Committee on Insurance and Pension

The Institute of Chartered Accountants of India

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Insurance and Pension Update

This update has been endeavored to cover news related to India with a focus on insurance and pension sectors.

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Top Story

IRDA WON'T TIGHTEN NORMS FOR RISK FIRMS

New Delhi

Business Standard | *Mint* | *The Economic Times* | *The Indian Express* | *The Telegraph* | *The Financial Express* | *Deccan Chronicle* | *The Asian Age* |

Insurance Regulatory and Development Authority (Irda) will not further tighten norms for insurance companies in which foreign firms hold stakes, as the global financial turmoil is unlikely to impact them, an official at the regulatory agency said.

"There is no need to review the solvency margin. The prescribed margin is adequate," Irda Member R Kannan said.

The regulator had sought certain information from private insurer Tata-AIG after the foreign joint venture partner AIG ran into financial trouble in the United States last week. AIG holds a 26 percent stake in each of the two life and general insurance ventures with the Tata group. Kannan said all the private insurers are well positioned and currently maintain an adequate solvency margin, which means assets, were well above liabilities.

The insurance law requires companies to maintain a solvency margin of 150 percent, which some companies say is very high, he added.

Irda is likely to issue a road map by March next year to move to a risk-based capital structure for Indian companies. "Risk-based capital framework will ease capital requirement of Indian insurance companies," Life Insurance Council Secretary General S B Mathur said.

On a separate issue, Kannan said the Irda would give sufficient time to state-run Life Insurance Corporation (LIC) to bring down its equity exposure in some companies to 10 percent from 20 percent. "It is an issue which we are discussing with LIC and we may give sufficient time. We don't want forced sale so that LIC may offload shares and get low returns."

INSURANCE REGULATOR YET TO GET REPORT FROM TATA AIG

The Financial Express *Business Standard*

Almost ten days after the collapse of global insurance major American International Group (AIG), India's insurance regulator IRDA is yet to get a report it had sought from AIG's domestic joint venture in the general and life insurance business, Tata AIG. Though the Tata group had assured finance minister P Chidambaram that Tata-AIG would honour all its commitments to policyholders, the regulator had first sought a report on the company's business and financials.

IRDA member R Kannan said, "What is the local partner going to do? As a regulator, we wanted to know." In an earlier release, the IRDA had noted that the accounts of these two firms as on March 31, 2008 indicate that both companies have satisfactory solvency margins, which are adequate to meet their liabilities.

Kannan's comment is significant as it indicates that the regulator's concerns go beyond the insurer's solvency margins. The change in ownership of AIG, for one, could have repercussions on Tata AIG's operations and clearances. AIG, which has a 24% stake in the joint venture with Tata, was given an $85 billion lifeline by the US Federal Reserve to rescue it from bankruptcy.

Whether AIG's stake in the Tata venture can be construed, as a direct stake of the US government is still nebulous. Moreover, with the government keen on increasing the FDI limit in the sector from 26% to 49%, this particular joint venture may find getting incremental FDI from its original partner a tricky business.

MICRO-INSURANCE REGULATOR SOON
Nandini Goswami, Kolkata
DNA

The government has mooted a separate regulatory authority for micro-insurance and the Insurance Regulatory & Development Authority (Irda) is likely to initiate action on this front.

R Kannan, member, Irda, said on Friday, “The government is thinking of many steps for enhancing the penetration of the insurance in the country. Micro-insurance has been designed to provide for financial inclusion since the cost of premium and procedures involved in taking insurance policy were least under the scheme.”

He was speaking at a Birla Institute of Management Technology summit in Delhi. Kannan said a separate regulator for micro-insurance was required as the parameters for regulation are different from the regular insurance schemes.

“We have to initiate a debate on this so that in a few years time we will be able to have a standalone regulatory mechanism for micro-insurance,” he added.

MEGA-RISK INSURANCE PREMIUM DOWN 80%
Sarbajeet K Sen, New Delhi, September 29, 2008
Financial Chronicle

Cut-throat competition among non-life insurers to grab a larger share in a free-for-all insurance market has sent premiums for mega-risk covers crashing.

With the second year of the detariffed regime yet to come to a close, mega-risk premiums have plunged to as much as one-fifth of what they used to be prior to January 1, 2007, when the tariff regime in the Indian insurance sector came to an end.

“The mega risks are going at a discount of as much as 70-80 percent compared with the rates prevalent before the detariffed regime came into force,” M Ramadoss, chairman and managing director of Oriental Insurance, said.

While customers of insurance companies may be chuckling at the development, the massive fall in premium rates is causing concern within the insurance industry.

Ramadoss, who is also the chairman of the General Insurance Public Sector Association, a representative body of the management of the four government-run non-life insurance companies, said he was not sure whether the market has found its bottom as yet. “I cannot say for sure that we have hit the lowest level possible for premium rates for mega risks. But I do hope that we are seeing the bottom,” Ramadoss said.

A risk is termed as a mega risk when the sum insured is Rs 10,000 crore or above at one location or the threshold limit of maximum probable loss is Rs 1,054 crore. The risk cover under the policy is offered to companies which have huge facilities that need to be covered for risks of all kinds.

Ramadoss said large companies like IOC, HPCL, BPCL and MRPL have been beneficiaries of the sharp cut in insurance premia.

