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DETARIFFING

बीमा विनियामक और विकास प्राधिकरण

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From the Publisher

Managing change has always been a challenge, more so when the change is fundamental and is likely to revolutionise the way an entire system works. Detariffing is one such change that the general insurance industry has to go through. Effecting it with the minimum damage to the industry and all its stakeholders, including customers, is the aim of the Authority. We are firmly of the view that detariffing has to take place in phases and has to be carried through in a way that the damage and disruptions are minimised.

I have expressed in many fora the need for a reliable and credible database for the industry to base its pricing on. The industry having been in a tariff environment over many decades now has not maintained data which would be the acceptable basis of scientific underwriting and it has to reclaim lost ground now. Such a database is also required for the industry to establish to the outside world its cost structure and efficiency in an increasingly competitive world.

In other words, these measures are needed not only for actuarial work for rate making, but also to study trends on an ongoing basis and share them with consumers so that the claims experience of the industry is communicated transparently to them. The outcome of such information and awareness should be reduced incidence of risk in the economy, which would pave the way to better pricing of insurance. Detariffing would largely depend on how quickly we acquire the date base.

In the next issue of the **IRDA Journal** we are inviting economists to write about what they perceive as the benefits of the reforms the insurance industry has seen in the last few years. We hope to benefit, along with you, from their insight and suggestions.

C.S.RAO

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Behind the Fanfare – *G.V. Rao*

Looking & Leaping

Belling the cat has never been a very sought after chore, but it has to get done. After discussing the job and all its consequences regarding detariffing the general insurance market, we seem to be back to square one.

So we bring you afresh a set of discussions on what will happen and what may not when detariffing comes around. Interestingly no one seems to consider that it is an 'if,' only a 'when.'

So while I have tried to outline the nature of this beleaguered changeover, Mr. Piyush I. Majmudar patiently and articulately analyses – as an actuary would – what the entire exercise implies. His insight into events past, like the initiation of tariffs and how they came to be in the Regulator's turf, as also the Marine Cargo detariffing in the early 90s give a perspective on history. Mr. G. V. Rao comments caustically on the ambivalence in the minds of all the stakeholders with regard to detariffing and its methods and effects.

We have invited some large consumers of insurance to comment about what they have seen in the market and what they see as the impact of detariffing. We are happy to present you Mr. N. Sundararajan, Company Secretary and Head - Internal Audit Ashok Leyland who also looks after the insurance function and Mr. Dinyar Jivaasha, Group Head & Vice President – Essar Group Corporate Risk & Insurance Management sharing their thoughts.

From industry practitioners come two interesting articles this time. Mr. N. C. Das of National Insurance Company gives us an idea of how an underwriter would think if he had to live by his wits to rate risks – something that the other writers in this issue have repeatedly pointed out is far from happening – and Mr. C. P. Udayachandran of United India Insurance Company talks of the overall scenario related to tariffs and detariffing.

Keeping Count, our accounting and audit column by Mr. P. S. Prabhakar, looks this month at the difficult position that the statutory auditor of a general insurance company is put in by various, many a time conflicting, definitions of his role.

We bring you an article on embedded value of life insurance companies by writers with PriceWaterhouseCoopers in order to set off some sharing and debate on this topic that is likely to become important as the deadline begins to loom large for our insurers to go public.

The next issue of the **IRDA Journal** will attempt to look at the path we have traversed in the last five years through the eyes of economists. We hope to get an insight into the benefits or missed opportunities in spreading insurance during the exhilarating infancy of the new-look insurance industry.

IRDA on 5% discount

IRDA has issued a circular on 17th February, 2005 regarding the Special Discount in lieu of Agency Commission/Brokers Remuneration and Remuneration payable to Direct Insurance Brokers and Insurance Agents as follows:

Attention is drawn to the Authority's circular No.GEN/CIR/009/MAR-04 dated 3rd March, 2004 on special discount in lieu of Agency Commission/Broker's Remuneration payable for Direct Insurance Brokers and Insurance Agents in General Insurance Business".

The above circular was valid for a period of one year starting from 1st April, 2004 to 31st March, 2005. The Authority has reviewed the performance of the industry, particularly the development of the system of brokerage and the benefits to insuring public through increased market penetration. A number of representations received from different stakeholders from time to time on the same have also been examined.

Accordingly, this circulaxr is issued superceding Circular No.GEN/CIR/009/MAR-04 dated 3rd March, 2004 with the following changes:

1. (a) The eligibility limit for Special discount of 5 per cent in lieu of Agency Commission /Broker's Remuneration stands raised from paid up capital of above Rs.3 crore to above Rs.15 crore without any distinction between private and public sector.

   (b) The cover under the mega risk policies and project insurance (EAR/CAR/ALOP) above Rs.1500/- crore sum insured will also be eligible for Agency Commission/Broker's Remuneration irrespective of the capital structure and the insured will not be eligible for 5 per cent special discount.

   (c) In respect of Government Departments where paid up capital cannot be determined, the facility of 5% Special Discount in lieu of Agency Commission/ Broker's Remuneration shall continue.

   (d) Companies or firms, whether Private Limited Companies or Public Sector Undertakings or statutory bodies having a paid up capital above Rs.15 crore except Mega risk policies and project insurance (EAR/CAR/ALOP) of sum insured above Rs.1500 crore shall henceforth have the option of either:

   (i) availing a 5% Special Discount and place the Tariff business of Fire, Petrochemical, Engineering, Consequential Loss (Fire), MLOP and IAR directly with an insurer; or

   (ii) seeking the services of an Insurance Broker/Insurance Agent, in which case they will become ineligible for availing the 5% Special

Discount

2. The scale of Agency Commission/Brokers Remuneration shall be regulated as per the table given below:

3. **It is also clarified that:**

a) Special Discount in lieu of Agency Commission/Brokers Remuneration shall be restricted only to Tariff business of Fire, Petrochemical, IAR, CL (Fire), Engineering & MLOP for paid up capital above Rs.15 crore.

b) In all cases where the insured is availing special discount in lieu of Agency Commission/Broker's Remuneration, the same should be indicated on the face of the policy.

c) The percentage of special discount in lieu of Agency Commission/ Broker's Remuneration specified in item (c) above be applied on the final premium excluding service tax.

d) For the purpose of evidence of paid up capital a copy of the latest Balance Sheet which is in public domain as per the requirements of the Companies Act, 1956 should be acceptable. In case of a balance sheet which is 2 years prior to the relevant year of placing insurance an auditor's certificate must be produced. In case of sole proprietorship and partnership firms a certificate from a Chartered Accountant to the client should be acceptable.

e) In respect of branches in India of a foreign company reference should be drawn from the paid up capital of the company in the country in which it is incorporated and thereafter converting it into Indian Rupees.

4. The above orders come into effect from 1st April, 2005.

5. For Marine Hull Tariff business the existing scale of remuneration shall continue until further orders.

6. The Authority is examining the recommendations made by the Expert Committee on the other matters and shall take a final decision in due course of time.

C. S. Rao, Chairman

No.	Class of Risk Individuals	Paid up Capital	Agency Commission (% of final premium excluding service tax) 10%	Direct Brokers Remuneration (% of final premium excluding service tax) 12.5%
1.	Tariff business of Fire, Petrochemical, Engineering, CL (Fire), MLOP and IAR insurances	Paid up capital upto Rs.15 crore	Upto 10%	Upto 12.5%
		Paid up capital above Rs.15 crore to 25 crore	Upto 6.25%	Upto 7.5%
		Paid up capital above Rs.25 crore	Upto 5%	Upto 6.25%
2.	The above mentioned risks in Sl.No.1 under Mega Policy & project insurance (CAR, EAR, ALOP) with sum insured above Rs.1,500 crore	No cap on capital and no special discount	5%	6.25%
3.	Indian Motor Tariff and Statutory Insurances (Workmen's Compensation Act, 1923; Motor Vehicles Act, 1988; Public Liability Insurance Act, 1991)	N.A.	Upto 10%	Upto 10%
4.	All Non-Tariff Business excluding risks in Sl.No.2	N.A.	Upto 15%	Upto 17.5%

TRAINEE SURVEYORS EXAMINATION

IRDA has issued a circular regarding trainee surveryors examination as follows:

1.1. All the applicants enrolled with Insurance Regulatory and Development Authority as trainee surveyors upto 30th June, 2004 (training enrollment no. 2343 to 2858) and have submitted their quarterly training reports with the authority (As per annexure 'a') are advised to download the application form for insurance surveyors examination and submit the same alongwith the requisite fee to Insurance Institute of India, Universal Insurance building, 6th floor, Sir Pherozshah Mehta Road, Mumbai – 400001 Telephone nos. 022-22872923 and 22874722, Fax no. 022-22873491.

2. Candidates are advised to appear for the examination only for the respective departments for which they are enrolled.

3. The last date of sending application forms to Insurance Institute of India, Mumbai is 20th March, 2005.

   Incomplete application form in any respect will not be entertained.

4. The fee structure is as follows :-
   Admission fee : Rs.150
   Section -i (compulsory paper) : Rs.250
   Section -ii : Rs. 250 per subject.

5. Examination time table is as under:

Section	Subject no. & Title	Exam dates	Time
I	Section-i(s-01)	08/05/2005	9.30am to 12.30pm
II	Motor	08/05/2005	2.00pm to 5.00pm
I	Engineering	15/05/2005	9.30am to 12.30pm
II	Miscellaneous	15/05/2005	2.00pm to 5.00 pm
I	Fire	22/05/2005	9.30am to 12.30pm
II	Marine Cargo	22/05/2005	2.00pm to 05.00pm
I	LOP	29/05/2005	9.30am to 12.30pm
II	Marine Hull	29/05/2005	2.00pm to 5.00pm

The exam for Marine Hull i.e. So4 and LOP i.e. So8 will be held only at Delhi, Kolkata, Mumbai and Chennai centres.

IRDA's INSURANCE AWARENESS CAMPAIGN ON DOORDARSHAN

As part of it insurance awareness campaign, the Authority as in recent past is conducting phone in programmes (usually in the 4th week of every month) beginning from January'2005 from the following Doordarshan Kendras:

Thiruvananthapuram, Chennai, Bangalore, Panaji, Jalandhar, Bhubaneswar, Guwahati, Kolkata, Ahmedabad, Hyderabad and Mumbai.

Each programme will be about a different topic as follows:

MONTH	TOPIC
Janurary, 2005	What is IRDA?
February, 2005	The concept of insurance
March, 2005	What is life insurance?
April, 2005	What is general insurance?
May, 2005	Distribution channels in insurance
June, 2005	Policyholders' grievances

The exact timings of the programmes will be announced by the respective Doordarshan Kendras.

Life insurers' rural and social sector obligations

Irda has issued a circular clarifying that the number of lives in respect of rural and social sector obligations of life insurers will refer to new lives insured during the financial year and in force as on 31st March of the year.

The circular reads as follows:

To ensure proper compliance of the IRDA (obligations of Insurers to Rural or Social Sectors) Regulations, 2002 as amended by IRDA (Obligations of Insurers to Rural or Social Sectors) (Amendment) Regulations, 2004 the following clarifications are being made in respect of fulfillment of social sector obligations as contained in the sub regulation 3(b) of the said regulations.

Sub regulation 3 (b) of the IRDA (Obligations of Insurers to Rural or Social Sectors) Regulations, 2002 states that the obligations of insurers towards social sector is –

(i) five thousand lives in the first financial year;

(ii) seven thousand five hundred lives in the second financial year;

(iii) ten thousand lives in the third financial year;

(iv) fifteen thousand lives in the fourth financial year;

(v) twenty thousand lives in the fifth year:

It is hereby clarified that the term "lives" refers to new lives insured during the financial year and in force as on 31st March of the year. This will come in force in the financial year 2005-2006.

For Whom, the Numbers

—The target audience for insurance financials

The financials of Public Sector insurance companies must be an open book for the various stakeholders, especially the insuring public, to see, observes *P. S. Prabhakar*.

The statutory auditors of the Public Sector Unit (PSU) insurance companies are indeed in an unenviable position. Their appointments are governed by the Companies Act and cleared by the Comptroller and Auditor General (CAG) – the CAG also has a statutory duty to 'vet' their reports by giving a 'supplementary' report. Their audit scope and the reporting methodology are prescribed by the IRDA, which is the custodian of the policyholders' interests. Their reports are supposed to be addressed to just one of the stakeholders, viz. the Government, since it is the lone shareholder. Their ethical parameters come under the scrutiny of their own regulatory body, viz., the ICAI. And their fee structures are decided by the individual companies' boards.

In the pre-IRDA days, the situation was quite different. The audit aspects were just monitored by the provisions of the Companies Act. In the absence of extant regulations on financial reporting, disclosure requirements, 'management report' etc., the statutory auditors were not in a position to do anything other than to report on mundane issues like non-reconciliation of bank accounts or agents' balances and violations of Sec. 64 VB of the Insurance Act.

Demanding Situation

The paradigm changes in the financial reporting issues ushered in by the IRDA regulations, resulting in the auditors being pulled in different directions as mentioned above, and yet expected to keep an 'eagle' eye on things, have put the auditors too in a very demanding situation.

The IRDA regulations have increased the reporting requirements substantially. It is mandated that the auditors, besides attesting the 'true and fair' aspects, should go way beyond the financials and certify matters contained in the management reports, which by themselves encompass wide-ranging issues. Additionally, they need to certify solvency margin calculations, etc. However, in the strange evolution of things, we see today that an auditor addresses his main audit report to just one stakeholder in the format designed for the requirements of another stakeholder.

> An auditor addresses his main audit report to just one stakeholder in the format designed for the requirements of another stakeholder... (This) and making it almost unavailable to the public domain does seem unjustified.

The newly introduced sub-sections of 11 (1A) and 11 (1B) demarcating the funds belonging to an insurance company into Policyholders' and Shareholders' respectively have not percolated to addressing the issue of the attest functions. In fact, the major activity of an insurance company is gravitating to the investment function. A significant proportion of the investible funds of an insurance company belong to the policyholders. Against this background, addressing the audit report to the solitary shareholder and making it almost unavailable to the public domain does not seem to be appropriate.

Compare it with the nationalised banks, where also the ownership rests with the Government (in most cases). Though the attest functions come completely under the regulatory parameters of the Reserve Bank of India (RBI), specific well-intended fiats are available for dissemination of the audited financial information to the general public as well. This is done through press advertisements as well as displays in the bank's branches. After all, existing and potential customers do have the right to information, professionally attested, about the financial health of the institution they trust their money with.

It is, of course, true that the regulations are still evolving in this industry, where the PSU players were administered like government departments prior to the new regulations. It is perhaps not enough if the regulator mandates the formatting of the audit reports but should also seek powers to ensure that the reports reach the public at large as well. After all, it is still possible for the smarter officials in the PSUs to re-engineer the financial picture, and still be 'within' the regulations and, what is more, either escape or successfully manage the scrutiny of the auditors.

A Case in Point

Here is an illustration. In 2001-02, Oriental Insurance changed its Unexpired Risks Reserve (URR) provision from 100 per cent to 50 per cent for Marine Cargo, as the new IRDA regulations made a distinction between Marine Cargo and Marine Hull, and

permitted 50 per cent URR provision for Cargo, as against the earlier diktat of 100 per cent for Marine as a whole. This resulted in writing down of the provision by Rs. 48.26 crore. The loss for the year was mentioned as Rs. 235.48 crore and this was after the said release, which made the 'net loss' lower by Rs. 57.50 crore, as per the company's reply to the CAG's comments.

However, the report by the Financial Advisor (FA) had suggested that the loss was entirely attributable to the additional provision for Motor TP claims amounting to Rs. 246.4 crore. *That is, if it were not for such a provision, the company would have actually made a profit of Rs. 10.92 crore.* The URR release which gifted it Rs. 57.5 crore was not acknowledged even in the Notes on Accounts, as mandated by AS-5. Neither was this commented upon by the auditors. However, the Company had made a cursory mention of this in its reply to the CAG comments.

In 2003-03, the same company, which had made the outstanding claims provisions in the earlier year 'after studying the recent trends in claims settlement' and after 'the method and the quantum of this provision has been endorsed by their Appointed Actuary', decided on a *volte-face* and reversed the estimates of claims provisions across the board to the tune of Rs. 360.22 crore and showed a PBT of Rs. 175.89 crore. This time the company said that 'refinement in the actuarial methods to arrive at a more realistic picture of the liability' and 'changes in loss provisions done in the normal course of business' were the reasons for the reversal of estimates. It even argued that AS-5 would not be attracted in such cases. (Disclosure of information impacting operational results.)

However, the FA, in his report, had stated that "the dramatic turnaround in results was mainly due to a well conceived and sustained strategy implemented by the company." He went on to add that the "lowering of incurred claims ratios is a direct reflection of the effort made by the company towards more profitability." A backhanded admission! Except a mention in the "Notes forming part of accounts" which bear the signature of the auditors as well, no comment of any sort was made by the auditors this time either.

The CAG had pointed out that such reversals were not in conformity with AS-5 but the company had stoically maintained that AS-5 would not be applicable. It even said that it would refer to IRDA on this. Why to IRDA and not to ICAI? The company did not explain. Neither was there any follow-up information in the 2003-04 financials.

For nationalised banks, specific well-intended fiats are available for the dissemination of the audited financial information to the general public as well. This is done through press advertisements as well as displays in the bank's branches.

It appears that statutory auditors, who should have put their foot down on issues pertaining to such provisions and reversals, did not do so. (Perhaps because their reporting is to shareholders only and this is a policyholders' matter!) The CAG, which did ask a few questions, did not elicit the answers it looked for and, was ignored by the company (which stated that it would go to IRDA for clarification). The CAG did not take the issue further. IRDA does not seem to have any questioning mechanism on the financials, even though the company 'converted' some Policyholders' Funds into 'Shareholders' Funds' by writing down the claims provisions citing the 'regulations.'

Issues like this are quickly buried and forgotten by all concerned. The bottom line is that there is a seeming confusion as to who can question, and about what, in respect of the financial information in PSU insurance companies. Perhaps it is time IRDA held a dialogue with ICAI and the CAG to bring about role clarity for every agency concerned.

Tailpiece: The methodology adopted by Oriental, of writing down the URR provisons in Marine Cargo and in one go, converted a significant portion of the 'carefully built policyholders funds' as a 'one-time profit,' without attracting any serious repercussions, and was followed by United India in 2002-03 (Rs.54 Crores) and by National in 2003-04 (Rs.53 Crores). So, in all, over Rs.160 Crores of 'Policyholders Funds' were simply eaten away by the three companies!

The author, who used to work with the nationalised general insurance industry, is a practising Chartered Accountant. In this series he discusses analysing the balance sheet of a general insurance company.

Report Card:LIFE

Life new business grows 35% in January

The life insurance industry underwrote a premium of Rs.1,56,636.16 lakh during the month of January, 2005, taking the cumulative premium underwritten during the current year 2004-05 to Rs.15,03,644.13 lakh.

The total Individual premium and Group premium underwritten were Rs.12,44,055.13 lakh (82.74 per cent) and Rs.2,59,589 lakh (17.26 per cent) respectively as against Rs.8,95,974 lakh (80.39 per cent) and Rs.2,18,542.62 lakh (19.61 per cent) underwritten in the corresponding period of the previous year. The premium underwritten by the industry upto January, 2005, towards individual single and non-single policies stood at Rs.2,60,312.28 lakh and Rs.9,83,742.86 lakh respectively accounting for 6,31,088 and 1,55,29,251 policies. The group single and non-single premium accounted for Rs.2,34,333.52 lakh and Rs.25,255.47 lakh.

LIC underwrote premium of Rs.11,74,275.14 lakh during the period i.e., a market share of 78.10 per cent, followed by ICICI Prudential and Birla Sunlife with premium underwritten (market share) of Rs.97,882.52 lakh (6.51 per cent) and Rs.42,887.30 lakh (2.85 per cent) respectively. The number of lives covered by the industry under the various group schemes was 52,25,075 during the period ended January, 2005. LIC covered 32,37,549 lives under the group schemes accounting for 61.96 per cent of the market, followed by SBI Life with 6,66,024 lives (12.75 per cent), Bajaj Allianz with 2,60,106 lives (4.98 per cent) and Tata AIG with 2,57,321 lives (4.92 per cent).

While LIC's market share declined from 87.76 per cent for the period ended January, 2004, all new life insurers increased their market share, over the corresponding previous year numbers. Cumulatively, the new players underwrote first year premium of Rs.3,29,368.99 lakh.

Analysis of the statistics in terms of linked and non-linked premium reflects the changing pattern of the life industry. The growth has been skewed in favour of linked business. While premium underwritten under the linked categories was Rs.3,87,058.80 lakh as against Rs.69,993.85 lakh in the corresponding period of the previous year reflecting a growth of 452.98 per cent, the non-linked premium underwritten was Rs.11,14,690.32 lakh as against Rs.10,42,713.60 lakh in the corresponding period of the previous year, i.e., a growth of 6.90 per cent.

