December 2018

PwC's Insurance Insights

Analysis of regulatory changes and impact assessment for October 2018

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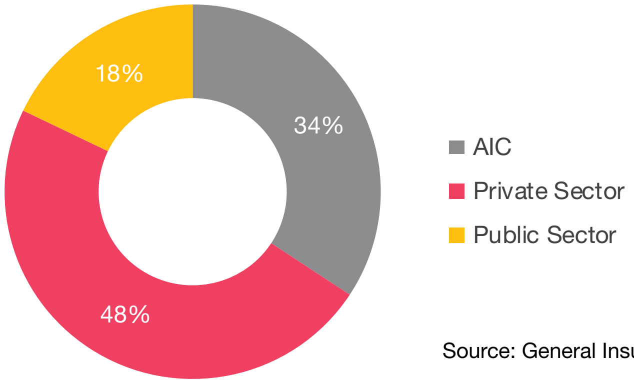
Introduction

The crop insurance market in India is the largest in the world and covers 32 million farmers (19% of the total number of farmers in the country). The Pradhan Mantri Fasal Bima Yojana (PMFBY) Scheme, introduced in Kharif 2016 and operational in 25 states, is underwritten by 16 companies (as on FY16-17). Crop insurance contributes 35% to the General Insurance market, with a total premium of INR24, 351 crores and sum insured of INR1.9 lakh crores in FY18. The market share of crop insurance has risen from 5.5% in FY16 to 16.1% in FY17.

Market Share FY 17



Source: General Insurance Council

Evolution of crop insurance

1985 — The first nation-wide crop insurance scheme was the Comprehensive Crop Insurance Scheme (CCIS) introduced in the Kharif season.

1999-2000 — The CCIS was replaced by the National Agriculture Insurance Scheme (NAIS) in Rabi and the pilot project seed crop insurance scheme initiated.

2003-2004 — The pilot project Farm Income Insurance Scheme was introduced.

2007 — The Weather Based Crop Insurance Scheme (WBCIS) was launched in the Kharif season

2010-2011 — The Modified National Agriculture Scheme (MNAIS) replaced the NAIS.

2016 — The Pradhan Mantri Fasal Bima Yojana (PMFBY) replaced the MNAIS and the Restructured Weather Based Crop Insurance Scheme (RWBCIS) replaced the WBCIS.

1 https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo3617&flag=1

Technology

Technology has played a very important role in the crop insurance market. It is evident that the integration of satellite-, mobile- and ground-based information can clear the ‘information darkness’ in the agriculture sector and lead to provision of information required by different stakeholders. Certain technology trends are mentioned below:

1. One of the biggest challenge in the crop insurance value chain is assessing the crop yield in insurance units to determine the indemnity payout. Human-induced prejudices or choices and methodological limitations together have an impact on the quality of yield data in the current system of crop cutting experiment (CCE). Usage of different technologies will help insurers create assessment mechanisms, using real time, reliable, current and historical data for yield loss assessment.

2. Selection and distribution of CCE plots are usually conducted through satellite imaging of a moderate resolution. These CCE plots are identified with the help of the survey numbers of corresponding fields. Thereafter, the location of CCE fields is likely to become digital by using the digital cadastral layer of the village. Coordinates of fields, along with survey numbers, will be given to field personnel and when the selected survey number is reached within the predefined buffer of a radius of 10m, the data fields of the app are activated and enable data entry. Therefore, by using the map base and app, identification of CCE plots on the ground becomes foolproof.

Government modified operational guidelines for PMFBY

Certain government guidelines have affected the crop insurance industry. Some of these, along with their implications, have been discussed below:

1. Government penalty for delay in claim settlement

The farmers will be paid 12% interest by insurance companies for a delay in settlement of claims beyond two months of the prescribed cut-off date. In view of the high rate of interest, the profitability of insurance companies is expected to be significantly hit.

2. Delay in subsidy sharing

State governments will have to pay 12% interest for a delay in release of the states' share of subsidy beyond three months of the prescribed cut-off date for submission of requisitions by insurance companies. This regulation will bring significant relief to insurance companies by protecting them from hefty penalties and financial loss.

3. De-empanelment of insurance companies

Insurance companies providing crop insurance services are expected to perform according to standard operating procedures, and not complying with guidelines may lead to de-empanelment to underwrite crop insurance.