As an example of the dip in premium rates, Ramadoss pointed out that the premium for IOC this year slipped to Rs 38 crore from Rs 49 crore two years back. United India Insurance Co has picked up the risk cover for IOC for the current year. Other insurance companies, including Oriental Insurance, are participating in reinsuring the risk.

To put the dip in premium rates for IOC in perspective, Ramadoss pointed out that Oriental had bid Rs 60 crore for the IOC cover in 2006. "During the two-year period, IOC has added new projects that are being covered under the single policy and the sum insured has also gone up. In the normal course, the premium for the cover should have gone much higher than the contracted rate," Ramadoss said.

Irda had detariffed the insurance sector from the beginning of 2007, freeing insurance companies from the earlier regime of fixed tariffs and allowing them to set their own prices for the covers.

The objective was to ensure free market play and facilitate a drop in premium rates. “The insurance sector is completely market-driven now. Each insurer is trying to grab the market at whatever cost,” Ramadoss says.

GET THE RIGHT INSURANCE POLICY

Vikas Agarwal, September 28, 2008
The Economic Times

Planning investment insurance instruments has always been an important part of everyone’s investment planning exercise. While it is important for individuals to have risk cover, it is equally important that they buy insurance keeping both their long-term financial goals and their tax planning in mind. Every insurance product has its own positives and negatives and investors should carefully weigh the pros and cons before making investment decisions.

First of all, investors need a little bit of understanding of various insurance products (categories) available in the market and the positives and negatives of those products.

Life insurance cover

This product is available in three broad flavours - endowment plans, term insurance plans and unitlinked insurance plans (ULIP).

Endowment plans: It provides insurance cover as well as give return on maturity. These plans invest most of their corpus in corporate bonds, G-secs and the money market instruments. They provide a safe/guaranteed return in the range of 5-8 percent. Child plans and money back plans are the variants of endowment plans.

Term insurance: This is a basic pure insurance plan. The premium in this plan covers the risk element (mortality charges), sales and administration expenses. That is why the premium charged in term insurance plans are much lower than the endowment plans. The premium charged in term insurance does not have any savings element and hence the individual does not receive any maturity benefit.

Unit-linked plans: They invest the corpus in market-linked instruments like stocks, corporate bonds etc. Investing in stocks is the basic difference between ULIPs and traditional insurance plans. These plans promises to provide better maturity benefits as historically the stock market gives better returns over a long term. However, you should keep in mind that investments in stocks come with a certain degree of risk of losing money.

Medical insurance

Medical insurance schemes provide cover against medical expenses incurred in treating an ailment. As medical treatment is getting more expensive by the day, a medical insurance policy is a must for every individual. Most medical insurance policies do not cover existing ailments prior to taking the policy. Therefore, it is important to have a detailed understanding of your medical policy and invest early to cover maximum ailments under your policy.

Property insurance

As property rates are going up, property insurance is becoming an important aspect of owning a property. It provides financial security to the investment. People can also insure the valuables inside the property like furniture, appliances etc.

These are some points an investor should consider while taking an insurance cover:

Present income

The present income of the investor is the most simple and widely used method to decide the quantum of insurance required. Many insurance advisors suggest an insurance cover of 6-9 times the present annual income. Investors should carefully choose their insurance premiums as payment of insurance premium results in a regular outflow of disposable income for a long term and most insurance schemes are not very friendly with premium defaulters. An investor should also take into account the tax benefits under Section 80C.

Family expenses

Family composition is another important factor to decide on the required insurance cover. An investor needs to consider the number of earning members in the family and how many family members are directly dependent on him. It is important to calculate the basic expenses of the family and the level of income that should be maintained for the family even if the bread-winner is not around.

Age of investor

This is another factor to decide on the insurance requirement. The premium amount goes up with the age of the investor. Therefore, it is advisable to plan the insurance needs early in life to get maximum insurance benefits at a lesser cost.

FD, PPF? INSURANCE BOND MAY BE BETTER

Bert Paterson, September 29, 2008
Mint

I have invested in two unit-linked insurance policies with a private life insurer. Keeping in mind the current market scenario, I am worried. Is my money safe?

Most of the foreign partners in the Indian market are well-established and strong global insurance players with a proven track record. In addition, all insurance companies in India are regulated by the Insurance Regulatory and Development Authority. The regulator has laid down very clear criteria defining the manner in which insurers can invest your funds. Insurers are also required to maintain a solvency margin. This is designed to ensure that companies can meet all their liabilities.

An insurance company has recently launched a product with 7% guarantee on maturity. Is it better to invest in a product such as this or in a public provident fund (PPF) or a fixed deposit (FD)?

Your investments should be based on your current needs and existing financial portfolio. FDs and PPF do have their own place. But there are a few factors to keep in mind.

The interest earned in the case of FD is taxable; PPF has an upper cap of Rs 70,000 per individual per year and the rate of return is subject to revision. However, if you are able to invest in an insurance bond, it can meet both the concern areas, where your maturity benefits will be tax-free and typically there is no upper limit for investment. Further, it comes with the benefit of a life insurance cover—and your investments are safe too.

Bert Paterson, managing director and CEO, Aviva India

IRDA ISSUES

IRDA KEEPS WATCH ON INSURANCE FIRMS, BUT NOT FOR STRICTER REGIME

Neha Pathania, New Delhi, September 29, 2008
Financial Chronicle

The Insurance Regulatory and Development Authority (Irda) of India has said it is keeping a ‘close watch’ on domestic insurers in view of the global financial crisis and that it doesn’t feel there is any need for a stricter regulatory regime in this sector at the moment.

