Insurance hits and misses: listings and commissions

This year, insurance saw many regulatory and business changes. Expectations were high, and many were met, though many expectations did not come through. Here are some ups and downs the sector saw in 2017

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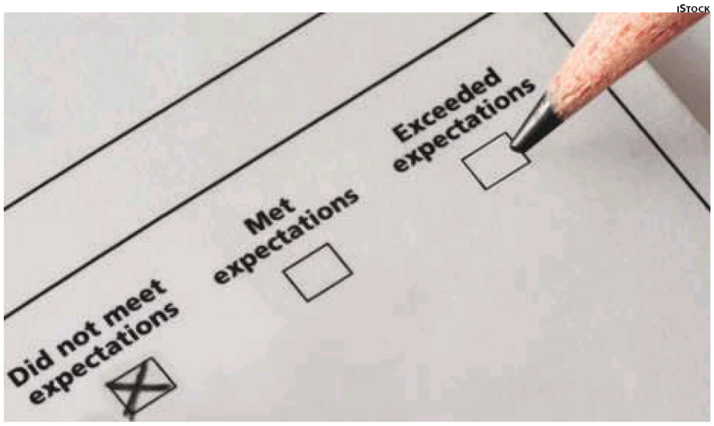

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The three big events of 2017 that will define the year for the insurance sector are: listing of insurance companies, new commission rules for sellers and consumer protection regulations. Here are the details on what happened in this space and what it means for you.

BENEFITS OF LISTING

ICICI Prudential Life Insurance Co. Ltd went public last year, leading the line of firms that went to the stock market this year. Year 2017 saw insurers, both in life and non-life sectors, tapping the markets. Two life insurance companies—SBI Life Insurance Co. Ltd and HDFC Standard Life Insurance Co. Ltd—and three non-life companies—ICICI Lombard General Insurance Company of India, The New India Assurance Co. Ltd and reinsurer General Insurance Corporation of India—went public this year. Reliance General Insurance Co. Ltd is expected to go public within this financial year.

But how does all this impact you, as a customer of these companies?

"Listing puts greater focus on disclosures and a company is evaluated on all these disclosures," said K.G. Krishnamoorthy Rao, managing director and chief executive officer, Future Genarali India Insurance Co. Ltd.

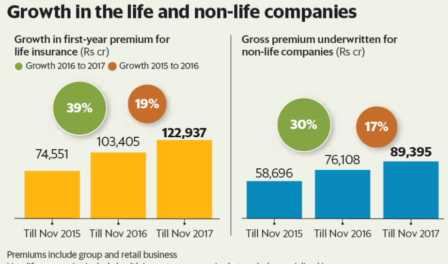
"In the case of non-life insurers, so far they have made profits mainly on the back of investment returns and not because of underwriting profits. This gets reflected in the combined ratio that needs to be below 100% for the core insurance business to be profitable. So, insurers will have to focus on strengthening their underwriting because it's not possible to continue making profits from investment returns alone," Rao added.

2017 YEAR IN REVIEW

Focus on underwriting would mean focus on pricing the right products, having better operational efficiencies and claims management, Rao said.

Similarly, in the life insurance sector, listing of companies has brought about greater focus on achieving efficiencies. "IPOs give the industry a lot of visibility. Listing demands a greater level of transparency, governance and compliance which is good for the industry," said Vigh-

Growth in the life and non-life companies



Premiums include group and retail business
Non-life companies include health insurance companies but exclude specialised insurers

Source: Irdai

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will lead to a push for protection plans. "Being low ticket-size plans, an increase in commissions will make it more viable for the distributors to sell pure protection plans and focus on renewals. Also, being high-margin products, insurers will not have to increase the price. However, in the case of bundled plans, it's not the renewal commission but revamp of product structure that will encourage persistency," Mehta said.

In the non-life space, the new regulations haven't altered commissions for health insurance, but there has been an impact on motor insurance. Commissions on the own-damage portion of the motor insurance cover have gone up from 10% to 15%. Additionally, the insurers can now reward distributors. Read more about this here: *bit.ly/2oEoCmA*.

Some industry experts believe that increasing commissions in motor insurance will ensure better renewals but according to Mehta, given the mandatory nature of motor insurance renewals are not such a concern here.

It needs to be noted here that third-party insurance of motor vehicles is mandatory, while own damage portion of the insurance cover is optional. However, most of the insurers bundle the own-damage and third-party insurance policies and sell them as a comprehensive policy; and most vehicle owners end up buying such comprehensive motor insurance policies.

CHANGE IN AUTO INSURANCE

However, the big change in the motor

apply to car dealers, and the General Insurance Council has assumed a watchdog role to make sure that the dealers don't bargain for higher payouts," said Mehta.

