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### IRDA may cut cost of more insurance products

IRDA has decided to bring in new regulations to bring down the cost of profit products of insurance companies. This comes after its move to bring down most life insurance products under cost control. The regulator will now shift focus to traditional investment cum savings products also.

Participating products are traditional investment-cum-savings products where benefits include bonus declared by the participating fund.

IRDAI, in the past, had introduced regulations for various kinds of insurance products, including unit-linked insurance schemes, non-participating products, universal life insurance products and pension products. The regulator had imposed various caps, including caps on expenses on these products.

Earlier in an exposure draft, the regulator had said that it would take action for managements' non-compliance for expense rules by companies in the sector, which could result in restriction of performance incentive for whole-time directors and key management personnel and on the approval for opening new places of business. It reserves the power to levy graded penal action and remove key management personnel if the companies fail to comply with the rules.



### Robust proprietary channel needed for insurance sector: BCG

In a report published at the FICCI insurance summit recently, the Boston Consulting Group has said that a robust proprietary channel is necessary for the sustained growth of the insurance sector. Even though multi-partnership bancassurance architecture will open up opportunities for insurers, health of the agency channel cannot be neglected.



According to the report, agency channel economics are difficult to sustain for most insurers, adding that India is the only large country in the world with a fixed cost agency channel. Not enough insurers have attempted to design the agency of the future and hence

this is an opportunity to innovate and take the lead in this space.

"At BCG, we have identified major trends such as digitization, changing consumer needs and ageing changes that are expected to impact the sector in its next phase. However, the challenge lies in sustaining profitable growth," said Alpesh Shah, BCG India Senior Partner and Director, and Head - Insurance Practice in Asia.

"In the report, we have defined a 14-point action agenda for Indian insurers that could lead to achieving this target," he added.

Some of the other challenges as defined by the report include realizing the full value of third party channels, going directly to consumers, claims excellence and next generation leadership. The report has also asked insurers to go for right pricing of their products.

## FDI of insurance companies with pension plan under the lens of the Cabinet Committee on Economic Affairs

The foreign direct investment proposal of insurance companies which also have pension ventures is under scrutiny due to lack of clarity on how foreign investment limit in the pension sector should be calculated. The Foreign Investment Promotion Board had in a meeting in December 2015 recommended a Rs 1,705 crore foreign investment proposal for the consideration of the Cabinet Committee on Economic Affairs. FIPB did so even as the proposal is for investment below the prescribed Rs 3,000 crore threshold for such permission.

According to the proposal, Standard Life (Mauritius Holdings) 2006 Ltd wants to increase stake in the insurance venture HDFC Standard Life from 26% to 35%. At present, Housing Development Finance Corporation Ltd holds 70% stake in the insurer. HDFC is majority foreign owned.

HDFC Standard Life has a wholly-owned subsidiary HDFC Pension Management Company Ltd, a licensed pension fund manager. Clarity is required on whether downstream investments in companies which are engaged in selling pension products are also covered under the Insurance Act.

The government has allowed 49% FDI in both insurance and pension sectors. However, it has also provided specific exemption to insurance from the prescribed method of calculating direct and indirect foreign investment. Under this method prescribed in the FDI policy, all investment by a majority foreign owned or foreign controlled company in another company is counted as foreign investment.

However, there is a carve-out for such downstream investments in case of insurance sector, which is governed by its sectoral methods that do not count foreign portfolio investment in parent as FDI. This carve-out has allowed many private banks that are majority foreign owned to hold on to their insurance ventures even when the FDI limit in the sector was 26%, which has since been raised to 49%.

Under the rule applied to other companies, the entire holding of such banks would have been counted as foreign investment in violation of the policy.

Accordingly, the government had approved Kotak Mahindra Bank's proposal to raise its foreign institutional investment cap in the bank from 49% to 55%, thus allaying fears that this may have implications for the bank's insurance venture.

The carve-out is not available for the pensions sector, leading to confusion over how foreign investment in downstream pension sectors will be calculated.



