Volume VII, No. 1

# Journal

January 2009

## Hazards:
The Additional Risk

बीमा विनियामक और विकास प्राधिकरण

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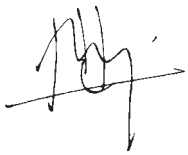
# From the Publisher

Equitability in charging the premium, commensurate with the risk, is the fundamental principle on which the success of insurers depends. In order to accomplish this, insurers subject each proposal to a detailed underwriting. In a hypothetical situation, the payment of claims must also follow a similar trend which however does not happen. A major factor that adds to the complexity in assessing a risk is the presence of hazards. Physical hazards manifest themselves explicitly, one way or the other; and hence can be compensated to a large extent by charging an additional premium.

The one hazard that makes things very complex and poses a big challenge to the underwriting acumen of insurers is Moral Hazard. In view of the fact that it is to do with the mindset of the prospect whose sole intention it is to defraud the insurer, no amount of additional premium would be sufficient to offset the extra hazard. However, it is not an easy task to gauge the existence of moral hazard in a particular application. If insurers play safe and reject every suspicious applicant, it won't be long before they not only lose business to competitors but a great deal of reputation in the market.

It would be foolhardy to expect an individual to take one's own life just because there is some money to be earned. This factor puts moral hazard almost out of reckoning in the case of life insurance. All the same, in order to protect themselves against being taken for a ride, life insurers scrutinize sensitive applications from this angle also. Moral hazard, however, has a huge role to play in several classes of non-life insurance. This is particularly significant in emerging markets where the insured does not attach a great deal of criminality to enforcing or exaggerating a claim. Insurers should, on their part, ensure that no genuine claim is repudiated so that the confidence of the industry is not eroded.

'Hazards in Insurance' is the focus of this issue of the **Journal**. The freedom given to the non-life insurers in policy wording gives them the leverage to customize the product to be in tune with the needs of the industry. 'Customizing the Product in a Detariffed Era' will be the focus of the next issue of the **Journal**.



J. Hari Narayan

# INSIDE

## ISSUE FOCUS





## RESEARCH PAPER

# Underwriting in a Hazardous Domain
## - Upsetting the Vital Balance

In a domain where the awareness levels of the insuring public is not very high, there is a tendency on the part of the policyholder to feel that having paid the premium, there is nothing wrong in making a claim under an insurance policy. The fact that insurance comes to the rescue of the insured 'on the happening of an event' does not appeal to a majority of the masses. This fundamentally leads to the genesis of moral hazard in the insured community. If this is the problem with regard to the retail segment, it is no different in the case of corporate entities except that the scale is very high. In a way, this is one factor that compels the insurer to look at any claim with a discerning eye; and possibly reject, although unintentionally, an occasional, genuine claim, either partially or totally.

The problem of moral hazard is not unique to any particular line of insurance but spreads across the entire industry – the incidence may be higher in a specific class, though. For example: Moral hazard in life insurance is reduced to a great extent for the simple reason that one cannot be lured into making some money by sacrificing one's own life. However, an underwriter has to be careful in guarding against the menace in cases that exhibit extra sensitivity. In the personal lines, two of the most sensitive areas in this regard are Health and Motor. There is reportedly a tacit support in most of the cases from the service providers. The low awareness levels of the public may once again be responsible for such a phenomenon. There is immediate need for arresting such trends in the long-term interests of the industry.

On their part, underwriters have to be on guard at the very initial stages and put a check on perpetration of frauds rather than indulging in a post-mortem at later stages. To be able to screen out all such attempts is easier said than done, but by putting in place checks at various stages, a vast majority of such intended frauds can be arrested. Where a claim has to be rejected either in toto or partially, insurers would do well to explain the reasons for such rejection so that there is an element of transparency. It would certainly contribute to an enhancement of the insurer's reputation in the market. The availability and sharing of data across all the players would contribute a great deal in putting a check on the fraudulent attempts of unscrupulous elements. In the case of physical hazards, underwriters should undertake a proper assessment of the risk at hand; and charge the premium accordingly so that the twin evils of inequitability and adverse selection are kept at bay.

'Hazards in Insurance' is the focus of this issue of the **Journal.** We open the issue with an executive summary of the first occasional paper published by IRDA on the lapsation trends in the Indian life insurance industry. In the first article on issue focus, Dr. G. Gopalakrishna brings in the richness of his vast experience on the various factors associated with moral hazard in life insurance. Mr. G.V. Rao puts emphasis on the dictum 'Behave at all times, as though uninsured' as a remedy for dealing with hazards in insurance. He also has a word of caution for the insurers to refrain from indiscriminate repudiation of claims. In the next article, Mr. Loknath P. Kar elucidates the problem of a high incidence of moral hazard in the domain of Motor Insurance; and what needs to be done to check it. Dr. K.C. Mishra dwells upon the effect of hazards in insurance across all classes; and how they affect the management in several aspects and not just exaggerated claims. Health Insurance is a class where the incidence of moral hazard is very high. Mr. Prateek Priyadarshi discusses the issue threadbare; and argues that widening the client base would be one way of fighting the menace. In the end, we have an article by Mr. Devarakonda V.S. Ramesh who deals with the tricky issue of moral hazard in life insurance.

The second stage of detariffing is effective from the beginning of this year in the form of partial freedom in Terms and Conditions of Coverages. The ensuing 'Customization of the Product' will be the focus of the next issue of the **Journal.**

**The Journal wishes all its readers a very happy and prosperous NEW YEAR 2009.**

**U. Jawaharlal**

# Report Card:LIFE

## First Year Premium of Life Insurers for the Period Ended November, 2008

| Sl No. | Insurer | Premium u/w (Rs. in Crores) | | | No. of Policies / Schemes | | | No. of lives covered under Group Schemes | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Nov, 08 | Up to Nov, 08 | Up to Nov, 07 | Nov, 08 | Up to Nov, 08 | Up to Nov, 07 | Nov, 08 | Up to Nov, 08 | Up to Nov, 07 |
| 1 | **Bajaj Allianz** | | | | | | | | | |
| | Individual Single Premium | 36.98 | 227.46 | 366.77 | 11739 | 57997 | 55272 | | | |
| | Individual Non-Single Premium | 267.68 | 2375.88 | 2712.00 | 190715 | 1564597 | 1978028 | | | |
| | Group Single Premium | 0.63 | 2.42 | 8.13 | 1 | 2 | 0 | 435 | 1946 | 5720 |
| | Group Non-Single Premium | 4.34 | 64.48 | 14.25 | 79 | 414 | 172 | 962125 | 4287358 | 508673 |
| 2 | **ING Vysya** | | | | | | | | | |
| | Individual Single Premium | 1.11 | 18.48 | 14.06 | 156 | 2256 | 1325 | | | |
| | Individual Non-Single Premium | 38.90 | 381.32 | 333.85 | 23275 | 208375 | 201512 | | | |
| | Group Single Premium | 0.78 | 10.84 | 0.81 | 0 | 1 | 0 | 642 | 4121 | 183 |
| | Group Non-Single Premium | 0.19 | 17.09 | 2.44 | 4 | 81 | 15 | 4620 | 44119 | 69276 |
| 3 | **Reliance Life** | | | | | | | | | |
| | Individual Single Premium | 13.79 | 244.01 | 120.95 | 2271 | 60647 | 26017 | | | |
| | Individual Non-Single Premium | 220.27 | 1612.79 | 800.17 | 166701 | 1050964 | 428715 | | | |
| | Group Single Premium | 1.71 | 74.47 | 148.05 | 2 | 19 | 43 | -1586 | 40805 | 68856 |
| | Group Non-Single Premium | 2.47 | 19.37 | 14.70 | 28 | 202 | 169 | 142305 | 486643 | 244401 |
| 4 | **SBI Life** | | | | | | | | | |
| | Individual Single Premium | 29.80 | 350.62 | 636.42 | 7161 | 59242 | 87750 | | | |
| | Individual Non-Single Premium | 232.97 | 1550.48 | 970.33 | 70778 | 447859 | 306301 | | | |
| | Group Single Premium | 30.16 | 160.25 | 127.62 | 1 | 4 | 0 | 28210 | 91823 | 66186 |
| | Group Non-Single Premium | 267.91 | 1230.64 | 113.73 | 12 | 75 | 36 | 459831 | 2963170 | 380758 |
| 5 | **Tata AIG** | | | | | | | | | |
| | Individual Single Premium | 1.99 | 28.93 | 22.81 | 469 | 5924 | 3587 | | | |
| | Individual Non-Single Premium | 63.01 | 527.25 | 415.17 | 57463 | 415398 | 273968 | | | |
| | Group Single Premium | 2.13 | 23.87 | 42.85 | 0 | 7 | 3 | 4574 | 71432 | 255162 |
| | Group Non-Single Premium | 2.22 | 44.55 | 40.35 | 3 | 48 | 45 | 102374 | 229968 | 138897 |
| 6 | **HDFC Standard** | | | | | | | | | |
| | Individual Single Premium | 6.75 | 83.70 | 72.22 | 1858 | 31156 | 182459 | | | |
| | Individual Non-Single Premium | 115.75 | 1487.88 | 1086.22 | 73870 | 510584 | 341849 | | | |
| | Group Single Premium | 6.52 | 54.81 | 41.00 | 12 | 96 | 83 | 11310 | 142487 | 84719 |
| | Group Non-Single Premium | 0.28 | 15.29 | 45.59 | 1 | 8 | 36 | 1799 | 15578 | 31712 |
| 7 | **ICICI Prudential** | | | | | | | | | |
| | Individual Single Premium | 9.45 | 145.93 | 220.72 | 1536 | 25751 | 34838 | | | |
| | Individual Non-Single Premium | 317.74 | 3239.52 | 3196.78 | 201029 | 1620096 | 1490421 | | | |
| | Group Single Premium | 18.78 | 171.58 | 157.64 | 13 | 175 | 130 | 64898 | 464748 | 327090 |
| | Group Non-Single Premium | 31.40 | 691.21 | 306.96 | 5 | 299 | 264 | 17881 | 486576 | 309395 |
| 8 | **Birla Sunlife** | | | | | | | | | |
| | Individual Single Premium | 0.93 | 22.92 | 14.31 | 15172 | 102705 | 46818 | | | |
| | Individual Non-Single Premium | 148.44 | 1355.05 | 827.23 | 110964 | 587579 | 237721 | | | |
| | Group Single Premium | 3.16 | 14.26 | 3.06 | 0 | 1 | 3 | 7448 | 37238 | 3797 |
| | Group Non-Single Premium | 21.23 | 136.14 | 52.60 | 17 | 127 | 86 | 11571 | 148274 | 127641 |
| 9 | **Aviva** | | | | | | | | | |
| | Individual Single Premium | 0.80 | 31.54 | 13.34 | 77 | 3760 | 1973 | | | |
| | Individual Non-Single Premium | 42.96 | 406.98 | 506.88 | 27205 | 220004 | 202807 | | | |
| | Group Single Premium | 0.00 | 0.05 | 1.60 | 0 | 0 | 0 | 0 | 65 | 841 |
| | Group Non-Single Premium | 1.89 | 14.10 | 20.86 | 7 | 51 | 84 | 56291 | 598759 | 432991 |
| 10 | **Kotak Mahindra Old Mutual** | | | | | | | | | |
| | Individual Single Premium | 0.82 | 14.03 | 14.26 | 135 | 1725 | 1914 | | | |
| | Individual Non-Single Premium | 60.21 | 696.83 | 381.90 | 24168 | 361929 | 136503 | | | |
| | Group Single Premium | 2.72 | 23.78 | 14.46 | 2 | 7 | 2 | 8750 | 90206 | 117741 |
| | Group Non-Single Premium | 7.33 | 32.38 | 31.40 | 42 | 253 | 152 | 55920 | 369250 | 306842 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 11 | **Max New York** | | | | | | | | | |
| | Individual Single Premium | 18.41 | 160.67 | 137.77 | 918 | 11098 | 9134 | | | |
| | Individual Non-Single Premium | 107.55 | 989.46 | 630.43 | 85441 | 724840 | 421756 | | | |
| | Group Single Premium | 0.04 | 7.45 | 0.00 | 0 | 10 | 0 | 19284 | 206678 | 0 |
| | Group Non-Single Premium | 0.48 | 13.81 | 29.97 | 2 | 282 | 231 | 3468 | 194326 | 355185 |
| 12 | **Met Life** | | | | | | | | | |
| | Individual Single Premium | 0.54 | 4.09 | 14.57 | 230 | 1459 | 2237 | | | |
| | Individual Non-Single Premium | 56.15 | 579.16 | 315.25 | 19130 | 157343 | 113765 | | | |
| | Group Single Premium | 2.58 | 19.85 | 5.48 | 17 | 91 | 39 | 30498 | 215919 | 129971 |
| | Group Non-Single Premium | 0.00 | 0.00 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | **Sahara Life** | | | | | | | | | |
| | Individual Single Premium | 3.34 | 29.24 | 18.60 | 983 | 7610 | 4850 | | | |
| | Individual Non-Single Premium | 5.91 | 44.81 | 33.09 | 6955 | 51899 | 48120 | | | |
| | Group Single Premium | 0.00 | 0.00 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Group Non-Single Premium | 0.01 | 0.01 | 0.00 | 4 | 6 | 2 | 464 | 542 | 52 |
| 14 | **Shriram Life** | | | | | | | | | |
| | Individual Single Premium | 6.74 | 106.54 | 92.55 | 1097 | 17687 | 17058 | | | |
| | Individual Non-Single Premium | 13.75 | 93.94 | 66.19 | 8158 | 49317 | 40610 | | | |
| | Group Single Premium | 0.00 | 0.00 | 0.02 | 0 | 0 | 1 | 0 | 0 | 1625 |
| | Group Non-Single Premium | 0.04 | 0.28 | 0.00 | 1 | 3 | 2 | 3690 | 14445 | 623 |
| 15 | **Bharti Axa Life** | | | | | | | | | |
| | Individual Single Premium | 0.29 | 3.96 | 0.94 | 56 | 907 | 86 | | | |
| | Individual Non-Single Premium | 19.43 | 152.29 | 34.01 | 14088 | 104166 | 28504 | | | |
| | Group Single Premium | 0.41 | 5.04 | 0.00 | 0 | 1 | 0 | 2121 | 25300 | 0 |
| | Group Non-Single Premium | 0.00 | 0.00 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 |
| 16 | **Future Generali Life** | | | | | | | | | |
| | Individual Single Premium | 0.48 | 1.43 | 0.00 | 87 | 296 | 0 | | | |
| | Individual Non-Single Premium | 4.33 | 15.13 | 0.00 | 4621 | 18483 | 0 | | | |
| | Group Single Premium | 0.03 | 0.03 | 0.00 | 1 | 1 | 0 | 220 | 220 | 0 |
| | Group Non-Single Premium | 1.88 | 9.66 | 0.55 | 2 | 38 | 1 | 30209 | 246835 | 18105 |
| 17 | **IDBI Fortis Life** | | | | | | | | | |
| | Individual Single Premium | 7.17 | 65.14 | | 1110 | 10151 | | | | |
| | Individual Non-Single Premium | 9.64 | 81.86 | | 4419 | 28015 | | | | |
| | Group Single Premium | 0.00 | 0.00 | | 0 | 0 | | 0 | 0 | |
| | Group Non-Single Premium | 0.00 | 0.00 | | 0 | 0 | | 0 | 0 | |
| 18 | **Canara HSBC OBC Life** | | | | | | | | | |
| | Individual Single Premium | 0.53 | 0.54 | | 14 | 18 | | | | |
| | Individual Non-Single Premium | 27.05 | 121.21 | | 2982 | 12361 | | | | |
| | Group Single Premium | 0.00 | 0.00 | | 0 | 0 | | 0 | 0 | |
| | Group Non-Single Premium | 0.00 | 0.00 | | 0 | 0 | | 0 | 0 | |
| 19 | **Aegon Religare** | | | | | | | | | |
| | Individual Single Premium | 0.06 | 0.22 | | 8 | 33 | | | | |
| | Individual Non-Single Premium | 2.87 | 8.24 | | 2599 | 8196 | | | | |
| | Group Single Premium | 0.00 | 0.00 | | 0 | 0 | | 0 | 0 | |
| | Group Non-Single Premium | 0.00 | 0.00 | | 0 | 0 | | 0 | 0 | |
| 20 | **DLF Pramerica#** | | | | | | | | | |
| | Individual Single Premium | 0.00 | 0.00 | | 0 | 0 | | | | |
| | Individual Non-Single Premium | 0.10 | 0.24 | | 166 | 294 | | | | |
| | Group Single Premium | 0.00 | 0.00 | | 0 | 0 | | 0 | 0 | |
| | Group Non-Single Premium | 0.00 | 0.00 | | 0 | 0 | | 0 | 0 | |
| | **Private Total** | | | | | | | | | |
| | **Individual Single Premium** | **139.96** | **1539.45** | **1760.31** | **45077** | **400422** | **475318** | | | |
| | **Individual Non-Single Premium** | **1754.73** | **15720.34** | **12309.50** | **1094727** | **8142299** | **6250580** | | | |
| | **Group Single Premium** | **69.63** | **568.69** | **550.73** | **49** | **415** | **304** | **176804** | **1392988** | **1061891** |
| | **Group Non-Single Premium** | **341.69** | **2289.01** | **673.38** | **207** | **1887** | **1295** | **1852548** | **10085843** | **2924551** |
| 21 | **LIC** | | | | | | | | | |
| | Individual Single Premium | 1169.66 | 8289.81 | 10820.65 | 343899 | 2356822 | 2938711 | | | |
| | Individual Non-Single Premium | 1319.21 | 9447.23 | 13676.29 | 2233249 | 14938541 | 17160319 | | | |
| | Group Single Premium | 857.52 | 7483.58 | 4904.95 | 1943 | 12098 | 13724 | 2703928 | 16956045 | 13281280 |
| | Group Non-Single Premium | 0.00 | 0.00 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **Grand Total** | | | | | | | | | |
| | **Individual Single Premium** | **1309.62** | **9829.26** | **12580.96** | **388976** | **2757244** | **3414029** | | | |
| | **Individual Non-Single Premium** | **3073.94** | **25167.57** | **25985.80** | **3327976** | **23080840** | **23410899** | | | |
| | **Group Single Premium** | **927.14** | **8052.26** | **5455.68** | **1992** | **12513** | **14028** | **2880732** | **18349033** | **14343171** |
| | **Group Non-Single Premium** | **341.69** | **2289.01** | **673.38** | **207** | **1887** | **1295** | **1852548** | **10085843** | **2924551** |

Note: 1. Cumulative premium / No.of policies upto the month is net of cancellations which may occur during the free look period.
2. Compiled on the basis of data submitted by the Insurance companies.
3. # Started operations in September, 2008.

# PRESS RELEASE

December 15, 2008

Raheja QBE General Insurance Company Limited, a joint venture general insurance company promoted by Prism Cements Limited, India and QBE Holdings (AAP) Pty Limited, a wholly owned subsidiary of QBE, Australia has been registered as a General Insurer under Section 3 of the Insurance Act, 1938 with the Authority. The Certificate of Registration (Forms IRDA/R3) has been issued by the Authority on 12.12.08. With this registration, the total number of general insurers registered with the Authority has gone up to 21.

Sd/-
**(C R Muralidharan)**
**Member**

# CIRCULAR

22nd December, 2008 Cir. No. 026/IRDA/SUR/CIR/DEC-08

To

CEOs of all General Insurance Companies

Sub: Loss Survey Limits for Categorized Surveyors

The Authority vide its circular dated 24th May 2003 fixed the financial limits (based on the value of loss as estimated by insurers) up to which surveyor s in the three categories namely A, B and C were permitted to carry out survey / loss assessment work.

The Authority has decided that the insurers may, with immediate effect, have their own internal limits in allocation of survey / loss assessment work to the three categories of surveyor s. For this purpose, every general insurance company shall adopt a policy specifying the internal limits and circulate it to all its operating offices in a transparent manner. A copy of the circular be filed with the IRDA and also displayed on the website of the company.

This is issued with the approval of Chairman, IRDA.

Sd/-
**(Prabodh Chander)**
**Executive Director**

# PRESS RELEASE

December 26, 2008

Star Union Dai-Ichi Life Insurance Company Limited, a joint venture life insurance company promoted by Bank of India, Union Bank of India and Dai-ichi Mutual Life Insurance Company, Japan, has been registered as a Life Insurer under Section 3 of the Insurance Act, 1938 with the Authority. The Certificate of Registration (Forms IRDA/R3) has been issued by the Authority on 26.12.08. With this registration, the total number of Life Insurers registered with the Authority has gone up to 22.

Sd/-
**(C. R. Muralidharan)**
**Member**

# CIRCULAR

Date: 26th Dec, 2008 REF: IRDA/INV/CIR/027/2008-09

To

CEO of all Insurance Companies

Dear Sirs,

Sub: Relaxation in Investment Parameters of Debt / Equity Segment – Reg.