It is not necessary to review the solvency margins of Indian insurers, Irda member R Kannan said. At present, the rule requires insurance firms to keep aside 150 percent of the uncovered liability as solvency margins.

“We are comfortable with the solvency margin. The insurance companies are well-positioned,” Kannan said at an insurance summit.

He said Tata AIG has been asked to send a business report to the regulator following the US crisis. As a regulator, the IRDA wanted to know what the local partner is going to do in this matter. AIG has a 26 percent stake in each of the two life and general insurance tie-ups with the Tata group. Last week, the US insurance company had agreed on an $85 billion federal bailout.

Kannan feels insurance penetration in India at a mere 4.8 percent is really poor and that insurance for the poor can play a significant role in increasing this percentage. He said a separate regulatory authority for micro-insurance has been mooted as the norms required to regulate this sector are essentially different from that for a regular insurance scheme.

“We have to think what kind of pension products can be offered by micro-insurance schemes, how we can make them viable products, and how can that these products have a universal appeal,” Kannan said.

The IRDA member also revealed that the insurance regulator would come out with norms for risk-based capital by March. "When every other segment is moving towards risk-based capital, why not insurance?" he asked.

Asked about Life Insurance Corporation offloading shares of blue chip companies to comply with the threshold of 10 percent, Kannan said it was up to the LIC board to address the issue and achieve the target within the given time-frame.

IRDA MESSAGE REPOSES FAITH IN LOCAL INSURANCE COS

Hema Ramakrishnan, Hyderabad, September 29, 2008

The Economic Times (Mumbai edition)

Barely two days after the Federal Reserve rescued US insurer AIG, the Insurance Regulatory and Development Authority (Irda) made it clear that the turmoil in the international markets would have no bearing on the financial health of domestic insurance companies. A specific reference was made to private insurance companies.

AIG was on the brink of bankruptcy due to the strain caused by the subprime mortgage crisis in the US. The Fed decided to provide a $85-billion emergency loan to help AIG meet its obligations. In return, the US government would get a 79.9% stake in AIG. The US insurer holds a 26% stake each in Tata AIG Life and Tata AIG General Insurance companies. An obvious question was whether Tata Sons, which holds a majority stake in the two ventures, would buy out AIG's equity stake.

"As a matter of policy, we do not respond to speculative enquiries or comment on partnership/joint venture matters. All that we would like to say is that the Tata AIG Life and General Insurance companies are well capitalised and subject to stringent regulatory requirements," a Tata Sons spokesperson told ET.

Irda's first quarter analysis of the solvency margins of these two companies showed that the solvency ratio was comfortable for both Tata AIG Life and Tata AIG General Insurance. Solvency refers to the excess of assets over liabilities that an insurer maintains as a prudential measure in the interest of policyholders. The analysis came in handy to assure policyholders that their investments were safe.

Irda chairman J Harinarayan followed the normal procedure of seeking a status-report from these companies on the business implications, if any, here of AIG's move to access the Fed's borrowing window.

Many policyholders had become jittery following rumours that it was perhaps unsafe to invest in products sold by private insurers. As Irda was keen on setting the record straight, Member actuary R Kannan sent out a message (press release) saying the solvency margins for all companies, including private ones, were adequate and above the prescribed minimum of 150%. He also clarified that no insurance company had invested money overseas and that their investments were in sync with the norms. Irda's investment regulations debar domestic insurance companies from having any exposure in international credit rating instruments.

Domestic insurers also set aside reserves to meet future claims as per prudential norms. The regulatory body reckoned that the mathematical reserves were adequate to take care of future liabilities. This press release was circulated to CEOs of all insurance companies.

Life Insurance

LIC TO GET TIME TO OFFLOAD STAKES IN COMPANIES
New Delhi
The Economic Times *Business Standard* *Mint* *The Hindu Business Line*

Insurance Regulatory and Development Authority (IRDA) will provide "reasonable time" to the state-owned Life Insurance Corp (LIC) to bring down its stake in various companies to the prescribed 10 percent level, a senior official said on Friday.

"We want to give reasonable time so that the transition is smooth and LIC does not get lower returns on account of hurried sale of shares," R Kannan, member of the IRDA, told reporters on the sidelines of a business meet.

Kannan said the IRDA is in talks with the LIC and will give it due consideration, he said.

Last month, the IRDA issued investment guidelines that restrict the insurer from investing more than 10 percent in a company.

LIC holds over 10 percent in various blue chip companies that include Corporation Bank, Cipla, Mahindra and Mahindra, Maruti Suzuki, Mahanagar Telephone Nigam Ltd, Tata Motors, Hindustan Petroleum Corp, Ranbaxy Labs, Oriental Bank, Dr Reddy's Labs, Tata Steel and Reliance Infrastructure.

Kannan also said the IRDA would by March 2009 come out with norms for risk-based capital - the minimum amount of capital an insurance company needs to support its overall business operations.

Responding to a question on what action was contemplated for private insurer Tata AIG after AIG nearly went into bankruptcy before being bailed out by the US government, Kannan said the IRDA has not asked for any solvency report from the company and there was no need for pressing panic button in the Indian context.

