i-notes Newsletter from India's Leading Insurance Broking House
Sept. - Oct. 08

Summary

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india insure The risk managers

Message from the Editor

Dear Readers,

Five months into the financial year and the see – saw game is on. While the first quarter saw ICICI Lombard climb the ladder and displace a PSU to occupy the 4th place, at the end of July, it is back again to the 5th place. New entrants in the market include Shriram General & Bharati Axa in the non life sector and Canara HSBC OBC, Aegon Religare, DLF Pramerica in the life sector.

Over the past several issues, our focus has primarily been on various topics related to insurance. However, in this issue, we focus upon a more general topic – Business Continuity Planning, which today in India still remains a domain of large companies and is yet to percolate to the medium and smaller companies. While we poignantly remember the 9/11 episode, which incidentally completes its 7th anniversary as we go to print, it was the trigger for the need for having a Business Continuity Plan. Unfortunately human memory appears to have chosen to forget the learning we had from it. Business continuity, we believe, is not just an academic exercise. One needs to learn from the past experiences, even if they are not your own.

We sincerely thank Mr. P. Nandagopal, CEO, Reliance Life Insurance who has spared his valuable time and shared with us his views on the life insurance industry.

While we hear that Infosys has just concluded probably the largest life insurance policy globally for its employees, we have brought out for you the details about retirement planning through superannuation policies; a plan which more and more employers are getting drawn to.

We trust you will find this issue useful and interesting.

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

Business Continuity Planning - *the business of business is to stay in business*

At a glance

- Around half of all businesses experiencing a disaster with no effective plans for recovery, fail within the following 12 months.
- This is a wake up call for organizations to address the need for Business Continuity Planning (BCP).
- BCP is a 4 step process of preparing for, responding to and recovering from disruptions to minimize the impact of loss.
- Although represented by 4 steps, it is a continuous cycle that should evolve over time.
- It's a must for all organizations as it significantly increases an organization's chances of survival in case of a crisis.

How long would your business survive an interruption? How well are you prepared to deal with a disaster that prevents the normal operation of your company? Recent man-made and natural disasters including the terrorist attacks, the tsunami, the Mumbai floods etc have given us all a vivid reminder of just how rapidly nature can turn civilized communities into disaster zones.

> A disaster can strike any organization, large or small. Organizations spend years building their brands but a single event could wipe out this investment.

A disaster can strike any organization, large or small. It can arrive in the shape of a storm, flood, fire, a terrorist bomb, power outages, supply chain breakdowns, riot or product contamination. Around half of all businesses experiencing a disaster with no effective plans for recovery fail within the following 12 months. Organizations spend years building their brands but a single event could wipe out this investment. All these highlight the critical need for organizations to address the need for Business Continuity Planning (BCP).

What is Business Continuity Planning?

Business continuity planning is the process of developing and maintaining plans to minimize the impact of loss to the organization's vital business functions due to a disaster.

> Business continuity planning is the process of developing and maintaining plans to minimize the impact of loss to the organization's vital business functions due to a disaster.

BCP is about:

- Identifying what your critical business functions are
- Identifying and assessing the threats to them
- Helping organizations prepare for, prevent (where possible), respond to and recover from disruptions or incidents, regardless of the nature / size of the disruption or the type of impacts they may have

It is very common for organizations to fall into the trap of thinking that Business Continuity is just about Disaster Recovery but it means so much more. BCP includes disaster recovery, business recovery, business resumption, contingency planning and crisis management. Since the first concepts of BCP were documented, they have evolved dramatically from disaster recovery strategies for computer departments into enterprise-wide continuity planning.

Why is Business Continuity Planning important?

The terrorist attacks upon the United States proved to be a wakeup call to many who had looked at BCP as an effort that yielded nil results. Besides the terrible toll on human life, many businesses were affected severely and some of them have never recovered.

There were, however, some examples where good business continuity planning resulted in successful resumption of operations. These examples came from organizations that had made the investment in frequent disaster plan tests and updates, regular real-time backup of their data and establishment of hot site capabilities etc, because of which, they were able to quickly resume business.

Every organization is at risk from several potential disasters. Even though such catastrophic events are rare - a broken water pipe, a cable cut off or an electrical failure will all cause disruption of some sort. BCP significantly increases an

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organization's chances of survival in such situations and also aids in the prompt resumption of service helping to protect market share, reputation, brand and intangible assets.