Please refer to the IRDA (Investment) Regulation 2008 notified vide F.No.IRDA/Reg./5/47/2008 dated 30 th July, 2008 published in the 4 th amendment in the Investment Regulation on 22 nd Aug, 2008. The Authority has carefully examined the requests from the industry for certain relaxation to facilitate more investments. With a view to enhancing the flow of insurance

funds to meet the present needs of infrastructure financing and keeping policyholders' interest in view it has been decided to partially amend the requirements insofar as it relates to exposure limits applicable to investments in Public limited companies engaged in 'Infrastructure Sector' and 'Housing Sector'. The limits would apply as under with immediate effect.

The exposure of any insurer to an infrastructure company may be increased to not more than 20% as against the present ceiling of 10% as referred in Reg. 5. The limit would be combined for both Debt and Equity taken together without sub ceilings.

This exposure of 20% can be further increased by an additional 5% (i.e. the aggregate exposure to a single investee company being upto 25%) with the PRIOR approval of Board of Directors. Such additional investments shall however be restricted to debt instruments.

Infrastructure activity shall be as defined under IRDA (Registration) Regulation, 2000 as amended from time to time.

In the case of Debt investments, the duration of investment shall be not less than 10 years and they should have a minimum rating of AA by a Credit rating agency registered under SEBI (Credit Rating Agencies) Regulations, 1999

In the case of Equity investment, dividend of not less than 4% including bonus should have been declared in at least for the 5 preceding years. However in the case of primary issuance of a wholly owned subsidiary of a corporate/PSU, the track record as mentioned above would be applied to the holding Company.

**(C R Muralidharan)**
**Member**

# CIRCULAR

1st January, 2009

Circular No:029/IRDA/ACTL/RSM/2008-09

**To**

**CEOs of Life Insurance Companies**

**Sub: Determination of Required Solvency Margin under Life Insurance Business**

This is further to our recent circular no. 25/IRDA/ACTL/RSM/2008-09 dated December 17, 2008 on the above subject. Given the macroeconomic environment and risk parameters there is a need to utilize the capital optimally with affordable cost so that insurance penetration increases. The Authority has reviewed the solvency margin requirement for the linked business and proposes the following first factor and second factor with respect to linked business in working out the required solvency margin. These factors shall come into effect for the business as on December 31, 2008 and onwards.

sd/
**(R. Kannan)**
**Member**

| Category of business | First factor | Second factor |
|---|---|---|
| **Linked Business** | | |
| **Individual Business** | | |
| **Life Business** | | |
| 11: With guarantees | 1.8% | 0.2% |
| 12: Without guarantees | 0.8% | 0.2% |
| **General Annuity** | | |
| 13: With guarantees | 1.8% | 0.0% |
| 14: Without guarantees | 0.8% | 0.0% |
| **Pension** | | |
| 15: With guarantees | 1.8% | 0.0% |
| 16: Without guarantees | 0.8% | 0.0% |
| **Group Business** | | |
| **Life Business** | | |
| 11: With guarantees | 1.8% | 0.2% |
| 12: Without guarantees | 0.8% | 0.2% |

| Category of business | First factor | Second factor |
|---|---|---|
| **Linked Business** | | |
| **General Annuity** | | |
| 13: With guarantees | 1.8% | 0.0% |
| 14: Without guarantees | 0.8% | 0.0% |
| **Pension** | | |
| 15: With guarantees | 1.8% | 0.0% |
| 16: Without guarantees | 0.8% | 0.0% |
| **Health Insurance** | | |
| **Individual Business** | | |
| Linked business | | |
| 21: With guarantees | 1.8% | 0.0% |
| 22: Without guarantees | 0.8% | 0.0% |
| **Group Business** | | |
| Linked business | | |
| 24: With guarantees | 1.8% | 0.0% |
| 25: Without guarantees | 0.8% | 0.0% |

# CIRCULAR

25th November, 2008

023/IRDA/HI-TPA/CIR/Nov-08

Re: Constitution of Committee for Evaluation of the Performance of the Third Party Administrators-Health Services (TPAs).

In accordance with Sub-Regulation 23 of the IRDA (Third Party Administrators-Health Services) Regulations, 2001, the Authority has constituted a Committee comprising of the following members for "Evaluation of the Performance of the Third Party Administrators-Health Services (TPAs)":-

| S. No. | Name | Distribution |
|---|---|---|
| 1. | Sri S.B. Mathur, Secretary General, Life Insurance Council | Chairman |
| 2. | Sri S.L. Mohan, Secretary General, General Insurance Council | Member |
| 3. | Sri G Srinivasan, CMD, United India Ins. Co. Ltd | Member |
| 4. | Sri Sandeep Bakshi, CEO, ICICI Lombard Gen. Ins. Co. Ltd. | Member |
| 5. | Sri V. Jagannathan, CEO, Star Health & Allied Ins. Co. Ltd. | Member |
| 6. | Sri S. Krishnamurthy, CEO, TTK Healthcare TPA Pvt. Ltd. | Member |
| 7. | Sri Suresh V Karanadikar, CEO, MD India Healthcare Services (TPA) Pvt. Ltd. | Member |
| 8. | Representative of Apollo Hospitals Group | Member |
| 9. | Representative of Wockhardt Hospital Group | Member |
| 10. | Ms. Pusha Girimaji, Consumer Activist | Member |
| 11. | Sri Suresh Mathur, Joint Director, IRDA | Member |
| 12. | Dr. Somil Nagpal, Special Officer - Health Ins., IRDA | Member-Convener |

The Committee will go into the various aspects of the performance of TPAs as per the Terms of Reference given below:-

1. To examine the role of TPAs in the current health insurance market scenario and to make suitable recommendations clarifying their utility to the future growth of the health insurance industry.

2. To evaluate the performance of the TPA system till date, with particular reference to the objectives behind the introduction of the TPA system and specifically with regards to the provision of cashless facilities, data management, timely settlement of claims and reducing claim ratios.

3. To suggest standards of best practices for TPAs.

4. To devised customer service benchmarks for TPAs (including TAT for ID Cards, settlement of claims, etc.) with optimum and maximum time lines for different processes.

5. To suggest minimum skill sets for the TPA personnel, including training in ICD-10 coding, claim and pre-authorization processing, medical and insurance knowledge etc.

6. To suggest any regulatory changes needed in pursuit of the objectives of a robust health insurance system in the country.

7. To deliberate on any other matter as the Committee may consider relevant in the best interests of the future growth of the health insurance market, the insurers and the insuring public.

The Committee shall submit its Report to the Authority by 30th April, 2009.

**(J Hari Narayan)**
**Chairman**

# CIRCULAR

December 17, 2008 Circular No.25/IRDA/ACTL/RSM/2008-09

To

CEOs of Life Insurance Companies

Sub: Determination of Required Solvency Margin under Life Insurance Business

Please refer our circular No.065/IRDA/ACTL/RSM/2007-08 dated March 24, 2008. In the light of the recent developments in financial markets there is an urgent need to emphasize the efficient use of capital and provide insurance products at affordable rates while maintaining the continued safety of the insurance companies so that they maintain solvent at all point of time.

| Category of business | First factor | Second factor |
|---|---|---|
| **Non-linked Business** | | |
| **Individual Business** | | |
| 01: Life Business | | |
| Pure Term | 3% | 0.1% |
| Others | 3% | 0.3% |
| 02: General Annuity | 3% | 0% |
| 03. Pension | 3% | 0% |
| 04. Health | 3% | 0% |
| **Group Business** | | |
| Life: Premium guaranteed for | | |
| 05. Not more than one year | 1% | 0.1% |
| 06. More than one year | 1% | 0.1% |
| 07. General Annuity | 3% | 0% |
| 08. Pension | 3% | 0% |

As you are aware that the computation of the required solvency margin reckons two factors, viz., the first factor which is applicable to the sum at risk.

The Authority has reviewed the position in the above background and proposes the following first factor and second factor with respect to non-linked business in working out the required solvency margin. These factors shall come into effect for the business as on December 31, 2008 and onwards.

With this change, the first factor for other than pure term products is brought on par with pure term products. In addition, the revision of the first factor for general annuity and pension business, both for individual and group under non-linked business would help life insurers to offer more affordable pension / annuity products. It may be noted that there is no change in the factors that pertain to non-linked pure term business and linked business. These changes would help in widening and deepening the market.

**(R. Kannan)**

# 11th Global Conference of Actuaries

The 11th Global Conference of Actuaries (GCA) is being held jointly by the Institute of Actuaries of India (IAI) and International Actuarial Association (IAA) on 12th and 13th February, 2009 at Mumbai. The focus of the conference would be **"Global Frontiers in Risk Management".**

World over, the actuary's role has been identified with such areas as Solvency II, Enterprise Risk Management, Economic Capital, European Embedded Value, Market Consistent Embedded Value etc. More recently, the world has been witness to a great financial turmoil and in these days of globalization, it is very difficult to imagine any country being immune to the effects of such a meltdown. In this background, the 11th GCA assumes a huge importance.

The conference would provide an effective platform for discussing the emerging scenario and the role of the actuarial profession.

| ***Venue*** | ***Dates*** |
|---|---|
| Hotel Hyatt Regency, Mumbai | 12th & 13th February, 2009 |

# Customizing the Product

## Recipe for Long-Term Success

U. JAWAHARLAL WRITES THAT THE PARTIAL FREEDOM GIVEN TO THE INSURERS IN THE AREA OF POLICY WORDING WILL CERTAINLY LEAD TO BETTER PRODUCTS EMERGING IN THE MARKET; AND AN EVENTUAL HEALTHY COMPETITION.

The primary consideration in having a competitive market is that there would be emergence of the best products and the best service that would ensure that customer will be the ultimate winner. In fact, it has been one of the major considerations for opening up the market to private participation during the early part of this century. The flavour of a competitive market has since been largely felt; and one can easily say that we have had the benefit of some of the globally acclaimed products being introduced in the Indian insurance market.

All the same, it has often been felt that despite the opening up of the market, the presence of tariffs in the non-life insurance class greatly stifles the freedom of the operators; and the real purpose for which the market has been privatized is being defeated. For the policy-makers, however, it is a challenge to throw the market totally open to the players when their experience in the field has not been tested. With this background, it was found safer to go for a phased detariffing process and the first phase of detariffing hit the Indian insurance industry in January 2007 with pricing freedom in the hitherto tariffed classes.

The experience with the pricing freedom has not led to any major upheavals and the Indian players have shown the maturity to deal with the process in a dependable manner. The limitations in designing the policies, however, continued to leave a taste of undesirable restraint; and the demand for the freedom in policy wording continued, in order that the most efficient player emerges as the most successful one as well. Going with the cautious approach once again, the freedom in policy wording has been given to the players to the extent of filing variations in deductibles in classes which were under the tariff earlier. The insurers have also been given the freedom, *inter alia,* to file add-on covers, over and above the earlier tariff covers in the classes of Fire, Engineering, Industrial All Risks and Motor (Own Damage) with the necessary additional premiums.

This step in the process of detariffing is sure to go a long way in ensuring that insurers will be able to attune their products to the demands and requirements of the industry; and at the same time use the tool as an efficient medium to boost their market. The brokers will especially have a more dynamic role to play in identifying the needs of the customers and designing the policies accordingly. It would also enhance the process of the client, especially the retail one, making an informed decision; as the policies are going to be designed after a proper negotiation.

'Customizing the Product in a Detariffed Regime' will be the focus of the next issue of the **Journal.** Needless to say that the debate is going to be an interesting one.

Moulding
to Requirement

*in the next issue...*

# Indian Life Insurance Industry

## Lapsation and its Impact

AS ESTIMATION/STUDY OF LAPSE RATE IS USEFUL IN MANY WAYS BOTH FOR THE REGULATOR AND FOR THE INSURANCE COMPANIES, A STUDY WAS UNDERTAKEN TO ANALYZE LAPSES IN THE LIFE INSURANCE INDUSTRY IN INDIA DURING 2002-03 TO 2006-07 FOR INDIVIDUAL LIFE POLICIES. IT WAS DECIDED TO COLLECT THE DATA FROM ALL THE LIFE INSURANCE COMPANIES WITH RESPECT TO SOME FACTORS/COMBINATIONS OF FACTORS, AFFECTING LAPSE RATES. THIS IS A PIONEERING STUDY AIMING AT ESTIMATION OF LAPSE RATES AND RANKING THE FACTORS WHICH AFFECT THE LAPSE RATES.

Estimation / study of lapse rates is useful for i) pricing the insurance products ii) valuation of insurance liabilities, iii) comparison of experience with other countries iv) bench marking industry lapse rate v) as back ground information in product development vi) identification of changing needs of the insured public and vii) identifying the factors influencing the lapse rates and hence the changes required in various pricing parameters including marketing strategies.

**A majority of the companies exceeded the industry average rate (weighted average with weights being premium exposed to risk) by a considerable margin.**

Over the five years of investigation period, industry lapse rate by number of policies increased from 5.62% (2002-03) to 7.8% (2004-05) and decreased to 6.64% (2006-07). However, lapse rate by premium increased from 4.40% to 6.95%, slowly increasing year by year except for a small decrease in 2006-07.

The following are major findings of the study:

The lapse rates for the non-linked products and linked products over the last three years were as follows:

- Lapse rate for seven companies out of sixteen exceeded the industry average (simple arithmetic mean) of 18% (lapse rate by number) and 11.9% (lapse rate by premium amount). However, a majority of the companies exceeded the industry average rate (weighted average with weights being premium exposed to risk) by a considerable margin.
- Assuming that lapse rates across various companies follow a normal distribution with mean lapse rate of 18.1% and a standard deviation of 7.5%, four companies could be considered to have lapse rate in the average range (17.21% to 19.82%), seven companies can be considered to have lighter lapse rate (ranging from 6.93% to 14.66%) than the average range and five companies to have higher lapse rate (23.07% to 35.51%).
- Age at entry, mode of premium payment, duration elapsed since policy inception, policy type and type of underwriting are found to be the most significant factors affecting the lapse rates.
- Lapse rate with respect to age at entry showed a decreasing trend from age group 18-22 to around 60 years and

Lapse rate:

| Duration elapsed in years | Non-linked | | | Linked | | |
|---|---|---|---|---|---|---|
| | 2004-05 | 2005-06 | 2006-07 | 2004-05 | 2005-06 | 2006-07 |
| 0-1 | 22.31% | 18.95% | 6.10% | 24.19% | 41.06% | 13.43% |
| 1-2 | 12.12% | 12.96% | 2.50% | 9.43% | 17.62% | 18.10% |
| 2-3 | 4.51% | 5.94% | 2.18% | 8.73% | 6.10% | 8.78% |
| 3-4 | 3.50% | 4.74% | 5.55% | 2.23% | 2.50% | 3.94% |
| 4-5 | 3.26% | 3.97% | 4.42% | 6.07% | 2.18% | 2.08% |

lapse rate tended to increase from the range below 18 to age group 18-22.

- Lapse rate (by number of policies) with respect to mode of premium payment tended to be higher with the frequency of premium payment and lower for monthly and salary deduction modes.
- Lapse rates are observed to be decreasing with duration elapsed since inception.
- It was observed that the trends in lapse rate with respect to both number and premiums were almost similar to each other.
- With-profit policies showed higher rates of lapse when compared to their non-profit counter parts for endowment and whole life policies.
- Term assurance products showed the highest rate of lapse with respect to both number and premium lapsed (28.27% by number and 18.95% by premium).
- Whole life products showed higher lapse rate than endowment products for with profit policies and converse is observed for non-profit policies.
- Pension policies were observed to show the least lapse rates among all categories.
- Unit linked contracts had lapse rate as 18.09% by number and 10.01% by premium. These were higher than for traditional plans.
- Lapse rate with respect to number in Unit linked products was observed to have increased from 17.80% (2004-05) to 26.09% (2005-06) and decreased to 14.34% (2006-07) while premium lapse rate continued to increase from 4.89% (2004-05) to 11.35% (2006-07).
- Lapse rate with respect to number in traditional products was observed to have decreased from 7.69% in 2004-05 to 6.59% 2006-07 and premium lapse rate decreased from 6.45% to 5.63% in the same period.
- Lapse rates for non-medical policies are observed to be higher than for medical policies.

## Analysis of causes affecting lapse rates indicated the following:

- Revival campaigns seemed to have significant effect in reduction of the levels of lapse rate.
- Low commission in the first year contributes to the lower level of lapses in the following years as the omission is well distributed over the initial period.
- The special incentives (as per product approval conditions) given to intermediaries had significant effect in reducing the levels of lapse.
- Sending copies of notices to intermediaries helped in bringing down lapse rates considerably.
- As all companies had reported sending premium notices in advance, no differences could be analysed on this factor, although this practice is positioned strongly since mid 2004.

## Impact of lapses on reserves and solvency margin

- **For an Endowment type of product (with profits):** (for a typical endowment policy of term 15 years with age at entry of 35 years and sum assured of 25,000/-)

| Duration since inception (years) | Per unit **increase in lapse rate** | | Per unit **decrease in lapse rate** | |
|---|---|---|---|---|
| | Change in statutory reserve | Change in solvency margin | Change in statutory reserve | Change in solvency margin |
| 0-3 | 1.85 | 0.84 | -1.84 | -0.83 |
| 4-7 | 0.31 | 0.22 | -0.41 | -0.29 |
| 8-12 | -0.08 | -0.07 | 0.15 | 0.12 |
| 13-15 | -0.50 | -0.41 | 0.34 | 0.28 |

- Statutory reserve increased with increase in lapses up to seven year duration. After seven years, the statutory reserve decreased with increase in lapses.
- Statutory reserve decreased with decrease in lapses up to seven years. After seven year the statutory reserve increased with increase in lapses.
- Similar was the case with solvency margin. This clearly indicates that lapsation has asymmetrical effects on statutory reserves and on solvency margin.
- The observed changes in reserves might be due to the release of asset share for policies lapsed before acquiring surrender value which could result in increase in the surplus and thereby increase the liability towards existing policies. Hence per policy reserve increased.
- If the policy lapses after acquiring surrender value, no asset share would be released (unless the policy is surrendered) and there is no addition to the surplus from these policies. Hence per policy reserve was less affected.

**Low commission in the first year contributes to the lower level of lapses in the following years as the omission is well distributed over the initial period.**

- **For a Term Assurance Product:** (for term assurance product with term 20 years with age at entry of 35 years)

| Duration elapsed (in years) | Per unit **increase in lapse rate** | | per unit **decrease in lapse rate** | |
|---|---|---|---|---|
| | Change in statutory reserve | Change in solvency margin | Change in statutory reserve | Change in solvency margin |
| 0-8 | 0.00 | 0.00 | 0.00 | 0.00 |
| 9-15 | -0.94 | -0.03 | 0.75 | 0.06 |
| 16-20 | -1.79 | -0.04 | 1.96 | 0.05 |

- For a typical term assurance product, there was no considerable effect of increase/decrease of lapses on statutory reserve or solvency margin in the initial seven to eight years after inception of the policy. This was due to the fact that negative mathematical reserves resulting in the initial years lead to zero statutory reserves and constant solvency margin.
- In the later years of the policy, statutory reserves and solvency margin decreased with increase in lapses and vice versa. The level of change increased with duration.

**For a typical term assurance product, there was no considerable effect of increase/ decrease of lapses on statutory reserve or solvency margin in the initial seven to eight years after inception of the policy.**

- **For a *Unit-Linked* product:** (for an age at entry 35 years with term of 15 years and sum assured of Rs. 2 lakh)

| Duration since inception (years) | Change unit statutory reserve | |
|---|---|---|
| | Per unit increase lapse rate | Per unit decrease lapse rate |
| 0-5 | -0.15 | 0.32 |
| 6-10 | -0.35 | 0.95 |
| 11-15 | -0.78 | 0.57 |

Statutory reserve in respect of non-unit fund decreased with increase in lapses and the level of decrease was higher with duration elapsed since policy inception.

Effect of lapsation on profits of insurance company

- <u>For an Endowment type of product (without profits):</u>
  - For a typical age at entry, higher losses were observed with higher lapses in the first policy year which might be due to heavy initial expenses for which loading has been spread over the term of the contract and high negative asset share.
  - After the first policy year and up to the period during which no surrender value was payable, the profit increased with increase in lapses which might be due to the nil outgo from the company on lapses and the total asset share released the profit to the company.
  - At the first one or two year duration, over which surrender value begins to become payable, the profit for the company increased with lapses but the increase was smaller than that before the surrender-eligibility period.
  - Profit increased even at later durations due to excess of asset share over the surrender value.
  - The rise in profit with rise in lapses increased with duration after the commencement of surrender-eligibility period.

