i-notes
Newsletter from India's Leading Insurance Broking House
January 07

Summary

India Insure
The risk managers

Message from the Editor

Dear Readers,

At last! After years of waiting and months of speculation, we are finally there. The IRDA fulfilled its promise ("tryst with destiny"?) of freeing the non-life Insurance markets by January 1, 2007. Granted, only rates have been freed up – and insurers will still have to use the existing tariff terms and wordings till April 2008. But this in itself is a major step for the Indian Insurance Industry.

The first week of January has been hectic. Insurers have dropped property premium rates and large and medium corporates saw their premium outflows dropping by around 20-25% on average (and in some cases, even 40-50%). Motor premium rates are still being tossed around. As we go to print, IRDA is favourably considering the Transporters' demand for a lower increase in Third Party Premium. The jury is out on the final shape of things to come, but if the first week is any indication, corporates are going to see substantial savings over the next year or so.

A word of caution however!

Not all Insurers are falling over each other to offer rock bottom quotes. Most Private insurers have sent word out to their teams to focus more on retail than Corporate business; a couple of them have refused to participate in some keenly contested deals when they realized that the rates being quoted were not profitable.

This is good news for the Industry. After all, free pricing doesn't have to mean a race to the bottom.

Here's wishing all of us a healthy and profitable time ahead.

V Ramakrishna
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Selecting your Insurer

Introduction

What is an Insurance policy? When an agent, intermediary or an Insurer sells you an Insurance policy what does he sell you in return for the premium paid? Is it a sheaf of papers neatly folded with fine print that can hardly be read? Is it a document taken as a matter of routine to protect your assets or as required by your Bankers? Is there anything tangible you get in return for the price paid other than the policy document?

Well, incidentally, insurance is only a promise that one buys! A promise that in case of an untoward incident happening, for which the premium has already been paid, the insurer would be there by your side to take on your woes. It is only at the time of the claim that you get to test the Insurer. As often heard, the proof of an Insurance policy is tested only by a claim! Isn't it then important that you know your Insurer before going with him rather than later?

Why should you know your Insurer?

No matter how good a policy sounds, it is worth little if the company isn't around when the time comes to pay up the claim. It is only when a claim arises that some of the following nightmares may unfold:

- The insurer may at the time of claim be insolvent
- The entire risk may have been reinsured with a reinsurer, who has now turned insolvent.
- The insurer unfortunately was full of promises during premium collection, but this attitude is not visible during claim settlement.
- The Insurer, though very eager to accept the premium on terms required by you, is a novice in this line of business
- While you have placed your entire business with a particular Insurer, he may not be able to support you for all lines of business placed.

Generally the practice is to select the Insurer who gives the minimum rate and sub consciously hope that the law of probability would work and protect one from a double misfortune of an insured loss and an insolvent or difficult insurer! Also there are several others who do not spend any time analyzing or collecting feedback about the insurer and are content having transferred their risk at the lowest price. Yet another group of insureds may choose to believe that they are being guided by wise agents or brokers!

In order to have your insurer by your side at the time of a claim it would only be prudent for you to know your insurer before transferring your risk to him. After all, wouldn't it be your concern to find out the background of the one who is making a promise to you **at a price paid by you**?

Rating of an Insurer

Insurer financial strength ratings provide a rating agency's opinion of the insurer's overall financial strength and ability to meet its policyholder obligations. As such, ratings are meant to be summary measures of insolvency risk. The interest in Insurer ratings has been particularly strong since the rate of property-liability insurer insolvencies overseas began to increase rapidly in the late 1980s. Today AM Best, Standard & Poor, Fitch and Moody's Investor Service are considered to be the major Insurer rating agencies worldwide. In India, agencies rating insurers are yet to catch up and ICRA and CRISIL are two of the agencies to have started rating Insurers. Unlike bond ratings, insurer financial strength ratings are not required by regulation. They are purely voluntary. It is the discretion of the Insurer to opt for a rating and he may make his own choice of the rating agency he would prefer to be rated by. Generally, Insurers use ratings in their advertising to assure buyers of the firm's strength. The rating process involves both quantitative and qualitative evaluations of an insurer's financial condition and performance. Insurance company ratings provided by private rating agencies are vitally important to investors, regulators, consumers, insurers, and insurance agents/ brokers. Insurance buyers use them in choosing their insurance companies and/or deciding how much they are willing to pay for