General Findings:

- **43%** of businesses experiencing major disasters never re-open
- **29%** close within three years
- **< 50%** of organizations have business recovery plans and at least **90%** never test the plans
- **75%** of businesses are UNABLE TO FUNCTION without IT/ telephones within 14 days
- **"Recovery time"** is invariably underestimated and the **"costs"** of recovery not always recovered by insurance.

The Business Continuity Planning (BCP) process is one of the strongest tools a company can use to offset the potential impact from significant loss incidents.

The consequences of NOT having effective BCP's in place could have serious implications, including:

- A complete failure of your business;
- Loss of income;
- Loss of reputation / loss of customers;
- Financial, legal and regulatory penalties;
- Human Resource issues

On 24th April 1993, a truck bomb ripped through London's financial district in Bishops gate, killing one and injuring more than 40. The cost of repairing the damage had been estimated at more than £1bn and the huge payouts by insurance companies contributed to a crisis in the industry. A study conducted immediately after the bombing and revisited again in 2000, established that, of those companies directly affected by the incident and who did NOT have contingency plans in place:

- Only 8% survived long term

Of the remainder:

- 40% failed within 18 months
- 12% failed within five years
- 40% never re-opened

Shocking statistics indeed that reinforces the importance of Business Continuity Planning.

> The Business Continuity Planning (BCP) process is one of the strongest tools a company can use to offset the potential impact from significant loss incidents.

The Business Continuity Planning Process

Step 1: Analyze your business

This step, also known as **Business Impact Analysis (BIA)**, determines which areas of the company's activities are crucial to running the business. BIA enables an organisation to focus its risk assessment on the mission critical activities of the organisation.

To assess mission critical activities consider which operations are crucial to the running of your business.

- Employees?
- Products?
- Services you provide?
- Location?
- Client(s) / Supplier(s)?
- Shareholders?

Once the critical activities are identified, they must be prioritized based on minimum acceptable delivery levels and the maximum period of time the service can be down before severe damage to the organization results. You have to consider a number of scenarios and determine the impact of those scenarios on the various aspects of your business or organization.

The BIA will provide your organization with:

- The identity of its time-sensitive business operations and services
- An analysis of the organization's financial exposures and operational impacts
- The time-frames in which time-sensitive operations, processes and functions must resume
- An estimate of the resources necessary for successful resumption, recovery and restoration.

Step 2: Assessing the risks

Risk assessment identifies:

- Internal and external threats, liabilities and exposure, including risk concentrations that could cause the disruption to an organization's mission critical activities.
- The likelihood of an incident occurring: is there a concentration of risk in a particular area/task?
- How vulnerable an organisation is to the various types of incidents?
- A basis to establish a risk appetite and risk management control program and action plan.

For the purposes of risk assessment, it is also important to look at:

- Worst case scenarios
- What functions and people are essential and when

Step 3: Developing Strategy and Plan

From the beginning of creating the business continuity plan, aim to embed a business continuity management culture throughout the organisation and build awareness that BCP is a company-wide specialization, not just an IT function. In the process of developing your plan, make sure you have consulted all the decision makers in the business and involved your staff.

Plans for Business Continuity

Mitigating Threats and Risks

Moderating risk is an ongoing process and should be performed even when the BCP is not activated. For example, if an organization requires electricity for production, the risk of a short term power outage can be mitigated by installing stand-by generators. Another example would be an organization that relies on internal and external telecommunications to function effectively. Communications failures can be minimized by using alternate communications networks or installing redundant systems.

Create Continuity Plans

Plans for the continuity of services and products are based on the results of the BIA. Ensure that plans are made for increasing levels of severity of impact from a disruption. For example, if limited flooding occurs beside an organization's building, sand bagging may be used in response.

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Retirement planning with Group Superannuation

At a glance

- People are living longer than ever before, which is obviously good news, but that means retirement is becoming more expensive.
- According to a MetLife survey, over 80% of Indian employees have done no retirement planning independent of mandatory government plans.
- Employers need to share concern and partner with employees to ensure that they have a peaceful retired life.
- That is where group superannuation schemes come to the picture as it provides employees with a sizeable corpus on their retirement.
- It will ensure that your employees age gracefully which translates into a win-win situation for both of you.

For too many people, the joy of retirement after years of hard work is eclipsed by the financial uncertainties that it brings. Despite all the planning and saving, you can never be sure whether your money will last a lifetime. Retirement planning offers a way to ensure a more enjoyable, stress free tomorrow. A prudent plan will ensure that increasing life expectancy, higher inflation and increasing taxes do not eat away into your hard earned savings.