For the insurers, this means a huge saving in costs "but whether these cost (savings) will be passed on to customers remains to be seen," Mehta added.

CONSUMER PROTECTION

New rules to protect policyholder's interest were another key highlight of the year. These new rules aim to ensure that the insurers settle the claims on time and that there are well-defined penalties in case of delays.

"The guidelines clearly mention the turnaround time for policy purchases and claim settlement, clear documentation on products coverage and simple policy wordings that will minimise misselling. These guidelines have also given clarity in claims procedures," added Rao of Future Genarali Insurance.

All these measures will go a long way in winning the trust of consumers, said Shahane of IDBI Federal Life Insurance. "The biggest challenge for the industry is not GDP growth or inflation but winning customers' trust back and to bridge the trust deficit. The rules for protection of policyholders' interests are a step in the right direction," Shahane added. You can read more about the regulations here: *bit.ly/2CUO2RQ*.

The regulations, however, failed to address the issue of transparency as they did not clearly specify the kind of information that insurers are needed to share with

What were some of the big changes in 2017 that will shape insurance industry in the next year?

The biggest change that will shape the industry going forward has been the listing of insurance companies. This is good even for customers because the focus will now shift on growing the embedded value that comprises customer centric metrics like low costs, improved persistency ratios and better protection. In that sense companies will now be more conscious and because listed companies comprise huge market share, unlisted companies will also have to follow the trend.

S. KUMAR/MINT

ARIJIT BASU
managing director and chief executive officer, SBI Life Insurance Co. Ltd

ANIRUDDHA CHOWHDURY/MINT

Demonetisation has led to the insurance industry growing retail weighted premium at 24% in the last 12 months. Two of the top three life insurers also listed in 2017 providing more opportunity for investors in the insurance space. Although the sector is trading at very high multiples, it should rationalise and come in line with experience in other markets. Quality metrics such as 13th month persistence and claims settlement also showed improvement during H1 FY17-18 vs H1 FY16-17 indicating the industry is increasingly doing the right things for the customers.

NAVEEN TAHILYANI
chief executive officer and managing director, Tata AIA Life Insurance Co. Ltd

Undoubtedly the biggest change in 2017 has been the IPOs by some companies. General Insurance companies now have the opportunity of comparing themselves with more evolved companies in the financial services sector. This move is likely to increase visibility of such companies and bring in more transparency, which will ultimately benefit all the stakeholders, including customers.

ABHIJIT BHATLEKAR/MINT

RAKESH JAIN
executive director and chief executive officer, Reliance General Insurance Co. Ltd.

PRADEEP GAUR/MINT

Digitization, including use of artificial intelligence and internet of things with an aim to enhance customer experience at all touch points, innovations that address the savings and return mind-set of Indians and offer wellness based incentives, and government's commitment towards Universal Health Coverage have marked 2017 in Indian health insurance sector

ANTONY JACOB
chief executive officer, Apollo Munich Health Insurance Co. Ltd

Subscribers get control over their pension with tech and new rules

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Ease of operations, taxability and returns: these are the biggest concerns for users of retirement benefit products like the National Pension System and Employees' Provident Fund, the two largest pension products in the country. The year 2017 saw some incremental changes in both these products.

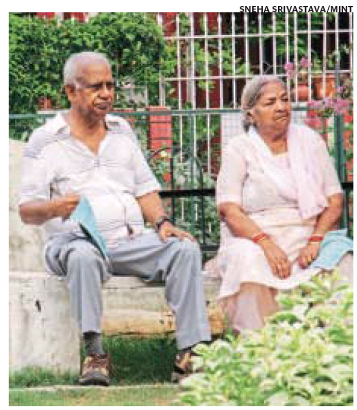
"(This year) has seen the NPS evolve further with measures like partial withdrawal, extending the eligibility to join and a few administrative developments like online enrolment. EPF has not changed significantly but does continue to roll out administrative process updates, for example the ability to apply for withdrawals online and also allow more withdrawal of funds for housing," said Kulin Patel, head of retirement, South Asia, Willis Towers Watson.

We take a look at some important developments in the pension and retirement space in 2017.

NPS PARTIAL-WITHDRAWAL TAXABILITY

The Union Budget 2017-18 had proposed that partial withdrawals of up to 25% of the

SNEHA SRIVASTAVA/MINT



(PoPs), which are entities such as banks that sell the National Pension System (NPS) scheme and earn commission from the investments you make.

In a circular dated 27 October 2017, PFRDA announced a new charge structure for the private sector NPS (the NPS for citizens and corporate entities). Though the hike is marginal and will not impact your investments significantly, it has just made the charge structure a little more difficult to remember.