### Quick News

#### **Mahindra Insurance Brokers – First insurance broking company in the world to achieve the global benchmark**

Mahindra Insurance Brokers Ltd. (MIBL) has been appraised and rated at Maturity Level 3 of the People Capability Maturity Model (People-CMM), thus becoming the first insurance broking company globally to achieve this international benchmark. MIBL joins the league of top companies practicing People-CMM such as Accenture, Computer Sciences Corporation, Wipro, CMC, Mahindra Financial Services Ltd., Tata Consultancy Services, LT Infotech, etc.

#### **XL Catlin applies for reinsurance license in India**

XL Catlin today announced it has begun the licensing process to establish a reinsurance branch in India. The decision to pursue market entry into India aligns with XL Catlin's strategy of establishing a presence in emerging and developing markets where economic activity is increasing and the re/insurance market would benefit from its global expertise. The application has been filed with the Insurance Regulatory Development Authority of India and seeks to establish a reinsurance branch office of XL Insurance Company SE (XLICSE). Pending all necessary regulatory approvals, the Company expects to be able to commence operations in India later this year.

#### **Exide Life Insurance introduces Star Saver, a savings-cum-insurance plan**

Exide Life Insurance has launched "Exide Life Star Saver" - a limited payment savings cum insurance plan. Exide Life Star Saver offers guaranteed tax-free maturity benefit along with comprehensive protection over the entire policy term.

## IRDAI states that a 'Group' should have minimum 20 members for health insurance

IRDAI has proposed that a 'Group' should have a minimum size of 20 members to be eligible for issuance of a Group Health Insurance Policy. Releasing an exposure draft on IRDAI (Health Insurance) Regulations, 2016, the authority also proposed that the "premiums filed shall ordinarily not be changed" for a period of three years after a product has been cleared in accordance to the product filing guidelines specified by it. Thereafter, the insurer may vary the premium rates depending on the experience.



On Group Health Insurance, the draft said no policy would be issued by any insurer where a Group is "formed with the main purpose of availing itself" of insurance. "There shall be a clearly evident relationship between the members of the group and the group policy holder for services other than insurance. The Group shall have a minimum size of 20 members to be eligible for issuance of a Group Insurance Policy," it added.

To examine the extant regulatory framework vis-a-vis the Business practices, the Insurance Regulatory and Development Authority of India had constituted an Expert Committee on in December 2014, which has submitted its report in April, 2015. On examining the recommendations, experience gained in reviewing the regulatory framework, IRDAI has said it has proposed to revisit the existing Health Insurance Regulations, 2013 by suitably aligning the TPA Regulations as well as revisit some of the provisions.

On renewal of policies, the draft said the insurer would provide for a mechanism to condone a delay in renewal up to 30 days from the due date of renewal without deeming such condonation as a break in policy. However coverage need not be available for such period. Further, the cost of any pre-insurance medical examination should generally form part of the expenses allowed in arriving at the premium.

"However in case of products with term of one year and less, if such cost is to be incurred by the insured, not less than 50 per cent of such cost shall be borne by the insurer once the proposal is accepted, except in travel insurance policies," the draft said. The exposure draft said that all health insurance policies would ordinarily provide for an entry age of at least up to 65 years.

## Munich Re's Ergo to raise stake in JV with HDFC for \$169 million

Munich Re's insurance unit Ergo has agreed to buy nearly 23 per cent more in its India joint venture with Housing Development Finance Corp for \$169.03 million, in the latest deal in the country's insurance sector after foreign ownership rules were eased this year.



After the deal, Ergo's stake in HDFC Ergo General Insurance Company will go up to about 49% - the maximum foreign holding allowed in Indian insurance companies under the new rules.

India, which previously capped foreign stake in insurance companies at 26%, raised the ceiling in March, leading to a flurry of deals in the sector.

HDFC, the top mortgage lender, will own 50.7% of HDFC Ergo after the deal.

HDFC's life insurance joint venture partner, Britain's Standard Life plc, said in August it was seeking to raise its stake in that joint venture to 35% from 26% for 169 million pounds (\$252.20 million).

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