For a typical endowment policy of term 15 years with age at entry of 35 and sum assured of 25000.

| Duration since inception (years) | Change in profit | |
|---|---|---|
| | Per unit increase lapse rate | Per unit decrease lapse rate |
| 0-1 | -7.99 | 4.47 |
| 1-6 | 0.93 | 1.35 |
| 7-10 | 0.91 | 0.92 |
| 10-15 | 0.95 | 0.61 |

**For a typical term insurance product, profits decreased with increase in lapses at almost all durations of the term. The rate of decrease was higher in initial years than in the later years.**

- For a Term assurance product:
  - For a typical term insurance product, profits decreased with increase in lapses at almost all durations of the term. The rate of decrease was higher in initial years than in the later years.
  - The decrease in profits with increase in lapses could be attributed to i) low premiums charged which do not cover the expenses unless received fully ii) increase in lapses resulting from selective withdrawals which tend to increase the average mortality of the remaining policyholders exposed to risk and hence mortality cost increases.

## Recommendation

It is recommended to have a uniform grace period of 30 days for annual, half yearly and quarterly modes, and 15 days for monthly mode; and to consider a policy lapsed if the premium is not paid with in the grace period. (Uniform "Grace Period" and uniform "Lapse Definition" across the industry shall go together.) Policies, for which the premiums are paid after the grace period date may be treated as reinstatements, provided the premium is paid within the revival period of 2 to 5 years, as per insurers' internal practice. Companies may be asked to follow this definition even for reporting purposes to IRDA.

For term insurance product with term 20 years with age at entry of 35 years

| Duration since inception (years) | Change in profit | |
|---|---|---|
| | Per unit increase lapse rate | Per unit decrease lapse rate |
| 0-3 | -0.16 | 0.84 |
| 4-8 | -0.39 | 2.01 |
| 9-12 | -0.23 | 0.37 |
| 13-19 | -0.65 | 0.85 |
| 19-20 | -0.09 | 0.13 |

- ***For a Unit Linked Product:*** (For an age at entry 35 years, Sum assured of Rs.2 lakh and term of 15 years)
  - Higher profit/lower loss was observed with higher lapses in the first three years. However, the level of increase in profits decreased as the duration elapsed which could be low initial allocation rates and high surrender penalties. In later years of the policy term, higher lapses resulted in decrease in profits and the level of decrease increased with duration.
  - Converse was the case with decrease in lapse rate.

| Duration since inception (years) | Change in profit | |
|---|---|---|
| | Per unit increase lapse rate | Per unit decrease lapse rate |
| 0-3 | 0.16 | -0.28 |
| 4-10 | -0.24 | 0.67 |
| 10-15 | -0.71 | 0.57 |

*This is an executive summary of the first occasional paper published by IRDA. The study has jointly been conducted by Dr. R. Kannan, Member (Actuary), IRDA; Mr. K.P. Sarma, Appointed Actuary, Cholamandalam General Insurance Co. Ltd.; Mr. A. V. Rao, Deputy Director (Actuary), IRDA; and Mr. S.K. Sarma, Asst. Director (Actuary), IRDA.*

# Need for Cautious Approach

## Moral Hazard In Life Insurance

DR. G. GOPALAKRISHNA OBSERVES THAT ALTHOUGH IT IS HIGHLY IRRATIONAL TO ATTRIBUTE THE EXISTENCE OF MORAL HAZARD IN LIFE INSURANCE, THE UNDERWRITERS HAVE STILL TO BE CAUTIOUS ABOUT THE POSSIBLE MAL-INTENTIONS OF AN APPLICANT.

In general, the most important question in undertaking a risk for insurance is: what should be the rate of premium to be charged under a policy of insurance? The rate of premium is fixed according to certain principles:

*Firstly*, the premium varies according to the degree of hazard or exposure to loss or damage of the property.

*Secondly*, to assess the variations to the degree of hazard, property must be classified according to the hazards involved.

*Thirdly,* the degree of hazard is determined on the basis of past loss experience.

**Degree of Hazard**: The first principle says that greater the risk, the higher should be the premium. The more probable the loss and the more severe it is likely to be, the higher should be the premium.

There is a greater likelihood of fire in a building of wooden construction than in a concrete building. Hence, the former is charged higher premium and the latter lesser premium. Goods vehicles are more exposed to accidental loss or damage than private cars. Hence the former attract higher premium than the latter.

**Classification of Risks**: The second principle flows from the first principle. It says that the rates of premium should be equitable and fair as between different individuals insured. Strictly speaking, each individual should be charged a premium according to the hazard to which he is exposed. But this is not feasible. Therefore, a system of classification of risks in broad categories is adopted. Accordingly for purposes of premium rating, motor vehicles are classified into private cars; motor cycles and scooters; and commercial vehicles. For fire insurance, risks are categorized into dwellings, shops, godowns, manufacturing risks etc., on the basis of occupancy. Within the broad groups, further sub-division, according to hazards involved, is attempted. Private cars are classified according to the cubic capacity of the engine. Higher the C.C. more powerful the engine and higher the premium. In fire insurance, godowns are classified according to the type of goods stored e.g., non-hazardous, hazardous, extra-hazardous etc. The similarity of hazard is the basis of classification.

**Past Loss Experience**: The third principle says that the rate of premium is arrived at on the basis of past loss experience. Therefore, statistical data regarding past losses is most essential for purposes of calculating rates.

To fix the rates, it is necessary to give a 'mathematical value' to the risks. For example, if the loss experience of a large number of motor cycles is collected for a period of say 10 years, the result will indicate the sum total of the losses resulting from damage to the vehicles. If this amount of loss is expressed as percentage of the total value of motor cycles, we are in a position to fix the mathematical value of the risk.

### Hazards in Life Insurance

The factors affecting risk on the life of

Strictly speaking, each individual should be charged a premium according to the hazard to which he is exposed.

**Moral Hazard in life insurance is of greater and particular importance and significance to the last core whether at all to entertain to consider for insurance.**

an individual are called hazards. Hazards may be (i) Physical (ii) Occupational or (iii) Moral. Physical Hazards are:

- **Age**: As age increases, the probability of death increases.
- **Sex**: Mortality of female lives is seen to be more than that of male lives at younger ages, among the poorer and uneducated sections, especially during child-bearing period.
- **Build**: Build including height, weight, and chest and abdomen measurements, may suggest tendencies towards cardiac and other ailments like diabetes or tuberculosis.
- **Physical condition**: The medical examination of reflexes, blood pressure, pulse rates, urine etc. provides data with regard to the condition of important systems of the body.
- **Physical impairments**: Blindness, deafness, etc. and other conditions, which are not illnesses or degenerative, are hazards affecting the probabilities of death.
- **Personal history**: This is important as pointers to the health as well as the life style of the person.
- **Family history**: This is looked at to see whether there is any hereditary factor that makes the person susceptible to illnesses. Family history of early deaths, of cardiac illnesses or diabetes, could be significant.
- **Occupation:** Extra hazard due to accident, (e.g., Truck driver, Permanent way Engineer, blaster, aviator etc.): affecting health (e.g., Glass blowing, X-ray machine operators); affecting mode of living, (e.g. liquor trade).
- **Residence**
- **Environments**
- **Habits**

Part or certain of these and particularly the last two come under Moral Hazard. By far, Moral Hazard in life insurance is of greater and particular importance and significance to the last core whether at all to entertain to consider for insurance.

**Preliminary:** Life insurance is a long-term contract and a correct appraisal of risk can only be made if the insurance company has before it information on all the factors which influence its decision. But there are certain aspects of risk about which only the applicant has complete knowledge. These facts should be carefully and truthfully recorded in the application. The applicant may for various reasons deliberately hide or distort some information or do so inadvertently. It may be to make a gain upon death. It may be feared that disclosure may result in declination of proposal by insurer. It may be an anxiety to obtain insurance at standard rates. It may be fear of being harassed for submission of hospital or treatment records. It may be fear of disclosure of personal and family matters. It may be a feeling that the facts are not very important. Sometimes field workers in their enthusiasm for business help the proposer in doing so or even make him the victim of their design instead of faithfully acting as the primary underwriter. An agent may, for instance, arrange for an informal examination of the prospect and if some adverse features, say a trace of sugar or albumen in urine or an abnormal blood pressure is noticed the doctor gives some casual instructions about diet and tells him that there is nothing to worry about. After one or two informal examinations prove favourable, a formal examination is done and proposal for maximum possible sum assured secured.

The likelihood of hiding or distorting some information affecting risk appraisal is called *Moral Hazard*. It is said to arise whenever it is within the control of the applicant to increase risk to the insurance company. The underwriter has to exclude the possibility of moral hazard so far as is practicable.

Thus, Moral Hazard in life insurance refers to the intentions of the proposer. If the proposal is being made because there is a genuine need for insurance, there is no moral hazard. If the intention is to seek undue advantage through the insurance policy, there is some moral hazard. The undue advantage may be to get a lower premium or to make some quick monetary gains. This has to be judged largely from secondary evidence like life styles, income as compared to premium payable, reputation for integrity, and so on.

Moral Hazard is not measurable. There is no test to establish it. It is a matter of opinion. If moral hazard is suspected, no

amount of extra premium will be appropriate. Underwriters would hesitate to accept such proposals at any cost. But they would like to be fairly certain before deciding so. Some of the situations where moral hazard can be suspected are when the proposer is old and has not been insured earlier and the proposal is for a large amount; when the proposal is for an amount much larger than what the income would justify; when the premiums under all policies (old and new) are out of proportion to the income of the applicant; when there is request for sudden increase in insurance; (when a person who has all along been obtaining insurance policies for small or moderate amounts suddenly applies for a high sum assured policy, especially at higher ages); when a large amount of insurance is proposed on the life of a family member while the main earning members are not insured or are insured for relatively small amounts; when medical examination is done at some place other than the place of residence, when the nominee is not the nearest dependent of the applicant; when there is an indication that the agent has some interest other than merely his commission; when the proposer is a female who has no income of her own or has a very small unearned income and has no dependents: (in this case apart from the lack of capacity to pay premiums, there may not be any need for insurance).

**The need for insurance has to be related to current situations and not to a desirable situation of the future.**

## Financial Underwriting

One of the indicators of moral hazard is the size of the insurance proposed compared to the income. The extent of insurable interest of a person in his own life is unlimited. It is not limited to his current levels of income, because it is assumed that these levels can go up any time. There is nothing that prevents a petrol pump attendant becoming the biggest industrialist of the country or those sleeping on the footpaths becoming rich film stars. Yet, the premium on the insurance policy has to be paid regularly. If it is being paid from current income, then the source of the premium needs to be checked. If someone else is paying for it, there could be issues of insurable interest and wager. The need for insurance has to be related to current situations and not to a desirable situation of the future. When the premium paid is large compared to the income, there are possibilities of heavy lapses, higher claims, money laundering and fraud. The underwriter has to be satisfied on these counts. Making a judgment on these financial aspects is called financial underwriting. Thumb rules like 'insurance not more than 10 years income' are guidelines, but may not do justice in all cases.

## Aspects of Risk and Moral Hazard

Although from the statements made in the proposal form, personal statement and medical report (where required) the insurer is in a position to gauge the risk involved because it can ascertain therefrom the age, sex, occupation, physique and present condition of health of the individual; the risk of death in the case of a particular proponent depends also on other factors such as his own personal habits, his standard of living, income etc. To this extent, the insurer is dependent upon the agent for a true and correct picture of the individual to be given in the Agent's Confidential Report, which is required to be completed in all cases.

The income of a proposer plays a very important part in deciding the moral hazard involved in acceptance of the risk on his life. Moral Hazard would operate in cases where there is no genuine need for insurance. The need for insurance which is a financial transaction can be measured by the financial loss to the beneficiary resulting from the cessation of the income earned by the life assured due to his death. Income from investments or property does not give rise to a need for insurance as it does not cease on the death of the holder. Policies of assurance are sometimes taken for securing rebate of income tax; such rebate is available in respect of premiums paid not only under standard tables of assurance but under Deferred Annuities as well, subject to certain conditions. Where there is no genuine need for insurance, the object in taking out insurance would be speculative in a proportion of cases; and even after all reasonable precautions are taken by the insurer to control the operation of moral hazard, the mortality of a group of such assured lives would be higher than expected. In view of this, the insurer must be supplied with correct information as regards the means of livelihood and income of the proposer to enable it to judge whether the amount of assurance

proposed is commensurate with the proposer's income. For this purpose a Moral Hazard Report is obtained in all cases of large sum proposed.

It may be possible to group the persons who go in for large amounts into three categories.

- Persons who have large inherited wealth (Princely families in India may be considered as belonging to this category);
- Persons who have large inherited wealth personally accumulated;
- Persons who have moderate wealth personally accumulated, but of recent acquisition.

**Moderate Wealth of Recent Acquisition:** It is the third category which is the largest number and most likely to be met by us. The 'neo rich' which is a fast-growing class in our country may perhaps come under this category. The most common cases to be met in our work are of persons who have moderate wealth but accumulated in a short span of time. The unfavourable factors in respect of such proponents would be that the entire fortune may have been created and invested in one or two business concerns. It may be that the wealth so accumulated is due to speculative enterprises. The possibilities, therefore, of a failure and the entire fortune being wiped out is quite large and hence the risk of suicide. The question of business strain as well as the habits and the manner of spending leisure hours is also very important.

**Wealth Personally Accumulated:** In the second category, the adverse features would be that the persons would generally be of an advanced age and would have undergone tremendous business strain before they could accumulate vast wealth and such strain may have adverse effect on their health.

It is for the underwriters to insist on the information relating to various aspects of the matter in full from the field force.

A favourable feature in this category may be that persons are likely to have their wealth well-distributed over different businesses or enterprises and consequently the risk of the fortune being wiped out due to failure in one enterprise or the other would be little and hence the chances of suicide negligible. It is, however, difficult to obtain detailed information regarding the wealth and the sources of income of such persons.

**Wealth Inherited:** The persons in the first category may be considered to have some favourable factors from financial underwriting angle. Unlike active businessmen, they are not subject to strain and stress of modern business life. It could normally be expected that persons in this category would apply for insurance at a comparatively young age. Caution is, however, required in examining the habits and how they spend their leisure hours. With plenty of money and leisure some are likely to lead a fast life. Although the financial worth of persons in this category is easily known, it is difficult to get full information relating to health and habits.

## Necessity for Moral Hazard Reports

For a proper financial underwriting which has as its objectives (i) prevention of anti-selection (which has a great scope and attraction in the case of proposals for large sums) and (ii) prevention of mortality experience in respect of policies for large amounts becoming worse than average, it is absolutely essential for the underwriter to obtain a very accurate and detailed information on the health, habits and financial worth of the proposers apart from a satisfactory medical insurability. The two sources through which the moral hazard can be assessed are (1) reports from independent sources and (2) from field personnel from the organization.

**Reports from Independent Sources**: Reports from independent sources mean direct enquiries by the insurer or persons who are likely to have information about the proposers. Such reports may not be of value since the persons inquired are under no obligation to report the exact truth and it is also possible that their knowledge is meager.

**Reports from Field Personnel of the Organization**: It is, therefore, desirable to attach more importance to the reports of sales force who are salaried officials of the organization. The field personnel, unfortunately do not investigate into all the relevant aspects of the problem or perhaps they are not aware of what aspects are to be looked into and reported upon. It is for the underwriters to insist on the information relating to various aspects of the matter in full from the field force. To ensure better and more accurate reports, it is advisable that the officer calling for the reports should

list the points on which he wants the field official or the Branch Manager to focus upon and at the same time allowing them to add anything else of material importance.

Most applicants make honest answers to the questions on insurance applications. Occasional applicants give dishonest answers. The coverage is highly desirable and they seek it by fair means or foul. Insurance contracts are based on representations. If materially misrepresentative, a life office may deny liability but not beyond a two-year limit except on grounds of fraud which is a statutory restriction imposed by law under Section 45 of the Insurance Act 1938, in recognition of the interests of the beneficiaries.

Every underwriter evaluates moral hazard every time he makes an appraisal of a risk. He accepts statements from applicant, agent, sales supervisor, family physician, at full value or less, and approves or hedges, according as he believes those statements. Chief hazard from company insurability standpoint is character or lack of it that the applicants show. Habits reflect character. Character can be good or bad, strong or weak.

Outside the physical impairments, the first factor is Occupational Hazard. This can be divided into 3 groups: accidental hazard, health hazard and a social class hazard. Example of accidental hazard is the worker in a power plant. The best example of a health hazard is the incidence of silicosis among workers in dusty trades, such as stone-cutting. In the 3rd category, the unskilled labourer, for example, is a member of a social group, which returns a much poorer mortality than do many other occupations.

The Social Class Hazard is fundamentally a problem of environment, and environment is a function of occupation. The underwriter has to first analyze the hazard as it exists and then classify the employee and give him his exact position in that hazard. In covering occupational hazards, there are also illegal occupations. In any illegal occupation, the problem is one of selection. Such cases have to be underwritten with great caution.

The next major factor that the underwriter is concerned is that of habits and morals, what the underwriter calls intangibles. The information available is invariably incomplete and it is difficult to measure departures from the normal. The information as to habits comes generally from the (inspection) moral hazard report. In reporting, the sales official must realize that the insurance office is interested in finding out whether his habits are different from the normal. It is not unusual when there is criticism of man's habits to find criticisms of his morals, business reputation or the way he conducts himself in general. The problem of moral hazards may be divided into 2 sections. The first is sexual morals and the second, other morals. With regard to the first, there is the hazard of promiscuity, of being inflicted with disease, of being shot at by some other individual. The second problem is that of business morals, e.g., an individual with a spotty business record, with a criminal record, or with a record of undesirable associates. The only advice to give an underwriter in such a case is to be on his guard, because such people cheat the insurer. It is necessary to distinguish between real business criticism and business envy. There are certain occupations wherein the individual has to be pretty shrewd or sharp operator in order to survive, the scrap metal business is an example. That does not mean that the applicants in the business are crooked. On the other hand, an applicant with a record of business failures, most of which have a faint aroma of suspicion about them, calls for careful underwriting. It will probably be necessary to charge a small extra premium.

**It is necessary to distinguish between real business criticism and business envy.**

The Speculative Hazard is the main hazard. The man may be buying the insurance in order to make a dishonest fortune and particular care is called for if he is buying a cheap form of insurance. This is the group wherein the underwriter is under great pressure to take them at standard rates, being assured that their habits and morals are above reproach.

Again, Moral Hazard in Life Insurance includes such matters as personal reputation or character, business ethics, environment, speculation and as said, sex relations. They are frequently found with criticism of alcoholic and drug habits. Broad cases may be discussed under two headings. (1) morals of a sexual nature, and (2) other moral criticisms. In

classifying the applicants under these categories, it is not the function of the underwriter to sit in moral judgment; his business is to classify them according to their expected longevity. The moral hazard group involves a departure from the normal accepted standards in one way or another and such departures produce extra mortality.

The chief problem is that although an individual is criticized and treated as a social outcast from the point of view of morals – social or other – yet, he will be accepted as a normal member of the society. The adverse information is public property but in the majority of instances, the information will be discovered only in the course of a thorough investigation.

**Sexual Morals**: This is a very difficult one from an underwriting viewpoint because the cases which arise run all the way from the indiscretions of youth, which may be overlooked, to the front page extra-marital affairs of a millionaire playboy or playgirl. The hazards of promiscuity are the possibility of contracting communicable diseases, the frequently undesirable associates and of being shot at by some other individual who does not like the attentions to his wife or to someone else's wife.

The next question is divorces. Although divorce is an accepted social solution to the problem of incompatibility, a succession of divorces betokens a mal-adjustment to normal ways of living. Further, many divorces have their origin in the habits or morals of one of the partners. The cases require careful investigation and the underwriter should be satisfied as to the true nature and circumstances coming under this category.

There is a difference between on the one hand, the individual who is revealed by careful inspection as being not as much the pillar of the church as everybody thinks he is, and on the other hand the individual who is spreading across the front pages of the newspapers from coast to coast. Many examples of the dangers of these various items can be found by drawing upon claim experience rather than upon underwriting experience.

**Good faith is of the essence of the contract and the primary danger is severe anti-selection since the applicant may decide that it is to his advantage to conceal pertinent information.**

**Other Moral Hazards:** Cases that come under this broad group are called business morals e.g., an individual with a spotty business record, with a criminal record, or with a record of undesirable associates.

Good faith is of the essence of the contract and the primary danger is severe anti-selection since the applicant may decide that it is to his advantage to conceal pertinent information. The hazard in this group is discovered all too frequently only on an early death claim. The record of business failures is available, but a reputation for shrewd trading should not necessarily be interpreted as sharp practice. The general reputation of the business should be considered. It is possible in this group of applicants with poor business records that we face the greatest hazard of speculation.

Applicants who have a criminal record, a smaller group, require careful scrutiny and the reasons why the applicant has been in jail must be thoroughly investigated. These cover evasion of laws, or thieving or homicide. Speculation is another hazard and each case has to be considered on its own merits.

The next question falling under the broad groups are applicants whose associates are undesirable even though the applicant himself may have an apparently clean record. An applicant should be judged by the company he keeps and, for example, the politician whose associates are underworld figures is not an attractive risk. In this group particularly, though it is common to all moral hazard cases, the question of public relations should not be overlooked.

