inotes
Newsletter from India's Leading Insurance Broking House
July 2014

50th issue

India Insure
The risk managers

Message from the Editor

We, at India Insure, take great pride in reaching you through the 50th issue of ***inotes***. You will agree that 50 issues, is definitely, an achievement. We can say that this has been possible only because of the encouragement that we have received from you – our readers.

Hon'ble Finance Minister, Mr. Arun Jaitley, has proposed to increase the Foreign Direct Investment limit in the insurance sector to 49 per cent from the current level of 26 per cent. There is, however, a rider that management and control of the company will remain with the Indian partner. Industry experts, however, opine that for greater impact the increase in FDI should not have come with any strings attached. Insurers have welcomed the move considering it would lead to product innovation, improved customer service mechanism and higher insurance penetration in the country. If these can actually get triggered because of the increase in FDI, it will be really great.

We are all aware that the liberalisation of the Insurance Industry in India came into force with the entry of Private Insurers in the year 2000. We have traversed through 14 years of liberalisation and have witnessed the evolution of the sector during this period. This issue brings out, in a vivid fashion, the challenges facing the industry in the liberalised era.

A Claims Case study, discussed in this issue, delves into the operation of the Agreed Bank Clause in the face of a loss.

Our Editorial Team had interviewed Mr. M. Ramprasad, Member, Non-life, IRDA and the same is being brought out in this issue. I place on record my sincere thanks to Mr. Ramprasad for having consented for the interview and providing his valuable inputs.

In the Readers Speak column of this issue, Mr. Michael Joseph, Manager, People Department, Aditi Technologies Pvt. Ltd., Bangalore has expressed his views on Brokers Performance in general and also as to how he expects them to perform. I thank him on behalf of our Editorial Team and also on my own behalf.

V G Dhanasekaran
Editor - *i-notes*

Indian Insurance Industry – Weathering the Storm and Recapturing Growth

As we complete 14 long years of liberalization of the Indian insurance industry, we see how the sector has evolved over the years, growing and maturing with every development that is taking place. The Indian insurance industry has experienced rapid expansion over the past decade, with premiums growing from around Rs. 42,500 crs in 2000 to around Rs. 3,70,000 crore in 2014. The increased number of players, the various modes of distribution, the regulatory changes and technological improvements together with the healthy economic growth has all propelled the industry to where it is poised today. Notwithstanding the intermittent slowdown of business, the insurance market in India has traversed a long way since privatization.

However, hand in hand with the huge opportunities available have also come multiple roadblocks that hinder tapping into these opportunities up to their optimum potential. Yes, the Insurance Industry in India is today confronted by a multitude of challenges in its exciting odyssey towards becoming one of the most sought after insurance markets in Asia. This article attempts to highlight the various challenges faced by the industry from one of the many possible perspectives.

Low insurance literacy translating to Low insurance penetration

Insurance penetration in India was always low, but, worryingly enough, it has been falling even lower for two consecutive years now. The extent of under-penetration in the market is a sore point with the insurance industry since Indians are ready to channelize a large amount of their savings into gold and real estate but when it comes to insurance, the customers expect a return on it rather than the protection that insurance offers. The interplay of cultural and behavioral attitudes prevents savings from being streamlined into insurance products.

With insurance penetration at a low 3.1% and 0.8% for the life and non-life sectors respectively in 2013, Mr. T S Vijayan, the Chairman of IRDA has called for the financial inclusion of all sections of the Indian population by making insurance products available to lower income groups at an affordable price. Both, existing and new players need to acknowledge that there is a huge gap between the objective of insurance inclusion in India and the current state. The main roadblock in tapping this opportunity is the very low levels of insurance awareness and financial literacy.

The role of the distributor or the financial adviser assumes a lot of importance here, as he is the touch point for the customer. It rests upon the advisor or the distributor to encourage the customer to purchase products relevant to him and help achieve his financial security over a

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Indian Insurance Industry .... Contd. # 2

period of time. It is important that the customer understands that insurance is not a tax-rebate / investment product, but the key to his and his family's security. It is hence critical that the distributor undertakes measures and initiatives to educate the customer and increase his level of awareness. For this to happen, the distributor fraternity needs to be adequately trained and regulated so that insurance is sold for the right purpose in the right manner. Insurers also need to invest in spreading investor awareness through regular programs and campaigns beyond the cities.

Mis-selling resulting in Customer Trust Deficit

"In my view, the reason why insurance is stumbling in India is because of mis-selling of products and complex products," – these are the words of Mr. P. Chidambaram, the then Finance Minister, addressed during a public speech in 2013.

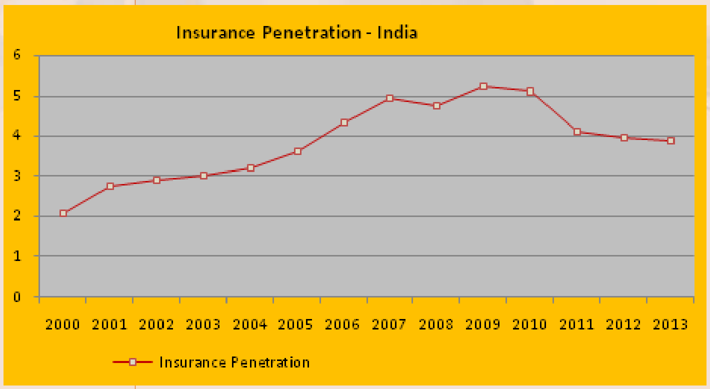
That insurance policies have been mis-sold in the past years is a known fact and so is the ugly truth that it is rampant even now. There were news reports of critical illness policies being sold as health insurance to customers but the classic example that will stand out for mis-selling in the annals of Indian insurance will undoubtedly be the ULIP (Unit Linked Insurance Plan). The disillusionment created by the burst of the ULIP bubble has dented public trust and fundamentally changed customers' appetite for insurance policies. Customer's low understanding of insurance product/ policy language and lure of short-term gains coupled with intermediary's lack of accountability and front-loaded commission structure are some of the reasons why mis-selling has continued unabated in India. Often, the intermediary does not clearly explain the policy coverage to the customer and the buyer is in a hurry and doesn't care to read the policy copy.

