i-notes
Newsletter from India's Leading Insurance Broking House
October 09

Summary

- Risk and Insurance in the IT/ ITES industry
- Interview – *Insurer & Corporate*
- Reader's Speak
- View Point

India Insure
The risk managers

Message from the Editor

Dear Readers,

A lot of happenings in the insurance industry, with the Swarup committee recommendations evoking very sharp criticism from the entire industry, followed by the FINWEB proposal being rejected by IRDA and talks of a hike in the motor third party premium by insurers. This apart, there has been a spate of cases of insurers resorting to threats of cancellation of Group Health policies following adverse claims ratio. The turmoil in the industry continues and we are beginning to witness a hardening of the health insurance market!

In this issue we bring to you some of the findings of a survey we had conducted with respect to the risk and insurance within the IT industry. Our sincere thanks to those who participated in the survey and made it possible. Apart from the regular feature, we have also introduced a column 'View Point' in which we share the view points of some of the seniors of our Company.

We also bring forth the views expressed by Mr. NSRC Prasad, CMD, National Insurance Company and Mr. Alwar Narayanan, Sr. Manager-Finance, Indian School of Business, Hyderabad. Our heartfelt thanks to them for sharing their valuable insights with our readers.

We look forward to your views on this issue as well as your participation in the 'Reader's Speak' column.

V Ramakrishna
Editor – *i-notes* & Chairman – India Insure

Risk and Insurance in the IT/ ITES industry

Each industry apart from the business they are into, we observe have a set of peculiarities that binds them together and makes them distinct from the others. While each company is trying to achieve the set goals and targets, there is a longing to know how their competitors or others in the industry are battling the issues they come across. Do they have similar issues or are we the only ones facing this? Is attrition as high in the other company as much as mine or is there something I need to look into within my Company? These are questions that keep haunting the top management of each company.

Like other dilemmas, insurance too sometimes takes up substantial senior management time. Determining the appropriate coverages and limits needed to protect a company's future is one of the dilemmas faced by insurance buyers today. Any manager while finalizing an insurance placement may still have questions like - "Am I paying the right price, or am I being fleeced? Should I be bargaining some more or have I to look for another insurer?", "Are my competitors also taking a similar kind of coverage or am I taking too much or too less? Am I pampering my employees too much or am I being too harsh by imposing restrictions on the Health cover?", "Are there any new covers in the market that I am unaware of?" or "What would be the total budget I should set aside towards insurance expenses?"

> Determining the appropriate coverages and limits needed to protect a company's future is one of the dilemmas faced by insurance buyers today.

Reports say that the IT / ITES industry is expected to grow at 10.8% the current year, which is the lowest in the recent years and this is due to the global recession. We expect that each of the companies would look to minimizing expenses in as many ways, without having any major impact on the risk to the company. In this article we put across the issues faced by IT/ ITES companies today in India with relation to their risk exposures and insurance. This article has been compiled based on some of the findings of a survey we at India Insure have done on the IT /ITES industry.

Health Insurance in the IT /ITES sector

Health care costs today are typically rising 2-3 times faster than inflation. Long working hours, night shifts, a stressful job and a sedentary lifestyle are making people prone to various life style diseases. And as costs of healthcare are rising; so are the claims on the health policies, leading to a vicious cycle of premium increases and high claims ratio. After the out-of-control growth of health claim expenses in the last few years, employers have now become proactive in keeping the lid on escalating claims through various measures like premium cost sharing, caps on room rent, co-payment on claims, not covering dependant parents under the policy, blacklisting hospitals that are overcharging etc. Also, employers now believe in promoting informed and responsible spending by employees for health care – through a range of wellness programs like health check ups, health talks / workshops, gymnasium or work out facilities attached to the workplace etc designed to better manage employee health.

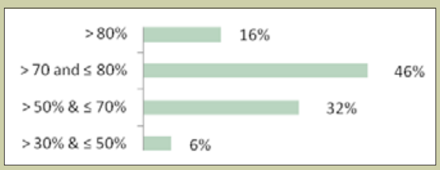
We had 88 respondents participate in the health insurance section of the survey. While taking Health insurance, the following observations were made :

- That the size of the company, in terms of the annual turnover or employee strength has no bearing in deciding the Sum Insured (SI) for the various cadres of their employees, for, there are some small companies opting for high SI even in the executive cadre.

