# Looking Ahead in Insurance

2010 witnessed many new ruling in Financ Industry which has permanently changed t entire scenario in both Mutual Funds as w as Insurance Industry. In Mutual Fund probably the most important change w abolition of entry loads and higher regulat to protect the interest of the retail investor.

In Insurance, the spat between the t regulator namely SEBI & IRDA brought lime light the higher commission being paid advisor on ULIP plans. This brought n regulation cut down on total cost be charged to ULIP, thus bringing cheers retail investor.

Row over Cashless settlement between TP of Health Insurance Companies and Hosp created unrest in mind of consumer, wh also eventually brought better control (a hence saving) for Health Insuran Companies.

## Indian Insurance Industry

Indian Insurance Industry is broadly classified into Life & Non-Life which is more popularly known as General Life Insurance. Life Insurances are long term contract while Non-Life are typically one year contract signed between the Insurance company and the customer. The policy document issued is a proof of the contract. Since all the Insurance contracts are one sided i.e. designed and executed by Insurance Company and the other party (customer) has very little say on terms & conditions, the condition “Insurance is a subject Matter of solicitation” & “Uberrimae Fides” (Utmost Good Faith) prevails.

## Life Insurance Companies offers

- **Term Policies**, which include loan cover term assurance plans, group insurance plans,
- **Endowment Policies** - The endowment policies are of various types like anticipated endowment (popularly known as Money Back policies), Joint Life Policies, whole life etc
- **ULIP** (Unit Linked Insurance Plans).
- **Annuities** – Immediate as well Deferred
- **Pension plans** – Individual as well Group

**General Life Insurance Companies** offers vast range of products. Some of them are as follows:

- Health Insurance
- Car (vehicle – both private & commercial) Insurance
- Travel Insurance
- Liability Insurance
- Fire/ Earthquake / Natural peril Insurance
- Marine insurance, etc.

The **IRDA** issued new guidelines on June 28 2010 for ULIP plans. Some of the norms laid down were:

a. rationalisation of charges,
b. fixing the maximum reduction in yield between 4 per cent and 2.25 per cent, from the annualised premiums paid from 5th to 15th year of a policy and
c. increase of lock-in period for ULIPs to five years including top-up premiums.

The above norms made life insurance Companies to withdraw nearly 250 ULIP products from the market immediately and submitted fresh proposal to comply with the new norms which came into force from September 1.
Some of the other effect of the regulation has been increase in minimum premium by most of the Private Insurance companies (to reduce administrative cost?), withdrawal of the Zero Death benefit Pension Plans (new Regulation specifying the Insurance Company to announce minimum Guaranteed returns on corpus), introduction of new Traditional Plans by Private Insurance companies, cost reduction by Private Insurance companies (like shutting down of less productive branches, controlling expenses, use of e-mail for communications etc.) etc.

**YEAR 2011**
"***Change is the only constant phenomenon***"
It is strongly believed that Regulations are better for the growth of the industry. When SEBI tried to regulate secondary market, initially it creates hue & cry (readers may like to recall when dematerialisation was made compulsory, some of the broker thought it was end of secondary market) but eventually the industry came out strong and grow by leaps and bound.
Regulator will bring more changes for the development of the industry and Insurance Companies will innovate. For Investor – "Let the Buyer Beware" – you need to be more open vigilant to understand the finer prints.

**LIFE INSURANCE** –
ULIPS which at one time became a detested word, will continue to stay. It has become much better product after the Regulatory has rationalised cost (which not only include the commissions being paid to advisor across industry but also the FMC fee -Fund Management Fee being charged by Insurance Company for managing the fund -In fact investor may find it to

be lower than FMC being charged by AMC -Asset Management Company of Mutual Funds). Insurer will look at alternate distribution channels to bring down the cost. Irda allows differential rates for offline & online products, so we expect more online sale

**Our Advise** – Try to negotiate for the highest cover that is available and Choose Monthly Option for Premium Payment rather than Lumpsum to take advantage of Rupee Cost averaging.

There will be increased focus on Traditional Plans like Endowment Plans, Joint Life Plans, whole Life Plans etc.

**Our Advise** – Traditional Plans are best suited for Risk Averse investor. They should be part of total portfolio.

Term Insurance saw renewed interest with many private insurance companies reducing the rate and launching e-policies which are sold directly to customer (without advisor) through web-portal of the company.

**Our Advise** – A MUST FOR EVERY EARNING MEMBER. We expect as life expectancy improves, premium will reduce. Also increase competition amongst insurer will bring better efficiency and hence reduce premium.

## HEALTH INSURANCE

Penetration of Health Insurance is still very low. Most of the service class depend on the Health Insurance coverage provided by the employer. With rising medical cost and claims, cost of insurance will go up. Hence employer will (have) start (ed) asking employee to share the cost.

There are many Insurers who provide Health Insurance only. New players will come in which will further increase the competitiveness. Market is likely to be segmented with new Health product aimed at providing luxury treatment. Critical Care will gain focus.

**Our Advise** – Take Health Insurance independent of the company. Look at Critical Insurance product being offered. Top Up product may not offer much advantage.

## Home Insurance

Indian consumer has yet not taken to the idea of home insurance. Due to boom in real estate and raising of Home Loans, banks have been insisting on Home Insurance which is making people realise about the importance of same.

**Our Advise** – We recommend getting your home insured against nature's peril (fire / earthquake) Please read the clauses carefully to understand what is being covered.

## AUTO INSURANCE

Thanks to Motor Act and growing sales of vehicle, auto insurance has been increasing. Expect more players to come in which will increase competition. Expect some innovative products which will reduce the risk of auto-owner

We expect one of the Most Important transition in Insurance Industry to be announcement of guideline for the initial public offering (IPO) for the insurance companies by IRDA (Insurance Regulatory & Development Authority). Also we expect enactment of the proposed hike in Foreign Direct Investment (FDI) limits.