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Newsletter from India's Leading Insurance Broking House
May 08

Summary

- Global Warming - *getting too hot to handle*
- Political Risks Insurance
- Claims Case: Flood Claim
- Interview of Stand-alone Health Insurers

india insure
The risk managers

Message from the Editor

Dear Readers,

With the candles blowing out on another financial year, the general insurance industry has seen a steep decline in growth rate, falling from 22.24% the previous financial to 12.63% at the close of March 2008. With the complete opening up of price earlier this year, this fall was anticipated. While the general insurance premium almost touched the Rs.29,000 crore milestone, the life insurance first year premium closed at almost Rs.93,000 crore recording a growth rate of 23.32% as against 110% last year.

On the brighter side however, the year saw the commencement of operations of 2 general insurers, 2 life insurers and 1 health insurer and there are 12 licenses at various stages of approval in the pipeline. Exciting times ahead for the entire industry coming up!

In this issue, we have dwelt upon 'Global warming' – a hot topic (no pun intended) in various circles, including the international insurance market. We deemed it appropriate to raise the alarm in the Indian insurance circles too. In the product section we have brought out in brief about a lesser known product – 'Political risk insurance'

We also have, in this issue, the views expressed by the pioneers in the Health insurance sector. Our sincere thanks to Mr. V Jagannathan, CMD, Star Health and Mr. Axel Munaretto, CEO, Apollo DKV for sharing their valuable insights with our readers

With everyone off the starting blocks, we look forward with anticipation the year to come.

Wishing all of us a great year ahead.

V Ramakrishna

Global Warming - *getting too hot to handle*

At a glance

- **Changes in the world's climate has resulted in more frequent extreme climatic events.**
- **During the 1950s, insurance losses due to weather disasters were negligible; by the 1990s, they were up to $9.2 billion a year.**
- **These changes could make insurance unaffordable for customers in high-risk areas and insurance premiums for weather related losses could spiral upwards.**
- **Insurers worldwide are taking important steps to address the impacts of climate change but India is turning a blind eye.**

When tsunami slammed into Asia, in December 2004, it left behind a trail of destruction and devastation. Tens of thousands of homes and businesses fell like the proverbial house of cards. The wreckage and ruin caused by tsunami still remain fresh in the consciousness of millions who witnessed it. In recent times we have seen what havoc an earthquake or any other natural calamity such as floods, landslides and torrential rains can wreck. Every such debacle has lessons for us and the sooner we forget them, the more we suffer. Tsunami and its successors taught us that no one is immune to weather disasters. And now, some scientists are predicting more extreme weather events because of global warming, which means the risks could multiply.

> Between 1970 and 2000, 38 out of 45 worst insured losses were weather related. During the 1950s, insurance losses due to weather disasters were negligible; by the 1990s, they were up to $9.2 billion a year.

Fundamental changes in the world's climate have resulted in more frequent extreme climatic events. Heat waves, droughts, floods, hurricanes and tornadoes across the world were happening at frequencies and intensities unprecedented in recorded history. Rising sea levels, glacier retreat, Arctic shrinkage, and altered patterns of agriculture are cited as direct consequences, but predictions for secondary and regional effects include extreme weather events, an expansion of tropical diseases, changes in the timing of seasonal patterns in ecosystems, and drastic economic impact. According to the world's leading reinsurance company, Munich Re, between 1970 and 2000, 38 out of 45 worst insured losses were weather related. Although this rise has been influenced by the increasing activities in hazard prone areas, it confirms the theory that there is a link between global warming, climate change and the occurrence of more extreme natural events.

A ticking time bomb?

Climate Change often referred to as "global warming"—is one of the most significant emerging risks facing the world today, presenting tremendous challenges to the environment, to the world economy, and to individual businesses. In February, the Intergovernmental Panel on Climate Change (IPCC) confirmed that

- The temperature in the atmosphere and the oceans has grown warmer and can be expected to continue to do so. By 2100, temperatures are likely to rise by 2-11.5 degrees Fahrenheit and sea-level will rise 7 to 23 inches.
- The amount of greenhouse gases, mainly CO2 and some methane, has increased markedly which is the most significant cause for the temperature increase.
- Heat waves, tropical storms, and hurricanes are likely to become more intense, more frequent and longer-lasting.

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Global Warming - Getting too hot to handle.......*Contd. # 1*

Battling the Monster

Though the long-term effects of global warming threaten the future of the world's economy, the insurance industry is already feeling the pinch. During the 1950s, insurance losses due to weather disasters were negligible; by the 1990s, they were up to $9.2 billion a year. Meanwhile, the insurance industry's responsibility for covering such losses has risen astronomically.