"Indian insurance sector is insulated from the global financial turmoil on account of the strict regulatory mechanism that govern the industry. Yet, the government is monitoring every development that is taking place to ward off any adverse eventualities in the future," he added.

THE NO-NONSENSE CEO
Shubham Mukherjee & Shailesh Dobhal
The Economic Times (Delhi edition)

She reached the venue of our meeting good 15 minutes ahead of the appointed hour, alone, without the customary corporate hangers-on, a rarity for a busy Indian CEO. But with a disciplined army kid upbringing and a father who would “be unhappy if I came second in the class,” Shikha Sharma has never known pampering, at least not the sort that comes with being a first-born, a girl or a CEO now.

“Being the first child, I bore all the expectations of my father. He never treated me as a girl. I was supposed to do as well as my (younger) brothers. The pressure was equal on all the three children,” reminisces Sharma, MD & CEO, ICICI Prudential Life Insurance, as we settled down for lunch at the trendy Indian eatery Masala Art in the capital’s Taj Palace hotel.

This was supposed to be a no-work, informal get-to-know the person behind the job kinda interaction, but then given the current context of the US-manufactured global financial crisis, we couldn’t resist the temptation of asking how she read the scenario where such venerable names like AIG and Lehman Brothers are falling like ninepins. “Some very foolish things have been done, like throwing basic caution to the winds. A contagion spreads and you have a disaster all around. I think what should happen now is that some of that cowboy behaviour will have to stop. People have to go back to the basics of risk management and much tighter inter-regulator coordination.”

A ICICI lifer, Sharma joined when it was still just a development financial institution, back in 1980 straight out of IIM-Ahmedabad. “I was clear that I wanted to be in finance, as I was good at maths and quantitative (stuff). Actually, at school I was best at physics and wanted to be a physics researcher.” As it turned out, a bureaucrat uncle of Sharma’s guided her towards Economics at Lady Shriram College, as he said that physics wouldn’t land her a job.

“I hadn’t even heard of IIM before I went into my BA. Somewhere in the middle I decided that I was either going to go to the IIMs or get married. I was not going to do anything else.” It turned out, she also met her would-be husband, Sanjaya Sharma there as he’s her batch mate at IIM-A class of 1980.

AVIVA LAUNCHES INDIABOND WITH GUARANTEED RETURN
Bangalore
Deccan Herald

Aviva Life Insurance on Thursday announced the launch of IndiaBond, a single premium, endowment plan with guaranteed maturity benefits. This plan offers a compounded return of 7 percent per annum on maturity. For example, a policyholder paying a single premium of Rs 1 lakh for a policy term of 10 years will get a total maturity benefit of Rs 1,96,715 plus life cover.

Main highlights of the product are: a compounded return of 7 percent and maturity benefits are tax free. Premiums paid are eligible for a tax deduction as per Section 80C of the IT Act, minimum single premium is Rs. 50,000 (no limit on the maximum), one has the option of a 5 year or a 10 year policy term, death benefit is 5 times of the single premium in the first year, 4 times in the second year, 3 times in the third year and 2 times of the Single Premium thereafter.

At the end of the policy term, policyholder gets a guaranteed maturity amount depending upon the policy term and the premium paid. Age eligibility for IndiaBond is between 15 and 45 years and the maximum maturity age is 55 years.

LOCAL LIFE INSURERS INSULATED FROM GLOBAL CRISIS

Shikha Sharma
DNA

Countries which are integrated into the global economy through trade as well as capital flows cannot remain completely immune to the current global credit crisis. However, the reassuring aspect of our situation is that, if compared to other countries, dependence of India's growth on external trade and capital flows is relatively small.

The Indian growth story largely follows a domestic demand, savings and investment theme and the current slowdown in India is a by-product of the need to manage inflation and has little to do with global credit crisis.

The Indian economy is largely insulated from the global slowdown, but for the high domestic inflation imported through high prices of global commodities, particularly oil. A more important variable for India is the way global commodity prices will move in the medium term as a result of the current global situation.

Given the strong domestic demand story, a softening of commodity prices might actually be a silver lining for India.

DO NOT BUY ULIPS IF YOU THINK SHORT TERM

Nandini Goswami, Kolkata
DNA

Reliance Life Insurance has been one of the fastest growing private companies in the industry. It is now readying to enter the rural markets. P Nandagopal, CEO, spoke about growth targets and plans that will be unfolded in the New Year.

Excerpt:

Reliance Life has been growing very fast over the last two years. Will you be able to sustain the pace during the next one year?

We ended last fiscal with a new business premium of Rs 2,754 crore over Rs 930 crore, almost three times of what was achieved the previous fiscal. In a high growth industry, with robust product positioning and distribution strategy, one can achieve business growth.

Reliance Life has grown 152% as of July, more than double the private life insurance industry's growth rate of 65%. We expect the company to grow aggressively over the next year as well.

What are your targets for the current year and how would you prioritise your expansion plans?

At present we have 745 branches and the intention is to double it over the next few months for which we have applied to the insurance regulator. We will be looking at the smaller towns and mandal headquarters.

There is a lot of scope in these small towns, which is unaddressed. From our side, we would also have the first mover advantage.

Which segments do you think would drive sales in future and are you looking at any specific segments?

