réassurance des Risques Attentats et Actes de Terrorisme, also based in Paris, which likely will cover any insured property losses stemming from the attacks.

Source: The Royal Gazette

China, Russia ink cooperation memorandum on insurance regulation

China and Russia inked a memorandum to further cooperation on insurance regulations, according to a statement released by the country's top insurance watchdog.

China Insurance Regulatory Commission and Russia's central bank will facilitate information exchange and coordination on insurance regulation, the statement said.

The cooperation opportunities are abundant for the two countries in areas such as tourism insurance, major project construction financing and risk control, and reinsurance. They will help promote the development of the China-proposed Belt and Road Initiative, the statement pointed out.

China's insurance market has been growing fast in recent years, with total premiums reaching over two trillion yuan ($314.7 billion) in 2014, growing 17.5 percent year-on-year, the fastest since the international financial crisis.

Source: China Daily

Samarco Costs Already Exceed Insurance

Samarco, owned by Vale and BHP Billiton, has been fined 250 million reais ($65.5 million) and forced to pay for accommodations for the dispossessed, after a dam burst earlier this month, killing at least seven people, with 15 still missing.

Brazilian state and federal prosecutors said that Samarco had agreed to pay a preliminary 1 billion reais ($262 million) to cover the cleanup costs and compensation.

In terms of civil damages, Samarco’s insurance policy is well below even the initial values being discussed in terms of costs, Vale’s CFO, said on a conference call, adding the 250 million-real fine was already larger than the cap on the policy. Insurance to cover the suspension of production and cost of rebuilding elements of the mine, such as the dams, is higher.

Samarco, Vale and BHP are scrambling to control the fallout from the disaster, which has polluted the Rio Doce river across two states.

Source: Investing News

Big insurers get key exemption in proposed British audit rules

Britain's biggest insurers will be exempted from having their most important indicator of financial health externally audited under proposals issued by the Bank of England.

New European Union rules will require British-based insurance firms from January to meet a minimum solvency capital requirement, or SCR, to show they have enough funds to meet policyholder commitments.

However, the Bank of England's Prudential Regulation Authority (PRA), in a consultation paper released, said big firms that use their own models for calculating the SCR would be exempted.

Source : Reuters

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Head Office :

Maker Bhavan No. 1, Sir Vithaldas Thackersey Marg, Mumbai 400 020 (INDIA)

Telephone : + 91 22 6631 4949 / 6631 4917 * Telefax : + 91 22 22623747 / 22625112

E-Mail : jbbmbi@jbbodamail.com * Web : http://www.jbboda.net

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