(Contd... 02)

- A very large majority of the companies have, in the health policy offered to their employees, extended it to cover their dependents too.
- While covering parents under the health policy, in about 60% of cases, the Corporate bears the premium for the parents too, while in 23% of the cases, the employee bears the cost and in the balance 17% - the Corporate and the employee share the cost.
- Almost 90% of the corporates have the cover extended to cover Pre existing diseases, maternity as well as the new born child.
- 21% of the corporates surveyed have opted for a co-payment clause where employees bear a minor percentage of the claim cost.

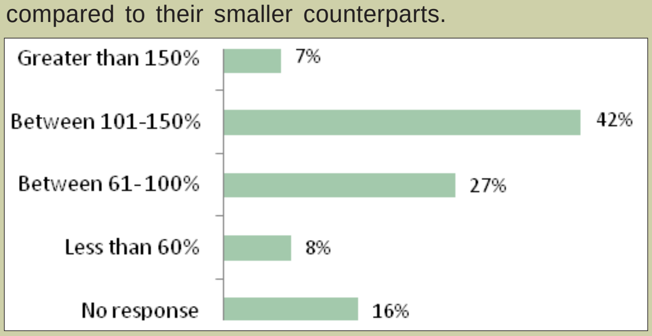
Health insurance premium as % of total insurance premium



While making an analysis of the insurance spend towards Health insurance in comparison to the overall insurance spend, the graph besides indicates that about 62% of the IT industry spend over 70% of their annual insurance budget on the Health portfolio.

Claims Experience in the Health portfolio

- As an aggregate, 49% of the corporates surveyed have a claims experience exceeding 100% out of which 7% of them have it exceeding 150%. 27% have it between 61-100% while 8% of them have a claims experience below 60%. 16% of the corporates surveyed have not responded to this question.
- All the corporates surveyed having employee strength of over 10,000 have a claims experience exceeding 100% during FY 07-08.
- 67% of corporates having an employee base of < 1000 have a claims experience of < 100%, which indicates that the claims experience is higher in large sized companies compared to their smaller counterparts.



Liability Insurance in the IT/ITES sector

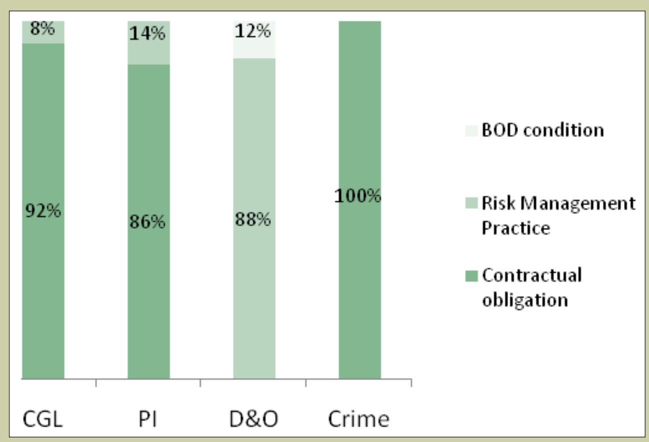
Liability is emerging as one of the most significant risks faced by corporations in a booming Indian economy as it gets integrated to the global economy. The ever-increasing complexities of business transactions across borders and the rising use of litigation have prompted a need for liability insurance programs that protects firms against potential lawsuits. As the threat of recession affects the economy, a rise in insolvencies and claims seems to be inevitable.

For the liability insurance of the survey, we had 50 corporates responding.

Observations made:

- 69% of companies who participated in the survey have purchased some form of liability insurance, split over Directors & Officers (D&O), Errors & Omissions (E&O), Commercial General Liability (CGL) and Crime policies. Majority of the companies have invested in CGL policies while a very low percentage of the survey respondents have opted for a Crime insurance policy.
- Our analysis shows that geography of operation and overseas exposure has had an impact on insurance purchasing decisions. This is particularly the case where the company provides services overseas especially, the United States.
- Majority of these companies purchase liability insurance as a result of contractual requirements by clients, while some of them opt for it as a risk management practice.

Reasons for taking a liability policy



Property Insurance in the IT/ITES sector

Under the third round of detariffication with effect from Jan 2009, Insurers are permitted to file new add-on covers for fire, engineering, IAR & Motor OD products. While only some of the insurers have filed them, these new add-ons have not made any major impact in the IT/ ITES sector.

A common phenomenon witnessed in several countries that moved to free market pricing was the initial cut throat competition to bag accounts and increase market share; and India seems to be no exception. However, it is expected that in the long term, detariffing will result in risk-based pricing, product customization and improved customer services.

