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From the Publisher

This issue of **IRDA Journal** looks at the state of pensions in the country today and the transformation taking place in this sector to serve the changing needs of the working population. The shrinkage in the size of the family, the gradual erosion of the concept of joint family, increase in mobility induced by career options available to children, improvements in medical science leading to increase in longevity have all contributed to the need for a more meticulous planning for old age becoming inevitable.

Though life insurance business includes provision of annuities, this line of business has not gained momentum yet due to a variety of circumstances. The predominance of non-contributory, defined pension scheme applicable to government servants, both Central and State, which was later extended to some of the public sector undertakings coupled with Employees Provident Fund scheme for the workers in the organised sector had made the development of an independent pension market somewhat difficult. Added to this, the lower tax benefits for pension investment relative to that for other kinds of investment (in housing property or life insurance policies or even mutual funds for example), is one important reason for the relative neglect of annuities.

The insurance companies were also not able to demonstrate the benefit of monthly pensions as voluntary retirement savings had a liberal withdrawal regime, which by its very nature truncates the pension payout. Hybrid annuity products that include a return of capital also have the same effect on the quantum of the annuity. Hence, retirement solutions that lock up the capital are imperative for the new breed of investors to get a product that delivers its full social and protective value. And making that product attractive in terms of pricing and value propositions is the job of the life insurance industry.

C.S.RAO

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The Future Beckons

The Issue Focus this month is on Pensions. The topic has found a new level of attention following the reforms initiated by the Government last year and we at the Journal wanted to keep you informed about the past, the present, and the potential future of the pensions sector considering that life insurance companies are solely entrusted with writing annuities and that they could be interested in participating in other segments of the business, like funds accumulation and management if and when the policy allows them to.

We bring you a state of the sector report from Mr. U. K. Sinha, Joint Secretary, Ministry of Finance, who has been working with Pension reforms for over a year now and perspectives on the sector, as it has been through the years and as it is envisaged to be, from life insurance industry veterans like actuary Mr. S. P. Subhedar, former Member, IRDA, Mr. H. O. Sonig, and the current Member (Life), IRDA, Mr. T. K. Bannerjee.

Also bringing in interesting inputs on occupational pensions are actuary Mr. Arpan Thanawalla and researcher Ms. Renuka Sane. Dr. Puneet Chitkara, Senior Researcher, India Pension Research Foundation and Mr. Dinesh Khansili, Deputy Director (Actuary), IRDA bring you primers on pensions, with the former telling us the differences between and the virtues of Defined Benefit and Defined Contribution systems and the latter about the different kinds of annuities and what you get when you make choices.

We continue with Mr. M. Arunachalam's extensive and well thought out article on Technology and the Indian Insurer and hold back Keeping Count, the series on accounting gimmicks once more, this time because of a shortage of space!

The news section – In The Air – features extracts from the report of the S. V. Mony Committee which was constituted by the IRDA to create a road map to detariffing Own Damage insurance. The full report is on the IRDA website (www.irdaindia.org) for download and comments.

With apologies to consumers we hold back the considerable material we have got for the End User section, again due to a shortage of space. We promise to make up for it though – our entire issue next month is going to be on the customer. On the state of customer grievances redressal in the industry to be specific.

We have requests to announce our editorial calendar a little more in advance so that readers who want to contribute to sections of their interest can have enough time to do so. That's a good idea and we shall do that from now on. The issue after the one on customer grievances redressal, which is the August issue, will be on risk management. That is, tracking what insurance companies and other stakeholders in the industry do to manage their own risks.

We are planning special issues on exempted insurers, on the myriad problems and concerns of insurance agents and one evaluating what is happening with infrastructure and social sector investments that the insurers were expected to make in what was envisaged as a win-win situation for a country liberalising its insurance industry and thirsty for long term funds for infrastructure as well.

Please do write in or email us if you wish to write on any of these topics or have suggestions for them.

K. Nitya Kalyani

“The Customer is...

K. Nitya Kalyani

... sometimes demanding, sometimes cranky, sometimes righteously angry, but always right. He “is the reason we exist,” goes the saying by Mahatma Gandhi that we have seen in posters around the country in commercial establishments.

The setting of the poster may sometimes be heartening and sometimes ironical. But it is a simple and uplifting truth.

There is a neat synergy between a business and its customer which means that usually their dealings are on a balance, each getting what he wants out of a business transaction, or able to negotiate a fair deal.

In the financial services industries, there is a basic asymmetry of information that is built in to the structure of the product and the transaction that alters this balance. A bank lends money on the basis of information and even trust, but should the loan turn bad, there are few practical and elegant ways to extricate its capital from the situation.

Investments and savings are made by customers on the basis of promises, and returns and the safety of capital itself could come into question with the investor dealing with a difficult situation with insufficient information and the means to deal with it.

In insurance the customer is similarly hampered. For, as we all know, the product is delivered only on a contingency and when the customer is already disadvantaged, but has paid for it in advance.

Here the asymmetry of information and power works differently at two different points. At the point of sale, it is the customer who holds the reins in

There is a neat synergy between a business and its customer which means that usually their dealings are on a balance.

terms of what he wishes to cover, what he discloses and how truthfully. But when it comes to paying claims, the simple fact that payment may be withheld – even temporarily – means that the insurance company has the clear upper hand.

Typically such a service provider has unhappy customers with whom it is ill-equipped or uninclined to deal by the nature of its structure and the realities of its strong and almost unchallengable financial position. Add monopoly, or virtual monopoly, and a public sector nature of the industry and it only magnifies the situation.

It is in this context that the well-meaning grievances redressal mechanisms have been mandated and put in place by the industry and its regulator, and the Government through the judicial system.

Grievances officers, ombudsmen, Lok Adalats, consumer fora .... are all components of that system which seeks to maintain some balance and provide a voice to the individual customer vs large business.

The system seems to have proved good in parts. Which parts and how much, and what it has achieved for the industry and its customers is what we try to examine in our next issue.

We will also bring you some insights from the cases that have come to these grievances redressal fora and the lessons that they carry for us.

If you have a suggestion or experiences you want to write about, you are most welcome!

(Unhappy Customers = Unhappy Businesses)

Or is it?

Join us in our search for happiness!
Our next issue is on how we deal with unhappy customers.

The Road to Detariffing OD

The Group constituted by the IRDA to suggest a road map towards detariffing Own Damage (OD) insurance, which was a recommendation of the Justice T. N. C. Rangarajan Committee, has submitted its report.

The Group, Chaired by Mr. S. V. Mony, ex-Chairman, General Insurance Corporation (GIC) and Vice-Chairman, AMP Sanmar Life Insurance Company, has made the following main recommendations:

The centralised rating regime for OD insurance should be replaced by individual companies' own rating systems with safeguards and internal and regulatory compliance.

Key underwriting factors as are adopted by insurance companies worldwide need to be adopted by insurance companies here for arriving at their individual rating systems. From over 30 rating factors, the Group has identified the following as critical while leaving the weightage to the companies.

I Vehicle Related
- Make and model
- Engine power
- Age of the vehicle
- Licensed carrying capacity / GVW as applicable
- Safety features
- Repair and replacement costs

II Driver/Owner Related
- Age
- Driving experience
- Driving record
- Health and habits

III Use Related
- Annual mileage run
- Geographical location
- Personal, commercial private, commercial for hire
- Type of goods transported

The Group has also given the following indicative, not exhaustive, list of other rating factors which play a role in underwriting risk:

- Theft-proneness of the vehicle or its parts
- Frequency and nature of accidents
- Named driver
- Occupation of owner
- Traffic conviction record
- Special driving education, safety training
- Membership of automobile association

The Group has recommended that companies use the Risk Factor Rating System (RFRS) to create and rate new products.

The Group has recommended that companies use the Risk Factor Rating System (RFRS) to create and rate new products and also that the file and use system be followed to ensure commitment to discipline in their practices.

Under an RFRS the premium is calculated as a product of base premium and relativity factors loaded for different risk categories. The premium rating structure generally used in the UK, Singapore, Australia, Canada, England, Germany and Japan is based on the number of risk factors.

As a starting point to this RFRS, the Group recommends the use of the existing tariff as guide rates on which the loading or discount can be calculated by the individual insurer who should include these details in their 'file and use' documents.

The companies, it has recommended, should also be given a free hand in determining the best means to safeguard the existing accumulated 'No-claim Bonus' of the insureds, adding that it is hopeful that insurers will offer new products to protect the No Claim Bonus for a price as existing in some of the other markets in the world.

Similarly, the decision to impose deductibles is also best left with the individual insurer, the Group has said.

The scales of depreciation which are part of the OD tariff, and hence will no longer apply, should also be left to the individual insurer, the Group has said, suggesting that in order to avoid inconsistencies the values of the vehicles should be fixed by a body comprising of representatives of insurance companies (the General Insurance Council), TAC and the Federation of Indian Automobile Associations, and made known through a publication, on the lines of the Glass's Guide of the UK.

The Group has recommended some safeguards for implementation by the insurers:

i) The basic rates, details of underwriting factors adopted for use and their weightage, dispensation relating to application of band for variance in rates, deductibles, no claim bonus scales etc will have to be approved by the Actuary and Board of Directors or their delegated committee, before submission to the IRDA under the 'file and use' system.

ii) These and the practices in the company should be subject to regular monitoring by the Internal Audit system and this function should be reflected in their terms of reference.

iii)A Compliance Report will have to be placed before the Board at least once a year.

iv) Submission of agreed statistical returns to a designated authority should be made a compliance issue at the level of the Board, and non-compliance should attract punishment.

About statistics, the lack of which has compounded the problems of the industry in the matter of Motor insurance the Group had this to say:

"Taking into account the vital significance of statistics on the portfolio and the problems faced by the industry in the absence of such statistics the Group recommends that submission of information in an agreed format to a designated organisation be made mandatory on the part of the insurer and a compliance issue vis-à-vis the Board and Regulator.

In the interests of customer service, it has recommended that a copy of the proposal and the quotation of the premium rates be made a part of the policy documentation.

In the context of a free market rate regime for OD, IRDA should ensure that insurers do not offer stand-alone OD cover without attendant third party protection or refuse pure third party insurance cover, the Group has said.

It has recommended that the IRDA:

1. Strengthen their administrative machinery to handle the 'file and use' format in the new paradigm to scrutinise underwriting parameters, weightages, loading and discounts, assumptions of expenses, claims cost, profitability of the product and the portfolio in an agreed time frame.

2. Set up a separate dedicated Cell or Division to continually monitor the performance of the Motor portfolio specifically, with adequate staff consisting of senior professionals, actuary, statistician and IT professionals.

   It has also recommended that the IRDA take urgent steps to set up an institution in collaboration with insurance companies and automobile manufacturers to process industry's statistics and undertake R & D activities relating to the Motor portfolio, more particularly in the area of design, reparability and 'repair friendliness' of the vehicle.

   It also says that the IRDA (or the Council) should facilitate a smooth transition from an administered pricing regime to a disciplined free market regime by undertaking systematic awareness campaigns before and after a change is implemented. The Council should also act as a self-regulating body for the industry, with the Regulator controlling by exception.

The basic rates will have to be approved by the Actuary and Board of Directors before submission to the IRDA under the 'file and use' system

The Group has urged the IRDA to

- actively pursue with the Ministry concerned to amend the MV Act to address the features relating to unlimited liability, concessional court fees, jurisdiction and statutory time limitation
- pursue with the Ministry concerned and/or state governments to ensure that all vehicles on the road are duly insured as per the MV Act
- initiate a project to set up a Motor Third Party insurance Pool as recommended by the Justice Rangarajan Committee. This will be a mechanism by which all insurers in a market share the premium and claims and net outcome is distributed annually among the pool members
- participants so that common experience is shared by all on a basis to be agreed
- initiate steps to move towards a free market regime for the whole Motor insurance portfolio and
- in the context of initiating the above step, move towards a free market regime in respect of all other business under the tariff regime

The Group submitted its report to the Chairman, IRDA in April 2004. The Members of the Committee, which was mandated to suggest a road map towards detariffing Motor Own Damage insurance, were:

Mr. H. S. Wadhwa, CMD, National Insurance Company, Mr. Micky Brigg, CEO, Royal Sundaram Alliance Insurance Company, Mr. M. K. Tandon, Retired CMD, National Insurance Company, Mr. S. K. Mishra, Director (RT), Ministry of Road Transport and Highways, Mr. Jagdish Khattar, CEO, Maruti Udyog, Mr. D. Varadarajan, Advocate, Legal Adviser to IRDA and Mr. P. K. Swain, AGM, TAC, Convener – Secretary.

BROKER SUSPENDED

The licence of Mass Insurance Broker Pvt. Ltd., registered with IRDA as Insurance Broker, has been suspended by the IRDA for non-compliance with regulatory mandates pertaining to submission of financial and other returns.

Regulation 26 of IRDA (Insurance Brokers) Regulations, 2002 mandates that every insurance broker shall before October 31 and April 30 each year furnish to the Authority a half-yearly un-audited financial statement containing details of performance, financial position, etc., along with a declaration confirming the fulfilment of requirements of capital in accordance with the provisions of regulation 10 and deposit requirements in accordance with the provisions of regulation 22.

Mass Insurance Broker did not submit these returns after reminders and a lapse of considerable time and also did not respond to a Show-Cause Notice of the Authority asking it to show cause why its license to act as Direct Insurance Broker should not suspended, for failing to comply with Regulation 26 of IRDA (Insurance Brokers) Regulations, 2002 and for not responding to the directions of the Authority.

The broker neither acknowledged receipt of the notice nor did he reply to it nor submitted its financial returns. Therefore, in exercise of the powers conferred upon the Authority by Regulation 34 of IRDA (Insurance Brokers) Regulations, 2002, the IRDA suspended the broker with effect from June 8, 2004 and the broker will not be entitled to payment of any remuneration for the insurance broking activities carried out from that date onwards.

IRDA DIRECTS PRODUCT RECALL

The IRDA has directed United India Insurance Company Limited to withdraw the Uni Industry Care Insurance Policy and discontinue the marketing of the same by its offices, agents and insurance brokers with immediate effect.

The rates being quoted in the market for the comprehensive insurance policy covering industrial units against fire, flood and other hazards and introduced in the market a few weeks ago, did not conform to the tariff.

The policy had been cleared by the IRDA with some modifications that required the company to adjust the premium rates for different covers to bring it on par with the fire tariff rates, but it was found that this change was not made. This led to a directive to withdraw the policy. IRDA clarifies that policies already sold will remain valid.

INSPECTION REPORT OF NIS SPARTA

IRDA has instructed NIS Sparta, an accredited training institute for imparting IRDA mandated training for agents and prospective agents, to close some centres and convert others to company owned 'mother' training centres from the current franchisee owned ones.

The move comes in the wake of an enquiry and the company's submissions during May and June this year following inspection by IRDA in April that revealed lack of necessary infrastructure.

According to the instructions, NIS Sparta is required to close down the training centres at Agra, Bhiwani, Haridwar, Kanpur, Lucknow and Meerut.

Forty three other centres have to be converted into mother centres in 40 days and 13 more in 60 days. The approval of all other training centres except the above and the seven mother centres in Mumbai, Bangalore, Chennai, Kolkata (two) and Delhi (Two) stand withdrawn.

The company has been asked to report back confirming the conversion of the franchisee centres into mother centres and that it has no other franchised centres. It has also been required to furnish operational details about the training it is offering at its centres on a regular basis.

Special Discount on Marine Hull

IRDA had announced on June 8 the removal of the Special Discount of five per cent in lieu of agency commission or Broker's remuneration for Marine Hull business from July 1, 2004 to March 31, 2005.

Subsequently, on receipt of a representation from the Indian National Shipowners' Association (INSA), this matter has been kept in abeyance through a circular dated June 22, 2004 and the shipowners and INSA have been given another opportunity to represent their case before the Authority within three months of the issue of this circular, to enable it to consider their views and take a final decision.

The June 8 decision to do away with the Special Discount followed an examination of the prevalent practice of scales of commission payable to Direct Insurance Brokers and Insurance Agents along with the recommendations made in the "Report of The Expert Committee to Examine the Remuneration System for Insurance Brokers and Insurance Agents in General Insurance Business."

Owner's discount was restricted to 10 per cent wherever applicable as per Marine Hull tariff instead of 15 per cent towards discount to owners and commission to Agents and hence, no special discount in lieu of Agency Commission/ Broker's Remuneration was to be payable on Marine Hull business, irrespective of the paid up capital structure of the insured with effect from July 1, 2004 till March 31, 2005

Subsequent to this the Indian National Shipowners Association (INSA) made a representation to the Authority against the circular saying that the presence of a tariff regime in Marine Hull portfolio of insurance business makes them uncompetitive internationally. It also said that that the Special Discount of five percent is the only way that they can be compensated for remaining competitive in a free pricing regime.

INSA also said that they assumed that the Special Discount applied to all tariff businesses uniformly thus including Marine Hull and hence did not make any special representation before the Expert Committee.

Following this IRDA has directed that in addition to owner's discount of 10 per cent wherever applicable, the shipowners will also be eligible for five per cent Special Discount in lieu of agency commission/brokers' remuneration until further order if the business is placed with the insurance companies directly.

Past to Future

- A Look at Pensions in India

S.P. Subhedar

The majority of the Indian population is too preoccupied with its struggle for survival during working life to afford the luxury of thinking about post retirement life. In this context, questions like "Will I have enough to live on when I retire?" or "Will I get proper healthcare during my old age?" which are of concern to the people in developed countries or to the elite section of the population in India are of least significance to this majority of the Indian population.

However, looking to the increasing longevity of the general population, we cannot allow the concern about post retirement life to remain an elite phenomenon. As per the results of the 2001 Census, the expectation of life at birth has increased from 57.7 years for male and 58.7 years for female in 1991 to 62.3 and 65.3 respectively . The expectation of life at 60 has also correspondingly gone up from 14.5 years in 1991 to 17 years in 2001.