The insurance industry has an opportunity to reduce risk and promote safety by informing policyholders about global climate change. A report issued by insurance giant Allianz and environmental group WWF examines the potential impact of increased flooding, forest fires, and storm damage — particularly hurricanes — expected in a warmer future. It notes that "these changes could make insurance unaffordable for customers in high-risk areas... and in some cases, insurers are [already] exiting these markets altogether". Data from the insurance rating company A.M. Best Co. indicate that global warming could cause catastrophes that would cost insurers $100 billion, reportedly equal to the total value of the capital and surpluses of the world's top 25 global reinsurers. A report titled "Strategic Business Risk" issued by Ernst and Young identified climate change as the most serious strategic risk facing the insurance industry today.

> When the wiser course would be to presume the worst effects of climate change and prepare for it, the country seems to be burying its head in the sand hoping that the storm will pass.

The insurance industry at the same time is assuming an important role in documenting climate change and in attempting to halt its advance. 2007 saw a growing number of eco-insurers offering green products, driven by consumer concerns about climate change. There is a rapid proliferation of products that will reduce climate-related financial losses, as well as the pollution causing global warming. Insurers are crafting innovative products like energy savings insurance, renewable energy project insurance, weather derivatives, green buildings insurance etc. They are also giving premium discounts to policy holders that drive low-emitting cars and for driving low mileage. Motor insurers are increasingly offering Pay-as-you-drive (PAYD) insurance products where your insurance premium depends on the number of miles driven which indirectly benefits the environment by improvement in air quality and reduction of toxic gas emissions. Insurers need to work more with governments to help correct market distortions and alert homeowners and businesses about the dangers of global warming and how to combat them.

> Munich Re's geo risk experts have come to the following conclusion regarding the risk potential in India: "**On the strength of the scientific data now available, the accumulation of extreme events is very probably due to global warming in India."**

India – Turning a blind eye?

Insurers worldwide are taking important steps to address the impacts of climate change on the insurance and risk community. But back in India, it is a different scenario altogether. Neither the Government nor the Insurance community finds anything unusual or astonishing about the changes in the climate observed in recent times. They are seen as sufficiently explainable by local conditions quite unrelated to any global phenomenon. When the wiser course would be to presume the worst effects of climate change and prepare for it, the country seems to be burying its head in the sand hoping that the storm will pass.

Scientific studies show that monsoon activity in central India has changed significantly. It has roughly doubled since 1950 – a highly significant increase in scientific terms. Weather risks, particularly monsoon rainfall, have always constituted a major threat. The main peril is flood, which accounted for about 77% of the overall losses and 66% of the insured losses over the said period. The Mumbai floods in 2005 (when Mumbai recorded 944 mm of rain, the highest level of precipitation ever measured on a single day in India) exhausted nearly all the market players' catastrophe programmes for the first time ever. India has also become a major global player in carbon emissions – it is now number four in the world in its overall carbon dioxide emissions, behind China, the US and the EU. India's emissions per capita increased by 50% in the last 15 years. Impact projections for India suggest more intense rainfall and the potential for increased flooding during the rainy season, with risk of severe drought in the drier seasons in the coming 50-70 years. In a report titled "Topics Geo - Natural catastrophes 2007", Munich Re's geo risk experts come to the following conclusion regarding the risk potential in India: "**On the strength of the scientific data now available, the accumulation of extreme events is very probably due to global warming in India."** At the same time, the rapid development of India's economy is accompanied by growing prosperity, leading to higher concentrations of values – particularly in exposed regions like Mumbai. This and the strong rise in demand for insurance protection has driven up insured losses in recent years. Whilst annual losses averaged no more than US$ 5m between 1980 and 2004, the figure in 2006 alone exceeded US$ 400m. For the insurance industry, the question is how the Indian insurance market will develop in the medium to long term.

If there are no major loss events with large insured losses, pricing pressure will certainly be maintained for some time. Or else, the rates for 'Act of God' perils will have to be adjusted substantially. The simple fact is that this trend of global climate change may cause your insurance premium to spiral upwards.

Wake-up Call

Are these latest developments merely an outlier or the herald of a long-term change in monsoon activity? Only time will tell. But our reasoning should be the same as Pascal Wager's. Back in 1670, basically using game theory, the French philosopher argued that it was a better bet to believe in God because the expected value of believing is always greater than the expected value of not believing. The same goes for global warming. If you accept it as reality, you will be better prepared to face it.