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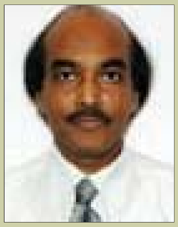
Interview – *Insurer & Corporate*

{Views expressed are purely personal & does not reflect the views of the Company}

In this section, we speak to Mr. NRSC Prasad who has recently taken over the reins of National Insurance Company as Chairman & Managing Director on what are his strategies going forward and on how he plans to differentiate National from its peers in the market. We also speak to Mr. Alwar Narayanan, Sr. Manager-Finance, Indian School of Business on how the insurance industry can become more adept in creating value for their clients.

Mr. NSRC Prasad, Chairman & Managing Director, National Insurance Company



1. *Having taken over as the CMD of National Insurance Company, what are your dreams, priorities and strategies for the company going forward?*

   At the outset, I would like to mention that National Insurance has been awarded the status of the Most Preferred General Insurance Company in India by CNBC-Awaaaz Consumer Awards 2009.

   This best signifies the position of NIC in the minds of the customer in the domestic market.

   However, my dream is to take the company to the next level, where we are not only the leading company in the country in terms of market share and profitability, but where we are in a position to match up to the best standards globally and emerge as the leading general insurance company in all aspects.

   Our priorities at the moment are directed towards restructuring our business processes towards achieving these goals.

   Our company has embarked on an extensive IT driven Business Process Re-engineering (BPR) exercise. We have appointed consultants with global expertise to aid us in this project. This state of art technological initiative is sure to improve our operational efficiency and help us towards being a customer centric organization, manage profitable growth, improve operational efficiency, create productive HR capabilities and to build relationships with our customers and alliance partners.

   The foundation of this 103 year old company is symbolized by trust and performance and we continue to deliver new and innovative changes to ultimately benefit the customer.

2. *What is your growth estimate for the current financial year? Which lines are you looking at as growth drivers?*

   During the last financial year ie 2008-09, our company has achieved a Gross Direct Premium Income of Rs 4295.85 Cr. with a growth of 6.81%.

   As with the economy showing signs of a turnaround, customer expenditure patterns have also changed. I believe, this is the correct moment to look at recovering from the sluggish state of the market that we have seen in recent times and accordingly we have projected a growth rate of around 10%**.**

   The potential business from our existing base of over 1 crore clients should be realised. New business both in retail as well as corporate sectors needs to be tapped as the potential is huge.

   Profitable areas would be identified and nurtured. We have specific business plans in place for Corporate, Small and Medium Enterprise (SME), Retail Business and Strategic Tie-ups. Several verticals have been planned and some have already been opened to service these specific areas.

   All this provides us with a tremendous opportunity and a window to increase our market share rapidly.

(Contd... 04)

News TitBits

Magma, HDI-Gerling form General Insurance JV

Source: Economic Times

Magma Fincorp is foraying into insurance business. The company has just inked an agreement with German insurance major HDI-Gerling International Holding to enter the general insurance sector in India.

Tokio Marine in talks with Edelweiss for Life Insurance JV

Source: Economic Times

The Mumbai-based financial services firm Edelweiss Capital is in talks with Japanese insurance group Tokio Marine Holdings for a possible joint venture in life insurance. The Japanese insurer, which is already present in India through a non-life JV with fertiliser co-operative IFFCO, has been on the lookout for a local partner to start a life venture.

PNB to foray into Life Insurance space

Source: Insurance Business Review

Punjab National Bank (PNB), the India-based public sector bank, is planning to enter into life insurance space.

L&T to enter general insurance biz

Source: Business Standard

L&T said it would enter the general insurance sector in the next six months and would go solo in its new venture. "We have decided to enter into general insurance business considering the long-term potential of the business going forward," L&T Chief Financial Officer Y M Deosthalee told reporters.

Firms see group health insurance costs double

Source: Business Standard

Companies are seeing the cost of buying health insurance for their employees more than double, with insurers increasing the premium on group covers to partly cover mounting losses after they lost the option of cross-subsidizing it with more lucrative property covers.

Eliminating Commissions may not be practical: Irda Chairman

Source: Asia Insurance Review

Doing away with commissions for insurance agents will destroy the insurance industry, says the Head of the IRDA in an interview. He said:"Fundamentally, the idea that the commission cannot be embedded in the premium is not a very well considered one and it will kill this (insurance) industry." He was referring to a proposal in a consultation paper just issued by a government-appointed committee that upfront commissions payable to agents be eliminated by April 2010 for all retail financial products, including insurance, so as to give more protection to customers.