Even though ever since 1889, when Otto von Bismarck, Prussia's Chancellor, introduced the first state pension, people have been increasingly looking to the state to provide old age income, healthcare and protection against poverty, it is increasingly being recognised that the state cannot provide a complete solution to this problem. The magnitude of the problem has forced the governments the world over to move away from the concept of a social welfare system of intergenerational transfers to self-financed social welfare systems.

In India, the issue is of a much higher magnitude. The role the Government can play in the self-financed welfare system is to create an institutional infrastructure to enable and encourage people to undertake the task of creating assets for old age income. It is in this context that the recent Government of India initiatives to encourage the development of a structure for privately-managed pensions in India is so important.

The Government initiative

The Old Age Social and Income Security (OASIS) project of the Ministry of Social Justice and Empowerment was commissioned in this background for examination of policy questions connected with old age income security. The basic mandate of the project was to make concrete recommendations to the Government of India for initiatives that would facilitate people to self-finance their old age income.

The constitution of the OASIS Committee was one of the major initiatives of the OASIS project. The committee submitted two reports to the Government of India, the first one in February 1999 and the second in January 2000. The first report covered existing mechanisms for social security – provident funds, pension schemes and Public Provident Fund and the second report covered other issues, including a new voluntary pension system, individual choice of diverse funds, pension fund managers and regulatory authority.

> The main driving force behind the formulation of the proposed DC individual retirement account pension scheme appears to be the need to arrest the growing unfunded liability of the government employees' pension.

In its first report, the Committee has enunciated the basic philosophy of the pension reforms initiative that "Economic security during old age should necessarily result from sustained preparation through life-long contributions. The Government should encourage fully funded old age income security system that puts emphasis on the value of thrift and self help. The Government should step in only in case of those who do not have sufficient incomes to save for old age." The two significant achievements of the OASIS Committee reports are that :

- these reports, for the first time, generated public debate on reforming India's pension system ; and
- created awareness about self-financing of old age income.

The recommendations of the OASIS Committee for introduction of Defined Contribution Fully Funded Individual Retirement Account Pension with universal access has been accepted by the Government of India and the Government has also set up an interim Pension Fund Regulatory and Development Authority (PFRDA) by an executive order and has evolved a plan for the phased introduction of a DC individual retirement account pension scheme.

Environmental factors

Before we go into the current coverage for old age income and the scope for future coverage, it would be useful to dwell on the various environmental factors that have influenced the coverage in India.

Of the world population of 6.3 bn, India has 1.027 bn, i.e. about 16.3 per cent. However, the elderly population in India is about 12.5 per cent of the world elderly population. This indicates that the Indian population is relatively younger because of high birth rate and high death rate; the rate of birth per 1,000 population being 25.8 and rate of death per 1,000 population being 8.5 as per 2001 census. There are 70 mn people over 60 in India and just about

10 per cent of then have their own income and the others have to rely on transfers, mainly from their children.

There are a number of environmental factors that have influenced the majority of Indians in not getting concerned about providing for old age income. The first is the joint family system which supported the elderly persons in the family. With the disintegration of this system, particularly in the urban area, this is changing. Another reason is that the Indian economy is essentially an agricultural economy and about 74 per cent of the population is engaged in agricultural pursuits and individuals engaged in agriculture pursuits do not retire at a specified age.

The other reason is inadequate disposable income. A major part of the population in India suffers from this inadequacy and, to my mind, this does not allow them to think in terms of providing for old age income. All these factors contributed to the low concern in India about provision for old age income. In this context, pensions in India have essentially remained confined to the salaried section of the population in the form of occupational retirement benefits. An excerpt from the World Bank report titled "India The Challenge of Old Age Income Security" supporting this is reproduced herein:

" …….As in other poor countries, low coverage is a function of a large agricultural population as well as an informal sector that evades all taxes and social insurance contributions. Participation in voluntary savings schemes is even more limited. This is not surprising given that the main incentive for contributing to such a program is a reduction in income tax payments, a benefit relevant to 2-3 per cent of workers that actually pay income taxes.

This is not to say that the rate of private savings in India is low. Rather, the point is that most of this savings occurs in the top half of the income distribution and is concentrated in bank deposits and other short term savings instruments. The reluctance to engage in medium or long term savings is partly a reflection of low incomes of majority of Indian households. With a relatively small group saving for retirement, a substantial portion of the population will inevitably depend on children, charity or the state when their ability to earn wanes………"

— ***World Bank Document on India***

In India, currently there are a number of vehicles that facilitate building up of assets for old age income and it might be useful at this stage to review the coverage achieved by these vehicles. The World Bank document referred to above has given the coverage under the Compulsory, Voluntary (tax preferred) and government sponsored Social Assistance schemes for old age income security which is reproduced herein:

Programme	Legal Coverage*	Effective Coverage #	Financing
Compulsory			
Employees' Provident Fund	Employees in firms with more than 20 employees	About 5.8 per cent of the labour force	Employer and employee contributions
Employees' Pension Fund	Same as above with some exemptions	About 5.4 per cent of the labour force	Employer, government contributions
Civil Service Pension Scheme	Civil servants at state and federal level	About 3.5 per cent of the labour force	State or central government budgets
Government Provident Fund	Civil servants at state and federal level	Most civil servants	Employee contributions
Special Provident Funds	Certain occupations and employees in Jammu and Kashmir	About 0.5 per cent of the labour force	Employer and employee contributions
Voluntary, tax-preferred			
Public Provident Fund	All individuals	About 0.8 per cent of the labour force	Contributions
Superannuation plans	All employees	About 0.2 per cent of the labour force	Contributions
Personal pensions	All individuals	About 0.2 per cent of the labour force	Purchase of annuity like products
Social assistance			
State level social assistance	Varies by state	Varies by state	State budgets
National Old Age Pension Scheme	Destitute persons over age 65	About 15-20 per cent of population over 65	Central budget

*Legal coverage for EPS/EPF extends to 177 types of establishments. #Effective EPS coverage refers to a subset of EPF members."

The document does not specify as to what constitutes "labor force."

Pension coverage in India

As mentioned earlier, pensions in India remained confined to the salaried section of the population in the form of their occupational retirement benefits and, till about 1987-88, there was hardly any personal pensions business in India. The Deferred Annuity product of LIC had hardly any sale and the immediate annuities were purchased by only the trustees of occupational pension funds. In 1987-88, LIC introduced two personal pension plans, a deferred pension plan by name "Jeevan Dhara" and an immediate pension plan by name "Jeevan Akshay" with return of one per cent per month. The Government allowed premium on these two plans up to Rs 40,000 to be paid from pre-tax income.

Because of the tax incentive, there was a great demand for these products. This demand continued till 1992, when the Government decided to withdraw the tax incentive. While withdrawing the tax incentive, the Government allowed the policyholders of Jeevan Dhara to surrender their policies without treating the surrender value as taxable income in their hands. The sales of these plans immediately dropped and large number of policyholders surrendered their Jeevan Dhara policies.

In 1996, LIC introduced a deferred pension plan by name "Jeevan Suraksha." The Government allowed premium for policies under this plan up to Rs 10,000 to be paid from pre-tax income. The plan was well received in the market. Yet, as on March 31, 2003, LIC's in-force portfolio of these policies was just 1.3 mn. Allowing for the Jeevan Dhara portfolio of LIC and deferred pension policies sold by private insurers, the total deferred pension portfolio as on March 31, 2003 could be just about two mn.

In India, the two mandatory employee retirement benefits are provident fund and gratuity or severance pay. Establishments satisfying certain specified conditions have to provide these benefits. Retirement benefit in the form of monthly pension is essentially a British legacy, with this benefit available in government service and MNCs.

In the late eighties, the public sector bank and insurance employee unions made a demand that they be provided retirement benefits on par with government employees, the government employees having the retirement benefit of non-contributory index linked final salary pension, gratuity and provident fund to which only employees contribute.

The Government, after protracted negotiations conceded the demand and the final salary index linked pension financed by employers' contribution to provident fund was introduced in mid-nineties in public sector banks and insurance companies. Following this, the Government also allowed final salary index linked pension to the subscribers of Employees' Provident Fund (EPF) by diverting 8.33 per cent of employer's contribution to the provident fund to the pension fund called Employee Pension Scheme 1995 (EPS 95), with the Government contributing 1.16 per cent of salary to this scheme. Currently 26.4 mn employees are covered under the scheme.

The number of members covered under the occupational pensions arranged with LIC was 1.083 mn as on March 31, 2003. The portfolio of private sector life insurers as on date is not significant. Allowing for the persons covered under the Trustee administered pension schemes, the number covered by such occupational pension funds could be just about two mn.

Thus, the coverage under personal pensions and occupational pensions is small. The following Table gives segment-wise pension coverage in India:

According to the 2001 Census, the total number of workers in India is 402.5 mn of which 313.2 mn are main workers and 89.3 marginal workers. If we group the retirement benefit segments mentioned in the Table below into mandatory and voluntary, the division would be as follows:

Of the 10 segments listed in the Table the following schemes are not included for the reasons given herein:

Scheme and Nature of Benefit	Coverage
1. Govt employees' pension (Central, state, other departments like Post and Telegraph, Railways and armed forces) - Non contributory index linked final salary pension (DB) - Govt Provident Fund – employees only contribute (DC)	11.1 mn
2. Means tested tax financed assistance to the destitute aged 65 and above	6.9 mn
3. Public Provident Fund (DC)	2.8 mn
4. Employees' Provident Fund (DC)	29.3 mn
5. Provident Funds for Coal Mines, Assam Tea Plantations, Seamens' and Jammu and Kashmir (DC)	2 mn
6. Employees' Pension Scheme 95 (Hybrid)	26.4 mn
7. Gratuity or severance Pay	NA
8. Occupational Pensions (Both DB and DC)	2 mn
9. Personal Pensions offered by life insurers and mutual funds	2 mn
10. Varishtha Pension Yojana – Immediate Annuity for persons aged 55 and above	0.30 mn

Mandatory Benefit	Coverage
Government Employees' Pension	11.1 mn
Employees' Provident Fund	29.3 mn
PF for Coal Mines, Assam Tea Plantation, Seamens' and J & K	2.0 mn
Total Mandatory	42.4 mn
Voluntary	
Public Provident Fund	2.8 mn
Occupational pensions	2.0 mn
Personal pensions including Varishtha Pension Yojana	2.3 mn
Total Voluntary	7.1 mn
Total of Mandatory and Voluntary	49.5 mn

- Means tested tax financed assistance: a social assistance scheme for destitute
- Employees' Pension Scheme 95: membership of EPS 95 being sub-set of
- EPF membership Gratuity: members mostly covered under EPF and number covered for gratuity not available.

The proposed DC individual retirement account pension scheme is yet to start but the indicative coverage numbers are : 50,000 new Central Government employees per annum and 50,000 new state government employees per annum. The voluntary coverage in the initial years would be very small.

The comprehensive social security scheme designed by the Ministry of Labour providing death benefit of Rs. 1,00,000, hospitalisation benefit of Rs 30,000 p.a. and pension benefit of Rs. 500 p.m. to be funded through participants' contribution of Rs. 50 and Rs. 100 p.m. and cess of Rs. 0.10 per litre of petrol / diesel sold has not been taken into account here. This scheme is envisaged to cover more than 250 mn workers.

The participation rates for coverage under mandatory schemes for main workers works out to 42.4 /313.2 = .1354, i.e. 13.54 per cent and for voluntary schemes it works out to 7.1 / 313.2 = .023, i.e. 2.3 per cent. The total participation rate working out to 15.84 per cent.

According to the OASIS Committee report there are 13 mn salaried workers who do not have access to any scheme for building up assets for old age income. Providing them access to the proposed DC pension scheme is a win-win situation for the pension providers and the individuals concerned.

It will thus be seen that coverage under schemes for building up old age income is very low and a lot of developmental work is required to increase the coverage.

Future prospects

The Government, realising the need for developmental work, has entrusted the task of developing privately-managed pensions in India to the PFRDA. This part of the paper attempts to analyse the prospects of increasing the coverage for old age income.

For the purpose of this analysis it may be useful to divide the working population into four segments, viz.:

- the government sector;
- public sector units and local bodies;
- the private sector; and

> Personal pension buys are tax driven and when tax incentives were withdrawn sales have fallen. However, with the tax paying population being only about two per cent, we must go beyond tax incentives to increase coverage.

- individuals, particularly non salaried workers.

The employees in the Government sector are fully covered. The employees in Central Government employment as on December 31, 2003 have non-contributory final salary index lined pension, gratuity and Government Provident Fund to which the employees only contribute and those joining the Central Government service on and after January 1, 2004 would be covered by the proposed defined contribution individual retirement account pension to which the Government and employees both will contribute 10 per cent of salary each.

In fact, the main driving force behind the formulation of the proposed DC individual retirement account pension scheme appears to be the need to arrest the growing unfunded liability of the government employees' pension.

This scheme, in a phased manner, will be made applicable to other government departments and the state government employees. Since this is a mandatory benefit to which every government employee is entitled, the coverage will increase with increase in employment. Currently this is estimated to be 50,000 new Central Government employees p.a. and 50,000 new state government employees p.a.

The public sector units and local bodies provide two mandatory retirement benefits, viz. provident fund and gratuity. The retirement benefits in these units have to be on the pattern specified by the Government and many of these units have introduced pension for their employees by utilising employer's contribution to the provident fund for funding index linked final salary pension. It would also not be logical for these establishments to adopt the Central Government route of diverting their new employees to the proposed DC individual retirement account pension scheme.

If the new employees of these establishments were not to be given the DB pension funded through the employer's contribution to the provident fund, the employer's contribution to the provident fund in respect of these employees should remain in the provident fund as there is no logic in moving the new employees from one DC scheme to another DC scheme. Further, there is no scope for introducing pension as a third retirement benefit here.

In the private sector again there are very few employers who can afford to provide pension as a third retirement benefit, provident fund and gratuity being the two mandatory retirement benefits. Further, practically all these establishments are covered by the Employees' Provident Fund and Miscellaneous Provisions Act, 1952.

A few of these establishments have exempt provident fund and the others contribute to the Central Provident Fund administered by the EPFO and both the categories are also covered by Employee Pension Scheme 95 or have a pension scheme of their own in lieu of EPS 95. Here again, there is little scope for introducing pension as a third retirement benefit. In fact, as mentioned above, the number of members covered by LIC under the occupational pension schemes arranged with it as on March 31, 2003 was 1.086 mn under 6,461 schemes.

Private sector life insurers have entered this business very recently and their contribution in this area is not significant. One area in this segment which has a significant potential is the establishments which are not covered by the EPF Act and Payment of Gratuity Act. The OASIS Committee report has indicated that there are 13 mn employees in this segment who do not have access to any vehicle for building up retirement benefit.

In many jurisdictions where pension schemes of the proposed DC pension scheme type with universal access have been introduced, it has been made mandatory for the establishments employing five or more employees to provide to their employees access to the scheme. This access is limited to facilitating the employees to contribute to the pension scheme. In the UK, the Stakeholder Pension Regulations have this requirement.

The non-salaried section of the population, and the salaried section to supplement their occupational retirement benefits, can buy personal pensions offered by the life insurers and in future they can also subscribe to the proposed DC individual account pension when it is open to individuals. Past experience indicates that personal pension buys are tax driven and when tax incentives were withdrawn the sales had fallen. However, with the tax paying population being very small, about two per cent, it would be necessary to go beyond tax incentives to increase coverage.

This has been achieved in the case of life insurance. The community at large has recognised the importance of life insurance as a powerful tool for managing the risk of dying too soon and because of this, even after withdrawal of tax incentive under section 88 of the Income Tax Act, 1961 for those with taxable income beyond Rs 5,00,000, and reducing the tax incentives for others, life insurance continues to be an attractive buy for people from a risk management perspective.

> It is necessary to focus public education on the need for self-financing of old age income on a massive scale and this education must start from an early stage in life.

This can happen in the case of pensions also, if pensions are projected as a powerful instrument for managing the risk of not dying soon enough. This would, however, require sustained efforts to create awareness amongst the people about pensions. It is therefore necessary to focus public education on the need for self financing of old age income on a massive scale and this education must start from an early stage in life so that the importance of self-financing of pensions is ingrained in young minds.

It is only through this initiative that the coverage for old age income would increase. In these efforts, the PFRDA, pension providers, intermediaries, teachers and the social organisations must participate. It is a huge and challenging task where the results would be very slow in coming. However, with the sustained efforts of all, it would be possible to achieve the objective of increased coverage for old age income that would enable people to live in dignity in old age. In the absence of such efforts, the World Bank prophecy about the proposed DC pensions that "There is little evidence that a sufficient number of individuals in the informal sector will voluntarily save with a multi-decade horizon if not encouraged by direct subsidy," would come true.

While the proposed DC individual retirement account pension which is expected to be operationalised this year might hold lot of promise for increased coverage for old age income, it might be useful to understand the UK experience in respect of the Stakeholder Pension which in some respects is similar to the DC pension scheme proposed to be introduced in India. To give an overview of the UK experience, a report on the Stakeholder Pension that appeared in the November 2003 issue of 'The Actuary,' a monthly publication of the Staple Inn Society of the Institute of Actuaries, UK, is reproduced below (see box next page).

The DC pensions of the type proposed to be introduced are low cost pensions and the experience in the other jurisdictions where such pension has been introduced is that there is a lateral shift from other pensions, both individual and group, to this pension. This is borne out by the findings of the research conducted in the UK about the Stakeholders Pension quoted in the previous para. Further, a recent press report indicated that the Government intended to provide a separate tax incentive, similar to the tax incentive allowed under section 80 CCC (1), on contributions to the proposed DC pension by allowing contributions, up to the prescribed ceiling which would be higher than Rs 10,000, to this pension to be paid from the pre-tax income. This would hasten the process of lateral shift mentioned herein.