Political Risks Insurance

At a glance

- **The politics of foreign environments adds risk and complexity to business performance.**
- **Political Risk Insurance (PRI) protects an insured in case a foreign country confiscates its goods or equipment or if it interferes with the fulfillment of a contract.**
- **PRI helps provide a more stable environment for investments into developing countries.**
- **India's PRI market is still miniscule by global standards.**
- **But India's investment in developing countries like South East Asia, Africa etc, will drive the growth of PRI in future.**

Companies are drawn to expand into international markets in search of lower costs, new opportunities and access to resources. When they arrive, however, they often find that the politics of foreign environments adds risk and complexity to business performance. A question for companies operating internationally thus becomes how best to manage political risk.

Not only do political changes pose direct risks to firms, but politics is also a component of other external risks. Moreover, political risk is often perceived to be outside of management's control, making it difficult to define or predict. Given the complexity of these issues, it is no wonder that corporate-risk officers, export managers and international bankers are looking to insurers to shield them from the financial consequences of political turmoil around the world.

What is Political Risk?

Political risks are the inherent, intangible risks facing those doing business internationally, arising from the action(s), or inaction(s), of:

- *a foreign government or government entity;* or
- *the Assured's government;* or
- *a third party country* which:
  - *deprive a company of all or part of its assets;* or
  - *prevent or restrict the performance of a contract.*

What is Political Risk Insurance (PRI)?

Political Risk Insurance (PRI) is a tool for multinational enterprises, equity investors, financiers, contractors, importers and exporters to mitigate and manage risks arising from adverse government actions, confiscation of assets, breach of contract or war and civil strife. **As a risk mitigation tool, PRI helps provide a more stable environment for investments into developing countries, and to unlock better access to finance.**

Whether as direct investors or exporters, multinational enterprises use PRI to enhance their confidence in markets perceived to be riskier than home markets. PRI allows investors to concentrate on the commercial aspects of investments, with the comfort that someone else - PRI providers - will help them avoid potential losses, or reimburse them in case of a covered loss related to political causes.

What risks are covered?

Political risk insurance can be tailored to cover many different risks but can be boiled down to two basic types. Firstly, it protects an insured in case a foreign country confiscates its goods or equipment, and secondly, it protects an insured in case a foreign government refuses to pay a contract or interferes with the fulfillment of a contract.

PRI protects **foreign investments** against the risks of

- **Forced abandonment -** complete abandonment of a foreign investment as a direct consequence of political violence or permanent divestiture of the insured's investment at the direction of the insured's government.

  A case would be the Enron's Dabhol project in Maharashtra, India, a $3 billion, 10-year liquefied natural gas power plant development project that began in 1992, the single largest FDI in India's history. But endless disputes over prices and terms of the deal along with mounting protests from India's public created many stumbling blocks. By mid-1995, under new political direction, a letter to Dabhol Power Co. called for a cessation of construction and abandoning the project because the cost for building the plant and

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News TitBits

Indian companies looking at ERM: Study

Rapidly growing Indian firms facing intense global competition are taking a close look at Enterprise Risk Management (ERM), a new study reveals. "ERM is in the very early stages in India," said Matteo Tonello, senior research associate at The Conference Board Governance Center and co-author of "Assessing the Climate for Enterprise Risk Management in India," in a statement announcing the study's release. The report by The Conference Board, which is based in New York and operates a New Delhi office, examines risk management integration in companies based in India and includes case studies of Tata Motors Ltd., ICICI Bank Ltd., Tata Chemicals Ltd. and Dr. Reddy's Laboratories Ltd. "Tightening capital markets, the internationalization of successful Indian companies and the adoption of global initiatives to promote business integrity are forcing many firms to pay attention to recent developments in risk management around the globe," he said.

Insurers seek health pool for elderly

The Insurance Regulatory and Development Authority (Irda) should create a pool for senior citizen policies, according to general insurance companies. In May 2007, Irda had constituted a seven-member committee to look into issues pertaining to senior citizen policies and health insurance. The committee had recommended an insurance pool that would be primarily sourced through government funding and involve the participation of all stakeholders, including insurance companies and policy holders. Most insurance companies are today reluctant to allot policies to senior citizens on grounds of unprofitable business. Insurance companies are turning away first-time customers who are above 50 years in age and are charging almost 100 per cent additional premium for policy renewals. Moreover, insurers are reluctant to insure those above 60 years. The issue can be resolved by creating an insurance pool, as per the recommendations of the Sastry committee.

generating the electricity was too high. So, Enron and its U.S. partners, Bechtel and GE, have filed claims with OPIC, the political risk insurer agency of the U.S. Government, to collect $200 million in compensation for losses suffered in the Dabhol project.