Gaining ground

23% Hike in NPS assets between March and November **2017**

26% Hike in NPS assets between March and November **2016**

5.5% Increase in NPS subscribers between March and November **2017**

3.8% Increase in NPS subscribers between March and November **2016**

EPF PUTS ITS PROCESSES ONLINE

For all salaried employees covered under EPF, transfers from an old account to a new one, partial and final withdrawals and checking the EPF balance is something that they want to be easy and not mired by layers of paperwork. Over the past few years, the Employees' Provident Fund Organisation has been working on several digital initiatives, which have made handling the EPF account easier for individuals, without having to depend on their company's human resource department.

The year 2017 saw the roll-out of online processes of applying for transfers, and partial and final withdrawals. This has eliminated the need to fill paper-based forms. However, this facility is open only to subscribers who have seeded their EPF account with their Aadhaar number. The EPFO has also put its services, including one to check their passbook, on the Government of India's Umang App.

EPF TO UNITIZE ITS EQUITY INVESTMENTS

EPFO had decided to invest in the stock markets in 2015 but till now subscribers had not reaped the benefits of this move because, though EPFO had put some money in the stock markets it had not nesh Shahane, chief executive officer and whole time director, IDBI Federal Life Insurance Co. Ltd.

Greater transparency and accountability due to listing are long-term positives for policyholders in India.

COMMISSIONS

Another big and much-awaited event for the insurance sector was the overhaul of distribution incentives. But contrary to expectations of drastic measures to bring down the already-high commissions, the new regulations increased the overall level by increasing the renewal commissions and allowing for rewards that could be paid over and above the commissions. Read more here: *bit.ly/2kA4UXg*.

Reacting to this move, Kapil Mehta, co-founder of SecureNow.in, said that this insurance space is in the guidelines on motor insurance service providers.

These guidelines recognise car dealers as insurance intermediaries. Till now, while auto dealers were able to distribute motor insurance policies, they were not recognised as licensed distributors.

With the new guidelines in place, effectively, the car dealers have been under regulatory purview; by defining their roles, licence requirements and the incentive structure. You can read more about it here: *bit.ly/2CX6is5*.

This is expected to bring the price of auto insurance policies down, as the insurers will be discouraged from overpaying these dealers. "Payments to car dealers were in the range of 50-75% of the premium. But now regulations have defined the caps on commissions that their customers. But this seems to be on the agenda for the next year.

The report of the committee set up in January 2017, to review the product regulations, is finally in the public domain and better disclosures are on the menu of its recommendations. Read a quick summary of important takeaways from the report here: *bit.ly/2BW6v1Q*. You can also read the full report here: *bit.ly/2kZJO2u*.

Listing of insurance companies will put focus on controlling costs, improving persistency and increasing productivity of the distributors to a large extent. This is good for the customers. Also, with the report of the committee set up to review product regulations, the discourse in the life insurance sector should move towards increasing transparency and reducing exit loads in traditional plans.

contributions will not be taxed. The explanatory memorandum for the Finance Bill 2017 stated that for employee subscribers of NPS, a partial withdrawal of up to 25% of the corpus would be exempt from tax, which is in addition to the exemption to 40% of the corpus at the time of withdrawal. However, this benefit will come into effect from April 2018.

UPWARD REVISION OF NPS COMMISSIONS

The Pension Fund Regulatory and Development Authority (PFRDA) has revised commissions for points of presence

While the charges for initial subscriber registration and charges for subsequent contributions through e-NPS have gone up, the regulator has introduced a new persistency charge.

An NPS account is persistent if it receives at least Rs 1,000 each year. For this, the PoP will get a persistency reward of Rs50 every year.

NPS ENTRY AGE RAISED

PFRDA has increased the entry age limit for NPS to 65 years, from the earlier limit of 60 years. This is applicable to the NPS for private sector, which is the All Citizen Model and Corporate Model of NPS. A person joining the NPS after 60 years of age will be allowed to contribute to her NPS account till the age of 70.

Source: NPS Trust

SANTOSH SHARMA/MINT

For the subscribers who join after the age of 60, normal exit has been allowed after they complete 3 years in NPS. In this exit too, the subscriber will have to annuitize 40% of the corpus. Exiting before completing 3 years will be considered pre-mature exit and 80% of the corpus will have to be annuitized.

devised a methodology to account for the returns from these investments.

In 2017, the EPFO announced it would credit the exchange traded fund (ETF) units in the provident fund account of its subscribers.

This means, the equity component of your EPF money will get unitized and you will not only be able to track your EPF investments in equities but also realise the gains from the stock market at the time of withdrawal.

It needs to be seen when this comes into effect. The EPFO plans to implement it in the financial year 2018-19.