The Faculty of Actuaries, UK, had constituted a Pensions Research Group for researching the directions that future pension design was likely to take. The Pensions Research Group, while reviewing the stakeholder pension has, inter alia, said that "The Government may not be able to encourage wider take up amongst the low to medium paid without introducing compulsory contributions." This is despite the fact that in the UK all establishments with five or more employees were obliged to comply with the stakeholder pension requirements by October 2001. These findings are very relevant for India as one of our major concerns is to increase the old age income coverage amongst the low to medium paid.

These findings have been reproduced here only to focus on the magnitude of the challenges that face any government attempting to ensure success of a new DC individual retirement pension scheme. The key issue of increasing voluntary take-up and ensuring that the contributions are invested in suitably diversified long-term assets for sufficiently long periods to enable asset accumulation that would achieve reasonable old age income, are challenges which the Government of India is now seeking to address.

> "The Government may not be able to encourage wider take up amongst the low to medium paid without introducing compulsory contributions."
>
> — *Pensions Research Group, The Faculty of Actuaries, U.K.*

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WHY COMPEL?

"Stakeholder pension failure to lead compulsion?

Research issued this month by research agency Datamonitor highlights how the government's low-cost pension schemes are failing to reach their audience. Stakeholders are not generating new business but merely replacing sales of other types of pension plans. 'It is perhaps time for the government to seriously consider compulsory pension contributions to avert what will be a catastrophic pension crisis in years to come,' said John Wilson of Grant Thornton.

'The arguments for compulsory pension contributions is not without its problems but it is becoming increasingly clear that a different way has to be found to replace stakeholder legislation which so far has failed in its aim. While most employers have made stakeholder pensions available, as they should have done, the majority have no employer contribution. There has been compulsion on employers to create a facility to save for pensions that achieves very little when the majority do not want it. While the concept of encouraging savings for pensions at low charge is good, what is flawed is the basis that the government has used to try to encourage pensions savings.'

Stakeholder schemes began in April 2001 and the Association of British Insurers' figures show that by September 2002 there were no members in 90 per cent of all the employer-designated schemes created. There is also an indication that more than 3,30,000 (95 per cent) out of an estimated 3,50,000 relevant employers have a designated scheme. According to Datamonitor, during 2002 sales of individual new stakeholder plan increased by 76.4 per cent, while the number of work-based stakeholder schemes sold increased by 80.6 per cent. Despite the big increases in these markets, the total pensions market still decreased in value."

What & Why?

- New Pension Scheme

U.K. Sinha

Two divergent perceptions of the New Pension Scheme (NPS) exist today. One is that it will cover only a miniscule part of the working population because existing Government servants and those under EPFO are not part of it. As such, it is not going to have any impact.

The other perception is that by going from defined benefit, Pay-As-You-Go to a defined contribution system, the Government is moving too fast i.e. from bullock cart age to jet-age in one go.

Pension is a serious business. Reforms have to be gradual and not one big bang.

NPS is a very small initiative. Initially, it will cater to newly recruited Central Government employees, except the armed forces and to those in the unorganised sector. Hardly 50,000 workers will be covered in the first year.

The NPS will be able to cater only to those workers in the unorganised sector who are taxpayers and can be motivated to join the scheme through tax incentives. For those who are living marginally above the poverty line and are not taxpayers, a recent initiative is the pilot scheme for unorganised sector workers being implemented in 50 districts in the country.

The uniqueness of the NPS is two-fold:

(i) it creates a system where both the Government servants as well as in the unorganised sector are covered by one scheme and supervised by one regulator and

(ii) the choice about fund managers or about different schemes of a fund manager can be exercised independent of the fund manager through the mechanism of a Central Record-keeping Agency (CRA).

The guiding principles behind formulating NPS have been the following:

(a) To define upfront the liability of the Government for its employees towards pension

(b) To give the choice to the customer.

(c) To facilitate portability of labour force

(d) To ensure transparency and fair-play in the industry

> Pension is a serious business. Reforms have to be gradual and not one big bang. NPS is a very small initiative.

(e) To build a model which is small in the beginning, but is capable of replication and of handling large numbers.

The pension liability of the Central Government employees has risen from 0.6 per cent of the GDP (at constant prices) in 93-94 to 1.66 per cent of GDP (at constant prices) in 2002-03. Actual outgo has increased from Rs.5,200 crore to approximately Rs.22,000 crore in 2002-03.

In the same period the total pension liability as a percentage of net tax revenue has increased from 9.7 per cent to 12.68 per cent.

In the states more than 10 per cent of the revenue receipts are pre-empted by pension expenditure, whereas the figure was approximately five per cent in 1991. Eleven States have pension expenditure that is higher than expenditure on the administrative services.

With rising longevity and life expectancy the pension liability is only going to increase further. For Central Government employees the dependency ratio i.e. the ratio of pensioners versus active employees is 0.85. There are countries in the world where this ratio is more than one.

Up front commitment

By prescribing a 10 per cent upfront employer contribution and 10 per cent contribution by the employees, NPS attempts to distance the contribution which the Government has to make for its employees and also remove the Government from any explicit or implicit guarantee about the pension payment at retirement.

While this implies an additional liability on the Government for the initial three or four decades, it empowers the employees who receive the Government contribution up front. This also highlights the concern of the Government that it must look after all the generations, not just the oldest.

There are several rich countries in the world where pension liabilities are more than the GDP, the Governments are reneging on their pension promises or negotiating new changes in the existing pension promises. Even in India it is not uncommon for the pensioners to move the courts or to launch agitations to receive timely pension payment.

Choice

The inalienable requirement of such a defined contribution pension system is that the customer has a choice for choosing his fund manager or his scheme. NPS proposes to have a number of pension fund managers registered with a regulator.

The number of schemes will be limited to three. However, within a given scheme different fund managers can have different mix of investment options so as to offer different returns. The NAV of all these schemes of the fund managers will be widely published on a daily basis so that the customer can exercise his choice.

In order to cater to those who are not informed and cannot exercise their choice, there is default option also available where all the investments will be parked pending exercise of a choice. As a measure of providing further comfort, it is also proposed that one of the fund managers will be in the public sector.

Portability

With the growing and opening economy, it is natural to expect portability of labour. At times pension becomes a big deterrent to labour movement.

In the NPS, the individual will carry his pension account whether he is going from one job to another in the Government or from Government to the private sector or the self-employment sector or vice-versa.

Besides, tax incentives will be available in the EET mode. This means that the contribution will be tax-exempt (E), the accumulation will be tax exempt (E) but the withdrawal will be taxed (T) at marginal rates. However, it is expected that at the time of withdrawal the worker will not have any regular source of income, as such, the pension pay out will not entail any big tax burden.

Transparency

Moving away from defined benefit to a defined contribution obviously exposes the worker to the vagaries of the market forces. So far as the accumulation of his pension wealth is concerned, the minimum that the system must provide to him is to ensure that there are transparent rules and there is an independent active supervisor.

The NPS will have an independent PFRDA. Initially, it has been set up with a Government order but soon an enactment will be in place to ensure independence of the regulator, protection of the investors and prescription of the rules of the game for intermediaries like pension fund managers, collection agents etc.

In addition, the CRA will have the right to maintain all the records of all the investors and also effect requests for change independent of the pension fund managers. This is a major change from the existing practice in, for example, the mutual fund industry.

The inalienable requirement of a defined contribution pension system is that the customer has a choice for choosing his fund manager or his scheme.

While on the one hand this will empower the customer to exercise quick choice, on the other hand it will also help in minimising the cost of fees of the pension fund manager as they will not be required to set up detailed and costly marketing infrastructure for customers. The PFRDA will also have an active system of redressal of customer grievances.

Upscaling

NPS is designed on a modular concept. Initially a very small number is expected to join the system. When the PFRDA has been able to select a CRA, pension fund managers (PFMs) and points of presence (POPs) and prescribe the regulations, NPS is capable of being replicated to take care of the needs of millions and millions of customers. Already several state governments have shown their willingness to join the NPS for their newly recruited employees.

The middle-class and the workers in the unorganised sector having less than 20 employees can be covered under this scheme because of the tax incentives. It need not be forgotten that this class of people is also exposed to the capital market and are active participants through their savings or investment instruments of their choice. It should be possible to attract a very large number of such persons into the system.

Going by global experiences one hopes that, over a period of time, the NPS will be the largest investment option for the large population of this country.

Capital market perspective

While global experiences do not indicate any particular sequencing of capital market reforms and pension reforms, it is true that decisions about NPS would have been difficult in this country if the capital market infrastructure was not so well developed as it is today.

The Indian capital market today offers equity, corporate debt, Government securities, futures and options on equity and indices. There are more than 400 cities and towns which have live broker terminals. There are approximately 10,000 companies whose securities are listed and there are 10,000 brokers in the country.

The average daily transaction is approximately Rs. 7,000 crore. The number of transactions which are effected daily are to the tune of 2.5 million.

There are two national level depositories, which have records of approximately 5.7 million customers and of about Rs.10,75,000 crore of security. The NSE for example has a daily volume of approximately 1.7

million transactions, which is next only to the New York Stock Exchange and NASDAQ. The risk management, margining and settlement systems are among of the best in the world.

Besides the brokers, more than 50 per cent of the bank business is through branches which are computerised and electronically linked. A customer in a remote corner of the country can transmit his payments or execute his orders electronically. The RBI has implemented the Real Time Gross Settlement System from April 1, 2004.

In fact, the early suspicion about any institution in the country being capable of working as a CRA has already evaporated and everybody now recognises that there are managerial and IT capabilities available in the country to discharge the function of a CRA without any failure.

Issues and Challenges

The PFRDA has to select the CRA and the PFMs. It is heartening to note that the PFRDA is following the practice of wide consultations amongst all the stakeholders, academics and experts.

For selection of the CRA a discussion document has been placed on the website and a number of comments have been received. After incorporating some of these viewpoints an open-house discussion with the stakeholders is planned before initiating the process of selection of the CRA.

In selection of PFMs one approach is to have a limited number initially – as the corpus will be small, and then increase the number after a few years when the corpus increases. The other approach is to have minimum eligibility criteria and register all those who meet the same.

International experience is mixed. In most of the countries there have been mergers and acquisitions and market concentration has increased due to high start-up and administration costs and poor financial results.

In countries like Chile, Argentina, Mexico, Peru and Bolivia between 50 and 100 per cent of business is concentrated amongst top three firms. As such, the challenge before the PFRDA is to evolve an approach which is transparent and consultative and meets the long-term requirements of the system.

On the question of investment guidelines, while Government has indicated three types of schemes, the choice of running different schemes within the investment types should be left to the fund managers.

Similarly, the choice between active and passive fund management should also be left to the fund manager. However, the customer should know in advance the investment philosophy and the type of the scheme in which he is making the investment.

The challenge before the PFRDA is to evolve an approach which is transparent and consultative and meets the long-term requirements of the system.

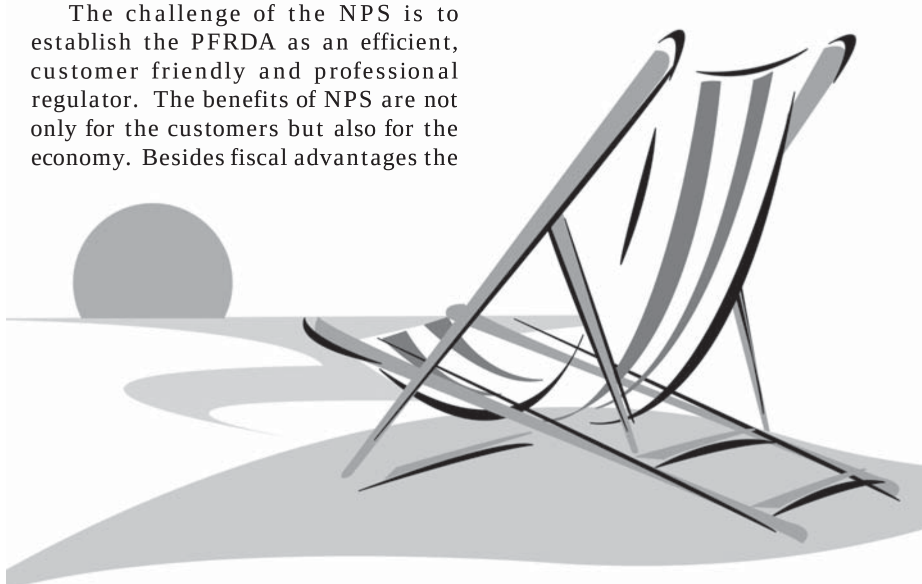
The challenge of the NPS is to establish the PFRDA as an efficient, customer friendly and professional regulator. The benefits of NPS are not only for the customers but also for the economy. Besides fiscal advantages the main benefit to the economy will be through the provision of long-term funds for infrastructure and other growing sectors in the economy.

Due to pension funds, equities are now almost double the market value of private debt in the US. Between 1960 and 1993 while the share of life insurance companies has come down from 19.6 per cent to 13.0 per cent of all financial assets in the US, the private pension funds have grown from 6.4 per cent to 17.0 per cent.

In Chile pension assets represent more than 40 per cent of the GDP and 100 per cent of total external debt. In Europe, the impact of the pension fund is equally strong.

The benefits of pension reforms are slow, the perception is still slower, but once the system establishes itself it has the potential to meet the twin objective of old age income security to the individual and growth of the whole economy in general.

The author is Joint Secretary, Department of Economic Affairs, Ministry of Finance. The views expressed here are his own.



Preparing the Ground

- Pension Reforms in India

T.K. Banerjee

Life insurance, which deals with the risk of dying early, is regarded as a business which needs long term investment. The pension business deals with just the opposite kind of risk i.e. the risk of living long, and this business is of an even longer term. In most of the advanced countries pension business is developed along with the life insurance business and, in some of these countries, the fund available under pension business is much bigger than the fund available in the life business.

Historical Perspective

In India, for historical reasons, the pension business has not developed and there has not been any concerted attempt by the Government to provide an infrastructure which will help in its development.

In fact, with the enactment of the Employees' Provident Fund and Miscellaneous Provisions Act (EPFMP) in 1952, the long term savings for old age provisions are being accumulated in the Provident Fund and are handed over to the employees at the time of retirement/ superannuation.

The investment of such funds is guided by Rule 67 of the Income Tax Rules which gives what is regarded as a quite conservative and safe investment pattern. All employees in the organised sector are mandated to become members of the Employees' Provident Fund managed either by trustees appointed by the company or by Provident Fund Commissioners.

The only exceptions to this are the central and state government employees who are eligible for defined benefit pension calculated on the basis of number of years of service and terminal pay. This pension is also linked to the cost of living and payment is made out of current revenue. In the late 80s some public sector organisations switched over to a defined benefit pension scheme for their employees in lieu of their Provident Fund.

In the late 60s some employers introduced pensions for their senior executives. These were mainly meant those who became ineligible for the annual bonus because of the Bonus Act which came in to effect in 1965. These 'bonus diversion' pension funds also were not able to ensure a handsome pension for the senior employees. Moreover, since these pensions were not linked to inflation the real value of the pension amount became meagre after a few years because of the high inflation rates prevailing in the past.

The first serious reference to the development of the pension business in the country came in the report of the Committee of Reforms in the Insurance Sector in 1994 (popularly known as the Malhotra Committee Report.) A serious study of the pension requirements of the country and the consequent recommendations came through the OASIS Report (Old Age Social and Income Security Report) in January, 2000. The present pension model that has been envisaged for the country is broadly in line with the recommendations of the OASIS Report.

> In some countries, the fund available in the pension business is much bigger than the fund available in the life business.

OASIS Report

The report for the first time brought out the stark realties of the demographic changes that have taken place in the country. Estimates were made of the number of senior citizens that the country will have to provide for by the year 2020 and also of the financial pressure that is likely on the exchequer on account of the disbursements to be made to the pensioners who have retired from Government service, civil or defence.

The report recommended a new pension system for the country. The basic architecture of the system depends on portable individual retirement accounts (IRA) with service providers like pension fund managers, points of presence for collection of contributions and a central recordkeeping agency. The system envisages providing three options by the pension fund managers, namely safe, balanced and growth.

This model of pension system has proved quite successful in the South American countries. The model prescribed in the OASIS report provides that the contributions to the pension fund is managed by a fund manager and that, on superannuation of the person, a pension or annuity is purchased from an annuity provider (a life insurance company) using the accumulations in the credit of that person.

South American model

Pension benefits to those retiring from organised sector jobs was in vogue in the South American countries since the 20s. The benefits were being paid from the current revenue of the Government under a 'pay as you go system.' In the late 50s, the benefits became politicised and each political party started promising better than the existing benefits in their election manifestoes.

In the 70s things came to such a state that the governments started feeling the pressure of the high pension amount to be disbursed and Chile was the first country to decide a change in the system in 1981. Accordingly, all workers were given the option to change to a system where the funds were to be managed by well established fund managers. Ninety three per cent of the workers opted for the private scheme as they also had become worried about the viability and service levels of the government scheme.

By 1998 the benefits of this changeover became very visible and it was observed that the persons who had opted for the privately managed fund benefited immensely in comparison to those who continued with the government scheme. A few years after Chile's pension reforms, Bolivia went ahead on similar lines and thereafter one after another South American countries followed suit. The US debated introducing this model for their Social Security Scheme and decided against it in late 90s.

The major reason for the success of this model was the aggressive investment policy which the fund managers followed. It is estimated that the 'average real return' (in excess of the inflation rate of the country) on the funds was 12 per cent p.a. during the first 15 years of the reform.

The positive effects of the pension reforms were:-

1. Pension tax in the country was reduced for the first time.
2. The available retirement pension in the new system increased considerably and in some cases it almost doubled.
3. Much of the funds, about 85 per cent, were invested in equities and that gave a great boost to the industry in the country.
4. Employment opportunities in the country went up.
5. A sizeable portion of the funds moved to the international market for investment.