Currently, various Unit-linked plans (Ulips) and wealth accumulation products are important. But the real demand would come from pension and future health products. Health insurance is a good urban product, but as a business, it is under-penetrated. We will come up with more variants in health and pension.

In times of market volatility, has the marketing pitch changed?

Ulips are transparent and flexible financial solutions that allow the customer choose the asset class as per his/her requirement. Temporary market conditions will not have any significant impact. The selling proposition remains the same — don't buy these schemes if you think short term.

What about traditional products in the present context of volatility?

We have a dozen of traditional products and the market dynamics will determine whether there is a need for further requirement.

How strong is your rural thrust?

We are very focused when it comes to rural markets. Almost 200 offices have staff dedicated to smaller and rural areas, which is an emerging marketing channel.

Your current capital is Rs 2,000 crore. Will you be looking at further fund infusion?

A fast-growing company like ours requires commensurate capital infusion. We may need to infuse Rs 1,000 crore in a year's time as we will go ahead with the expansion plans. We do not expect any slowdown in our plans. Capital infusion will be as planned as we are a wholly Indian company and therefore do not really have international dependencies on capital.

It is sometimes perceived that aggressive growth leads to slippages in customer servicing and problems on efficiencies…

Since inception, we have invested significant time, effort and resources for customer delight. We monitor all key service deliverables on a monthly basis with a plan for continuous improvement of the same.

We are the only life insurance company to have been ISO 9001:2000 certified for all processes across the country. Our efforts in this direction were corroborated by the results of a customer satisfaction study conducted by A C Nielsen, wherein the index results were 87 for customers with all key process indicators in the 'excellent' range and among all channels surveyed, 80 for advisors which is 'good'.

MAX INDIA HIKES ITS SHARE IN INSURANCE JV

September 28, 2008

The Economic Times

In a first of its kind, Indian player Max India has raised its economic interest in life insurance joint venture with a foreign partner, Max New York Life (MNYL) from 50% to 74%. This means that Max India's share in the valuation of Max New York Life has risen by 24%.

Economic interest reflects the real value that accrues to shareholders. MNYL accounts for about 80% of Max's consolidated revenues. Under the new JV, Max has repaid the Rs 174-crore deposit paid by New York Life to increase its economic interest to 74%.

The US firm will now have to buy the additional 24% at 90% of the fair market value (NYL will get a 10% discount for being a promoter shareholder) when it wants to hike its stake.

AVIVA INDIA BOND

Suresh Parthasarathy, September 28, 2008

The Hindu Business Line

With the equity markets in the doldrums, debt funds are making inroads.

Some of the insurance companies are planning to raise their new premium income through debt products such as endowment and money back. Aviva Life Insurance has recently launched the Aviva India Bond — a single premium endowment plan.

Here's a look at the salient features:

Premium amount: The minimum single premium is Rs 50,000.There is no upper limit.

Policy term: Choice of a five-year or a ten-year period.

Risk cover: Five times the single premium for the first year; for the second and third year, it is four and three times respectively. Thereafter, it will be twice the premium until maturity.

Benefit on maturity: On maturity, the policyholder is eligible for compounded return of 7 per cent per annum. The maturity proceeds are exempt from tax.

Tax benefit: Premium paid towards the policy is eligible for tax benefit under Section 80C.

The issue closes on October 6.

In an interaction with Business Line, Anil Sahgal, Director, Strategy and CIO, Aviva India, answers queries on the product.

What is your investment strategy for this fund?

This is a traditional product and we will be investing in debt instruments such as government securities, infrastructure bonds, corporate bonds and in the money markets.

We would be looking at AAA and AA+ bonds.

Why is there no surrender value in the first year?

Aviva India Bond is a traditional plan and cannot be surrendered in the first year. In case a policy-holder decides to surrender the product in the second year, the surrender value would be 90 per cent of the single premium paid.

INSURANCE EATING INTO MF TURF?

Suresh Parthasarathy, September 28, 2008
The Hindu Business Line

With the introduction of ULIPs (unit linked insurance product), insurance companies have emerged as prominent players in the Indian equity market. Insurance is increasingly becoming an investment product rather than a mere risk cover. Of the new premium collected by insurance companies, about 75-90 per cent comes through ULIPs. Some of the insurance companies do not even have traditional policies (albeit term insurance) in their basket. With an increasing investor prefere nce for ULIPs, whether insurance companies are taking away some of the business of the mutual fund industry is anybody's guess. The bull market, increasing disposable incomes of the new generation, have all added to the popularity of the ULIP.

The mutual fund industry has seen assets under management almost double in the past three years from Rs 2.1 lakh crore in 2005 to the current level of Rs 5.45 lakh crore (out of this 31 per cent is accounted for by equity schemes).

The new premium collected by insurance companies alone stood at Rs 93,000 crore in 2007-08, up from Rs 30,334 crore in 2005.

Strength of Insurance Industry: The major strength of the insurance industry lies in its extensive distribution reach, achieved through its agency force and branches. As per the IRDA's annual report for 2006-07, total individual insurance agents were at 19.93 lakh, which is 8.6 lakh higher than the previous year. Assuming similar additions this year, the agency force presently may be in the range of

25 lakh.

This suggests that the insurance industry has been more aggressive in adding distribution agents when compared to mutual funds. According to Pranav Misra, Senior Vice-President, ICICI Pru Life Insurance, at any given point in time, 50-60 per cent of these advisors are active.