It's time Insurers demonstrate trust and build confidence in the customers that the products they are buying are right for them and will meet their needs in case of an exigency. The insurance industry cannot exist without its customers and unless the industry takes action to regain customer confidence, insurance will spiral into a scenario of discounting premiums, denying claims and losing both credibility and customers.

Inadequate Pricing - Underwriting Losses - Low Profitability

Aggressive price war among insurers from time to time and the industry's attitude in throwing caution to the winds while pricing the risks is deteriorating the health of this sector. Though the industry has come a long way over the past decade, underwriting profitability continues to remain elusive for majority of the insurers. To choose to refrain from writing underpriced business is called "underwriting discipline." But since investment income is compensating for the underwriting loss, insurers are often tempted to continue to write business even if it is priced below cost. In a model, which may not be sustainable in the long run, the Indian insurance industry has been staying afloat piggy backing on the investment income all along. Total underwriting loss for the non-life industry stood at Rs. 8181 crs for FY 2013.

Disciplined underwriting has been a Holy Grail for the insurance industry - a vision that all desire but seldom attain. It's time insurers take a critical look at whether the tradeoff between growth and profitability is still worthwhile. Though insurers appear to be taking small steps to improve profitability, they still have a long distance to run.



It's only about Price

In today's insurance world, not only is price the competitive factor, reducing price has become imperative for market share. Inspite of the many product differentiators available, only the Price factor finally matters to majority of customers in the insurance buying decision. Further, the insurer's fanatic obsession with top-line growth has added fuel to this fixation on price. The constant undercutting to capture customers may make for some short term gains, but more often it damages brand equity and erodes profit margins. Intermediaries are also to be blamed equally for this because in the battle for survival, the brokers have been pushed to become 'price discoverers' for the customers' thus putting unwelcome pressure on insurance companies.

Insurance should be about the protection provided not the cost. While being competitive on price remains important, insurers need to restructure price to align with value in order to compete effectively.

Cumbersome Claims Process

Claims- that process which fulfills the promise an insurance policy makes is often treated as the wallflower of insurance, fading into the shadows, as its more celebrated sibling - 'sales' hog the limelight.

Claims handling especially on the non-life side is associated with huge, unnecessary, inefficient and time consuming processes which puts off the consumer due to lack of clarity and transparency. When the customer calls in with a claim, there is little clarity about exactly how and when he will see results. He is questioned for innumerable details, often on a piecemeal basis, leaving him with a negative feeling about the whole interaction.

For a claim to be processed to the satisfaction of a customer without the insurer getting his feathers ruffled, there is a huge responsibility on both parties. This responsibility does not arise only when the claim occurs, but is a direct function of several precautionary measures taken by both – the insured and the insurer before the risk is accepted, during the currency of the policy and at the time of a claim. If the customer is made aware of how to handle the claim, half the battle is won. Many disputes arise because of neglect or non-compliance. Retaining existing customers is always more cost-effective than acquiring new ones and for customer retention to happen, the claims experience is pivotal.

Complicated policy language

Insurance policies are generally couched in jargon – a dazzling assortment of clauses, sub-limits, coinsurance, definitions, notifications, fees, penalties, exclusions, endorsements, etc. to be read, re-read, re-re-read and understood, and finally, the understanding may be very different from what the insurer intended! An insurance product is intangible by nature - the only tangible component is the policy document, which is ambiguous and difficult to comprehend. In reality, insurance was not intended to put off or confuse the insured, but unfortunately that's what it is doing now.

Explaining specialized vocabulary in simple, plain English will make it easier for a policy holder

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Interview

Mr. M. Ramaprasad, *Member (Non-life), IRDA*

The non-life industry clocked a growth rate of 12.2% in FY 2014 compared to 19% last year. What do you think are the reasons for this declining growth?

The second half of the year 2013-14 recorded a steady decline in the procurement of Gross Direct Premium by the Non-Life Companies. Over 42% of the NL business, emanates from Motor Insurance portfolio. There was a clear decline in the number of new vehicles sold in the country and this directly affected the growth in new premium. The Country witnessed a sluggish industrial climate, with less growth in the existing industry and almost minimal activity in the area of new industries and projects. With lesser opportunities for new business, the insurance companies seem to have faced tough and aggressive marketing conditions to retain their existing business and grab whatever new business were seen. Average price levels suffered.

What are the three foremost challenges that the Insurance industry in India is facing today?