- **Confiscation, Expropriation, Nationalization, Deprivation** - that result in partial or total loss of investments or assets. Classic examples of outright expropriation include the nationalization of entities owing debts to foreigners or having outstanding contractual relations with them, the direct annulment of debts or claims, measures denying the foreign owner access to its funds and profits. There have been a number of cases in recent years that have considered the issue of expropriation.

  For example in Metalclad Vs Mexico, the arbitral tribunal found that a number of measures taken by the Mexican government against Metalclad (a foreign investor who had made a substantial investment in the development of a waste facility) ***were tantamount to expropriation.*** *The measures included requiring Metalclad to create environmental buffer zones, pay a levy to fund local social projects and offer free medical advice to locals. The government also rejected Metalclad's application for a construction permit and finally declared that the area was a protected environmental zone, thereby preventing its use as a landfill.*

- **Import or export restriction**
- **Political Violence** - politically motivated acts of violence, including war and civil war, that result in physical damage to property
- **Breach of Government Undertaking:** The largest political risk insurance claims in history were made in the wake of the financial crisis that struck Argentina in 2002 as national and state governments broke contracts and restricted the capital transactions of foreign firms.
- **Currency Inconvertibility or Non-Transfer -** government controls that prevent the purchase or transfer of hard currency for dividend payments, loan repayment or other remittances.

  For example, there was this claim of Caterpillar Inc related to inconvertibility in Venezuala. Under Venezuelan law, foreign investors were entitled to convert and transfer abroad the proceeds of their investments. After a steep decline in the value of the national currency (the Bolivar) following a two-month general strike that brought oil production to a near standstill, the Central Bank of Venezuela brought about a decree imposing exchange controls. The new regime adopts currency controls, restricts access to foreign exchange at the fixed official rate, creation of a Board (CADIVI) to regulate and pre-authorize the purchase and sale of foreign currency. CADIVI was unable to process foreign currency requests efficiently with long delays often extending past the waiting period in the Contracts. Thus Caterpillar suffered losses and filed a claim for US$2,644,989.

- **Business Interruption** - loss of projected net profit resulting from an act of confiscation or political violence

Claims Case: Flood Claim

At a glance

- **Loss of Profits Insurance is a good idea, but sometimes just not enough.**
- **Can you be compensated in case of shortage of supplies from your supplier due to a loss he has incurred? Or can you be compensated in case a key customer cancels your order because of a loss he has incurred?**
- **An extension to LOP insurance covers loss of income due to damage by an insured peril to the property of your suppliers or customers.**

Background: Pankaj Heating Controls Limited, manufacturers of radiators, located in Vizag practiced a 100% just-in-time supply system, with Kamal Engg Ltd being a key and single-source supplier for valves and thermostats needed for the manufacture of radiators. Sterlite has been its major customer since inception.

The Incident: During the early hours of the night of 10th May, a depression formed over the Bay of Bengal and intensified into a cyclonic storm accompanied by heavy rains. The rains and flash flood wrecked havoc in Vizag. Pankaj HC Limited's plant being located in a low lying area was affected severely. The plant was submerged in water and the rains continued unbated for another 5 days. This resulted in a large part of the finished goods and the raw materials being washed away in the floods. What remained was unfit for use. The production areas were also inundated and the cleaning up and resumption of work would take another one week. Immediately the loss was intimated to the insurer under the Fire and Fire Loss of Profits that they had taken.

PRI protects **Contracts** against the risk of

- Non-payment by buyers
- Unfair calling of 'On Demand bid' or contract bonds
- Non-honouring of Letters of Credit
- Import or export restrictions
- Non-delivery of pre-paid goods
- War, Civil War or Revolution
- Currency Inconvertibility
- Contract Repudiation by buyers

As with any insurance, the precise scope of coverage is governed by the terms of the insurance policy. Coverages, pricing, tenor, and eligibility vary widely - by PRI provider, host country (destination of the investment), and sector or type of investment. Political risk policies may offer insurance for transactions with terms of up to 10-15 years rather than the normal one year. Before agreeing to provide political risk insurance, insurers will most likely consider a number of factors regarding the prospective client. The insurer may want to know whether the prospective client has experience selling to the specific country and whether the client has leverage in that country to help resolve any problems. The client's specific loss history may be an important factor as well.

