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CONTENTS PAGE NOS.

NEWS AT JBB

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PRIME STORY

The INSURANCE distribution gridlock

Regulator facilitates more insurance channels, but sales incentives need to be improved

A crucial meeting in the month of January 2014 was on between insurers and the regulator. About 200 representatives of the industry discussed solutions on how to improve insurance distribution architecture in the country. Cut to 2016, distribution is still the biggest challenge in the industry. While touch-points of sales have seen a jump, sales and penetration remain low.

Insurance distribution in India is divided into tied-agency channel and third party distributors such as corporate agents, brokers and web aggregators. Recent additions to this include insurance marketing firms and common service centres (CSCs).

Banks keen to tie up with multiple insurers, but will it be enough? Insurance industry would require more. The Secretary General, Life Insurance Council said that the agency channel has traditionally been the lifeline of the industry. "However, the number of exits of agents is alarming and this is primarily due to the low remuneration that they receive," he said.

➢Higher fees for agents

The life insurance industry has seen over 30,000 agents exit between April 2015 and February 2016. Lack of a continuous income flow and no proper career development have led to the decline in numbers.

However, the regulator has a solution for this. Insurance Regulatory and Development Authority of India (Irdai) in an exposure draft on remuneration for insurance agents and intermediaries has proposed higher commission for agents. Further, it has also said that insurance companies can give rewards over and above commissions.

This, say insurers, could resolve part of the problems. Even flexible incentives based on performance and business quality would be facilitated. Commissions have been raised by up to 50 per cent in the first year for term products. This is in order to enable them to do more business and earn more incentives.

➢Spawning entrepreneurs

The regulator even went a step forward in order to boost the entrepreneurship spirit among insurance agents. It launched a new channel for selling insurance called insurance marketing firms where agents could set up their own firms.

Insurers encouraged their agency force to be a part of this channel. However, only few agents expressed interest in this new structure where these firms could solicit insurance products, undertake insurance service activities, and distribute other financial products.

PRIVATE LIFE INSURERS AND CHANNEL-WISE DISTRIBUTION MIX

(as % of individual new business)

	FY10	FY11	FY12	FY13	FY14
Individual agents	50.7	46.9	44.1	39.7	40.1
Banks	24.9	33.2	39.0	43.1	43.6
Corporate agents	10.3	8.7	7.5	6.0	4.0
Brokers	3.4	6.4	5.1	5.1	4.9
Direct selling	10.7	4.8	4.4	6.1	7.4

Source: CII-EY Insurance Report 2015, IRDAI All figures in %

Till now, 14 such firms have been registered. Apart from soliciting and procuring insurance products, almost all of them are also involved in back-office activities of insurers.

A senior industry professional said that agents were apprehensive of running their own firms and were satisfied maintaining status quo. "Allowing these firms to work under insurance companies as a pilot would have given more agents the confidence to join this channel," said the head of distribution at a private life insurance company.

➢Banks come to rescue

Despite the vast population, India stands 15th globally in premium income, as per global reinsurer study. This is because insurance penetration, measured as a percentage of premium to a country's gross domestic product, has been on a constant drop in India.

The study says India's insurance penetration fell to 3.3 per cent in financial year 2014-15 (FY15) compared to 3.9 per cent in FY14. This has been the lowest since FY06 when the penetration was at 3.14 per cent. Rural areas in particular, have been hit the hardest. Overall, less than 5 per cent of insurance penetration has been seen in public sector bank branches across the country including smaller towns. With poor internet connectivity, customers in these areas only have a handful of points where they can buy policies.

Data shows that the bancassurance market size grew from Rs 95 billions in FY14 (individual segment) to over Rs 110 billions in FY15 driven by large unit-linked insurance policy sales. There is huge scope since public sector banks with 400 million accounts have an insurance penetration of just over one per cent.