In my opinion, I would list the following three areas, as foremost ones posing challenges to the Non Life industry:

a. **Display of Professionalism -** It is over 7 years since we moved into a free pricing regime, save the Motor Third Party Insurance line of business. TAC, which was the erstwhile depository of insurance data, for various reasons could not come out with intelligible analytical reports and trends and ultimately it also got wound up. This posed additional challenges to the Underwriters and Actuaries in the industry, to decide on the adequate level of pricing. Insurers claim to have put in place a mechanism to capture and analyse their own business data and use the tool in assessing a risk and price it at adequate level. However, I observe that marketing pressures overwhelm the area of technical underwriting and the industry is not showing expected professionalism in their decision in accepting risks at adequate price levels.

b. **Distribution Channels** - In a vast country like ours, the traditional channels of distribution, namely, Agents and Brokers alone cannot serve the need and exploit the potential. New channels like Corporate Agents, Bancassurance, Micro Insurance agents have served to a limited purpose. We are looking at Web Aggregators to improve opportunities. We have encouraged the industry to now use the available Common Service Centres established across the country to distribute and deliver atleast 'off the shelf' products. Technology usage is encouraged to make products available 'on line'. In spite of all these available resources, the industry has had little success in achieving higher penetration of general insurance products. This area poses a definite challenge.

c. **Talent pool -** The industry is already facing depletion of experienced personnel to handle the business. Talents who have had experience both in a free market, then in a tariff market and again in to a free market are diminishing. Therefore, there is an urgent need to make available qualified and trained personnel. Way of doing business is changing and therefore a system providing up-gradation of talent and skill is necessary.

There has been no tangible increase in the non-life insurance penetration in India despite IRDA's attempts to perk it up. What according to you needs to be done to improve the penetration levels?

It cannot be denied that the General Insurance in the country has achieved a sustained decent growth in volume in the last 10 years. However, when it is measured as ratio of premium to Gross Direct Product of the Country, the penetration levels are almost stagnating. At the present level of disposable income available in the hands of citizens, one looks for financial instruments, Life Insurance, capital market instruments and then only the general insurance products. An encouraging development is, that today, more than 20 crores of population is having a health insurance coverage. The main contribution in this area, of course, has come through State sponsored health insurance coverage, which has been complimented by sale and purchase of health insurance products by others. This segment has been growing impressively in terms of number of persons covered and its utilization.

Awareness campaigns have been taken up to spread knowledge on general insurance products but still there has to be an effective channel of distribution to market products in mass scale in semi-urban and rural areas of the country.

To penetrate rural areas, low-priced products are required. But since the commission of distribution intermediaries is directly linked to the premium amount, they are not incentivized to sell these low-priced products. How does IRDA plan to handle this paradox?

Distributing low priced general insurance products is a challenge. The commission and brokerage caps prescribed by the Authority may be a reason. However, using technology we have to look at some out of box solutions. Recently, Authority has facilitated use of the Common Service Centres set up through the efforts of the Government of India to distribute and deliver insurance products. These CSCs are situated in about 1 lakh villages and they have internet connectivity. The Authority has encouraged Insurers to get into a working relationship with the CSC - SPV and distribute and deliver standard off the shelf products. In general insurance - Motor, Personal Accident, Dwellings and such other useful products for the rural mass will soon be available for purchase through these CSC centres.

India continues to be a price sensitive market. How and when do you foresee the market maturing?

India continues to be a market where a general insurance product is to be pushed. Even the mandatory motor third party insurance has slippages and we estimate that over 20% of the registered motor vehicles plying in public roads have not purchased the required insurance. As I said earlier, there is bound to be aggressive postures taken by the marketing personnel but the underwriters have a responsibility and role in ensuring adequate price levels for the products to sustain and live long. IRDA through its sponsored institution, Insurance Information Bureau, will be making available the burning cost and other data of all lines of business; certain reports are already in the public domain. This would enable knowledge –based decision being taken.

The Authority on its part ensures and insists that adequate reserves are kept apart to meet claims and other liabilities and also a strict watch is kept on the solvency levels. We do believe that such enforcement, will discipline the market. Shareholders will definitely not put additional capital just to lose in a normal way.

The insurance industry as a whole relies heavily on investment income to generate profit. When and how is this likely to change and the industry expected to record an underwriting profit?

In a free price market, one can expect the price levels to be under stress and ideally will be only at the brim level. Internationally we see the Combined Ratios of the general insurance industry is hovering around 95%. Earning out of investible surplus is very low in many countries, whereas in our country there is a decent opportunity. It is a fact that the CoR of general insurance companies are at 100% and above. PSU companies and other established private insurers have the advantage of 6% to 10% of Net premium as investment earning and this acts as a cushion and affords subsidisation. Shareholders are sensitive to this and we have already seen many insurers showing improvement in their underwriting results. On the other hand, Reinsurers who support the market do underwrite selectively and to get sustained quality reinsurance coverage, the direct insurers will have to improve on their underwriting.

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to understand how the insurance contract works. No doubt, certain terms need to remain as part of the special vocabulary of the industry, but those terms can and should be well-defined so that each party knows precisely what the term means in the context of that contract.

Over the last two decades, in several countries including US and UK, campaigns towards making insurance policies in Plain English have become a movement. In India, to a large extent with the IRDA's intervention and the opening up of the industry, several insurers have been working towards simplifying the policy wordings to make them more reader friendly. In spite of this, even today, if you ask the general public, they will still cite insurance policies as prime examples of legalese. Insurers then definitely have a lot of ground to cover in this area.