Giving employees a happier retirement

The driving force behind an organization is its people. And the driving force behind the people can be the promise of a secure future and a comfortable retired life. According to a MetLife survey, over 80% of Indian employees have done no retirement planning independent of mandatory government plans. As a thoughtful employer, it's imperative on your part to chalk out a comfortable retirement plan for your employees. Group Superannuation schemes offered by life insurance companies (also known as pension schemes) can be a good option for organizations to systematically plan for the increasingly crucial post-retirement days of their employees. A well-crafted plan can place a sizeable corpus in the hands of an employee, without costing the employer as much as the more visible perquisites such as fancy cars and swanky, company-furnished accommodation.

Retirement planning offers a way to ensure a more enjoyable, stress free tomorrow.

Superannuation schemes are of two types - Defined contribution and Defined benefit.

Defined contribution scheme is one in which the employer decides the contribution to the scheme. This contribution is ascertained as a percentage of the salary. The pension amount is ascertained at the time of retirement, depending on the accumulated amount.

Defined benefit scheme on the other hand takes into account the amount of benefit an employee will get on his retirement. Actuarial valuation is conducted to ascertain the funding rate. Based on various factors like years of contribution left, accumulated funds with interest, interest rate estimates, etc, the funding is ascertained.

As a thoughtful employer, it's imperative on your part to chalk out a comfortable retirement plan for your employees. Group Superannuation schemes offered by life insurance companies can be a good option.

Advantages of Pension funds managed by Insurance companies

Pension funds managed by life insurance companies have the following distinct advantages: -

1. An attractive and competitive yield on the fund will be credited to the pension fund account.
2. The problem of liquidity gets automatically eliminated as soon as the insurer manages the fund.
3. The employer appoints the trustees and drafts the trust deed and rules in consultation with the insurance company that runs and administers the scheme. And because the employer only acts as a facilitator, a superannuation plan is designed to serve the interests of employees.
4. The administration of the fund is carried out in a scientific manner and claims are promptly settled.

Life insurance companies in India offering superannuation schemes are LIC, Reliance Life, HDFC Standard, ICICI Lombard, Max New York Life, Bajaj Allianz and SBI Life.

Features of the Group Superannuation Scheme

Contributions: Contributions to the scheme can be made either by the employer alone or by both the employer and the employee. The annual contributions made by the employer are treated as deductible business expenses. The maximum annual contribution that an employer can make to the Pension Fund and Provident Fund is restricted by the Income Tax Provisions to 27% of the annual salary (basic plus D.A.)

Eligibility: Superannuation is a voluntary scheme & the employer is free to define the benefits and the eligibility criteria.

Benefits

On Retirement:

- The employee upon retirement can withdraw up to 33% of the accumulated amount from their pension fund and the rest of the money is used to buy an annuity*.

On Withdrawal from Service:

- Transfer the accumulated corpus to the superannuation scheme of the new employer, provided the rules of both schemes permit such a move, OR
- To retain the benefit entitlement within the fund until retirement. This option is provided incase the employee does not wish to withdraw the fund immediately maybe due to market volatility or may be because the new employer does not have a similar scheme. In such cases, he can withdraw funds at time of retirement as mentioned in the trust rules. Even though, future contributions to the fund on his behalf cease, OR
- Immediate annuity with optional commuted value. This option is provided incase the employee does not wish to continue in the scheme on his exit from the organization and wishes to withdraw the fund entirely (before the vesting age). If the rules permit then he may have the option to commute (convert into cash) a certain portion of the corpus and the balance has to be used to buy annuity immediately.

On Death whilst in Service:

- In case of death of an employee, the designated nominee has the option either to convert into cash the accumulated amount or to purchase annuity out of the total accumulated amount depending upon the scheme rules.
- If the scheme includes life insurance cover, on death whilst-in-service, a lump sum amount is also paid.

Tax Benefits**

For the employer:

- Annual contributions are allowed as deductible business expenses, the same is fully exempt from Fringe Benefit Tax (FBT) provided the annual contribution per

**An annuity is a long-term contract between you and the insurer, wherein you pay the insurance company a sum of money all at once or incrementally, and then after a certain agreed time (usually during retirement), the insurer pays the principal and earnings back at specified intervals to you or to a named beneficiary. This ensures that you receive guaranteed income during your retirement.*

***The income tax concession will be available only if the scheme is approved by the Commissioner of Income Tax.*

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Business Continuity Planning.... *Contd. # 2*

If water rises to the first floor, work could be moved to another company building or higher in the same building. If the flooding is severe, the relocation of critical parts of the business to another area until flooding subsides may be the best option.