There were several side effects too:-

1. The new pension system contributed to privatisation of the economy. A major portion of the equity shares of bigger companies came into the hands of these pension funds.
2. Since, there were a number of pension fund managers, each was trying to attract the individual workers who had the option to shift from one fund manager to another.
3. The agents appointed by the fund managers shifted between fund managers often, taking with them their customers. This resulted in higher cost of administration of funds and a reduction in benefits.
4. Accounts keeping was not of the desired level and quite often maintenance of the accounts for the self-employed became a problem.

> The limit of exemption, which at present is Rs.10,000, should be raised to Rs. 40,000 to encourage sufficient contribution for a reasonable pension.

South American countries that followed Chile after two to three years tried to reduce the side effects by suitable modification of the Chilean model.

Proposed pension reforms in India

In India we seem to be starting the pension reforms in stages. The Government has now decided to go out of the defined benefit pension system for the employees who have joined the services from January 1, 2004 and to make them members of a managed defined contribution pension fund. Later on probably other groups like employees of state governments, public sector undertakings, companies now under the Regional Provident Funds Commissioner (RFPC) and professionals now contributing to their Public Provident Fund accounts may gradually be included. Inclusion of each of these groups will be an important decision in the purview of the Government.

In order to make pension reforms successful in this country several steps need to be taken.

a) Legal Infrastructure

The Government has to provide a developed infrastructure on which the pension system can be built.

Some existing laws of the country need modification to bring in full fledged reforms in pension sector. These need be identified and amended at the earliest possible opportunity. If the fund management rules allowed by the pension fund regulator are significantly more liberal than the rules followed by the funds under RPFC there will be a clamour for a level playing field. If it is decided to bring Provident Funds, PPF, etc. under pension reforms a number of Acts have to be revisited. Similarly, at some point of time if it is decided to bring the organised sector under the reforms, the EPFMP Act of 1952 has also to be revisited.

The country has to decide once for all about the income tax structure on the amount invested in pension funds. One of the reasons why pension funds did not develop earlier in this country was that the individuals who were investing in pension funds perceived that there was a sort of double taxation of such investments.

When the amount is invested, income tax relief that is available to the individual is at best partial whereas when the pension is payable the whole amount is treated as taxable income including the capital.

There is of course a provision in the present income tax rules which allows commutation of one third of the pension and such commutation on normal retirement is free from income tax. But in today's interest rate the scenario, one third of the accumulation does not represent the capital invested by the person.

What is needed today is an income tax structure which would be stable and would promote the development of pension funds. Investments which people will be making will be of a long term nature and they would also expect long term stability on income tax policies on such investments.

The present thinking of exempting both contribution and accumulation stages and only taxation at payout stage seems to be quite justified. The limit of exemption which at present is Rs.10,000 level should be raised to Rs. 40,000 to encourage sufficient contribution for a reasonable pension. In that event exempting commutation value from IT will not be necessary.

b) Fund managers

The fund managers have to be the best in the world and, instead of going for many fund managers, it would be probably be better if the number is kept at a lower level, so that the competition will be healthy and the types of mal-practices which developed in Chile will not develop in this country. The OASIS report has rightly recommended for six fund Managers to start with.

Investment	Safe	Balanced	Growth
Government Paper	>50%	>30%	>25%
Corporate Bonds	>30%	>30%	>25%
Domestic Equity	<10%	<30%	<50%
of which International Equity		<10%	<10%

c) Accounting infrastructure

In most of the countries where pension sector reforms have been introduced, inadequacy of the accounting infrastructure has become a big problem and has led to a large number of complaints and litigations. Today a high level of information technology support is available in the country and it has to be ensured from the day one that a highly effective record keeping and accounting infrastructure is in place.

d) Investment

The countries that have carried out pension sector reforms successfully have laid a great emphasis on an aggressive investment policy by the pension fund managers. As mentioned earlier Chile, the first country in South America which went ahead with such reforms quite successfully, did allow at least 85 per cent of the investment in equities and a sizeable portion of that in the foreign market. All along in our country we have emphasised on a conservative investment policy for insurance and pension funds. If we continue to follow a similar policy the chances of a decent return to the pensioners will be remote.

All along we have emphasised on a conservative investment policy for insurance and pension funds. If we continue to follow a similar policy the chances of a decent return to pensioners will be remote.

The investment guidelines proposed in the OASIS report are:-

Today the maximum equity component allowed in insurance and annuity business to insurance companies under unit linked business is 100 per cent. In the light of this we may probably have to consider more liberal investment norms under the new pension system.

e) Capacity building

Pension account holders should be advised and trained to switch from one type of fund to another. For example a person at a young age can opt for a comparatively risky option to earn a better return but the same person at an advanced age may like to go for a Safe Fund. They should be able to judge when a shift is needed from Growth Fund to Balanced Fund and also from Balanced Fund to Safe Fund.

The OASIS report envisages a role for retirement advisors who will help people in making choices about asset management options. It would be a real challenge for the country to build a force of professional retirement advisors who will be able to provide positive help to the large pool of individuals with limited sophistication who will participate in the pension system.

In the next few years the country will probably decide how far and how fast it will go ahead with pension sector reforms which started with the recommendations in the OASIS report. In order to make such reforms successful we have to initiate steps to address the following country specific inadequacies:

1. The equities market in the country is not mature enough and does not have adequate depth.
2. The decades of the 80s and 90s were different when very high rates of interest were prevalent in many countries and it was possible for a fund to shift a percentage of the funds to such countries to earn a much higher rate of interest than obtaining in the parent country. Today those types of options are getting restricted.
3. Members of the new pension fund would be a pool of individuals who have a very limited knowledge of the equity market and a large number of them would not even be able to distinguish between a Growth Fund and a Balanced Fund.

The author is Member (Life), IRDA.

Perks of the Job

- Occupational Pensions & their Regulation

Arpan Thanawala and Renuka Sane

In India, the statutory retirement benefits are provident fund and gratuity or severance pay. These benefits are to be provided in terms of the provisions of the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 and the Payment of Gratuity Act, 1972. These vehicles build up assets for old age income.

Pension in the form as is commonly understood is mainly provided by the Government and the MNCs. Very few employers provide pension as a third retirement benefit. In the late eighties, the bank and insurance employees unions raised a demand for having retirement benefits on par with government employees, who were getting non-contributory defined benefit index linked pension, gratuity and provident fund with the employees contributing only to the last.

After protracted negotiations, this demand was conceded and defined benefit pension was provided by utilising the employer's contribution to the provident fund thus allowing them a retirement benefits package consisting of non-contributory defined benefit index pension, gratuity and provident fund. Later, a package on similar lines was made available to the subscribers of the Employees' Provident Fund (EPF) by setting up Employees' Pension Scheme 95 (EPS 95).

For the salaried class, retirement benefits form a very important part of their savings for old age income security. In 2001-02, provident and pension funds accounted for 19 per cent of the gross financial savings of the household sector in India. Any inadequacy in management of these benefits would wreak havoc on the plans of consumption in old age for these people as the employees have expectation that the benefits would accrue with service and be paid when due.

It is in this context that the occupational retirement benefits are funded through a trust structure ensuring that the accrued benefits do not depend on the financial position of the employer. This structure is encouraged by the Government by providing tax incentives to the employers following this route. All these measures ensure safety of employees' savings.

Provident fund is a defined contribution benefit and is regulated and supervised by the EPFO, whether the fund is exempt or otherwise. However, there is no legislative framework for regulation and supervision of gratuity and superannuation funds except that the Commissioners of Income Tax approving these schemes are envisaged to monitor that the funds adhere to the prescribed investment pattern. The other aspects are left to self-regulation by auditors and actuaries.

> In trustee managed gratuity funds, the investment pattern is prescribed but no exposure / prudential norms have been laid down. It is necessary that this inadequacy be addressed.

While self-regulation is good it has to be within a legislative framework. This article deals with the regulation of salary related retirement benefits viz. gratuity and defined benefit pensions. In this article the word "regulation" is used for the process of framing legislation and the word "supervision" is used for the process of ensuring compliance.

Regulation and supervision of retirement funds get divided into two parts, viz. regulation and supervision of the asset management part and regulation and supervision of the funding part. In provident fund or defined contribution pension, the regulation and supervision is confined to the asset management part but where the benefits are defined funding of these benefits assume critical importance.

Gratuity

In respect of gratuity benefit, the full cost of the benefit is borne by the employer. Employers have essentially two choices:

i) Leave the gratuity liability unfunded, in which case a provision is held in the books of accounts of the employer; or

ii) Fund the gratuity liability by setting up a trust. In this case, the employer has the following two options:

- trustee managed self administered fund; or
- trustees entering into an arrangement with a life insurer for managing the trust fund assets.

Accounting Standard 15 (AS15) issued by the Institute of Chartered Accountants of India requires liability to be computed on an actuarial basis. This can be done by an independent actuary in the case of trustee managed funds or as worked out and certified by the insurer in case of life insurer managed funds.

The liability so ascertained is compared with the assets (in case of funded arrangement) and provisions (in case of unfunded arrangements) and the difference between the liability and asset/provision is taken as the charge for the year which is expensed off in the P & L account of the employer. For these valuations, the valuing actuary has to follow the professional guidance notes (GNs) provided by the Actuarial Society of India (ASI). However, in India there is no legislation specifying the minimum funding requirement.

In respect of gratuity funds that are managed by life insurers, they have to follow the prescribed pattern as also the exposure and prudential norms for investment of these funds. However, in respect of trustee managed funds, while the investment pattern is prescribed, no exposure / prudential norms have been laid down. It is necessary that this inadequacy be addressed.

Defined benefit pension

In India, it is very common for employers to bear the full cost of providing pension benefit**.** For funding this benefit, the employer has the following options:

i) leave the pension liability unfunded, in which case an accounting provision has to be held in the books of accounts of the employer; or

ii) Fund the pension liability by setting up a trust. In this case the employer has the following two options, viz.

- trustees manage funds and buy annuities from life insurers when employees retire; or
- trustees entering into an arrangement with a life insurer for managing the scheme.

The accounting and investment issues are identical to those discussed for gratuity funds.

Structure of occupational funds in India

The defining characteristic of all such occupational retirement benefit funds is the trust structure. Trust laws only define the obligations of the trustees. There is no legislative framework that would ensure proper standards in administration of retirement benefit schemes. . The trustees should also be required to apply an extra degree of care and diligence in taking investment decisions. The trust deed of the schemes should clearly envisage delegation of fund management to professional fund managers. It is necessary that *Occupational Retirement Benefits Regulations* be framed and administered by the pension regulatory authority.

The regulations, among other things, must cover:

* the primary duties of employers, trustees and others under occupational retirement benefit schemes
* the protection of accrued rights
* the appointment and removal of trustees, the composition of the trust board and the discretionary powers of the trustees so far as not varied or excluded by the trust deed
* minimum funding requirement
* general criteria for appropriate investment
* powers of the retirement benefit ombudsman
* the application of unallocated surplus on winding up and the priority of payment of schemes in deficit
* the appointment of a scheme actuary and a scheme auditor, and the powers and duties of the actuary and auditor
* the employers liability for scheme deficits
* the rights of early leavers and matters relating to transfers
* the compensation scheme for loss suffered through fraud, theft or misappropriation of scheme

The law should protect the pension promise, particularly in respect of accrued rights.

Assets

* dispute resolution
* grievance redressal machinery

Further the law should protect the pension promise, particularly in respect of accrued rights. Funding needs to be set up at a level which ensures that the scheme is in a position to meet its liabilities when those fall due.

Generally, there is a solvency band between the minimum funding requirement of 100 per cent and a base level of 90 per cent. Any scheme which falls below this base level would require an immediate injection of funds, as may be stipulated by the regulatory authority, to bring it up to the base level.

All schemes should be required to establish and keep in place a funding plan adhering to not less than 100 per cent level, i.e. having assets at least equal to liabilities. In the event of a drop below this level but at or above the base level, the trustees should be made to submit a plan to the regulatory authority providing for restoration of the fund up to a specified time limit.

As the trust law is the basis of the vast majority of occupational retirement benefit schemes, the role of the trustees is of crucial importance in the administration of schemes. The regulations need to address issues like qualification and disqualification of trustees, the degree of employer control over their appointment and removal, the composition of the trust board, the distribution of power between the employer and the trustees' conflict of interests.

The employers should not have the sole power to appoint trustees, and should not be able to veto a trustee selected by the scheme members. It should not be mandatory to appoint pensioner trustees but it should be encouraged to consider including them on the board.

The primary purpose of the occupational retirement benefit regulations would be to create a framework for regulation and supervision of these schemes by laying down principles and general rules governing these benefits.

It is essential to have in place a legal framework which is conceptually coherent and at the same time applicable to the industry. A fair and sound regulatory environment would ensure that scheme members feel secure about their accrued benefits and, at the same time, employers feel secure about their future commitments.

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Debate Revisited

- Defined Benefit Vs Defined Contribution

Dr. Puneet Chitkara

Pension reform is not new to the world. As the demographic transition matures, payment of defined benefit or means tested pensions is being viewed more as a burden on national treasuries. Countries have found themselves either reneging on their pension commitments or implementing measures such as extending or scrapping mandatory retirement ages (US, Australia, New Zealand).

Further still, many have initiated fundamental restructuring of their pension systems, which primarily involves a move away from the defined benefit structure to a defined contribution structure.

The technical definition of defined benefit scheme is that it is a pension scheme that provides a guaranteed benefit based on a formula that takes into account pay, years of employment and age at retirement.

In a defined contribution scheme on the other hand, the benefit may be based solely on the value of the accumulated assets in a pension fund at the time payment is to begin. (See http://www.free-definition.com/Pension.html)

India too has made the transition to a DC system for its civil servants. While much of the public debate in India has focused on the operational merits of a DC scheme over a DB scheme, the issue of the impact of these schemes on household behaviour, the economy and welfare and wealth inequality merits discussion.

At the outset, a DB scheme leads to people forming expectations of benefits on retirement. High benefits, which are a result of generous formulas designed in the past, typically result in reduced savings and hence lower wealth accumulation over the life cycle.

As in India, there is normally a cap on the maximum pensions in a defined benefit pension scheme. Such caps have a very strong effect on redistribution of wealth and hence on savings of individuals in various income classes. Such caps result in high savings by wealthy investors in alternative saving schemes as the pension mechanism may not provide a good consumption smoothing over their lifetime.

In a defined contribution pension scheme, the consumption may not be significantly affected by the returns on investments. The deductions in a DC scheme however may reduce the disposable income of the investors and lead to lower current consumption. Preferential tax treatment of savings towards the pension fund (e.g. section 80 CCC) may, however, lead to higher accumulations. There may not be any redistribution of wealth in a DC system.

> The long run effects of a DC scheme, which translate to higher investments and therefore productivity gains for the economy, outweigh the benefits of a DB scheme.

As the level of defined benefits increase, one would normally expect a reduced savings rate in the economy. This would make less funds available for investment and hence a lower level of capital stock. This is likely to trigger lower output and hence high unemployment. A DB scheme with high expected benefits may also lead to a higher tax rate to fund the DB scheme. The decline in savings and hence investible funds may raise the interest rates in the economy. Thus in the long run, as the percentage of working population declines, a DB scheme may result in higher interest rates and high tax rates. This may further distort the consumption patterns of the subsequent generations.

A defined contribution scheme, however, may encourage savings and hence lead to higher capital stock accumulation and higher output and a lower interest rate. The consumption in the economy, however may decline. A DC economy hence may lead to lower interest rates. An increase in the DC rate encourages savings and hence induces higher investment. This has the potential of increasing employment, wages and hence may result in redistribution of wealth through an increase in productivity rather than through a cross-subsidy as is implied in a DB scheme.

In the short run therefore, a defined benefit scheme can be percievedas maximising social welfare by increasing current consumption, and a DC scheme as reducing social welfare by decreasing current consumption.

However, the long run effects of a DC scheme which translate to higher investments and therefore productivity gains for the economy, outweigh the benefits of a DB scheme.

Increasing burden of payments in a DB scheme also has the propensity to translate into a higher tax burden on the population, thus negating any welfare gains out of increase in current consumption.

It is not without reason that countries, including India, are shifting to DC structures for pension payments.

The author is Senior Researcher, India Pension Research Foundation. The views expressed here are his own.

In Your Hands

Dinesh Chandra Khansili

The elderly in India face an uncertain future. Decreasing incomes, poor health, loneliness and insecurity compound their problems. The effect of some of them may be reduced by saving during active life and investing wisely in pension schemes offered by life insurers.

Life insurers are governed by the Insurance Act,1938 and IRDA Regulations and thus investment in their pension scheme may be wise and secure and safe for mitigating the risk of living longer.

The First Report of Project OASIS (Old Age Social and Income Security) has highlighted the greying population in India. It reports that India is in the phase of a rapid demographic transition. Life expectancy is increasing while birth rates are on the decline. The share of population above the age of 60 is growing at a rapid rate. Those who cross the age of 60 are expected to live up to or beyond the age of 75.

Populations, worldwide, are ageing. In India, while the total population is expected to rise by 49 per cent (from 846.2 million in 1991 to 1263.5 million in 2016), the number of aged (persons aged 60 and above) is expected to increase by 107 per cent, from 54.7 million to 113.0 million, in the corresponding 25 year period.

In other words, the share of the aged in the total population will rise to 8.9 per cent in 2016 (from 6.4 per cent in 1991). Population estimates further suggest that the number of the aged will rise even more rapidly to 179 million by 2026, or to 13.3 per cent of the total Indian population of 1331 million.

India has taken several measures to tackle the woes of the older generation and has been among the enlightened nations which recognised the need for social security during old age quite early. The Provident Fund Act was introduced way back in 1925 for select public enterprises. We have the Employees Provident Fund and Miscellaneous Provisions Act (EPFMP) of 1952 which covers 177 industries today. From 1995, workers covered under the EPFMP Act, 1952 are also covered by the Employees Pension Scheme.

There is also the Public Provident Fund (PPF) scheme for self employed and those not covered by the EPFMP Act.