First Year Premium – January, 2005

(Rs. in lakhs)

Sl No.	Company	Premium u/w 2004-05		Premium u/w 2003-04	% Growth over previous year	Premium Market Share (%)	No. of Policies / Schemes 2004-05		No. of Policies / Schemes 2003-04	% Growth over Previous year	Policies Market Share (%)	No. of the covered under Group Schemes 2004-05		No. of lives covered under Group Schemes 2003-04	Lives covered under Group Schemes -- Market Share (%)	
		Jan	Upto Jan	Upto Jan	Upto Jan	Upto Jan	Jan	Upto Jan	Upto Jan	Upto Jan	Upto Jan	Jan	Upto Jan	Upto Jan	Upto Jan	Upto Jan
1	**Bajaj Allianz**	**6,546.06**	**40,604.51**	**9,389.47**	**332.45**	**2.70**	**29,160**	**1,79,299**	**1,25,492**	**42.88**	**1.11**	**35,150**	**2,60,106**	**54,938**	**373.45**	**4.98**
	Individual Single Premium	2,997.54	15,797.86	274.37	5,657.87		6,110	21,281	703	2,927.17						
	Individual Non-Single Premium	3,519.71	24,325.20	9,049.29	168.81		23,037	1,57,926	1,24,746	26.60						
	Group Single Premium			0.76	-100.00				1	-100.00				781	-100.00	
	Group Non-Single Premium	28.81	481.45	65.05	640.12		13	92	42	119.05		35,150	2,60,106	54,157	380.28	
2	**ING Vysya**	**869.49**	**8,204.85**	**3,835.34**	**113.93**	**0.55**	**3,468**	**77,490**	**50,810**	**52.51**	**0.48**	**7,977**	**18,944**	**1,084**	**1,647.60**	**0.36**
	Individual Single Premium	0.16	32.83	19.00	72.79		24	4,829	2,796	72.71						
	Individual Non-Single Premium	652.55	7,335.74	3,814.29	92.32		3,437	72,613	48,012	51.24						
	Group Single Premium	171.47	622.89					3				511	1,396			
	Group Non-Single Premium	45.31	213.39	2.05	10,320.59		7	45	2	2,150.00		7,466	17,548	1,084	1,518.82	
3	**AMP Sanmar**	**1,571.41**	**7,675.61**	**1,835.95**	**318.07**	**0.51**	**3,020**	**26,348**	**33,738**	**-21.90**	**0.16**	**13,232**	**80,410**	**53,217**	**51.10**	**1.54**
	Individual Single Premium	1,287.11	5,423.00				1,135	6,307								
	Individual Non-Single Premium	189.90	1,890.01	1,653.05	14.33		1,885	19,979	33,725	-40.76						
	Group Single Premium	5.91	58.22					1					190			
	Group Non-Single Premium	88.49	304.37	182.90	66.41			61	13	369.23		13,232	80,220	53,217	50.74	
4	**SBI Life**	**5,121.80**	**35,383.16**	**9,369.04**	**277.66**	**2.35**	**10,320**	**77,801**	**53,942**	**44.23**	**0.48**	**1,05,535**	**6,66,024**	**5,18,545**	**28.44**	**12.75**
	Individual Single Premium	418.85	5,232.24	1,576.76	231.83		530	4,217	5,593	-24.60						

	Individual Non-Single Premium	788.58	5,118.49	2,234.90	129.03		9,505	70,820	48,038	47.42						
	Group Single Premium	3,622.03	21,277.08	3,817.98	457.29		0	6	22	-72.73		28,919	2,07,374	38,909	432.97	
	Group Non-Single Premium	292.34	3,755.35	1,739.40	115.90		285	2,758	289	854.33		76,616	4,58,650	4,79,636	-4.38	
5	**Tata AIG**	**2,274.33**	**22,651.82**	**11,533.00**	**96.41**	**1.51**	**16,212**	**1,79,198**	**1,20,622**	**48.56**	**1.11**	**54,862**	**2,57,321**	**1,44,256**	**78.38**	**4.92**
	Individual Single Premium															
	Individual Non-Single Premium	2,092.37	18,819.97	9,386.70	100.50		16,193	1,79,002	1,20,568	48.47						
	Group Single Premium	35.93	463.31	385.60	20.15				1	-100.00		4,292	72,729	77,603	-6.28	
	Group Non-Single Premium	146.03	3,368.54	1,760.70	91.32		19	196	53	269.81		50,570	184,592	66,653	176.94	
6	**HDFC Standard**	**4,821.56**	**28,728.72**	**12,784.87**	**124.71**	**1.91**	**24,493**	**1,47,611**	**1,48,711**	**-0.74**	**0.91**	**25,631**	**158,043**	**41,618**	**279.75**	**3.02**
	Individual Single Premium	607.52	6,088.34	4,280.76	42.23		3,200	35,423	34,593	2.40						
	Individual Non-Single Premium	3,575.87	20,347.34	7,586.58	168.20		21,281	1,12,046	1,14,028	-1.74						
	Group Single Premium	524.16	1,519.95	917.53	65.66		10	120	90	33.33		25,115	130,804	41,618	214.30	
	Group Non-Single Premium	114.02	773.09				2	22				516	27,239	0		
7	**ICICI Prudential**	**15,120.75**	**97,882.52**	**46,455.18**	**110.70**	**6.51**	**75,947**	**4,25,769**	**2,60,760**	**63.28**	**2.63**	**9,932**	**63,474**	**23,754**	**167.21**	**1.21**
	Individual Single Premium	743.06	9,639.21	8,353.00	15.40		410	6,173	8,096	-23.75						
	Individual Non-Single Premium	13,792.50	80,237.47	37,774.00	112.41		75,535	4,19,529	2,52,622	66.07						
	Group Single Premium	42.50	116.36	147.18	-20.94		1	12	37	-67.57		8,202	18,666	22,901	-18.49	
	Group Non-Single Premium	542.68	7,889.48	181.00	4,258.83		1	55	5	1,000.00		1,730	44,808	853	5152.99	
8	**Birla Sunlife**	**4,154.54**	**42,887.30**	**19,504.76**	**119.88**	**2.85**	**24,135**	**1,36,452**	**92,718**	**47.17**	**0.84**	**20,843**	**75,934**	**1,76,596**	**-57.00**	**1.45**
	Individual Single Premium	136.86	1,049.30	997.18	5.23		11,490	42,911	18,248	135.15						
	Individual Non-Single Premium	3,680.31	35,100.98	13,526.54	159.50		12,634	93,472	74,378	25.67						
	Group Single Premium	28.32	374.79	322.60	16.18						298	3,293	2,512	31.09		
	Group Non-Single Premium	309.05	6,362.23	4,658.44	36.57		11	69	92	-25.00		20,545	72,641	1,74,084	-58.27	
9	**Aviva**	**1,840.98**	**13,100.90**	**5,063.76**	**158.72**	**0.87**	**7,296**	**61,165**	**50,553**	**20.99**	**0.38**	**12,614**	**1,32,246**	**40,678**	**225.10**	**2.53**
	Individual Single Premium	15.94	331.06	378.95	-12.64		220	865	575	50.43						
	Individual Non-Single Premium	1,796.10	12,533.29	4,656.57	169.15		7,076	60,276	49,965	20.64						
	Group Single Premium	21.08	72.35					1				127	550			
	Group Non-Single Premium	7.85	164.20	28.24	481.49			23	13	76.92		12,487	1,31,696	40,678	223.75	
10	**Kotak Mahindra Old Mutual**	**1,855.13**	**11,935.91**	**6,039.39**	**97.63**	**0.79**	**5,598**	**41,905**	**34,186**	**22.58**	**0.26**	**14,619**	**70,168**	**37,176**	**88.75**	**1.34**
	Individual Single Premium	173.41	1,990.09	261.23	661.81		158	1,348	219	515.53						
	Individual Non-Single Premium	1,499.59	8,911.35	5,220.47	70.70		5,432	40,508	33,945	19.33						
	Group Single Premium															
	Group Non-Single Premium	182.13	1,034.48	557.69	85.49		8	49	22	122.73		14,619	70,168	37,176	88.75	
11	**Max New York**	**2,429.53**	**16,352.02**	**9,097.71**	**79.74**	**1.09**	**17,127**	**1,65,661**	**98,650**	**67.93**	**1.02**	**1,461**	**60,318**	**1,99,122**	**-69.71**	**1.15**
	Individual Single Premium	8.15	203.61	146.61	38.87		10	201	160	25.63						
	Individual Non-Single Premium	2,420.52	15,702.52	8,554.25	83.56		17,116	1,65,378	98,409	68.05						
	Group Single Premium															
	Group Non-Single Premium	0.85	445.89	396.85	12.36		1	82	81	1.23		1,461	60,318	1,99,122	-69.71	
12	**Met Life**	**492.55**	**3,950.65**	**1,559.59**	**153.31**	**0.26**	**3,658**	**31,493**	**16,585**	**89.89**	**0.19**	**6,574**	**1,44,538**	**16,406**	**781.01**	**2.77**
	Individual Single Premium	20.83	133.94	32.68	309.85		66	418	204	104.90						
	Individual Non-Single Premium	446.95	3,353.71	1,498.80	123.76		3,584	30,977	16,376	89.16						
	Group Single Premium															
	Group Non-Single Premium	24.77	463.00	28.11	1,547.10		8	98	5	1,860.00		6,574	1,44,538	16,406	781.01	
13	**Sahara Life**	**8.42**	**11.03**			**0.001**	**777**	**872**			**0.005**					
	Individual Single Premium															
	Individual Non-Single Premium	8.42	11.03				777	872								
	Group Single Premium															
	Group Non-Single Premium															
14	**LIC**	**1,09,529.61**	**11,74,275.14**	**9,78,048.56**	**20.06**	**78.10**	**19,85,187**	**1,46,24,504**	**1,67,70,893**	**-12.80**	**90.41**	**3,03,154**	**32,37,549**	**30,47,706**	**6.23**	**61.96**
	Individual Single Premium	26,091.33	2,14,390.80	53,454.02	301.08		65,174	5,07,115	103,246	391.17						
	Individual Non-Single Premium	63,983.00	7,50,055.76	7,21,243.99	3.99		19,18,882	1,41,05,853	16,656,988	-15.32						
	Group Single Premium	19,455.28	2,09,828.58	2,03,350.55	3.19		1,131	11,536	10,659	8.23		3,03,154	32,37,549	30,47,706	6.23	
	Group Non-Single Premium															
	Total	**1,56,636.16**	**15,03,644.13**	**11,14,516.61**	**34.91**	**100.00**	**22,06,398**	**1,61,75,568**	**1,78,57,660**	**-9.42**	**100.00**	**6,11,584**	**52,25,075**	**43,55,096**	**19.98**	**100.00**

Raising the Banks

Insurance density is a barometer of economic growth.
Let's have a closer look at what we have got says *K. Nitya Kalyani.*

There is a well told and oft-repeated story in Tamil literature of the wise old poetess, Avvaiyar, blessing the Chola king with a cryptic "Let the banks (of fields) become high…" The mystified king, from a lineage that prized economic growth, demanded to know the meaning of her blessing.

It means, the poetess elaborated, that as the field banks grow, more water can be stored (standing water is needed for paddy crop – the agricultural staple of the Cauvery delta of the Chola kingdom), as water resources increase, the paddy crop will flourish, as the harvest abounds the economy will grow richer, making the government stronger, and that will lead to the King attaining supremacy.

That seems to be a pretty good argument for creating security through the spread of insurance as well! The economic prosperity of a country is often reflected in the levels of insurance protection it can afford.

It works at various levels, being the versatile product that it is. What goes around has to come around. Insurance, which operates on the principle of pooling the risks of many individuals to pay for the losses of the few, also works in reverse for the larger benefit of the economy. It pools the fragmented savings – premiums – of many and, apart from paying for the losses of the few, feeds into the system that provides long term capital for infrastructure for the society, and shorter term capital for business.

The pooling mechanism offers a means to efficiency in both directions. Says Professor Gerry Dickinson, Professor and Director, Centre for Insurance & Investment Studies, City University Business School, London, and no stranger to the insurance industry in India, "Life insurance has historically been an important method through which individuals with relatively low incomes have been able to save and invest effectively for the longer term."

In an OECD (Organization for Economic Cooperation and Development) paper on Encouraging A Dynamic Life Insurance Industry: Economic Benefits And Policy Issues he goes on to say, "Insurance companies have been able to accumulate large amounts of money from across a large proportion of the population. By pooling these savings from many small investors into large accumulations of investible funds, insurance companies have been able to invest not only in a wider range of investments than individuals would have been able to invest in directly themselves but have also been able to invest in larger scale and more risky investment opportunities which will be more beneficial to the economy."

Insurance, which operates on the principle of pooling the risks of many individuals to pay for the losses of the few, also works in reverse for the larger benefit of the economy.

With the kind of high profile promotions and advertising that we have seen in the last few years related to insurance, the interest in buying insurance has, the industry tells us, moved from mere tax planning to planning finances and risk coverage. A lot of life industry sales has come from investment oriented products in the last two years, but that is regarded as more related to the phase that the capital market is going through.

As for non-life insurance, growth still seems to elude it in some ways at least and is drawn from currently undesirable, from the industry's point of view, Motor and Health segments. The growth in these segments are every bit beneficial in terms of creating investible funds though, and more importantly, in increasing risk coverage in society. But as the industry unravels itself from dependence on mandatory covers and the tariff which is both a hurdle and a protection, this will change and launching a business will not be as daunting as it still is today, perhaps.

The benefits to the individual and the economy because of insurance are pretty well understood, as is the concept of security to businesses and their promoters and shareholders. What we try to see in the next issue of **IRDA Journal** is how these have changed in the last few years when the industry has been enlarged and competition introduced.

So join us next month as well and see what the experts see as the economic achievements and potential of the journey that we are all engaged in

House of Cards

K. Nitya Kalyani

The general insurance industry seems to be in two minds about detariffing. On the one hand it is a handy stick to beat with when profitability is low, while on the other, it is the great protector of the very same profitability in some important classes of business.

As it stands tariff is a good thing for the industry - and hence bad for the customer - if we are speaking of Fire insurance. And the reverse is true for Motor insurance business, though it may not be uniformly good or bad for different segments of customers.

So, as far as the industry is concerned, it will fight tooth and nail for the retention of the Fire tariff as long as Motor is also under tariff. For what is happening in its books is a house of cards of cross subsidies. At the core of it is Motor Third Party (TP) Liability. This famously loss making business is hemmed in on two sides - by fixed, very low, pricing and by galloping, very high claims payouts. The claims payouts are high only in part because there are many accidents, but we will come to that a bit later.

The TP portfolio, which accounted for Rs. 2,000 crore of the Rs. 16,000 crore general insurance premiums as per the provisional figures for 2003-04, has a claims ratio of 200 to 250 per cent. This is cross subsidised by the Motor Own Damage (OD) premiums (which business has a better claims ratio of about 80 per cent, which is not very heartening either,) on premiums of about Rs. 4,300 crores. Health insurance is the only other Rs. 1,000 crore plus portfolio (Rs. 1,200 crores last year), but it is a basket case in many ways.

The breadwinner of course is the Fire insurance business where claims have shrunk from 47 per cent in the previous year to about 30 per cent last year when the premiums were about Rs. 3,200 crore.

The overall claims ratio for the general insurance business was about 70 per cent. Before we think there is cause for celebration, let us remember that the industry works on management costs of around 36 per cent, thus wiping out any dreams of an underwriting surplus. It is investment income that keeps the bottom line black – which too became precarious a few years ago when the stock market was dull – but is back to performing its messianic role! Interestingly these timeframes coincide with the clamour – or lack thereof – from the general insurance industry for detariffing.

In this confused state of things, it is the consumer who is forgotten. If he deserves equitable pricing that reflects the quality of his risk, he is not getting it.

> The general insurance industry seems to be in two minds about detariffing.

Not all consumers though. The transport lobby has proved itself to be a vigilant and good consumer, devoted to the cause of keeping costs down and demanding justifications for TP premium hikes. Large corporate customers – your typical Fire insurance customer - choose a different route to maintain the cost-benefit ratio from insurance, and that is by demanding successfully that their unprofitable risks like Health and Marine Cargo get a most favoured pricing status, the subsidy being hidden by the fact that the latter two are non-tariff businesses.

While selective premium increases are generally resisted, a policy measure like detariffing is something that lobbies may not be able to reject wholesale even if simply because it falls in line with what is happening in other industries including banking. And by that same argument, if detariffing is inevitable in a liberalised environment the general insurance industry has to come together to find its route of choice to getting there with the least turbulence, and without losing more credibility than it already has.

The loss of credibility stems from two factors. One is that in spite of the well appreciated argument that it is losing money on statutory businesses like Motor insurance it is unable (or unwilling, as some in the industry say) to prove it with numbers.

This issue if addressed (and it has been dragging on for at least a decade after it was explicitly articulated by the then Regulator the Insurance Regulatory Authority (IRA) in its position as a quasi-judicial body deciding upon a planned upward revision of Motor insurance rates challenged by the transport lobby) will go a considerable way in redeeming the image of the industry as lacking in technical foundations for pricing and hence the skills to translate them into premium rates.

That is not the only thing that is threatening the industry's reputation though. On top of arbitrary pricing, the industry is also a huge cost monster. If a close to loss making industry spends 36 per cent of its income on just managing the show, it is a pointer to its efficiencies.

Another pointer to inefficiencies in the system is the huge volume of outstanding claims of about Rs. 24,000 crore which is about 150 per cent of its annual premiums last year. A startling 65 per cent of that, about Rs. 15,000 crore worth claims, is pending in courts, implying lawyers' fees and gathering interest that will all add to its claims payouts.

Without setting its house in order and making the price setting bases and logic transparent to the consumer, the industry will be hard put to establish its credibility in any meaningful way.

Detariffing, Actuarially Speaking

—A survey of the past, a peek into the future

A professional actuary, *Piyush I. Majmudar* examines how tariffs are arrived at, how they have been shaping the industry to date, and how the market and the Regulator should prepare for a detariffed regime in the future.

The Indian insurance industry has been a happening one – from nationalisation during the 1970s, to liberalisation during the 1990s, and now, detariffing any time in the near future. Detariffing does seem a potent tool to make the industry more market driven, and take the products closer to the consumer. However, for it to be fruitful, it is essential to understand how prices are arrived at, and how these are to be monitored.

Detariffing gives the actuary a greater role in the scheme of things. He needs to be meticulous in his examination of data, and rigorous in translating them into effective product pricing.

The Role of TAC

To date, the Tariff Advisory Committee (TAC) has been entrusted with the role of arriving at product prices across several classes of the insurance business. The Insurance Act (1938), under Section 64U, refers to the establishment of TAC 'to control and regulate the rates, advantages, terms and conditions to be offered by insurers in respect of general insurance business'.

Section 64UC(2) further stipulates that 'In fixing, amending or modifying any rates, advantages, terms or conditions, relating to any risk, the TAC shall try to ensure, as far as possible, that there is no unfair discrimination between risks of essentially the same hazard and also that consideration is given to past and prospective loss experience: Provided that the TAC may, at its discretion, make suitable allowances for the degree of credibility to be assigned to the past experience, including allowances for random fluctuations and unforeseen future contingencies, including hazards of conflagration or catastrophe or both'.

It is significant to note that the above provisions state the premium rating principles, which may be regarded as 'scientific'. The legal provisions would, *inter alia*, seem to require the following:

(a) The Tariff shall prescribe the premium rates

(b) The Tariff premium rates are to be minimum rates but the Authority seems to have prevented insurers from charging higher than the minimum premium rates, maybe, in certain specific cases (e.g. commercial vehicles). Hence these rates may have to be taken as *the rates*, at least for those cases

(c) The tariff also prescribes the corresponding terms and conditions of coverage, i.e., the policy and endorsement wordings

(d) Maximum commission rates payable to the intermediaries are, however, prescribed by the Insurance Rules.

> The tariff premiums are assumed to be average premium rates suitable for all the insurers even though all the elements of the pricing would vary from insurer to insurer. Actually, an insurer with efficient underwriting capabilities, claims settlement practices and office management would be in a position to charge lower premium rates.

IRDA In Charge

Interestingly, the erstwhile Insurance Regulator was not initially in charge of the tariff organisation. However, about 40 years ago, after examining the statistical data relating to fire insurance, the then Controller was of the opinion that the industry could reduce the premium rates by 10 per cent or so.

He then sought to exercise his authority under the Insurance Act, 1938, when the industry did not seem inclined to accede to his request to reduce the fire insurance premium rates as indicated by the statistical data collated by the organisation. As a consequence, a bulky circular of about 50 pages was issued to the general insurers calling for submission of tariff statistics directly to the Regulator's office. Though this circular was subsequently withdrawn, the fallout was an amendment to the Insurance Act soon thereafter, enabling the Regulator to assume charge of the TAC.

The insurance industry may not be happy with this situation. The pre-1965 position can perhaps be restored if the insurance industry leaders convince and assure the Authority of due compliance for timely submission of the relevant data, without its intervention.

Elements in the Premium Rate

To know how products are priced, it is necessary to identify the elements that make up the premium. These are:

- Pure / Risk premium or incurred claims cost
  - {(Claims paid) + (claim settlement expenses – allocated & unallocated)} +
  - (Outstanding reported claims reserve)* +

- (IBNR loss reserve)* +
- (IBNER loss reserve)*

*Estimates need to be included in respect of Claim Settlement Expenses as well.

- Marketing / Acquisition costs
- Commission / brokerage payable to intermediaries
- Publicity / advertising / business development costs
- Office marketing staff costs
- Management expenses

Other management and administrative expenses, such as salaries, rent and travel

Contingencies

- Risk of catastrophe / conflagration
- Reinsurance

Profit

- Reasonable margin
- Investment income

It is also necessary to consider, as far as is practical, the extent to which the claims experience of the insurer and industry is influenced by

- Data quality
- Claims management policies
- Portfolio mix
- Marketing and underwriting strategies
- Area of operations
- Case reserving
- Infrequent large losses
- Lapses
- Random variations

The tariff requires all insurers to charge identical premium rates for similar risks. Thus, the tariff premiums are assumed to be average premium rates suitable for all the insurers even though all the above elements would vary from insurer to insurer. Actually, an insurer with efficient underwriting capabilities, claims settlement practices and office management would be in a position to charge lower premium rates.