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insurance from particular firms. Brokers and agents often will not recommend coverage with unrated insurers or insurers with ratings below some threshold of financial strength.

The factors influencing the rating include variables reflecting capitalization, asset and liability, investment pattern, liquidity and solvency margins, size, line of business diversification, growth in premium, reinsurance usage, and profitability. Ratings may be changed, suspended, or withdrawn as a result of changes in or unavailability of such information or based on other circumstances. Hurricane Katrina saw several insurers having their ratings drop by a notch or more, while some others were rendered insolvent due to the hurricane.
An example of what these ratings (done by two of the agencies) stand for is presented in Table A.

Table A: Interpretation of Ratings

AM Best	
	Secure
A++, A+	Superior
A, A-	Excellent
B++, B+	Very Good
	Vulnerable
B, B-	Fair
C++, C+	Marginal
C, C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended
Standard & Poor's	
AAA	EXTREMELY STRONG financial security characteristics
AA	VERY STRONG financial security characteristics, differing only slightly from those rated higher.
A	STRONG financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.
BBB	GOOD financial security characteristics, but is more likely to be affected by adverse business conditions than are higher rated insurers. An insurer rated 'BB' or lower is regarded as having vulnerable characteristics that may outweigh its strengths. 'BB' indicates the least degree of vulnerability within the range; 'CC' the highest.
BB	MARGINAL financial security characteristics. Positive attributes exist, but adverse business conditions could lead to insufficient ability to meet financial commitments.

Having had an idea on the international rating parameters, it would be pertinent to know the present ratings of the Indian Insurers. Amongst the PSU companies, only New India has an AM Best rating of A – (Excellent) and National Insurance a CRISIL rating of AAA (Stable), having just approached AM Best to work out their ratings. The other PSUs – Oriental Insurance and United India have not opted to be rated as yet. As far as the Private Insurers are concerned, none of them have opted to be rated, though two of the Insurers have their JV Partners – AIG and Chubb rated by AM Best. However, since there is a stake of only 26% of the overseas partner, it would be required to check up the rating of the Indian partner.

As far as IRDA is concerned, the ratings by Private rating agencies is not a pre requisite, though the stability guideline as per IRDA of setting a Working Solvency Margin (Ratio of Actual Solvency Margin to the Required Solvency Margin) of 1.5 needs to be adhered to. These details are available in the Annual report of IRDA which may be accessed on their website ***irdaindia.org*** The regulatory prescription is driven towards ensuring that the insurer has the financial resources at all times to meet its liabilities. The buffer between the stated liabilities and available assets is necessary and is created to absorb discrepancies between the anticipated and the actual expenses and profit. However, while IRDA does closely monitor the performance of each of the Insurers by calling for monthly statistics, it does not issue any publication revealing the financial stability of the Insurers, but does issue the Balance Sheet of all the insurers in their annual report. From the Regulators point of view, in case an insurer falls below the stipulated solvency margin the supervisor has sufficient time to prescribe measures to restore the soundness of the insurer. In case such measures do not turn out successful other measures may be taken to protect the interest of the stake holders. For the Regulator the issues of concern are driven less by the balance sheet approach and more by the prospective risk focused approach which includes seeking confirmation on whether risks are assessable, controls are identifiable, what are the risks to financial insolvency, and the extent to which reliance can be put to the auditor's work.