Interview – *Insurer & Corporate.... contd # 3*

3. *We understand that some of the PSUs are now creating Claims Hubs at Regional Office level and National is one of them. What has been the strategy behind this and how do you see it adding value?*

Claims Hubs have been set up with the idea of centralizing the claims processing and payment procedure and at a single location in order to render efficient and hassle free claims service to our customers and reduce the TAT (Turn Around Time) in settlement of claims. This would bring about effective claims control at our operational levels.

We already have set up centralised claim processing, surveyor appraisal and payment hub for Motor own damage claims at 6 centres namely Kolkata, Ahmedabad, Bangalore, Delhi, Lucknow, and Chandigarh. Other such centres would come up shortly.

At the moment our average claims processing time has been reduced to about 18 days.

4. *Some of the PSU insurers have also commenced the Broker office in each region where in all the business in that Region is placed and serviced only by a single office. We understand that National has not yet brought in this change. Your comments on this.*

As far as we are concerned, at the moment, we do not have any specific office only for Broker business.

However, as I have already mentioned, we have specialized offices and business centres catering to the various types of business brought in by our corporate distribution channel partners. We may contemplate stand alone offices for business placed by Brokers in case the need arises in future.

5. *What is the Corporate vs Retail mix in NIC / With the trend amongst insurers shifting focus to the retail market, what are the plans you have for the company in the years to come ?*

We have a healthy share of business mix between corporate and retail. Traditionally NIC has had the largest share of retail business but then through the years our focus towards corporate business have been intensified and we understand the importance of achieving the right mix.

To service the corporate sector, corporate verticals are in operation at 4 ROs and new DOs have been identified in Metro and other big cities to develop business from the corporate sectors. A special software has been developed only for this business offices to aid their operations and service levels.

Opening up of separate verticals for Retail Micro Insurance & Rural business alongwith Agents management are being looked at in the corporate level. Regional Offices are specially identified to develop retail business. Awareness Camps for retail customers are being held all over the country on a regular basis. We have initiated action for adoption of villages and districts to increase our rural penetration with specified targets.

Small and Medium Enterprises (SME) insurance is an identified target area and is accorded due importance. The needs of the rural and semi-urban market are being addressed. There are special efforts to tie up with NGOs and local bodies towards this end.

Our Agency force is amongst the best in the industry and we are taking all efforts to strengthen our efforts to promote retail business.

6. *There are so many players in the market, in terms of similar products, how does National differentiate itself from the rest.*

Since inception, National has followed a philosophy of being a customer centric organization. Even in the face of stiff competition with the private companies NIC concentrated on improved service standards and increasing the network to reach out. With little to set apart the companies in terms of the range of products delivered and scope of cover, NIC has always adopted a line in consonance with its corporate philosophy of providing quality service to the customer and innovating product covers to reach out extensively to a wider customer base. Many of our policies have been much ahead of its time in our country but created a path for others to follow.

NIC is the pioneer in introducing customer oriented initiatives like *Bancassurance* and tie ups with *Automobile majors* to provide hassle free insurance and cashless settlement solution. We continue to expand our umbrella of financial institutions, NGOs and other bodies to increase penetration amongst yet unexplored markets and through it hope to make insurance services at doorstep, a reality in our country.

A specialized BPR exercise has been initiated recently and we hope our systems would be changed to be more client friendly and smart in tune with present day needs adhering to global service standards.

Today also, we are not resting on past laurels and we have identified the need to change for tomorrow. We at NIC accept that change has to be met head on and we just cannot wait to be forced to change.

Inspite of being the oldest general insurance company in the country, our desire to constantly change and innovate sets us apart from the rest.

7. *What are the main challenges and concerns that insurers are facing in the industry today?*

The economic downturn has severely affected all the players in the industry in India as well as globally. The non-life insurance industry achieved a growth rate of 9% compared to 12% last year. The financial meltdown has impacted growth in a developing industry and it will take some time to recover.

In this situation the penetration by non-life insurers remains low in India at about 3%, in terms of premium percentage to the GDP, compared to the global average of 5-7% seen in countries like US, UK and Japan. The industry is not growing at the rate with which the average increasing spending patterns seen in the country amongst the insurable public.

The era of detariffing has its challenges and premium levels remain competitive in this market which also results in low growth.