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The Findings: The surveyor completed the loss assessment exercise. Even though there was no production taking place during the interruption in business operations, fixed costs such as salaries, rent and financing expenses still had to be paid. The insurance claim cheque compensated Pankaj HC Ltd for loss of income incurred and in a period of 2 weeks they were ready to resume production at a slower pace.

The CFO at Pankaj HC Limited patted himself on the back for being pro-active and taking a loss of profits insurance which protected the company from a crisis. But then his happiness did'nt last long. When they placed the order for valves and thermostats required for the manufacture of radiators with Kamal Engg Ltd, they realised that the plant and office of Kamal was also submerged in the floods and it would take another 6 months for them to supply the valves and thermostats to Pankaj. Pankaj HC Limited desperately had to look out for an alternative supplier, finally they found one who would supply them with the raw material but only after one month and at a higher cost. Thus Pankaj Heating Controls Limited was again shut down for another month till they could get the raw materials for production, during which the meter of fixed costs - salaries, rent, interest etc - was racing like a waiting taxi's. And this time, they had to dip into their pockets for paying these unavoidable fixed costs.

What went wrong?

While the CFO at Pankaj HC Limited was aware of Loss of profits coverage that protects against loss of revenue due to a covered loss of property, he was not aware of another extension that would have been of great importance in such a situation. The extension is for loss of income due to damage by an insured peril to non-owned property. The exposures this coverage would apply to are - Key Suppliers - if the main supplier of a key component used in the insured's product suffers a major property loss and the insured is unable to manufacture the product, the resulting loss of revenue can be insured; Key Customers - if 10 percent or more of revenue is dependent on a single customer, coverage can be purchased to insure the loss of revenue experienced as a result of the customers not taking delivery of the products, exclusively manufactured for them as a result of the operation of the insured perils at the customers premises.

Our Learnings

In today's global village, business processes in industry and commerce form a chain of interrelated activities by highly diverse, but interdependent parties. Many companies are heavily dependent on raw materials from key suppliers to make the products they sell to consumers. What happens if the supplier suffers a loss and cannot continue to make deliveries? This extension is becoming more important in today's commercial world as companies increasingly out-source component part manufacturing and rely upon so-called "just in time" inventory systems. As a word of caution, it would be prudent to take these extensions, in case your company has a limited resource for the raw material (or the suppliers are few) and have only limited customers.

Political Risks Insurance.......*Contd. # 4*

India's PRI Industry

Since most of India's investors are not yet availing of political risk insurance, this market is still miniscule by global standards. India's hitherto restrictive outward investment regime has also been responsible. Till recently, the Export Credit Guarantee Corporation (ECGC) was the sole provider of political risk insurance.

Off late, private insurance companies have also made their foray into this line of insurance. While India's current wave of investment has focused on industrialized countries, the next wave – which has already begun – is concentrating on South East Asia, the Middle East, China and Central Asia. Indian companies are now also beginning to look seriously at Africa and Latin America. Not only are the banks financing these investments likely to require political risk insurance, companies themselves might feel more secure investing in it.

A combination of demand and supply-side factors will drive the development of PRI in India. Also, the entry of global re-insurance firms into India will dramatically boost the Indian insurance industry's ability to underwrite political overseas investment insurance risk.

News TitBits

Rajan Raheja Group likely to get nod for non-life foray

The Insurance Regulatory Development Authority (IRDA) is set to issue a licence to the Rajan Raheja Group (RRG) for setting up a general insurance joint venture with Australia's QBE Insurance group. The IRDA board, which met on Tuesday, has given the first-level clearance for the company's new general insurance joint venture. The RRG Group, Prism Cement, will hold a 74% stake in the company, while QBE Insurance Group will hold the remaining 26%. The two companies have already entered into a joint venture agreement.

BUPA to Enter Indian Market

UK's largest private health insurer British United Provident Association (BUPA) is set to enter India to cash in on the booming healthcare services demand, driven by rapidly rising population and growing affluence. The Indian healthcare market has become attractive for international medical insurance players, as the market has been growing at a steady 35% year-on-year. The UK healthcare giant is looking for an established Indian partner for its foray into the country.