The National Policy for Older Persons (NPOP) January, 1999, with the primary objective viz. to encourage individuals to make provision for their own as well as their spouse's old age; to encourage families to take care of their older family members; to enable and support voluntary and non-governmental organisations to supplement the care provided by the family; to provide care and protection to the vulnerable elderly people, to provide healthcare facilities to the elderly; to promote research and training facilities to train geriatric caregivers and organisers of services for the elderly; and to create awareness among elderly persons to develop themselves into fully independent citizens.

> We are a society in transition. We have neither the facilities of the West nor the care and concern for the elderly that has traditionally been a part of our culture.

Several other organisations have also come out with schemes to lessen the woes of the older generation. The Delhi-based International Federation on Aging has been campaigning for free healthcare for senior citizens; decrease in the age limit for pension; a bigger, respectable living allowance; change in the eligibility criteria so that even if the combined family income is Rs. 8,000 the senior citizen is entitled to pension; creation and implementation of a social security scheme.

The relatively affluent, who can support themselves in homes for the aged, want companionship, care and reasonable facilities including medical services. There are 1,200 such homes in the country, which charge nominally for boarding and lodging. The Matoshree Vridashram is one such run by the Maharashtra Government.

HelpAge India is asking the Government to set standards for facilities provided by all homes for the aged. There are efforts like the first park only for senior citizens was opened at Chowpatty, Mumbai in 1999. There are several benches that have been donated by banks and once a week the medical team from Lilavati hospital checks senior citizens for blood pressure and diabetes. A medical chart is maintained in the van.

The English poet Robert Browning wrote "Grow old with me, the best is yet to be."

But this is a nightmare for most old people in India and we have to live with this reality. The OASIS report also supports it. It states "While these have been laudable steps, and are serving the working class well, their coverage is woefully small, with only 11 per cent of the working population in India covered by them."

Old Age was not really a major concern till migration started from villages to the big cities and children started going abroad for studies and work and the joint family system still existed.

Young people now see senior citizens as a burden. The respect they once enjoyed in the joint family is slowly disappearing. Many suffer mental and physical abuse.

In Mumbai, a man and his wife locked his 68-year-old mother out of the home without food and water for the day. She was let in only when they returned from work in the evening. This was allegedly in her "own interest" as she was absent-minded and they feared she could even forget to switch off the gas. Ironically, the old lady was the owner of the property. Her neighbors complained to the police who intervened.

Crimes against senior citizens are on the increase. In Mumbai alone, there were 192 crimes in 2002, a large number resulting in death.

Thus we are a society in transition. We have neither the facilities of the West nor the care and concern for the elderly that has traditionally been a part of our culture.

To meet this reality of life, one should start saving during active life. The need of small savings regularly has been emphasised in the OASIS report. "Investing Rs. five per working day into the equity index, from age 25 to age 60, works out to Rs.36,00,865."

Life insurance companies offer retirement solutions to the general public. Life insurers are governed by Insurance Act, 1938 and IRDA Regulations. They may do business in health, pensions and general annuity along with Life business. There are various deferred pension plans and immediate annuity plans offered to the public.

Here are explanations of some terms used in pension business which may be useful to the insuring public. Once one knows the basics of pension schemes, it will be easy to understand the various pension schemes in India or the world.

What is a deferred pension plan?

In a deferred annuity plan a person pays regular contributions. The contribution may depend on a fixed accumulated amount, say Rs. 25 lakh, that a 25 year old wants at his retirement at 58 or 60 or an age of his choosing. Or a person decides to pay some fixed contribution up to retirement age, and it gets accumulated at a rate of interest declared by the insurer and the person is not certain how much shall accumulate at retirement.

The policy may be Par (a participating policy) which means that the policy participates in the profits/ surplus declared by the life insurer. The condition in a deferred annuity plan is that at exit-which may be by several causes like attaining superannuation age, earlier death or withdrawal-the accumulated sum on vesting at superannuation is compulsorily to be used to purchasing an annuity. Which means that the person may receive a lumpsum/accumulated amount.

However the accumulated sum may be commuted for a maximum of one third of total accumulated value. This means that if one has Rs. three lakh accumulated value, then at time of vesting one may take a maximum permissible amount of Rs. one lakh as commuted value and the remaining Rs. two lakh may be utilised to purchase the annuity. The contribution paid under deferred annuity plan is exempted under section 80CCC of the Income Tax Act. Here Rs. 10,000 maximum premium paid under deferred annuity plan may be taken away directly from gross income of assessee and income tax is calculated afterward.

> "Investing Rs. five per working day into the equity index, from age 25 to age 60, works out to Rs.36,00,865."

What is an immediate annuity plan?

The difference between a deferred pension plan and an immediate annuity plan is that like in a deferred annuity plan the contribution is paid during the deferment period i.e. 58-25=33 years (or 60-25=35 years) and then, at retirement age one purchases an annuity. This may be taken as advance planning for enjoyable old life as described by English poet Robert Browning!

In an immediate annuity plan a person should have enough money, say Rs. three lakh, immediately as from sale of house, receipt from lottery, gift from son or daughter, receipt of lumpsum retirement benefit like PF/ Gratuity/leave encashment, receipt of some award like Magasaysay, contract signing amount to act as Model/ Actor in some advertisement/film etc. etc. This amount is utilised to purchase the annuity. One thing to remember is that annuity amount is taxable at the hands of annuity holder.

The annuity amount depends on– generally–the amount of purchase price (higher the purchase amount higher the amount of annuity), age of the person (higher the age higher the annuity amount as with advancement of age risk of dying is higher that means the annuity shall be payable for lesser time), option to choose annuity and mode of receipt of annuity- that means if annuity is taken one in a year the annuity amount shall be higher than if annuity is opted to be taken quarterly.

The options on annuities are:

- The annuity may be purchased for life. This means that as long as the annuity holder survives, he shall be paid annuity. The annuity stops on the death of the annuitant. The purchase price, say Rs. two lakh in the above case, shall not be refunded to the nominee of the annuity holder but the annuitant gets a higher annuity amount.
- The annuity may be purchased for life with return of capital. This means that as long as the annuity holder survives, he shall be paid the annuity. The annuity stops on the death of the annuity holder. But the purchase price, say Rs. two lakh in above case

shall be refunded to the nominee of the annuity holder. This option is popularly known as Life +ROC (Return of capital/purchase price). The common sense says that the annuity amount payable on Life plus ROC option shall be lower than the life option, if other things remain same.

- The annuity may be guaranteed for a certain numbner of years say 5/10/15/ 20/25 years and life thereafter. This means that, suppose an annuity holder has opted for 10 year certain plus life option, and dies after seven years, then the remaining three years annuity is paid to the nominee of the annuity holder and annuity payment stops at end of 10 years. But if the annuity holder survives beyond 10 years then he shall be paid annuity throughout his/her life and on death the annuity stops and nothing is paid to the nominee.
- Another option may be joint life last survivor annuity with or without return of purchase price. Here annuity shall be paid on the joint lives, say of husband and wife. If, say, the husband dies then the wife (last survivor) shall get annuity depending on the term (50 per cent or 100 per cent of original annuity) till she survives and on her death the purchase price may or may not be paid to the nominee depending on what option was exercised.

LIC's Varistha Pension Bima Yojana

The Government has launched this scheme with the assistance of LIC of India. This is of an immediate annuity type with option to choose the pension - a Life plus return of capital. There is guarantee of nine per cent return per annum. LIC gets any shortfall in interest income from the Government of India.

If a senior citizen above age 54 deposits Rs. 2,66,665 he shall get Rs. 2,000 per month for his life and the Rs. 2,66,665 shall be returned to his nominee on his death. The annuity amount is fixed irrespective of age above 54 unlike traditional annuities. The minimum monthly annuity is Rs. 250 and maximum Rs. 2,000.

The author is Deputy Director (Actuarial), IRDA. The views expressed here are his own.

End to End

- Insurance Companies can Span the Width

H.O. Sonig

A lively debate has been going on about the Pension Regulatory and Development Authority having taken a decision to restrict the number of pension fund managers to six and the life insurance companies to be only annuity providers. Prima-facie this seems to be on the basis that pension is something different from insurance and has to be regulated differently. Though, nomenclature used might appear that these are two different concepts, a close examination will establish the position that these two are sides of the same coin.

Insurance provides for the future of the dependants of an individual and pension provides for the individual himself in the later stages of his life. Both are financial products and both are in the long term interest of an individual who contributes to these. In fact, a pension product is often offered by a life insurance company as a matter of course. It is all the more so in India that annuities can be granted only by life insurance companies. Therefore, one has to carefully look into the business portfolios of insurers in India.

The thing that would attract immediate attention is the business in regard to individual and group pensions that has been done in the last three years by these companies. Detailed analysis undertaken by institutions like the IRDA has established the position that the pension market in due course would be much larger than the life insurance market.

To understand the nuances of the business, we give below the reasons why we feel that an intelligent pensions system would lead to the growth of the financial market in an exponential manner.

Pension system has the following important ingredients :

1. Awareness creation and development
2. Contribution collection
3. Record keeping
4. Money management
5. Benefit payouts

The objective of pension reforms in the Indian context is to arrive at an appropriate mix of these components. Life insurance companies can play an integrated role across all segments or in individual segments while some others may play a role only in a single segment.

- Life insurance companies, at no extra cost, can contribute towards the above and manage the system efficiently. The distribution network and data bank already available with them is certainly more effective. May be that for the above reasons, section 2(11) of the Insurance Act 1938 includes 'this field' in the definition of 'life insurance business'.

- Insurance companies which are primarily capital intensive, have the capacity to handle large sums, invest them properly over long periods of time like insurance premia investment. Additionally, since these companies were granted registration on the basis of their financial and organisational strengths, they enjoy public confidence of being capable and credible. While the other "Fund Managers" may be admitted to the system, the insurance companies may "continue" in the pension field for the reasons mentioned above. This will also control administration fees and costs like "agency" fee to agents and retail distributors, contribution collection, transfer changes, record keeping, fund management, fee payable to pension fund managers, exit charges for charging providers cost of purchasing an annuity at retirement, fees for premature withdrawal etc. Insurance companies have also the advantage of having qualified marketing personnel, besides the skill of investment.

- The insurers have been aiming at providing better customer service and more innovative products, which will help pension market expansion. Also the combination of leading business houses and established foreign insurers has enabled the development of fresh channels of distribution besides the traditional agency network. Corporate agencies and bancassurance are insurance avenues which will help develop the pension market.

- Insurance companies are equipped with technical skills of the actuarial profession, knowledge of pension product pricing, valuation etc.

- Insurance companies are capable of offering customised pension products to maintain high brand equity with customers. They will design products to target specific needs of the niche segments.

Life insurance companies can play an integrated role across all segments or in individual segments, while some others may play a role only in a single segment.

- Insurers see a tremendous pension potential. In the falling interest rate scenario, insurance companies have started re-orienting their strengths from a typical pension product to a customer–centric model so that people may buy pension policies/ schemes for retirement planning and not for guaranteed returns. Retirement solutions offered by insurance companies are being preferred.

- Insurance companies may come forward to offer packaged "retirement solutions" equipped as they are with the technological support of their foreign partners in terms of product knowledge, business processes and proven sales models.

- Rule No. 18 of the guidelines of OECD (Organization of Economic Cooperation & Development) also suggests "The activities of insurance companies in the "Pensions" and "Health Insurance" fields should be encouraged within an appropriate regulatory and supervisory framework. The regulator should endeavor to ensure fair treatment between all private companies operating in these areas.

- It is worth mentioning that only about 11 per cent of the employees in the "Organised Sector" including government servants, are covered by an approved pension procedure. The balance 89 per cent though gainfully employed, need protection through a pension system, which can be taken care of by insurance companies with their vast distribution network.

- The insurance companies are capable of addressing various issues of the pension challenge a few decades hence by devising a system to channelise long term savings towards much needed infrastructure investments.

- The Government may also consider that a life insurance company, which involves nearly 50 per cent of the work of an integrated pension system, handles the payment of the annuity to the subscriber. It is therefore, desirable that the insurance companies are allowed to look after the pension field as of today, and as also provided in the Insurance Act, 1938.

- Insurance companies have also a system which has interface between the contributors and the distributors, with an emphasis on low and clear charges to enable customers to compare easily different choices of pension schemes.

- It will also have an emphasis on competition through a system of multiple providers as already 13 life companies in addition to LIC of India exist. This will minimise costs and optimise fund management and customer service.
- The ability of the insurance sector could effectively provide annuity coverage to the survivors and in the area of disability benefits which eventually prove crucial in determining the success of the pension reforms.

Besides the above, the other key areas of insurance companies' strengths that would push the pension sector ahead include:

- Access to reliable statistical data and information which insurance companies richly possess. This will also instill a high degree of credibility among the public.
- Benchmarks based on international best practices in the pension sector, as possessed by insurance companies having foreign joint ventures, will raise the standards in the pension field.
- High solvency standards achieved by insurance companies will generate public faith in the system.
- Introduction of new pension schemes to ensure social security insurance to the unorganised sector and also to have a thrust on innovating pension products for rural areas.
- Entry of co-operatives into the insurance sector will be highly helpful in developing pension schemes for the unorganised sector specially in the rural areas.
- To facilitate penetration of pension schemes throughout the country, doors have been opened for new distribution channels like corporate agents including banks and brokers in the insurance sector. These channels will be of great help to promote pension schemes.
- The initiatives taken by insurance companies during the last two to three years, and their thinking on the developments required to pave the way for a vibrant pension system, should lay the foundation for growth in pension penetration.
- Having individual retirement accounts in private pension funds would be prohibitively expensive to administer. In some cases where contributions are small (say Rs. 100 a month) administration costs may be quite high. If insurance companies with their existing network and infrastructure do it, it may be competitive.
- In the matter of Group Superannuation and Group Pension Schemes, insurance companies can demonstrate that they can provide good products with consistently high service quality at very competitive rates.

Insurance companies are capable of offering customised pension products to maintain high brand equity with customers.

- Some of the insurance companies have undertaken projects to understand the pension market, the consumer profile and the type of pension products that would meet the felt needs of various segments of this market.
- They are capable of spearheading a massive consumer education campaign to highlight and ignite the latest pension needs of workers and self-employed individuals.
- Insurance companies should therefore, be allowed to continue to play the role of pension fund managers and annuity providers in the new pension system. They have the experience here and in other countries to help evolve a realistic database in relation to mortality and morbidity statistics. LIC of India, for example has a tremendous databank relating to Indian lives.
- Insurance companies' experience and practices will help in better understanding of the following issues :
  - Product design
  - Appropriate long range assumptions
  - Pricing approach
  - Innovating benefit packaging
- With the development of the insurance market and the introduction of a variety of insurance and pension products, the time is ripe for adequate strategies which insurance companies have already started developing.

From the above, it may become clear that life insurance companies have a key role in the pension business. Insurance industry in India with its liberalisation is well poised to play a leading role to the benefit of the Indian society.

If the pension business is conducted as per definition contained in Section 2(11) of the Insurance Act 1938, steps for pension fund administration could be initiated immediately as part of the reforms in the insurance sector without losing time.

The author is retired Member (Life), IRDA. The views expressed here are his own.

प्रकाशक का संदेश

आईआरडीए जर्नल का यह अंक आज देश में पेंशन की स्थिति तथा इस क्षेत्र में हो रहे परिवर्तनों को जो बदलती जरूरतों को सेवा प्रदान करने के लिए हैं की ओर देख रहा है। परिवारों का छोटा होता आकार, संयुक्त परिवार प्रथा का धीरे-धीरे विघटन, बच्चों के लिए कैरियर विकल्पों की उपलब्धता के कारण गतिशीलता तथा चिकित्सा विज्ञान में सुधार से मनुष्य के जीवनकाल के बढ़ने आदि कारणों से वृद्धावस्था के लिए योजना बनाना अपरिहार्य हो गया है।

यूँ तो जीवन बीमा व्यवसाय में मृत्युदर के प्रावधान शामिल हैं, इस प्रकार के व्यवसाय ने अभी तक संवेग विभिन्न परिस्थितियों के कारणों से नहीं पकड़ा है। केन्द्र तथा राज्य के सरकारी कर्मचारियों के लिए निर्धारित पेंशन योजनाओं का अंशदान का प्रभावी न होना, जिसे बाद में कुछ सार्वजनिक क्षेत्र के लिए विस्तारित किया गया। साथ ही संगठित क्षेत्र के कर्मचारियों के लिए भविष्यनिधि योजनाओं ने स्वतन्त्र पेंशन बाजार की परिकल्पना को कठिन बना दिया। इसमें पेंशन योजनाओं पर अन्य बचत योजनाएँ जैसे गृह ऋण जीवन बीमा और यहाँ तक कि म्यूचुअल फंड की अपेक्षा करों में कम लाभ दिया गया। इसका ही बडा कारण है कि आनुपातिक रूप से वार्षिकी लम्बे समय से उपेक्षित क्षेत्र रहा है।

बीमा कंपनियाँ भी मासिक पैंशन को उदारीकृत आहरित सत्ता में पेंशन के मासिक लाभों का प्रदर्शन नहीं कर पायी परिणामस्वरूप पेंशन देने में घुटन का अनुभव किया जाता था। हाईब्रीड पेंशन उत्पाद, जिसमें पूँजी की वापसी शामिल है, का प्रभाव भी वार्षिकी पर इसी प्रकार पड़ता है। इसलिए ऐसे सेवानिवृति समाधान जो पूँजी को देखते हैं, वह नये निवेशकों की किस्म के अनिवार्य है कि उन्हें पूर्ण सामाजिक तथा संरक्षण मूल्य प्रदान किया जाए तथा इस प्रकार का उत्पाद बनाना, मूल्यन तथा क़ीमत निर्धारण के प्रस्थापना का कार्य जीवन बीमा उद्योग का है।

सी. एस. राव

सी. एस. राव

"कुछ तो लोग कहेंगे"