Service standards have to be improved as well as access and delivery systems. Payment of premium by credit card and over the internet would help the customer.

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Interview – *Insurer & Corporate.... contd # 4*

8. *There have been reports in the media that insurers are cancelling group health policies midway due to adverse claims ratio. Can we have your views on this.*

As we are not aware of such practice, we are unable to comment on the same.

As far as Group Mediclaim policies are concerned, the adverse claims ratio is a matter of concern, but however our constant endeavour is for better claims management to make this portfolio profitable.

Mr. Alwar Narayanan, Sr. Manager-Finance, Indian School of Business

1. *What are the parameters you consider while deciding on an insurance partner?*
   - Experience in underwriting a risk of our nature.
   - Understanding the risk and Capability of suggesting
   - Providing adequate cover.
   - Appropriate deductibles.
   - Add on covers.
2. *Do you think insurance is being sold as a commodity today, or is there still a way for insurers to differentiate themselves?*

   Definitely not for some one who is looking for Insurance in true perspective and some are also looking at the face price of the Insurance contract. There are many ways for differentiating themselves, they can conduct program's in Loss prevention, Employee related & risk improvement.
3. *With this in mind, what would the insurers need to do in order to create some competitive advantage?*

   It is very important is to provide prompt and qualitative service consistently
4. *What would your wish list be with regard to insurance coverage? What do you find lacking today?*
   - Strict service parameters to be maintained
   - Understanding the customer.
   - Cut of the communication gap between Insurer & TPA.
   - To conduct awareness program in coverages & claims.
5. *With reports of insurers cancelling group health policies midway, there are signs & indications of the hardening of the health insurance market. In view of this, are there any steps being taken by you to contain the claims ratio?*

   Why should the insurer accept the policy initially , this is where they are messing up in underwriting and later they talk about canceling the policy…is this called prudent underwriting? Do we have any authority to question this?

   Yes, in case of adverse claims which are beyond anticipated limits. Claim control measures can be adopted not in midway of the policy. The situation can be reviewed, find out the actual reasons and implement the control measures.

Reader's Speak

{Views expressed are purely personal & does not reflect the views of the Company}

With reports in the media that insurers are cancelling group health insurance policies due to the adverse claims ratio, do you think it is time for corporates to adopt some cost containment strategies? Your opinion is solicited.

In the last issue of inotes, we had asked

To how many brokers should an organization issue a mandate to source quotes?

Below are some of the responses we received.

Mr. Satish Joshi, Director-Finance, UCB Pharma says

The mandate should be given depending upon the portfolio. For a smaller to medium size portfolio, it may be given to 1 or 2 brokers. However for a larger portfolio, such as the Project Insurance more brokers may be approached. This will offer wide choice and facilitate informed decision for the client. The risks profile also can be better managed with collective intelligence. The advantage of competition for better pricing is always there in such circumstances.

Mr. Nagaraj Sharma, Dy. General Manager, Oriental Insurance Company says

A broker ought to be a friend, philosopher and guide to the customer in choosing right cover at right price from the right insurer and not merely an agent that collects the cheapest quotation. The Indian market is still not mature enough to understand the role and sanctity of insurance broking as an institution that has a very crucial advisory role. Many customers use the broker to find only the cheapest quote or largest cut-back and in the process fail to appreciate the all important risk management advisory role the broker is supposed to play. Once this all important role is understood, it's just automatic that the discussion of single mandate / multiple mandate for broking vanishes. The broker and customer relationship need to be on the same footing as a Hindu Marriage, with all the sanctity and trust attached. SINGLE BROKER is my answer!

News TitBits

Finance Ministry sets performance targets for govt-run insurers

Source: Asia Insurance Review

India's four government-owned general insurers have signed a Statement of Intent (SOI) with the Ministry of Finance, spelling out a time line for making underwriting profits. The SOI sets specific targets for the current financial year for the insurers to start making profits in their underwriting business. The insurers were expected to achieve 50% of the targets in the SOI as a pre-requisite for making employee incentive payouts.

Insurers look to raising motor third party insurance premium

Source: Blonnet

The general insurance industry is clamouring for a hike in premiums on motor third party insurance to make up for the underwriting losses arising from this line of business. Towards this end, public and private sector players have formed a committee to look into the feasibility of this move.