Tariffs of Risk / Pure Premiums

A suggestion is being made in some quarters that the tariff should provide only pure / risk premiums instead of the 'gross' premiums as at present – in fact, some countries do have such tariffs. With a pure premium tariff, the insurers would be left free to apply loadings in respect of marketing and management expenses, contingencies and margin for profit to the tariff pure premiums to arrive at the 'gross' premiums.

Even the pure premium comprising expected claims cost would vary from company to company, depending on its efficiency and speed of claims settlement and loss reserving policies. Such pure premium may thus be assumed to be an average pure premium for the entire industry, thereby placing an insurer with comparatively less efficient claims administration at an advantage, though an efficient insurer can make up by adjusting other elements of cost

Though a national data warehouse does seem a good idea, it should also be noted that in developed nations like the US and the UK, insurers have been dissuaded from compiling similar data banks owing to issues regarding the individual insurer's 'proprietary rights.'

National Data Warehouse

There is considerable debate and insistence on building up a national data warehouse with the TAC for premium and claims experience statistics at the national level. Concerted effort seems to be on also in respect of health insurance data, as was seen at a recent seminar in Hyderabad.

Though the legal provisions envisage a 'scientific' approach to tariff premium rating, apparently not much efforts seem to have been made to follow the prescribed approach in recent years, following nationalisation in 1972. It would appear that previously significant volume of data was being available with the TAC and some actuarial analyses were also carried out. A report compiled by the Late C. R. Ramanarain, an actuary, analysing several years of Motor business experience data and submitted to GIC, does not now seem to be traceable!

Though a data warehouse does seem a good idea, it should also be noted that in developed nations like the US and the UK, insurers have been dissuaded from compiling similar data banks owing to issues regarding the individual insurer's 'proprietary rights'. This was brought out at a recent health insurance seminar. However, the learned experts from these countries seem to be encouraging us to build up such a data warehouse. Can Indian insurers infringe on proprietary rights'? This aspect does call for serious thought.

Abolition of Premium Tariffs

When tariffs were first introduced in India, similar tariffs were also prevalent in the UK. Though that country had to disband the tariffs under laws relating to monopoly and restrictive trade practices about 40 years ago, the Indian tariffs have continued to date – maybe, mainly due to about 30 long years of government ownership.

The proponents of free markets have been arguing that liberalisation and the tariff system do not go hand in hand, and that both rates and terms / conditions should be marked driven. Thus, time is perhaps about right to do away with the tariffs. Migration from a tariff regime to a non-tariff one is indeed inevitable. The sequence and speed of change must be carefully planned out to avoid confusion and chaos. After all, if the Indian market has been a fairly stable one for decades, it is thanks mainly to the tariff regime. Therefore, every effort should be made to ensure that it continues to remain stable and healthy.

A highly debated question is whether premium tariffs should be disbanded for general insurance as well.

The Fire insurance business in India, under the tariff regime, is regarded to be profitable. Marine Cargo or Burglary insurance products could be sold cheaply for securing profitable Fire premiums. Hence, a proposal to detariff Fire may not readily find favour with the insurers. It is to be considered if the detariffing process could not be started with this class of business or simultaneously with Motor OD business. If this is done, senseless undercutting of premiums may not be very rampant in the Motor OD business.

It is important to ensure that cross–subsidies between different classes of business are minimised. Fire insurance, which is regarded as one of the more profitable classes of business, is often utilised to compensate for the unfavourable results in other classes. The Appointed Actuary (AA) must see to it that such cross-subsidies are noted and effort is made to place all classes on a self-supporting basis with the help of appropriate rating.

Aftermath of Tariff Removal

It always takes time for underwriting results to reflect premium-rating decisions – it is at least 12 months before the impact of prices charged percolates to the revenue account and an initial real appreciation of profitability is obtained. It takes even longer before reliable views on claims reserves are in place. Typically, in this time period, companies continue to reduce prices in order to compete.

The demise of tariff in any insurance market is at best an unsettling time, and at worst, a disastrous path leading to significant losses for major companies. A classic example was the demise of the UK motor tariff in the late 1960s. Following the official abandonment of the tariff, there was a period when the market retained a cautious stability, companies did not overreact and nothing too adventurous was attempted.

However, after three or four years, when one or two companies started to move their prices significantly, others followed rapidly. The position was made more complex by the launch of a new company – the Vehicle and General. There was a downward trend in rates because there had been a belief that loss ratios were "acceptable," although the wiser companies did not go to the lengths that Vehicle and General did.

The position was compounded by the lack of any reliable data or statistically robust methodologies to understand either the absolute or relative level of pricing even based on the limited and fairly naïve rating factors used at that time.

At the time of detariffing of the Marine Cargo business in April 1994, the insurance market in India was under the public sector. The reports are, if one were to believe them, that in the midst of cut throat competition even only among the four public sector unit (PSU) insurers, Marine Cargo policies were being granted almost at no cost (0.01 per cent?) provided other profitable business was forthcoming! The year immediately following detariffing saw a sharp fall in total Marine Cargo premium.

The demise of tariff in any insurance market is at best an unsettling time, and at worst, a disastrous path leading to significant losses for major companies. Now that the private players are also involved in the rate-cutting game, the chaos may not be easily containable.

In the public sector set-up, the four companies were in a position to take combined action to contain adverse consequences. Despite this, it took nearly three years for the market to achieve notional stability. The data on the claims experience during the years of falling premium income is not available.

One may fear a similar scenario when the Motor OD business is detariffed to begin with. This may be taken as a distinct possibility, considering a recent report on how burglary cover was granted at a negligible premium rate with the prospect of securing the client's other profitable portfolio. Now that the private players are also involved in the rate-cutting game, the chaos may not be easily containable. .

Tariffs have destroyed underwriting skills. The industry will thus have to put in extra efforts in training its staff in these skills.

The Way Ahead

Now that detariffing is a certainty, and its implementation is only a question of time, it will be apt to chalk out a game plan for the future. The lessons from the past teach us that it is as important to keep a watch over the market, as it is to allow the market freedom to find its own course.

Databases

(1) Each insurer should be asked to maintain a database in respect of each class of business as per the format prescribed by the Authority.

(2) The general insurance Actuaries, including the AAs, should be asked to develop formats for databases and submit the same to the Authority for approval.

(3) The insurer's AA should be made responsible to supervise the database and the insurer should make the same available for inspection by the Authority.

(4) The insurer's premium rates should be based on its experience statistics as revealed by the database, keeping in view the credibility of the database. To begin with, a minimum premium rate may be fixed at, say, two-thirds of the current tariff rates.

Motor TP Liability (TP) Cover

After detariffing Motor OD, Motor TP cover will require increased attention to make it self-sufficient. A "no-fault" regime should be considered with a scheme of structured benefits without placing the blame on the motorist or anyone else.

Actuarial Input

The TAC apparently does not seem to have actuarial support. However, all general insurers now have AAs as per the AA Regulations of the IRDA. The Actuarial Society of India has already issued a Guidance Note (GN) to assist the AAs in carrying out their responsibilities as per the AA Regulations. The proposed abolition of tariffs will increase the AA's responsibility manifold in the conduct of general insurance business. The GN may need to be reviewed and amended to bring about uniformity of actuarial input by the AAs in the entire spectrum of the AA's responsibilities.

There is no doubt that the insurers, left to themselves, and with the support and guidance from their own AA and the actuaries of the overseas joint venture partner, should be in a position to introduce innovative factors – such as age, gender and previous driving experience – for rating Motor insurance. However, would severe market competition permit them to quote the 'more scientific' premium rates? This may be expected to happen over a period of time, as the insurers are able to review claims experience under the competitive atmosphere of the detariffed regime.

The TAC is believed to have received support from the World Bank. This is quite interesting and it should, *inter alia*, bring in overseas actuaries, just as health insurance advisors have brought in overseas actuarial consultants. On the other hand, the Indian actuarial profession, with several general insurance actuaries, including the AAs, would also be available for necessary input for this important exercise of building up the TAC.

IRDA AA Regulations

The AA is not just someone who calculates the reserves, but a professional with a brief to monitor and take an active part in sustaining the continuing financial strength of the insurer. As it stands at present, the AA's responsibility is only to certify the IBNR & IBNER loss reserves.

The Authority, through a circular in February 2001, withdrew the essential product pricing responsibility from the AA, which is prescribed in the Appointed Actuary Regulations for General insurers. On the proposed abolition of the tariffs, the first step necessary will be to reverse that circular to reinstate the AA's duty to oversee and certify product design, pricing and insurance contract wordings.

> Tariffs have destroyed underwriting skills. The industry will thus have to put in extra efforts in training its staff in these skills.

The AA regulations will now need to be enlarged to include responsibility of the AA to ensure accuracy of the experience data and collate and analyse data in order to develop / review the insurer's premium rates, responsibility to oversee the insurer's outstanding claims provisions including the IBNR and IBNER loss reserves and to certify the insurer's premium liabilities.

A highly troublesome feature of most classes of general insurance business in many countries in recent years has been the deterioration in experience. That is, premium rates have been lagging behind experience so that some practical advantage is to be obtained if ways and means can be found of reducing this time lag.

The Authority should be entitled to request precise information on the technical bases used for the calculation of premium rates and technical provisions. This is important with respect to all products, whether the premiums are calculated on the basis of actuarial principles or not. The technical bases of all or most of the products may be systematically checked, especially if the company is new to the market. In compulsory insurance, the law or the Regulator should recommend a statistical basis or general calculation principles.

The Authority should, in individual cases, have the power and professional staff to be able to check the calculation and the technical provisions itself or charge another person to do so (e.g. an actuary), and to intervene if solvency of the insurance company is jeopardised. It should be able to review the methodology used by the insurer to set premiums to determine if they are established on reasonable assumptions to enable the insurer to meet its commitments.

Insurers use actuarial, statistical, or financial methods for estimating liabilities and determining premiums. If these amounts are materially understated, the consequences for the insurers can be significant and, in some cases, fatal. In particular, premiums charged could be inadequate to cover the risk and costs, insurers may pursue lines of business that are not profitable, and liabilities may be understated, masking the true financial state of the insurer.

The Authority would require insurers to have in place strategic underwriting and pricing policies approved and reviewed regularly by the Board of Directors.

Compulsory Insurances

Tariffs in respect of all compulsory insurance covers should be retained.

File and Use or Prior Approval

The Authority has currently adopted

a 'file and use' procedure in respect of the non-tariff classes of business. Since with the proposed detariffing premium rating will be in the hands of the individual insurers, the Authority may decide either to continue with the current practice or introduce a 'prior approval' system somewhat in line with that prevailing in the US.

Expenses

Expenses fall under three different areas –administrative, management expenses, acquisition costs and claims settlement, and adjustment expenses, whether allocated or unallocated. Actuarial input in the analysis of expenses will be necessary not only for management control but also premium rating and reserving. The Authority would require ensuring that insurers evaluate the risks that they underwrite and establish and maintain an adequate level of premiums. For this purpose, insurers should have systems in place to control their expenses related to premiums and claims. Those expenses should also be required to be monitored by the insurer management on an ongoing basis.

Mandatory Cessions to the National Reinsurer

> The lessons from the past teach us that it is as important to keep a watch over the market, as it is to allow the market freedom to find its own course.

Detariffing, it is believed, will lead to a fall in the premium rates. Perhaps with this situation in view, a senior industry leader had recently suggested that on detariffing, legal cessions to the national reinsurer, the GIC, should be stopped ostensibly to protect it from inadequately rated business! However, even at present, GIC receives cessions in respect of non-tariff business, which makes up about 25 per cent of the total. Further, GIC has a right to decline any risk offered to it under this provision. In case it is not satisfied with the rating of any risk, it could also ask for a certificate from the insurer's AA in support of adequacy of the premium rate.

A well thought out strategy and meticulously laid groundwork will ensure that detariffing provides the insured various benefits, and the insurers, a level and profitable playing field.

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To Sum it Up!

1. (a) All premium tariffs except compulsory insurances to be abolished but only gradually, over a period of time
   (b) To begin with, Motor OD and Fire tariffs to go almost simultaneously
   (c) Tariffs for compulsory insurances to remain
2. "No-fault" insurance may be considered for Motor TPL cover
3. (a) National data warehouse not to be formed but instead each insurer must compile its own data bank
   (b) The same to be supervised by the insurer's AA and be available for inspection by the Authority
4. General insurance AA's role to be placed on par with the Life AA
5. TAC to handle data in respect of compulsory insurances. Also to model itself in line with the Association of British Insurers in the UK
6. No change in mandatory cessions to GIC due to detariffing

Get Set And Go

— A customer rates the risks of detariffing risk

Detariffing would ensure the low-term growth of the insurance industry, notes *N. Sundararajan*, examining its various facets and making suggestions to enhance the process.

As the insurance industry waits with bated breath for detariffing to be implemented, though in a staggered manner, the question on most minds is – what does it mean to me? Will it boost and nourish the industry or obstruct its growth and damage its very foundations? Will profits rise or fall?

Most agree that detariffing *per se* is inevitable, and that too, in the near future. The principle itself is unexceptionable and is inherently compatible with a liberal economic model. What needs to be carefully analysed and controlled are the broad regulations and guidelines — product features, flexibility etc. – and not the pricing of the products themselves.

The raging concerns over the handling of the transition from fully controlled tariffs to a detariffed structure can be well appreciated. But this trauma should not become a reason to stop the detariffing process. It is after all just a fear of the unknown, and a possible lack of trust amongst the industry players. Fear of under-cutting, unethical practices, one's own inadequate assessment of risks being underwritten, fear of losing the comfort of higher profits, absence of a cross subsidy source, etc. are possibly the hidden anxieties of the insurance industry players which makes them oppose detariffing.

A combination of initiatives would help to overcome these anxieties. But only some of them can be provided by the Regulator; the industry has to find its internal answers for the other concerns. For instance, in the Motor portfolio, the high loss ratio is not entirely due to unlimited third party liability alone. This is also significantly due to the unethical assessment and claim settlement practices at the individual level, the existence of non-insured vehicles on the road, etc. In the case of two-wheelers in certain states, the problem is aggravated by the levy of a one-time road tax at the time of new vehicle purchase, which has deprived the opportunity to check and ensure valid insurance at the time of annual tax payments.

Fire Policies: Burning Need

In the case of fire policies, the need for detariffing is critical and urgent. To minimise the transition turbulence, a ceiling can be placed on the extent to which insurance companies may quote below the ruling tariff (the current tariff may be frozen as a base reference). This could be say 20 per cent for the first two years, and progressively increased to up to 60 per cent over the next five years, by which time the market would have stabilised on the fire tariffs.

> The raging concerns over the handling of the transition from fully controlled tariffs to a detariffed structure can be well appreciated. But this trauma should not become a reason to stop the detariffing process. It is after all just a fear of the unknown, and a possible lack of trust amongst the industry players.

This model could be implemented for certain industries, classified on the basis and type of industry as high risk, medium risk and low risk. Another classification can be based on the size – big, or small and medium enterprises (SMEs). The premium for SMEs may be fully detariffed but for the large/mega industries, there could be a phasing out. This would greatly benefit the insurers. Correspondingly, there will have to be stipulations regarding capital adequacy and claim settlement capability, which can be leveraged by insisting on higher re-insurance arrangements, if a company is to quote below the tariff beyond a point.

Most enterprises take fire insurance for fixed assets in order to toe the line of lending institutions, rather than out of actual concerns over the risk of a fire accident. Though the end is the same, the means (reasons) are all wrong – much like a two-wheeler rider wearing a helmet for fear of police, and not for personal safety. Detariffing, and consequentially more attractive policy products, may encourage more enterprises to take up fire insurance.

The rationalisation of tariffs from May 2000 specifying composite rates industry-wise was a positive and sensible improvement. This approach needs to be extended further by differentiating the good risks from the "not-so-good risks" in terms of the following:

1. The track record of the insured over the past several years (could be anything between 10 and 20 years) in terms of claim ratios
2. The degree of safe operating and maintenance practices as reflected by Quality Management Systems certification such as QS 9000 and

EMS (IS 14001), which definitely mitigate the risks

3. The existing tariff provides for some discounts/rebates based on the existence of physical safety features such as extinguishers and hydrants, but this does not recognise the actual operating practices, risk awareness level, continuous monitoring mechanisms, etc.

Until fire insurance is detariffed, just in some profit sharing policies, it should be possible for insurers to recognise the "no claim" or "very low claim" status of the insured over a period of time through appropriate "claim ratio discounts" in the fire policies also. (These could be on a slab basis subject to adjustments / withdrawal based on claim occurrences). Apart from being fair to the insured, this will also be fair to the fire portfolio of the insurance company within itself – instead of the Fire portfolio subsidising the Motor portfolio as happens now.

Motor Insurance: For A Smoother Drive

I was a member of the Justice Rangarajan Committee for detariffing of Motor insurance. Some very valid findings were highlighted, including the startling fact that a sizeable portion of vehicles on the road are not insured at all. The Committee had strongly recommended that there should be a ceiling on the third party liability/motor accident claim liability, because every other form of public transport carries a limited liability, that too towards an identified passenger. The concept of a control-led tariff to meet an unlimited liability is an aberration.

The Motor tariff should be related to the actual running of a vehicle on the roads and not merely its physical existence (possibly in parked condition in a garage.) A comprehensive solution was suggested to include an insurance cess in the price of fuel, through which the Government will automatically provide Third Party insurance cover to all registered motor vehicles without exception. This will eliminate uninsured vehicles on the road, and also relate the insurance premium to the actual running on the roads, going by the fuel consumed. This idea needs to be seriously pursued and urgently implemented.

The introduction of third party administrators (TPAs) is long overdue in the case of Motor insurance. Most of the vehicle manufacturers have established either their own or authorised service centres across the country, particularly in the case of passenger cars. This network of authorised service centres should be brought under the same disciplines for pricing, documentation, non-cash dealing, identification etc., as is being done by the existing TPAs with the hospitals for healthcare insurance.

The unique and unusual feature of the relationship between the insurer and the insured is that they both share the same objectives before a risk occurs, but automatically adopt conflicting positions once it occurs.

Awareness Creation And Education

The insurance industry is still primarily focussed on the issuing of policy (collection of premium) and settlement of claims. Quite right, but only in the short term. The long-term objective should be to prevent and pre-empt risk occurrence, which will benefit not only the insured but also the insurers themselves.

The first step in this direction would be to improve the awareness levels and education on matters such as principles of valuation, exclusions and excesses and possible disallowances. On the other hand, comprehensive risk inspection, risk estimation and recommendations for prevention are being done only in rare cases, where the customers demand it. In more advanced countries, the process has progressed to a stage of risk prediction (using regression analysis, extrapolation models, etc.) where the insurers are willing to relate the premium to such predictions.

The unique and unusual feature of the relationship between the insurer and the insured is that they both share the same objectives before a risk occurs, but automatically adopt conflicting positions once it occurs. While this is unavoidable, transparency, proper explanations and appreciation of the terms and conditions of the policy/cover, the limitations etc. should be ensured at the time of underwriting. At present, these become contentious issues after an occurrence. This is as much an attitudinal issue as a systemic one.

The Insured's Approach

By definition, insurance cover should definitely be taken in cases where a single occurrence, even with a very low probability, can lead to large financial losses and disruption, such as accidents at factory premises. On the contrary, self insurance (not transferring risk through insurance cover) could very often be a better financial decision, where the value at stake in a single occurrence is very small, even though the number of transactions can be large and repetitive, and the probability of occurrence can be higher (marine insurance, Personal/Health/Welfare insurance etc.).

The insurer should study the insured's various operations in detail

and suggest what the best approach for the insured's business is financially. For instance, even at an occurrence rate of one to two per cent, the net cost to the insured can be cheaper by self insurance, than by covering 100 per cent of the transactions (eg. group term insurance for employees, vehicles being distributed throughout the country by automobile companies, shipments of industrial products, etc). Any insurer who thinks and acts for the insured will have built a strong relationship, which will then automatically lead to business growth.

New Products in Non-Tariff Category

While detariffing may negatively impact certain categories of products, it can also give birth to new and innovative products. As the insurance industry in advanced countries has witnessed, there is considerable potential and scope for developing and customising products in the non-tariff category, such as Directors and Officers Liability, Product Liability and Product Warranty cover. These products can be highly profitable, and can be largely re-insured abroad. When such policies become more popular, a larger volume can be achieved. These will help to offset the reduced income from Fire policies when they are detariffed.

While detariffing may negatively impact certain categories of products, it can also give birth to new and innovative products.

The insistence of lending institutions, coupled with the existence of a fixed tariff, has resulted in a huge outflow of insurance premium every year. When detariffed, a competitive risk assessment-based pricing would save more than 50 per cent, if not more, of the insurance cost. It is equally essential to amend the different statutes relating to income tax, accounting etc., enabling large corporates to separately fund their risk premiums or its equivalent, based on their self assessment, and treat them as business expenditure. They should not be denied tax benefit or be constrained by accounting regulations.

The concept is not new to India because the same approach is permitted in relation to gratuity and pension contributions. The losses, as and when they occur, should be allowed to be charged to such funds. As and when surplus/residuary funds are taken back by the corporates, these may be taxed. This would ensure the long-term profitability of the enterprises.

The author is Company Secretary and Head - Internal Audit Ashok Leyland Ltd. He also heads the insurance function of his company. The views expressed here are his own.

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Behind the Fanfare

—Is the market fit to absorb detariffing?

Detariffing could be dangerous if thrust on a market that is not yet fully confident of itself and lacks sufficient underwriting skills, observes *G. V. Rao.*

The non-life insurance market – or at least 70 per cent of it – has been under tariff control for several decades. Is the time ripe now to implement detariffing?