In ICICI Pru Life's experience an active advisor writes new business for Rs 80,000 a year or about 12 policies per annum.

To train an insurance advisor and to induct him into the business, the company incurs expenses in the range of Rs 2,000-3,500. To become an advisor, one has to undergo 50 hours of training. Currently ICICI Pru has 2.9 lakh advisors and it has added 55,540 since 06-07.

Private players are also aggressively expanding their presence through branches across India. As per the IRDA's annual report for 2006-07, private insurance companies had 3,072 branches and LIC 2,301.

Bancassurance (banks tie-up with insurance companies to sell the insurance products) has already started to contribute a major chunk of new premium, as banks expand, the premium collected too can increase substantially.

Weakness: Since insurance is mostly 'sold' rather than 'bought', insurance agents need good marketing skills and need to update themselves on the markets to sell ULIP products.

Most of the insurance agents are part-timers. Due to lack of spare time, they find it difficult to add clients. To convert a prospect into client requires frequent follow up. These are the major reasons for attrition in the industry. Once the agent moves out, apart from the reminder notice, the policy holder will not have any other direct contact with the insurer; this, in turn, increases 'lapsing' where investors let their policies lapse.

Mutual Fund: Mutual funds, popular mainly for their liquidity, currently account for 4.1 per cent of Indian household savings.

When compared to insurance, mutual funds tend to be viewed more as a shorter term investment — say for a holding period of three-five years.

High transparency and the ability of the investors to see his/her portfolio and returns regularly have helped inflows into mutual funds. Professional management and tax benefits are the other benefits.

Weakness: Despite being popular with better informed investors, the penetration level of MFs is low and is mostly confined to metros. The current equity assets of Rs 1,70,000 crore are from areas representing less than 200 postal pincodes. The number of branches when compared to insurance industry is abysmally low. Again, AMFI certified agents number less than 70,000 against 2.5 million insurance agents.

IDBI FORTIS OPENS ITS BRANCH

Pune, September 29, 2008

The Indian Express

As a part of its aggressive 100-branch plan, IDBI Fortis Life Insurance Co Ltd on Friday formally opened its branch in the city. The branch is located at Erandwane. The company has launched operations in March this year, leading with its innovative product Wealthsurance. It has already collected premium over Rs 100 crore in five months. The company plans to have 13 branches in the State, out of the 30 branches in the western region in total, stated a release.

OUR CAPITAL POSITION CONTINUES TO BE STRONG

September 29, 2008

The Economic Times

Although private life insurance companies continue to show high growth, the pace of growth in the industry has slowed down following the crash in markets. Margins are coming under pressure as regulators bear down on costs.

In this environment, Bajaj Allianz had decided to change focus towards productivity and profitability. In an interview with Mayur Shetty, Allianz regional CEO (Middle East, North Africa, South Asia) and CEO of Bajaj Allianz Life Insurance Kamesh Goyal, speaks on his plans for Allianz's Indian joint ventures and the issues facing the life insurance industry.

How has the sub-prime crisis affected Allianz internationally?

If you look at Allianz's core business, which is life; general insurance and asset management, the operating profitability continues to be strong. Our capital position continues to be strong. Allianz has been very transparent in declaring its exposure in respect to the sub-prime crisis and the overall quantum is relatively small. All the rating agencies have reaffirmed the stable outlook for Allianz.

Any large financial institution, which operates world wide would see an impact in business if there is a downturn in major economies. But the overall impact for Allianz should be minimal as it operates across a large geographic region and various business segments.

Following the sub-prime crisis, many multinational banks and lenders are going slow on retail credit. Do you see any impact on the savings side?

We are in a situation where inflation is high and asset prices, especially stock prices, have started coming down. In such a market, there is an overall tendency for investment or demand for investment type products to go down. In the last two or three months, the life industry had started seeing a bit of a reduction in the growth rate. Even in non-life, business would slow down with the automobile segment — especially cars, showing negative growth in August.

What would be the impact of the slowdown?

For the insurance industry, the last 3-4 years have been extremely top line driven. Analyst reports, giving high valuations for life insurance business, have been based on the monthly premium figures announced by the regulator and these valuations have changed with the monthly growth rates.

Shareholders in any industry, which focuses so much on topline will face a tough time when business slows down. Insurers have set up large number of offices and salaries have jumped, so the impact on bottomline will be quite severe. For shareholders, the biggest challenge would be to come to terms with more realistic valuations and a business model with more focus on bottomline than just topline. So the challenge is how to manage expenses when growth rates are slowing.

Are there pressures on profit margins because of competition?

My personal belief is that most companies are having much higher expenses than what is built into the product. The higher expenses will reduce new business margin. Similarly, if you don't experience the persistency that was assumed while designing the product, it would impact embedded value and hence, valuations considerably. This would push the industry to follow a business model, which is more robust than merely topline driven. This has seen a deterioration in profitability in the first quarter, which in the long term is good.

At present, even the non-life industry has seen a deterioration in profitability in the first quarter because of detariffing. Some companies, which grew aggressively have seen large losses. Life insurance has seen capital in the range of Rs 20,000 crore being brought in, today they face a huge challenge of providing decent returns to shareholders.

Bajaj Allianz Life has lost marketshare in recent months. Going forward what is your strategy?