Another example would be a company that uses paper forms to keep track of inventory until computers or servers are repaired or electrical service is restored. For other institutions, such as large financial firms, any computer disruptions may be unacceptable and an alternate site and data replication technology must be used. The risks and benefits of each possible option for the plan should be considered, keeping cost, flexibility and probable disruption scenarios in mind. For each critical service or product, choose the most realistic and effective options when creating the overall plan.

Alternate Facilities

If an organization's main facility or IT assets, networks and applications are lost, an alternate facility should be available. There are three types of alternate facility:

1) **Cold site** is an alternate facility that is not furnished and equipped for operation. Proper equipment and furnishings must be installed before operations can begin and a substantial time and effort is required to make a cold site fully operational. Cold sites are the least expensive option.
2) **Warm site** is an alternate facility that is electronically prepared and almost completely equipped and furnished for operation. It can be fully operational within several hours. Warm sites are more expensive than cold sites.
3) **Hot site** is fully equipped, furnished, and often even staffed. Hot sites can be activated within minutes or seconds. Hot sites are the most expensive option. When considering the type of alternate facility, consider all factors including threats and risks, maximum allowable downtime and cost.

Step 4: Rehearsal and Staff Training

Even the most thorough and well-funded plan has *people* at its core. People make the plan work and the success of every recovery process depends on people. Your plan also has to be subjected to rigorous testing. Testing should be carried out in an environment to reproduce authentic conditions. Although it might not be practicable to change premises for a few days, it might be a good idea to test operating at other premises with the key staff for a few hours.

Your plan will need a full rehearsal at least once a year and will also need to be maintained and updated regularly by appointed persons. Think of the disaster plan as the documentation for an ongoing set of processes – the journey, not the destination.

While this approach is reflected as four steps, the business continuity planning process actually represents a continuous cycle that should evolve over time based on changes in potential threats, business operations and test results.

Conclusion

There are several attitudes to valuing business continuity planning. Generally, one tends to be either a Grasshopper or an Ant. Grasshoppers play the odds. A disaster is unlikely to occur. Why worry, be happy! Ants take precautionary measures, no matter what the "odds," figuring that if they don't, they are going to have the disaster. When it comes to continuity planning, one can justify being more "antish" as planning makes the difference between disruption and disaster.

As Confucius said, "If one does not have long-range considerations, one will surely incur imminent afflictions."

Claims Case Study- *Fire in a paint factory*

Background: National Paints Ltd is a paint company based in Hyderabad that manufactures Industrial, Decorative and Wood Finish Paints. Their manufacturing unit is situated on 22 Acres of Land in a village called Tellapur in Medak district of Andhra Pradesh. The campus comprises of an administrative block, an air conditioned godown for storing Nitro glycerine, the main plant, a resin plant and a stiff plant. All these units are located and situated in different parts of the plant layout. The main plant comprises of three stories wherein various manufacturing operations for different types of products are carried out. Basically paint manufacturing is a batch process and hence each product gets manufactured in a single run in a reaction kettle for a specific quantity of time. Their finished goods storage is a very neat and clean place wherein the entire stocks are stored on Racks and Pallets.

The Incident:

- On the afternoon of the 15th June 2007, at around 14.30 hours, just at the beginning of the second shift, while one of the worker's was charging the Mixer with raw materials on the first floor of the main building, there was a loud explosion in the main building area. This explosion was followed by thick smoke which started emanating from the mixer in concern and very soon the entire area was engulfed in smoke which was (as eyewitness tell us) very toxic in nature.
- Almost immediately the entire plant and machinery which was present on the first floor of the factory caught fire due to the spiraling effect of the incident.
- The fire was so severe and spread so fast, due to the highly inflammable Raw materials present in the Factory, that within a few minutes the entire main building of the factory was engulfed in flames causing large scale damage to the stocks of

Retirement planning .... Contd. # 3

employee does not exceed Rs.1 lakh annually.

- Interest earned on the pension fund is tax-free.

For the employee:

- Contributions by the employer are not treated as perquisites.
- Employee's contribution, if any, qualifies for tax exemption.
- Interest earned on the pension fund is tax-free.
- Up to one-third of the accumulated amount on retirement is tax-free in the hands of the employee. The balance two-thirds is used to buy an annuity and the pension received from the annuity is treated as income and taxed accordingly.
- Benefits payable on death are exempt from tax.