The Motor business which makes up 40 per cent of non-life premiums, Fire, 20 per cent and Engineering with about eight per cent come under the tariff regime of the Rs. 18,000 crore non-life market. Liberalisation has brought in competition in the form of private players, but price controls have remained, waiting perhaps for the right time to make an exit. Is it the right time now?

Rocking the boat

It is reasonable to predict that there will be no detariffing for another three years, on the grounds of inadequacy of credible market data, lack of persistent demand from the insurers, who are the worst affected, and the general apathy towards insurance rates of those that uncomplainingly pay higher premiums in the Fire and Engineering segments. The motor lobby, the main faction that is spoiling the good-humoured atmosphere of the tariff party that has been in session for the past few decades, is powerful enough to thwart any attempt of the market at increasing the premium rates. There is, therefore, no internal or external pressure built in the system powerful enough to deal with this detariffing issue.

Brokers, the new breed of independent professionals, want abolition of the corporate discount of five per cent on Fire and Engineering tariffs, more than they want detariffing itself, to enlarge their brokerage income. It is because they do not strongly feel that tariffs constrain them in any significantly professional way in showing their technical prowess to assist the insured in the game. Tariffs make it easier to compete; and more so if one wants to cut corners in the business game and then find an exit route from it.

What of the insuring public? How does it feel? The insuring public in India has a low level of risk awareness and a lower still awareness of premium costs. It is pleasantly relieved to learn that when the prices in general have gone up and their savings accounts are earning lower interest rates, it is only the insurance premium rates that have remained steady.

> The insuring public in India has a low level of risk awareness and a lower still awareness of premium costs. It is pleasantly relieved to learn that when the prices in general have gone up, it is only the insurance premium rates that have remained steady.

Why then should anyone rock the boat and detariff, when no one is persistently complaining about the adequacy – or the lack of it – of premium rates? It is the Government as the investor which is losing public money – the private players are happy enough to work vigorously on the inequitably high Fire and Engineering rates and procure their business to be able to make profits at some point in future. Which are the parties that badly want detariffing to disturb the "dynamic equilibrium" that the tariff system has provided? Detariffing should happen one day. Yes, it will. But that day is far off in everyone's imagination.

Where are the underwriting skills?

The IRDA has been quoted as holding a view that the underwriting skills of non-life insurers need enhancement. It has to be admitted that this situation is sadly true. With a tariff environment prevailing for over five decades or more, and the nationalised sector having strengthened the GIC and the TAC in terms of centralising technical skills, the underwriting knowledge and skills were spread fairly thin in the erstwhile subsidiaries at all levels. A point has now been reached that no completed proposal form is required to spell out the risk factors, let alone understand the risk itself, while quoting premium rates. Rates are to be found in the tariff book and not discerned from the information disclosed in the proposal form.

The liberalisation process has dealt a powerful blow against future development of underwriting skills and to the prevalent scanty efforts at underwriting. When, in 2001, the Fire Tariff was abridged, special ratings were abolished and fire protection discount proposals not entertained. With a single stroke the entire edifice of the structure of Risk Inspection Engineers built over decades by insurers was rendered irrelevant. This has sent a powerful signal to the market, that so long as the premium rates remain high enough, as in the case of fire (it had a loss ratio of 30 per cent and 47 per cent for the last two successive years) there is no need to

bother about underwriting skills and risk factors.

Would not detariffing, when implemented, reverse all the prevailing unlearning trends, insisting on making the new process of learning underwriting skills and knowledge to be begun all over again? What does the market really want? More tariffs or no tariffs? Underwriting of business offered or acceptance of business? Underwriting needs application of mind; acceptance of risks requires the tariff book. How good are the skills of the underwriting teams of insurers? Are they aware of their strengths and weaknesses at each level, particularly those that sell insurance covers?

But yet, the Indian market prides itself on its large pool of technical talent. Yes, it has a large of pool of qualified talent by examination; but not talent that has been built on practical technical experience, not talent that has learnt its skills by application of tools of knowledge at the daily grind, not talent that knows its risk factors, defines the terms and conditions of cover, and not talent that knows how to negotiate premium rates with customers and brokers with authority.

Detariffing could be dangerous stuff if thrust on a market that is not yet fully confident of itself, of how to evaluate risks and risk factors, even if ultimately it has to quote only the tariff rates. The mental approach towards underwriting is lacking; the discipline of procedures is lacking; the pride in learning and underwriting risks is lacking. These basics have to be put in place before one decides to take the leap into the detariffing dark, whenever it comes. No, the market today is not mentally and psychologically ready yet; but it can be forced to come to grips with the future given a time frame to get battle ready. It has the resilience and capability to adjust fast to the new situation. Notice is required for it. Should there be another partial detariffing like of the Marine Cargo sometime ago?

Tinkering with tariffs

A favorite option in this detariffing exercise is the tinkering with profitable portfolios, on account of the failure of insurers to deal with their inability to raise rates in the unprofitable Motor segment. Tinkering with detariffing was attempted in 1994 in the Marine Cargo segment. Since it was done in a profitable segment, there was no uproar from the insuring public. It led to a sudden dip in premium rates, the effects of which are felt even today. To attract Fire business, which is even more profitable than Cargo insurance, many insurers are charging the lowest possible Marine rates.. With War and SRCC rates no longer tariffed, these risks are covered with the lowest cost differential.

The mental approach towards underwriting is lacking; the discipline of procedures is lacking; the pride in learning and underwriting risks is lacking. These basics have to be put in place before one decides to take the leap into the detariffing dark.

Tariffs have led to the inequity of making the insured of profitable segments like Fire pay higher rates than they should; enabled the insured of less profitable segments like Marine Cargo enjoy lower rates than they should, perpetuating inequities in rating that in one view is legally untenable.

Despite booming exports and imports in 2003- 2004, the Marine premium for the market fell eight per cent over the previous year. Except by way of lowering rates further and using it to provide subsidies for procuring Fire business, there could be no other explanation. Marine premium is less than six per cent of the market; hence its relative importance to the final result is not that significant.

Selective detariffing of Fire business and even the OD in Motor is, therefore, fraught with grave risks. If detariffed, one then will have no more profitable segments left to detariff; and the sheer hopelessness and inability to be able to raise the Motor rates will make the bad situation worse, bringing the market to its knees sooner.

Impact of losses

With huge operating losses in the Motor segment, and with no prospect of reducing the high transactional costs of 35 per cent of premiums, insurers are in a defensive mode, in mood for fighting for their survival. They are in no mental state to experiment with selling micro insurances or personal lines insurances, however desirable they may be as a future market innovation. These need investment and management time to bring in a new culture of marketing and selling in the organisation. All the executive time is currently spent in fighting for status quo. There is a kind of mental paralysis in the nervous system of insurers; they have shown to be weak in handling change that has been thrust on them. The de-linking from the GIC has not helped to change their dependency syndrome and they still look to someone to hold their hands.

As yet, there is no discussion on the serious issues ailing the public sector players; after all, they are on a slippery slope. They have become so shy that they do not even articulate their problems, except in platitudes, let alone solve them. Unprepared detariffing will make their problems worse. They need to rebuild their underwriting houses on solid foundations. They should evolve a culture where technical issues are

discussed through internal forums and risk factors are learnt to control them better. When their marketing force consists of branch managers and divisional managers, the least knowledgeable among the insurance staff, they need to do underwriting homework faster and more thoroughly.

Looking for solutions

Detariffing will arrive some day. Irrespective of when it comes, one should prepare the market to accept it from now on, so that it can face the change without having to absorb too many shocks.

A pure risk rate regime suggestion was one idea that was not pursued. The crux of the whole issue of detariffing hinges on two fundamental issues. Who is responsible to bring it about? It has been the experience the world over that rates plunge rather steeply when a tariff market regime decides to detariff itself, making the market go topsy-turvy before stability is brought in. It is this period, generally lasting a couple of years that needs careful planning. It is clearly the Government that has to take a decision on this issue, which is in the nature of a secondary reform. The blame game should be avoided. The Government should, in fact, take the lead and direct the TAC and the IRDA to work out a time frame and a process to introduce the detariffed regime.

Secondly, the motor lobby has to be taken head on to set right the unfairness of its whole game. The Government or the IRDA should set up a committee, whose members are respected for their fairness and knowledge of the industry, to persuade the motor lobby to see reason.

The motor lobby, to be fair to it , has opposed increases in the Motor tariff rates; but it has not opposed detariffing of the market as a whole with any vehemence. It is a policy decision that affects the market as a whole, all the insured public, and is not targeted selectively and only against the Motor insured alone, which was perceived to be the case with the earlier proposal to raise Motor TP rates.

Collection of market data is not fundamental to a decision on the issue of detariffing. Data collection perhaps will help understand the quantity of the problem, but the quality of the problem is already well known. It may help justify raising rates, but if detariffing is the final answer, this is a moot point. What is the market aiming at – continuation of tariffs or detariffing? A decision on a time frame on this issue, however provisional it may be, does not brook any delay. The market has to get its act ready.

> There is no discussion on the serious issues ailing the public sector players. They have become so shy that they do not even articulate their problems, except in platitudes, let alone solve them. Unprepared detariffing will make their problems worse.

Should the tariffs continue, which no doubt they will for a lot longer, it is unfair to raise them very steeply in one go irrespective of the very high Motor claims experience percentage. It has to be a gradual process increase that can reasonably be absorbed by the insured from time to time. The longer this process takes assuming tariff regime will continue the more difficult the task becomes for insurers in the psychological game of winning the hearts of their insured and perhaps their minds as well that can appreciate their logic. Insurers too cannot justify the high cost at which they are running their business; and at the end of it they do not deliver much perceived value either to the insured.

The past few years have not seen insurers make any changes in their structures or in the mental models that govern their management styles. They have failed to realise that customers have changed their profiles. The rural and the social sectors have gained little from the liberalisation process, with insurers spending most of their time to woo corporate customers.

Sixty-five per cent of the outstanding claims of about 15 lakhs of the market are in courts, up from 50 per cent a couple of years ago. The amount of outstanding claims is about Rs. 15,000 crores, the equivalent of the annual market premium. The industry needs to retrieve its credibility for empathetic service and efficiency before it can lay claim to increased tariffs.

Indians professionals have won laurels in several spheres. On similar grounds, they can excel in underwriting skills. What they need is an opportunity to learn and demonstrate their skills. Customers must be encouraged to become sophisticated buyers of insurance, which detariffing will do. Everyone will look out for the day when rates are negotiated based on exchange of information on risk factors more intelligently. That is what detariffing is all about.

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It's All In Implementation

—Detariffing need be pushed no further

Dinyar M. Jivaasha makes a strong case for detariffing, arguing that since it was the most important recommendation of the Malhotra Committee, it needs to be implemented at once for the industry and the consumers to benefit.

The insurance industry, by now, is more or less acclimatised to the idea of detariffing. However, the Government is still deferring the decision to push the start button. Apprehensions remain on how the market will react if freedom were given to insurers to price the risks. After all, if things were to go wrong, who will take the flak?

Essentially, it is the responsibility of the Government that has accepted the recommendations of the Malhotra Committee to direct the TAC / IRDA to implement the detariffing process. It may be remembered that it was the main recommendation of the Committee, and its implementation will truly liberalise the industry for the benefit of all stakeholders. This process should begin without further delay. Accountability for its implementation is most certainly an area of concern; and detariffing is certainly a policy issue. Pressure should therefore be brought on the Government to take a stand on this issue, as the present status of half way liberalisation is hurting the interests of all concerned.

Though a major recommended reform, detariffing has been allowed to languish without its implementation being giving a serious concrete thought. The customer, as of today, has not benefited from the liberalisation process to the extent that he actually should have. Though he is pursued by various quarters out to procure business, there has been no visible improvement in tariff rating structures. The existing structure does not have any rational basis and has outlived its value. The need to move forward is therefore very urgent.

Not much thought has gone into the process of how the reforms in the insurance sector, including detariffing, as a tool of change for the better has to be implemented. After setting up the IRDA, the Government has altogether withdrawn itself from actively ensuring the adoption of the rest of the recommendations of the Committee on reforms. It is the Government's responsibility to give directions and momentum for their implementation and for IRDA to implement them quickly.

Elixir For Revolution

Today, even after over a decade, the price control situation on insurance covers remains unchanged. While the market was liberalised during 2000, nothing much has really changed for the consumers. Detariffing would have been the elixir, which would have brought about the much-needed revolution in the insurance sector.

> Tariffs have meant that insurers did not curtail their high transactional and unproductive operational costs. They have blunted the insurers' capability to evaluate risk factors before accepting risks.

If the consumer has to truly benefit, the tariff structure has to be disbanded as quickly as possible to prevent continued misuse of "cross subsidies" of rates of one portfolio by the other. Cross-subsidies are today the bane of the sector and are leading to malpractices and unhealthy activities . Continuing with tariffs indefinitely has not instilled the discipline in insurers to curtail their high transactional and unproductive operational costs.

Further, tariffs have blunted the insurers' capability to evaluate risk factors before accepting them. In today's scenario, the market players are just premium acceptors and claim settlers, rather than professional risk managers.

Essar has been sourcing covers from the international market where permissible. This has been a good learning experience on how free markets operate and are, in fact, more responsible with their pricing, as their very survival depends on correct pricing. Essar's experience in dealing in a non-tariff scenario, wherever possible, vis-à-vis the tariff scenarios over the years has been very good. Wider, tailor-made covers have been achieved from reputed underwriters at a much lower price than the price and product available in an outdated tariff regime in India.

There has been much noise about detariffing the Motor Own Damage (OD) segment. However, this should be kept aside and the primary objective should be to detariff the whole market at one go.

How can this objective be achieved? A meaningful dialogue should be urgently staged with all the concerned stakeholders to ensure that the views of all the segments are registered.

While the IRDA and TAC have a mammoth job on their hand, the Government's active – and not tacit – support for detariffing is very essential. It cannot afford to sit on the fence and watch the event unfold from a distance. It has has an obligation to ensure the implementation of the Malhotra Committee recommendations, since it has accepted the same.

Unfortunately, the track record over the past years shows our penchant for dilution of goals. It appears to be too optimistic to hope that the market will be "detariffed" in the next two years. Will detariffing be a classic case of the continuing saga of opportunities lost?

The author is Group Head & Vice President – Essar Group Corporate Risk & Insurance Management. The views expressed here are his own.

Designed for Safety

—Vehicle design forms key element of risk management

Insurers should judge the safety features of vehicles and rate them accordingly, argues *N. C. Das*, while also suggesting that insurer' expertise on safety aspects be used while designing vehicles.

Any proposal for insurance is scrutinised in the light of its inherent 'riskiness' before the premium is fixed. Motor insurance is a part of property insurance, so where does the risk management process surface in it? In India, the underwriter does have a broad classification for vehicles depending on their use, such as private cars, taxis, goods carrying vehicles, passenger carrying vehicles, etc. There is even a system of separate rating for electrical and electronic items associated with the vehicle. However, the 'risk' of a particular vehicle is directly linked to its design, which is largely ignored by Indian insurers. How a vehicle behaves in an accident situation and what comprise its operational safety features are critical points for evaluation.

In developed countries, design is a key factor while fixing the premium though several other factors are also taken into account, such as the age and experience of the drivers, nature of roads and highways on which the vehicle is likely to ply, and whether the vehicle is to be parked in a closed garage or in the open, in front of the residence.

Importance of design

It cannot be denied that the design part of certain critical auto components and total vehicle design are very important for vehicle safety on road. For example, ground clearance, wheel alignment, steering geometry and centre of gravity of a vehicle together are largely responsible for its stability at high speed because these features increase road gripping capacity in motion. It is not the GVW (gross vehicle weight) or laden weight alone that decide how the vehicle goes on road.

Even body design has some relation with the ground clearance. The centre of gravity and ground clearance of a double-decker bus are kept low to encounter air resistance owing to its huge body, so that it remains stable while moving or negotiating a curved road. To do that, the body of the bus is built almost from the ground level and no chassis parts are visible due to low bus body panel. Similarly, the steering geometry is maintained such that the vehicle does not experience undue pulling on any side while moving. The front portion is built aerodynamically to lessen air resistance and thereby gain greater mileage. Air bags are fitted along with a soft door pad so that the casualty is reduced to minimum in case of fatal accidents and in rolled over cases.

> A motor vehicle is not a stationary object that can be tested at a test bench alone. The risk multiplies when it is used on road. A crash test is an evaluation of the vehicle's performance in stress.

While insuring, do our underwriters bother with vehicle designs and their susceptibility to accidents? The nation's general insurers are apparently not concerned at all. Neither are the vehicle manufacturers – they do not involve general insurers while designing vehicles, or register the views of insurers and loss assessors who are, by virtue of their respective work experience, supposed to be experts in evaluating vehicle stress at accident situations. Insurers, possessing huge amounts of data, can give expert opinion and suggestions for minor additions / alterations in the component design to withstand more stress.

Crash tests

However, component redesign aimed at vehicle safety is a gradual process – one has to wait for the successful run of the vehicle on road after its launch. For new vehicles awaiting commercial launch, no failure criteria or market performance report are available. For these types of new vehicles, though internally tested by the carmaker, insurers in developed countries wait for a crash test and maiden premium to be set, depending on its crash test performance.

A motor vehicle is not a stationary object that can be tested at a test bench alone. The risk multiplies when it is used on road. A crash test is an evaluation of the vehicle's performance in stress – a new vehicle is allowed to roll speedily on a ramp and hit a wall. The impact on different components is measured in scale to determine the change in their configuration on crash. The vehicle's performance and occupants' safety, especially in case of cars, are measured. The behaviour pattern of occupants on crash is monitored with the help of robots placed as occupants and drivers.

Any independent agency authorised by the regulator, or the regulator itself, can conduct this test. The insurer can hire the expertise, so that the crash test performance is allowed to influence rating.

IRDA has also mooted the setting up of crash test facilities in India similar to those in the US. These facilities are generally funded by insurance companies. Now, before the industry goes for detariffing of Own Damage risk, insurance companies in India are in search of such facilities that can independently rate the risk for underwriters' evaluation.

The author is Assistant Manager Technical with National Insurance Company at Kolkata. The views expressed here are his own.

Preparatory Lessons

—Getting geared up for the Detariffing Era

From insurers to the TAC and the Regulator, all stakeholders need to spruce up their capabilities, so that the transition to detariffing is smooth, efficient and fruitful, says *C. P. Udayachandran.*

It is almost five years now – the insurance sector was thrown open for private insurers, and within a span of a year, they sure did populate the market. From a mere four PSU general insurers, the number of non-life players swelled quickly to 14. This has, no doubt, resulted in the market acquiring a new vigour and enhanced competitive spirit.

However, the moot question is whether it has also brought in the much-hyped product and price innovations that liberalisation was expected to set in. When we look at the product range in the non-life market post opening-up, what emerges is that there has been hardly any innovation worth mentioning except surface changes made on the existing products.

The pricing in non-life insurance was, in the pre-liberalisation days, largely regulated either through market agreements among the (PSU) insurers, or the pricing administrator, the Tariff Advisory Committee (TAC). Even within this controlled regime during those days, there have been a large number of digressions both conscious and otherwise!

Bold Decisions

Prior to the 1990s, the Marine Cargo and Personal Accident (PA) rates also used to be regulated by the TAC. The freeing of the Marine Cargo rates was a milestone resolution that acted as a sort of harbinger of the times that were to set in soon. The decisions to scrap the administrated pricing in Marine and subsequently in PA were bold decisions taken way before the liberalisation era.

The experts in the field, and the market in general, feel that administered pricing cuts at the very root of an open competitive environment. The reason cited is that inflexibility in the pricing mechanism stifles competitiveness. It is against this background that the industry experts have been strongly demanding the detariffing of the non-life insurance business.

Currently, the TAC regulates the pricing on Fire, Marine Hull, Motor, Workmen's Compensation and Engineering portfolios that account for roughly about 60 to 70 per cent of the overall premium turnover. The pricing apart, the product features also are necessarily spelt out in the pricing arrangement, to make sure products of a fixed quality and standard alone are sold for a particular price. The products in the remaining segments, i.e., falling within the 30 to 40 per cent slot, are theoretically free for pricing by each individual company. Strangely, even in this domain, the pricing practices followed by individual companies do not show marked variations.

> And pricing control – such as tariffs in insurance – is indeed external in nature. The agency that takes it up does not undergo market pressures and looks at it purely as an academic exercise.

The plausible reason is that pricing in the entire spectrum having not been unlocked, one section ends up cross-subsidising another. In fact, currently, the Motor liability portfolio is heavily cross-subsidised by other tariffed segments, among which Fire happens to be one chief segment. It is clearly evident therefore that the Fire premium coming in from the industrial, commerce and trading sectors is absorbing the shock created by the wrong and inexact rating practices in Motor.

Any administered rating becomes an artificial intervention since the price is determined not by the market pressures, but by static elements not consistent with the dynamic natural equations that a market develops over time. This can work both ways, as is evident with the results in the Fire and Motor portfolios. Whereas pricing in both portfolios is regulated, the Fire portfolio throws up an average claims ratio of about 30 per cent, while the Motor portfolio gives off an average claims ratio hovering about 170 per cent.

There is an imminent need to correct the Motor portfolio and clearly there is ground for reduction in the Fire department. Such high contrasts cannot be explained away merely on the basis of the high underwriting expertise in Fire portfolio and the total lack of it in Motor, or purely to Motor rating inadequacy. Rather, the reason can be attributed to the lack of urgency to correct either as there is padding available in one to offset the losses in the other.

Critical At One Stage

Tariffs in insurance are externally administered pricing which have a definite role, especially in the early stages of market development. Stability of the market is of prime import in a developing market and the tariffs lend this essential character to the market in these stages. This is especially so, since insurance is a tricky business, where selling is only the starting point of a business relationship. The real test is if the insurer is financially liquid and strong enough to meet the sudden and unanticipated calls made on it.