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Report Card - General Insurance

Gross premium underwritten for the financial year 2007-2008

(Rs. in crores)

INSURER	MARCH 2007-08	MARCH 2006-07	APRIL - MARCH 2007-08	APRIL - MARCH 2006-07	% GROWTH OVER PREVIOUS YEAR
New India	511.99	534.06	5274.14	5017.19	5.12
National	389.81	386.21	4030.80	3814.42	5.67
Oriental	348.87	349.00	3855.61	3928.66	-1.86
United India	371.61	346.22	3738.94	3498.77	6.86
ICICI-Lombard	201.81	200.11	3344.69	3003.45	11.36
Bajaj Allianz	253.82	181.9	2404.34	1803.34	33.33
Reliance General	136.68	108.72	1946.42	912.31	113.35
IFFCO-Tokio	207.53	80.05	1235.83	1150.32	7.43
Tata-AIG	73.12	54.61	813.39	741.56	9.69
Royal Sundaram	67.42	56.63	695.16	600.58	15.75
Cholamandalam	84.29	34.74	563.67	314.59	79.17
HDFC ERGO General	14.73	19.99	216.58	190.16	13.89
Future Generali*	2.25	0	10.64	0	
Universal Sompo**	0	0	0.48	0	
PRIVATE TOTAL	1041.65	736.74	11231.19	8716.31	28.85
PUBLIC TOTAL	1622.28	1615.49	16899.49	16259.04	3.94
GRAND TOTAL	**2663.92**	**2352.23**	**28130.68**	**24975.35**	**12.63**
SPECIALISED INSTITUTIONS					
Credit Insurance					
ECGC	78.98	72.53	669.39	618.05	8.31
Health Insurance					
Star Health & Allied Insurance	10.80	5.72	173.03	22.51	668.7
Apollo DKV*	2.04	0	2.98	0	
Health Total	12.84	5.72	176.02	22.51	681.94
Agriculture Insurance					
AIC	52.7	61.84	828.66	564.67	46.75

*Commenced operations in Nov. 2007 ** Commenced operations in Feb. 2008

News TitBits

ERGO agrees on life insurance joint venture in India with HERO Group

Germany's ERGO Insurance Group and India's HERO Group, the world's largest motorcycle manufacturer, have come together to form an Indian life insurance company. The new joint-venture company will be named HERO ERGO Life Insurance Company Ltd. Under the proposed agreement, equity will be shared between the two partners and ERGO International AG will take a 26% share in HERO ERGO Life Insurance Company Ltd. The two parties signed a joint declaration in the presence of Dr. Nikolaus von Bomhard, CEO of ERGO's parent company, Munich Re.

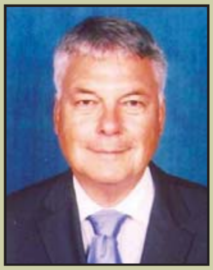
Interview of Stand-alone Health Insurers

Interview with Mr. V. Jagannathan, CMD, Star Health and Mr. Axel Munaretto, CEO, Apollo DKV

With the engines of insurance growth in India whirring relentlessly and predictions of premiums from health insurance to go up to Rs 15,000 crore by 2015, stand alone health insurance companies are also joining the race by offering a range of innovative products. In the last two years, two stand-alone health insurers – Star Health and Apollo DKV have made their foray into the health insurance sector of India. In this issue, we speak to **Mr. V. Jagannathan**, **CMD, Star Health** and **Mr. Axel Munaretto**, **CEO, Apollo DKV** about the opportunities in the Indian health insurance sector and the road ahead for their company.

1) How does India compare with the rest of the world in terms of health insurance coverage?

Mr. Jagannathan: The awareness of health insurance is catching up in India. India has got a large middle-income group which is very slowly realizing that with high cost towards health problems it might affect them very badly. This has been contributed by emerging lot of corporate hospitals where the health care costs also has gone up. When compared to the western world we are still in a very very moderate stage. Our total health care premium for the year 2007-08 approximately would be Rs. 3600/- against Rs. 3200/- in 2006-07 which also shows a growth pattern. When compared to USA or UK or other developed countries it is much less. Having said that one feature which has to be borne in mind is that without insurance, survival in western world is impossible.



Mr. Axel: On one hand the Health Insurance scenario in India is rather unique in various aspects yet there are various aspects of "traditional" markets. The main differentiator: India is a country with a very high percentage of uninsured people, a huge pent up demand for professional health care providers in general and professional health insurance in particular. Further: the insurance sector, including products design and terms, are highly regulated, the provider market, on the other hand, is more or less un-regulated. So far, Health Insurance is mainly offered from General Insurance companies who use HI as a by-product or as a line of business which helps them selling corporate business for other lines. Also the difference between the situations in the urban area compared to the rural parts of the country will influence the future of HI in India.