It is estimated that increase in penetration in public sector banks alone to 15 per cent, can add 50 million customers and generate additional Rs 600 billions in life insurance premium in the next five years. Since constant nudges to open up their branches to more insurers did not work, Irdai brought out a new set of regulations which allowed banks to sell products of three insurers each in life, non-life and health. Banks have been given strict instructions to come up with a policy and time-line for opening up to other insurers to give more choice to consumers.

Making it mandatory would be essential to enable customers to buy products of their choice, said the Chairman and Managing Director of one of the PSU’s in the industry. From this financial year, banks have been given the option to open up and the regulatory body has also started seeing action towards this endeavour.

However, other concerns remain. With insurance still being a push product, several complaints of banks forcing customers to buy a policy with a banking product or service have been reported. But with Irdai stating that each bank employee will be responsible for the product they sell, these practices may see a drop.

➢**Group networks and malls**

Various studies have shown that it is easier to cross-sell to existing customers rather than acquiring newer customers. For this, insurers are also looking at utilising their corporate group networks to sell products.

Having common products across life and general insurance companies across a business group was also proposed. Termed combi or combination product, it would have components of pure term and health insurance offered by a life and non-life insurer within one group. But this failed to take off.

➢CSCs: New touch-points

Since newer distribution infrastructure would be expensive, the regulator has also looked at utilising existing networks like CSCs. Irdai said that insurance companies could tie up with CSCs to act as insurance brokers. However, due to the expense management norms, insurers are not finding it cost-effective to partner CSCs.

Also, special products for this channel would have to be devised which are being designed. A handful of insurers have entered into such tie-ups though sales are not high. The CSCs channel require huge economies of scale for the product to be offered at a viable cost. However, with payments banks coming into play, there might be a drastic reduction in transaction costs. CSCs would also offer web-enabled e-governance services in rural areas alongwith application forms, certificates, and utility payments.

With costs under pressure, newer channels like online brokers and web aggregators are also catching up. Though four per cent of overall sales come from these channels, heavy investments are being made in digital, be it via their own company website or aggregator platforms, insurers are looking at more online visibility.

While the regulator has been giving a gentle nudge to make good use of all existing sales channels, the real challenge is that insurers are seeing a big swing in business from one channel to another. When given an equal opportunity to perform, third party intermediaries are of the view that the true potential of the industry will be unlocked.

Bringing in newer touch-points to complement the existing points of sales will only lead to more numbers to the overall business, bringing newer dimensions to India's insurance growth story.

BONE OF CONTENTION

Insurance industry and Irdai do not agree on certain issues. A look at some of them:

BANCASSURANCE

What the regulator says: Banks can sell products of three life, three non-life and three standalone health insurers

What the industry says: Those banks with insurance partners will not immediately open up; others want banks to mandatorily sell multiple insurers' products

SECTION 45

What the regulator says: As per the new law, no claim can be rejected after three years of policy being in force

What the industry says: Fraud claims should not be included in this definition as it will lead to losses

EXPENSES OF MANAGEMENT

What the regulator says: Proposal to cap expenses and violations will lead to clawbacks in management variable pays

What the industry says: Overall caps should be imposed within which insurers could set their own limits

USE-AND-FILE

What the regulator says: Simple products in general insurance can be sold directly without being filed

What the industry says: Simple products in life and non-life should be allowed to be sold directly

Source: Business Standard

NATIONAL

General insurers' premium collection hits Rs 964 billions in FY16

General insurance industry has missed the ambitious target of crossing the Rs 1000 billions mark in premium collection by a small margin at Rs 964.01 billions, up almost 14 per cent in the just concluded fiscal.

In FY15, general insurance industry had clocked a premium income of Rs 847.15 billions.

The growth this fiscal was driven by motor and health insurance segments, which are traditionally the largest segments for the industry.

The four public sector players notched up a premium income of Rs 477.17 billions, while 18 private players garnered Rs 397.01 billions and the two specialised operators netted Rs 48.30 billions and health insurers added up with Rs 41.53 billions, a General Insurance Council data showed.