Rating and its adequacy become particularly important for an insurer at

this stage. An unsustainable rating leaves in the lurch not only an insurer at the time of a crisis, but the insured too, who was not willing to consider a price higher than the untenable one his insurer was asking for. External price administration from this standpoint is an essential element, since the financial health of an insurer is a necessary attribute for steady development of the insurance market.

Be it as it may, if the market has to progress into one healthy and mature, the only way is to grow and evolve. In this process the service providers, the customers and other stakeholders of the market are all involved and they all benefit in the end. In a healthy and mature market, the environment organises itself into a balanced and dynamically stable system, making mistakes, self-correcting, rectifying and moving forward. No market can eternally depend on external props and supports.

And pricing control – such as tariffs in insurance – is indeed external in nature. The agency that takes it up does not undergo market pressures and looks at it purely as an academic exercise. The agency may not find it necessary to offer any freedom in the rating aspects and also locks product variations to avoid complaints on mismatches between pricing and products on offer. The price administrator will have to rely on a great deal of generalisations in groupings and risk classifications, which takes away the prospect of looking at individual and special features existing in a risk. All these bring in rigidity in the product features and pricing aspects. Any tariff regime is loaded against good risks. There is an averaging in generalising and the bad risks get a better deal while the superior risks invariably are compelled to bear the brunt and pay higher.

Removal of any price administration usually helps the existing players, since they are better judges of the territory and have the necessary expertise available. In fact, instead of waiting for the price decontrol, the PSU insurers should have vocally pushed for quick detariffing in the non-life insurance sector.

Little Advantage

With the large volume of information accumulated over all these years, it should have been a breeze! But, it is a matter of grave regret that none of the experience and information gained on the TAC price-administered business underwritten over the past 25 years is warehoused in a meaningful and useable manner by the Public Sector Unit insurers. Strangely, the responsibility of keeping one's own business data was thoroughly neglected and the same shifted over to the price administrator, the TAC. No (PSU) insurer had the foresight to visualise that such data could be bankable and that this highly worthy data could be a goldmine of information later during the free pricing regime. Quite unfortunately, the mindset never went beyond the TAC Era.

> The Regulator will have to take into account the fact that none of the parties – such as the broker, the agent or the insured – would be inclined to part with information in case of a digression. Often, the complainant may not have enough information on hand to lodge a formal complaint.

In the ordinary course, the responsibility of making a portfolio sustainable is on the insurer and its prudent skills in managing the underwriting and claims. However, the tariff regime gave the PSU insurers the convenient alibi to avoid creating any meaningful databank on the accepted business or its claims history, in any identifiable codes, classes or groups. In the process, what the PSU insurers lost out was a wonderful opportunity to stay clearly ahead of the competition.

True, when a market is decontrolled, and decontrolled completely, it can result in total disorder. For, when the market is freed, it is natural to expect that the insurance companies (at least some of them) may lower rates, perhaps, to even unviable levels in an attempt to expand market share. It is imperative thus to have appropriate regulatory practices in place to check such devious trends and practices.

The role of a regulator, in this context, is of supreme importance. In fact, it is the regulator who enables the market to grow and evolve into a mature one. Without appropriate and evident checks and balances, the whole structure can crumble, resulting in mayhem in the market.

Regulator's Role

The regulatory aspect of solvency margin is another area of concern to IRDA in an open market. It is an index measuring the solvency of an insurer which would point to the insurer's robustness in meeting liability coming up from claims, and is of vital importance so far as the insurer's financial health is concerned. In a totally detariffed set up, the close monitoring of solvency margin and quick remedial intervention are of paramount importance.

The role of the Regulator, in this context, will be critical to instilling a sense of order and discipline in a free market. Immediate and quick action against erring stakeholders is absolutely necessary to ensure an organised and orderly system. Thus, the questions that need to be answered are not just confined to whether the industry is mature enough for the opening and if the players have the required skills and capacities to play the game. Equally valid a question is if the Regulator is ready for the action.

The Indian non-life insurance sector has remained active, healthy and robust for the past 25 years or more. It has undergone the cyclical ups and downs and taken in its stride sudden turbulences like cyclones, earthquakes,

riots, terrorist attacks and so on. It has developed the capability and capacity to underwrite risks that are at once complex and mammoth. The public sector players have the advantage of superior territory knowledge, while the private players have the edge on technology. There is no case that the market is not willing to accept the changes that are sweeping the world elsewhere.

The role of the Regulator has been given a rational framework, and the Regulator is empowered to act in a certain manner in certain circumstances. It holds the necessary powers to develop the insurance sector, which includes power not just of maintaining order, but also of vision to look ahead and change.

Even as the regulation is going on, it is important to ask if the Regulator is able to look at the emergent environment and decipher the new dynamics evolving. Can the existing framework deal with all the fresh combinations surfacing and, if not, are changes or amendments called for to meeting the new order? If so, in what direction?

Even within the current tariffed structure, it may be noted that not all digressions are necessarily noticed (or brought to notice). Even if noticed, not all are acted upon. It is not that there are no cases of rebatings, or over-shooting the stipulated percentages in commission, or ignoring of the codes and instructions *et al*, but the fact is except a few cases of rate under-cuttings no other digressions seem to be acted upon.

The Regulator will have to look at it from the fact that none of the involved parties – such as the broker, the agent or the insured – would be inclined to part with information in case of a digression. Often, the complainant may not have enough information on hand to lodge a formal complaint. In such a situation, the Regulator's inability to commence proceedings for want of production of evidence will be a serous handicap in the monitoring of even the price regulated environment, leave alone a detariffed environment. Ideally, the Regulator should keep tabs on the market to discern even the slightest wrongdoings and commence investigation and proceedings *suo motu* where it feels there is a genuine ground for such action.

> The public sector players have the advantage of superior territory knowledge, while the private players have the edge on technology. There is no case that the market is not willing to accept the changes that are sweeping the world elsewhere.

It may not be all that easy to put in place operational machinery for addressing this crucial question, but it would be indispensable if the system is to be open and to remain healthy. In all countries where the market is open yet healthy, the regulatory mechanism operates transparently and wherever aberrations are noticed, actions taken firmly and swiftly. The latest case in the US involving insurance broker Marsh & McLennan Companies Inc. having had to pay $850 million in restitution to clients in what the government regulator said was bid-rigging is a brilliant example to quote in this context.

An open market is a freedom to enjoy and a responsibility to discharge for all the stakeholders. Freedom offers the delight of choices, but the responsibility to exercise the best available choice is on the customer. Unless the Regulator, the insurers, the intermediaries, the customers and all other stakeholders exercise this choice with care and responsibility, the freedom invariably would lead to chaos and disarray, which will be to the detriment of all.

The author is Deputy Manager, United India Insurance Company. The views expressed here are his own.

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प्रकाशक का संदेश

परिवर्तन को नियंत्रित करना सदा एक चुनौती होती है, जब कुछ ज्यादा परिवर्तन मूलभूत हो तथा सम्पूर्ण कार्यप्रणाली में बदलाव लाने के लिए हो। प्राशुल्क मुक्ति भी एक ऐसा परिवर्तन है जिससे साधारण बीमा उद्योग को गुजरना है। परिवर्तन से उद्योग, सम्बधित पक्षों तथा ग्राहकों को कम से कम हानि होनी चाहिये यही प्राधिकरण का लक्ष्य है। हम द्रढ़ता से इसके पक्ष में हैं कि प्राशुल्क मुक्ति चरणबद्ध रूप से होनी चाहिये तथा इसे इस प्रकार लागू किया जाना चाहये कि नुकसान तथा रूकावटों को कम से कम किया जा सके।

मैनें कई मंचों पर उद्योग के लिए आँकड़ों की विश्वस्तता,आश्रयता पर बल दिया है जिस पर उद्योग मूल्य निर्धारण करता है। कई दशकों से प्राशुल्क वातावरण में होने के बावजूद भी आँकड़ों का रख-रखाव नहीं कर सकी है जो बीमालेखन का स्वीकार्य आधार होगा- और अब इसे खोया हुआ आधार वापस प्राप्त करना होगा। ऐसा ही आँकड़ों का आधार उद्योग के लिए बाहरी संसार से लागत संरचना तथा कुशलता स्थापना वृद्धिशील प्रतियोगी संसार के लिए होगा।

अन्य शब्दों में, यह उपाय केवल बीमांकक कार्य में दर निर्धारण के लिए ही नहीं वरन् निरंतर झुकाव का अध्ययन जिससे पारदर्शिता के आधार पर अंतरासंचार करते हुए उपभोक्ताओं के साथ सूचना का भीआदान-प्रदान किया जाए।

इस सूचना के निर्ष्कष तथा जागरुकता अर्थव्यवस्था में आर्थिक आपात जोखिम को कम करेगी तथा बीमा के उचित मूल्य निर्धारण के लिए रास्ता खोलेगी। प्राशुल्क मूक्ति इस पर निर्भर है कि हम कितनी जल्दी आँकड़ों अधिगृहीत करते हैं।

जर्नल के अगले अंक में हम अर्थशास्त्रियों को यह लिखने के लिए आमंत्रित कर रहे हैं कि वे पिछले कुछ वर्षो में बीमा उद्योग में सुधारों के लाभों के बारे में वे क्या सोचते हैं। हम आशा करते है आपके साथ हमें भी उनके सुझावों तथा अंर्तदृष्टि से लाभ प्राप्त करेगें।

सी. एस. राव

“ कुछ तो लोग कहेंगे ”

ग्रुप लाईफ तथा हैल्थ बीमा तथा कुछ व्यक्तिगत पालसियों जैसे गृह तथा आटोमोबाइल बीमा के विक्रय में

जाँच-पड़ताल उसी प्रकर के हितों का संघर्ष होता है जैसा स्पीटज़र के केन्द्र में। यह व्यवस्था छोटे ग्राहक के लिए जोखिम उत्पन्न करती है। यदि बडे कुलीन उपभोक्ता आसानी से ठगे जा सकते हैं तो अकुलीन व्यक्तिगत तथा छोटे उपभोक्ताओं कि स्थिति सुभेद्य होगी ही।

कंजूमर फैडरेशन आफ अमेरिका (सीएफए) की रिसर्च रिपोर्ट

अनिवार्य रूप से प्रकट करना स्पीटज़र की प्रतिक्रिया मात्र नहीं है। यह उद्योग में एकल बेहद प्रभावशाली धनात्मक परिवर्तन लाने का तरीका है। ऐसे परिवर्तन जो में जानता हूँ एफएसए प्राप्त करने की इच्छा रखता है।

श्री नीक पीटरजोन, मुख्यकार्यपालक, लायडस् आफ लंदन

बीमा उद्योग दोहरे अंक की वृद्धि को दर्ज कर रहा है। जो जीवन बीमा उद्योग में 35 प्रतिशत तथा गैर जीवन बीमा उद्योग में 15 प्रतिशत दर्ज की गई है। इस वृद्धि के बने रहने की संभावना है। हमारे देश में बीमा बीमा क्षेत्र को निजि क्षेत्र के लिए खोला गया है जिसके कारण सार्वजनिक उपक्रम कमजोर हुए हैं परन्तु यह तर्क संगत नहीं है क्योंकि राज्य द्वारा स्वामित्व वाले कई बीमाकर्त्ताओं ने वर्ष 2000 के बाद वृद्धि दिखाई है।

श्री सी. एस. राव, अध्यक्ष आईआरडीए

जब हम यह स्वीकार करते हैं कि म्चुवल फडं समुदाय के अन्तर्गत विश्लेषण समुदाय में, संरचनात्मक समस्याएँ हैं, अब बीमा उद्योग के अन्दर यह उत्पाद कैसे बैचे जाते हैं, यह प्रतिबिंबित इच्छा उन लोगों कि है जो कहते हैं एक या दो ही सेब खराब हैं........ यहाँ अच्छे, ईमानदार, कठिन परिश्रम करने वालों का उद्योग में प्रभुत्व है। लेकिन हम देख रहे है बड़े दण्ड, पुनः संरचना, आपराधिक न्यासभंग करने वाले आगे आ रहे हैं। मेरा कार्य इन समस्याओं को खोजना और इनकी जड़ तक पहुँचना है और तब तभी हम इसे एक ऐसा उद्योग बना सकेंगे जो पद्धति संगत होगा व अपने कार्य को ठीक प्रकार से करेगा।

दु:खी, यदि आप घर जो तबाह हो गये तथा नगरों की बिगड़ी हुई हालत देखें, यह स्पष्ट हो जायेगा कि इसमें से बहुत कम को बीमा आवरण प्राप्त था। कुछ हद तक होटलों को आवरण प्राप्त था। लायडस् उसका कुछ अनुपात ले सकता था, संभाव्यता प्रत्यक्ष बीमा की अपेक्षा पुनर्बीमा में अधिकता होगी। लायडस् का कुल बिल एक बिलियन से अपेक्षाकृत कम होगा तथा संभाव्यता 500 मिलियम डालर से कम होगा।

लार्ड पीटर लिविन, अध्यक्ष, लायडस् आफ लंदन

पालसी होल्डर से सबसे अधिक प्रचलित शिकायत जो हम प्राप्त करते हैं वह है कि उन्हे पालसी की निंबधन और शर्तें से अवगत नहीं करवाया गया। प्रिमियम दरों के निर्धारण के संबन्ध में पारदर्शता की कमी, शुल्क किया गया तथा आवरण के प्रकार।

श्री टी. के. बेनर्जी, सदस्य (जीवन) आईआरडीए

सुनामी

चुनौतियों की एक लहर

सुनामी ने बीमा सेक्टर के लिए नए इश्यू दिए

कितनी दूर, कितना और कैसे? क्या यह समय है कि बीमा सेक्टर प्राकृतिक विपदा की स्थिति में अपने पॉलिसीयों का पुनर्निरीक्षण करे - ***जी. वी. राव***

यह एक ऐसा मंजर था जैसे भगवान ने ग्लोब के एक हिस्से पर अचानक युद्ध प्रारंभ कर दिया था। सुनामी का यह प्रकोप इतनी आसानी से नहीं भुलाया जा सकता है। यह एक कल्पना के परे दृश्य था, समुद्र ने सब कुछ अपने अंदर निगल लिया। इस प्रकोप से हुई हानि की भरपाई होने में काफी समय लग जाएगा तथा साथ ही काफी धन भी लगेगा।

अंतर्राष्टीय बीमा समाज ने इस प्रकोप को काफी गंभीर माना है। बीमा कंपनियों को इस विपदा में मरे लोगों को 500 मिलियन डॉलर से अधिक देने पड़े हैं। जहाँ बीमाधारक के छोटे समाज में जोखिम जागरुकता की कुछ कमी देखी गई, जो लोग इसके प्रति जागरुक थे, उन्होंने लोगों को इसके बारे में कुछ बताने में भी कोई रुचि नहीं दिखाई। बाढ़ हो, भूकंप हो या फिर सुनामी, बीमा कंपनियों को नई योजनाओं पर विचार करना होगा ताकि लोगों को इन दुखद समय में बीमा का कुछ लाभ मिल सके। बीमा को इसके लिए अपने जोखिम प्रबंधन में भी काफी बदलाव करना होगा।

बीमाकर्ताओं के समक्ष चुनौतियाँ

बीमाकर्ताओं को हमेशा से ही यह मालूम रहा है कि यह उपमहाद्वीप प्राकृतिक विनाश का सामना करता ही रहता है, चाहे वह बाढ़ हो, भूकंप या फिर सुनामी। एक विशेष बीमा कवर जो लोगों को इन मुश्किलों की घड़ी में लाभ दे सके, के निर्माण की आवश्यकता है। इसके लिए जोखिम एवं प्रीमियम का पुन: आंकलन करना होगा औक टैरिफ एडवाइजरी कमेटी इसे काफी सही तरीके से नियंत्रित कर सकती है। इस कवरेज के लिए लागु शर्तों का भी खुलासा होना चाहिए।

दंगे, हड़ताल एवं आतंकवाद उच्च श्रेणी के सामाजिक जोखिम प्रोफाइल है। बाढ़ का जोखिम, भूकंप एवं अन्य ऐसे उच्च श्रेणी के जोखिम हैं, जो प्रकृति द्वारा प्रदत्त है। परंतु बीमाकर्ताओं द्वारा इस श्रेणी के लिए किया गया कवर अपर्याप्त है।

वर्तमान में इन प्राकृतिक विपदाओं के लिए भारत में क्या स्थिति है? सुनामी में अपना सब कुछ तबाह कर चुके लोगों के लिए बीमा कंपनियों द्वारा क्या किया जा रहा है? भविष्य में बीमा कंपनियों के लिए इसके लिए क्या योजनाएँ हैं? यहाँ एक विश्लेषण के माध्यम से इसके बारे में एक विवरण दिया जा रहा है।

बीमाकर्ताओं को हमेशा से ही यह मालूम रहा है कि यह उपमहाद्वीप प्राकृतिक विनाश का सामना करता ही रहता है, चाहे वह बाढ़ हो, भूकंप या फिर सुनामी। एक विशेष बीमा कवर जो लोगों को इन मुश्किलों की घड़ी में लाभ दे सके, के निर्माण की आवश्यकता है।

बीमाकर्ता का उत्तरदायित्व

वे लोग जिन्हें भारत में बीमा विकास के चरणों के बारे में जरा सा भी याद है, उन्हें ज्ञात होगा कि, दंगों एवं हड़ताल के लिए किया गया बीमा कवर फायर पॉलिसी पर ही अतिरिक्त प्रीमियम था। कई बीमाधारकों ने इसे क्रय नहीं किया क्योंकि बीमा को एक अतिरिक्त खर्चे के रुप में देखा जाता था न कि वित्तीय सुरक्षा की नजर से। देश में लगातार दंगे होने लगे। कई दुकानें एवं घरों को नुकसान पहुँचाया गया, इनमें से कई का रिस्क कवर नहीं था। तब सरकार के आदेश से इसे फायर कवर के साथ जोड़ा गया। इसके लिए फायर पॉलिसी को परिवर्तित किया गया।

आतंकवाद कवर

जब पंजाब एवं उत्तर-पूर्वी देशों में आतंकवाद सिर चढ़कर बोलने लगा तो बगैर किसी अतिरिक्त प्रीमियम के इसे फायर कवर के साथ जोड़ दिया गया। 11 सितम्बर की घटना के पश्चात इस योजना को हटा लिया गया और बीमा धारक को इस योजना का फायदा उठाने के लिए अतिरिक्त प्रीमियम देने को कहा गया। इससे बीमाधारकों को काफी धक्का पहुँचा और उन्हें लगा कि बीमा कांटेक्ट को क्या इस प्रकार आसानी से तोड़ा जा सकता है। अत: इसकी विश्वसनीयता पर सवाल उठने शुरु हो गए।

बाढ़ के लिए कवर

मार्च 2001 तक बाढ़ एवं चक्रवात से हुए नुकसान के लिए फायर पॉलिसी पर ही अतिरिक्त प्रीमियम दिया जाता था। मार्च 2001 से इसे फायर प्रीमियम के साथ ही शामिल कर लिया गया, यानि अतिरिक्त प्रीमियम देने की आवश्यकता नहीं रही। यहाँ बीमाकर्ता ने अपने बीमाधारकों की सुरक्षा एवं फायदे को ध्यान में रखा ताकि हर किसी को वित्तीय सुविधा मुहैया करवायी जा सके। इस प्रकार समाज को इसका फायदा मिलना प्रारंभ हो गया।

क्या सुनामी क्लेम का भुगतान किया जा सकता है?

सुनामी आने का प्रमुख कारण भूकंप है। तो क्या इसका कवर सिर्फ उन लोगों को मिलना चाहिए, जिन्होंने भूकंप के लिए कवर लिया हुआ है। जो लोग बाढ़ के लिए कवर कराए हैं, उन्हें

क्या मिलेगा। इसे बाढ़ से हुई हानि मानी जाए या फिर भूकंप से। यह फैसला अब इंडियन मीटरलॉजिकल डिपार्टमेंट का फैसला आने के बाद ही लिया जा सकता है।

भविष्य के लिए कुछ मुद्दे

क्यों नही प्राकृतिक विपदाओं से हुई हानि को एक ही वर्ग में रखा जाए। हानि चाहे बाढ़ से हुई हो, या फिर भूकंप से, या ज्वालामुखी के फटने से या फिर अन्य प्राकृतिक आपदा। इनके लिए एक ही बीमा कवर होना चाहिए। सुनामी क्या है- भूकंप, बाढ़ या फिर ज्वालामुखी विस्फोट?

टैरिफ एडवाइजरी कमेटी (टीएसी) के लिए कार्य

टीएसी को इस दिशा में काफी कार्य करने होंगे। एक आम आदमी किस प्रकार जाने कि उसके लिए कौन सा कवर उपयुक्त है। भारत में प्राकृतिक आपदाएँ काफी सजग है और कभी भी देश के किसी भी कोने में इसका सामना करना पड़ सकता है, चाहे वह गुजरात का भूकंप हो या फिर हाल ही में सुनामी की वजह से हुई तबाही। जान-माल का नुकसान का आंकलन करना काफी कठिन कार्य है, और टीएसी इस जोखिम का आंकलन करना होगा ताकि भविष्य में आम जनता को इन नुकसान से हुई भरपाई मिल सके और वे उन्नत जीवन बीता सकें। केवल जोखिम का आंकलन करना ही महत्वपूर्ण नहीं है। यह भी तय करना होगा कि पीड़ित लोगों को यह सहायता तत्काल मिल सके। इसमें देर लगने से इसका वह फल नहीं मिल पाएगा जो मिलना चाहिए।

हम देखते हैं कि कई ऐसे क्लेम हैं, जिनका अभी तक भुगतान नहीं किया गया है। ऐसे में नए क्लेम का निपटारा जल्द हो सकेगा, यह विश्वसनीय नहीं है। फायर के साथ प्राकृतिक विपदाओं के कवर को लागु करने की आवश्यकता है।

> अब चुंकि बाजार में उदारवाद आ गया है। निजी बीमा कंपनियां भी बाजार में है, वर्तमान स्थिति काफी भिन्न है। जहाँ सुनामी ने आम जनता को काफी नुकसान पहुँचाया है , वहीं बीमा कंपनियों को एक अवसर मिला है

वर्तमान में इसका निपटारा कैसे किया जाए?