Going forward

In the future, the main point to consider is the creation of further awareness of the insurance scheme and operational guidelines. Insurers and Central and state governments should work together to communicate a scheme's features and the process of enrolment through different mediums including television and advertisements. In the case of claim settlements, all stakeholders should make an effort to work together within the guidelines in order to comply with the seasonality discipline.

In terms of technology, many projects are being introduced, including the Remote Sensing-Based Information and Insurance for Crops in Emerging Economies (RIICE), in partnership with Gesellschaft für Internationale Zusammenarbeit (GIZ), International Rice Research Institute (IRRI), Sarmap, Tamil Nadu Agricultural University (TNAU), Allianz Re and Agriculture Insurance Company of India Limited (AIC) as insurance partners in India. This project was implemented from 2012 to improve crop yields and crop monitoring by using satellite imagery and crop modelling. It can be used to verify the occurrence of natural disasters such as flood, drought and inundation, and their impact at the village level. It can also predict the impact of a natural calamity on the expected final yield at the end of the season and also helps in preparation of a list of vulnerable areas, showing symptoms of crop stress due to adverse seasonal conditions. This should lead to prioritisation of insurance units (IUs) across a homogenous region where several CCEs are required.

All of these improvements in technology would facilitate the growth of the crop insurance industry in India.

During September 2018, the insurance sector reported an increase in the amount of premiums collected. Specifically within the life insurance sector, the Life Insurance Corporation of India (LIC) continues to control and dominate the market. A brief outlook of the general and life insurance sectors, in terms of premium collection, market share, number of life insurance agents and commissions received are presented below.

S.No	Key facts in the insurance industry	Year	Amount
1	Although there has been a dip in its market share from the previous month, LIC continues to dominate the Indian life insurance market. Refer figures 1 and 2	2017-18	68% of the market
2	Over the last 10 years, there has been an increase in gross direct premium income from motor third party insurance. Refer Figure 3	2007-08 2016-17	INR4,644 crore INR26,573 crore
3	Over the last 10 years, there has been an increase in the investment portfolio of the general insurance industry. Refer Figure 4	2007-08 2016-17	INR2,299 crore INR6,682 crore

Life insurance sector

Figure 1: Premium in Crore (INR)

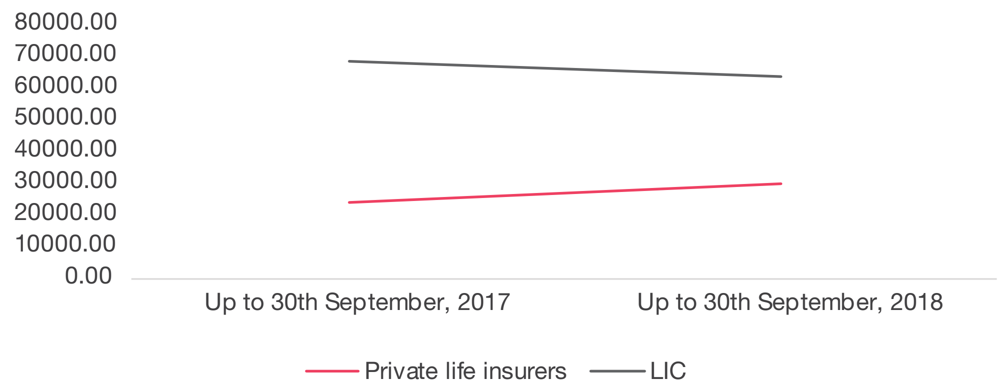
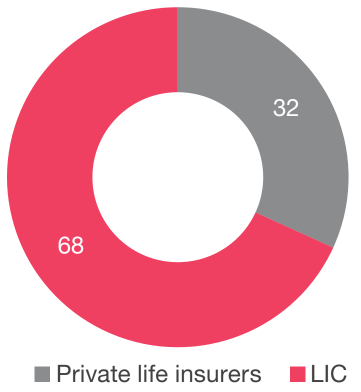