Conclusion

After a valuable professional career with an organization, employees require the security of a regular income flow when they retire. Organizations can help employees secure their golden years by offering various kinds of retirement benefits that allow an employee to enjoy the same quality of life post-retirement. All in all, the group superannuation scheme ensures that your employee's golden days remain truly golden.

raw material, packing material, finished goods and work-in-progress as well as to the building and the structure of it.

- Luckily the fire did not spread to the nearby two factory buildings and was stopped and extinguished before any more damage could be done.

The Findings: The exact cause of loss as ascertained by the surveyor as well as the Insured was "Explosion due to static charge while loading the mixer, which lead to the fire erupting".

What went wrong?

The main reason for the claim occurring was the static charge which had arisen during the charging of the mixer. To understand what went wrong we will first have to understand the meaning of the word 'static charge'. In common parlance, the charge that arises whenever two bodies are close to each other or when we rub our hands on a synthetic cloth is known as static charge. This charge is characterized by a mild crackling sound. It is this charge which gives the spark or ignition for a fire to start. This static charge is also very strong in a mobile phone, hence you will always notice the sign "Switch off your Mobiles OR do not Use your Mobiles" in a Petrol Pump.

Before the fire accident, the workers were allowed to keep their mobile phones in their lockers in the changing room of the main building. No Flame Proof instruments and accessories were being used by the insured for transferring the materials. This was one of the causes which accelerated the fire instead of retarding its progress.

The Outcome

The claim was payable BUT how much would be payable was the problem. The Insured submitted a bill for 13 crores including stocks and building damage, but the irony was that they were heavily **under insured**. The Insured wanted the entire amount payable but their valuations were speaking a different tone. The policy even though was on a Reinstatement Value basis, there were serious issues with the valuations, in the sense that the Sum Insured which was given to the insurer was not reflecting the current value as on the date of the loss. Secondly, no margin was kept for escalation w.r.t Plant & Machinery and Building. Therefore there was a substantial deduction on account of Under Insurance. The work-in-progress was insured for a much lower value than what should actually have been done and as a result the claim amount disbursed, had an underinsurance factor of 40 percent.

Our Learnings

- The Insured should get their plant & machinery and buildings valued at the current rate and also factor an escalation into the value of the Sum Insured while taking/renewing the policy. This will effectively keep 'under insurance' at a minimum and allow the insured to claim the maximum part of the loss.
- The Sum Insured for raw materials and finished goods should be properly taken based on the highest value on any day during the preceding year, or as per the plans for the year. This would serve as an effective scale for monitoring the exact value.
- Please ensure that the hand held fire fighting appliances are maintained well at all times of the year preferably by outsourcing the maintenance contract.
- Also ensure that the hydrant system is working and is tried and tested regularly.
- The workers who work in vital positions should be trained well in the hazards of their operations and the safety precautions to be taken.
- Mock fire drills to be conducted from time by the Management and it should be seen that the workers and the staff take the exercise seriously.

News TitBits

Fed to lend $85 Bn to AIG, take big stake in insurer

The Federal Reserve Bank of New York agreed to lend up to $85 billion to American International Group Inc. in return for a nearly 80% stake in the New York-based insurer. The deal, which was endorsed by the U.S. Federal Reserve Board and the Treasury Department, is designed to avert bankruptcy for the insurer and give it time to conduct an asset sale. "The purpose of this liquidity facility is to assist AIG in meeting its obligations as they come due. This loan will facilitate a process under which AIG will sell certain of its businesses in an orderly manner, with the least possible disruption to the overall economy," the Fed statement said.

AIG's rating woes to shake up Indian reinsurance market

Indian non-life insurance companies are anxiously waiting to see the impact of AIG's troubles on the ratings of its reinsurance arm. Any downgrade of the parent would have a ripple effect on its arm. If the reinsuring arm's rating falls below the BBB prescribed by IRDA, local insurers will have to look for a new reinsurer. As a reinsurance group, AIG provides significant reinsurance capacity for the Indian market. It is a lead reinsurer for Air India and also provides large coverage to big energy reinsurance programmes. Besides, it is a large aviation reinsurer and market leader in providing cover for directors & officers' insurance. However, there is fear that AIG might default. Insurers say that AIG has one of the best insurance franchisees and there would be no problem in finding buyers for its Asian aviation and reinsurance businesses. But their key concern is whether AIG would be around long enough to conduct an organized sale of its assets.

India ahead of China in insurance penetration

China may be ahead of India on many fronts, but it still lags behind its counterpart in insurance penetration, says the Batlivala & Karani (B&K) Research report. To be more precise, while insurance penetration in India is about 4 percent, China still has a penetration of 2.7 per cent, much below the world average of 7.52 per cent. However, despite opening up at approximately at the same time in the late nineties, the insurance sector in China has raced ahead of India, says the report. Chinese markets, for instance, are well ahead of India owing to a more positive regulatory environment and better performing companies. There are 79 insurance companies in China compared to the 30-odd companies in India.