In India, unfortunately, as of today there is no single-window data available where a Corporate could log in to ascertain the ratings of all the Insurers. The only way out today would be to log into each of the Company websites to ascertain their ratings or to get the updated info from your broker.

What to look for while selecting an Insurer:

The primary criteria to be considered while choosing an insurance company are:

Financial rating:

While the rating agencies have different parameters in finalizing the rating of an Insurer, by and large the major parameters include the size, solvency margins etc.
Therefore, the first priority in choosing an insurance company is to be sure the company is strong financially. A study of the Annual Report / balance sheet of the Insurers would reveal their financial status to some extent. It would also be advisable to get Insurer wise info from the Annual report of IRDA.

Risk Capacity

Sometimes the size of the risk involved means that a single insurer can't take it all onto its balance sheet. To be able to underwrite the risk he

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Selecting your Insurer ....Contd. # 2

would need to be the conduit to international reinsurers. It would be advisable to ascertain if the risk is being transferred to a reinsurer or is retained by the Insurer. In case it is reinsured, the ratings of the reinsurer could again be a question mark. Each insurer has a different capacity for each of its lines of business.

Customer sensitivity

It would be prudent to select an insurance company who should also be willing to listen to your insurance requirements and if necessary "tailor" insurance covers to meet your needs. It is imperative that the needs and interests of the customers be placed ahead of all other interests. Prior to the opening up of the Insurance Industry in the year 2000, it was a pure monopoly by the PSU Insurers and the customer had no choice of products. It was a case of " Buy it or leave it". There was no other way out! Come April 2008, with detariffing taking place in the true sense there would be revamp of the products with more and more tailor made policies coming into existence.

Claims handling

It is of utmost importance to understand the claims philosophy of the underwriter before placing the policy. Would the Insurer pull out his lenses and highlight the fine print leading to the cause of claim being an exclusion or would he go all out to ensure that the claim could fit into the gaps between the coverages and exclusions of the policy?

Further, while the Corporate placing the policy may be having claims arising at remote locations and even overseas in case of liability policies, it would be necessary to view the geographical presence of the insurer while placing the policy.
The choice of the Third Party Administrator is also to be seriously considered in case of health policies as a TPA could make all the difference in employee related health claims. In case of adverse experience with the TPA, it would be wise to request for a change of TPA.

Line of Business

As per the philosophy of the company, each insurer has an appetite for a certain line of business. Hence while selecting an Insurer for a specific product it would be advisable to make a study on the risk focus of the Insurer and also have a comparison of the wordings of different insurers in place before making the final choice. This is particularly relevant to the Liability segment of Insurance where the wordings are by and large controlled by the reinsurers.

Complexity of policy wordings

It may be a good idea to start looking at the quality of their "standard" policy wordings – come April 2008, you will be at the mercy of these wordings anyway. Some companies are reputed to have very confusing wordings, which they may have multiple interpretations and may be used to wriggle out of obligations.

Cost of products

For Insurance products, as with most other products, the cheapest is not necessarily the best. It is required for an Insurer to give the customer a competitive premium that offers discounts if those risks don't materialize, or encouraging clients to be more responsible in managing their risk. It is similar to offering no-claims bonuses to individuals who don't claim.

Useful hints for consumer will enable them to pay the right price, but few absolute rates exist. The "right price" is the one providing the consumer with the greatest amount of insurance after giving consideration to the other criteria. The right price for insurance is not necessarily the lowest price. The lowest price may come from a company whose financial strength is questionable or whose agents are not trained adequately or whose policies do not offer as comprehensive a coverage as that offered by other companies. For these and other reasons, the consumers should first consider all the other criteria mentioned and then decide on the right price for insurance protection and, indirectly, peace of mind.

Feedback from other consumers end employees of insurers:

It is necessary to have an insight into the insurer's attitude or reputation in not only handling claims but also in the day to day administration. And this is best done by collecting feed back from clients who have dealt with them.