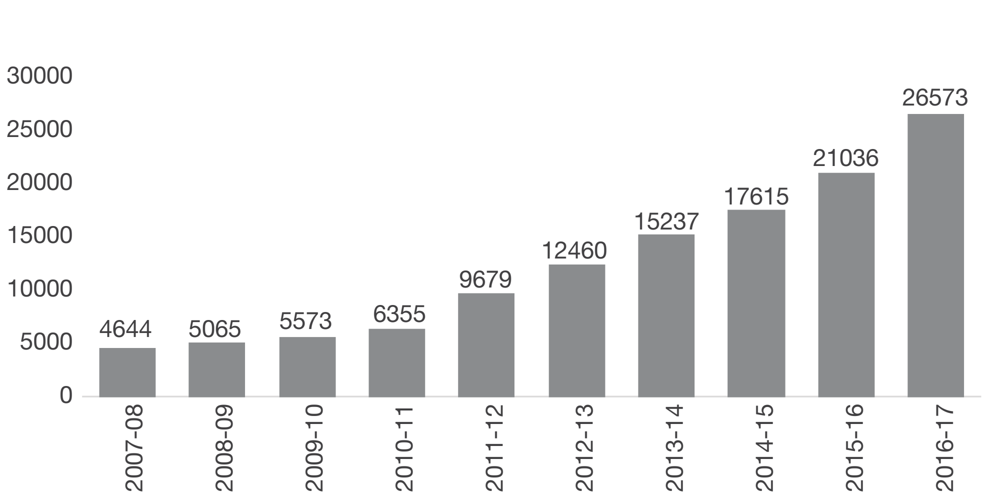
Figure 2: Market share up to 30 September 2018



Source: IRDAI

General Insurance Sector

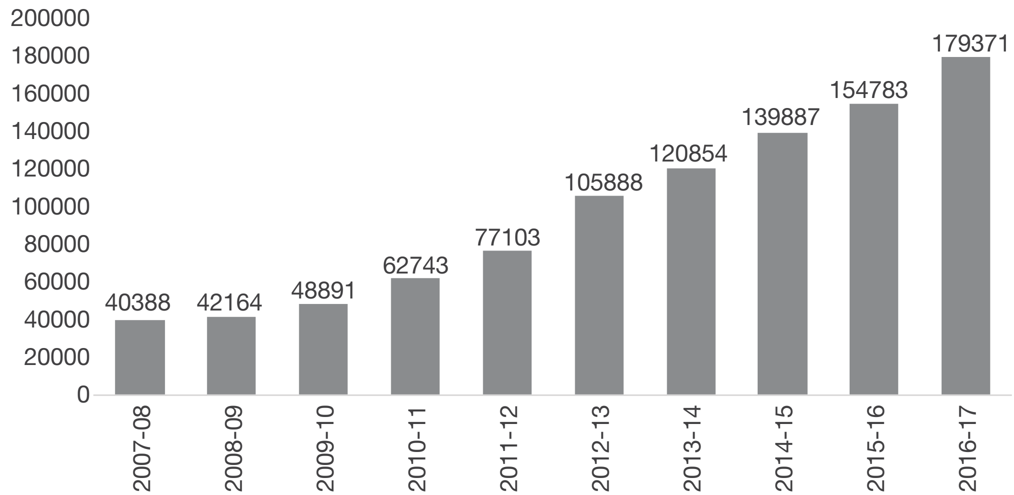
Figure 3: GDPI-Motor Third Party (INR crore)



Year	GDPI- Motor Third Party (INR crore)
2007-08	4,644
2008-09	5,065
2009-10	5,573
2010-11	6,355
2011-12	9,679
2012-13	12,460
2013-14	15,237
2014-15	17,615
2015-16	21,036
2016-17	26,573

Source: Indian Non-Life Insurance Industry Yearbook 2016-17

Figure 4: Growth in investment (INR crore)



Year	GDPI- Motor Third Party (INR crore)
2007-08	40,388
2008-09	42,164
2009-10	48,891
2010-11	62,743
2011-12	77,103
2012-13	105,888
2013-14	120,854
2014-15	139,887
2015-16	154,783
2016-17	179,371

Source: Indian Non-Life Insurance Industry Yearbook 2016-17

Title: Moving towards 'Risk Based Supervision' of the Insurance Sector[2]