चूंकि एलआईसी के लिए पूँजी कोई समस्या नहीं है, इसलिए इसे सूचीबद्ध करने की बहुत कम आवश्यकता है।

श्री आर के विशिष्ट, प्रबन्ध निदेशक, एलआईसी

बीमा बदलते वातावरण में सबसे आगे है। बहुत कम व्यावसायिक क्षेत्रों ने यह प्रयास किया है कि इस बदलते वातावरण का विश्लेषण उनके ग्राहको तथा उद्योग पर किया जाए।

श्री जोहन पारकर, ब्रिटिश बीमाकर्ताओ का संगठन (एबीआई)

हम इस वर्ष कम से कम २० प्रतिशत बीमा का लक्ष्य कर रहे हैं, लेकिन हम अगले माह बजट के लिए दम रोक कर बैठे हैं।

श्री एस बी माथुर, अध्यक्ष, एलआईसी व्यावसायिक उन्नति संभावनाओं तथा कर पहल के बारे मे चर्चा करते हुए।

विनियामक तथा राजनीतिज्ञ.....इन्हें इस सच्चाई को अवश्य झेलना चाहिये कि आटो का प्रिमियम निरंतर बढता जायेगा जब तक सुधारों द्वारा कोर्ट के अवार्ड की सीमा न निर्धारित कर दी जाए तथा दोषमुक्त देयता को निकाला जाए जिसके कारण कपटपूर्ण दावे होते हैं। चरमता पर ये बीमा उद्योग के स्वास्थ को खराब न करें - इसलिए ग्राहक जिसका ये प्रतिनिधित्व करते हैं वह राजनेताओ जिनका चिंतन मात्र अधिक मत प्राप्त करना होता है, की माँग के कारण जोखिम में आ जाता है ।

लार्ड पीटर लेवेंन, अध्यक्ष, लायड्स् आफ लंदन, कनाडा के बीमा बाजार को सबसे विनियमित बाजार कहते हुए।

निजि क्षेत्र के २३९,३६१ गैरफार्म कार्यकर्ताओं में से जिन्हे अपने रोजगार से कम से कम ३१ दिन के लिए २००४ की पहली तिमाही में अलग किया गया। प्राथमिक सांख्यिकी के अनुसार ४६३३ काम करने वाले सम्बद्ध रहे कार्य को देश से बाहर ले जाने के लिए घरेलू कार्य की पुनर्संरचना के कारण कंपनी के भीतर तथा अन्य कंपनी के मध्य ९९८५ कार्यकर्त्ता प्रभावित हुए।

यूएस ब्यूरो आफ लेबर स्टेसटिक्स, श्रम विभाग, कामबंदी तथा देश से बाहर कार्य भेजने पर एक अध्ययन

आन्तरिक समूह संव्यवहार तथा व्याख्या (आईटीईएस) समूह में तरलता तथा लाभशीलता तथा व्यक्तिगत सत्ता शोधन क्षमता पर विपरीत रूप से प्रभाव डालती हैं। आईटीई को कई बार पर्यवेक्षण सेतु के रूप में प्रयोग किया जाता है, परिणमस्वरूप पूँजीगत तथा अन्य विनियमन आवश्यकताओं का वंचक होता है।

आरबीआई की वित्तीय एकीकरण कार्यसमूह की रिपोर्ट

पर्दे के पीछे

आर. कन्नन

सोमवार, 2 अप्रैल : नकुला जीवन बीमा कंपनी लिमिटेड, जिसका पूर्वी व पश्चिमी भारत दोनों में ठोस व्यापार है, के बीमा सलाहकार रामलगन रांची में एक शीर्ष व्यवसायी के साथ तीसरी बार बैठक करके अपने कार्यालय वापस लौट रहे हैं।

उस व्यवसायी ने रामलगन से स्पष्ट रूप से कहा कि यदि उसे ऐसा स्वास्थ्य सेवा राईडर उपलब्ध नहीं कराया गया, जो विशेष रूप से अन्य बातों के साथ हृदयाघात के जोखिम को भी कवर करता हो, तो वह उनसे उनकी कंपनी के प्रसिद्ध धर्मदाय बीमा उत्पाद को नहीं खरीदेगा। रामलगन अपना व्यापार को हानि नहीं होने देना चाहते थे।

कार्यालय पहुंचने पर वह अपने क्षेत्रीय प्रमुख को फ़ोन करते हैं और स्थिति के बारे में बताते हैं। क्षेत्रीय प्रमुख विस्तृत चर्चा के लिये केंद्रीय कार्यालय के उत्पाद विकास प्रकोष्ठ (पीडीसी) से संपर्क करता है। पीडीसी का प्रमुख शीघ्र ही उसे यह कह कर तनावमुक्त करता है कि इस उत्पाद के लिये दूसरे आग्रह भी आये हैं तथा इस विषय ने पहले से ही उनका ध्यान आकर्षित कर रखा है।

मंगलवार, 3 अप्रैल : इस राईडर उत्पाद की मूलभूत विशेषताओं पर चर्चा करने के लिये पीडीसी प्रमुख अपने विभाग में एक बैठक बुलाता है। पीडीसी ग़ैर-शल्यचिकित्सीय अस्पताल ख़र्चों को कवर करने के साथ स्वास्थ्य संबंधी अन्य राईडर पर भी चर्चा करता है। इस बैठक में उभरे विचारों ने उन्हें विपणन विभाग में जाने का रास्ता बनाया।

शनिवार, 7 अप्रैल : विपणन विभाग इन दो राईडर्स पर विचार-विमर्श करता है और विचारों को पसंद करता है। यह विभाग आधुनिक दंत व नेत्र चिकित्सा को कवर करने के लिये इस सूची में एक और नया राईडर भी जोड़ता है। बीमा कंपनियों में यह सामान्य बात नहीं है कि इन कंपनियों ने एक उत्पाद पर चर्चा प्रारंभ की और अंत में कई उत्पादों के साथ उस चर्चा को समाप्त किया।

संयुक्त उद्यम साझेदारों के कार्यालय से भी राय ली गई, क्योंकि उन्होंने अपने देश में ऐसे कई उत्पादों का सफलतापूर्वक विपणन किया है।

अंत में विपणन विभाग मुख्य रूप से कवर किये जाने वाले रोगों/चिकित्सा, प्रत्येक राईडर के अंतर्गत कैसी लाभ संरचना उपलब्ध कराई जाए आदि पर प्रकाश डालते हुये इन तीन राईडर्स में जो उत्पाद विशेषताएं चाहता था, उन्हें शामिल करते हुये बीमांकन विभाग के लिये एक विस्तृत प्रपत्र तैयार करता है।

इस बीच पीडीसी अन्य बीमा कंपनियों द्वारा भारत में उपलब्ध कराये जा रहे यथोचित रूप से समरूप उत्पादों के बारे में आवश्यक विवरण भी एकत्र करता है।

शुक्रवार, 13 अप्रैल : विपणन विभाग तथा पीडीसी द्वारा दिये गये प्रपत्र को राइडर्स के मूल्य निर्धारण तथा उन्हें आगे बढ़ाने के लिये नियुक्त बीमांकक (एए) श्री गोकुलकृष्णन द्वारा देखा जाता है। नियुक्त बीमांकक प्रपत्र में शामिल कुछ बीमारियों पर संदेह करते हैं, क्योंकि उन्हें भय है कि उन्हें सिद्ध करना मुश्किल होगा और इस कारण कई फ़र्जी दावे किये जा सकते हैं। इसके अतिरिक्त बीमांकन विभाग के पास कुछ बीमारियों की अस्वस्था दरें भी उपलब्ध नहीं हैं।

शनिवार, 14 अप्रैल : नियुक्त बीमांकक मुख्य चिकित्सा अधिकारी (सीएमओ) से संपर्क कर इन राइडर्स पर चर्चा करते हैं। सीएमओ कहते हैं कि हृदयाघात की घटनाओं को अच्छी तरह निर्धारित किया जा सकता है, जबकि ग़ैर-शल्य चिकित्सा के इलाज को निर्धारित करना मुश्किल है तथा इस कारण कई फ़र्जी दावे हो सकते हैं। जब तक बीमाकृत स्थितियों की परिभाषा को सख़्ती से रेखांकित और लागू नहीं किया जाएगा, तब तक पॉलिसीधारकों को वे लाभ उठाने देना संभव नहीं है, जिसके लिये वे भुगतान करते हैं।

जटिल दंत व नेत्र चिकित्सा के संबंध में सीएमओ यह स्वीकार करते हैं कि यद्यपि ऐसे बीमा उत्पाद अमेरिका जैसे देशों में उपलब्ध हैं, फिर भी जब ऐसे मामले भारत में लागू किये जाएं तो उन्हें गंभीरतापूर्वक संभाला जाना चाहिये। इस चर्चा के परिणामस्वरूप नियुक्त बीमांकक के मस्तिष्क में कुछ स्पष्टता उभर आती है।

मंगलवार, 17 अप्रैल : श्री गोकुलकृष्णन पुनर्बीमाकर्ताओं से मिलते हैं, जो एक बीमा कंपनी के अंतिम ऋणदाता का प्रतिनिधित्व करते हैं।

यहां पर पुनर्बीमा कंपनियों की भूमिका को विधिवत अभिज्ञात किया जाना चाहिये। पुनर्बीमा कंपनियां काफ़ी परिष्कृत उत्पादों का विकास करने में बीमा कंपनियों की सहायता करती हैं। वे लाभों को निर्धारित करने, जिन स्थितियों के अंतर्गत लाभों का भुगतान किया जाना है, उनका निर्धारण करने, दी जाने वाली अधिकतम लाभ राशि, अपवर्जन आदि को निर्धारित करने में योगदान करते हैं। अपने अंतर्राष्ट्रीय अनुभवों के कारण उनके पास आवश्यक निपुणता होती है तथा वे वांछित अस्वस्थता दरें भी उपलब्ध कराते हैं। (अस्वस्थता दरें कुछ और नहीं, बल्कि यह संभाव्यता मूल्य हैं कि एक निर्धारित समयावधि में विभिन्न आयु वर्गों में जनसंख्या का एक निर्धारित भाग एक विशेष बीमारी से प्रभावित होगा। यह संभाव्यता पुरुषों व महिलाओं के लिये अलग-अलग दी जाती है)

नकुल के पुनर्बीमाकर्ता प्रस्तावित कवरों के मापदंडों तथा वांछित लाभों के मूल्य निर्धारण की परेशानियों के बारे में सीएमओ से पूरी तरह सहमत हैं।

मंगलवार, 24 अप्रैन : पुनर्बीमाकर्ता यह कहते हुये नियुक्त बीमांकक के पास वापस आते हैं कि प्रथम दो राइडर उत्पादों की अस्वस्थता दरें उनके पास उपलब्ध हैं, जबकि तीसरा - नेत्र व दंत चिकित्सा - मुश्किल है। वे यह स्वीकार करते हैं कि यह स्पष्ट नहीं है कि भारतीय परिस्थितियों के अनुकूल बनाने के लिये अमेरिका की अस्वस्थता दरों को कितनी अच्छी तरह से रूपांतरित किया जा सकता है तथा यह भी कि स्वीकार करते हैं कि इस उत्पाद को लागू करने में काफ़ी कठिनाई हो सकती है। यद्दपि उन्होंने इस जोखिम में नियुक्त बीमांकक की मदद करने का वादा किया। कुछ दिनों बाद उन्होंने प्रथम दो उत्पादों की अस्वस्थता दरों के साथ विवरण भेजा।

इस बीच, नियुक्त बीमांकक निवेश विभाग से विस्तृत विचार-विमर्श करते हैं तथा ब्याज दर का प्राक्कलन लेते हैं, ताकि वह उत्पाद के मूल्य निर्धारण में उसका उपयोग कर सकें। इसके अतिरिक्त वह वित्त विभाग से प्रथम वर्ष के नियत व्यय, परवर्ती व्य तथा नवीकरण व्य का विवरण प्राप्त करते हैं। वह वित्त विभाग से विपणन विभाग द्वारा तैयार की गई बिक्री मात्राओं के लिये काफ़ी सतर्कतापूर्ण प्राक्कलन का प्रयोग करने को कहते हैं, क्योंकि उन्होंने पूर्व में अनुभव किया है कि विपणन विभाग द्वारा पहले भारी बिक्री मात्रा का वायदा किया जाता है, लेकिन अंतिम बिक्री आंकड़े काफ़ी कम होते हैं।

सोमवार, 30 अप्रैल : बीमांकन विभाग पुनर्बीमाकर्ता तथा निवेश, वित्त व विपणन विभागों से प्राप्त सूचना का उपयोग करते हुये उत्पादों के मूल्य निर्धारण का कार्य प्रारंभ करता है।

किसी भी जीवन बीमा उत्पाद का मूल्य निर्धारण करने में तीन बातें मुख्य हैं-मृत्यु दर/अस्वस्थता दर, ब्याज दर व व्यय। उनका सापेक्ष महत्व और महत्व तोलन शुल्क उत्पाद की प्रकृति पर निर्भर करता है। उदाहरण के लिये बचत केंद्रित उत्पाद (जैसे मनी-बैक पॉलिसी) के मामले में ब्याज दर पूर्वानुमान कठिन है, जबकि जीवन सुरक्षा केंद्रित उत्पादों (जैसे सैद्धांतिक अवधि, गंभीर बीमारी) के लिये मुत्यु दर/अस्वस्थता दर पूर्वानुमान कठिन है। ऐसे उत्पादों के लिये भी उक्त तीनों पूर्वानुमानों

पर सतर्कता से विचार करना चाहिये, जो बोनस के लिये नहीं चुने गये हैं, क्योंकि प्रीमियम दरों की तुलना सीधे बाजार में की जा सकती है। इन विषयों पर यथोचित अंतिम विचार करने के बाद मूल्य निर्धारण बीमांकन विभाग द्वारा किया जाता है।

प्रारंभिक मूल्य निर्धारण के बाद बीमांकन विभाग कुछ महत्वपूर्ण संबद्ध गणनाएं करता है। वह उत्पाद से प्राप्त लाभ तथा शोधन-क्षमता मार्जिन के लिये वांछित अतिरिक्त पूंजी को सम्मिलित करता है। यह विभाग कंपनी द्वारा बाजार में बेचे जा रहे अन्य उत्पादों से इस उत्पाद की योग्यता भी सुनिश्चित करता है।

यह विभाग सेनारियो विश्लेषण भी करता है, जो इस बात की जांच करता है कि निवेश वापसी, खर्च के अधिक बढ़ जाने तथा आशा से अधिक दावा दर से संबद्ध प्रतिकूल परिस्थितियों में भी क्या यह उत्पाद न्यूनतम लाभ प्राप्त कर सकता है। संतोषजनक लाभ के स्तर तक पहुंचने तक मूल्य निर्धारण बदल जाता रहता है। वे यह भी सुनिश्चित करते हैं कि राइडर प्रीमियम दरें आईआरडीए की स्वीकार्य सीमाओं के भीतर हों, राइडर प्रीमियम आधारभूत उत्पाद प्रीमियम से से एकतिहाई से अधिक नहीं होनी चाहिये।

शनिवार, 5 मई : नियुक्त बीमांकक अब इस उत्पाद की विशेषताएं, मूल्य निर्धारण तथा लाभदेयता के बारे में बताने के लिये इसे प्रबंध निदेशक श्री सोहिब लाल के पास ले जाने के लिये तैयार है। वह उनसे कहते हैं कि यद्दपि विपणन विभाग ने उनसे तीन राइडर विकसित करने को कहा था, लेकिन दो ही संभव हो पाये। नेत्र व दंत चिकित्सा के तीसरे राइडर को रद्द कर दिया जाना है, क्योंकि पुनर्बीमाकर्ता इस प्रकार के उत्पाद को लेकर आश्वस्त नहीं है तथा इसलिये इसे अभी प्रस्तुत नहीं किया जा सकता।

हमेशा की तरह श्री लाल अपने नियुक्त बीमांकक से कहते हैं-"देखिये, यह आपकी जिम्मेदारी है और मैं अभी भी इन सब परिकलनों को नहीं समझ पाया हूँ। क्या आप मुझे इन उत्पादों से इस लाभ स्तर का आश्वासन दे सकते हैं? आप वृहद् पूंजी के लिये मत कहिये।"

नियुक्त बीमांकक कहते हैं-"यदि इन बिक्री आंकड़ों को अमलीजामा पहना दिया जाए तो यह लाभ सुनिश्चित है।"

सोमवार, 7 मई : प्रबंध निदेशक की सहमति प्राप्त करने के बाद अपवर्जनों सहित प्रीमियम तालिका एवं विभिन्न लाभों की परिभाषाओं को टिप्पणी के लिये विपणन विभाग को दे दिया जाता है। इस प्रीमियम की तुलना इसी प्रकार के उत्पादों के लिये अन्य कंपनियों की प्रीमियम दरों से करने पर मुख्य विपणन अधिकारी श्री धरमवीर सिंह खीजते हुये नियुक्त बीमांकक की केबिन में घुसते हैं और कहते हैं कि " हृदयाघात राइडर" के लिये प्रीमियम दरें स्वीकार्य हैं, लेकिन अपवर्जन काफ़ी कड़े हैं तथा इसे बेचने में बिक्री बल को काफ़ी कठिनाई होगी!