General insurance industry has 30 players with four state- run players, one state-owned reinsurer GIC Re, two specialised government-run entities -- Export Credit Guarantee Corporation (ECGC) and Agricultural Insurance Company - five standalone health insurers and 18 private players.

Blaming the late arrival of the relaxed norms on credit line insurance from the regulator Irdai, which issued the norms in February. The General Insurance Council general secretary, however, maintained that taking into account inward (reinsurance) business, the industry has already crossed gross written premium of Rs 1000 billions-mark.

The industry has done well in 2015-16 with a growth of 13.8 per cent, which is much higher than the previous year's 10 per cent further targeting a total premium collection at Rs 205 billions in the current fiscal as against Rs 183 billions in FY16.

Retail sector (including personal line of business comprising health and motor insurance) has grown much faster than the corporate segments like fire & engineering and marine in 2015-16. Engineering and fire is also likely to perform better in the fiscal due to new projects coming up and the revival of the country's economy.

Source : Economic Times

Madhya Pradesh trips on health insurance claims’

Madhya Pradesh may not be a best place for medical treatment, but here's a shocker. MP ranks among one of the worst, when it comes to reimbursement of hospital expenditure. Only six per 1,000 patients receive part or full reimbursement in the state, according to latest report of National Sample Survey Office (NSSO). 71st round of National Sample Survey (NSS), conducted from January to June 2014 reports that only one in 1,000 in rural areas and 15 per 1,000 cases in urban areas received reimbursement after hospitalisation. To pay for hospitalisation-every 1,000 people hospitalised in MP, 738 paid through salary and savings, 184 borrowed, 7 sold physical assets and 67 borrowed from friends or relatives. Average total medical expenditure in Madhya Pradesh per hospitalisation stood at Rs 30,851 in urban areas and it cost Rs 18,696 in rural MP. Hospitalisation in MP cost around Rs 1,500 more than the national average.

Source: The Times of India

IRDAI to insurers: Don't depend on banks to sell cover

The insurance regulator has warned life companies against overdependence on banks for selling policies. Banks are now the dominant mode for distributing policies of private insurers, and the share of individual agents - the core agency force of the insurance industry - has declined.

The Insurance Regulatory and Development Authority of India (IRDAI) had called a meeting of CEOs of life companies last week and bancassurance was one of the issues raised there. The fear was that if there was any eventuality which compelled the RBI to prevent banks from selling insurance, companies dependent on banks would see their sales being hit.

Insurance officials, however, say the bancassurance model is in line with the developed markets, and banks are the dominant channel for distribution of life products in Europe and they are growing their share in Asia. In India, banks have three models for the life insurance business.

There are banks which only distribute insurance products without a stake in the company. The RBI has prescriptions in terms of capital adequacy and maximum non-performing assets that can be tolerated for a bank to invest in a life company. However, at present there is absolutely no restriction on banks from selling insurance.

IRDAI also made it clear to the industry that they would not have the freedom to increase commission. Earlier, the regulator had said that it would focus on overall costs to the policyholder, leading many to believe that commission rates would be freed as long as they remain within the overall cost ceiling. Latest, the regulator told life companies that the trend was towards lower commission across industry and the insurance sector could not be an exception.

IRDAI has also told companies that it would review guidelines on CEO pay. Even today, there is a ceiling on CEO salaries and a maximum of Rs 15 millions can be charged to the policyholders' fund.

Source: Economic Times

Connecting the dots of insurance awareness

Urban markets have been communicated about the importance of life insurance in their investment portfolio propagating that it provides financial security to one’s family at the time of any unfortunate incident. However, in spite of this awareness, the low insurance penetration and density in India illustrate a very different picture.