Lack of insurable interest suggests speculation. It may not always be evident and may be unintentional. For example, cases written on a basis of tax advantages from an investment angle as distinct from an ownership angle. If such insurance is purchased by a person other than the insured, suspicion should inevitably arise and investigations to this end may properly be conducted.

Even well-to-do persons reported to be having adequate income but with a queer way of life cannot be taken on the face value. Their mode and standard of living may not be consistent with the reported income and investigations to this end have to be carefully carried out. In one case

in U.S.A. an application was received for an amount of $ 50,000 from a real estate dealer aged 40. Existing insurance was there to the tune of $ 52,000. An inspection report estimated the worth of the applicant to the tune of $ 100,000. The inspection revealed that the proponent had formerly kept a saloon during the prohibition period and made plenty of money selling bootleg whisky. The application was approved by the insurer. Shortly after 5 years, the company was called upon to pay the claim due to the death of the policyholder. Postmortem underwriting revealed that the applicant is reported to be a well-to-do man, he was practically unemployed except for looking after his own investments. He lived under conditions not normal for a well-to-do individual. He was reported to occupy a house in a sparsely settled section of New York City on a street which was impassable for vehicles on account of growth of weeds and bushes. The dwelling house was surrounded by bushes and swampy land and was enclosed by a fence. Only one person in the neighbourhood knew the applicant although he had lived there for 5 years. He had been in an unfavourable illegal occupation. There was additional information that this man had been arrested twice for the illegal sale of liquor.

It will, therefore, be necessary to carefully investigate the question of over-insurance whenever there is a proposal for a large amount of assurance, prior to the granting of assurance itself. The only advice to give an underwriter in such a case is to be on his guard, because such people cheat the insurer.

## Conclusion

Thus the underwriter's approach to any application should be from the indemnity standpoint – that insurance cannot be justified where a loss will not be suffered. Unless the beneficiary stands to lose rather than gain by the death of the insured, an insurance contract is without adequate insurable interest and insurance without insurable interest is a mere "wager" in law and is prohibited. It is up to the underwriter to evaluate the probable loss on the death of the life proposed and whether the insurance applied for together with already carried on the life can be regarded as excessive or otherwise. The amount, need and purpose of insurance are important. The amount must be consistent with his economic value and the amount of insurance that is "normally" carried in similar circumstances. A sudden interest in a relatively large amount of insurance is a warning signal unless changes in the particular person's affairs establish both increased need and increased ability to pay for such large insurance.

The underwriter must regard life insurance as "essentially a contract of indemnity," and see that the amount bears a reasonable relationship to the loss the beneficiary will suffer by the death of the insured. The underwriter obviously must have information regarding the current and prospective financial condition of the proposer and his complete insurance programme. This may require supplementing the usual sources of information with verified statements from the proposer himself.

In order that the life assurance contract is sound, the person who stands to benefit from the proceeds must be in such a relationship to the assured as to have a real and genuine interest in the continued survival of the assured. Moreover this real interest should only be partly compensated for by the financial result (proceeds) of the assurance. Any other basis involves an element of gambling and the presence of Moral Hazard.

**It will be necessary to carefully investigate the question of over-insurance whenever there is a proposal for a large amount of assurance, prior to the granting of assurance itself.**

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# Risk Acceptance Criteria

## Underwriters' Dilemmas

G V RAO EMPHASIZES THAT THERE IS A TENDENCY ON THE PART OF THE UNDERWRITERS TO ASSOCIATE PHYSICAL HAZARD ONLY, WITH HEALTH INSURANCE AND NOT MORAL HAZARD; AND HENCE THE PREMIUM THAT VARIES WITH ONLY ONE FACTOR - AGE. HE FURTHER ADDS THAT THIS APPROACH SHOULD UNDERGO A METAMORPHOSIS IF HEALTH INSURANCE HAS TO BE MORE SUCCESSFUL.

### How does insurance operate?

Insurance, essentially, is an arrangement of risk-transfer by one entity, called the insured, to another, called the insurer, who has the expertise and the financial means to pool similar risks and manage them to be able to pay the claims of one or more insured, out of the premiums collected from the other insured members of the pool. Each insured member of the pool has peculiar risk exposures of its own, in terms of the physical hazards of the property, and its techniques of risk management practices to prevent occurrence of accidents; and for minimizing loss potential, if a loss were to occur. The premium collected from each member of the pool is based on the extent of its risk total exposure, and the probability of loss occurrence and its likely magnitude.

### Physical hazards

The hazards or risk exposures of an insured's property, which threaten the physical safety of the properties, operations and occupations, are called the 'physical hazards'. These hazards can reasonably be assessed by an insurer, based on the common risk characteristics of the category or occupation to which the risk belongs, its peculiar risk or hazard exposures, if any, and how these are handled by the insured, the loss experience of the category of the risk in its entire range in the pool and. the special risk management practices voluntarily undertaken by the insured. The insurer has also an option to inspect the risk offered for insurance to validate its risk assumptions and perceptions.

### Moral hazards

Moral hazard is the idea that concludes that providing insurance in any form makes an insured's behavior riskier. Once the risk is insured, the insured is insulated from the full financial consequences of the risk, and could behave differently from the way he would have behaved, had not the risk been insured. Such a likely behavioral change in an insured is called 'moral hazard', associated with a risk acceptance. 'Behave at all times, as though uninsured' is the golden maxim and principle in insurance parlance. Yet, it is not possible for an insurer to undertake a 'perfect monitoring' process of such behavior from an insured throughout the policy period.

Such a 'risky behavior' can arise 'ex-ante' of insurance buying, when an insured may feel it as an incentive to neglect or dilute the degree of care and skill, with which his property was protected earlier, just because it is now insured; and because he would not have to bear in full, the negative consequences of his new behavior. An insured's protective instincts may, therefore, slip a notch or two.

The risky behavior can also become apparent, 'ex-post' of a claim occurrence. As full claim payments are assured in many insurance contracts, the post claim behavior of an insured could pose challenges to an insurer on the moral hazard of the insured, unanticipated by the insurer, at the acceptance stage. The degree of inherent moral hazard in either

**Behave at all times, as though uninsured' is the golden maxim and principle in insurance parlance. Yet, it is not possible for an insurer to undertake a 'perfect monitoring' process of such behavior from an insured throughout the policy period.**

case throws the mutual interests of an insurer and its insured, out of alignment, causing problems to both, at a claim negotiation stage.

While insurers' underwriters are trained to price risks, based on the physical features of the risk, they lack a lot more information, at the underwriting or acceptance stage to discover the extent of moral hazard that usually gets associated with it. The entire tariff rating structures, built in the earlier era, were based on insurers' perceptions of physical hazard alone.

## Hazards' evaluation

An insurer has the tools of a 'screening process' through collection of a completed proposal form, risk inspections and analysis of such data. But, unfortunately, the insurance industry has inherited a system of not taking proposal forms for evaluation of hazards. And even if some of them did, occasionally, it was done more for knowing the choice of perils selected, the identification of the property insured and their sums to be insured and the address at which the property is situated. The current proposal forms in usage are not designed to obtain information on other important aspects of physical hazard; nor on the risk management practices of the specific insured.

Since the moral hazard factor was never an underwriter's concern in the tariff era, it was left out of underwriter's reckoning, either in collection of information gathering or screening it further to be able to adjust the rating process for it. The consequences of moral hazard of an insured continue to be dealt with only at the claims settlement stage. And the process is popularly called, as 'underwriting at the claims stage'. The mindset of all insurers, both in the private and public sectors, is rooted to the past practices, with changes coming in slowly.

Neither the insurers nor their underwriters have any statistical or other acceptable evidence or any theoretical reasoning before them, for quoting the lowered premium rates, as they are doing now. Insurance underwriting is fast turning out to be a profession, based more on 'speculative skills' of how their acceptances would turn out in the end than usage of 'underwriting skills', based on actuarial principles and data. Such an underwriting process is unfair to the other insured members of the pool.

## Economic pricing vs. Efficiency pricing

In pricing a risk based on economic factors, the risk factors presented by each insured are evaluated to include, both the moral and physical hazards. In efficiency pricing, the insured's appetite for risk-taking would decide the rate to be quoted to grab the premium numbers involved. The group medical insurance of a corporate entity is a classic example of the cover being rated on efficiency rating on what gets the deal done. The market behavior of competitors would dictate the efficiency pricing mechanism. Competition has, therefore, an important role to play in regulating and fixing the behavior of all insurers. We are witnessing the scenario of rapidly declining rates, despite such rates being uneconomic.

It is uncertain, if insurers of today have any lists of their customer profiles, in detail, of the top fifty profit givers in their amounts; neither is it likely that they would have the list of the top fifty loss givers, in order of magnitude of losses. Unless one has such data, the fifty loss givers would continue to be regarded as valued connections, more on account of the premiums they give; and the top fifty profit givers would receive the same kind of services that the others would get, as their premiums may not be big enough. Insurers should build customer profiles of each customer and pass on such data to underwriters. The underwriter should be allowed to use subjective judgment in addition to rating structures given to him, based on profitability capital built by an insured.

**The current proposal forms in usage are not designed to obtain information on other important aspects of physical hazard; nor on the risk management practices of the specific insured.**

## Moral Hazard

Between the two hazards—the physical and the moral hazards—it is this writer's view that insurers should even be better informed on the moral hazard aspects of an insured, before committing themselves to risk acceptance. Moral hazard comes in five shapes: (1) informational asymmetry (2) adverse selection (3) fraud (4) deliberate breach of statutory laws, or scant regard for their compliance, and (5) poor housekeeping and unsatisfactory industrial relations.

Insurers do not currently have a standardized mechanism to evaluate these five issues. The first three aspects of moral hazard are too well known to be recounted here. In respect of dealing with the moral hazard of an insured, insurers have shown a lot of vacillation, in deciding on the quality of the moral hazard of the insured, particularly when claims are reported. Every claimant is regarded as a virtual suspect character; and their claims are scrutinized for lapses in moral hazard more seriously. The damages caused to the reputations of insurers are just ignored. In a detariffed scenario, as now, such risky behavior of insurers is inexcusable.

For the insured claimants, therefore, such negative attitudes compel them to question the moral hazard of insurers, who seem either unwilling or unable to pay their claims promptly, as promised. Inefficient and ignorant claim staffs of insurers have added a lot more to reinforce this belief of poor moral hazard. Insurers should be aware of it; and they should take particular measures to act in good faith.

Surveyors and their inefficiencies are also a source of bad moral hazard for insurers. The powerlessness of insured claimants to take on their insurers, who refuse to document their grounds for delays or repudiation or partial settlement of claims, does represent the biggest moral hazard of insurers. The public perception of moral hazard, unfortunately, is focused more on the poor moral hazard of an insured claimant. Insurers too should look, without and within themselves, to minimize the impact of their poor moral hazard on the insured. Moral hazard is double-edged sword.

## Moral hazard and solutions

Insurers should design their proposal forms to elicit answers on issues also impinging on the moral hazard aspects of insured to make their answers, as representations made that are binding on the insured. Quite often accidents do occur, due to deliberate breaches of safety laws, and insurers must make them aware, that while negligent aspects of implementation are covered, deliberate breaches of laws to gain monetary advantages are not. Laws on fire safety are an important aspect. Secondly, insurers, while adjusting their premium rates, should ensure that full indemnity is not usually provided, and the insured too should suffer in the bargain, making them pay for their risky behavior. Where the industrial relations are bad, it is a sure sign that safety practices are lax. Safety audit reports must be scrutinized to ensure improvements in loss prevention processes, following audit recommendations.

**Insurers should design their proposal forms to elicit answers on issues also impinging on the moral hazard aspects of insured to make their answers, as representations made that are binding on the insured.**

The moral hazard phenomenon in health insurance is due to the continued encouragement of insurers to fully indemnify their claimants. The statistical evidence put out by the TAC has shown that the frequency of claim occurrence is low; and that only a few claimants are taking away, the entire premium in the pool. Insurers have done little to change the risky behavior of their claimants. Insurers are treating the health portfolio, as though the portfolio has only physical hazards to deal with; and that is why 'age' of an insured alone is the determining factor for premium rate. This is entirely a wrong way of underwriting the physical and moral hazards involved in this portfolio.

The maxim that an insured should act at all times, as though he is uninsured, must be tested by examining the ground realities in usage. Rating the risk must be divorced from evaluating the features of hazards. When a loss does occur, it does not matter, what exactly was the rate charged; similarly when a loss does not result, it does not matter how low the rate charged was. Loss occurrence is a matter of computing the degree of probability of a loss occurrence; and it is this probability variable that an examination of hazard analysis must focus upon. The rate charged must also be fair to the other insured members in the pool.

## Final word

Perhaps one of the reasons why hazard evaluation is not yet a part of a serious underwriting process is the lack of education of present underwriters, whose 'mental risk horizons' are not expanded enough for them to work out possible scenarios of how to deal with each of them. Lack of information on frequency of claims and average severity of claims for each risk category, and for each customer and collection of risk profiles of the portfolio in identified ranges of sums insured, premiums and claims reported inhibits how to evaluate and determine rates for physical hazard.

For dealing with the moral hazard, it should be relatively easier, as it is based on the individual risk. The underwriters, by adjusting rates and terms, can deal with them, so that the image of an insurer is not tainted by poor behavior later at the claim settlement stage.

Natural perils' exposures present their own difficulties to an underwriter, from the hazards perspective. The claim results could be catastrophic in nature and extent; and an underwriter has to deal with groups of bunched risks in each location. This situation is even more complex, as the physical and moral hazards of several acceptances are bunched together. But the present method of hazard analysis and the measures taken by insurers to deal with them are not adequate.

It is hoped that the above exposition would stimulate insurers to begin to understand the hazard exposure analysis with more clarity, purpose and effect.

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# Hazards in Motor Insurance

## Dealing with Complexities

LOKNATH P. KAR **EMPHASIZES THAT THE INCIDENCE OF MORAL AND MORALE HAZARD IN THE DOMAIN OF MOTOR INSURANCE PLAYS HAVOC WITH THE UNDERWRITING ESTIMATES AND PRICING.**

The term hazard is derived from the Arabic word 'Az-zahar' meaning chance or luck. A hazard within the framework of insurance represents a condition that may create or accelerate a loss-generating event out of a peril. Basically hazards are external factors that trigger peril, leading to losses. From an underwriting perspective, hazards represent the unknown factor that may lead to unwarranted losses resulting into increase in the premium. At the time of evaluating a risk, underwriters look at various factors for the pricing of insurance policies. Separate values are attached to the specific characteristics of the perils covered, probable frequency and severity of the perils vis-a-vis insured's capability for loss prevention and minimization through various preventive and safety measures. While underwriting a risk, the underwriters are also expected to account for hazards by whatever best possible way those could be evaluated.

The risks involved in hazards are unknown and causes the underwriters to struggle for putting a value to it, consequently policies are usually priced higher causing undesirable additional burden to the larger innocent policy holders for the acts of a few self-seeking insured propagating hazards. Therefore mitigating hazards that arise in the context of insurance is more for the benefit of the community of insureds and society at large than the community of insurers.

In the Indian scenario hazards may embrace a broad category of factors that usually tend to multiply the liability of insurers. Amongst the insurance products in India, motor insurance suffers comparatively higher susceptibility to hazards because of a traditionally hazardous environment, multiparty service procedures, geographical distribution and unlimited liability in motor third party insurance.

### Hazards in Motor Insurance

**Morale Hazard**

Morale hazard refers to a tendency on the part of the insured to be careless merely because there exists an insurance cover. The careless attitude of the insured tends to magnify the risk and increases the liability of the insurer. This differs from Moral hazard, as there is no deliberate intention to cause the loss.

***Ex-ante Morale Hazard***

Ex-ante morale hazard refers to a situation wherein the insured behaves in a more risky manner having obtained a motor insurance. It is the attitude of the insured and his reckless nature that causes accidents and losses. In motor insurance

**While underwriting a risk, the underwriters are also expected to account for hazards by whatever best possible way those could be evaluated.**

the events of morale hazard are comparatively more than that of any other product of general insurance and factors more on the claim events than the policy events during the tenure of a typical motor insurance policy.

An insured is always expected to act in a

**Somehow, many of these taboos have been so deep-rooted in our daily lives that we have subconsciously accepted it as a customary practice.**

way as if not insured. Morale hazards in motor insurance in India mostly arise from the adventurous predisposition of the insured. For example more serious accidents occur on the national highways or on the smoother, swifter and wider roads of India. The tendency of being lax in driving on such roads although hazardous is not uncommon. The most glaring examples of morale hazards falling into this category are driving under the influence of alcohol or drugs. It could easily be assessed that every fourth or fifth major accidents in India have some connection with the toxicity of the driver. Apart from the above many of us, at some point of time in our lives, either under compulsion or otherwise must have taken a decision to drive-on even when feeling sleepy, drive across a pot-hole on the road though it seems dangerous, decided to drive out even on heavy fog and heavy rains. All such morale hazards may be classified as '*Adventure Hazards*'. In the context of insurance, most of such hazards although rampant are undeterminable and remarkably influence motor claims by events and quantum.

Violation of traffic rules in India is admittedly an oft-repeated social offence. Last minute rushing over the yellow light, frequent change of lanes, rushing over an unmanned railway level crossing, leaving the vehicles unattended etc are common sights on Indian roads. Somehow, many of these taboos have been so deep-rooted in our daily lives that we have subconsciously accepted it as a customary practice. Such hazards, which may conveniently be classified as '*Customary Hazards*', are also undeterminable in the context of insurance and cannot be evaluated for the purpose of pricing.

Geographical and environmental conditions of India do not always contribute to 'Physical Hazards'. More than Physical Hazards, Morale Hazards arise under unwelcoming physical conditions. India still has a number of isolated road stretches with no support facility for miles. Under such circumstances, most of the times an insured drives his partially broken down vehicle causing further damage to the vehicle. Although the additional damage caused to the vehicle is not covered under the motor policies in India as 'consequential loss', it is practically impossible to differentiate such damages from the original damage to the vehicle. The underwriters, while evaluating probable perils with respect to a motor vehicle, certainly do not contemplate the cost of such additional damages and price the policy accordingly. As a result the cost of such damages causes an additional unaccounted impact on the claims, imbalancing the underwriting premeditations. Such morale hazards, which may be termed as '*Adversarial Hazards*' although are less in frequency in comparison to the other classes of hazards also have a deep impact on pricing parameters of motor policies.

A fairly high number of vehicles in India registered for private use are indulged into public transport activities. This predisposition of the insured has become all the more hazardous in the wake of some recent judicial findings interpreting (hire and reward) as not a standard exclusion for private motor insurance policies. Such hazards most of the times compels the insurer to admit a claim which the insured has not paid for. These kinds of hazards are potent enough to subvert the underwriting philosophy of motor insurance.

## Ex-post Morale Hazard

Ex-post morale hazard deals with the negative consequences of a loss. Once the loss has occurred and insurance cover is to be provided, the insured desires the insurer to pay for more than what the negative consequences actually amount to. Here because it is the insurer who shall pay for the negative consequences of the loss, the insured desires the best and the most elaborate of services.

These morale hazards can sometimes lead to extreme liability for the insurer and make insurance an impossible business.

It is unscrupulously human to expect better services than one is entitled to. There is a plethora of instances where the insured disputes the surveyor's decision on reparability of a damaged vehicle or any part thereof demands replacement of either the spare part or the entire vehicle. In such cases the

insured starts believing an accident as an opportunity than a mishappening and tries to capitalize upon such events. Eventually the insured is always given the benefit of doubt under the principles of *'Contra proferentem' but* such claims highly aberrate the loss expectations of the underwriter and thereby the price allocation.

A majority of the motor insurance claims in India carry some element of morale hazard inherent to it. It is believed, if the morale hazard element could be reined in motor insurance, the frequency and cost of claims would reduce remarkably.

## Moral Hazard

Moral hazard refers to a certain undesirable predisposition on the part of the insured or the party to be insured, which adds to the chance of risk and increases the liability of the insurer.

Inflating an insurance claim is not uncommon around the world. Motor insurance in India is the biggest victim of the practice. A moral hazard in motor insurance in India is not only a function of the insured or the beneficiaries of the insured, it is an organized function of all the constituents involved in the service of motor claims. There have been instances where even a scrupulous insured gets influenced by unscrupulous service providers to inflate the claim or to constitute a non-claim to be an insurance claim.

A moral hazard in motor insurance has a catastrophic effect upon the underwriting assessments of both the own damage and third party segment of the motor claims.

## Hazards in Own Damage Claims

Consequent to an incident, a desperate insured always looks for ways and means to secure a hassle free claim. Under such circumstances when the insured gets to know that there exists some element in the circumstance of the accident which may invoke repudiation of the claim by the insurer fully or partially, the insured instinctively puts every endeavor to façade such anomalies. In an informed motor insurance market like India such endeavors by the insured easily finds vicious advices in fulfillment of the desires.

In own damage claims the events of independent effort of insured to conceal or reconstruct the facts which may lead to repudiation of the claim ranges widely. Substitution of a licensed driver confessing to the accident in place of an unlicensed driver actually driving the vehicle, misrepresentation of the facts to secure a claim for repair of a damage caused to the vehicle prior to insurance etc are most common examples of such *'Inflicted Hazards'* .