Ref no: IRDA/INSP/CIR/RBSF/166/10/2018

Date of Issue: 3 October 2018

Applicability: For all insurers

Introduction

According to the circular above, the IRDAI is planning to develop a 'Risk-Based Supervisory' (RBS) framework to supervise the Indian insurance industry, with every regulated entity being monitored based on the overall risk it carries. Assessing risks will include identifying certain specific activities, including the inherent risk, and examining the control mechanism. With this planned change, insurers will be required to:

1. Review the existing management culture
2. Conduct risk-based internal audit
3. Implement well-defined standards of governance and well-documented policies, procedures and practices
4. Improve their IT and MIS systems to capture and report various elements required for risk assessment

Impact on industry

The implementation of the new RBS approach is expected to affect and bring about changes in the pricing of products and their profitability. Efficient product-related strategies will have to be created to match the timing of cash flows. Moreover, products with short-term or reduced guarantees, which are comparatively low in risk, could be priced more competitively on the basis of this new approach. These products may be less sensitive to change in assumptions compared to other products, and hence, will require reduced capital under the RBS regime.

Our point of view

With evolving changes in the insurance industry, new risks are being identified for insurers. Therefore, it is important for the regulator to be able to assess whether insurers are maintaining adequate capital. In order to assess this, development of a new risk-based framework will help the regulator assess the future inherent risks of insurers better and continue to protect the interests of policyholders.

2 https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo3610&flag=1

Title: The Human Immunodeficiency Virus and Acquired Immuno Deficiency Syndrome (Prevention and Control) Act, 2017[3]

Date of Issue: 9 October 2018

Ref no: IRDA/HLT/MISC/CIR/169/10/2018

Applicability: All general insurers (except ECGC, AIC and stand-alone health insurers)

Introduction

With reference to the Human Immunodeficiency Virus and Acquired Immuno Deficiency Syndrome (Prevention and Control) Act, 2017, the provisions of this Act have been converted to an order as of 10 September 2018. The IRDAI has announced that insurers are required to comply with the provisions of this Act with immediate effect.

Our point of view

By requiring all insurers to not discriminate any person with this ailment on any grounds, this is a sound social initiative undertaken by the regulator. An insurance policy will not be provided only if there are actual grounds that disqualify a person from receiving it.

3 https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo3610&flag=1

Title: Compulsory personal accident insurance for owner-driver under motor insurance[4]

Date of Issue: 9 October 2018

Ref no: IRDAI/NL/CIR/MOTP/170/10/2018

Applicability: All general insurers (Except ECGC, AIC and stand-alone health insurers)

Introduction

With reference to the circular dated 20 September 2018 issued by the IRDAI, there have been complaints received from various stakeholders regarding implementation of compulsory personal accident (CPA) insurance for owner-drivers. In this regard, the following instructions include:

1. All insurers are required to offer the choice of one year CPA cover to an owner-driver.
2. CPA cover is not required in cases where the vehicle is owned by a company or a partnership firm, or in cases where the owner-driver does not hold a valid driving licence.

Our point of view

By specifying the criteria for CPA insurance of owner-drivers, the IRDAI is making prospective policyholders aware of the choices available to them while taking a decision to purchase CPA cover. This will reduce any possibility of misinformation being communicated by the insurer to the prospective customer.

4 https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo3622&flag=1

Title: Exposure Draft on IRDAI (Linked Insurance Products) Regulations, 2018 and IRDAI (Non-Linked Insurance Products) Regulations, 2018[5]

Date of Issue: 26 October 2018

Applicability: All

Background

Based on the IRDA (Linked Insurance Products) Regulations 2013 and the IRDA (Non-Linked Insurance Products) Regulations 2013, there have been many changes in the trends of product structures due to changes in customers' needs and preferences. Considerable innovation has been witnessed in methods of placing products in the market as well as innovation in their structures, and the benefits provided by them.

The following are some of the key changes proposed in the current regulations:

1. The minimum death benefit has been made 7 times for regular premium products and 1.25 times for single premium products for all ages.
2. Non-linked policies have a guaranteed surrender value after 2 years.
3. The revival period has been extended to 5 years from the current 2 years in respect of non-linked products.
4. In respect of pension products, the option for commutation of up to 60% is allowed.
5. The facility for partial withdrawal is allowed for linked pension products.

5 https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo3650&flag=1

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