The position now is that we are number three among private players in the new business; if you look at gross-written premium, we would be number two. In terms of policies, we would be number one or two. Loss of market share is essentially due to less group business, which we underwrite, and also due to change in product portfolio from last year.

As a company, we are focused on individual business where we are number two. Our strategy in the last one year has been to try and grow premium by increasing productivity without expanding the number of offices or sales people. We believe that a strategy of achieving growth by only expanding the number of offices and sales people is not sustainable in the longer term. We are also working consciously to improve our persistency, which has shown big improvement this year.

On these two factors, we seem to be on the right track as we have managed to retain expense ratios at last year's levels despite little growth. It is a mixed bag in terms of achievement and we would now really like to grow a bit more in the next six months.

ICICI PRULIFE LUNCHES LIFESTAGE ASSURE

September 29, 2008
The Indian Express

ICICI Prudential Life Insurance company has launched LifeStage Assure, a unit-linked insurance pruduct. The plan will privide up to 450 percent of first year premium grarantee on maturity. The premium from second year onwards will be invested after deducting the premium allocation charge. The plan also offers its investors the benefit of a lifecycle based portfolio strategy. This strategy assesses investors' life state and also his risk appetite. Baed on this, the money is allocated across various asset classes.

FROM RETURNS TO PROTECTION
Suneeti Ahuja, September 29, 2008
The Indian Express

The need of the hour is to change mindsets from investment returns to protection, said Kapil Mehta, chief executive officer and managing director, DLF Pramerica Life Insurance. In an interview, he also discussed the opportunities and challenges that await the insurance sector's 21st entrant.

You are the latest entrant in the life insurance space. What opportunities and challenges do you see in this market?

We are the 21st player to enter this market. First, life insurance penetration in the country is at 4.8 percent, which is pretty low compared with other countries. So there is huge opportunity even for new players. Second, if you ask a group of, say, 100 people, if they have life insurance cover, almost 60-70 will say yes. But ask a second question: in case something were to happen to them today, how many people have life insurance policies that will take care of their families for next 10 years or so? Just two or three people will be confident. This has been seen across geographies. People are just not aware of how much life insurance they need.

As for the challenges, it is critical for companies like us that have entered late to come out with innovative products, and to be careful in addressing customer needs.

General Insurance

INSURANCE PLOY FAILS TO PROVIDE COVER
V Narayan, Mumbai/Bhiwandi
The Times of India (Mumbai edition)

The police in Mumbai and Bhiwandi have detected two separate cases involving attempts to claim insurance by lodging false complaints.

While the complainant staged the robbery of a motorcycle in the first case, the second case pertained to the alleged theft of gold jewellery.

On Friday, the Navghar police in Mulund (E) found that Rajid Khan, a tempo driver, had faked the robbery of his Pulsar motorcycle to claim insurance and pay EMIs for a vehicle loan with the money thus obtained.

The police, on verifying the matter with the private bank from where Khan had availed of the loan, got to know that he had twice failed to pay the EMIs. They found the motorcycle at the house of Shabbir

Khan, a friend of the complainant, in Bhandup-Sonapur.

Khan (26) had claimed in his complaint that he was stopped by four unidentified persons at the Navghar toll naka on the Eastern Express Highway and robbed of his vehicle on Wednesday. He had bought the Pulsar in January.

The police, within 24 hours, detected that the case lodged by Khan was fake. “As Khan had failed to pay the last two EMIs, the bank started making calls regarding the payment. He then decided to lodge a false case of robbery thinking he would get the insurance money and repay the loan,” said inspector Shivaji Phadtare of the Navghar police.

NAVRATRI ORGANISERS RUSH FOR INSURANCE COVER OVER TERROR THREAT
Vadodara, September 29, 2008
The Indian Express

Maa Shakti Garba organisers have made an insurance of around Rs 1.5 crore this year

Looking at the threat perception after the recent terror attacks in Gujarat as well as other states, organisers of Garba dance programmes to be held during the Navratri festival are putting extra efforts to insure Garba venues. Vadodara houses Maa Shakti Garba ground, the largest garba ground in Asia, which has made a public insurance of around Rs 1.5 crore this year.

Jayesh Thakkar, the organiser of Maa Shakti Garba said: “Maa Shakti Garba ground is around four lakh square feet. Though we insure the ground every season, this time we have put Rs 1.5 crore in the insurance."

Health Insurance

HEALTH INSURANCE PENETRATION BELOW NATIONAL AVERAGE IN AP
Hyderabad
The Hindu Business Line

The overall percentage of households having health insurance in Andhra Pradesh is at 0.62 percent, which is much lower than the national average of 1.2 percent, according to a study conducted by Max New York Life Insurance and National Council of Applied Economic Research (NCAER).

According to the survey titled ‘How Indian Earns, Spends and Saves’ conducted across 23 States, Andhra Pradesh stands in the 20th position with a health index of 0.54, which is lower than the national index score of 0.46.

The health index is calculated on the basis of the level of financial preparedness against medical expenses or unforeseen medical emergencies.

The survey also found that for an average household income of around Rs 45,372, the annual health expenses in the State was Rs 19,566, accounting for 43 percent of household income. About 9 percent of households had faced major sickness in the recent past, with average expenditure during such sickness reported at around Rs 16,463.

At a national level, the survey shows that 36 percent of the Indian households keep their savings at home and 51 percent in bank deposits. The health expenses are generally clubbed with emergencies and not addressed separately.