पिछले सालों में अग्नि से हुई दुर्घटनाओं के क्लेम में कमी आई है और इसलिए प्राकृतिक विपदाओं को इसमें शामिल करने से बीमा कंपनियों को इससे किसी प्रकार के नुकसान होने की संभावना नहीं है। अत: यह भूकंप है या फिर बाढ़, इसके बारे में वाज-विवाद करने से अच्छा है कि इसके कानूनी पक्ष की ओर ध्यान दिया जाए।

यदि इन आधारों पर बीमाकर्ता क्लेम का भुगतान करने से मना कर दे तो क्या इससे बीमा कंपनियों की साख पर कोई असर नहीं पड़ेगा? आज बीमा कंपनियां इस बारे में ज्यादा बात नहीं कर रही है। वे लोग जिन्होंने बाढ़ का कवर लिया हुआ है, उन्हें क्लेम का भुगतान नहीं किया जा रहा है। बाजार को इस पर अपनी प्रतिक्रिया देनी होगी। और जितनी जल्दी यह होगा उतना ही बीमा कंपनियों एवं बीमा क्षेत्र के लिए फायदेमंद होगा।

कई लोग यह सोचते हैं कि सरकार उनकी मदद के लिए आगे आएगी और उन्हें सुरक्षा प्रदान करेगी। अब चुंकि बाजार में उदारवाद आ गया है। निजी बीमा कंपनियां भी बाजार में है, वर्तमान स्थिति काफी भिन्न है। जहाँ सुनामी ने आम जनता को काफी नुकसान पहुँचाया है , वहीं बीमा कंपनियों को एक अवसर मिला है कि वे अपने जोखिम प्रबंधन का पुन: आंकलन करे और जनता को यह विश्वास दिलाए कि बीमा कंपनियां उनकी वित्तीय सुरक्षा के लिए सदैव तैयार है। यह कार्य लोगों के दिमाग से सुनामी की यादें निकालने के लिए ही करना होगा।

लेखक ओरिएंटल इंश्योरेंस कंपनी के सेवानिवृत्त मुख्य प्रबंध निदेशक हैं।

तेजी से बढ़ता हुआ ग्रामीण बाजार

- ग्रामीण गरीबों में स्वास्थय बीमा की जबरदस्त शुरुआत जेसिका फेल्डमेन

ग्रामीण महाराष्ट्र में क्रमबद्ध स्वास्थ्य बीमा, ***जेसिका फेल्डमेन*** का कहना है सफलता के लिए सांख्यकी आवश्यक है।

28 वर्षीय सोनाली गुप्ता जो उस्मानाबाद , महाराष्ट्र में किसान का कार्य करती है, तथा तीन बच्चों की माँ है। हाल ही में उसे अपने बेटे के अपेंडिक्स के ऑपरेशन के लिए 7,000 रुपये देने पड़े। इस ऑपरेशन के लिए उसने 50 प्रतिशत ब्याज की दर पर पैसे उधार लिए। यही उसके लिए एक विकल्प था और दूसरा विकल्प था अपनी संपत्ति को बेचना।

सोनाली की स्थिति उनलोगों के जैसी ही है, जैसा की मैनें उस्मानाबाद में अन्य लोगों की स्थिति को देखा। मैं वहाँ एक गैर-लाभकारी संस्था स्वयं शिक्षण संस्थान की तरफ से गई थी। इसका उद्देश्य एसएसपी को ग्रामीण गरीबों के लिए स्वास्थय बीमा की संभावना की तलाश करना था। एसएसपी महिला बचत एवं क्रेडिट ग्रुप के साथ महाराष्ट्र एवं गुजरात में ग्रामीण गरीबों की आर्थिक स्थिति, स्वास्थय, शिक्षा, पानी सप्लाई एवं साफ-सफाई का ध्यान रखती है। यह संगठन आईआरडीए की पॉलिसीज के प्रति पूरी तरह जागरुक है तथा इन्हीं की मदद से वह इन विकास कार्यों में लगा है।

महिलाओं के कई समूहों से बातचीत करने एवं एसएसपी द्वारा जनरल हेल्थ का सर्वेक्षण करने के पश्चात यह परिणाम सामने आया कि वर्तमान मानदंड पर्याप्त नहीं है। जिन लोगों पर सर्वे किया गया उनमें से अधिकतर ऐसे लोग थे जो किसान एवं मजदूर वर्ग से हैं तथा जिनकी सालाना आय 15,000 रुपये से लेकर 20,000 रुपये तक है। पानी से जनित रोग एवं मलेरिया के कारण गर्भवती महिलाओं को काफी मुश्किलों का सामना करना पड़ता है। बीमार होन पर ये लोग पब्लिक हेल्थ सेन्टर में जाते हैं, या फिर घरेलु उपचार करते हैं।

मुझे आश्चर्य हुआ कि ग्रामीण लोगों के लिए स्वास्थय बीमा में बीमा कंपनियां पर्याप्त रुचि नहीं दिखा रही है तथा इनके पास पर्याप्त डाटाबेस भी उपलब्ध नहीं है। यदि ग्रामीण इलाकों में लोगों को स्वास्थय बीमा का फायदा पहुँचाना है तो इसके लिए विशेष सर्वेक्षण की आवश्यकता है ताकि लोगों तक पहुँचा जा सके और उन्हें इसका फायदा पहुँचाया जा सके। आईआरडीए भी इसमें महत्वपूर्ण भूमिका अदा कर सकता है। इसके लिए आईआरडीए को एक डाटाबेस तैयार करना होगा तथा इसका वितरण करना होगा।

मुझे आश्चर्य हुआ कि ग्रामीण लोगों के लिए स्वास्थय बीमा में बीमा कंपनियां पर्याप्त रुचि नहीं दिखा रही है तथा इनके पास पर्याप्त डाटाबेस भी उपलब्ध नहीं है। यदि ग्रामीण इलाकों में लोगों को स्वास्थय बीमा का फायदा पहुँचाना है तो इसके लिए विशेष सर्वेक्षण की आवश्यकता है

साथ ही, डाटा इकट्ठा करने के लिए उन्हें एक स्टैण्डर्ड कोडिंग सिस्टम भी तैयार करना होगा तथा अर्द्धवार्षिक आधार पर इनकी रिपोर्ट करनी होगी। इससे भारत में स्वास्थय बीमा का विकास होगा तथा बीमा के क्षेत्र में एक नया अध्याय का प्रारंभ होगा। गाँव के गरीब लोग इसका भरपूर फायदा उठा सकते हैं तथा उन्हें उच्च ब्याज दर पर ऋण लेने की आवश्यकता नहीं पड़ेगी।

एक बार यदि पर्याप्त डाटा इकट्ठा हो जाए तो गरीब लोगों को इसकी सुविधा पहुँचाई जा सकेगी। आईआरडीए ने ग्रामीण क्षेत्रों के लिए बीमा करने की आवश्यकता के लिए निर्देश दिए हुए हैं। इसके लिए एजेन्टों को भी तैयार करने की आवश्यकता है जो इन परिवारों को बीमित कर सकें। एसएसजी, एओन एवं इंश्योरेंस कैरियर ऐसी बीमा कंपनियां हैं, जिन्होंने उस्मानाबाद में अपने प्रतिनिधि भेजे तथा लोगों के समक्ष स्वास्थय बीमा को प्रस्तुत किया। उनको यह जानकर आश्चर्य हुआ कि महिलाओं ने इसमें काफी दिलचस्पी दिखाई एवं उनकी बातों को ध्यानपूर्वक सुना।

इन मुलाकातों के बाद, एसएसपी ने अपने सदस्यों की रिग्रुपिंग की। एसएसपी ने 5,000 परिवारों को वर्ष 2005 में इसके अंतर्गत शामिल करने का लक्ष्य रखा है। आईआरडीए को भी यह सुनिश्चित करना चाहिए कि लोगों को इसका पर्याप्त फायदा मिले।

विकास के लिए एसआरओ मार्ग

-बीमा काउंसिल के लिए आगे काफी व्यस्त दिन हैं।

जीवन एवं गैर जीवन बीमा कंपनियों को वर्तमान बाजार स्थिति में काफी परिवर्तन लाना होगा तथा एक स्व-विनियामित संगठन के निर्माण की ओर कदम बढ़ाना होगा। दूसरे देशों से उदाहरण प्रस्तुत करते हुए, ***सुरेश माथुर***

हांलाकि भारतीय बीमा बाजार में काफी तेजी आ रही है, इसके कुछ मुद्दे भी हैं, जिनके हल करने की भी काफी आवश्यकता है।

कुछ क्षेत्रो में स्व-विनियामन को इसके लिए एक अच्छा माध्यम माना जाता है तथा यह बाजार संचालन को काफी गति दे सकता है। बीमा एक्ट, 1938 के सेक्शन 64ए में इंश्योरेंस एसोसिएसन ऑफ इंडिया के इनकोरपोरेशन का प्रावधान है। आगे सेक्सन 64सी में दो काउंसिल- लाइफ इंश्योरेंस काउंसिल एवं जनरल इंश्योरेंस काउंसिल का भी उल्लेख किया गया है। वर्तमान में लाइफ एवं जनरल इंश्योरेंस कंपनी के सभी मुख्य कार्यकारी अधिकारी इन काउंसिल की कार्यकारी समिति का गठन करते हैं। प्राधिकरण हर काउंसिल के दो अधिकारियों को इसके लिए नामांकित करता है। इनमें से एक चैयरमेन होता है और दूसरा कोई अन्य सदस्य। इस काउंसिल का संचालन क्रमश: सदस्य(लाइफ) एवं सदस्य(नॉन-लाइफ) के द्वारा किया जाता है।

ये काउंसिल क्या करती है?

एक्ट लाइफ इंश्योरेंस एवं जनरल इंश्योरेंस के लिए निम्न गतिविधियाँ उल्लेखित करता है:

1. इससे यह उम्मीद की जाती है कि यह बीमाकर्ता को सहायता एवं सलाह प्रदान करे ताकि बाजार को सही तरीके से संचालित किया जा सके एवं साथ ही बीमाधारकों के हितों की भी सुरक्षा सुनिश्चित किया जा सके।
2. बीमाकर्ताओं के खर्चों को नियंत्रित करने के लिए प्राधिकरण को सलाह दे।
3. यदि कोई बीमाकर्ता बीमाधारकों के हितों की अनदेखी कर रहा है तो इस बात को प्राधिकरण के सामने रखे और उसे उचित सलाह प्रदान करे।

वर्तमान समय में लाइफ इंश्योरेंस काउंसिल ने अपने कार्यकलापों को निम्न दिशा दी है:

क. इसने अपने सचिवालय के लिए एक महासचिव की नियुक्ति की है। ऐसा स्वयं को स्व-विनियमित संगठन के रुप में आगे लाने की दिशा के लिए है।

> यह बीमाकर्ता को सहायता एवं सलाह प्रदान करे ताकि बाजार को सही तरीके से संचालित किया जा सके एवं साथ ही बीमाधारकों के हितों की भी सुरक्षा सुनिश्चित किया जा सके।

ख. बिक्री के लिए ब्राउचर में ग्राहकों को सभी प्रकार के मानदंड बताए जाते हैं जैसे- ब्याज दर एवं उनके निवेश पर उन्हें कितना रिटर्न मिलेगा।

ग. मोर्टालिटी एवं मोर्बिडिटी ब्यूरो की स्थापना के लिए कदम उठाए गए हैं।

घ. एक नया बिजनेस कार्ड तैयार किया गया है ताकि मासिक बिजनेस की सही जानकारी प्राप्त की जा सके।

वे इश्यू जो जनरल इंश्योरेंस काउंसिल द्वारा हाल में लिए गए हैं, निम्न हैं:

1. एक भूकंप पूल के निर्माण के लिए चर्चा।
2. मोटर वाहन एक्ट, 1988 में सुधार के लिए सलाह देना।
3. फायर टैरिफ में आसान जोखिम का पुन: प्रीमियम निर्धारण।
4. निजी बीमाकर्ताओं द्वारा सोलाटियम फंड में सहायता देना।

काउंसिल की सलाहों को ध्यान में रखते हुए, प्राधिकरण ने उत्तर-पूर्वी राज्यों में प्रीमियम के भुगतान में सब्सिडी देने से संबंधित मुद्दों को लिया है तथा साथ ही हल बिजनेस के लिए गवर्नमेंट वार स्कीम में निजी बीमाकर्ताओं के शामिल होने को भी लिया है।

राष्ट्र के परे देखना

1. काउंसिल द्वारा अपने कार्यकलापों को बढ़ाने के लिए काफी संभावनाएं हैं। उदाहरण के लिए इंश्योरेंस काउंसिल ऑफ आस्ट्रेलिया ने निम्न कदम उठाए हैं:

   क. जनरल इंश्योरें सेक्टर को सरकार एवं समाज के लिए प्रतिनिधित्व करना।

   ख. सदस्यों का घरेलु एवं अंतर्राष्टीय मामलों में हित का प्रतिनिधित्व करना।

   ग. ग्राहकों एवं समाज की जरुरतों को पूरा करने के लिए बीमा उद्योग को सहायता प्रदान करना।

   घ. उद्योग की छवि को बढ़ाना।

   ड. लोगों में बीमा के प्रति जागरुकता पैदा करना।

   च. बीमा सेक्टर में सेवा स्तर का विकास

करना तथा साथ ही स्व-विनियामन को बढ़ावा देना।

छ. बीमा सेवा के लिए निजी क्षेत्र को बढ़ावा देना।

ज. आईसीए नियमों को क्रियान्वित करना।

यह संस्था अपने सदस्यों का प्रतिनिधित्व करती है, विभिन्न मामलों को संभालती है तथा सरकार एवं आम जनता के मध्य बीमा उद्योग की छवि को बढ़ाती है। इसी प्रकार जापान में जनरल इंश्योरेंस एसोसिएशन ऑफ जापान की स्थापना की गई है, जिसके 23 सदस्य हैं। इस काउंसिल के मुख्य कार्यकलाप निम्न हैं:

1. गैर जीवन बीमा के प्रति लोगों में समझ पैदा करना तथा साथ ही आम जनता तक इसके बारे में सूचना प्रजान करना।
2. सदस्य कंपनियों के लिए कोड ऑफ कंडक्ट तैयार करना, गैर जीवन बीमा कंपनियों को मजबूती प्रदान करना।
3. टैक्स रिफॉर्म मामलों के प्रस्तुतीकरण में गैर जीवन बीमा कंपनियों का प्रतिनिधित्व करना तथा साथ ही बीमा प्रबंधन के लिए अपनी सलाह देना।
4. बीमा बाड को रोकना।

इसी प्रकार जापान में एक अलग से लाइफ इंश्योरेंस एसोसिएशन भी है।

हांगकांग में स्थिति अलग है। क्योंकि वहाँ सभी प्राधिकृत बीमा कंपनियों का एक एकल एसोसिएशन है। इनका एक अलग से सचिवालय है, जो बाजार संचालन के लिए विनियामक को सलाह देता है। यह एजेन्ट एवं अन्य मध्यवर्तीयों को लाइसेंस भी इश्यू करता है।

भविष्य के लिए रोडमेप

भारत में इन काउंसिल की भूमिका बढ़ाने के लिए एक रोडमेप तैयार किया गया है ताकि ये दोनो काउंसिल स्व-विनियामित संगठन की भाँति कार्य कर सके। इसके अंतर्गत एक्शन प्लान निम्न है:

1. काउंसिल की स्वतंत्रता - काउंसिल का एक अलग से सचिवालय होना चाहिए जिसका प्रमुख एक महासचिव हो तथा साथ ही चयनित सदस्यों में से एक को अध्यक्ष के रुप में चुना जाए।
2. बीमा एक्ट, 1938 में सुधार, ताकि स्व-विनियामित संगठन की स्थापना सुचारु रुप से हो सके।
3. सर्वश्रेष्ठ अंतर्राष्टीय मानदंडों को अपनाना।

हांगकांग में स्थिति अलग है। क्योंकि वहाँ सभी प्राधिकृत बीमा कंपनियों का एक एकल एसोसिएशन है। इनका एक अलग से सचिवालय है, जो बाजार संचालन के लिए विनियामक को सलाह देता है। यह एजेन्ट एवं अन्य मध्यवर्तीयों को लाइसेंस भी इश्यू करता है।

4. बीमा सेक्टर के उत्थान के लिए कार्य करना।
5. काउंसिल के सदस्यों में प्रोफेशनलिज्म तथा स्व-अनुशासन को बढ़ावा देना।

इसके लिए काउंसिल को स्वयं को गैर-लाभकारी संगठन के रुप में नामांकित कराना होगा तथा साथ ही भारतीय बीमा विनियामक एवं विकास प्राधिकरण (आईआरडीए) की भी मंजूरी आवश्यक होगी।

इसके पश्चात ये काउंसिल कई प्रकार के कार्य जैसे, मध्यस्थों को लाइसेंस प्रदान करना, प्राधिकरण को सलाह प्रदान करना, कॉड ऑफ कंडक्ट तैयार करना, जैसे कार्य कर सकती है। इससे न केवल बीमाउद्योग को बढ़ावा मिलेगा, बल्कि आम जनता में भी बीमा उद्योग के प्रति विश्वास बढ़ेगा।

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C. S. Rao

Date: March 07, 2005 Signature of Publisher

आम अच्छाई

-बीमा का प्रीमियम एवं लाभ के परे प्रक्षीपण करना।

के. नित्य कल्याणी कहती हैं कि विकास कार्य से सभी को फायदा होता है, परन्तु यह अधिक प्रभावी होता है यदि बाजार की भागीदारी के साथ इसे विनियामक द्वारा किया जाए।

किसी न किसी को वह कार्य करना है, जिसे सभी से करने की उम्मीद की जाती है, परन्तु वास्तविकता में कोई भी यह कार्य नहीं करता है। यदि वह एक उदार दिल का है, सभी तरफ देखता है, गैर-व्यावसायिक है, यह भी विकास को दर्शाने का गलत तरीका नहीं है। जब यह उत्पादों के फैशनिंग से संबंधित नहीं है, यह उनके बेचने के लिए भी नहीं है, तथा इससे किसी प्रकार का लाभ भी प्राप्त नहीं होगा, परन्तु यह किसी समय इन सभी बिन्दुओं को इंगित करता है, तो यह विकास के बारे में है।

यह उद्योग के लिए अंतर्संरचना का निर्माण करना हो सकता है - शैक्षणिक एवं स्व-विनियमित संस्थान- यह सभी शेयरधारकों के हितों के लिए हो सकता है। यह वृद्दि एवं विकास को देख सकता है तथा साथ ही यह सुनिश्चित कर सकता है कि इस विकास का लाभ सभी लोगों को समान रुप से मिले।

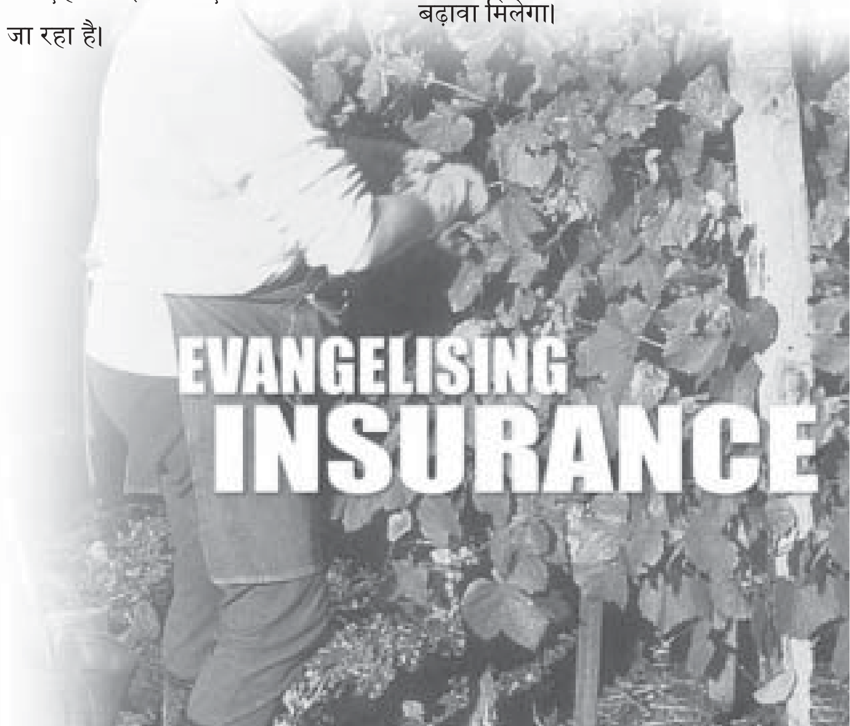
आईआरडीए की विकास नीति अपना रुप ले रही है तथा साथ ही बीमा उद्योग इसका लाभ उठा रहा है। पिछले दशकों में बीमा उद्योग निरंतर विकास की ओर अग्रसर है और इसका भविष्य काफी सुनिश्चित है। उदारीकरण के पश्चात निजी बीमा कंपनियां अस्तित्व में आई और इससे बाजार में प्रतियोगिता आई, जिससे हर बीमा कंपनियां ग्राहकों को बेहतरीन सुविधाएँ मुहैया कराने के लिए जुटी हुई है। प्रधिकरण बाजार में मौजुद समस्याओं के निदान के लिए कदम उठा रहा है, ताकि आम जनता का बीमा उद्योग पर विश्वास कायम किया जा सके।

फिर मध्यस्थों का इश्यू सामने आता है। उनके लिए बाजार संचालन किस प्रकार से तैयार किया जाए। इसके लिए एक समिति का गठन किया गया। कुछ परिवर्तन भी किए गए तथा कई अन्य मुद्दे भी जल्द ही सुलझा लिए जाएंगों।

अन्य कार्य जो प्राधिकरण द्वारा बीमा उद्योग के विकास के लिए किया जा रहा है, वह है सरकार के समक्ष प्राथमिकता। यह देखा गया है कि स्वास्थ्य बीमा आज बाजार में काफी मांग कायम कर चुका है, परन्तु बीमाकर्ता इस ओर ज्यादा रुचि नहीं दिखा रहे हैं। क्योंकि इस बिजनेस में नुकसान भी हो सकता है। आईआरडीए के वर्किंग ग्रुप ने स्वास्थय बीमा पोर्टफोलियो के विकास के लिए कदम उठाए हैं तथा इसके लिए विशेष डाटा तैयार किया जा रहा है।

एक अन्य प्रमुख कार्य जो आईआरडीए द्वारा प्रारंभ किया जा रहा है, वह है विभिन्न शेयरधारकों के मध्य स्व-विनियामन को बढ़ावा देना। जहाँ बीमाकर्ताओं के लिए यह पहले से ही सुनिश्चित है - इंश्योरेंस कार्पोरेशन के रुप में- तथा मध्यस्थ के लिए लाईफ एवं जनरल इंश्योरेंस काउंसिल के रुप में- उत्तरदायी बाजार संचालन के लिए यह काफी आवश्यक है। व्यक्तिगत एवं कार्पोरेट एजेंट के लिए कॉड ऑफ कंडक्ट की भी आवश्यकता है तथा इसे एक विशेष ोम प्रदान किया गया है।

बीमाकर्ताओं के मामले में प्राधिकरण ने स्व-विनियामित संगठन के गठन पर जोर दिया है, जो इनके लिए बाजार संचालन नियम तैयार करेगा तथा साथ ही बीमा उद्योग को भी इससे काफी बढ़ावा मिलेगा।



Value Management in Insurance Companies

Michael Köhler, Pascale Güllner, Michael Knoll and *Stefan Zumsteg* compare and assess existing approaches in value management in insurance companies and provide an idea of future best practices.

