e News

Volume 44 **December 2015**

Dear Readers!

We are back again here with some of the pertinent Insurance Industry news which we feel would be of not only just information as also thought provoking.

IRDA forms panel for transparency in motor insurance

Insurance regulator IRDAI today set up a seven-member committee to suggest ways to bring transparency in payouts made to the auto dealers by the insurers for getting motor insurance business. The committee to be headed by a senior official of Insurance Regulatory and Development Authority of India (IRDAI) will comprise members from insurance companies and auto industry. The IRDAI said it "proposes to bring clarity and transparency in payouts made to the auto dealers proposes to bring clarity and transparency in payouts made to the auto dealers by the insurers for getting motor insurance business" while announcing setting up of the panel. The panel will study the "existing practices in the industry on the payouts (called in different names like infrastructure expenses etc) made to the motor dealers on motor insurance business" and also "examine the deviations from the existing norms". It has also been asked to align with the Insurance Act, regulations, guidelines on the provisions for expenses of management, and outsourcing, among others. To bring transparency and uniformity in such activities, to design standard formats for agreements (between insurers and dealers) on outsourcing and recommendations on draft guidelines, are among others terms of reference for the committee. The committee has been "advised" to submit its report within two months. Earlier in August, the Finance Ministry had said it had had issued summons to 16 insurance companies and was investigating the agreement between car manufacturers and insurers for wrongfully availing CENVAT credit in the range of Rs 1,200 to Rs 2,500 crore.
The Chennai Zonal Unit of the Directorate General of Central Excise Intelligence had been conducting investigation under summons against 16 insurance companies. "During the course of investigation, it has been noticed that the car manufacturers enter into agreement with the Insurance Companies for appointing them as Preferred Car Insurance Companies (PICs) and instruct their car dealers to sell their insurance policies to PICs only. "Such PICs pay commission on the value of the insurance policies to the car companies (in the range of 2-3 per cent) and the car dealers (in the range of 15-45 per cent)," the ministry had said. The IRDAI regulations do not allow any person other than insurance agents and insurance brokers, to sell vehicle insurance policies.

IRDAI permits Lloyds of UK to set up business in India

Insurance regulator IRDAI today permitted UK-based Lloyds to set up business in India and have floated a draft rules and regulations relating to re-insurance sector. "Consequent upon promulgation of Insurance Laws (Amendment) Act, 2015, Lloyds UK has been permitted to set up branch office in the country," Insurance and Regulatory Development Authority of India (IRDAI) said in statement. This necessitates the Authority to notify fresh set of regulations for this category of insurers, it said. Lloyds India being a market shall ensure that the market and the constituents are housed in one location for the conduct of reinsurance business, it said.

The development assumes significance as Prime Minister Narendra Modi is on three-day visit to London. The regulation will cover both the registration and operations of Lloyds India, it said, adding Lloyd's UK shall set up Lloyd's India, that will be granted certificate of registration to set-up market and associated structures for conduct of reinsurance business in India and outside India. The constituents of Lloyd's India will be granted recognition by IRDA through a certificate of registration. There shall be a 2 stage process for approval as followed for Branch Office of Foreign Reinsurers, it said. "One of the important conditions governing approval of Lloyd's India is the commitment given in the letter of comfort by Lloyd's UK and access to the Central Funds of Lloyd's UK with respect to Lloyd's India," it said.

Lloyd's needs to have physical marketplace

The 327-year-old Lloyd's of London - the birthplace of modern insurance — will need to establish a physical marketplace in India under the terms of the guidelines which allow the corporation to set up shop here. Unlike other reinsurance companies, Lloyd's is a marketplace which facilitates reinsurance by allowing its managing agents to offer cover by forming syndicates. The Indian guidelines require that these syndicates (which are the equivalent of reinsurance companies) are housed in the same location as Lloyd's. In the UK, Lloyd's headquarters is renowned for its architectural design and its unique status of being the only physical insurance marketplace in the world. The building is located where the East India Company's headquarters used to stand. Convention plays a very strong role in the way business is conducted and underwriters accept risk based on a physical slip submitted by a broker. "With the entry of foreign reinsurance branches and Lloyd's, the insurance market should see better systems and processes. Lloyd's India should replicate the control and monitoring mechanism that it has in the UK.

Other than the central fund, Lloyd's has a franchise code and review of syndicate performance, among others, which we hope they will bring to India," said R Chandrasekaran, secretary general, General Insurance Council. The Insurance Regulatory and Development Authority of India (IRDAI) has proposed a two-tier regulatory structure. At one level, Lloyd's would need to apply for a branch licence. Once this is done, the international managing agents, which want to run syndicates here, will need to become members of the Lloyd's India branch and put in their application to IRDAI. Lloyd's, on its part, will provide a security out of its central fund if any syndicate is not in a position to pay due to lack of funds. While Lloyd's and its syndicates need not incorporate incorporate locally and can operate as branches, IRDAI has asked them to create services companies through which they will have to ensure that 30-50% of the business they do is retained in India.
Insurers say that if syndicates set up shop in India, they will bring in new underwriting skills to the Indian market. One of the regulatory requirements is that the underwriting function has to be done in-house and cannot be outsourced. However, one area of uncertainty is the despute resolution in case the syndicates do not accept liability. The Lloyd's central fund comes into the picture only if there is a default due to the underwriters' inability to pay.