Burden of Regulatory Compliance

A wave of Regulatory changes has been sweeping across the insurance industry since past 3-4 years. The uncertainty over how regulatory reform will play out is troubling insurers and swamping the industry with costs and risk of regulatory compliance. In the interim, insurers do not know what exactly will be expected of them, what information they will be required to produce, what changes in their operations they will be required to make or what expenses they might have to incur to meet new data and regulatory demands. This heavy burden of regulatory uncertainty seems to be creating a sense of frustration.

Third party motor insurance

Though motor insurance premiums account for the largest chunk of the Indian non-life industry premium pie, it has historically been considered as a not-too-profitable line of business. Motor third party (TP) insurance has traditionally been loss making and all non-life insurers have attributed a large part of their underwriting losses to this.

Insurers find it paradoxical that on one side they are compelled to mandatorily provide TP insurance without any limit of liability; while on the other side, they are not allowed to price the risk. The creation of a declined risk pool and revision in third party rates on a yearly basis has brought about a slight improvement in the claim ratios but insurers are far from satisfied. The industry feels that at least a 60-65 per cent hike is required in the Third party premiums to see the motor insurance portfolio break even, as the judicial awards by courts has been rising every year.

IRDA has also drawn plans to free up pricing of motor third-party cover from 2015. The industry is of the opinion that for this to work; there should be changes in the law to reintroduce laws of limitation, jurisdiction on MACT (Motor Accident Claims Tribunal) claims and there should also be a cap in respect of the statutory liability. The absence of any time-limit in filing these TP claims has given rise to fraudulent claims where the case is intentionally filed after many years so that the insurers will not be able to investigate the facts or to assess the factual loss. Studies show that around 10 to 15 percent TP claims are false and almost 30 to 40 percent claims are exaggerated.

That the Motor Vehicle (amendment) Act, 2012 has already been passed in the Rajya Sabha and is expected to be taken up by Lok Sabha provides some respite to insurers. The Bill has proposed to cap the time frame for filing a third party claim to three years. The Bill has also proposed to cap the compensation at Rs. 1 lakh for injuries or disabilities and 10 lakh in case of death. Lest the accident victim / his family members are not satisfied with the compensation offered, then they have to approach the MACT.

Tackling Insurance Fraud

Fraud is a significant causative factor for continuing losses in the insurance segment especially on the motor and health side. A report by India Forensic stated that Indian insurance companies have borne a loss of over Rs 30,000 crore in 2011 due to different kinds of frauds.

Acknowledging that fraud in this line of business is a challenge to be met squarely, IRDA is in the process of deploying a software tool to detect probable fraud cases and assist the insurers in tackling and curbing them effectively. Exchange of information on fraud cases amongst the insurers should be encouraged. The regulatory framework on detection, classification, monitoring, reporting, and mitigation of frauds is presently being put in place. IRDA has also facilitated capture and transfer of data in a prescribed format to the Insurance Information Bureau (IIB). India should probably take a leaf out of the US, where, to prevent losses due to healthcare insurance frauds, the government has introduced Health Insurance Portability and Accountability Act (HIPAA) that makes insurance frauds a criminal offence liable to imprisonment of over 10 years and financial penalties, depending on the nature of the crime.

Innovating and Improving the Customer Experience

The widespread evolution of internet and mobile technology over the past decade has led consumers to expect convenience, simplicity and transparency in any and every transaction. Technological advances have transformed consumer preferences and how they interact with insurance carriers while purchase of a policy. While insurance industry has been slow to adopt new technology for reasons of conservatism, cost and the belief that insurance is sold through personal contact; this area provides a white space for insurers to innovate and improve the customer experience. Recent research has shown that though many Indian customers are more comfortable buying through an intermediary, they do online research on various options available before making the insurance purchase. The internet will definitely change the way customers engage with insurers in the coming decade and insurers need to keep pace.

Skills shortage and lack of pull in this industry

One of the most pressing issues the industry faces at present is a serious skills shortage and a major talent pipeline challenge-with over 70 percent of senior management personnel in the industry due to retire in the coming 10 years. The Insurance industry today faces an uphill task in bridging this talent gap and these talent constraints are already impeding or even derailing growth plans. Insurance executives and consultants have blamed this situation on three things: lack of appeal of insurance careers among college students, a poor reputation and a limited pool of trained talent.

The industry can attract and nurture talent by investing in the existing workforce, raising insurance awareness among college students, working closely with Universities to include insurance and risk management subjects in their coursework and by redefining the industry's image. While Indian insurers are starting to recognize the value of talent management and succession planning, in many cases there appears to be a substantial gap between intention and reality. It's time the industry leaders put on their thinking hats to explore proactive and sustainable ways to attract and nurture talent.

Conclusion

While the insurance industry still struggles to move out of the shadows cast by the challenges mentioned above; in the long run the insurance industry is poised for a sturdy growth due to the significant untapped potential in various segments of the market. A concerted set of action is required by the players and the policyholders alike to battle these challenges and for the Indian insurance industry to make its next quantum leap. How these challenges are handled and weeded out will play a critical role in shaping the market's evolution over the next decade.