What applies to all companies applies to insurance companies, too – value is created when the company can achieve, in the long run, a higher return on capital than it needs to pay out in capital costs to suitably compensate its capital providers.

However, special conditions apply to value management in insurance companies, as these are subject to tension between solvency and the demand for returns. On the one hand, insurers must comply with regulations intended to protect creditors from company insolvency. This demands that insurers maintain certain liability or risk capital. On the other hand, insurers are also confronted with their capital providers' demands for returns – the capital providers require rates of interest on their capital adequate for the level of risk. To this extent, demands by rating agencies should also be taken into account.

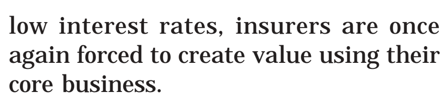
For the insurance industry, this means thinking about value creation and developing an understanding of how value is created and against what figures it should be measured.

The article seeks to examine the reasons for and benefits of value-oriented management for the insurance industry and, in the second stage, look at and evaluate the existing approaches to value-oriented management for insurance companies. Finally, we look at the future to assess the opportunities and dangers of value-oriented management in the insurance sector.

Reasons for value-oriented management

With the deregulation of the insurance markets, direct insurers have been faced with more intensive competition, both in terms of distribution and in obtaining capital. The competition to gain market share leads to over-capacity in the market. As a result, prices for risk coverage no longer stand up in relation to the risks incurred. Increased expenditure on claims leads to chronic underwriting losses in the insurers' financial results; it was possible to cover these in good times by investment revenues and recently by releasing hidden reserves from the past. Now, faced with persistent low interest rates, insurers are once again forced to create value using their core business.

> Thanks to stiff competition, over-capacity in the market and persistent low interest rates, insurers are forced to create value using their core business. Insurers are also becoming increasingly aware of the importance of capital and its scarcity.



In addition, insurers are becoming increasingly aware of the importance of capital and its scarcity. Competition in obtaining capital has increased both within and outside insurance companies, and investors are therefore demanding higher returns, according to the risk exposure, on their capital.

To survive in the harsh competition for customers and capital, the focus must be on business activities that create value. This means that insurers must manage their companies in a value-oriented manner.

Value generation in the insurance industry

A precondition for value-generating company management, however, is the presence of an adequate concept of value. As, at the present moment, such a concept is by no means either clear or uncontroversial, we will here describe the concepts of value being applied at this time. The concepts of value all have in common the fact that three influencing factors are used to determine them: underwriting result, investment result and capital costs. Today the view is becoming more prevalent that insurance companies essentially create value by profitable new business and efficient management of capital costs, with management of investments being only second in priority. This view may be illustrated by a theoretical exercise comparing an insurance company with an investment fund:

An insurance company may be interpreted as an investment fund financed by outside capital; its capital does not originate from the capital markets, but from the sale of insurance policies. Insurers invest the premiums received in the capital market until they are to be paid out in the case of a claim.

When investing their capital, insurers have a competitive disadvantage compared with investment funds, both in respect of company supervisory legislation and tax legislation. Insurers cannot freely invest their capital, but are subject to company supervisory legislation conditions regulating the type of investment and minimum capital. In addition, compared with an investment fund, investors of an insurance company

are doubly taxed – on the one hand at the insurance company's pre-tax profit level and on the other at the investor's dividend income level. An insurance company therefore has a more difficult task in creating value in its investment activity.

In obtaining funds, on the other hand, insurers have a competitive advantage in that they are able to take up their funds from the insurance market, which is less transparent and subject to control compared with the capital market. The inefficiencies of the insurance market enable the insurers, in principle, to sell insurance policies at prices that are above their costs of production. By this means they create value. The insurance companies are able to exploit this competitive advantage because they are in a position to pool cover for risks in a more cost-favourable manner than alternative pooling agreements. Insurance policy purchasers are therefore prepared to pay an extra charge.

This extra charge, or franchise value, reflects the cash value of the future value creation expected by the investors. The value drivers of insurance companies, therefore, lie in their capacity for maximising the franchise value. This means that profitable new business, i.e. new business in excess of production costs, represents an important value driver.

Value is further driven by the management of capital costs. Insurance company shareholders, in addition to a risk-adequate return on their investment, also demand a reimbursement of costs arising from the insurance-specific competitive disadvantages. These are the result of so-called friction costs, which in essence consist of compensation for the lack of transparency and control in the insurance market compared with the capital market, of supervisory restrictions and of double taxation at the investor level.

Insurance companies create value if their returns exceed the capital costs of an investment fund (taking outside financing into account) plus the friction costs.

Existing value concepts

Various instruments are available for value-oriented management. These include embedded value, fair value and risk-adjusted capital (RAC), as described in Figure - 1.

Embedded Value

Embedded value is particularly widespread in the life insurance area. This value concept, when used to manage business, takes into account not only a single annual period, but the whole period of validity of the individual insurance contracts. It is based on statutory accounting systems. Embedded value is made up of the sum of:

- Adjusted net asset value;
- Cost of capital; and
- Present value of future profit.

> When investing their capital, insurers have a competitive disadvantage compared with investment funds, both in respect of company supervisory legislation and tax legislation. Creating value in investment activities is therefore more difficult.

The adjustments in the 'adjusted net asset value' in essence represent taking hidden reserves on the asset side into account.

In this model, capital costs are created by the need to have capital available within the framework of the solvency regulations for which the market return expected by the shareholder cannot be achieved. The difference between this market return and risk-free interest determines the annual capital costs. If these annual costs are discounted, the result is the so-called 'cost of capital' as a cash value.

'Present value of future profit' is the cash value of expected future profits of the insurance company's existing business. Here, too, the annual statutory profits are estimated on a policy basis and discounted. The discount rate is frequently calculated using the 'capital asset pricing model,' which measures the insurance industry's risk premium against risk-free investment.

'Present value of future profit' minus 'cost of capital' may also be seen as a correction of the generally carefully calculated technical reserves (mathematical reserves). If this

FIGURE 1 - Existing approaches for value-oriented management

Approach	Targeting and function
Embedded value	Adjustment of statutory evidenced capital by paying out hidden reserves in the assets and liabilities and taking into account the profits or losses to be expected in future from the existing portfolio and the capital costs. The value contribution can be measured as a relative change to the equity approximated in this way.
Fair value	Equity is determined based on the difference between market value of the assets and market or 'fair value' of the liabilities. The value contribution is measured based on the relative changes to the equity determined according to the principles of a 'true and fair view'.
Risk-adjusted capital	The equity requirement is determined based on risk considerations such as the risk of liquidation or the investment risk. The value contribution may be measured by a risk-adjusted return, in which profit is compared with the costs of the linked risk capital.

Source: PricewaterhouseCoopers

difference is deducted from the statutory reserves, the result is a reserve requirement that is sufficient to cover the liabilities arising from the insurance contracts. Taken together with the 'adjusted net asset value', the 'embedded value' can therefore be interpreted as an approximation of the 'true equity'. If success is measured as a relative change to embedded value, this results in company control by changes to the equity. This 'embedded value' based equity control is also known as control according to 'return on capital employed' (ROCE).

Fair Value

'Fair Value' is understood as an evaluation close to the market. The fair value principle also is, in the end, about determining the value of equity. The difference is that in 'fair value' equity is determined differently from embedded value. Instead of being estimated directly, equity according to the fair value principle is defined as the difference between market value of the assets and market or fair value of the liabilities. Here, too, management consists of measures to increase equity, or rather the returns on it, and success is measured as relative changes to the equity. Fair value evaluation may be applied both in the life and non-life insurance sectors.

RAC

'Risk-adjusted capital' (RAC) is a type of equity and is, in principle, defined as the amount that would, with a high degree of probability, be sufficient to meet all liabilities arising from signed insurance contracts. The range of variations is very wide, both with regard to naming and to methodology in detail. The time element in particular must not be disregarded: in non-life insurance business, the risk generally ends not with the expiry of insurance cover, but with the settlement of all claims that have arisen. Risk capital can also be assigned to capital investment activities, often with a 'value at risk' approach. This is of great importance for life insurance, because the risks of capital investment often exceed the underwriting risks.

An adequately determined risk-adjusted capital is therefore a suitable foundation for value-oriented management. If, for example, the profit (on a net present value basis, including claims in non-life insurance) is divided by the risk capital, the result is the return on risk-adjusted capital (RoRAC). The use of such figures within an insurance group should lead to high-risk business necessarily giving a greater return, and to capital in the first place being made available to transactions with the best risk-return relationship. In addition, the risk capital provides the information as to whether the available equity is sufficient to meet the liabilities undertaken, taking the risk into consideration.

The embedded value approach has the advantage of being comparatively widespread among life insurance companies and that largely uniform standards apply regarding the method of calculation; there is also a corresponding level of experience.

Evaluation of various approaches

The embedded value approach has the advantage of being comparatively widespread among life insurance companies and that largely uniform standards apply regarding the method of calculation; there is also a corresponding level of experience. The disadvantage of the embedded value concept lies in the fact that it is primarily designed to deal with existing policies and allows for hardly any conclusions to be drawn regarding the profitability of individual products.

This applies particularly because, as a rule, the allocation of capital investments and the future capital income calculated on this basis take hardly any account of investment opportunities in the concluding year in question. This gives a false impression, in particular of the profitability of products compared with single premium policies. In addition, the problem of the alignment of the necessary regulatory capital with the discount rate is by no means solved.

The fair value approach does not have these problems as part of the concept because it is strictly based on market values and therefore evaluates liabilities also in market terms. As the profits or losses become due in essence at the time of sale, this principle represents inherent profit testing and for this reason enables value-oriented control at product level.

The disadvantage of this concept is that hardly any experience of using it is currently available and implementation is complex if only because reference throughout is not made to statutory data, but to estimated future cash flow forecasts. Lastly, the application of the fair value model to major products, in particular the classic capital-forming products with profit participation, has not as yet been finally clarified.

In the fair value approach there are also no explicit risk estimates. It may be argued that the risk capital costs are included in the market value of the liabilities. However, the essential condition of the existence of such a market price is by no means always met. Given that in non-life insurance:

- The volatile nature of settlement and the risks connected with it are of central importance; and

- Efforts tend more towards the separation of investment and underwriting income.

The route taken here is via risk-adjusted capital.

For the RAC approach, on the other hand, methodological difficulties and also the expense of calculation and accounting must not be underestimated. Even today there is no generally acknowledged procedure for calculating risk capital. Modelling the interdependency of stock exchange rates, natural events and 'man-made' catastrophes is a hard nut to crack, and not only since September 11. Risk capital varies enormously according to the assumptions made. This means that the use of this method can itself become a risk: mistaken decisions can be caused by faulty models.

RAC and similar measurement values are hard for laypersons to understand due to their complexity and limited comparability. Nevertheless, this is a reasonable approach and may in the end develop into an important element of value-oriented management in the insurance industry.

Benefits and areas of application

It has been stated that value-oriented management is a condition for an analysis of internal value creation processes and value drivers. Value orientation helps in the clearer recognition of competitive advantages (see Figure 2 below).

In addition, orientation based on a scale of value offers a foundation for decisions on strategy and for allocation of capital to those areas of business that provide the best value contribution. It is therefore possible to provide better quantitative support for decisions regarding assignment of capital for financing the internal or external growth of an area of business or withdrawing from one.

The value-oriented management approach may, finally, be linked with management incentive programmes. This allows a consistent system of incentives to be built up which will harmonise the interests of capital providers and management with regard to the objective of creating value. For example, success-dependent remuneration could be linked to a target return on a risk-adjusted equity value. Such a remuneration concept oriented towards value creation may be applied not only in top management but also, for example, in sales. It is important here that the scale of value is transparent and accepted as fair.

For the Risk Adjusted Capital approach methodological difficulties and the expense of calculation and accounting must not be underestimated. Even today there is no generally acknowledged procedure for calculating risk capital.

A peek into the future

As the basic philosophy of the fair value approach is very close to that of the embedded value concept, development of embedded value along the lines of fair value measurement can certainly be envisaged. As on the other hand measurement of profitability at product level is essential for value-oriented management of business, it would seem that at least in theory the fair value concept is more promising for the future. Profitability at product level is inherent within it. Risk capital related figures also have their place within the fair value approach, for instance in the evaluation of risk capital costs if market prices are lacking. In addition, the risk capital approach provides a test for the sufficiency of equity.

Finally, the shareholders' return expectations determine the capital costs, and the return is dependent on risks. Only by setting out the risk capital figures is it possible to show whether the return as required by the shareholders is in a fair ratio to the risk.

Because value-oriented approaches not only create increased transparency for the investor, but also allow management to manage the insurance transactions more efficiently, it is likely that the application of these approaches will increase.

FIGURE 2 - Opportunities for the application of value-oriented management

Area of application	Targeting and function
Strategy development	Recognition of value drivers and competitive advantages
Strategic planning and control	Foundation for capital allocation decisions
Company	Foundation for decisions on internal or external growth, exit and make or buy decisions
Management incentive programmes	Coherent incentive system as a foundation for variable management remuneration

Source: PricewaterhouseCoopers

The authors work with PricewaterhouseCoopers in the following capacities: Michael Köhler is Director - Leader Actuarial Services, Pascale Güllner is Assistant Manager - Corporate Finance, Zurich Michael Knoll is Director - Corporate Finance and Stefan Zumsteg is Senior Manager - Actuarial Services, all based in Zurich.

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Report Card:GENERAL

January growth at 18.5%*

G. V. Rao

For the first time since the IRDA Journal began reporting on the non-life industry premium performance on a monthly basis, it has had to go to the press furnishing an incomplete picture of the statistical information, this owing to the failure of New India and National to submit their premium statistics*. These two insurers had lost momentum slightly in their premium accretion in December 2004; and market watchers were keen to find out if January 2005 was going to be a better month for them. Now they have to wait a month longer to know how these two majors have performed in January 2005.

How does the January 2005 performance measure up despite this serious drawback?

Performance for the month January 2005

The industry premium grew (minus New India and National) by Rs. 136 crore to reach Rs. 869 crore (18.5 per cent). The new players alone grew by Rs. 132 crore (61 per cent) to reach Rs. 347 crore and the three established players, including ECGC, grew by Rs. four crore (one per cent). to reach Rs. 521 crore.

United India has recorded a fall of Rs. six crore in its monthly renewals, a persistent feature in the last few months. This has pushed it to occupy the fourth rank among the established players. Oriental, the only other player that has furnished the January monthly data has recorded Rs. 11 crore increase (five per cent). ECGC has retained its renewals.

The new players have continued with their established pattern of high growth rate of 61 per cent. ICICI and Bajaj, as usual, are the two star players here, with an accretion of Rs. 49 crore and Rs. 46 crore respectively. The next ranked player IFFCO has recorded an accretion of Rs. 19 crore. These three players have contributed 86 per cent to the overall accretion of Rs. 132 crore. The rest of the private players have reasonably done well but the accretion of each is in single digits.

Had the premium performance data had come in from New India and National, would it have made any

GROSS DIRECT PREMIUM (within India) JANUARY, 2005

(Rs.in lakhs)

INSURER	PREMIUM 2004-05		PREMIUM 2003-04		GROWTH OVER THE CORRESPONDING PERIOD OF PREVIOUS YEAR
	FOR JAN '05	UPTO JAN '05	FOR JAN '04	UPTO JAN '04	
Royal Sundaram	3,000.00	27,000.00	2,463.00	21,133.00	27.76
Tata AIG	3,715.69	38,637.85	3,146.82	30,049.40	28.58
Reliance General	956.65	14,663.73	821.71	14,521.74	0.98
IFFCO-Tokio	4,719.68	40,378.05	2,837.23	26,532.34	52.18
ICICI Lombard	10,321.66	75,213.90	5,358.20	40,362.63	86.35
Bajaj Allianz	9,254.31	70,161.92	4,745.03	38,502.49	82.23
HDFC Chubb	1,455.10	14,297.95	1,244.26	8,393.92	70.34
Cholamandalam	1,321.39	14,505.40	900.33	7,645.05	89.74
New India *			31,117.00	3,22,949.00	
National *			31,318.00	2,83,911.00	
United India	22,595.00	2,47,362.00	23,270.00	2,56,420.00	-3.53
Oriental	25,142.00	2,56,503.00	24,003.00	2,36,864.00	8.29
ECGC	4,385.81	41,414.62	4,477.50	35,501.55	16.66
TOTAL	86,867.29	8,40,138.42	1,35,702.08	13,22,786.12	

* The current year's business numbers have not been furnished by the two insurers. The insurers have been asked to explain reasons for non-submission.

significant difference to the monthly growth of the industry? It is interesting to speculate. With their monthly renewal premiums base being large, achieving a meaningful monthly growth rate to push the growth rate of established players, as a whole, would have been a difficult proposition. But who can tell?

Performance up to the month of January 2005

The industry's premium up to the month, barring that of New India and National for both the years for correct comparison, was Rs. 8,401 crore with an accretion of Rs. 1,242 crore (17 per cent). The private players have contributed Rs. 1,077 crore and the three established players, including ECGC, have contributed Rs. 165 crore (3.12 per cent). United India's premium is down by Rs. 90 crore to Rs. 2,474 crore and Oriental is up by Rs. 196 crore (8.3 per cent). ECGC is up by 16.6 per cent.

ICICI with an accretion of Rs. 349 crore (87 per cent) leads the private player brigade. Close on its heels is Bajaj with an accretion of Rs. 316 crore (82 per cent). IFFCO with an accretion of Rs. 139 crore (52 per cent) follows the established pattern. Tata AIG has an accretion of Rs. 86 crore (29 per cent). Royal, HDFC Chubb and Cholamandalam have accretions of around Rs. 60 crore each. Reliance has a small accretion of Rs. two crore.

Outlook

The established players have their task cut out in enhancing their premium earning capabilities. With United India under pressure to reverse the persistent negative growth trends and Oriental showing a very moderate growth, the burden of leading the established players to a higher growth rate is cast heavily on the two industry giants, New India and National, to spearhead the growth rates. If their performances too turn out to be of a moderate range, the clear winners in the competitive game are the private players, who seem to have devised a well-oiled formula for success. They seem almost unstoppable at the moment.

The private players have clear-sighted goals to pursue. With brokers likely to gain a slightly upper hand in winning corporate Fire and Engineering renewal accounts from April next, the prospects for the established players to retain their renewal, accounts will be a little more difficult. With pressures of competition from private players mounting and the independent distribution channels joining the competitive queue, the new leadership of the established players couldn't have expected more testing times. But then, new leaders always come in with more purposeful vision and ideas. Hopefully, their time has arrived now to change the fortunes of the established players.

The author is retired CMD, The Oriental Insurance Company Ltd.