**In terms of claim quantum, motor third party insurance claim is the biggest of all claim components of motor insurance.**

Major instances of moral hazard in motor own damage claims is a schematic act by more than one person or entity including the insured, who in connivance with each other fabricate events, procure documents and manipulate situations to conceal the repudiable circumstances or create evidence to establish false circumstances devoid of any contractual anomaly. The intention is common and for the material benefit out of an insurance claim, to which the insured is not contractually entitled to. The most common of such *'Intrigued Hazards'* are fabrication of driving license, road permits, medical papers and injury certificates in case of motor-personal accident claims etc.

The most hazardous events are the claims, which are entirely constituted only for securing an insurance claim, such as lodging a theft claim against a vehicle after selling it off, dismantling it or concealing it. Such *'Constituted Hazards'* most disproportionately inflate the claims cost of the insurer than expected and thereby the pricing at the expense of scrupulous policy holders.

As it could be conceived from the characteristic description of the above hazards, they are difficult to be identified and to be eliminated whereas they leave a remarkable impact on the cost of the claims.

## Hazards in Third Party Claims

In terms of claim quantum, motor third party insurance claim is the biggest of all claim components of motor insurance. In addition, the liability of the insurers is unlimited. As far as moral hazard in motor third party claim is concerned, the

**Hazards in motor insurance are not only confined to India, in fact hazard is a common phenomenon suffered by insurance companies across the world, more so in motor insurance.**

system is understandably hazardous as it has begetted the phenomenon and the term *'Ambulance Chasing'*.

The most striking feature of motor third party claim settlement procedure is that the same is statutory and the adjudication is by a judicial tribunal, whereby it involves the entire judicial machinery with the traditional litigation procedures. However, despite being under such severely prescriptive and controlled procedures, the motor third party claims are not devoid of moral hazards. During investigations conducted by agencies, a number of hazardous instances have been revealed including substitution of an insured vehicle in the place of an uninsured vehicle causing the accident, substitution of a licensed driver in place of an unlicensed driver causing accident, unlawful occupants of the insured vehicle portrayed as pedestrian victims of the accident, natural deaths having been portrayed as pedestrian victims of accidents, fabricated employee - employer relationships in order to prove higher income of the purportedly victim employee etc.

The noble phenomenon of motor third party insurance which is to support the livelihood of the survivors of road accident victims is manipulated by some unscrupulous persons causing huge financial stress to the insurance companies in India. The impact of such claims on the insurers use to be very high as the claims are determined on the basis of annual income of the victim and the left out earning years of his life.

Moral hazard, like morale hazard also has a huge impact on the motor claims in India influencing the price. The difference between the two is that the morale hazard is more frequent whereas moral hazard is more impactful in terms of cost. However a combined impact of both the hazards on motor insurance consumes substantial part of the accumulated premium, which would otherwise have resulted into making the motor insurance cheaper.

There are two conceivable ways to eliminate hazards. One - By identifying and refusing to accept hazards in the form of claims; and the other by accepting the hazards and distributing the cost of hazard evenly on all policy holders in the form of increased pricing. Since it is impossible to root out hazards from motor insurance, the only way left for the insurers is to build the same in the pricing.

Hazards in motor insurance are not only confined to India, in fact hazard is a common phenomenon suffered by insurance companies across the world, more so in motor insurance. Nevertheless insurance companies around the world are able to fix a cumulative value upon identifiable hazards faced by them. In India, it may seem harsh to make the vast majority of the innocent policy holders pay for the acts of a few unscrupulous insured propagating hazards. However de-tarrifing is an important evolution which has allowed freedom to the insurers to identify and evaluate cost of such hazards and to apply the same to the appropriate classes of insured than penalizing the innocent.

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# Hazards in Insurance

## Essential Factor in Underwriting

DR K C MISHRA WRITES THAT INSURANCE PROVIDES A VEHICLE FOR PEOPLE TO POOL RISKS ASSOCIATED WITH HAZARDS AND VULNERABILITIES.

Hazards have potency of risk and may result in loss. A worker inside a mine has the professional hazard of mine collapse but actual collapse may or may not occur. Sea storm is a peril of the sea. There may be hazard of jettisoning of cargo due to this sea peril. But actual jettisoning may or may not occur. Hazard gets accentuated due to vulnerability of the situation. For similar hazard, a more vulnerable situation will have more loss than a less vulnerable situation. So severity of the hazard is a function of both peril that causes the hazard and vulnerability. Frequency of the hazard depends on return period of the peril. Usually frequency and severity are not correlated as much as morbidity and mortality are correlated. Insurance carriers follow an adoptive control cycle to insure the risk resulting from ex-ante stage of the hazard.

The humorist Will Rogers once said: "Insurance is the only way an ordinary person can purchase a catastrophe on an installment plan". Insurance provides a vehicle for people to pool risks associated with hazards and vulnerabilities. It associates a potential hazard with a potential claim on the pool and allows people to contribute to this pool to meet other people's claims. The core function in insurance, then, is to intermediate risk itself. The risk in the service must not just be well managed but bearing the brunt of the hazard is the service.

The insurance industry accepts what is a potentially threatening financial risk for individual, and to operate a profitable insurance pool by successfully taming uncertainty of hazard manifesting into risk. By accepting risk and meeting claims, insurance is one of the primary risk management tools of the community. The insurance sector helps the economy work more smoothly than would otherwise be the case by enabling individuals and businesses to remain financially viable in the face of hazard adversity.

General insurance covers hazards associated with property and liability. Products where the claim amount relates to making good loss due to hazard of physical damage to property is referred to collectively as 'short-tail risk'. Liability and similar products, such as public liability, product liability, professional indemnity, workers' compensation and motor third party, which is compulsory insurance for vehicle owners against damages arising from injury to other parties; are referred to collectively as 'long-tail risks'. These products often operate within a framework of government social policy or certain legal benchmark. Health insurance covers medical, hospital and related costs arising out of health hazards. In mature markets health insurance graduates to cover hazards in the way of wellness.

Life insurance not only provides protection against survival and death hazards but also builds up a cash value in the event of the protection being surrendered. Started as 'whole-of-life insurance' the industry has evolved today to provide life, disability and trauma insurance products, as well as superannuation, retirement income and non-superannuation investment products.

As with any business, insurers have shareholders' capital and retained earnings. These are held either as solvency and capital adequacy reserves

**For similar hazard, a more vulnerable situation will have more loss than a less vulnerable situation. So severity of the hazard is a function of both peril that causes the hazard and vulnerability.**

**Premiums need to be calculated not just on the basis of meeting expected claims and expenses, but also to provide an economic return on the appropriate level of solvency capital.**

or as free reserves i.e. as funds that are not yet committed to supporting the business. Solvency and capital adequacy reserves are aimed at ensuring that insurance companies can meet their policy obligations irrespective of fluctuations in claims and investment performances. Typically, these reserves are invested in a similar fashion to the underlying insurance funds. Free capital will typically be invested in a diversified investment portfolio aimed at achieving a balance between stable profits and good returns, while a lesser amount will be invested in physical assets.

Fundamentally, insurance companies take on obligations and in return receive insurance premiums from which they meet current claims and expenses, as well as build up investment funds to meet future claims. In the case of pure-protection products, for short-tail business these funds are typically invested in short-term securities, while for long-tail business a range of longer-term securities are used to match broadly the incidence and future value of outstanding claims.

In the case of life insurance investment business, premiums are not paid simply for risk cover but also to invest in the industry's savings products. Some products, such as whole-of-life insurance, have limited guarantees and are invested in diversified investment portfolios. Other products have strong guarantees and are either invested in matching assets or supported by additional solvency reserves. The remainders are investment-linked, with policyholders being issued with units that fluctuate in value in step with the market value of the underlying investments. These products are invested without constraint, except that they must be 'true-to-promise'. This means that the investments must be in line with the descriptions in the promotional material on which people base their decisions to invest.

Insurance works by charging premiums that spread the number of expected claims across a large number of people who encounter hazards, commensurate with their contribution to the overall exposure, and then drawing upon the collective pool of premiums to meet actual claims. This process, referred to as underwriting risk of hazard, becomes robust as the number of people who want to be covered becomes sufficiently large. The reason for this is that, provided all people do not get affected by the same hazard event, the proportionate variability of claims outcomes becomes smaller as the number of individually insured risks becomes larger. This is the principle of risk diversification.

The fundamental hazard in insurance is not being able to meet claims because of their variability. This hazard is known as the 'risk of ruin'. The insurers can bring the chance of ruin under control by holding appropriate amounts of capital. Capital is essential for the on-going solvency and viability of an insurer. Premiums need to be calculated not just on the basis of meeting expected claims and expenses, but also to provide an economic return on the appropriate level of solvency capital. In the course of doing this, the premiums acquire a security margin.

If a house is in a cyclone-prone area where all houses are blown on average in one year out of every three, the risk of cyclone hazard becomes uninsurable. This is the case for two reasons. First, insurers are no longer able to reduce risk of hazard by pooling, making the insurance unaffordable. More generally, the incidence of cyclone can demonstrate abnormal trend persistence or otherwise be incapable of being represented as a simple random process. The second reason is that the precautionary behaviour normally adopted by people faced with cyclone can be relaxed when they are insured, to the point that the damage is much worse than otherwise and the likelihood of claims much greater. This is a form of moral hazard. Certain risks may be excluded from cover or be accepted on special terms because they involve too much hazard or would, if accepted, undermine the homogeneity of the relevant risk classification.

Three conditions must be satisfied for insurance to work. The insurer needs to be able to accept or decline risks of hazards and classify them into reasonably homogeneous groups for premium rating purposes. The insurer needs to be able to adjust premiums for these groups in the light of experience. The insurer needs access to a means of reinsuring, risks or outcomes that are beyond its capacity to bear. Risks may need to be ceded if the insurer has too few people exposed to a hazard for the law of large numbers to work well or does not have the capital needed to achieve the desired probability of ruin. Additionally, an insurer may choose to reinsure those risks that are unusually large or that may give rise to a cluster of claims.

When the necessary conditions are present, a disciplined insurer can operate a sound and adaptive control process.

This means that the insurer can price for risk, it can adjust its prices in the light of experience, and it can match the risks it retains with its capacity to meet claims in reasonably likely circumstances. If any of these conditions is absent, the capacity to insure breaks down. If an insurer cannot classify and charge properly for risks, its operation will flounder as under-priced risks are attracted and over-priced ones discouraged.

For example, health insurance attracts people who are older or less healthy than implied by the common premium rate, rendering it unsound whatever rate is set. This is an example of what Akerlof, Rothschild and Stieglitz have called adverse selection. If an insurer cannot adjust premiums, its operation may flounder if adverse trends erode its capital and profit margins. Similarly, if an insurer does not have access to reinsurance, its operation may flounder when random fluctuations or catastrophic events wipe out its necessarily limited capital and profit margins.

An insurer needs to operate an adaptive control cycle to remain sound and profitable. The insurer should gather data and make assumptions, set premiums and capital requirements using those assumptions to analyze its emerging experience against those assumptions and, if necessary, revise them. The review should be separate from, but coordinated with, the rating unit to enable the development of a common set of assumptions arising out of a robust review process. The insurer should set outstanding claims provisions and report profit in the light of this analysis and the revised assumptions. If appropriate, the insurer should set new premium rates and new capital requirements using the revised assumptions, and continue the cycle for as long as it stays in the business.

**If an insurer cannot adjust premiums, its operation may flounder if adverse trends erode its capital and profit margins.**

Hazard in insurance is ameliorated by referrals. Referrals are required for clearance prior to committing for any underwriting decision taken outside the scope of business defined as per underlying risk of hazard in the assumption of a simple Poisson distribution. The procedure should outline who has to be involved in the referral process and who comes in addition to the individual delegated underwriting authority. Four types of referrals are technical referrals, policy referrals, capacity referrals and pricing referrals. All these aspects are reviewed on an annual basis; and in the interim, the underwriter addresses specific changes that raise specific aggregated capacity issues or changes in concentration of risk underlying the hazard.

Depending on hazard sophistication, there are four levels of underwriters as per international market conventions and usage. Level one underwriting works within underwriting guidelines and referral limits and issue referrals when necessary; level two underwriting deals with basic referral cases and sends significant cases to Enterprise Risk Management process; level three underwriting assesses residual risk exposures and capital requirements; and level four underwriting deals with significant deviations in group exposure in the hinterland of a hazard.

Depending on hazard severity, frequency, vulnerability and exposure to insurer's portfolio, insurance products are classified as internal tariff-rated products, individual experience-rated products, exposure-rated products, packaged or customized products and large risk products. Insurers try to become well diversified by building up sufficiently large and homogeneous portfolios; underwriting several hazards; implementing accumulation control in order to avoid overexposure to risks underlying the hazards, possibly in several lines of business; and purchasing reinsurance and other instruments like ART, and creating Captives and Side Cars. A collateral of underwriting activity is that product of insurance is meant to do four things simultaneously namely pay the claims as they logically arise in the aftermath of an event arising out of hazard manifestation, strengthen the balance sheet of insurance company, nurture the intermediary system by a legitimate acquisition cost; and participate in the supply side market development as envisaged in the objectives of harnessing contractual savings and hazard mitigation mobilization requirements. That is how hazard in insurance gets trapped within adoptive control cycle.

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# Hazards in Health Insurance

## Need for a Closer Look

PRATIK PRIYADARSHI **ARGUES THAT WHILE HEALTH INSURANCE IS BESET WITH PROBLEMS ASSOCIATED WITH HAZARDS, INCREASING THE PENETRATION IN THIS CLASS WILL CERTAINLY GO A LONG WAY IN SOLVING MOST OF THEM.**

Traditionally, Health Insurance for a majority of us meant the 'Mediclaim Policy' being marketed and sold by the general insurance companies across the country.

With the advent of the Third Party Administrators, it was assumed that the solution of all the ills pervading the health sector in the insurance companies had arrived. It was not so, as was evident from the developments of the later days.

Then came along the private sector insurance companies and once again the hopes were raised that the common ailments of the health sector, prominent among them being

- Low level of awareness of the common public
- Limited products coverages in the market
- Limited medical infrastructure
- Frauds on the insurance companies and
- Absence of a standardized healthcare costs etc

would be taken care of; and situation would improve.

It is in light of the recent developments in the health care sector, that the KPMG-CII report released during recent Health Insurance Summit 2008 held on 9th December 2008 assumes importance. It has brought out certain startling facts.

Just about 15% of the population was covered under some or the other pre-paid scheme in India in 2007 and a little less than 2% are covered under the Health Insurance schemes. So what comes out prominently is that there is a 'limited public spending on healthcare and low coverage in India'.

This brings us to some of the ramifications of the limited public spending because that leads to an increase in the 'out of pocket' expenses; and one is forced to make direct payments to access healthcare from the market. Knowing the background in the country, it is no surprise that this has actually led to a situation of heavy burden of debt in many cases.

There are certain hard facts that one must bear in mind before we actually start working on the information provided above.

The underwriting in the health sector for majority of the insurers, is based on an 'accept or decline' model, meaning thereby that either the proposal is accepted or declined, based on whatever information is made available to the insurers. The concept of a "Medical Underwriting" has just about started to make inroads and hence there is a distinct scope of improvement as far as underwriting is concerned.

Secondly, the high claims ratios are a detriment to the pro active steps which would have normally come out. The high claims ratio could be there because of various factors. In spite of this, the almost INR 5200 crore health insurance sector is looking to grow to about INR 28,000 crore by 2015.

As mentioned above, the high claims ratio

**Knowing the background in the country, it is no surprise that this has actually led to a situation of heavy burden of debt in many cases.**

could be because of many factors coming together, some of the prominent ones being:

- Adverse selection on part of the clients/groups
- Insufficient data and informations on clients and ailments
- Lack of medical history of individuals / groups
- Absence of a standardized health care facility and costs
- Frauds being perpetuated in connivance with interested parties
- Variation in costs for 'insured' public and 'uninsured public'
- Rigidity of policy terms and conditions
- Lack of control over the service providers
- Moral hazards and
- Lack of technically skilled manpower

Thirdly, the health sector has seen a high growth rate because of several factors, prominent among them is the detariffing of the various products and thus the requirement of the individual portfolio to be sustainable. There are certain regulatory changes coming in favour of the sector and there has been a distinct shift in the socio economic trends. The health care scenario is undergoing change and all these changes are going to impact the sector in a very positive manner.

Lastly, the Government has actually pitched in with the introduction of the RSBY schemes, though we have yet to see the outcome of this scheme. The Government's role would have to be seen as a facilitator rather than active involvement because ultimately, the services would have to be delivered by the insurers and the health care service providers.

While there are a number of hazards in the way of the future prospects of the health industry and there has been a decrease in the group health business in the recent months, the outlook is positive.

Apart from the fact that the direct involvement of the insurers and the Third Party Administrators constitute the two ends of the bridge, the role that the others, namely the health care providers and the reinsurers, play is of crucial importance keeping the history of the health sector in mind.

While it is true that the economic meltdown has affected the paying capacity of all, one of the first casualties has been the reduction in payment for health insurance. But the more difficult question here is that a major chunk of the people in the age group of 30 years to 45 years do not voluntarily go for health insurance until and unless they are a part of the corporate system. So, what happens to the larger group which comes from the unorganized sector most of whom are self employed?

The insurers could design the products with maximum coverages and minimum exclusions; price it according to the target groups; and thus make the healthcare more affordable. We could have the expertise of the reinsurers in designing these new products with inbuilt mechanisms to ensure that the product is not misused.

**The insurers could design the products with maximum coverages and minimum exclusions; price it according to the target groups; and thus make the healthcare more affordable.**

The Healthcare providers and the TPAs could ensure that the standardization of cost and prices is done, thereby eliminating the scope of variable pricing for the insured and non insured people. In fact we are now communicated that probably there is a process of this sort already in practice.

We could also work on extending the reach of the sector by way of a specialized distribution channel and utilizing the regulatory changes to the maximum. However, even with stand alone Health Insurance companies, the moot question that comes up is that they have also failed to deliver the goods, if the figures of KPMG-CII are any indication.

But what is of prime importance to all of us is the collection of the data and medical history of the individual or the group, because the origin of the health care should be on a true and factual basis.

We have many challenges being faced by the stakeholders of the health sector and the consumers; and the efforts must be made to ensure that the consumer's challenges are mitigated and the high growth of the sector goes on with minimum hazards to all of us. Notwithstanding the *sunrise area* status to this sector, we need to work on a common platform where there could be an exchange of ides and data for the benefit of all concerned.

We could think of the support from the Government in lines of extending the existing tax exemption limits. Most of us are aware that the growth period of the state-owned Life Insurance Corporation was the '70s and the '80s when people invested in the LIC as a tax saving mechanism.

Or could we think of a Long Term Health policy where the support from the Government could come from a pool specifically created for the health of the aged, where the medical inflation could be taken care of. Even the insurers could think about such pooling of resources for a common fund for the aged taking the public-insurer partnership into being.

The Governments' intervention would be necessary and important because the Health Insurance portfolio has not been making business sense to the insurers in general. As we talked about the RSBY, there are pitfalls there as the Government goes by the criterion of lowest rates in the tenders. It would be premature to talk about the success or failure of such steps, but one thing is for sure and that is if the policy does not break even, the service parameters would suffer and the end user, the common man suffers.

If we are able to extend the scope and coverage of the health insurance from the existing 2% of the population to 5%, in the next 3-5 years, we would have definitely done some service to mankind and to us. The credibility of the general insurance companies would have been re-established. There is need to work on this.

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# Hounding the Hazards

## IMPERATIVE FOR INSURERS

DEVARAKONDA V S RAMESH WRITES THAT IN VIEW OF THE ALTERNATIVE CHANNELS OF DISTRIBUTION, THE PERSONAL TOUCH THAT USED TO NULLIFY THE EXISTENCE OF MORAL HAZARD TO A GREAT EXTENT, HAS BEEN DILUTED.

The peculiarity of insurance contracts is well acknowledged with invisible nature of its ingredients; be it the contingent benefits that are assured or the inherent risks associated with them. As a thumb rule, in any of the contracts one of the parties to the contract needs to rely on the disclosures made by the other and both parties shall have consensus to the terms of the contract. However, while agreeing to the terms of insurance contracts before issuance of policy contract, insurance companies need to gauge the inherent and latent risks associated with the subject of insurance, which is referred to as hazards in insurance parlance. It is but natural that insurance companies elicit information pertaining to personal and family history of the proposed to assess the hazards involved. However, despite disclosures voluntarily revealed by the proponents, the insurance companies cannot leave the information gaps unattended which are not readily available to judge but are corollary to the main revelations. Knowing the otherwise unknown history or hidden mental intentions of the proposed is an uphill task to the insurer, nevertheless a duty bound chore as he holds the responsible custodianship of various other classes of policyholders. One such hazard that insurers commonly attempt to resist is the Moral Hazard, which is otherwise not visible by any means but only by fact of experience and judgement. The need for resisting the moral hazards also stems from the legal angle that insurance policies shall not be the contracts of wagering. In an attempt to filter the moral hazards not being enwrapped into the insurance contracts, conventionally life insurers rely on the intermediaries.