Report Card - May 2014

Gross premium underwritten by non life industry for and up to the month of May 2014* **(Rs. In crores)**

INSURER	MAY		GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR (%)	APRIL - MAY		GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR (%)
	2014	2013		2014	2013	
New India	886	779	13.8	2430	2134	13.9
United India	871	840	3.7	1966	1862	5.6
National	868	754	15.1	1881	1673	12.5
Oriental	616	608	1.2	1433	1351	6.1
ICICI-Lombard	516	460	12.3	1363	1278	6.6
Bajaj Allianz	357	351	1.6	778	736	5.7
IFFCO-Tokio	235	222	5.7	563	540	4.4
Reliance	220	199	10.9	560	496	13.1
HDFC ERGO	202	180	12.0	552	597	(7.5)
Tata-AIG	183	194	(5.7)	517	509	1.6
Bharti AXA	122	106	14.8	329	301	9.3
Cholamandalam	146	147	(0.8)	299	329	(9.1)
Royal Sundaram	130	133	(2.3)	290	279	4.2
Future Generali	112	94	19.0	255	220	16.2
Shriram	120	124	(2.9)	221	235	(6.1)
SBI General	102	85	20.3	208	185	12.2
ECGC	102	104	(1.3)	187	185	0.9
Star Health	84	61	36.6	164	117	40.1
Universal Sompo	46	51	(8.6)	116	101	14.1
Apollo MUNICH	44	34	27.9	88	73	20.2
AIC	40	49	(19.9)	87	175	(50.2)
Magma HDI	33	24	39.7	66	42	55.4
Max BUPA	23	20	18.3	49	38	28.0
L&T General	22	17	34.6	48	44	10.3
Liberty	22	4	424.5	47	8	524.3
Religare	15	20	(24.5)	37	41	(11.5)
Raheja QBE	2	3	(33.6)	4	5	(13.4)
Cigna TTK	0 .42			0.74		
PRIVATE TOTAL	2736	2528	8.2	6555	6173	6.2
PUBLIC TOTAL	3382	3134	7.9	7984	7379	8.2
GRAND TOTAL	6118	5662	8.1	14540	13552	7.3

* Source : IRDA

Observations: Performance for April - May 2014

- The non-life industry has registered a growth rate of 7.3% up to the month of May 2014. Total premium collected by general insurers up to the month of May 2014 is Rs. 14540 crores vis-à-vis Rs. 13552 crores last year.
- The accretion achieved by the PSU's during the period April -May 2014 is Rs. 605 crore while the private players have achieved Rs. 382 crore towards the overall market accretion of Rs 987 crore.
- The PSU's have registered a growth rate of 8.2% during the period April - May 2014 vis-à-vis 13.1% for the same period last year while the private players have registered a growth rate of 6.2% during this period compared to last year's 28.3%.
- The major contributors have been: New India with an accretion of Rs. 296 crore, National with an accretion of Rs. 208 crore, United with an accretion of Rs. 104 crore and ICICI with an accretion of Rs. 85 crore.
- In terms of growth during the period April-May 2014, Future Generali registered a growth of 16.2%, followed by Universal Sompo with 14.1%, New India with 13.9% and Reliance General 13.1%.
- In terms of growth amongst the health insurance players during the period April-May 2014, Star Health registered a growth of 40.1% followed by Max Bupa at 28% and Apollo Munich at 20.2%.
- The market share of PSU's has increased collectively from 54.4% to 54.9% during the period April-May 2014 while the market share of the private players have decreased from 45.6% to 45.1% during the same period.

News Titbits

FDI in insurance to be hiked to 49 per cent : Jaitley

Source: The Hindu

In a big relief to the capital-starved private insurance sector, Union Finance Minister Arun Jaitley on Thursday proposed raising the Foreign Direct Investment (FDI) cap from 26 % to 49%. "The insurance sector is investment starved. Several segments of insurance sector need expansion. The composite cap of the insurance sector is proposed to be increased to 49 per cent from the current level of 26 per cent with full management and control through the FIPB route," he said while presenting the Budget for 2014-15. The move would help insurance firms to get much needed capital from overseas partners.

India is 15th in world in premium volume: Swiss Re sigma study

Source: Business Standard

Global re-insurer Swiss Re's sigma study on world insurance in 2013 said India stood at 15th position in the world in terms of premium volume. In 2012, it was at 14th position. The study showed insurance penetration in India fell to 3.9 % in 2013 compared to 4% in 2012. India's life insurance penetration was 3.1%, while in non-life insurance it was 0.8%. Insurance density stood at $52 (about Rs 3,120) compared to $53 (about Rs 3,180) in 2012. In the world average too, both insurance penetration and density saw a fall. Globally, premiums written in the global insurance industry grew by 1.4 % in real terms to $4,641 billion in 2013 after a 2.5 % increase in 2012, said its latest sigma study.

General Insurance Corporation to offer catastrophe bonds

Source: The Economic Times

"We have written to the ministry on issuing 'cat' bonds in India," said an executive of General Insurance Corporation. "We will approach the IRDA," he said. GIC Re is attempting to establish itself as a bigger player in the international reinsurance business. The price offered on 'cat bonds' is higher than corporate bonds as they carry junk status and investors run the risk of losing their entire sum. GIC will raise funds for a particular catastrophic risk like either earthquake or a tsunami or a cyclone with the condition that if the event happens, there will be no payout of interest or principal. But if the event does not happen, investors will get a higher yield than in other top-rated bonds.

Indian companies focus on health to enhance employee performance

Source: Business Standard

More and more Indian firms have started focusing on "robust health and wellness strategy" in order to boost employee performance at the workplace, according to a Towers Watson report. As much as 96 % Indian employers feel that health and productivity (H&P) played a moderate to essential role in their organisation's health strategy, and three in every four Indian employers expect the focus on H&P to grow in the next 2 years, the global professional services provider said in the report titled "Staying@Work". It is extremely encouraging to find Indian companies placing greater focus on health and wellness, Towers Watson, India, Director (Benefits) Anuradha Sriram said.