Report Card - April - July 2008

Gross premium underwritten by non life industry for and up to the month of July 2008** **(Rs. in crores)**

INSURER	JULY		APRIL - JULY		% GROWTH OVER PREVIOUS YEAR
	2008-09	2007-08	2008-09	2007-08	
New India	432.46	409.24	1970.78	1851.49	6.44
National	342.73	322.67	1516.86	1371.33	10.61
Oriental	386.20	374.01	1452.29	1423.77	2.00
United India	323.84	285.75	1437.09	1288.49	11.53
ICICI-lombard	284.32	275.36	1361.44	1162.00	17.16
Bajaj Allianz	238.76	186.01	972.29	759.74	27.98
Reliance General	143.54	124.17	699.98	653.22	7.16
IFFCO-Tokio	114.03	86.92	528.22	397.00	33.05
Tata-AIG	79.78	72.83	368.46	298.15	23.58
Royal Sundaram	67.36	51.90	257.87	220.02	17.20
Cholamandalam	55.24	37.76	255.59	185.69	37.64
HDFC ERGO Gen.	30.13	18.9	82.38	70.91	16.18
Future Generali	15.45	0	43.26	0	0.00
Universal Sompo	0.10	0	1.01	0	0
Shriram General*	0.25	0	0.25	0	0
PRIVATE TOTAL	1028.97	853.85	4570.75	3746.74	21.99
PUBLIC TOTAL	1485.23	1391.67	6377.02	5935.08	7.45
GRAND TOTAL	**2514.2**	**2245.52**	**10947.77**	**9681.82**	**13.08**
SPECIALISED INSTITUTIONS					
Credit Insurance					
ECGC	59.54	61.34	224.24	203.63	10.13
Health Insurance					
Star Health & Allied Insurance	99.85	3.47	224.6	40.3	457.36
Apollo DKV	1.41	0	8.36	0	0
Health Total	101.26	3.47	232.96	40.3	457.36
Agriculture Insurance					
AIC	60.61	60.09	114.16	142.56	-19.92

* Commenced operations in July, 2008

** Source: IRDA Journal

Observations

1) The general insurance industry has clocked 13.08% growth in premium income for April-July 2008 as against 12.71% in the previous corresponding period.
2) The private insurers have grown at a rate of 22% compared to 26% in the previous corresponding period.
3) The public sector insurers have registered a rise in growth: 7.45% compared to 5.68% in the previous corresponding period.
4) Cholamandalam has witnessed the fastest growth rate of 37% during this period compared to the same period last year.

News TitBits

Demand for Insurance in Bollywood Growing

Demand for insurance in Bollywood is growing steadily, with all big-ticket film releases this year covered by insurance, according to the Economic Times. The upcoming Drona, due to release on October 2, has been insured for Rs 50 crore by state-owned insurer United India Insurance (UII). All the big ticket releases of this year—Love story 2050, Jaane Tu... Ya Jaane Na and Jodhaa Akbar—were insured.

Insurers see big biz in political risk cover for big cos

With the Tata's on a pullout mode in Singur amid mounting political heat, general insurers like ICICI Lombard, United India Insurance and National Insurance see a huge opportunity for customized political risk covers for big business houses setting up greenfield ventures in challenging locations. Simply put, a political risk cover will shield projects scrapped due to political turmoil.

Group of Ministers give green signal for 49% insurance FDI

The much-deliberated proposal to raise foreign direct investment (FDI) cap in insurance to 49% from the existing 26% has obtained green signal from the Group of Ministers (GOM) on insurance headed by external affairs minister Pranab Mukherjee. The panel has asked the finance ministry to revise the Insurance Laws (Amendment) Bill — which contained the FDI hike proposal — since some new provisions have been included in the amendment. The GOM has agreed to include 10 new provisions in the draft Insurance Laws (Amendment) Bill.

Tailor-made insurance policies will have to wait

Tailor-made insurance policies are unlikely to replace the uniformly-drafted motor and fire insurance policies anytime soon. The Insurance Regulatory and Development Authority (IRDA) has indicated that it is not in favour of doing away with the standardized terms and conditions as it may lead to confusion in the minds of consumers. The regulator is also working on the usage of simple English in the policy documents to make it easily readable.