***Role of individual Agents - A Retrospect:***
As per the market practices that have been in vogue, individual agents established the conventional standards in filtering the moral hazards well before the issuance of life insurance policies. Life insurers, on the other hand, had a higher level of comfort in imparting this responsibility to their tied agents who are more familiar with the insureds or the subject matter of insurance. Especially in life insurance, the role of individual tied agents has occupied such an important position that they are being hailed as first line underwriters. Getting the desired information through a tied agent is rather easy, as it is the agent who would be approaching the prospects for canvassing the life insurance policies and would be conversant with the knowledge of behavioural aspects and other particulars of such prospects. Traditionally, insurance agents have been in the practice of tapping the insurance business from their known circle and through the referral leads of their known circle, hence were in access to the vital information pertaining to the prospect. Also, when insurance agents are tied up

**Life insurers, had a higher level of comfort in imparting this responsibility to their tied agents who are more familiar with the insureds or the subject matter of insurance.**

with an insurance company, they too attain higher levels of ability in reporting the moral hazards involved based on prevailing practices of the insurer. This usual practice of obtaining Moral Hazard reports from these agents also brought in the accountability to their respective market conduct practices. In a majority of moral hazard reports obtained, some of the main queries being replied by insurance agents are; whether they satisfy the financial sources of the proposed; for how long they have known the prospect etc. Now in the changed market environment, it deserves to be reviewed as to how a proposal form with all similarities would be dealt with. The reply to the said queries provides a level of comfort to underwriters while underwriting the life insurance proposal.

***Moral Hazard Vs Insurable Interest:*** Neither insurable interest nor moral hazard has a specific definition. Nor do they have a reference in Insurance Act, 1938 the principal legislation governing insurance business in India. Both the concepts are left to the qualitative judgements of prudent underwriters. Moral Hazard may be portrayed as the inherent threat posed with the behavioural attitude of human beings in relation with subject matter of insurance. And based on certain legal pronouncements, an insurable interest is described as the proponent having a monetary interest on the existence and continued well being of the subject matter of insurance. The suspicion on the possibility of existence of moral hazard arises when a person attempts to benefit from the subject matter of insurance whether or not he/she has insurable interest. The theory of life insurance does not put any limits on the extent of insurable interest on the lives of individuals. Thus, the insurable interest of a person on his own life or on the life of his spouse and children is to an unlimited extent. Does it totally preclude the possibility of moral hazard? In its strictest sense, presence of insurable interest cannot eliminate the moral hazard in toto. The possibility of a person contemplating suicide to transmit the policy benefits to the beneficiaries, the possibility of a person with life threatening disease volunteering to buy a pure term life insurance policy concealing the disease etc. are a few instances where risk filtering practices of life insurers mitigate moral hazards. The same is the case with juvenile life insurance.

A South Korean incident[1] reported in New York Times on 02nd November, 1998 speaks on the possibility of a moral hazard in respect of Juvenile Life Insurance. To succinctly place the news;

> *A 42 year old fortune teller who traps himself in debt and destitute reports to police that three masked men robbed his home and chopped off the little finger of his 10 year old son in an act of viciousness. The investigations reveal that father reportedly persuaded his 10 year old son, eyeing to claim the insurance monies, to sacrifice his finger as he was dying and on cutting off the finger he would be able to live. Duteous boy remained silent even during the stage of investigation till father confessed before police.*

Reports of this nature, albeit sporadic, do exist and fall under the ambit of frauds; or suspicion of moral turpitude of the insured/beneficiary. Several other such instances may totally go unnoticed. That is why exclusions are put in place by life insurers to mitigate moral hazards in life insurance and hence the need for underwriting restrictions limiting insurable interest to various classes of policyholders. As regards non life insurance, prevalence of moral hazards would be equally possible even at the stage of claims.

**The suspicion on the possibility of existence of moral hazard arises when a person attempts to benefit from the subject matter of insurance whether or not he/she has insurable interest.**

**Varying Levels of Insurable Interest Limits – is there a need for uniform ceilings across the industry? – An open discussion:** As a conventional practice, insurable interest is limited based on the type of policy like individual insurance, female insurance and juvenile insurance; and based on retention capacities and underwriting standards adopted by

respective life insurers. Financial underwriting norms also automatically put the limits to some extent. But the need for putting the limits on grounds of moral hazards remains same irrespective of the paying capacity of the prospect. To put it differently, mere capacity to pay higher amounts of premium may not justify according higher sum assured policies. Underwriting being a prudent policy of accepting the liability by an insurer, is there any scope for uniformly limiting insurable interest across the industry for various classes of policies by a statutory or regulatory intervention? Is there any need for such policy prescriptions especially when the industry is in the fledgling stage? To initiate a reply first to the last and may be to all, this may be pre-emptive. The need for a uniform ceiling arises on grounds of percentage of the adverse claims experience; communication gaps across the industry to pass on the pertinent information on the cases of moral hazard and fraudulent claims; the efficacy of the reporting standards of moral hazard to the underwriters; and the underwriting standards adopted. The consequences of varying limits may also not be alarming at the infancy stage say when spread of female insurance or juvenile insurance is negligible; and also when the scope for taking undue advantage of varying limits of various life insurers is limited by suppressing facts pertaining to previous insurance history. But there is always a need for tracking the evolution from a moral hazard perspective.

**Frauds Vs Moral Hazard**: There is a close link between moral hazard and fraudulent claims, be it in life insurance or general insurance. All fraudulent cases are a result of existence of moral hazards. But existence of moral hazard necessarily need not result in fraudulent claims. In the absence of industry level referral mechanism, the lives turned down without issuing life insurance policies (declined lives) on grounds of moral hazard by one life insurer may result into life policies at another life insurer, leading to potential fraudulent cases. Previous history of fraudulent claims deserves to be tracked, and cracked down by suitably putting in place an industry level reporting and monitoring mechanism, or otherwise there could be a higher degree of potential moral hazard. Though there would be some reporting formats to check the moral hazards at the time of underwriting, a casual reporting procedure with suppression of material facts may jeopardise these checks, especially in the event of absence of industry level reporting data base and monitoring mechanism. Thus putting in place appropriate fraud reporting systems at industry level is a prerequisite for resisting the moral hazard.

**Changing Paradigms – Access to sources of personal information of insured – Is there any need for additional safeguards?** The changes that strode the market practices across the industry have significantly affected the Moral Hazard reporting practices. As against the case of individual agents who would be introducing the prospective policy holders with the element of personal touch, some other distribution channel may be introducing totally unknown clients with a proposal for life insurance. It is widely known that the time to close a sale by an individual agent is relatively longer than the one by other alternate channels. Especially with regard to the following alternate channels there is a need for assimilating the reporting standards to maintain the uniform approach while resisting the Moral Hazard.

***Brokers:*** Clients approach broking companies for professional advice. Broking companies being institutional agencies, there would be a flow of clientele thereby minimising the scope for establishing a personal rapport with prospects. And with regard to broking companies who concentrate on the retail spread of life insurance policies, they work on similar lines of direct marketing approach, banking on the data base from referrals etc. Thus the possibility of knowing the mental intention of the prospect and his behavioural approach would be missing; and hence the need for additional safeguards against a possible Moral Hazard.

**The possibility of knowing the mental intention of the prospect and his behavioural approach would be missing; and hence the need for additional safeguards against a possible Moral Hazard.**

***Corporate Agents***: Corporate agents also work on similar lines of broking companies but represent one life and one non life companies. The possibility of the specified persons of the corporate agents having a personal rapport before introducing the prospect for life insurance is as remote as in the above case. Hence there is a need for additional safeguards.

With institutional intermediaries procuring higher number of retail insurance policies, the scope for a detailed due diligence at their end itself on each of these policies is apparently limited. Hence, there is a practice of obtaining specific/ additional moral hazard reports beyond specific limits, in such cases. Given the constraints for obtaining these reports on a huge number of prospects there may be a reason for increasing the limits. An idea is to be floated if this practice could be monitored by tracking the claims experience.

***Referral Arrangements***: Under this, as insurers and insurance intermediaries get the clientele data base from the third parties with no prior information about their history, there is a need for a closer watch before underwriting these proposals.

***Telemarketing:*** Under this marketing technique, the increasing trend of sourcing the information through telephones, forwarding the proposal forms for a signature by post and subsequently issuing a life insurance policy is leaving no chance of eye to eye contact between the prospect and marketing executive. The preservation of voice record data which may not be useful for gauging the moral hazard involved, speaks on the need for putting in place better systems for getting moral hazards report, more so when these marketing practices are outsourced.

**One of the ways of smelling potential moral hazard in life insurance is eliciting the information pertaining to the sources of income for payment of premiums.**

***Direct Marketing***: For long, direct marketing is considered as one of the cost effective means of marketing insurance products in light of higher initial costs involved with conventional marketing mechanism. There may be also specific products with varying limits of insurable interests for various classes of policyholders to cater to the needs of this particular market segment. The need for keeping track of moral hazards involved in respect of prospects of this market segment is inherent in its market practices.

***Tracking Claims Experience***: The need for tracking the distribution channel-wise claims experience may be felt more needful given the above related interconnected issues. A further segregation of claims experience among various classes of policies like females, juveniles etc., cause-wise analysis of death claims, and policy year-wise analysis would provide inputs on the extent of prevalence of moral hazard and the need for putting in place any additional safeguards to resist the same. Also intermediary-wise claims experience data may provide valuable inputs to the industry on the need for taking up the sound reporting standards and the base for monitoring the market conduct practices of various classes of intermediaries. A further practice of sharing specific information pertaining to institutional intermediary would alert other insurers and would act as a deterrent to other intermediaries.

***Sources of Income – A Cue*:** One of the ways of smelling potential moral hazard in life insurance is eliciting the information pertaining to the sources of income for payment of premiums. If an unrelated third party is financing the payment of premiums, it is as good as the insured fronting for that financier. Though, the relationship of the named beneficiary of the policy does provide further indications on this, absence of monitoring procedures when altering the beneficiary at a subsequent stage, enables the financing third party to benefit out of the proceeds of the life policies. Evolution of the following various alternate ways of premium remittance channels reinforces the need for a closer tracking of the existence of moral hazard, even after issuance of policy on a continuous basis.

***ECS Mandates***: One of the easiest and cost effective ways of receiving premiums is by way of obtaining a mandate from the insured to auto debit his Savings Bank/ Current Account through Electronic Clearance System. However, if premium monies are financed by a third party to these bank accounts, there are, currently, no systems to track at the level of life insurer.

***Cheque Drop Boxes - Collecting Agents - Issues of outsourcing***: Facilitating the policyholders for dropping their premium cheques in various centres like malls, ATM counters etc. is one of the evolutions of time. As long as insurers collect the cheques to adjust against premiums due it works well within the theory. However, when collecting the cheques from these boxes and also their onward transmission directly to the bank account of the insurer is outsourced to a third party; it is not possible to track the real payees of the premium monies when premiums are deliberately remitted by a third party as the outsourced entities do not have the particulars pertaining to the life assured and his specimen signature.

**Given the wide spread of insurance business across various sections of society, eliminating moral hazard by moral suasion is a difficult task.**

***Online Payments through debit/credit cards:*** Evolution of technology enabled the policyholders to pay premiums at any time and from anywhere by using the online payment procedures that are made available. However, there is a possibility of this facility being utilised by a few unrelated third parties to finance the premiums of some of the policyholders with an eye of benefiting out of the policy proceeds. These online payment portals receive payments and simultaneously transmit/adjust premiums.

Despite strict financial underwriting norms in vogue, the possibility of a few third party financiers eyeing to benefit out of life insurance may be easier owing to the availability of the above referred alternate systems of premium collection. To guard against these inherent risks there is a need for a periodical random tracking of the premium receipts received through alternate channels of premium collections. Though, these steps may be on lines of post mortem, they provide clues to enable life insurers to put in place measures against a deeper penetration of these practices.

Given the wide spread of insurance business across various sections of society, eliminating moral hazard by moral suasion is a difficult task. Imparting education to the intermediaries and also to the personnel of institutional intermediaries is one of the ways of mitigating the spread of moral hazard risk. Underwriter's expertise is a *sine qua non* to smell the existence of moral hazard; and there is need for specific further investigating procedures to be in place, independent of marketing personnel. However, insurance councils may consider establishing the information sharing procedures across the board. On their part insurance companies may put in place continuous monitoring of reporting standards within their respective companies. These measures may help in minimizing the spread/impact of Moral Hazards on the life insurance business as a whole.

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# • प्रकाशक का संदेश

बीमाकर्ता की सफलता मूलतः इस पर निर्भर करती है कि प्रिमियम को जोखिम के साम्पिक रूप से लिया जाए। इसे प्राप्त करने के लिए बीमाकर्ता प्रत्येक प्रस्ताव को विस्तृत बीमा लेखन से गुजरता है। एक काल्पनिक स्थिति में दावों के भुगतान को भी इसी परिपाटी पर चलना होगा जो कि होता नहीं है। एक विस्तृत कारक जो जोखिम की जटिलता को जोडता है वह है खतरा। भौतिक खतरे स्वयं में स्पष्टता प्रदान करते हैं, एक या अन्य प्रकार से अतः इनको पोषित किया जा सकता है अतिरिक्त प्रिमियम लेकर।

एक जोखिम जो स्थितियों को बहुत जटिल कर देता है तथा बीमालेखन के लिए चुनौती उत्पन्न करता है वह है नैतिक जोखिम। इस बात को ध्यान में रखते हुए की भावी की मनोस्थिति बीमाकर्ता के साथ कपट करने की होती है। कोई भी अतिरिक्त बीमा प्रिमियम राशि इस अतिरिक्त खतरे से निपटने के लिए पर्याप्त नहीं होगी। किसी विशेष कार्य में नैतिक खतरे का आकलन करना संभव नहीं है। यदि बीमाकर्ता बहुत सुरक्षापूर्ण तरीके अपनायेंगे वह दिन दूर नहीं होगा जब वह व्यवसाय को खो देंगें साथ ही बाजार साख को भी खो देगें।

यह कहना जोखिमपूर्ण होगा की कोई व्यक्ति इसलिए अपनी जान ले लेगा की उसमें कुछ धनराशि का समाहन है। यह पक्ष तथा नैतिक जोखिम जीवन बीमा के मामले में काफी हद तक दूर है। इसी प्रकार अपने आप को आसानी से लिए जाने से बचने के लिए, जीवन बीमाकर्ता संवेदनशील आवेदनों को इस कोण से भी देखते है। नैतिक जोखिम को गैर जीवन बीमा के कई प्रकार के बीमा में महत्वपूर्ण भूमिका निभानी होती है। यह विशेषरूप से नवेषम बाजारों में आवश्यक है जहॉ बीमाकर्ता दावों के सम्बन्ध में अधिक अपराधिक अथवा इससे मुक्ति प्राप्त करने की कोशिश नहीं करते। बीमाकर्ता अपने भाग के रूप में इसको सुनिश्चित करते हैं कि कोई वास्तविक दावों निरस्त न हो जिसे उद्योग पर विश्वास कम न हो जाए।

जर्नल के इस अंक के केन्द्रबिन्दु में ''बीमा में खतरा'' है। पालसी शब्दों में गैर जीवन बीमाकर्ता को दी गई स्वतन्त्रता इस बात की दूर देती है कि उत्पाद उद्योग की अकांशओं के अनुरूप हो। ''प्रशूल्क युग में उत्पाद को ग्राहक अनुरूप करना'' जर्नल के अगले अंक के केन्द्रबिन्दु में होगा।

जे. हरि नारायण

**जे. हरि नारायण**
अध्यक्ष

# दृष्टि कोण

चालू वित्तिय उत्पात के मध्य में ग्लोबल पुनर्बीमा बाजार में अनुपातिक रूप से मजबूत तथा लोचदार व्यवस्था प्रत्यक्ष आधात के विरुध ही है परिणामस्वरूप ग्लोबल बीमा बाजार तथा अन्ततः व्यक्तिगत बीमा ग्राहक की सुरक्षा को स्थायित्व दिया है।

**श्री पीटर ब्रामुलर**
*आई.ए.आई.एस. कार्यकारी कमेटी के अध्यक्ष*

अब समय है जब उपभोक्ता को चतुर होना चाहिये अपने बीमा उत्पादों के प्रति तथा उन अवसरों का लाभ उठाना चाहिये जिससे उनका आवरण अधिक से अधिक हो सके तथा लागत द्वारा अपने को वित्तिय रूप से सुरक्षित बना सकें।

**श्री रोजर सोविजि**
*एन.ए.आई.सी. के अध्यक्ष तथा न्यू हम्मीशायर के बीमा कमीशनर*

अपने आकार में वर्तमान आर्थिक संकट बहुत बडा है जटिलता तथा फैलने की गति के अनुसार भी। वित्तिय प्राधिकरण को कार्यवाही के तालमेल तथा सरकार ने जो बाजार को स्थायित्व देने की बात की है बाजार का रुझान सुगबुगाहत पूर्ण है तथा बहुत सी मुख्य समस्या खडी है।

**श्री हैंग स्वी कैट**
*प्रबन्ध निदेशक, सिंगपुर की मौनेटरिंग अथोरिटी*

विश्व स्तर पर आतंकवाद सभी देशों के लिए चिंता का विषय है। इसको एक घटना के रूप में देखने के बजाए इससे युद्ध स्तर पर लड़ने की आवश्यकता है।

**श्री जे. हरि नारायण**
*अध्यक्ष, बीमा विनियामक विकास प्राधिकरण, भारत*

विश्व के विभिन्न भागों में पिछले दर्पण से देखने के दृष्टिकोण के बजाए यह सरकार (कनाडा) ऊर्धवाधर देखने पर केन्द्रित है। यह उस स्तर पर है कि हमने अन्तराष्ट्रीय वित्तिय उत्पात्त पर किस प्रकार कार्यवाही की।

**श्री जिम फ्लाहेटी**
*वित्त मंत्री, कनाडा सरकार*

हम अगले वर्ष क्या कर रहे हैं यह उसे आगे जा रहा है (साल्वेंसी II) तथा इसने आर्थिक पूँजी वी बीमा माडल को स्वीकार करना प्रारंभ किया है। हम अभी एक सर्वे के मध्य में जो बाजार प्रभावोओं के सम्बन्ध में है, जिससे यह देख सके की हमारी माडलिंग कितनी अच्छी है।

**श्री मैच्यू इल्डरफील्ड**
*सी.ई.औ, बैमुडा मौनेटरी अथारिटी*

# विभिन्न शिक्षण विधियाँ एवं रीतियाँ

अर्चना सिन्हा तथा उमेशचन्द्र कुदेसिया कहते हैं कि शिक्षक को ज्ञानवान एवं विचारवान होने के साथ शिक्षण विधियों का ज्ञाता होना चाहिये।

(पिछले अंक से आगे)

बीमा शिक्षक को इस विधि का तभी प्रयोग करना चाहिये जब बीमा संबंधी जटिल बातें जो सरलता से समझ में नहीं आती हैं, उनका अध्यापन करना हो। प्रशिक्षार्थी प्रश्नों को पूछकर स्वतःही ज्ञान प्राप्त कर लेते हैं। वे कठिन बातों का विश्लेषण करके उसे समझने के लिये संश्लेषण करते हैं। इस अवसर पर शिक्षक को चाहिये कि वे देखें कि प्रशिक्षार्थी सही विश्लेषण कर रहे हैं अथवा नहीं। यदि विश्लेषण गलत ढंग से किया जावेगा तो पाठ्य सामग्री को प्रशिक्षार्थीगण कभी भी नहीं समझ पायेंगे। अतः शिक्षक को मार्गदर्शन तथा उसके द्वारा अवलोकन करना इस विधि में अत्यन्त महत्व रखता है। प्रायः शिक्षक द्वारा इस विधि को कम अवसरों पर ही प्रयोग किया जाता हैं। इस विधि का प्रयोग करने के लिये शिक्षकों को स्वयं भी विश्लेषण एवं संश्लेषण विधि का प्रयोग करना आना चाहिये।

### निरीक्षित अध्ययन विधि (सुपरवाइल्ड स्टडीमैथड)

इस विधि में प्रशिक्षार्थियों को निर्धारित कार्य दे जाता है। प्रशिक्षार्थीगण दिये गये अपने कार्यों को करने में जुट जाते हैं और शिक्षक उनके कार्यों का निरीक्षण करता है। जहाँ आवश्यकता होती है वहाँ शिक्षक उचित निर्देशन भी देता है। इसमें शिक्षक का प्रमुख स्थान है क्योंकि शिक्षक ही प्रशिक्षार्थियों को निर्धारित अध्ययन कार्य करने को देता है। यह निर्धारित कार्य प्रशिक्षाथियों की मानसिक क्षमता, योग्यता तथा उनकी रुचि के अनुसार ही दिया जाना चाहिये। शिक्षक के कार्य का निर्धारण व्यक्तिगत विभेद के सिद्धांत को ध्यान में रखकर करना चाहिये, जिससे सभी स्तर के प्रशिक्षार्थी निर्धारित कार्य को अपनी क्षमतानुसार समय पर सम्पन्न कर सकें। इस विधि को अपनाते समय सम्पूर्ण क्रियाओं को शिक्षक के मार्गदर्शन में किया जाना उचित होगा। इस विधि के प्रमुख गुणों की चर्चा नीचे की जा रही है:-