Report Card - August 2009

Gross premium underwritten by non life industry for and up to the month of August 2009* (Rs. In crores)

INSURER	AUGUST		GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR	APRIL - AUGUST		GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR
	2009-10	2008-09		2009-10	2008-09	
United India	418.93	340.56	23.01%	2069.49	1778.56	16.36%
New India	379.51	369.72	2.65%	2541.41	2344.00	8.42%
Oriental	359.76	279.57	28.68%	1956.89	1716.22	14.02%
National	332.46	301.56	10.25%	1847.28	1818.42	1.59%
ICICI-lombard	263.03	292.22	-9.99%	1375.30	1653.66	-16.83%
Bajaj Allianz	190.08	231.08	-17.74%	1039.77	1203.38	-13.60%
Reliance General	148.86	140.24	6.15%	876.82	840.22	4.36%
IFFCO-Tokio	91.16	89.98	1.31%	644.15	618.19	4.20%
Royal Sundaram	74.05	64.08	15.55%	359.99	321.95	11.82%
HDFC ERGO General	70.10	32.90	113.06%	361.34	115.28	213.44%
Tata-AIG	58.21	69.65	-16.43%	397.96	438.11	-9.16%
Cholamandalam	57.84	49.51	16.81%	353.93	305.11	16.00%
Shriram General	31.26	1.53	1938.47%	111.29	1.80	6099.47%
Future Generali	27.52	14.44	90.57%	146.62	57.70	154.11%
Bharti AXA General	17.60			79.65		
Universal Sompo	9.56	0.05		54.33	1.06	5036.78%
Raheja QBE	0.18			0.26		
PRIVATE TOTAL	**1039.44**	**985.70**	5.45%	**5801.40**	**5556.46**	4.41%
PUBLIC TOTAL	**1490.66**	**1291.40**	15.43%	**8415.00**	**7657.20**	9.90%
GRAND TOTAL	**2530.10**	**2277.11**	**11.11%**	**14216.48**	**13213.66**	**7.59%**
SPECIALISED INSTITUTIONS:						
1.Credit Insurance						
ECGC	67.22	59.01	13.92%	326.71	283.26	15.34%
2.Health Insurance						
Star Health	15.65	6.65	135.33%	419.94	231.25	81.60%
Apollo DKV	7.75	1.62	378.67%	34.63	9.98	246.98%
Health Total	**23.40**	**8.27**	182.99%	**454.58**	**241.23**	88.44%
3.Agriculture Insurance						
AIC	280.95	99.76	181.63%	513.63	213.92	140.10%

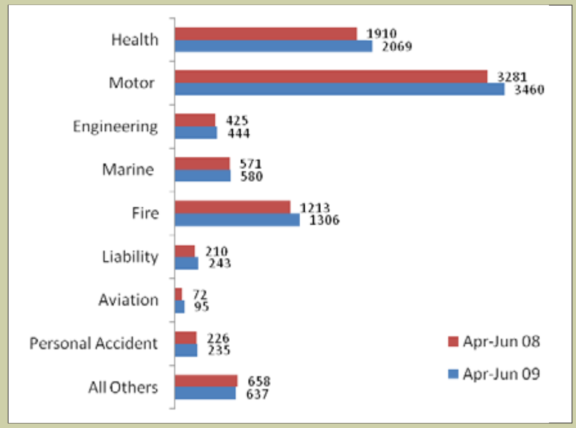
* Source : IRDA

Observations Line Wise Premium figures: Apr-June 09

Health Insurance

- The size of the health insurance market has grown from Rs.1910 crs in Apr- Jun 08 to Rs.2069 crs in Apr- Jun 09 registering a growth rate of 8.33%. When you exclude the stand-alone health insurers, the growth rate nose dives to 2.66%.
- The private players (excluding stand alone health insurers) have registered a negative growth of (21%) while the PSU's in contrast have registered a positive growth of 19.37%. The stand alone health insurers- Star Health & Apollo DKV have registered a growth rate of 85%.

Segment Wise Premium Comparision



Fire Insurance

- Fire insurance premiums have grown from 1213 crores in Apr- Jun 08 to 1306 crores in Apr- Jun 09 registering a growth rate of 7.66%.
- The private players have registered a growth of 8.22% while the PSU's have registered a growth of 7.32%.

Motor Insurance

- The size of motor insurance portfolio at the end of first quarter FY 09 stands at 3460 crores compared to 3281 crores, the same period a year ago. The portfolio has registered a growth rate of 5.47%, with OD contributing 4.85% & TP contributing 6.65%.
- The private players have grown at a good 11.19% (OD: 10.47% & TP: 13.13%) while their PSU counterparts registered only a trivial growth of 0.81% (OD:-0.84%, TP: 3.18%).