Readers Speak -

Insurance Broker Performance

In the last issue of inotes, we had invited our Readers opinion on the above topic.

Response from Mr. Michael Joseph, Manager, People Department, Aditi Technologies Pvt. Ltd; Bangalore

What does the Report Card say?

- Insurance broking is very important in today's life for various reasons like - cost, ease, speed, ability to arm twist insurance.
- We have implemented the timely advises given by our brokers and hence Aditi's report card has transformed itself from 120+% of claim ratio in the past to 68% claims ratio for the previous year which is the industry best

How do you rate Insurance brokers with respect to the service they provide?

- Would rate 7 out of 10

What are the most common deficiencies?

- Know our claims, policy and numbers by heart

How should customers evaluate their brokers' performance?

- Competitive premium
- Extensive and industry best coverage
- suggest right checks and balances on policy to control claims ratio
- employee satisfaction

What should brokers do to identify where they are falling short in meeting client expectations?

a. Formal quarterly meeting
b. Frequent visits to office by Point of contact
c. Act as an extended arm on our behalf
d. Act in best interest of company

How do you think brokers need to transform?

a. Adoption to Technology & usage of tools
b. Should be industry best in knowhow
c. Should be competitive and comparable with competitors

"Views expressed herein are purely personal and do not reflect the views of the Company"

Next Issue:

Need for cyber crime insurance

A major challenge that comes with the increased use of technology is an increase in the risk of cybercrime attack. In 2010-11, India was the 10th most heavily cyber-attacked country; today it is second only to United States. Cybercrime has rocketed to a new plateau today which brings with it significant financial and non-financial implications for businesses. It is not limited to any specific industry; Defense, utilities & energy and financial services remain the top industries suffering from cybercrime. To prevent cyber crime incidences, most companies employ cyber-security measures which include a combination of technology and security procedures. However, since cyber attackers are continuously discovering new ways to exploit vulnerabilities, cyber security alone cannot prevent all potential attacks.

Is cyber risk a top concern for your organization? What are the common cyber threats faced by your organization? What in your opinion is the most critical risk arising out of a cyber attack? How are you managing the risk? Are you aware of the existence of a cyber insurance policy?

Your opinion is solicited.

Please send your responses in 200 - 300 words to knowledge@indiainsure.com

Claims Case Study –

BACKGROUND

Pioneer Ltd. is a small scale enterprise engaged in the manufacturing of Plywood and allied products. It had taken a Fire insurance policy with an agreed bank clause from Atlas Insurance Company to cover its fixed assets and stocks for the period 1-July-2010 to 30-June-2011. On 25th October 2010, fire broke out in the factory and caused heavy loss.

Pioneer (Insured) submitted the claim, along with all the documents for a sum of Rs.80.23 lakhs, out of which a sum of Rs.76,08,214 was for the stocks destroyed. The Insurer appointed a surveyor to assess the loss and the surveyor submitted an interim survey report. In the report, the surveyor has mentioned that it was an accidental fire and after taking into consideration various documents, arrived at the conclusion that the stock on the date of fire was Rs.62,34,895 and recommended payment of a sum of Rs.57,25,000 considering the unaffected stocks/recoverable salvage lying in the Insured's premises. After some days, subsequently the Surveyor scaled down the claim and reduced it to Rs.29.62 lakhs for inexplicable reasons on the alleged aground that the purchases were not genuine because two lorry receipts were not tallying. Thereafter, without taking consent of Insured, the Insurance Company sent a cheque for the said amount to the bankers of the Insured and closed the claim. The Insured felt that the assessment of the loss was totally unjustified and took the matter to Court.

THE ISSUES

During the hearing, the learned counsel for the Insurance Company raised a preliminary contention that as the full and final receipt is given by the Bank of the insured, the complaint is not maintainable. For this purpose he referred the "Agreed Bank Clause". The relevant part thereof is as under: *"AGREED BANK CLAUSE: All policies in which a Bank has a partial interest shall be made out in the name of the Bank and Owner or Mortgagor and shall contain the following clause:-*

It is hereby declared and agreed:-

- *That upon any monies becoming payable under this policy the same shall be paid by the Company to the Bank and such part of any monies so paid as may relate to the interests of other parties insured hereunder shall be received by the Bank as Agents for such other parties.*
- *That the receipts of the Bank shall be complete discharge of the Company therefore and shall be binding on all parties insured hereunder.*

  N.B.: The Bank shall mean the first named Financial Institution/Bank named in the policy."

News Titbits

'75% of insurance sales to be online by 2020'

Source: Zee News

As many as three-fourths of insurance policies sold by 2020 will be influenced by digital channels, says a report by global management consulting firm Boston Consulting Group and Google India. "We estimate that digital adoption could result in potential savings of 15-20 % of total costs in the case of life insurance and 20-30% in the case of non-life, thereby showing the path towards profitability for the industry," said Alpesh Shah, BCG India senior partner and director who authored the report.