> बीमा शिक्षक को इस विधि का तभी प्रयोग करना चाहिये जब बीमा संबंधी जटिल बातें जो सरलता से समझ में नहीं आती हैं, उनका अध्यापन करना हो।

- प्रशिक्षार्थी स्वयं की क्षमता, योग्यता तथा रुचि के अनुसार विषयवस्तु को सीखते हैं।
- प्रशिक्षार्थियों में स्वाध्याय करने की आदत विकसित हो जाती है और वे अपनी समस्याओं का निराकरण बगैर किसी की सहायता के कर लेते हैं।
- इस विधि द्वारा शिक्षक और प्रशिक्षार्थियों के मध्य दूरी समाप्त हो जाती है और प्रशिक्षार्थी को शिक्षक से सम्पर्क करने के अवसर अधिक उपलब्ध होते हैं।
- यह विधि करके सीखने, (लर्निंग वाई डूईंग) के सिद्धांत पर आधारित है। अतः प्रशिक्षार्थियों को स्वयं के अनुभवों के आधार पर सीखने का अवसर प्राप्त होता है।
- इस विधि से धीमी गति से सीखने वाले प्रशिक्षार्थी भी कठिन सामग्री को शीघ्र सीख लेते हैं।

इस विधि का प्रयोग करते समय शिक्षक को ध्यान रखना चाहिये कि वह अपने ज्ञान को उस स्तर तक बनाये रख सकें कि वह दिये गये निरीक्षक कार्यों का उचित मूल्यांकन कर सकें और प्रशिक्षार्थियों को समय समय पर आवश्यक निर्देशन भी दे सके। यह भी ध्यान रहे कि शिक्षक प्रशिक्षार्थियों को दिये गये कार्यों में अधिक हस्तक्षेप न करे अन्यथा प्रशिक्षार्थी स्वतः अध्ययन नहीं करेंगे और जो उद्देश्य इस विधि का है वह पूरा नहीं हो सकेगा। शिक्षक को प्रशिक्षार्थियों में आत्मविश्वास एवं आत्मनिर्भरता जागृति करना

शिक्षक को कक्षा में कुछ प्रश्न ऐसे भी पूछना चाहिये जिससे प्रशिक्षार्थियों की अभिव्यंजना शक्ति का विकास हो सके।

है। इस दृष्टि से निरीक्षण अध्ययन विधि अत्यन्त उपयोगी मानी जाती है। बीमा-शिक्षा में शिक्षक को ज्ञान देते समय निर्धारित कार्य करने के लिये प्रशिक्षार्थियों को देना चाहिये जिससे वे स्वयं अपने ऊपर निर्भर होकर आत्मविश्वास के साथ बीमा संबंधी कार्यों को करने के लिये तैयार हो सके।

## शिक्षण रीतियाँ (टीचिंग टैक्नीक्स)

सीखने की विधियों के अतिरिक्त सिखाने की रीतियाँ (टीचिंग टैक्नीक्स) के विषय में भी जानना आवश्यक है। सीखने की विधियों के साथ शिक्षण करते समय शिक्षण रीतियों का भी प्रयोग विषय को सुगम तथा रोचक बनाने के लिये करना चाहिये। शिक्षण की कोई भी विधि बगैर शिक्षण रीतियों के उपयोगी नहीं हो सकती हैं, अतःहमें शिक्षण की रीतियों के विषय में भी जानना आवश्यक है। उदाहरण के तौर पर यदि हम वाद-विवाद की शिक्षण विधि का प्रयोग करते हैं तो बीच-बीच में प्रश्न-रीति, कथन रीति, उदाहरण रीति आदि का भी प्रयोग करना आवश्यक हैं तभी प्रशिक्षार्थियों को बीमा संबंधी विषयवस्तु का ज्ञान सरल रुप से होना सम्भव है। बीमा-शिक्षा का शिक्षण करते समय हम अनेक शिक्षण रीतियों का प्रयोग कर सकते हैं, किन्तु छःशिक्षण रीतियों का प्रयोग अधिक प्रचलित है।

- कथन रीति (नरेशन टैक्नीक)
- प्रश्न रीति (क्वश्चनिंग टैक्नीक)
- उदाहरण रीति (इलस्ट्रेशन टैक्नीक)
- व्याख्या रीति (एक्सपोजीशन टैक्नीक)
- अभ्यास रीति (ड्रिल टैक्नीक)
- निरीक्षण रीति (औब्जर्वेशिन टैक्नीक)

## कथन रीति (नरेशन टैक्नीक)

कक्षा में शिक्षण करते समय जब शिक्षक द्वारा पूछे गये प्रश्नों के उत्तर प्रशिक्षार्थी देने में असमर्थ रहते हैं तो शिक्षक स्वयं के कथन द्वारा उन प्रश्नों के उत्तर समझाता है। इसके अतिरिक्त जटिल विषयसामग्री के किसी अंश को समझाने के लिये भी कथन रीति का प्रयोग किया जाता है। उदाहरण के लिये बीमा दावा से संबंधित कठिन बातों को वह कथन रीति से आसानी से प्रशिक्षार्थियों को बतला सकता है। कथन रीति से पढ़ाते समय शिक्षक को निम्न पाँच बातों को ध्यान में रखना आवश्यक है।

- कथन शुद्ध, सरल, स्पष्ट और बोधगम्य होना चाहिये।
- कथन जहाँ तक सम्भव हो किसी सहायक सामग्री की सहायता से किया जाना चाहिय।
- कथन संक्षिस हो और बार-बार उसे कक्षा में दोहराना नहीं चाहिये।
- कथन सदैव क्रमबद्ध, व्यवस्थित एवं तार्किक रुप से किया जाना चाहिये।
- कथन प्रशिक्षार्थियों की माँग पर अथवा उनकी आवश्यकतानुसार ही करना चाहीये। साथ ही बोलते समय ऐसा कथन करना चाहिये जो सभी को समुचित रुप से सुनाई दे।

बीमा-शिक्षक कथन करते समय यदि वह चाहे तो उदाहरण का सहारा भी ले सकता है। कथन का उद्देश्य कठिन बात को स्पष्ट करना तथा प्रशिक्षार्थियों को कक्षा में सक्रिय बनाये रखना है। शिक्षक को कथन करते समय विषयान्तर नहीं होना चाहिये।

## प्रश्न रीति (क्वश्चनिंग टैक्नीक)

कक्षा में प्रशिक्षाथियों को सक्रिय रखने के लिये प्रश्न रीति से अच्छी कोई रीति नहीं है। शिक्षण करते समय शिक्षक को प्रश्न पूछकर प्रशिक्षार्थियों को सक्रिय रखना है। साथ में पाठ के प्रस्तुतीकरण में उनकी भागीदारी भी सुनिश्चित करना है। शिक्षक को पाठ की प्रस्तावना निकालने हेतु प्रश्न पूछना चाहिये। इन प्रश्नों को प्रस्तावनात्मक प्रश्न कहते हैं। छात्रों के सहयोग से पाठ के विकास के लिये जो प्रश्न पूछे जाते हैं, उन्हें विकासात्मक प्रश्न कहते हैं। कभी-कभी शिक्षक को यह जाँचने के लिये कि प्रशिक्षार्थी विषयवस्तु को समझ भी रहे हैं अथवा नहीं प्रश्न पूछना चाहिये। ऐसे प्रश्नों को परीक्षण प्रश्न कहते हैं। यदि प्रशिक्षार्थियों का ध्यान कक्षा की गतिविधियों में नहीं है तो प्रश्न पूछकर शिक्षक उसके ध्यान को कक्षा की गतिविधियों की ओर खींच सकता है। शिक्षक को कक्षा में कुछ प्रश्न ऐसे भी पूछना चाहिये जिससे प्रशिक्षार्थियों की अभिव्यंजना शक्ति का विकास हो सके। कुछ प्रश्न ऐसे भी पूछे जाने चाहिये जो प्रशिक्षार्थी के ज्ञान का मूल्यांकन करने में समर्थ हों। ऐसे प्रश्नों को मूल्यांकन प्रश्न भी कहते हैं। शिक्षक प्रश्नों के माध्यम से स्वयं के शिक्षण का भी मूल्यांकन कर सकते हैं। यदि प्रशिक्षार्थी पूछे गये प्रश्नों के उत्तर कक्षा में सरल ढंग से दे देते हैं तो उसका अर्थ है कि शिक्षक द्वारा दिए गये शिक्षण का लाभ उन्होंने उठाया है, और यदि वे प्रश्नों के उत्तर नहीं दे पा रहे हैं तो इसका तात्पर्य

है कि शिक्षक द्वारा किये गये शिक्षण से प्रशिक्षार्थी लाभांवित नहीं हुये हैं।

कुछ प्रश्न पाठ के समाप्ति पर विषय सामग्री को दोहराने के लिये पूछे जाने चाहिये। ऐसे प्रश्नों को सारांश प्रश्न कहते हैं। शिक्षक के पास यदि समय है तो पाठ के अंत में कुछ प्रश्न ऐसे भी पूछे जाने चाहिये कि जिससे विषयवस्तु की पुनसावृत्ति की जा सके। ऐसे प्रश्नों को पुनरावलोकन प्रश्न कहते हैं। प्रश्न रीति का प्रयोग करते समय एक शिक्षक को निम्न पाँच बातों का ध्यान रखना चाहिये।

- प्रश्नों की भाषा सरल, बोधगम्य और सुगम होनी चाहिये और वे किसी निश्चित उद्देश्य से ही पूछे जाने चाहिये।
- पूछा गया प्रश्न संदेहात्मक नहीं होना चाहिये। साथ ही वे प्रशिक्षार्थियों के मानसिक स्तर के अनुसार और विषयवस्तु से संबंधित होना चाहिये।

**शिक्षक अपने शब्दों से शाब्दिक चित्र खींचता है और नवीन ज्ञान को पूर्व ज्ञान से जोड़कर समझाने का प्रयास करता है।**

- प्रश्नों की कक्षा में बौछार न की जावे साथ ही उन्हें व्यर्थ में दोहराना भी नहीं चाहिये।
- प्रश्नों से प्रशिक्षार्थियों में चिंतन शक्ति, तर्कशक्ति तथा निर्णय लेने की शक्ति का विकास हो सके, साथ ही प्रश्न क्रमबद्ध व्यवस्थित तथा तारतम्यता बनाते हुये पूछे जाने चाहिये।
- शिक्षक को प्रश्न प्रसन्न मुद्रा में सहानुभूति ढंग से पूछना चाहिये। ऐसे प्रश्न कदापि नहीं पूछना चाहिये जिनका उत्तर स्वयं शिक्षक को नहीं मालूम हो।

शिक्षक को कक्षा में प्रश्न पूछते समय किसी प्रशिक्षार्थियों को नीचा दिखाने के लिये नहीं पूछना चाहिये। शिक्षक को समय व्यतीत करने के लिये भी प्रश्नों का सहारा नहीं लेना चाहिये। यदि कोई प्रशिक्षार्थी प्रश्नों के उत्तर गलत देता है तो शिक्षक को उसकी निंदा नही करना चाहिये वरन दूसरे प्रशिक्षार्थी की सहायता से उस प्रश्न का उत्तर निकलवाना चाहिये। शिक्षक को यह ध्यान रखना है कि यदि उसने किसी विषयवस्तु पर कथन किया है तो उसी समय उस विषयवस्तु पर प्रश्न नहीं पूछे जाना चाहिये। ब्लूम्स टैक्स तो भी के अनुसार शिक्षक को कक्षा में ज्ञान पर गढ़े जाने वाले प्रश्न (नालेज लेविल क्वश्चन), समझने के स्तर पर गढ़े जाने वाले प्रश्न (काम्प्रीहेंशन लेविल क्वश्चन) ज्ञात का प्रयोग करने के स्तर पर गढ़े जाने वाले प्रश्न (एप्लीकेशन, लेविल क्वश्चन), विश्लेषण करने वाले प्रश्न (एनालेसिस लेवल क्वश्चन), संश्लेषण करनेवाले प्रश्न (सेन्थेसिज लेव क्वश्चन) तथा, मूल्यांकन करने वाले प्रश्न (वैल्यूयेशन लेवल क्वश्चन) बीमा विषय वस्तु का ज्ञान देते समय अवश्य पूछना चाहिये। ब्लम्स के अनुसार उन प्रश्नों को पूछने का अर्थ है कि प्रशिक्षार्थी भली भाँति विषयवस्तु को आत्मसात कर सके। कोई प्रश्न जो शिक्षक द्वारा पूछा जाता है उसको कोई खास उद्देश्य होना चाहिये। उद्देश्यहीन प्रश्न केवल समय नष्ट करते हैं उससे किसी प्रकार का लाभ प्रशिक्षार्थियों को नहीं होता है।

## उदाहरण रीति (इलस्ट्रेशन टैक्नीक)

उदाहरण के माध्यम से हम ज्ञात से अज्ञात की ओर बढ़ते हैं। उदाहरण के माध्यम से बीमा शिक्षक प्रशिक्षार्थियों को अज्ञात तथ्यों, विचारों, बातों एवं अनुभवों से अवगत करा सकता है। बीमा विषयवस्तु यदि जटिल एवं कठिन है तो शिक्षक कक्षा में उदाहरण देकर उसे सरल रुप में समझा सकता है। हम शिक्षण में दो प्रकार के उदाहरणों का प्रयोग कर सकते हैं। प्रथम मौखिक उदाहरण (ओरल इलस्ट्रेशन) जिसमें शिक्षक अपने शब्दों से शाब्दिक चित्र खींचता है और नवीन ज्ञान को पूर्व ज्ञान से जोड़कर समझाने का प्रयास करता है। दूसरा प्रदर्शनात्मक उदाहरण होता है जिसमें शिक्षक सहायक सामग्री को कक्षा में प्रस्तुत करके पाठ को समझाता है। इस प्रकार के उदाहरणों मे रेखाचित्र, चित्र, माँडल, पेम्फ्लेट प्रयोग करते समय प्रशिक्षार्थियों का सहयोग आवश्यक है। चुने गये उदाहरण सीखी जाने वाली विषयवस्तु से सीधे जुड़े होना चाहिये। एक शिक्षक के लिये उदाहरण रीति का प्रयोग करते समय निम्न पाँच बातों का ध्यान रखना आवश्यक है:-

- मौखिक उदाहरण प्रशिक्षार्थियों के पूर्व ज्ञान पर आधारित हों और सरल एवं स्पष्ट भाषा में दिये जावें।
- उदाहरण विषयवस्तु को समझने में सहायक हो तथा उनके आधार पर विषयवस्तु की व्याख्या सरलता से की जा सके।
- प्रदर्शनात्मक उदाहरण वास्तव में विषयवस्तु से मिलते जुलते हैं। साथ ही चुनी गई सहायक सामग्री उससे संबंधित होनी चाहिये। ऐसे उदाहरण आवश्यकता पड़ने पर ही प्रयोग किये जाने चाहिये।
- एक ही उदाहरण बार-बार नहीं देना चाहिये जहाँ तक सम्भव हो बीमा-शिक्षक को व्यावहारिक और सच्चे उदाहरण देना ही उपयोगी सिद्ध होंगे।

- उदाहरण प्रेरणा प्रदान करने वाले होने चाहिये, जिससे प्रशिक्षार्थी उनका अनुसरण करके बीमा व्यवसाय की वास्तविकता का ज्ञान सहज रुप में ग्रहण कर सकें।

शिक्षक को चाहिये कि जब वे कक्षा में उदाहरण रीति का प्रयोग करें तो उसके तुरंत बाद कथन करना अथवा उदाहरण के आधार पर व्याख्या करना बहुत आवश्यक है। कक्षा में असंबंधित उदाहरणों का प्रयोग करने का अर्थ शिक्षण कलाओं को नीरस बनाना है। यदि शिक्षक प्रशिक्षार्थियों से उदाहरण देने को कहें तो और भी अधिक रोचक रहेगा। धीमी गति से सीखने वाले प्रशिक्षार्थियों को संबंधित उदाहरणों को बतलाकर सहज रुप में ज्ञान दिया जा सकता है। शिक्षक को चाहिये कि वे विषयवस्तु को ध्यान में रखकर कभी मौखिक उदाहरणों की ओर कभी प्रदर्शनात्मक उदाहरणों का प्रयोग अपने विवेक से कक्षा में करें।

## व्याख्या रीति (एक्सपोजीशन टैक्नीक)

बीमा संबंधी जटिल दुरुह एवं कठिन प्रक्रिया को समझाने के लिये व्याख्या करना अत्यन्त आवश्यक है। व्याख्या करने का प्रमुख उद्देश्य शिक्षण करते समय जटिल बातों को सरल तरीके से व्याख्या करके समझाना है जिससे सीखने की प्रक्रिया में किसी प्रकार की बाधा उत्पन्न न हो सके। बीमा शिक्षक को व्याख्या रीति का प्रयोग करते समय निम्न बीमा को ध्यान रखना आवश्यक है:

- शिक्षक द्वारा की गई व्याख्या सीखी जाने वाली सामग्री से संबंधित हो और यह व्याख्या सरल एवं बोधगयम हो। यदि व्याख्या किसी सहायक सामग्री अथवा श्यामपट का प्रयोग करने के साथ की जावे तो और अच्छा रहेगा।
- शिक्षक द्वारा व्याख्या रीति केवल जटिल सामग्री को स्पष्ट करने के लिये ही करना चाहिये। साथ ही यदि एवं बिन्दु पर व्याख्या की जा हिं है तो उसी समय दूसरे बिन्दु की चर्चा कदापि नहीं करना चाहिये। इससे प्रशिक्षार्थियों को भ्रम तथा भ्राँति हो सकती है।
- यदि व्याख्या द्वारा कही गई बात को प्रशिक्षार्थी नहीं समझ रहे हैं तो इसका भान होते ही शिक्षक को उसी समय पुनः व्याख्या को दोहराना चाहिये।
- व्याख्या करते समय शिक्षक के बोलने की गति न तो अधिक तेज और न ही अधिक धीमी होनी चाहिये। उसे ऐसी व्याख्या करनी चाहिये जिससे शिक्षण का उद्देश्य पूर्ण हो सके।
- शिक्षक तभी व्याख्या रीति का प्रयोग करे जब उसे विषयवस्तु का सम्पूर्ण ज्ञान हो। अधूरे ज्ञान से व्याख्या नहीं हो सकती है।

> यदि कोई कार चलाना सीखता है और कुछ दिन के लिये वह कार चलाने का अभ्यास बंद कर दे तो उसका सम्पूर्ण परिश्रम व्यर्थ हो जायेगा।

शिक्षक को इस रीति का प्रयोग करते समय देखना चाहिये कि सीखी जाने वाली सामग्री के किस भाग में प्रशिक्षार्थी कठिनाई महसूस कर रहे हैं। केवल उसी भाग को उदाहरण सहित व्याख्या करना उचित होगा। व्याख्या न तो अधिक लंबी और न ही अधिक संक्षिप्त होनी चाहिये। शिक्षक को व्याख्या करने के बाद कुछ प्रश्न भी प्रशिक्षार्थियों से पूछना चाहिये जिससे वह मूल्यांकन कर सके कि प्रशिक्षार्थी उसके द्वारा की गई व्याख्या को समझ भी पाये हैं अथवा नहीं। कभी कभी चतुर और बुद्धिमान प्रशिक्षार्थियों से भी कठिन अंश की व्याख्या शिक्षक को करवाना चाहिये जिससे उनके अंदर आत्मविश्वार के साथ ही उनकी अभिव्यंजना शक्ति का भी विकास हो सके। अच्छी व्याख्या प्रशिक्षार्थियों को सीखने के लिये प्रेरित करती है।

## अभ्यास रीति (ड्रिल टैक्नीक)

किसी भी क्षेत्र में जितना सीखी हुई वस्तु का अभ्यास किया जाता है उतनी ही उसके अंदर कौशलता का विकास होता है। यदि कोई कार चलाना सीखता है और कुछ दिन के लिये वह कार चलाने का अभ्यास बंद कर दे तो उसका सम्पूर्ण परिश्रम व्यर्थ हो जायेगा। यदि कोई बीमा संबंधी जानकारी ग्रहण कर रहा है और इस जानकारी के विषय में वह दोबारा पुनरावृति नहीं करता है तो वह लिखे हुये ज्ञान को भूल जावेगा अतः उसे उसका अभ्यास करना बहुत जरूरी है। कहा भी गया है कि ''करत करत अभ्यास के जड़मति होत सुजान''। किसी भी क्षेत्र में अभ्यास करने का अर्थ उस कुशलता प्राप्त करना है। अंग्रेजी में भी यह कहावत प्रसिद्ध है कि ''प्रैक्टिस मेक्स ए मैन परफैक्ट'' यह रीति मनोवैज्ञानिक थार्नडाइक के ''अभ्यास के नियम'' पर आधारित हैं। इस रीति से ज्ञान में परिपक्वता आती है प्रशिक्षार्थी के आत्मविश्वास के लेविल में वृद्धि होती है। अभ्यास रीति का प्रयोग करते समय शिक्षक को निम्न बातों का ध्यान रखना आवश्यक है।