Engineering Insurance

- Engineering insurance premiums have grown from 425 crores in Apr-June 08 to 444 crores in Apr-June 09 registering a growth rate of 4.5%.
- The private players have grown a tad at 0.98% while the PSU's registered a growth rate of 7.46%.

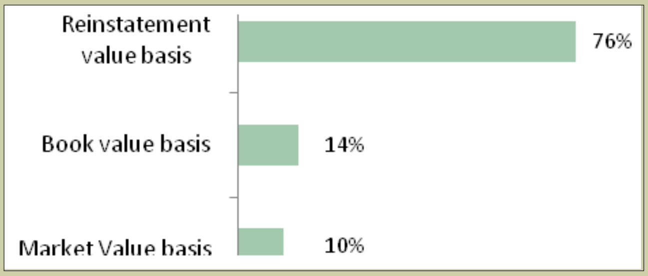
Liability Insurance

- The size of the liability insurance market has grown from Rs.210 crs in Apr- Jun 08 to Rs.243 crs in Apr- Jun 09 registering a growth rate of 15.66%.
- The PSU's for a change this time have registered a faster growth rate of 19.3% in this portfolio compared to the private sector's 13.11%.

Risk and Insurance in the IT/ ITES industry .... Contd. # 2

Some of the Observations:

- Majority of the corporates have their fire insurance and electronic equipments insurance incorporated into the Office Package Policy.
- 76% of survey respondents report taking the Sum Insured for the building on Reinstatement value basis and 10% of them report taking it on market value basis while a disturbing figure of 14% of the total respondents still take it on book value basis. Insuring assets on book value after the first year is risky as the percentage of under insurance applicable would be huge in case of a claim.
- Only 6% of the respondents have a Fire Loss of Profits or Business Interruption policy in place.
- 71% of all respondents reported a decrease in their property insurance premium post de-tariffing and 18% of these reported a decrease of more than 50% in the premium.



Claims Experience in the property insurance portflio

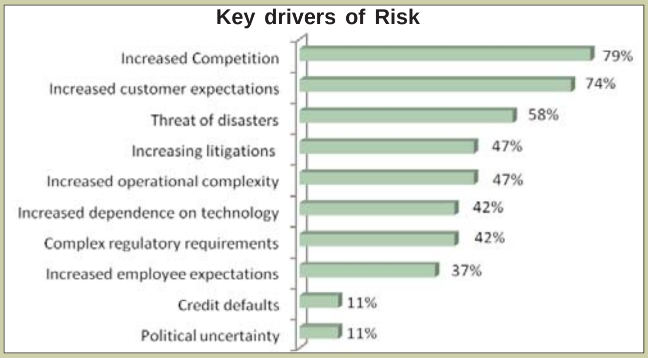
Majority of the survey participants reported fire losses caused by short circuit as the major cause of claims followed closely by theft of laptops & mobile phones. Breakdown of electrical equipments was also cited as an occasional cause of claim.

Risk Management Practices

Managing risks has become pretty complicated in this era of increased complexity, increased expectations from customers, highly litigious society and the emergence of new risks on a global and national level. As organizations are exposed to new risks and challenges, historical treatment may not prove adequate for dealing with current & future risk trends.

Some of the Observations:

- 84% of respondents opine that their organizations are exposed to greater risks today compared to 3 or 4 years ago.
- The top reasons contributing to this sentiment were:



- Responsibility for risk and its management lies at the top for almost all the companies; risk has slowly become a priority as well as a boardroom issue. But only 11% of the surveyed organizations report having created a board-level position of CRO to head risk management. However, the complex risk environment will very soon set the stage for the risk manager's ascent into the top echelons of corporate management.
- 37% of the survey respondents view risk management as being very important for the stable growth of their organization while 63% view it as important.
- Only 47% of the respondents reported that they have a Business Continuity Plan (BCP) in place and a lesser percentage of 16% reported that they have implemented an Enterprise Risk Management (ERM) program. However there is some optimism coming from the fact that 21% of the respondents plan to implement an ERM program in the next five years.

Conclusion

As we stand poised today, it is critical for each Company to view its risk more analytically and decide what are the risks and to what extent these risks can be retained. While new risks like cyber crime are fast evolving, the existing ones are also growing manifold. Today the market is soft and the insurances are affordable, however with the trend of the claims, in all likelihood we will see a hardening of the market over the next couple of years. It is time for the Corporates to review the Health portfolio in particular, in view of the rising claims ratio. The day is not far off when Insurers may decline taking on the risk in case of claims ratios being consistently high.