Agreed Bank Clause

The Honorable Judge after going through the facts of the case opined that the Agreed Bank Clause would not debar the insured (owner) from contending that he has suffered a loss which was much more than what is paid to the banker. If the Agreed Bank Clause is interpreted, as contended by the Insurer, it would mean that the owner has not only hypothecated the goods but also his right to reimbursement of the loss suffered by him. Further, this clause cannot be interpreted to mean that if the bank commits obvious error, knowingly or unknowingly, or intentionally or unintentionally with a view to protect its business interests only, it would be binding on the owner, for whose benefit the insurance policy is taken. Such an interpretation would be totally unjustified and would be repugnant to principles of justice.

In any case, this clause is to be interpreted reasonably and in terms of the words used in the clause. It only provides that in case "any monies becoming payable under this policy" the Insurance Company shall pay the same to the Bank. This would mean that in a case where the amount is settled between the parties, i.e. the insured and the insurer and on finalisation of payment, if any monies are required to be paid under the policy, the same is required to be paid to the bank so that bank's interest is fully protected. This clause would have no effect, if the amount payable is under dispute. First the dispute is required to be settled, then monies become payable. Without settling any dispute, if the Bank receives the same, this Agreed Bank Clause would have no effect. Settlement by ignoring the insured and his interest, cannot bind the insured.

The next question would be as to what amount is payable to the Insured for the loss of stock suffered by him due to fire?

As stated above, the Surveyor has reduced the amount of Rs. Rs.57,25,000 to Rs.29,62,585 on the alleged ground that the purchases were not genuine because two lorry receipts were not tallying. The Court observed that the Surveyor has ignored the fact that for the said purchase bills amount was paid by cheque or demand drafts. In this complaint, the Insured has produced the extract of bank account, as quoted above, which establishes beyond doubt that the amount was paid by the Complainant by account payee cheques and/or drafts. Therefore, the said ground given by the Surveyor is without any substance.

THE OUTCOME

For the above reasons, the Court ruled in favour of the Insured and held that the value of the stock destroyed by the fire was Rs.57,25,000 as assessed by the Surveyor. Hence the Insurance Company was directed to pay the balance amount along with interest @10% p.a.

Interview.... Contd. # 3

How are insurance companies in India faring on the product innovation front?

In the recent times, innovative add-on insurance products have come, particularly in the Health and Motor segments. I believe, the innovation has to come more in the Distribution area where we should strive and achieve distributing products in mass scale at optimum cost. Technology based initiatives and tools have to be largely exploited. We have heard of, in the African markets, health and life insurance premium being collected in instalments on a daily or weekly basis through mobile phone enabled system. Such innovative collections have enabled substantial penetration of insurance products in populations where savings are very less.

Making data work to provide competitive advantage remains a critical area of struggle for insurers in India. What steps are being taken by IRDA on the analytics front?

As mentioned earlier, IIB is in receipt of transactional data of all licensed insurers and other intermediaries, as mandated by the Authority. IIB has been equipped with adequate talents and infrastructure. They will be now coming out with periodical reports, routine and specific. Recently, IIB in coordination with Cyberabad Police have exchanged data of Registered motor vehicles in the jurisdiction as well as insured vehicles and thus identified prima facie vehicle which do not seem to have a valid third party insurance policy. The Police in turn have embarked upon contacting the owners concerned and bring them to compliance. Similarly, we have now identified over 25000 hospitals and other health care service provider in our Health Insurance claims area, and this data is being put to use by giving a unique identity number to the service provider and enable analysis of various data and bring out reports of significance. More such efforts of the Authority and IIB will be soon visible in very many areas, including detection of frauds.

What are the issues engaging your attention as a regulator?

While there are multiple issues engaging our attention, the immediate ones are:

a. **Policy holder protection**: Pricing adequacy is at a stress resulting in companies to relook at their outgo in claims. Even genuine claims may be getting repudiated or under paid. This is the case in both the Retail as well as Corporate segments. IRDA is conducting both on site as well as off site inspections and a separate vertical has been created at IRDA to look into the deficiencies and take appropriate corrective action. IRDA is also redrafting the Protection of Policy Holders Regulation (PPHR) to strengthen it in favour of the Policy holder. Turnaround times for claims settlement, interest in case of delayed settlement etc are in the offing.

b. **Reserves and Solvency**: This area will be given utmost attention to ensure that Reserves against claims outgo – known and unknown – are at adequate levels, expenses are within prescribed limits, Solvency is at prescribed levels and that the policy holder gets the major return out of the premium paid.

c. **Distribution innovation**: We are looking at innovations in the area of Distribution Channels to enable insurance penetration levels see a rise.

d. **Awareness campaigns**: We have already commenced working on awareness campaigns. RBI, SEBI and IRDA together are working on creating awareness on Financial products and get the attention of the uninsured.

e. **Simpler wordings**: IRDA will look at simplifying the extant wordings of policies – atleast those which serve the Retail market and can be sold 'off the shelf'.

f. **Revisiting the regulations**: Many of our Regulations are over 10 years old and IRDA will be revisiting these regulations to update it to the current market realities and requirements. The Broking regulations have recently been revised and we are working on the File & Use guidelines.

"Views expressed herein are purely personal and do not reflect the views of the Company"

News Titbits

55 pct Indian risk managers consider cyber risk as their top concern: Study

Source: The Financial Express

According to a survey conducted by Marsh India, the majority of risk and insurance professionals in India are unaware of whether or not their organisation has been a victim of cyber attacks in the past three years; although, they consider such attacks to be a top concern. A survey of more than 150 risk and insurance professionals from a wide range of industries found that risk managers are concerned about the perceived threat of cyber attacks on their organisations, with 55% naming the risk as a "top concern" for their organisation, with 44% indicating concerns have increased significantly over the past 12 months.