General Insurance Corporation of India among World's 20 Largest Reinsurers

General Insurance Corporation of India, the sole reinsurer of India has jumped to the 16th slot of world's largest reinsurers from the 20th position that it earlier occupied.

LIC Signs Largest Insurance Deal for Infosys Staff

Infosys has subscribed India's biggest-ever group life insurance policy worth Rs 24,000 crore, from Life Insurance Corporation of India (LIC), covering around 97,000 employees of the organization. With the latest initiative, Infosys will cover all its employees with the insurance cover ranging between Rs 20 lakh and Rs 80 lakh per employee. The policy also has an accident cover of Rs 10 lakh. The company had increased the total sum insured to Rs 11,792 crore in 2007, from Rs 7,981 crore in 2006.

IRDA reassures Tata-AIG policy holders

With AIG facing the heat in US, IRDA has asked for a report from both Tata AIG Life Insurance Company and Tata AIG General Insurance Company on the development regarding one of its promoters AIG in the US. In a statement, IRDA said accounts of life insurance and general insurance companies promoted by Tata Sons and AIG as on March 31, 2008 indicate that both companies have satisfactory solvency margins, which suggest that it has enough assets to meet their liabilities. The IRDA further clarified that the life insurance and general insurance companies promoted by Tata Sons and AIG are companies registered under the Indian Companies Act and are bound by the provisions of the Insurance Act and other Regulations.

Interview - *Reliance Life Insurance*

The Indian life insurance sector is scripting its own growth story and a clutch of private companies are playing their part in giving a boost to this sector. Over the last year, the first year life insurance premiums have grown at a rate of 23 per cent and continue its winning streak. The private life insurers have spread their wings and are focused on capturing the entire depth and breadth of the Indian market. In this issue, we speak to Mr. P. Nandagopal, CEO of Reliance Life Insurance on his views of the insurance market in India, the proposed increase in FDI limit and the new opportunities they are planning to grab.

1) The life insurance first year premium closed at almost Rs.93000 crore in FY 07-08 recording a growth rate of 23.32% as against 110% in FY 08-09. What do you think are the reasons for the comparatively slow growth of life insurance in the last fiscal year?

Mr. Nandagopal: The slower growth you are talking about is applicable to only a few companies. As far as Reliance Life is concerned we have grown at a phenomenal pace of over 200% growth year on year. We did Rs.930 crores of new business premiums for 2006-07 and increased it to Rs.2757 crores in the year 2007-08. Our growth is because of the innovative products we introduced in the market backed up by massive distribution reach and outstanding customer service. The industry still has enormous potential to be untapped and any company which gets its product and distribution models right can reap this potential well.

2) Unit linked products have been doing roaring business till recently. But with the stocks markets on a tail spin, do you think the unit linked products will continue their growth momentum?

Mr. Nandagopal: Again I would like to talk about our experience in Reliance Life. In the first quarter of this financial year, when the stock markets were in a bearish phase, we registered a growth of over 170% - which means our ULIP business which accounts for over 90% of our premium income has not suffered though the indices fell sharply during the same time. It must be understood that ULIPS are long term investment vehicles and short term fluctuations in the market should not affect their sales if the product proposition is made correctly.

3) The proposed insurance amendment bill, if passed will bring about an increase in the foreign direct investment (FDI) limit in the insurance sector to 49%. Your comments on how do you think it will help the life insurance business in India?

Mr. Nandagopal: Life insurance is a capital intensive business and it would take about 7-8 years for any company to break even. If the funds availability for this period of growth is not ensured, companies will suffer stagnation. Fortunately for us, that's not the case and our promoters have committed significant resources for the development of life business with a long term objective. Companies who do not have such strong financial background, may have to depend on foreign equity and for such players, the increase in the limit would be a welcome breather.

4) Are there any new products in the anvil during this year? If yes, are you focusing on new products in the Retail or Group / Corporate segment?

Mr. Nandagopal: Reliance Life aims to be a large national player targeting all customer segments with appropriate product offerings. We believe in continuous product innovation and as a part of this philosophy, we would be constantly introducing newer products, features and services for all segments of the market.

5) These days, even life insurance companies are coming up with various health insurance products. Do you think life insurers will be more successful in increasing the penetration of health insurance in India compared to their non-life counterparts due to their robust distribution network?

Mr. Nandagopal: The best driver for life insurance companies to be successful in the growing health segment is their distribution strength. Having invested heavily in this critical resource, they are obviously better poised to leverage the market potential for health than others. Also, health is a long term need and life business is more suited to addressing long term protection needs of customers.