वह नियुक्त बीमांकक से अपवर्जनों को हल्का करने को कहते हैं। नियुक्त बीमांकक यह चाहते हैं, लेकिन कहते हैं कि मूल्यों को संशोधित कर और अधिक बढ़ाये जाने की जरूरत है। विपणन प्रमुख इससे सहमत नहीं हैं।

दूसरे राइडर के संबंध में भी उन्हें एक समस्या है। वो यह कि प्रीमियम दरें काफ़ी ऊँची हैं। वह कहते हैं-"अन्य कंपनियों के पास ऐसे ऊँचे मूल्य और अपवर्जन नहीं हैं, आप ऐसी बातें क्यों सुझा रहे हैं। हम इस उत्पाद को नहीं बेच सकते।"

इसके अतिरिक्त वह तीसरा राइडर उपलब्ध न होने के कारण नाखुश हैं तथा कहते हैं कि इस वर्ष बिक्री आंकड़े जरूरत प्रभावित होंगे। वह नियुक्त बीमांकक से कहते हैं कि हमें नवोन्मेष होना चाहिये तथा हमेशा पुनर्बीमाकर्ताओं पर निर्भर नहीं रहना चाहिये। नियुक्त बीमांकक ने विपणन प्रमुख से इन बातों पर चर्चा की।

गुरुवार, 10 मई : नियुक्त बीमांकक और विपणन प्रमुख उत्पाद की विशेषताएं तय करने के लिये प्रबंध निदेशक के पास जाते हैं। अपनी केबिन में दोनों को देखकर प्रबंध निदेशक कुछ नर्वस हो जाते हैं, क्योंकि उन्हें मालूम है कि अब उन्हें मध्यस्थता करना है।

प्रबंध निदेशक की राय में नियुक्त बीमांकक और विपणन प्रमुख चेक व शेष की एक पद्धति के भाग हैं, लेकिन जब वह देखते हैं कि दोनों एक समझौते पर हैं, तो वह तत्काल मुख्य वित्तीय अधिकारी से स्वतंत्र राय मांगते हैं। प्रबंध निदेशक, नियुक्त बीमांकक व विपणन प्रमुख के बीच विस्तृत चर्चा करने के बाद यह निर्णय लिया जाता है कि अभी पहले राइडर को बाजार में उतारा जाए तथा बाकी दो पर बाद में विचार किया जाए।

यह बहुत ही अच्छा विकास है। एक उत्पाद प्रस्ताव एक उत्पाद के रूप उभर कर आया, जबकि अन्य दो को अंतिम रूप नहीं दिया जा सका।

एक उत्पाद के लिये मूल्य निर्धारण तय किया गया, लेकिन यह पाया गया कि तय किये गये मूल्य काफ़ी अधिक हैं, इसलिये जीवन बीमा कंपनी ने यह महसूस किया कि शायद वह पर्याप्त मात्रा में उत्पाद नहीं बेच सकती। दूसरा राइडर विकसित नहीं किया जा सकता, क्योंकि ग्राह्य आधारभूत दरें उपलब्ध नहीं हैं और पुनर्बीमाकर्ता से यह हासिल नहीं किया जा सकता। एक उत्पाद का विकास करने में ऐसी बाधाएं सामान्य हैं। हमें यह स्वीकार करना चाहिये कि उत्पाद विकास एक निरंतर प्रक्रिया है। कोई भी उत्पाद हर समय प्रतिस्पर्धात्मक/सफल नहीं हो सकता। बदलती प्रतिस्पार्धात्मक स्थिति, समष्टि आर्थिक परिवर्तन, जीवन बीमा उत्पादों को प्रदत्त कर लाभों में परिवर्तन तथा नियमनों में परिवर्तन इस कार्य गतिशीलता में योगदान देते हैं।

शुक्रवार, 11 मई : विस्तृत विचार-विमर्श के बाद पहले उत्पाद के लिये विभिन्न मापदंड जैसे, बीमारियों की परिभाषा तथा लाभ ढांचा तय किये जाते हैं। इन अंतिम विशेषताओं के अनुरूप प्रीमियम पुन: तय किये जाते हैं तथा सभी संबद्ध गणना पुन: की जाती है। अब यह उत्पाद लगभग स्थाई हो गया है। विपणन विभाग "बिक्री साहित्य" उपलब्ध कराता है, जो इस उत्पाद के क्रेता को लाभ ढांचे के स्पष्ट आंकड़ा उदाहरणों के साथ यह बताता है कि देय लाभ क्या हैं तथा कब लाभ देय नहीं होगा। बिक्री साहित्य में लाभ उदाहरण की महत्वपूर्ण स्थिति होती है। विधि विभाग पॉलिसी दस्तावेज़ उपलब्ध कराता है। एक राइडर उत्पाद के मामले में यह भी तय किया जाता है कि इसे किस आधारभूत उत्पाद से जोड़ा जाए। इसके पश्चात बीमांकन विभाग यह सुनिश्चित करने के लिये उन दस्तावेज़ों का परीक्षण करता है कि बिक्री साहित्य में दी गई उत्पाद विशेषताएं गुमराह करने वाली नहीं हैं तथा पॉलिसी दस्तावेज में नियम व शर्तें उचित हैं।

शुक्रवार, 18 मई : एक बार अनुमोदन मिलने के बाद नियुक्त बीमांकक अंतिम उत्पाद विशेषताओं को सभी विभागों, विशेषकर परिचालन, सूचना तकनीक (आईटी) व लेखा विभाग को भेजते हैं। इस उत्पाद को बाजार में उतारने के लिये फ़ील्ड कर्मचारियों को आवश्यक प्रशिक्षण देने हेतु विपणन विभाग तैयारी करता है। यह विभाग विज्ञापन एजेंसी से विज्ञापन के लिये उचित चित्रों के साथ बिक्री साहित्य तैयार करने को भी कहता है। परिचालन विभाग मुख्य चिकित्सा अधिकारी के परामर्श से इस उत्पाद के लिये नीचे लिखित नियम तैयार करता है। लेखा विभाग यह सुनिश्चित करता है कि एक बार उत्पाद की बिक्री हो जाने के बाद सिस्टम में आवश्यक लेखा प्रविष्टियां हो जाएं। सूचना तकनीक विभाग एमआईएस सहित विभिन्न विभागों के वांछित आंकड़े सुरक्षित रखता है। बीमांकन विभाग इस उत्पाद के लिये पुनर्बीमा व्यवस्थाओं को अंतिम रूप देता है।

बीमांकन विभाग उत्पाद को बाजार में उतारने के बाद अन्य विभागों को उसके आवश्यक आंकड़ों तथा अन्य सूचनाओं के बारे में बताता है, जिससे छह महीने के अंतराल के बाद वे फ़ील्ड स्टाफ़ की प्रतिक्रियाओं का

विश्लेषण करने तथा यह परीक्षण करने की स्थिति में हों कि उत्पाद में कोई परिवर्तन की आवश्यकता है या नहीं। इस चरण में नियामक आवश्यकताओं को ध्यान में रखते हुये बीमांकन मूल्यन के लिये आवश्यक आंकड़े सुनिश्चित किये जाते हैं।

यह देखकर आश्चर्य होता है कि बीमा उत्पाद विकास किस प्रकार कार्य करता है। पूरे वित्तीय बाजार में केवल बीमा उत्पाद में ही ऐसा है, जिसमें बीमांकक, लेखाकार, निवेश विशेषज्ञ, वकील, चिकित्सक, विज्ञापन एजेंसियां, चिकित्सा क्लीनिक, मार्केटिंग कर्मचारी, आईटी कर्मचारी, हामीदार बीमाकर्ता, परिचालन विभाग को संचालित करने के लिये सामान्य प्रशासक आदि शामिल होते हैं। इससे यह स्पष्ट रूप से पता चलता है कि एक बीमा उत्पाद को तैयार करना, उसका विपणन करना तथा उसके बाद की कार्रवाइयां करना कितना पेचीदा हैं।

गुरुवार, जून 28 : इस चरण में प्रबंध निदेशक श्री सोहिब लाल उत्पाद को बाजार में उतारने के लिये "मुहूर्त" की तिथि देखते हैं। साधारणतया उत्पादों को बोर्ड की बैठक के दिन से पहले बाजार में उतारा जाता है, ताकि बोर्ड के सभी सदस्य उत्पाद को बाजार में उतारते समय उपस्थित रह सकें, क्योंकि उत्पाद को बाजार में उतारना कंपनी के लिये एक महत्वपूर्ण कार्यक्रम होता है।

उत्पाद को बाजार में उतारने के समारोह के अलावा प्रबंध निदेशक साधारणत: संवाददाता सम्मेलन में भाग लेते हैं, क्योंकि यह उन्हें उनकी भविष्य की योजनाओं के बारे में विस्तार से बताने का अवसर देता है तथा पत्रकारों को सभी विवरणों से अवगत कराने में उन्हें काफ़ी प्रसन्नता होती है।

सोमवार, 8 जुलाई : नये उत्पाद को बाजार में उतारा गया। इस समारोह में श्री रामलगन को विशेष रूप से आमंत्रित किया गया, क्योंकि इस उत्पाद को प्रारंभ करने के पीछे वह भी एक ताकत थे। वह स्वयं को काफ़ी सम्मानित महसूस करते हैं। श्री सोहिब लाल सफलतापूर्वक एक संवाददाता सम्मेलन बुलाते हैं तथा उन्हें विश्वास है कि इस उत्पाद को बाजार में उतारने का समाचार दूसरे दिन समाचार पत्रों में अच्छी तरह प्रकाशित किया जाएगा।

गहमागहमी भरे दिन के बाद जब वे कार्यालय से बाहर निकल रहे होते हैं, तभी उनकी मुलाकात निकट के एक कॉफ़ी शॉप से प्रसन्नमुद्रा में निकल रहे मुख्य विपणन अधिकारी तथा नियुक्त बीमांकक से होती है। उत्पाद को बाजार में उतारने की खुशी मनाने जाते समय वह नियुक्त बीमांकक की टिप्पणी को याद करते हैं-"हम सभी का एक ही उद्देश्य है - कंपनी की संभावनाएं। हमें साथ-साथ तैरना है या फिर एक साथ डूब जाना है। हां, वह सोचते हैं" हमारे पास एक अच्छी टीम है।

लेखक एसबीआई लाइफ़ इंश्यूरेंस कंपनी लि. के नियुक्त बीमांकक हैं। यहां प्रस्तुत विचार उनके अपने हैं। इस पर टिप्पणियां ramalingakannan@hotmail.com पर भेजी जा सकती हैं।

10 समादेश

हर कोई आश्चर्यचकित है कि बीमा उद्योग में बीमांकक एक महत्वपूर्ण स्थिति क्यों रखता है? ऐसा निम्नलिखित "दस समादेशों", जिनका उन्हें पालन करना होता है, के कारण है :

बीमांकक से यह आशा की जाती है कि :

(i) उत्पाद का डिजाइन कंपनी में उपलब्ध संसाधनों तथा जोखिम रूपरेखा के अनुरूप हो

(ii) उत्पाद का मूल्य निर्धारण यथोचित तरीके से हो, ताकि प्रीमियम कंपनी को लाभ पहुंचाने के लिये पर्याप्त हों तथा इसके साथ-साथ यह प्रतिस्पर्धात्मक भी हों। इस संदर्भ में उसे दी गई प्रीमियम दरों पर उत्पाद की लाभदेयता तथा लाभ की परिवर्तिता पर नज़र रखनी होती है

(iii) कंपनी के पास पॉलिसी डेटा होता है, जो सभी पहलुओं से संपूर्ण और ठीक होते हैं

(iv) जब कोई नया उत्पाद बाजार में उतारा जाए, तो कंपनी द्वारा लगाई गई पूंजी की पर्याप्त वापसी हो

(v) जहां तक विद्यमान उत्पादों का संबंध है, प्रीमियम दरों सहित कॉन्ट्रैक्ट डिजाइन पर्याप्त लाभदेयता बताये।

(vi) समयावधि के दौरान अपना अनुबंध रद्द करने वालों को लाभ के भुगतान से कंपनी की लाभदेयता पर कोई प्रभाव न पड़े तथा इसलिये अनुबंध रद्द करने वालों और अंत तक अनुबंध जारी रखने वालों के बीच पर्याप्त भागीदारी हो

(vii) न केवल देने के समय, बल्कि निरंतर आधार पर कंपनी के पास शोधन क्षमता सहित पर्याप्त पर्यवेक्षी आरक्षित निधियां हों

(viii) कंपनी का निवेश अनुकूलतम तरीके से किया गया हो, ताकि अधिकतम वापसी हो सके

(ix) कंपनी की पूंजी यथोचित रूप से प्रबंधित की गई हो, ताकि शेरधारकों के दीर्घकालीन उद्देश्यों को प्राप्त किया जा सके

(xi) विभिन्न जोखिमों की पूरी तरह से पहचान की जा चुकी हो तथा उन्हें कम करने के लिये आवश्यक कदम उठाये गये हों। यह जोखिम अंकन तथा पुनर्बीमा की ओर पर्याप्त ध्यान चाहते हैं।

लाभों का गुलदस्ता

निर्मला अय्यर

मार्च, 2004 का दूसरा सप्ताह भारतीय बीमा उद्योग के लिये एक गर्मजोशी से भरी गतिविधि साबित हुआ। इस समय भारतीय जनता का ध्यान ऐसे मामलों की ओर आकर्षित करने के लिये मदद करने हेतु दिल्ली में बीमा पर वार्षिक सम्मेलन और चेन्नई में एक स्वास्थ्य बीमा संगोष्ठी आयोजित की गई, जिसे लेकर लोग बीमा उद्योग से कम चिंतित नहीं हैं।

इस सम्मेलन में पढ़े गये प्रपत्र बीमा उत्पादों की समीक्षा से भरे पड़े थे। साथ ही इनमें जनता को यह सलाह भी दी गई थी कि उपलब्ध उत्पादों के झुंड में से कैसे उचित उत्पाद को चुना जाए। लेखों में से एक का उदाहरण : "उदारीकरण का सबसे बड़ा लाभ ग्राहक को मिला है, जिसके पास आज उत्पाद श्रृंखला के संबंध में विस्तृत विकल्प है।" यह समझाने के बाद कि "उदारीकरण में विकल्प हैं। विकल्प निर्णय लेने को अनिवार्य बनाता है और विकल्पों में वृद्धि निर्णय लेने की प्रक्रिया को अधिक जटिल भी बनाता है", एक अन्य प्रपत्र यह समझाता है कि कैसे अपनी पसंद चुनें। इसके पश्चात वह यह बताता है कि टर्म इंश्युरेंस पॉलिसी, संपूर्ण जीवन पॉलिसी, या धर्मस्व पॉलिसी, या फिर इन सबके सम्मिश्रण द्वारा कैसे सभी आवश्यकताएं पूरी की जा सकती हैं। इसे यह कहा जा सकता है कि विविधता जीवन के मसाले हैं, लेकिन मसाले पेट की सूजन भी दे सकते हैं।

विकल्प स्वतंत्रता का एकमात्र प्रतीक है और इसकी आवश्यकता स्वयं इसके लिये है। लोगों को यदि समान उत्पाद भी चुनना है तो भी वह किसी कारण से अपनी पसंद के विक्रेता से चुनते हैं। यह कारण अप्रासंगिक है, लेकिन चयन की कार्रवाई अप्रासंगिक नहीं है। एक बाजार की अर्थव्यवस्था में इस स्वतंत्रता से उपभोक्ता के लिये बेहतर सेवा, उसके पैसों का बेहतर मूल्य, विशेषकर वित्तीय उत्पाद में, उसके पैसों की बेहतर सुरक्षा और बेहतर वापसी की ओर बाजार को ले जाने की आशा होती है।

यह एक साधारण सच है कि जेनेरिक उत्पाद सभी के लिये सामान्य हैं तथा जिनकी स्वीकार्यता अपरिहार्य है, लेकिन सफल आविष्कार वही हैं, जो उन्हें बांधने वाली परिसीमाओं के प्रति संवेदनशील हैं और जिन्होंने पूरे कार्य का समाधान पा लिया हो। ये परिसीमाएं निम्नलिखित हैं : (1) कम से कम संभव समय में बिक्री बल तैयार करना तथा प्रशिक्षित करना ; (2) कार्यालयीन प्रक्रिया का विकास करना तथा कर्मचारियों को ग्राहकों को अच्छी तरह संभालने के लिये प्रशिक्षित करना, यह भी कम से कम संभव समय में और (3) इस प्रक्रिया को पूर्ण करने के लिये सॉफ़्टवेर तथा हार्डवेर की संस्थापना करना तथा कम से कम समय में लोगों को इनका उपयोग करने के लिये प्रशिक्षित करना।

इनमें से प्रत्येक उद्देश्य अपने आप में एक कड़ी चुनौती देता है तथा इन सबका एक साथ सामना करना और शीर्ष पर आना एक असाधारण उपलब्धि होगी और कोई भी इसके लिये जायज़ रूप से गर्व कर सकता है। हम बिना किसी हिचक के इस प्रकार की उपलब्धि को सम्मान दे सकते हैं और आशा कर सकते हैं कि यह कंपनियां पूर्ववर्ती बड़ी बीमा कंपनियों, जैसे ओरिएंटल, प्रूडेंशियल, यूनाइटेड इंडिया, न्यू इंडिया आदि, जिन्होंने आधी शताब्दी पूर्व लोगों को यह कहने में गर्व महसूस करवाया कि वे उनसे जुड़े हुये हैं, की ऊंचाई तक विकास कर सकती हैं।

कोई व्यक्ति विभिन्न कंपनियों के कई उत्पादों का पूरी तरह सावधानी से अध्ययन करता है, इसलिये वह बिक्री बल के प्रशिक्षण की चुनौती का सामना करने के लिये विजेता द्वारा अपनाई गई सतर्क कार्यनीति से परिचित हो जाता है। इसमें उत्पादों की संख्या पर सीमा हो सकती है या विशेषताओं की संख्या सीमित हो सकती है।