- इस रीति के प्रयोग से प्रशिक्षार्थियों की स्मरण शक्ति का विकास हो सकता है जो एक बीमा

प्रशिक्षार्थि के लिये बहुत आवश्यक है, साथ ही वे अर्जित ज्ञान को और अधिक पक्का कर सकते हैं।

- इस रीति से सीखने की प्रक्रिया में निरंतरता बनी रहती है और प्रशिक्षार्थी संबंधित सूचनाओं का संबध स्थापित करने में समर्थ होते हैं।
- अभ्यास करते समय शिक्षक को ध्यान रखना है कि प्रशिक्षार्थी किसी गलत बात को गलत तरीके से आन्यसाध न करने लगे अन्यथा प्रशिक्षार्थी ठीक से याद नहीं कर सकेंगे।
- शिक्षण को अभ्यास कराने से पूर्व प्रशिक्षार्थियों को सीखी गई विषय सामग्री की महत्ता बतलाकर उनसे प्रति उनमे रूचि उत्पन्न करना चाहिये।

**प्रशिक्षार्थियों को स्वयं के अनुभवों तथा ज्ञान के आधार पर निरीक्षण करने देना चाहिये और निरीक्षण की जाने वाली क्रियायें उसके व्यवसाय से सीधे संबंध रखने वाली होनी चाहिये।**

- प्रशिक्षार्थियों को अभ्यास उनकी व्यक्तिगत आवश्यकताओं के ही अनुसार कराना चाहिये। जो प्रशिक्षार्थी जिस विषयवस्तु में पिछड़ा हैं केवल उसे उसी विषयवस्तु का अभ्यास कराना चाहिये।

अभ्यास रीति का उपयोग करते समय शिक्षक को स्वयं की सुविधा का नहीं वरन प्रशिक्षार्थियों की सुविधा का ध्यान रखना आवश्यक है। इस रीति का प्रयोग प्रशिक्षार्थी कक्षा के बाहर भी कर सकते हैं। अभ्यास की प्रकृति प्रशिक्षार्थी विशेष की क्षमता पर निर्भर रहती है।

## निरीक्षण रीति (ऑबर्ज्वेशन टैक्नीक)

इस रीति में प्रशिक्षार्थी का महत्व अधिक है। इस रीति के द्वारा वे बीमा संबंधी क्रियाकलापों का अवलोकन तथा निरीक्षण करते हैं और बीमा कार्य से संबंधित व्यवहारिक ज्ञान प्राप्त करते हैं। निरीक्षण द्वारा जो भी ज्ञान प्रशिक्षार्थी प्राप्त करते हैं वह उनके मस्तिष्क में स्थाई रूप से स्थापित हो जाता है। निरीक्षण रीति का प्रयोग कक्षा में कम किन्तु फिल्ड में अधिक किया जाता है। ग्राहकों से कैसे बात करें उन्हें बीमाधारक कैसे बनायें तथा बीमा का सम्पूर्ण कार्य प्रस्तुति प्राप्त करने से लेकर दावा राशि के भुगतान तक कैसे किये जाते हैं का ज्ञान निरीक्षण रीति से ही सम्भव है। शिक्षक को निरीक्षण रीति का प्रयोग करते समय निम्न पाँच बातों को ध्यान में रखना चाहिये।

- निरीक्षण कराने से पूर्व शिक्षक को प्रशिक्षार्थियों के सम्मुख निरीक्षण का उद्देश्यस्पष्ट कर देना चाहिये। साथ ही निरीक्षण करते समय उन्हें समय समय पर मार्गदर्शन भी देते रहना चाहिये।
- प्रशिक्षार्थियों को स्वयं के अनुभवों तथा ज्ञान के आधार पर निरीक्षण करने देना चाहिये और निरीक्षण की जाने वाली क्रियायें उसके व्यवसाय से सीधे संबंध रखने वाली होनी चाहिये।
- शिक्षक को निरीक्षण की जाने वाली बातों तथ्यों, प्रक्रियाओं आदि के विषय में प्रशिक्षार्थियों को पहले ही बतला देना चाहिये जिससे वे सभी क्रियाओं का सही निरीक्षण कर सके।
- निरीक्षण करने के बाद शिक्षक को कक्षा में निरीक्षण की गई बातों, तथ्यों तथा प्रक्रियाओं पर प्रशिक्षार्थियों से वाद-विवाद करवाना चाहिये और फिर शिक्षक को सभी बातों पर प्रकाश डालकर उपयोगी निष्कर्ष निकलवाना चाहिये।
- यदि आवश्यक हो तो शिक्षक को निरीक्षण की गई विषयवस्तु पर प्रशिक्षार्थियों से निबंध भी लिखवाना चाहिये और उसका मूल्यांकन भी करना चाहिये, जिससे प्रशिक्षार्थी उपने ज्ञान में वृद्धि करके कार्य करने की कौशलता में भी वृद्धि कर सकें। शिक्षक को निरीक्षण रीति का प्रयोग करने से पहले निरीक्षण की योजना तैयार करना चाहिये और जिस प्रक्रिया का तथा जिस संस्था का निरीक्षण करवाना है उसको पहले ही सम्पर्क करके योजना बना लेनी चाहिये। निरीक्षण के दौरान जब प्रशिक्षार्थी को कोई शंका या भ्रान्ति हो तो उसे दूर करना। निरीक्षण रीति से सीखने में प्रशिक्षार्थी व्यावहारिक ज्ञान प्राप्त करते हैं जो बीमा व्यवसाय के लिये अत्यन्त उपयोगी है।

*बीमा-शिक्षा की शिक्षण कला अर्चना सिन्हा व उमेशचन्द्र कुदेसिया तथा बीमा हाऊस, भोपाल से सम्मार।*

# ग्रामीण बीमा विपणन - सम्भावनाएँ एवं चुनौतियाँ

**प्रमोद कुमार वर्मा** कहते हैं कि ग्रामीणों का जीवन शहरी व्यक्तियों की तुलना में ज्यादा जोखिमों एवं अनिश्चितताओं से भरा है।

गाँवों की बात करते ही आँखों के सामने हरे-भरे खेत, बैलो की जोडी, खेतों की जुताई करता हुआ किसान, घास के मैदान में चरती हुई गायें, बच्चों का फलों के पेड़ से फल तोड़ना, सायंकाल में ग्रामीणों का अपने पड़ोसियों से चाय पर बात करना या साथ में हुक्का पीना या कुछ मनोरंजन के लिए गीत गाना जैसे कुछ दृश्य उभर कर सामने आते हैं जो कि ऊपरी रूप से अत्यधिक सुहावने लगते हैं परन्तु आन्तरिक रूप से ग्रामीणों की एक अलग कहानी ही बयां करते हैं। ग्रामीणों का जीवन शहरी व्यक्तियों की तुलना में ज्यादा जोखिमों एवं अनिश्चितताओं से भरा है क्योंकि आजादी के छः दशक बाद भी आज कृषि मानसून पर निर्भर है और इसकी उत्पादकता मानसून से प्रभावित होती रहती है। जिसका प्रभाव सिर्फ गाँवों की अर्थव्यवस्था पर ही नहीं बल्कि पूरे देश की अर्थव्यवस्था पर पड़ता है, भारतीय अर्थव्यवस्था का आधार कृषि है तथा भारत के सकल घरेलू उत्पाद में कृषि एवं इससे सम्बन्धित क्षेत्रों का योगदान घटकर लगभग 22 प्रतिशत रह गया है, जबकि देश की 65-70 प्रतिशत जनसंख्या अपनी जीविका के लिए इसी पर निर्भर रहती है।[1]

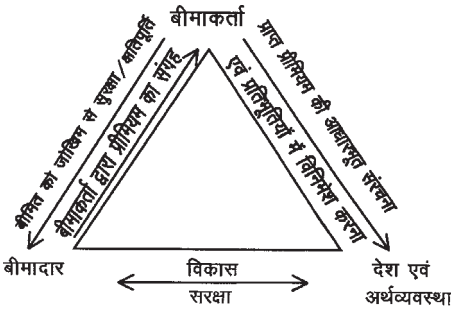
> ग्रामीणों के जोखिमों को बीमा के कवर द्वारा उनकी हानियों की क्षतिपूर्ति करके आर्थिक स्थिति को मजबूत करने का प्रयास किया जाता है जिससे वे अपना जीवन निर्भिकता से व्यतीत कर सकें।

जैसा कि ऊपर बताया गया है कि ग्रामीणों का जीवन अपेक्षाकृत अधिक जोखिमों से भरा हुआ है जिसका वहन वे आज भी स्वयं करते हैं। कुछ इसमें से सोने-चाँजी, भूमि या अन्य किसी प्रकार की सम्पत्तियों में विनिवेश करके जोखिम के समय अपनी स्थिति को सुधारने का प्रायास करते हैं तो कुछ आपसी सहयोग से एक कोष का निर्माण करके। ये सभी जोखिम वहन करने के अस्थायी साधन हैं, ग्रामीणों को जोखिमों से सुरक्षा प्रदान करने के लिए बीमा अन्य साधनों में सबसे अत्तम एवं स्थायी साधन है।

### ग्रामीण बाजार

भारतीय ग्रामीणों को बीमा सुरक्षा प्रदान करना सभी बीमा कम्पनियों के लिए एक बड़ी चुनौती है चाहे वे सार्वजनिक कम्पनियाँ हो या निजी कम्पनियाँ। भारतीय ग्रामीण भौगोलिक, सामाजिक, सांस्कृतिक, आर्थिक, शौक्षणिक, राजनैतिक, भाषाओं एवं रहन-सहन के आधार पर आपस में एक दूसरे से भिन्न एवं विषम हैं, जो बीमाकर्ताओं के लिए यह एक बड़ी चुनौती है इसके साथ ही शहरी तुलना में ग्रामीण क्षेत्रों में आधारभूत संरचना भी अपर्याप्त है इन सभी के कारण ही बीमाकर्ताओं के लिए शहर बीमा विपणन का केन्द्र बना हुआ है। ग्रामीण बाजार में बीमाकर्ताओं को गहरी पैठ बनाने के लिए ग्रामीण बाजार की विविधता एवं उसकी आवश्यकता को ध्यान में रखकर बीमा उत्पाद / सेवा ग्रामीणों तक उपलब्ध कराना बीमादाताओं का मुख्य उद्देश्य होना चाहिए।

इस बाजार को ध्यान में रखकर बीमाकर्ताओं को अपने व्यापार, गाँव एवं देश के विकास के लिए निरन्तर तत्पर रहना होगा। ग्रामीणों के जोखिमों को बीमा के कवर द्वारा उनकी हानियों की क्षतिपूर्ति करके आर्थिक स्थिति को मजबूत करने का प्रयास किया जाता है जिससे वे अपना जीवन निर्भिकता से व्यतीत कर सकें। बीमा कम्पनिया ग्रामीणों से प्राप्त प्रीमियम को देश के विकास हेतु आधारभूत संरचना एवं सरकारी प्रतिभूतियों में विनिवेश करती हैं। इससे देश की आधारभूत संरचना भी मजबूत होती है साथ ही अर्थव्यवस्था को भी गति मिलता है। इस विनिवेश से प्राप्रत लाभ को बीमाकर्ताओं द्वारा लाभांश या दावे की पूर्ति या परिपक्वता पर ग्रामीणों को उनकी आवश्यकता के समय वापस किया जाता है - बीमित को जोखिम से सुरक्षा / क्षतिपूर्ति।




(शेष भाग अगले अंक में)

1. Bharat 2008, Annual reference Publication Department, Ministry of Information and Broadcasting, Government of India, New Delhi, p.67

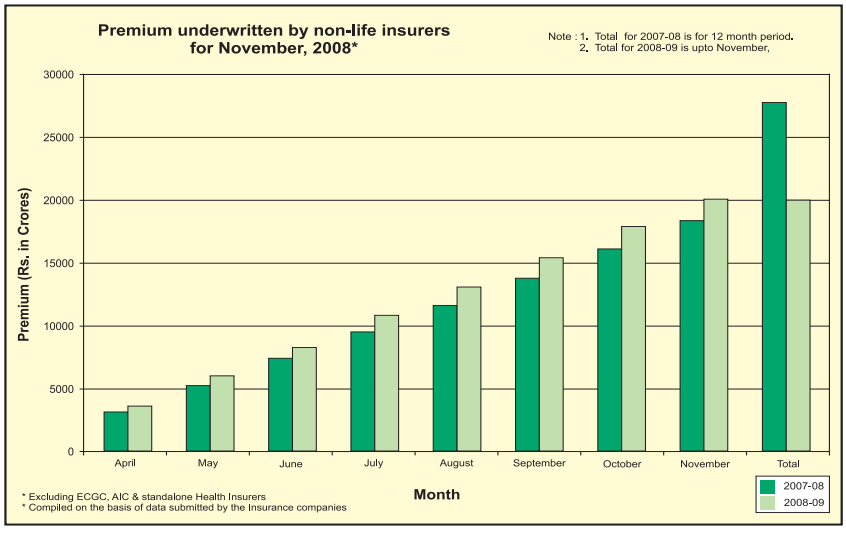
# Report Card: General

## GROSS PREMIUM UNDERWRITTEN FOR AND UP TO THE MONTH OF NOVEMBER, 2008

*(Rs.in Crores)*

| INSURER | NOVEMBER | | APRIL - NOVEMBER | | GROWTH OVER THE CORRESPONDING PERIOD OF PREVIOUS YEAR |
|---|---|---|---|---|---|
| | 2008-09 | 2007-08 | 2008-09 | 2007-08 | |
| Royal Sundaram | 65.77 | 60.42 | 527.00 | 439.73 | 19.85 |
| Tata-AIG | 52.13 | 55.28 | 609.05 | 527.69 | 15.42 |
| Reliance General | 181.34 | 186.68 | 1316.09 | 1315.36 | 0.06 |
| IFFCO-Tokio | 110.81 | 97.49 | 932.09 | 708.35 | 31.58 |
| ICICI-lombard | 230.54 | 283.98 | 2471.66 | 2348.10 | 5.26 |
| Bajaj Allianz | 188.74 | 190.45 | 1801.90 | 1515.52 | 18.90 |
| HDFC ERGO General | 25.33 | 18.63 | 203.58 | 148.18 | 37.39 |
| Cholamandalam | 52.82 | 34.23 | 467.43 | 349.02 | 33.93 |
| Future Generali* | 13.76 | 0.86 | 101.19 | 0.86 | 11672.09 |
| Universal Sompo # | 0.90 | 0.00 | 2.49 | 0.00 | |
| Shriram General @ | 17.18 | 0.00 | 37.57 | 0.00 | |
| Bharti AXA General @ | 2.09 | 0.00 | 3.93 | 0.00 | |
| New India | 364.77 | 397.96 | 3597.03 | 3517.22 | 2.27 |
| National | 314.47 | 316.00 | 2823.80 | 2591.89 | 8.95 |
| United India | 338.91 | 304.71 | 2754.60 | 2446.71 | 12.58 |
| Oriental | 265.97 | 274.28 | 2632.42 | 2598.67 | 1.30 |
| **PRIVATE TOTAL** | **939.33** | **928.01** | **8470.04** | **7352.81** | **15.19** |
| **PUBLIC TOTAL** | **1284.12** | **1292.95** | **11807.85** | **11154.49** | **5.86** |
| **GRAND TOTAL** | **2223.45** | **2220.96** | **20277.89** | **18507.30** | **9.57** |
| **SPECIALISED INSTITUTIONS:** | | | | | |
| **1.Credit Insurance** | | | | | |
| ECGC | 59.93 | 55.38 | 465.91 | 420.26 | 10.86 |
| **2.Health Insurance** | | | | | |
| Star Health & Allied Insurance | 7.07 | 3.55 | 318.76 | 98.99 | 222.00 |
| Apollo DKV* | 7.31 | 0.00 | 25.46 | 0.00 | |
| **Health Total** | **14.39** | **3.55** | **344.22** | **98.99** | **247.72** |
| **3.Agriculture Insurance** | | | | | |
| AIC | 78.04 | 63.51 | 540.69 | 552.13 | -2.07 |

*Note: Compiled on the basis of data submitted by the Insurance companies*
** Commenced operations in November, 2007. # Commenced operations in February, 2008.*
*'@ Commenced operations in July, 2008.*



**''তিন সপ্তাহ আগে ক্লেইমের সব কাগজপত্র পাঠিয়ে দিয়েছি... ওরা টাকাটা তাড়াতাড়ি পাঠাবে তো ?''**

**''নিশ্চয় পাঠাবে। কাগজপত্র সব ঠিকঠাক থাকলে ওদের 30 দিনের মধ্যে ক্লেইম মেটাতে হবে। সেটাই নিয়ম।**

ইন্সিওরেন্স রেগুলেটরি অ্যান্ড ডেভেলপমেন্ট অথরিটি (আইআরডিএ), ভারতে বিমা কোম্পানিগুলির তত্ত্বাবধানকারী সংস্থা, পলিসিধারকদের স্বার্থ রক্ষা করে। আইআরডিএ কর্তৃক নির্দিষ্ট নিয়মগুলির মধ্যে আছে :

- সংশ্লিষ্ট কাগজপত্র প্রাপ্তির 30 দিনের মধ্যে বিমা কোম্পানিকে ক্লেইমের অর্থপ্রদান করতে হবে, অথবা ন্যায্য কারণ দেখিয়ে প্রশ্ন তুলতে হবে।
- প্রোপোজাল গ্রহণের 30 দিনের মধ্যে বিমা কোম্পানিকে প্রোপোজাল ফর্মের একটি কপি সম্ভাব্য পলিসি ধারককে বিনামূল্যে দিতে হবে।
- বিমা কোম্পানিকে প্রোপোজাল প্রাপ্তির 15 দিনের মধ্যে তা প্রক্রিয়াকরণ ও জ্ঞাপন করতে হবে।
- প্রয়োজনীয় সমস্ত কাগজপত্র জমা করার পরেও যদি ক্লেইমের নিষ্পত্তি করতে দেরি হয়, বিমা কোম্পানির নির্দিষ্ট হারে সুদ দেওয়ার দায় থাকবে।
- জীবন বিমা'র পলিসিধারকের 15 দিনের ''ফ্রি লুক পিরিয়ডের'' অধিকার থাকবে, (পলিসি প্রাপ্তির তারিখ থেকে) পলিসি বাতিল করার জন্য।
- পলিসিধারকদের চিঠিপত্রের জবাব বিমা কোম্পানিকে প্রাপ্তির 10 দিনের মধ্যে দিতে হবে।

জনস্বার্থে প্রচারক :
বীমা বিনিয়ামক আর বিকাস প্রাধিকরণ
**ইন্সিওরেন্স রেগুলেটরি অ্যান্ড ডেভেলপমেন্ট অথরিটি**
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RNI No: APBIL/2002/9589

# view point

Amid the ongoing financial turmoil, the global reinsurance market has proven relatively robust and resilient against direct shocks thus far, which has contributed to both the stability of the global insurance markets as well as ultimately the security of individual insurance customers.

**Mr Peter Braumuller**
*Chair of the IAIS Executive Committee*

Now is the time for consumers to get smart about their insurance and take advantage of the opportunities to maximize their coverage, minimize their costs and protect themselves financially.

**Mr Roger Sevigny**
*NAIC President and New Hampshire Insurance Commissioner*

The current financial crisis is unprecedented in terms of its scale, complexity, and speed of transmission. While the series of coordinated actions by financial authorities and Governments have helped to stabilise the markets somewhat, sentiments remain fragile; and many of the underlying problems remain.

**Mr Heng Swee Keat**
*Managing Director, Monetary Authority of Singapore*

Terrorism has been one problem that has been bothering all the nations universally. Rather than looking at the happenings as sporadic ones, there is need for fighting the menace on a war-footing.

**Mr J. Hari Narayan**
*Chairman, Insurance Regulatory & Development Authority, India*

Instead of the rear-view mirror approach now on display in other parts of the world, this government (Canadian) has been focused on the horizon. This extends to how we acted in advance of international financial turmoil.

**Mr Jim Flaherty**
*Minister of Finance, Govt. of Canada*

What we are doing next year is moving beyond that (Solvency II) and starting to accept the use of economic capital models for insurers. We are currently in the midst of a survey of our market practice, to see how good our modeling is.

**Mr Mathew Elderfield**
*CEO, Bermuda Monetary Authority*