United India eyes Rs 11,800 crore premium in 2015-16

Riding on the growth of motor and health insurance segments, public sector United India Insurance has set a target of clocking a total premium of Rs 11,800 crore during the current financial year. The Chennai-based company had registered a total premium of Rs 9,709 crore in the same period of the previous year, United India Insurance said in a statement. The company recorded a 11.77 per cent rise in its premium for the six month period ending September 30, 2015 at Rs 5,914 crore. It had recorded total premium of Rs 5,291 crore during the corresponding period last year. "The major growth drivers for the company were motor and health segments, which grew at 14 per cent and 22 per cent respectively. "The company has set a target of collecting total premium of Rs 11,800 crore during the current financial year," the statement said. Stating that the first six months' numbers were yielding desired results, the company said it would focus on retail, micro, small and medium enterprises and rural insurance segments in future.

Kotak Mahindra General Insurance to commence operations with focus on retail

Kotak Mahindra General Insurance is set to commence business with an initial capital of Rs 135 crore, after obtaining its licence of registration from the insurance regulator on Friday. The industry's newest entrant will operate in all general insurance segments, with a focus on retail business - motor, health, home and travel insurance - to start with. Subsequently, the company plans to foray into commercial lines comprising fire, burglary, marine and so on. The insurer has already filed a set of products with the regulator. "We will start full-fledged operations by December-end, subject to receiving product approvals from the regulator," said Gaurang Shah, president, asset management, insurance and international business, Kotak Mahindra Bank. Its motor insurance product will be rolled out first, followed by retail health plan. "We want to grow steadily by underwriting quality risks, maximising volumes and keeping costs in check rather than chasing premium growth or industry rank in next few months," he added. For distribution, it will initially rely primarily on Kotak Mahindra BankBSE 0.59 % branches (including the merged ING Vysya's branches) across the country. "Eventually, we will look at other channels, including agency and online," said Shah. Currently, the company does not have a tie up with any a foreign joint venture partner unlike most other insurers. "Option to bring in other shareholders depending on our strategic requirements will always remain open, but we are not actively scouting foreign partners at the moment," said Shah.

Strengthening global economy to support insurance sector growth: Report

The demand for non-life insurance is expected to grow by up to 9 per cent globally, with life premium forecast to rise by 4 per cent in 2016 in the emerging markets, including India, says a report. Swiss Re's, Global Insurance Review 2015 and Outlook 2016-17, revealed the demand for non-life insurance is expected to grow at 8-9 per cent annually in the emerging markets during 2016 and 2017. The life insurance sector faces challenges, in particular from ongoing low interest rates. Nevertheless, it said global life premiums forecast to rise about 4 per cent in each of the next two years, which will also be led by the emerging markets. It added that the global economy is expected to strengthen moderately next year. The emerging markets will grow by about 5 per cent in each of the next two years, an improvement on the current 4 per cent. "Global economic growth is a good sign for insurers. This is especially so in the emerging markets, where urbanisation and growing wealth will support overall sector growth. We've said for some years now that emerging markets are the growth engines for the insurance industry - and this is expected to continue for at least several years more," Swiss Re's Chief Economist Kurt Karl said. Non-life premium growth will improve along with economic activity and demand for primary non-life insurance should increase in the next two years, it opined. Global primary non-life premium growth is forecast to improve to 3 per cent in 2016 and 3.2 per cent in 2017, from 2.5 per cent this year. The growth in advanced markets is expected to fall slightly due to softening prices and only modest improvement in the economic growth, it said. The emerging markets will be the main drivers in non-life, with premiums rising by an estimated 7.9 per cent and 8.7 per cent in 2016 and 2017, respectively, after a 5.6 per cent gain in 2015. Premium growth is expected to be the strongest in emerging Asia (12 per cent annually), and a recovery is expected in Central and Eastern Europe after contraction in 2014 and 2015. Despite the challenging pricing environment, underwriting profits in primary non-life insurance have been sustained by low natural catastrophe losses and a continuation of reserve releases from past years, it added. The report further said that primary life insurers face a significant downside risks in the short-to-medium term from the modest global growth outlook, persistently low interest rates, volatility in financial markets and regulatory changes. Nevertheless, in the advanced markets, real premium income is forecast to rise by about 2.5 per cent in 2016 and 2017, up from about 2 per cent this year. In emerging markets, premiums are estimated to grow by 10.7 per cent in both 2016 and 2017.

This improvement will, in part, be attributable to improved use of currently available technologies, such as wearable devices and cloud computing. Again, emerging Asia is expected to have the most robust growth of about 13 per cent each year. A key issue in many emerging markets will be the implementation of risk-based solvency regimes, it added.

from
CEO Desk