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  - प्रार्थना करने पर सर्वेक्षण रिपोर्ट की नकल देनी होगी.
- आवश्यक दस्तावेज मिलने की तारीख से 30 दिनों के भीतर जीवन बीमा का दावा अदा कर देना होता है.
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IMAGEADS IRDA/06/2003-HN

आप इस विज्ञापन को अपने आंतरिक प्रकाशन में बेहियक मुद्रित कर सकते हैं

Managerial autonomy for general insurers

Following the announcement of a package of managerial autonomy for public sector banks, it is reported that the Union Finance Ministry plans to dismantle the uniformity in wage negotiations for the four public sector general insurance companies. The ministry is understood to be in its talks with the General Insurers' Public Sector Association of India.

Once the package is cleared, any decision taken by one of the four companies will not be binding on the other three – employees of one state insurance company may not necessarily get the same hike as their counterparts in others. "The trend is quite clear now. The finance ministry wants to begin addressing the autonomy issue from the most sensitive aspect — labour," an industry observer is reported to have said.

LIC is also expected to get some level of managerial autonomy, though this would involve amendment to the LIC Act, senior executives were quoted as saying.

Sections 48 and 49 outline the Government's powers to decide the terms and conditions of employment, both in terms of employees and insurance agents. This is proposed to be modified.

Under the Insurance Act 1938, individual insurance companies are permitted to decide wage revision separately, without it being binding on all. The wage revision of the four state-owned general insurance companies is due since August 2002.

Executives of New India Assurance Company, one of the four general insurance outfits, said the management had offered a hike of 8.5 per cent, which would add about Rs. 84 crore monthly to the wage bill for the four companies. State insurance company employees, however, have rejected the offer. The trade unions want a much higher salary hike.

Regulate us, say financial planners

The Association of Financial Planners has approached the Finance Ministry with a proposal to establish a self-regulatory organisation for advisers, it is reported.

The association has sought an investor-centric framework. "We are talking to ministry officials on the issue and have presented certain recommendations for the forthcoming budget for the industry," Ranjeet S. Mudholkar is quoted as saying. "There are regulatory frameworks in developed countries which guide financial planners. However, in India, financial planning profession is yet to gain popularity."

In the evolving financial services market, there are too many unqualified 'planners'. "It is important to distinguish between advising and selling. There should be a minimum certification standard for a financial planner and a product seller," he said.

The recommendation also suggests compulsory disclosure of commissions paid to financial planners, agents or advisers of mutual funds and insurance, it is reported.

"That way an investor, who subscribes to a product, will be aware of the commission being charged by his distributor or adviser. This will lead to greater transparency in the product distribution process," said Mudholkar.

The association expects a mandate to act as the self-regulatory organisation. "We are ready to work closely with the Government and establish a controlled atmosphere for the functioning of the financial planners," he added.

In recent years, a number of countries — developed and developing — have made attempts to better align their financial supervisory and regulatory architecture to the changing landscape. Some have opted for a unified regulator (UK, Japan, Korea, Canada) or a unified oversight board (South Africa) or a unified supervision model. These countries' experiences show that there is no single ideal structure for financial supervision and regulation. Issues relevant to supervisors in large countries may not be as important to smaller nations, where issues such as concentrated ownership, concentrated wealth and foreign ownership of financial institutions are more critical.

The proposed ISO standards for personal financial planning, in addition to regulation and professional designations, may achieve a more universal approach to what consumers can expect in the quality of advice and service provided by financial planners, it is learnt. These standards are likely to be finalised by November 2005.

SEBI TO SYNC WITH OTHER REGULATORS

Stock market regulator, Securities and Exchange Board of India (SEBI), plans to interact more closely with other regulators, including IRDA, the Reserve Bank of India, and agencies like the Enforcement Directorate, the income tax department and the Central Bureau of Investigation, it has been reported.

A proposed reorganisation at SEBI, forming a cadre of senior officials drawn from various industries, will ensure that the regulator works in closer tandem with other regulators, especially the RBI. Too often, the two regulators (whose areas of jurisdiction frequently overlap) have been found to be working at cross purposes with each other, it is reported.

Insurance sector needs hike in FDI cap: Economic Survey

Liberal foreign direct investment (FDI) policies have been successful in transforming several segments of the Indian economy, and there is a need to enhance FDI caps in other sectors like insurance, says the Economic Survey 2004-05.

Released ahead of the presentation of Budget 2005-06, the survey calls for greater FDI in sectors including insurance, coal mining, real estate and retail trade. However, the Left parties that extend support to the ruling Congress-led United Progressive Alliance (UPA) coalition are opposed to the Government's move to hike FDI in the insurance sector from the current 26 per cent to 49 per cent.

"While trade liberalisation, introduction of greater competition and liberal foreign investment policies have succeeded in transforming several segments of Indian manufacturing into globally competitive entities, there exists a strong case for revisiting the issue of caps in other sectors," the survey said. It said FDI in retail would not only organise a significant part of the largely unorganised domestic retailing, but also invite established global retail brands into the Indian market, thereby creating greater outlets for sourcing and marketing products.

While net FDI flows increased only marginally (by around $200 million) during 2003-04, they increased from $771 million in the first quarter of 2004-05 to $1.3 billion in the second quarter.

However, the report pointed out a worrying decline in net FDI flows since 2002-03 when the country received $1.8 billion in investment, much higher compared to the $1.3 billion received during the current fiscal.

LEGAL ISSUES IN MEDICAL TRANSCRIPTION

Indian business process outsourcing (BPO) companies that focus on medical transcription may find it hard to capture business in the $800-million US healthcare market, it has been reported. Medical transcription is the process where the prescriptions given by busy doctors in the US are transcribed by call centres in countries like India to save on transcription costs.

Currently, the healthcare organisations in the US outsource functions like customer acquisition and imaging services, claims processing and disease management.

One of the biggest hurdles that BPO companies in India face is the absence of a law on medical transcription. In the absence of data protection law, US hospitals and insurance companies are reluctant to provide work to Indian BPOs. Countries like the Philippines and Luxembourg, on the other hand, have strong legal frameworks for medical transcription.

In addition to the domestic laws, the healthcare outsourcing service providers need to ensure compliance with foreign regulations. In 1996, the US enacted a Health Insurance Portability and Accountability Act (HIPPA) and Enactment of Data Protection Act 1978. These Acts not only stipulate the way for standardisation of the format to maintain health records but also provide penalties for those misusing the data.

Pawan Duggal, a senior Supreme Court counsel and cyber-law expert, is quoted as saying: "Indian firms need to ensure compliance with HIPPA as non-compliance on their part can expose the principal client company to litigation and penalty in the US. Medical transcription service providers in India, when contracting with US clients, also need to fulfil the mandatory requirements of the first-ever federal privacy legislation to protect a patient's medical records. These standards provide health insurance coverage for workers and their families when they change or lose their jobs."

The norms allow patients to see and obtain copies of their medical records. The authorities have to provide access within 30 days. Notice of privacy practices, covered health plans, doctors and other healthcare providers must inform patients on how they use the personal medical information and their rights under the new privacy regulations. This is not available in India.

While HIPAA and its standards are applicable to health plans, pharmacies, doctors and other covered entities have to establish policies and procedures to protect the confidentiality of protected health information about their patients.

Whenever an Indian vendor provides medical transcription service to an American hospital or clinic, it needs to inherently protect the confidential patient information and the data it receives for the purposes of back-office processing.

VAT A HURDLE TO EUROPEAN INSURANCE OUTSOURCING

European insurance companies outsourcing their back-office operations to Indian enterprises could face a huge tax liability on removal of exemption of value-added tax (VAT), it is reported. The move will negatively impact the insurance business outsourced to India and the rest of the world, it is reported.

Insurance companies located in the EU are exempted from paying VAT, as governed by article 13(B)(a) of the Sixth EU Directive. On January 12, 2005, the advocate general of the European Court of Justice delivered his opinion regarding the Andersen Case (Arthur Andersen), which concerns the VAT status of back office activities provided to Universal Life, an insurance company in the Netherlands. The advocate general stated that the activities are neither out of scope of VAT, nor qualify as VAT exempted insurance transactions.

"The removal of the exemption would be a major threat, and could become applicable for UK insurance companies since the Netherlands has taken the lead. A VAT of 17.5 per cent in UK, would result in our losing the margin differential," Mr. R. K. Ragan, Managing Director, Prudential Process Management Services (PPMS), is quoted as saying.

The UK has currently given a fairly wide scope to the VAT exemption to insurance related services, thereby encouraging the trend for UK insurers to outsource such services.

Apart from Prudential Plc, players like Aviva have outsourced operations to India and Standard Life Plc is equally looking at the option today. Should the European Court of Justice remove the exemption given to insurance companies today, the sector will be forced to reconsider their outsourcing business models, as an additional VAT cost could ruin the business case for outsourcing.

To remove the distortions caused by exemptions in the field of tax, the European Commission is considering introducing VAT for financial and insurance services. The services provided to the insurance company included acceptance of requests for insurance, handling of requests for amendments to the insurance policies, handling of claims, termination of insurance policies, calculation and payment of commissions to insurance agents, design and management of IT systems.

Prudential is saving 16 million annually following its outsourcing or as its group chief executive, Mr. Jonathan Bloomer, said: "it is more an offshore centre for our UK operations".

According to an international news site, if the exemption is withdrawn, insurance companies will immediately be concerned about their current outsourcing contracts.

SC beeps a stern 'No' to telemarketers

The telemarketing scenario in India is set to undergo dramatic changes, following a Supreme Court notice that such activities are often a violation of the right to privacy, and need to be curbed.

Harsh Pathak, a Delhi-based lawyer, sought the Supreme Court's intervention through a PIL, as he was perturbed by frequent unsolicited calls from telemarketers. The apex court issued notice to the Centre, Law Ministry, cellular operators Hutch, Reliance, Idea and Bharti and multinational banks, including ICICI, Standard Chartered and HSBC, directing that the right to privacy be honoured. Though the Constitution by itself has not identified this right, there are Supreme Court judgments making it amply clear that "right to privacy would certainly include telephone conversation in the privacy of one's home or office," Pathak is quoted as saying.

The petition says the International Covenant on Civil and Political Rights, 1966, to which India is a signatory, says no one shall be subjected to unlawful interference with his privacy. The Indian Telegraph Act has a provision — no telephone shall be used to disturb or irritate any person.

"In USA, they have the Telephone Consumer Protection Act of 1991 and the Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994," says Pathak. In addition, they have a 'Do Not Call' Register to help those harassed by unsolicited calls.

The writ petition has also requested the SC to prohibit telephone companies from transferring subscriber's data for commercial purposes.

This may be regarded as the first step towards addressing privacy-related issues in India," said Mr. D. P. S. Seth, a member of Telecom Regulatory Authority of India, reacting to the Supreme Court notice. Preventing unwanted calls for offers on loans, insurance, bank accounts or credit cards may be neither easy, nor quick, it has been reported. Developments in other parts of the world may serve as a precedent for Indian cellular phone users. The American 'Do Not Call' registry was inaugurated last June to allow subscribers to opt out of calling lists. The lists were operational in October.

Life insurers set for steady growth

The global market value of the financial services industry rose 19 per cent to a record $7.5 trillion in 2004, according to consulting firm Mercer Oliver Wyman's annual *State of the Financial Services Industry* survey. The survey of top industry executives also revealed that anticipated growth in 2005 could outpace the growth of the global economy by as much as five times.

The report, presented at the World Economic Forum in Davos, Switzerland, has analysed shareholder performance and surveyed chief executives in financial services, concluding that the global financial services industry "should remain on pace to triple in value between 2003 and 2013.

Mercer Oliver Wyman, an affiliate of insurance broker Marsh & McLennan Cos., found in the report that the financial services industry saw earnings grow 24 per cent in 2004, despite the potential dampening effects of interest-rate uncertainty, a weak US dollar and doubts over the sustainability of economic recovery. Sustained growth in revenue, improved cost-to-income ratios and strong credit quality contributed to the industry's overall market value of $7.5 trillion, which is equivalent to 24 per cent of global market capitalisation. According to executives, what stood out in particular was how well the life insurance industry was doing. A lot of demand in the life industry was observed to have been fostered by the growing demand for wealth protection and retirement-savings products.

The life industry was noted to have excelled in wrapping its products with protection elements that differentiate them from other plans such as mutual funds, which do not protect against risks associated with market downturns.

The report found that strong global performance among insurers "masks continued divergence on either side of the Atlantic." Among the top 25 per cent of insurers in terms of performance, 95 per cent are North American, while 73 per cent of those in the bottom quartile are European. US life and health insurers, notably Prudential Financial Inc. and UnitedHealth Group Inc., represent nine of the top 20 insurance performers.

In terms of regional markets, innovation in life insurance products is most evident in North America, where the sophisticated, well-developed market drives constant demand for new solutions. The Asia-Pacific region, although growing at a faster rate, is still in an earlier stage of development, with more basic types of products. In Europe, innovation is not as dynamic as in North America, but the risk-management strategies surrounding life products are developing rapidly.

The property/casualty industry is not growing as robustly as life insurance, since growth in demand is not as strong.

2004 CATASTROPHES AMONG MOST EXPENSIVE IN RECENT YEARS

US property and casualty insurers paid out a record $27.3 billion to cover the losses from hurricanes and other catastrophic events in 2004 to homeowners and businesses, says Jersey City, New Jersey-based ISO, a company that tracks insurance data. According to ISO, the total surpassed the previous high of $26.5 billion paid claims in 2001, which included the terrorist attacks on New York's World Trade Center and the Pentagon in Washington, D.C.

The company defines a catastrophe as an event that causes $25 million or more in insured property losses and affects a larger number of policyholders and insurers. ISO's property claim services unit recorded 22 catastrophic events last year. "Over 80 per cent of the insured losses were from the five hurricanes that made landfall in the US along the Atlantic and Gulf coasts," the company said.

Hurricane Alex battered North Carolina's Outer Banks in early August. Then Florida and other southern states were hard hit by a series of four major hurricanes - Charley, Frances, Ivan and Jeanne. The last time back-to-back hurricanes hit the US was in 1999.

The ISO said policyholders in 42 states and Puerto Rico filed nearly 3.35 million personal property, commercial property and auto claims from storms as well as wildfires.

Florida suffered the highest insured losses at $18.8 billion, the report said. Other top claims states were Alabama at $1.8 billion, Colorado and Pennsylvania at $715 million each, and Georgia at $660 million. Charley, Frances, Ivan and Jeanne prompted a total of 2.23 million claims from policyholders, with 1.63 million coming from Florida, the ISO said.

Personal data, an object of theft

Companies that compile and sell billions of private records of Americans could face new regulatory pressure in the wake of revelations by ChoicePoint Inc., one of the largest such information brokers, that an identity-theft ring gained access to tens of thousands of its electronic documents.

ChoicePoint, a fast-growing repository of information ranging from driving and property records to insurance claims, said scammers posing as legitimate businesses opened 50 accounts and obtained access to various databases used for pre-employment background checks and public records searches.

The Los Angeles County Sheriff's office charged a 41-year-old Nigerian man, Olatunji Oluwatosin, with six felony counts including identity theft. Oluwatosin pleaded no contest to a single count of unlawful use of personal identification, and was sentenced to 16 months in state prison.

Investigators said they believe data on up to 400,000 people may have been compromised. Police are seeking others involved in the alleged scam. ChoicePoint disputes that number and contends that closer to 145,000 personal records may have been breached, some of them duplicative. The company has notified those consumers throughout the US it believes may be affected. Police are investigating to determine whether the identity thefts resulted in any financial losses.

The incident raises new alarms about companies that sell private data and their growing role as providers of information to law enforcement. Some critics believe the private data brokers have had too little government oversight and that all their databases should fall under regulations that govern credit reports.

HOW TO PROTECT YOUR IDENTITY

- If you use the Internet, make sure your security software is updated.
- Be vigilant against Internet scams, never giving out personal information unless you initiated the contact or you are sure of whom you are dealing with.
- Check your credit reports at least once a year. Contact your credit card companies if you suspect identity theft.
- Do not give out personal information on the telephone to someone who calls you. If you want to buy something online, call the company instead and order over the phone.
- Buy a home shredder and shred all credit card applications that arrive as "junk mail" and all documents containing personal or business information.
- Do not put outgoing mail in your mailbox. It tempts identify thieves.
- If you lose your wallet or purse, call your credit card companies and cancel all accounts.
- While shopping, watch out for people standing nearby who have a cell phone with a camera. They can easily take a clear picture of the information on your credit card.
- When writing a check to pay a credit card account, put just the last four numbers of your account on the memo line. Your credit card company will know the rest of your account number, but it will be protected from others as it passes through the processing channels.

LLOYD'S CHIEF CALLS FOR MANDATORY DISCLOSURE OF COMMISSION

The head of Lloyd's of London, the insurance market, has criticised the UK's financial watchdog, the Financial Services Authority (FSA), for its policy on "disclosure on request."

Mr. Nick Prettejohn, Chief Executive, Lloyd's, said the FSA ought to force brokers to disclose the size of their commissions. It should move from "disclosure on request" to mandatory disclosure, he said. The call came in a speech on improving the London insurance market.

"The FSA should not bide their time and 'wait and see'. They should seize the moment," he said.

The FSA took over regulation of the general insurance sector in January, but it sidestepped calls to require brokers to disclose the commissions they earn from insurers to their clients. It recently gave brokers and insurers guidance on managing conflicts of interest. Brokers must give information on their commissions if, and only if, their customers request it, the FSA said.

In the US, lack of transparency about brokers' commissions has led to problems. The world's biggest insurance broker, Marsh & McLennan, said recently it would pay $850 million to settle charges, raised by New York Attorney General Mr. Eliot Spitzer in October, that it sought to rig bids in conjunction with insurers.

The probe centered around so-called contingent commissions, whereby brokers were rewarded according to how much business they brought to an insurer, an arrangement that did not always benefit brokers' customers. All of the insurance business written in the Lloyd's market is placed via brokers.

SUMMIT

Confederation of Indian Industry (CII) held The 9th Insurance Summit 2005 on the topic 'Optimising the Regulatory Framework' at Hyderabad on February 20.

L to R: Mr. C. S. Rao, Chairman, IRDA, Mr. U. K. Sinha, Joint Secretary, Economic Affairs, Ministry of Finance, Ms. Shobhana Kamineni, Chairperson, CII, Southern Region, Dr. Y. S. Rajashekar Reddy, Chief Minister of Andhra Pradesh and Mr. Analjit Singh, Chairman, CII Insurance Committee and Chairman, Max New York Life Insurance Company.

Essays on Insurance

Birla Institute of Management Technology released the India Insurance Report - Series 1, a reference volume on the insurance industry covering both life and non-life segments.

Launched

Escolife, engaged in insurance training, launched a tabloid monthly newsletter of the same name, aimed at insurance agents.

ESCOL!FE

The ESCOLIFE team has launched a number of new products.

ROUND-UP

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Financial conflicts of interest similar to those at the centre of the Spitzer investigation exist in the sales of group life and health insurance and in some personal policies, such as home and automobile insurance. The arrangements present significant risks for small customers. If large sophisticated consumers can be easily cheated, unsophisticated individual and small business buyers are even more vulnerable.

Research report from Consumer Federation of America (CFA)

Mandatory disclosure is not just about a reaction to Spitzer. It represents the single most effective way of generating positive change in our industry, change that I know the FSA shares our desire to achieve.

Mr. Nick Prettejohn, Chief Executive, Lloyd's of London

When we revealed that there were structural problems within the analyst community, within the mutual fund community, now within the insurance world in terms of how some of these products are being sold, there's a reflexive desire on the part of those who speak for the industry to say it's merely one or two bad apples.... There is an overwhelming dominance of good, honest, hard working people in that sector. But we are finding some evidence of criminality, hence the guilty pleas, the massive fines, the restructurings. My job is to find and root out those problems, and then hopefully we will have an industry that is on an even keel and is doing a better job.

Mr. Eliot Spitzer, Attorney General, New York

The insurance sector has been witnessing a double digit growth, which is around 35 per cent in life and 15 per cent in the non-life segment segment. This growth is expected to continue. The notion that opening up of the insurance sector to private players has weakened PSUs was illogical as most state-owned insurers have grown after 2000.

Mr. C. S. Rao, Chairman, IRDA

The most common complaint we receive from policyholders is that they were not fully explained the terms and conditions of the policy. The grievances relate to lack of transparency over how the premium was fixed, the charges incurred and the type of cover offered.

Mr. T. K. Banerjee, Member (Life), IRDA

Sadly, if you look at the terrible pictures of the towns and homes that were destroyed, it is pretty obvious that very little of that was covered by insurance. The hotels, to a certain extent, were. Lloyd's may pick up a small proportion of that, probably more in terms of reinsurance than direct insurance. The total bill for Lloyd's would be "considerably less" than $1 billion and "probably less" than $500 million.

Lord Peter Levene, Chairman, Lloyd's of London

RNI No: APBIL/2002/9589

Events

3 - 4 March , 2005
Venue: Seoul
Bancassurance & Alternative Distribution Channels in Asia

7 - 12 March , 2005
Venue: Pune
Information Systems Audit
by National Insurance Academy (NIA)

7 - 12 March, 2005
Venue: Pune
Lateral Thinking & Decision Making by NIA

20 - 22 March, 2005
Venue: Taipei
Asian CEO Insurance Summit, Grand Hyatt
by Asia Insurance Review

21 - 26 March, 2005
Venue: Pune
Industrial Relations (Life), by NIA

28 - 31 March, 2005
Venue: Pune
Ethical Values in Human Capital, by NIA

6 - 7 April, 2005
Venue: Singapore
Claims Management with a One Day Workshop on Motor,
by Asia Insurance Review

15 - 17 April, 2005
Venue: Pune
TQM & ISO 9004, by NIA

26 - 1 May, 2005
Venue: Pune
Management of Credit Insurance (Non-Life), by NIA

29 April - 1 May, 2005
Venue: Pune
Ethical Values in Human Capital, by NIA