Draft rules ban replacement of life insurance policies

Source: Business Standard

IRDA said insurers could not replace life insurance policies unless in the interest of policyholders. This was to protect the long-term interest of policyholders and to discourage intermediaries from persuading customers to surrender their policies and take up new ones. The guidelines said insurers should make full disclosure and give transparent information to the policyholder to avoid any possible misrepresentation of financial consequences of replacing a life insurance policy.

Insurers in bind over mandatory customer bank a/c details

Source: Business Standard

Life insurers including LIC are finding themselves in a tricky situation over a new regulatory requirement of mandatorily seeking customer bank account details at the time of new policy sales, as premium collection also happens in cash in many cases. The new norms, prescribed by IRDA, came into effect from April 1, 2014 and make it mandatory for insurers to seek bank details of customers buying new policies. Top officials at various insurers said they will make representations before IRDA and the government for easing of these norms, or at least giving more time for compliance.

ING Vysya Life Insurance becomes Exide Life Insurance

Source: The Economic Times

ING Vysya Life Insurance, totally owned by the Raheja Group through battery maker Exide Industries will expand in the eastern part of the country after getting rebranded as Exide Life Insurance. The south-based company is looking to expand in the eastern belt with nine new offices. It will look to enhance reach in tier-II cities. "The rebranding of the company as Exide is pointing in the right direction that Exide is committed to the business and is here for a long period." Many global insurers are waiting for an increase in the FDI limit to 49%.

Chronicling the journey of *'inotes'*

In June 2004, commemorating the fifth anniversary of India Insure, we published the first issue of our newsletter 'inotes'. Since then there has been no turning back. What started as a simple 4 page newsletter has now transformed in to an 8 page newsletter and established itself as the "premier insurance newsletter in India".

As we publish our 50th issue, we reminiscence how it all began. Inotes started as a bi-monthly newsletter with a focus on articles to educate the customer on the nitty gritties of insurance followed by a product article and some risk management tips. In 2008, inotes was converted into an 8 page format with new features introduced. We started the Interview section where in we interviewed Corporates & Insurers on a particular topic, insurance claims case study section, readers speak column, insurance report card and insurance news bits. Each issue has a special focus on a specific area of the industry.

Every year for the past 10 years, we have religiously been bringing out an issue every quarter – writing on topics ranging from 'Plain English in insurance' to 'Best practices in handling claims' to 'Nurturing talent in the insurance market place'. Yes, it's been 50 issues of putting our best into it and each topic has been thought of and researched carefully. We are also proud of the fact that this newsletter has survived these years on its own with no outside funding/advertising. This independence means that we can make statements, reviews and predictions that accurately voice our views.

We would like to thank all those who have contributed immensely to the growing success of inotes, from our dedicated team of writers and researchers, mentors and most especially our readers and subscribers. We want to "THANK YOU" for reading and thank you for your valuable feedback and input, which has helped us continually improve the quality of our articles. We look forward to your continued support in our effort to disseminate valuable information to the Indian insurance industry. It has been our goal to be a welcome addition to your inbox rather than an interruption of your day and the inotes team looks forward to bringing you the next 50 issues.

Disclaimer

Contact us

India Insure Risk Management & Insurance Broking Services P Ltd.

Ahmedabad	402, Aryan Work Space, St. Xaviers College corner Road, off C.G.Road, Navrangpura, Ahmedabad - 380009. Ph: 079 - 65152255 / 56 Contact: Mr. B. Rajesh email: rajesh.b@indiainsure.com	**Kolkata**	1st Floor, 197, Sarat Bose Road, Kolkata – 700029. Ph: 033-64602097 / 98 Contact: Mr. P. C. Shaw email: pcshaw@indiainsure.com
Bangalore	# 302, 3rd Floor, Gold Towers, Residency Road, Bangalore - 560025. Ph : 080 -41128056/57 Fax - 080-41128597 Contact: Mr. Janardhan Shenoy email: janardhan.h@indiainsure.com	**Mumbai**	**Branch & Corporate Office :** Unit 2, 2nd Floor, Swagat Building, Shraddhanand Road, Vile Parle (E), Mumbai – 400 057 Ph: 022-26104051 / 52 Contact: Mr. Arindam Ghosh email: arindam.ghosh@indiainsure.com
Chennai	Building No.824, Bhandari Towers, 1st Floor, E.V.R. Periyar Road, Kilpauk, Chennai – 600 010. Ph: 044-45566521 Contact: Mr. V. G. Dhanasekaran email: dhanasekaran.vg@indiainsure.com	**New Delhi**	404, Mansarover Building, Nehru Place, New Delhi – 110 019. Ph : 011-41050081 / 82 Contact: Mr. Manikant email: mani.kant@indiainsure.com
Hyderabad	# 405, Archana Arcade, St John's Road, Secunderabad - 500025. Ph: 040-27822990 / 91 Fax: 040-27822993 Contact: P. Srinivas Rao email: srinivas.rao@indiainsure.com	**Pune**	Office No. 14, 2nd Floor, DSK Rohit, Bldg 1264 / 2, Above DCB Bank, Deccan Gymkhana, Shivajinagar, Pune - 411005 Ph: 020-66030713 Contact: Mr. Arindam Ghosh email: arindam.ghosh@indiainsure.com