(Contd... 07)

Report Card - Life Insurance

First Year premium* underwritten by Life Industry 2007-08 (Rs. in crores)

INSURER	MARCH 2008	APRIL - MARCH 2007-08	APRIL - MARCH 2006-07	% GROWTH OVER PREVIOUS YEAR
LIC	13456.88	59182.2	55934.69	5.81
Private Insurers				
ICICI Prudential	1541.1	8305.85	5254.64	58.07
Bajaj Allianz	1361.14	6491.72	4269.78	52.04
SBI Life	1244.07	4792.86	2566.08	86.78
Reliance Life	746.53	2752.76	930.46	195.85
HDFC Standard	586.69	2679.61	1624.24	64.98
Birla Sunlife	528.9	1965.01	882.72	122.61
Max New York	312.58	1594.22	920.34	73.22
Kotak Mahindra Old Mutual	321.57	1106.61	614.94	79.95
Aviva	220.64	1059.08	724.03	46.28
Tata AIG	181.62	967.78	642.35	50.66
Met Life	238.08	826.8	344.09	140.29
ING Vysya	155.43	704.67	467.44	50.75
Shriram Life	52.4	309.87	179.78	72.36
Sahara Life	30.57	122.17	43.17	183.00
Bharti Axa Life	27.45	113.11	7.77	1355.73
IDBI Fortis Life***	11.9	11.9	0	
Future Generali**	0.53	2.5	0	
Private Total	**7561.2**	**33806.52**	**19471.83**	**73.62**
GRAND TOTAL	**21018.11**	**92988.71**	**75406.52**	**23.32**

* Premium includes Individual Single Premium, Individual Non-Single Premium, Group Single Premium and Group Non-Single Premium;
** Commenced Operations in November, 2007;
*** Commenced Operations in March, 2008

News TitBits

State Bank of India, Australia's IAG in insurance JV

State Bank of India, the country's top lender, and Insurance Australia Group have signed a memorandum of understanding for a general insurance venture to tap the fast-growing Indian market, the firms said on Tuesday. The firms will finalise an agreement and apply for regulatory approvals, they said in a joint statement. The venture hopes to start business in the current financial year and aims to be "amongst the top three players in general insurance in a period of about 10 years," the statement said.

Health insurance in India likely to grow by 50% a year

The health insurance business would likely grow by about 50% a year, predicts Mr CS Rao, chairman of Insurance Regulatory and Development Authority (IRDA), the country's insurance regulator. "So attractive is the market potential that at least three to four foreign firms are keen to launch standalone health insurance companies if they could find an Indian partner", he says.

2) As one of the first stand-alone health insurers, how has your company fared in the last fiscal? And what about your claims experience?

Mr. Jagannathan: We will be completing our first one year of operation with Rs.170.00 crores and I should mention that our claims experience is comfortable.

Mr. Axel: We initiated our sales process from the month of December 2007, and hence it is little premature to comment on premium numbers achieved so far. Consequently – fortunately – the claims experience is also minimal for making any inference. We will of course monitor our achievements during the present year where we would have a full tenure of operation.

3) With life insurers also coming up with health insurance products, what is the level of competition you expect in the coming years?

Mr. Jagannathan: This is really a challenge and the only thing we expect is we should also be given a level playing field which we hope to get.

Mr. Axel: Life Insurers are already very active in what they call Health Insurance. As a matter of fact their Health products are more of a value added variant of the existing Life products, especially those unit-linked plans covering health or long term policies, both Health Insurers are not allowed to offer. When consumers analyze their needs they rather have to buy those short-term indemnity based products or benefit based products for critical illnesses from Health Insurers. Competition is therefore not really the issue, but I see a huge potential for cooperation between Life Insurers whose sales force could sell true Health products from Health Insurers like Apollo DKV Health Insurance.

4) What are your future plans? What share of the overall market are you aiming at in the next 5 years?

Mr. Jagannathan: Our future plan is to take as much market premium as possible and also to concentrate on Corporate accounts. Actually in 5 years, we expect to have a comfortable premium income of one thousand crores.

Mr. Axel: We are committed to establish ourselves as a leading Health Insurer. This does not necessarily mean to be number xyz in the premium ranking. As a stand-alone health insurance company we have to take into consideration that our products are priced with due risk adequacy to have a viable business existence. To prepare us for the future we have established processes which will enable us to execute strict cost management, our IT systems will enable us to process our business in a way to satisfy all stakeholders like customers, agents, employees.