“A focused approach to improve awareness and financial literacy to improve protection for health problems is urgently needed today,” the survey observed. The data was collected from 342 towns and 2,000 villages across 250 districts. The sample size included 63,016 households, equally divided between rural and urban areas, according to a release.

INSURANCE FOR BPL FAMILIES
Kangra, September 29, 2008
The Tribune

The state government has launched a national insurance programme for the people living below the poverty line (BPL) in Kangra and Shimla districts of the state. They would be covered under the health care to the tune of Rs 30,000 each.

Disclosing this here today, Ramesh Chand Dhawala, minister for consumers affairs and public distribution system, said these families would be provided medical cover to the tune of Rs 30,000 through Rogi Kalayan Samities.

He said there were 66,030 BPL families and 43,545 Antodiyia families in Kangra district. As many as 1,65,919 families were being covered under this programme. He said insurance cards of Rs 30 would be distributed among these families under this scheme.

He said the process of card distribution would be completed by the end of this year. He said this scheme was initiated in these two districts with an aim to provide better medical facilities to the poor.

INDIA’S HEALTH INSURANCE FOR POOR SET FOR GLOBAL STAGE
Lucknow, September 29, 2008
The Indian Express

The innovative scheme of Rashtriya Swasthya Bima Yojna (RSBY) — cashless and paperless health insurance for BPL families — launched by the Central government across the nation is all set to go global.

After getting accolades in the Wall Street Journal that carried a detailed article on RSBY titled “India’s poor get health card to fund medical treatment”, the World Bank has now invited the Indian officials to make a presentation of the scheme before other countries at the World Bank headquarters in Washington.

The presentation is scheduled for November during the annual meeting of the World Bank on “most innovative ideas". At the meeting, countries selected for their innovative ideas, share their plans with other nations.

The scheme was announced by Prime Minister Manmohan Singh on Independence Day last year and it was formally launched on October 1, 2007.

Under the RSBY, a smart card is given to a BPL family that contains complete personal data and fingerprints of the entire family members. Over three lakh cards have so far been issued in 16 states and 1,200 patients have already used their cards in Haryana, Delhi and Punjab.

"The biometrics help check any misuse of card," said Anil Swaroop, Director General Labour Welfare.

To obtain the smart card, each BPL family has to pay Rs 30 that entitles the entire family — head of the family/spouse and three children — to receive over 700 medical treatments/surgeries costing up to Rs 30,000 for one year. Once the whole money is debited from the beneficiary's account he can get a recharge of the same amount by again paying Rs 30.

The salient feature of the scheme is that it actually empowers the economically backward family to choose the service provided by various government or private hospitals.

Swaroop said that several experiments on health insurance schemes have failed so far and the world is looking for a foolproof scheme.

"It is considered a technically innovative scheme as this card is cashless and paperless involving transactions that are done electronically," said Swaroop, who will be heading to Washington in November to make the presentation. "In two months time, details of each card distributed and in use will be available on the Internet," added Swaroop. While the Centre finances 75 per cent of the cost of the scheme, the state governments have to pay 25 per cent.

COMMON CORPUS TO MAKE HEALTH INSURANCE EASIER FOR ELDERS

Neha Pathania, Shruti Verma, New Delhi, September 29, 2008

Financial Chronicle

Senior citizens will not have to run from pillar to post any more to get their health insurance policies renewed or get their claims settled.

The Insurance Regulatory and Development Authority (Irda) will soon issue new regulations asking insurance companies to build a common corpus from the premiums collected to take care of the needs of senior citizens. This corpus will be created in three months and it will meet the needs of the senior citizens, who either find it expensive or impossible to get a health insurance cover.

The move is based on the recommendations of the KS Sastry committee. If the Irda proposal kicks in, senior citizens can hope to get health cover even after the age of 65. The proposal also envisages making health insurance an affordable product for the elderly.

"We have been getting complaints from senior citizens that insurance companies often do not renew their policies and they have to pay very high premiums for their policies," IRDA member actuary R

Kannan said.

"Based on Sastry committee recommendations, we have now asked all insurance companies, which offer health insurance, to create a common corpus with the premiums collected and use it for treatment of senior citizens," he said.

The Sastry Committee had recommended that it should not be the insurer's discretion to decide if a senior citizen can be allowed to seek health insurance cover up to the age of 65 or beyond. In the latter case, it should be guaranteed that health insurance will be renewed without any cap on the age of the insured, the panel said.

At the introductory stage though, the renewal will be guaranteed only for a period of three years from the day the Irda issues the regulations. This will be without any cap on the age of the insured. The panel further suggested that a base annual premium of Rs 3,000 be fixed for every Rs 1,00,000 of sum insured at the age of 50 years.

The Irda had formed the commitee under the chairmanship of KS Sastry, former chairman of National Housing Bank, to study how insurance companies can meet the needs of senior citizens in a better way.

According to the regulatory agency, health insurance for senior citizens requires a careful study by all stakeholders -- the regulator, government, insurance industry, medical service provider, third-party administrators and others.

Insurance experts say the move will make life easier for senior citizens. "At present, there isn't much for senior citizens. Private insurers are not so forthcoming while dealing with senior citizens. After this corpus is created, a lot of problems of senior citizens will be solved," SK Sethi, an insurance expert, says.

Pensions

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