Organizations that work towards managing risk in a holistic fashion will be in a better position to steer their organizations towards the right direction and reap rewards for the rightful decisions that have been made. The trend toward a strategic approach to risk management is likely to continue and the institutions that take a leading role in this evolution will be in a position to use risk management as a key competitive tool.

News TitBits

Insurance co's push for uniform hospital rates

Source: Economic Times

In a move to control health cover costs, insurance companies are bargaining hard with hospitals for a standard rate card. Market leader New India Assurance has told corporate customers that cashless reimbursement will be only to the extent of the negotiated price and if any policyholder goes to a hospital, which charges more, the difference will have to be borne by the policyholder.

Aviation risk premium rates increase by 50%

Source: Hindu Business Line

For the beleaguered Indian aviation industry, there is one more difficulty to contend with — the hardening of aviation risk premiums. The rates are up 50 per cent. For the last financial year, aviation companies, both public and private sector, paid an average of about Rs 1 crore per aircraft for a sum assured of approximately $30 million. The increase in aviation insurance premiums since the last month is expected to translate into an outflow of about Rs 1.5 crore per aircraft. Global aviation reinsurance rates have soared by 50 per cent since the beginning of July.

View Point

Discounting of premium – is the customer the winner?

A clear and well phased out roadmap for detariffing was laid down by the regulator way back in September, 2005. Ultimate opening up of the rates took place effective 1st January 2008 , and ever since, month after month, the discount on the earlier Tariff Rates has only been going up. While it was foreseen that the effect of cross subsidization would wear out, one did make a wrong guess that it would be followed soon by the hardening of the health market.

What does the market today reflect? Is the insurer so gullible as to fall a prey to the customers' demand for a cheaper price? While picking up the cheque, is there a thought about how the claims are to be handled? There have been a large number of cases where Insurers have cancelled policies mid-way due to the adverse claims ratio. During policy placement, the customer's focus is on price reduction. The servicing capabilities of the insurers are not thought through at that stage and eventually what does the customer achieve? Mid way through the policy the customer ends up paying a higher premium founded on threats of policy cancellation .... and hence ends up paying a higher price inter-alia tolerating mediocre servicing too! There have been several cases of hidden exclusions/caps on benefits that are built into the policy without the customer being aware. These caps come to the customer with an element of shock and surprise since they surface only at the time of a claim for until then the policy has not been read. These restrictions/ hidden exclusions may come in a large Project insurance or even a small Group accident policy! So finally has the customer stood to gain by the price reduction?

Is it not time that insurers got their act together? Discounting in property policies has gone as high as 95% and in the health policy the general trend has been "last years claims less x%..... and at times, it is even 60% of last years claims!", which clearly indicates that the insurer is knowingly ready to bleed.

Today there is an absolute lack of far sightedness both on the part of insurers as well as customers and there appears to be no trace of "underwriting" taking place unless the portfolio is reinsurance driven. There always has been a debate as to whether Insurance is a science or an art, unfortunately today it does not seem to be either!

Are the insurers waiting for a diktat from the regulator to discipline themselves? Would one expect the regulator to police the discounts or is it prudent to leave it to the wisdom of each insurer? Is this to continue as long as there are new players entering the market, for it is each new player who tries to occupy space in the formative years by beating the prices? Or could this be arrested by the regulator prohibiting new entrants (insurers) offering higher discounts in the first years of operation? When would the customer look beyond price? Are brokers only adding to the melee? Often heard remarks are about claims ratios being distorted to get a better quote. Can there be a platform where the claims experience of customers is shared by insurers? Would only loss or surrender of licence by an insurer in India for all the wrong reasons send the right message to both, the Customer as well as the Insurer?

While History reveals that wherever there has been an opening up of the market, the trend is that the rates will nose dive over the first two years but later stabilise, it would be safe to have our fingers crossed, hoping that the insurance industry in India would also take the same path instead of creating a History of sorts!

Well, to sum it up, though the customer today believes that he is dictating to the insurance market, he would stand to lose in the long run. For one, the claims settlement would certainly be prejudiced. Secondly, the Risk would end up being viewed adversely as a Declined Risk, unless he offers to proactively control claims. Finally, the hardening of the market would take place abruptly and at that point of time, it may prove too dear for him.

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