Source: Financial Chronicle

No hike in terror cover, say insurers

Domestic non-life insurance companies have rejected a proposal to increase the insurance cover provided from Indian market terrorism risk insurance pool (terrorism pool) to companies from Rs 15 billions to Rs 20 billions. State-owned General Insurance Corporation of India said, “Cover limits could not be increased as insurers could not collate the capacity to increase the cover limits under the terrorism pool.” All insurance companies are members of the pool and each member contributes its capacity to the pool voluntarily depending on what it can bear, its networth, share capital. The decision to not increase the cover limits was taken by the technical underwriting committee of the pool.

Source: Financial Chronicle

Now, a health cover for autism

Private players in the industry has launched a group insurance policy for children with autism spectrum disorder (ASD).

Source: Business Standard

INTERNATIONAL

Insurers playing catch up on terrorism coverage

The insurance and reinsurance market has been slow to respond to the need for new products to address terrorism risks' growing threat, although progress is being made, says a report.

Pointing to the Brussels terrorist attacks among other incidents, the nature of the terrorism threat has clearly changed, but the (insurance and reinsurance) market has been slow to respond and the financial fallout from several recent attacks has reinforced the need for new products.

Although most existing terrorism policies are designed to respond to events that cause significant property losses, property damage is no longer the primary loss driver, says the report.

Indeed, the disparity between the highly economic impacts of some recent attacks and the decreasing amounts being covered by insurance is a worrying trend, and one which risk carriers must address quickly if they are to remain relevant to clients, says the report.

However, says the report, progress has been made in some areas, as insurers have begun to respond to calls for businesses to provide more clarity and wider terms to existing products, and on physical damage business interruption in particular.

The report concludes that the optimal solution would be for the stand-alone market *to focus on protecting against a range of impacts that reflect today's terrorism environment* and create new products that provide comprehensive protection against all risks, including property damage; chemical, biological radiological and nuclear risks; business interruption; impacts on people; nonphysical damage business interruption; cyber, including business interruption and cyber extortion; and damage to brand and reputation.

Many Chinese insurers fail to meet disclosure standards

The China Insurance Regulatory Commission has found that 55 insurers have failed to meet information disclosure standards.

The regulator audited 133 insurance entities and the 55 errant insurers account for about 41% of the total.

The inspection, which covered the first half of 2015, spanned two main areas: firstly, information provided on each insurer's own corporate website as well as information it shows through the website of the Insurance Association of China; and secondly, each insurer's information management and execution system, according to CIRC in a statement.

The audit unveiled four main shortcomings among the 55 insurers: failure to disclose mandatory information; information provided failing to meet disclosure standards; shortcomings in website display and failure to comply with information filing requirements.

CIRC found that 35 insurance companies failed to disclose mandatory information. Among these, 15 failed to adequately reveal details of their solvency position; and eight provided incomplete basic information. In addition, 26 insurers failed to meet disclosure standards in the information they provided; eight had website display problems and seven failed to meet information filing requirements.

The errant insurers have to rectify their information disclosure shortcomings and report to CIRC on corrective actions taken.

The 133 insurance entities that were the subject of the CIRC audit comprised one insurance holding company, 70 life insurers and 62 non-life insurers.

Source: Asia Insurance Review

Police dog gets healthy treat

Emergency responders routinely win praise for selflessly putting themselves into harm's way, and their four-legged canine companions often share the same risks.

Thanks to an award called Healthcare for K9 Heroes, one such police dog in eastern Iowa's Black Hawk County is now covered under pet health insurance.

'Panama Papers' leak details ties to insurance fraud in boat tragedy

A case of insurance fraud involving a fatal boating accident in upstate New York is cited in the so-called “Panama Papers” that detail the use of offshore accounts and shell companies by politicians and others, some of whom are allegedly engaged in money laundering.

The papers, which include more than 11 millions leaked documents associated with the Panama City, Panama-based law firm Mossack Fonseca & Co., mention the sinking of the tour boat in 2005. According to the Panama Papers “after the survivors and families of the dead sued, they learned the tour company had no insurance because fraudsters had sold it a fake policy”.

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