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Apollo DKV will develop new concepts in the area of health care prevention, wellness, long term care and, in general, products for a broad group of customers. In our first products, e.g. we offer our customers age wise unlimited renewal which will be a huge relief as people are getting older and need financial security from diseases in older years. However, our goal is of course to be amongst the big players in our market segment which be realistic when we fulfill our internal targets w.r.t to service quality and product innovation.

5) **What is the biggest hurdle that health insurers are facing today?**

Mr. Jagannathan: As far as Star is concerned we are having smooth sailing in our areas.

Mr. Axel: The lack of adequate professional resources in the insurance industry, mainly actuaries or product designers, hampers the development of state of the art products that fit the needs and demands of customers. The sector of Health Care providers is also an area of concern, as both consumers and insurers are not able to receive and price services that are transparent wrt quality delivered and prices charged. The complete lack of reliable claims data for the insurance sector makes it impossible to price benefits risk-adequate with the consequence that neither insurers nor consumers have transparency on the real value of the products being sold in the market. Last but not least many customers do not really understand the concept of HI but rather see it as a tool of exchanging money. This also leads to non-optimal supply of HI benefits.

6) **How do you foresee the future of health insurance in India? What policy shifts and innovations would you like to see?**

Mr. Jagannathan: Health insurance in India has very bright prospects in the days to come. We expect many radical changes especially in extending cover that are hitherto excluded. We see the emergence of 'Managed Health care' concept in the near future.

Mr. Axel: A general statement: the prospects for HI in the Indian market is excellent and the companies will long term provide sustainable coverage to a large part of the population. In order to support and accelerate this process I could imagine that authorities consider that HI can only be sold from companies with a separate license for this business. This would guaranty long-term security for customers. More regulation in the provider field would definitely lead to more customer protection and transparency. From our industry I expect that we develop innovative products for all customer groups, including the rural sector. To challenge ourselves I would request a strong professional competitive environment with competition taking place via benefits and services and not (only) via prices.

Finally: more professional support for the development of our market segment could most probably be achieved if FDI would be liberalized. FDI would bring fresh ideas, experience from other markets and more risk capital to the country.

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Contact us

India Insure Risk Management & Insurance Broking Services P Ltd.

Ahmedabad # 401-402 Aditya Arcade, Near Choice Restaurant, Off C.G Road, Navrangpura, Ahmedabad - 380009
Tel: + 91 79 40018500/40018400, Fax: + 91 79 30009664
Mr. Deepak Kwatra email : deepak.kwatra@indiainsure.com

Bangalore # 13, 3rd Floor, Mother Theresa Road,1st Stage, Austin Town, Bangalore - 560047. Phone: 080 - 41128056 / 57 / 58 Fax: 080 - 41128597
Contact: Ms. Chetna Wasu
e-mail : chetna.wasu@indiainsure.com

Chennai Sri Valli Griha, Flat GA, Ground Floor, New # 34, (Old # 26), Raman Street, T Nagar, Chennai-600 017. Ph: 044-4202 3797/98 Fax: 044-42023799
Contact: Mr. V.G. Dhanasekaran
e-mail : dhanasekaran.vg@indiainsure.com

Gurgaon # 519, Galleria Complex, DLF Phase IV, Gurgaon 122002 Haryana
Ph : 0124-4115254, TeleFax : 0124-4148348
Contact: Mr. P. Srinivas Rao email: srinivas.rao@indiainsure.com

Hyderabad # 405, Archana Arcade, St John's Road, Secunderabad - 500025
Ph: 040-27822989/90/91, Fax: 040-27822993
Contact: Mr. Anurag Bishnoi
email: anurag.bishnoi@indiainsure.com

Mumbai **Branch & Corporate Office :** # 427/428 Chintamani Plaza, Chakala, Andheri-Kurla Road, Andheri (East) Mumbai - 400 093.
Ph: 022-66791416-20, Fax: 022-66791421
Contact: Mr. Rama Rao email: ramarao@indiainsure.com

New Delhi 5,6 & 13, Ground Floor, Tribhuvan Complex, Ishwar Nagar Opp. New Friends Colony, Mathura Road, New Delhi - 110 065
Ph : 011-42603445/ 47
Contact: Mr. P. Srinivas Rao email: srinivas.rao@indiainsure.com

Pune # 101, Premium Point, Opp. Modern High School, J.M. Road, Shivajinagar, Pune - 411005, Tele Fax: 020-66030713
Contact: Ms. Deepali.A.Rao
email : deepali.rao@indiainsure.com