The consumer should determine the company's reputation for fairness and promptness in settling claims and its reputation for providing service. While employees will normally need to hard-sell their companies in the course of their duty, if you listen carefully, you will notice rumblings in some places. A company which treats its team shabbily will probably do likewise for their customers.

Conclusion

Due to increasing complexity of risks, it may be advisable to maintain continuity and not to change insurers or brokers every year. However, at each renewal it would be appropriate to validate the standing of the insurer and also take a re-look at the services offered by the Insurer.

The time is now ripe to look into your insurer's background before deciding on the placement based on the price only. India is by and large a price driven market and with detariffing having taken place effective January 01st, 2007, the fierce competition in this market may tempt one to be blind to the other factors which need to be looked into. Cut throat prices, drop in profits and policy wordings opening up in about a years time could have the entire industry in a state of chaos and flux which would imply that the Corporate needs to be more careful while selecting his insurer and also, where applicable (eg: Liability), verify the quality of reinsurance support he gets.

The Customer today certainly has a wider choice and now needs to use his maturity while selecting his insurer.

Risk Management Tips - Safety for Company Visitors*

Your company may occasionally host visitors such as vendors, service providers, customers, student or tour groups, employees' family members, government inspectors, or certification officials. If your company's safety program does not already include guests, take steps now to ensure that it does. Consider these issues in planning for safety and security of visitors to your facility.

Ensure Security for Visitors and Facilities

- Establish procedures to ensure the security of guests while they are on your premises.
- Establish criteria for who is—and is not—allowed on your premises.
- Encourage visitors to call ahead to make appointments, whenever possible.
- Station a security guard or receptionist in the main lobby to screen visitors and to provide directional guidance. Require visitors to sign in when they first arrive. Give each guest a temporary badge that indicates "visitor" status.
- Have an employee come to the reception area to greet the guest and escort him or her to the department or area which is the target of the visit.
- Train your employees to project a professional image of your company. Instruct them to greet and escort guests courteously, and to issue courteous challenges to unescorted or unidentified strangers, directing them to the appropriate department or to a security officer. Also caution employees to be aware of potentially disruptive visitors, in which case they should avoid confrontation and contact security.

Help Visitors Find Their Way Safely

- Designate an entrance and parking area for visitors, and mark them clearly.
- Be sure that parking areas and entrances are well-lit.
- Offer escorts to and from parking areas.
- Maintain doors, elevators, and escalators properly, to ensure that they will not cause injury.
- Install attractive, clear signs inside and outside; post maps of the facility and building floor plans.
- Ensure that glass doors and walls are visible by applying decals or by using sand-blasted or etched designs. Consider placing large non-poisonous plants in front of glass panels or walls.
- Keep walking surfaces clean and dry. Keep sidewalks and entries free from accumulated sand or water..
- Keep floors, aisles, sidewalks, and stairs clear of obstructions or conditions that could cause trips or slips. Be sure that rugs and mats are in good condition, without raised or torn edges.
- Keep electrical cords away from walking areas.
- Be sure that fire and security alarms, and exit paths,are clearly marked.
- Consider visitors and vendors when formulating emergency preparedness plans, especially evacuation and fire drill planning. Establish a procedure to account for all visitors.

Protect Visitors' Health and Safety

- Give each guest a safety and security guide which includes a map of buildings and parking areas, visitor parking and entrances, security stations and phone numbers, evacuation routes, emergency phone numbers, etc. State your policy that all visitors are expected to comply with your security, safety, and health guidelines. Ask visitors to sign to indicate that they have read and understood the information.
- Restrict visitors' access to hazardous areas, such as loading docks, hazardous materials storage areas, or areas where heavy machinery or hazardous processes and materials are used.
- When visitors must enter hazardous areas, provide a brief safety orientation. If a visitor is unwilling to comply with your safety policies, discontinue activity, or continue the visit in a different part of your facility.

* *Source: Hartford*

Disclaimer

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