6) How do you expect the growth in the retirement solutions segment in the coming years?

Mr. Nandagopal: All over the world, including India, the real risk is not dying too soon but living too long – there is a significant trend that people's working lives are getting shorter and organic lives getting longer because of the life style changes. Retirement solutions are therefore a critical necessity and I believe this segment would grow faster than other segments.

Strange Insurance claims

Wasp Worry

Chances are bees, hornets and wasps have caused many an accident. So it comes as no surprise that a driver got in an accident because a wasp flew up his pant leg causing him to panic and hit the accelerator. Too bad he didn't keep his foot on the brake; because the person was waiting at a traffic light with cars ahead of them.

Buried in the sand

Some holidaymakers in Devon buried their camcorder in the sand to prevent it from being stolen whilst they went swimming - the only problem was that they couldn't remember where they buried it.

The insurers obviously had a sense of humour and paid out £600.

Nutty Driver

And finally here's a gem from a driver who obviously lacked due care and attention:

"While going forward I smashed the rear light of the car in front of me. So I backed up, and in doing so smashed the bumper of the car behind me. That's when I stepped out of the car, but in doing so I knocked down a bicyclist with my door. That's all I have to declare for today."

Health Insurance - *a revised, enlarged menu**

Health Insurance in India has traditionally been associated with one name – "mediclaim". Though many of us don't realize it – Mediclaim is actually a brand name, which acquired the status of a generic product category – much like Dalda (which was till recently the generic name for Vanaspati) or Vicks in their time. This was possible because for 13 long years, Mediclaim was the only product in its category. There were 4 PSU insurers offering health (*read: 'hospitalization'*) insurance schemes, all of which were identical and carried the same brand name.

With liberalization of the sector in 2000, more schemes were launched by various Private insurers and though Mediclaim is no longer a monopoly, health insurance remained, till recently, the exclusive bastion of Non Life insurance companies (with Life insurers traditionally focusing on Critical Illness covers).

Things have changed however. Life insurers have started launching stand alone Health Insurance policies now. What began as a trickle, with Bajaj's Health Care in 2005, is now spreading like a rash. ICICI-Prudential (Hospital Care), LIC (health plus), Reliance (Health + Wealth) and Max New York (Medicash), HDFC Standard have all joined the health band wagon. As a result, we now have many choices.

Choice and confusion normally go hand in hand.

There are the obvious questions which pop up in a consumer's mind. Is the Health Plus / Hospital Care a direct competitor (substitute?) for Mediclaim and its variants? If not what are the major differences? Should I as an individual buyer of health insurance discontinue my mediclaim policy and shift to the ones being offered by life companies?

There is therefore a need to understand the conceptual differences between these 2 product categories (comparing specific schemes would be beyond the scope of this column) so that we could make informed choices.

- Non-Life-Health schemes would only compensate you for the expense actually incurred whereas Life-health-schemes would give you the lump sum amount specified in the policy irrespective of your actual spend *(conditions apply for both, please!!)*. For example, a surgery performed for free by a surgeon (for whatever reason) would still qualify for full benefit under a Life-scheme, whereas a Nonlife-scheme would not pay anything at all.
- Non Life schemes are 1-year policies, whereas Life-schemes are long term policies. What does this mean to you as a consumer? Have you heard of people being refused a renewal under Mediclaim because there was a cardiac by-pass surgery and a heavy claim last year? Well, that won't be the case with a life-scheme *(premium could vary year-to-year in both, however!)*
- Life schemes provide for daily cash expenses – which is again pre-fixed and has no link with actual expenses. Non Life schemes have no separate provision for this.
- Life schemes come bundled with investment options (Unit Linked plans) which Non Life schemes can never have, although it is better not to get carried away by this feature. The amount you pay is anyway split 2 ways by the insurer – the health premium component and the investment component.

Having understood the conceptual differences, let us now get down to the real question. Are they substitutes? Can I spend all my 'premium-rupee' on any one and ignore the other?

The answer seems to be – No!

Although these 2 products would compete for a share of your 'premium budget' – they cannot be considered direct substitutes. As can be seen from the points above, they serve different sets of financial (& emotional) needs of the consumer (*Non Life health plans give you complete protection against all types of hospitalization BUT come with a 1-year tag and a lot of paperwork. Life health plans give you limited protection BUT with a long-term tag and minimum fuss.)*

Therefore, in reality they are not substitutes - they are actually complementary.

So what's the verdict?
For complete peace of mind - take both!
(I guess life never gives us easy choices anyway!)

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