उदाहरण के लिये, कुछ कंपनियों ने ऐसे उत्पादों की घोषणा की, जो पॉलिसी के चयन या प्रीमियम के भुगतान की अवधि या अन्य विकल्पों में सीमित हैं। टाटा एआईजी के निर्वाण प्लस में काफ़ी विशेषताएं हैं, लेकिन विशेषताओं के संबंध में विकल्प नहीं हैं। विकल्प बीमाकृत आश्वासित राशि में सीमित हैं। आकर्षक बिक्री पृष्ठभूमि कहती है : "पहले सुरक्षा के तीन स्तरों- एक लाख रुपये, दो लाख रुपये और चार लाख रुपये, में से चुनिये। यह राशि आपकी बीमाकृत आश्वासित राशि है। एक बार ऐसा कीजिये और सिर्फ बैठ जाइये और देखिये कि प्रत्याभूतियां आपके मार्ग पर आती हैं।" यद्यपि यह सुरक्षाओं की विविधता उपलब्ध कराती है, फिर भी उत्पाद के बारे में समझाने में बिक्री करने वाले व्यक्ति को काफ़ी आसानी होती है।

इसी प्रकार आईएनजी वैश्य और एसबीआई ने ऐसे उत्पादों की घोषणा की है, जिनमें केवल विशिष्ट पॉलिसी समयावधि है, कई मामलों में विकल्प चार या पांच तक सीमित हैं और इसलिये सरलीकृत प्रीमियम तालिका है, जो बिक्री करने वाले एक नौसिखिया व्यक्ति के लिये समझने में आसान है। यह एक सुढ़ शुरूआत है तथा यह एक मजबूत बिक्री बल तैयार करने में सहायक है। टाटा एआईजी के महालाईफ़ में केवल एक प्रीमियम भुगतान तालिका है तथा उनकी दूसरी नीति इसी प्रकार की प्रीमियम तालिका वाले चार या पांच आयु समूह उपलब्ध कराना है। बिक्री बल के लिये इसे संभालना आसान बनाने हेतु अन्य प्रतिफलों के अलावा यह भी एक कार्यनीति है। व्यापार के अति संवेदनशील और महत्वपूर्ण पहलू को संभालने के लिये यह निश्चित रूप से एक बुद्धिमत्तापूर्ण मार्ग प्रतीत होता है।

इसी प्रकार के मूल लाभ के दिलचस्प अंतर भी हैं। प्रीमियम लाभ की छूट (जिसे साधारणत: डब्ल्यू.ओ.पी. के रूप में जाना जाता है) को अलग से उपलब्ध कराने के अलावा विभिन्न प्रकार से विभिन्न राईडर्स से जोड़ दिया जाता है। उदाहरण के लिये, आईसीआईसीआई केवल आजीवन पॉलिसियों के संदर्भ में ही प्रीमियम लाभ की छूट दुर्घटना मृत्यु लाभ (एडीबी) राईडर के अंतर्गत उपलब्ध कराता है। अन्य योजनाओं के अंतर्गत, यह टीपीडी लाभ तक सीमित है, जो दस वर्षों तक बीमाकृत आश्वासित राशि का 10 प्रतिशत वार्षिक लाभ के रूप में उपलब्ध कराया जाता है। यह एडीबी प्रीमियमों के लिये छूट लाभों को भी परिसीमित करता है।

आईएनजी वैश्य में भी दिलचस्प अंतर है। यह डब्ल्यू.ओ.पी. को गंभीर बीमारी राइडर के अंतर्गत गंभीर बीमारी के कारण होने वाली अशक्तता के लिये आकस्मिक लाभ के रूप में उपलब्ध कराता है। बिरला सनलाईफ़ इसे बीमा करने वाले व्यक्ति के विकल्प के अनुसार एडीबी या सीआई के अंतर्गत राईडर पर एक राईडर के रूप में उपलब्ध कराता है। एलआईसी एक जीवन पर 40,000 रुपये तक डब्ल्यू.ओ.पी. उपलब्ध कराता था। यद्यपि कुछ हालिया प्रक्रिया ने इसे 20,000 रुपये तक घटाने का संकेत दिया है। एचडीएफ़सी इस लाभ की उपलब्धता को 60 वर्ष की आयु तक सीमित करता है और एलआईसी के ओल्ड चिल्ड्रंस डेफ़र्ड एश्युरेंस के अंतर्गत प्रीमियम छूट लाभ की भांति डब्ल्यूओपी को अपने चाईल्ड प्रोटेक्शन प्लान के अंतर्गत एक विकल्प के रूप में उपलब्ध कराता है। एएमपी सनमार डब्ल्यूओपी को चाईल्ड प्रोटेक्शन प्लान को छोड़ अपनी सभी योजनाओं के अंतर्गत एक जीवन पर कुल किश्त प्रीमियम का 40,000 रुपये तक टीपीडी के आकस्मिक लाभ के रूप में उपलब्ध कराता है। चाईल्ड प्रोटेक्शन प्लान के अंतर्गत इसे प्रस्तावक की मृत्यु की तिथि से लेकर पॉलिसी की समयावधि तक बिना किसी अधिकतम प्रीमियम सीमा के एक अंतर्निर्मित लाभ के रूप में उपलब्ध कराया जाता है। यदि पॉलिसी के पहले 12 महीनों के दौरान कोई दावा आता है तो एचडीएफ़सी डब्ल्यूओपी पर विचार नहीं करेगा।

दुर्घटना लाभ राईडर के संदर्भ में केवल थोड़े अंतर के साथ सभी कंपनियों की एकसमान मानक विशेषताएं हैं। आईसीआईसीआई एक जीवन पर अधिकतम 10 लाख रुपये की सीमा रखता है। एलआईसी इसे एक जीवन पर 25 लाख रुपये तक सीमित रखता है। एएमपी सनमार एक जीवन पर 50 लाख रुपये तक का एडीबी उपलब्ध कराता है। अपवर्जन, प्रवेश के समय आयु आदि व्यावहारिक रूप से सभी कंपनियों के लिये समान हैं। पुनर्बीमाकर्ताओं का कहना है कि अल्पायु के बच्चे दुर्घटनाओं की संभावना से अधिक ग्रस्त रहते हैं इसलिये एडीबी के कार्यक्षेत्र से उन्हें बाहर रखा जाना चाहिये। इस बात को सभी कंपनियों ने परिवाद साबित कर दिया है।

वर्तमान में भारत में संचालित सभी बीमा कंपनियों में टाटा एआईजी के पास अधिकतम परिवाद परिच्छेद हैं। उसके द्वारा जोड़े गये कुछ विशेष परिवाद निम्नलिखित हैं : विषाक्त भोजन या जीवाणुजनित संक्रमण; बीमा लागू होने या पॉलिसी के पुन:स्थापन के समय शारीरिक विकलांगता या मानसिक अशक्तता होना; किसी भी प्रकार का बुखार या बीमारी; शल्य चिकित्सा संबंधी प्रक्रिया की परेशानी या शल्य चिकित्सा या चिकित्सीय प्रक्रियाओं के दौरान होने वाली दुर्घटनाएं; विकिरण या नाभीकीय ईंधन या नाभिकीय कूड़े से उत्पन्न होने वाली विकिरण सक्रियता से होने वाला संदूषण; विकिरण सक्रियता, जहरीला, विस्फोटक या अन्य यंत्रों की अन्य खतरनाक संपत्तियां; कोई भी पानी की सतह के नीचे या भूमिगत अभियान या गतिविधि; पॉलिसीधारक, नामिती या बीमाकृत द्वारा जान-बूझकर की गई कार्यवाहियां, कानून का उल्लंघन।

इसमें से कुछ अपवर्जन आधुनिक जीवन शैली में उत्पन्न हो रहे जोखिमों को प्रतिबिंबित करते हैं। उदाहरण के लिये शल्य चिकित्सा संबंधी प्रक्रिया/चिकित्सकीय अनदेखी के कारण होने वाली दुर्घटनावश मृत्यु या अशक्तता आज-कल काफ़ी साधारण हो गई है। प्रभावित व्यक्ति के लिये उपचार सिविल या आपराधिक कानून पर छोड़ देना चाहिये, लेकिन इस बात का खंडन नहीं किया जा सकता कि जहां तक पीड़ित व्यक्ति संबद्ध है, यह एक दुर्भाग्यपूर्ण दुर्घटना है।

इसी प्रकार कानून में यह है कि कोई व्यक्ति अपने अपराध से लाभान्वित नहीं हो सकता और इसलिये नामिती, पॉलिसीधारक या अन्य लाभार्थी मूलभूत लाभ से भी अपने आप वंचित हो जाते हैं। जोखिम अंकन के समय विशिष्ट व्यक्ति के लिये कुछ व्यावसायिक जोखिमों या शारीरिक या मानसिक अशक्तता को साधारणत: अपवर्जित कर दिया जाता है। यहां उल्लिखित साधारण अपवर्जन कंपनी विशेष की निर्णय लेने की प्रक्रिया से संबद्ध हैं।

आईसीआईसीआई वृहद् भूतल परिवहन से यात्रा करते समय होने वाली मृत्यु के संबंध में दुगुना दुर्घटना लाभ उपलब्ध कराता है। यह प्रस्ताव भी आधुनिक जीवन के जोखिमों को प्रतिबिंबित करता है। विवरणिका में यह स्पष्ट व्याख्या है कि यदि किसी व्यक्ति की रेल या बस में भी हृदयाघात से मृत्यु हो जाती है, तो भी दावेदार लाभ के लिये योग्य होगा। हालांकि पॉलिसी की विस्तृत शर्तें इस पहलू की रक्षा करती हैं।

गंभीर बीमारी राईडर एक काफ़ी आकर्षक उत्पाद है, क्योंकि इसे बहुप्रतीक्षित स्वास्थ्य लाभ में लाये जाने की अपेक्षा रहती है। यह एक ऐसा क्षेत्र है, जहां पुनर्बीमाकर्ता भी सतर्कता के साथ व्यापार कर सकते हैं, क्योंकि अन्य देशों में चयन-विरोधी अनुभव काफ़ी अधिक रहा है। यहां भी पुनर्बीमाकर्ताओं द्वारा दिये गये साधारण दिशानिर्देशों का मुख्य रूप से पालन किया गया है, लेकिन विविधताएं भी कुछ हद तक आकर्षक हैं। अल्पायु वालों को यहां भी वर्तमान बीमारियों से अपवर्जित रखा गया है। लाभ की अधिकतम सीमा, जो इस परिश्य में एक उल्लेखनीय तत्व है, कंपनियों पर निर्भर है।

एएमपी सनमार अधिकतम 10 लाख रुपये उपलब्ध कराता है, जबकि आईएनजी वैश्य ने इसे 20 लाख रुपये तक समर्थित किया है। यद्यपि आईएनजी वैश्य इसे गंभीर बीमारी राईडर के बजाय हर बार त्वरित लाभ के रूप में उपलब्ध कराता है, यानी भुगतान किया गया लाभ बीमाकृत आश्वासित राशि को उस सीमा तक कम करता है तथा यह मूलभूत लाभ के ५० प्रतिशत तक सीमित है। एचडीएफ़सी ७० वर्ष की आयु तक लाभ उपलब्ध कराने में एक अपवाद है, जबकि अन्य सभी लाभ को ६५ वर्ष की आयु में समाप्त कर देते हैं।

सीमाओं के संबंध में एसबीआई लाईफ़ सबसे अधिक आकर्षक विविधता उपलब्ध कराता है। इसकी सेतुबंधन योजना के अंतर्गत सीआई सुरक्षा केवल एनआरआई तथा उनके आश्रितों को उपलब्ध कराई जाती है तथा इसकी किसी भी योजना के अंतर्गत यह एक राईडर के रूप में उपलब्ध नहीं है। एनआरआई तथा उनके आश्रितों को सीआई सुरक्षा गैर-चिकित्सा आधार पर 35 वर्ष की आयु तक के लिये पांच लाख रुपये तक तथा 45 वर्ष तक की आयु के लिये तीन लाख रुपये तक उपलब्ध है। इन सबके अलावा सीआई कवर के लिये एनआरआई तथा उनके आश्रितों का संतोषप्रद चिकित्सा परीक्षण वांछित है। इसके अतिरिक्त सीआई सुरक्षा अधिकतम 10 वर्ष की समयावधि तक सीमित है।

कुछ अपवादों को छोड़ अधिकतर बिक्री प्रक्रिया सीआई कवर के बारे में न्यूनतम संभव सूचना देती है। अधिकतर पॉलिसी के प्रारंभ होने के बाद से बीमारी होने के बाद प्रतीक्षा अवधि का उल्लेख नहीं करते हैं और न ही पात्रता का दावा करने के लिए चिकित्सा के बाद की प्रतीक्षा की अवधि का उल्लेख करते हैं। सभी सम्मिलित की गई बीमारियों तथा अपवर्जनों का उल्लेख करते हैं। सभी कंपनियों द्वारा बिना अपवर्जन के आवरित की गई बीमारियां निम्नलिखित हैं : कैंसर, सीएबीजी, गुर्दा निष्क्रिय होना, गंभीर चोट व बड़ा अंग प्रत्यारोपण। जो परिवर्धन कुछ हद तक सामान्य हैं, वह निम्नलिखित हैं : पक्षाघात, आओर्टा शल्य चिकित्सा, हृदय वाल्व प्रत्यारोपण और कोमा।

अंधत्व को आईएनजी वैश्य, बिरला सनलाईफ़, अवीवा, मेट लाईफ़ तथा एलआईसी द्वारा सम्मिलित किया जाता है। यद्यपि विवरण ज्ञात नहीं होता है और इसलिये अपवर्जन के समय अनुमान लगाना कठिन होता है, इसलिये हमारे देश में, जहां नेत्र रोगों के कारण अंधत्व की घटनाएं अनियंत्रित हैं, यह एक मूल्यवान विकल्प है। हालांकि यह व्यवस्था करने में कठिन है। नेत्र परत का निकलना, ग्लूकोमा, डायबेटिक रेटिनोपैथी सहित अंधत्व के कई कारण हो सकते हैं तथा यह मानना युक्तियुक्त है कि लाभ की योग्यता के लिये कई निषेध अवश्य होंगे। केवल एलआईसी थर्ड डिग्री जलने पर सीआई सुरक्षा उपलब्ध कराता है। यह ऐसे देश में एक साहसिक कदम है, जहां जलने से होने वाली मौत एक प्राकृतिक घटनावृत्त बन गया है। यहां समस्या तब बढ़ जाती है, जब यदि दावा निषेधों की समयावधि के दौरान आत्महत्या के मामले में आता है।

बिरला सनलाईफ़, मैक्स न्यूयार्क तथा अलायंज़ बजाज बहुविकल्प स्क्लेरोसिस पर सीआई सुरक्षा उपलब्ध कराते हैं। अवीवा न केवल अंधत्व, बल्कि बहरेपन को भी शामिल करता है। यह प्राणहर बीमारी पर सीआई सुरक्षा उपलब्ध कराने में भी विशिष्ट है, यद्यपि यह विवरण ज्ञात नहीं है कि इसे कैसे निश्चित या निर्धारित किया जाता है। केवल अलायंज़ बजाज अल्ज़ेइमर पर सुरक्षा उपलब्ध कराता है।

आईएनजी वैश्य, बिरला सनलाईफ़ तथा अविवा मस्तिष्क गांठ के लिये भी सीआई सुरक्षा उपलब्ध कराते हैं। एचडीएफ़सी सीआई सुरक्षा में गर्भावस्था संबंधी बीमारियों को सम्मिलित नहीं करता। जोखिम प्रारंभ होने की तिथि से प्रतीक्षा अवधि के संबंध में साधारण कार्यप्रणाली छह महीने प्रतीत होती है, जबकि मेटलाईफ़ इसमें अपवाद है, क्योंकि इसकी प्रतीक्षा अवधि पॉलिसी देने की तिथि से केवल 90 दिन है। आईसीआईसीआई को छोड़ लगभग सभी कंपनियां सीआई लाभ की योग्यता के लिये नियत परिस्थिति की चिकित्सा के बाद 30 दिन की उत्तरजीविता अवधि का अनुबंध करती हैं। आईसीआईसीआई ने इस अवधि को 28 दिन तक नियंत्रित कर दिया है। आईसीआईसीआई एक वृहद् शल्य चिकित्सा सहायता राइडर भी उपलब्ध कराता है। प्रारंभ होने के बाद से इसकी प्रतीक्षा अवधि छह महीने है। लाभ समाप्ति आयु 65 वर्ष है। शल्य चिकित्सा की प्रकृति के अनुसार बीमाकृत आश्वासित राशि के 50/20/30 प्रतिशत का एकमुश्त भुगतान किया जाता है। यद्यपि इसका परिसीमन ज्ञात नहीं है, फिर भी यह एक आकर्षक विकल्प प्रतीत होता है।

राईडर्स का एक आकर्षक पहलू सीमा है, जिससे वे वर्तमान सॉफ़्टवेर के परिसीमनों से प्रभावित हैं। गंभीर बीमारी या अन्य राईडर्स को प्रीमियम भुगतान अवधि से अधिक अवधि नहीं दिये जा सकने का कारण यह है कि सॉफ़्टवेर सिस्टम मूलभूत सुरक्षा के लिये उससे अधिक समयावधि की अनुमति नहीं देता।

यद्यपि यह एक आधारभूत बचाव है, इसलिये इसे लागू करने में कोई गलती नहीं है। इसका यह अर्थ नहीं है कि राईडर को प्रीमियम भुगतान अवधि तक सीमित कर दिया जाना चाहिये। यह इस तथ्य के कारण है कि सॉफ़्टवेयर को आधारभूत पॉलिसियों तथा राईडर्स के लिये पृथक अवधि ढांचों की अनुमति देनी चाहिये और साथ ही उन्हें एक-दूसरे के लिये मान्य करना चाहिये। यह सुनिश्चित करने के लिये सॉफ़्टवेर कार्यान्वयन पेचीदापूर्ण है कि कुछ निश्चित राईडर प्रीमियम मूलभूत प्रीमियम के प्रतिशत ढांचे से आगे नहीं बढ़ेंगे, जबकि अन्य बढ़ सकेंगे।

इकाई-संबद्ध पॉलिसी साफ़्टवेर में स्वाभाविक ढांचा उपलब्ध इकाई से स्वत: पॉलिसी ऋण लेता है। जब एक मूलभूत सुरक्षा प्रीमियम को कवर करने के लिये राशि पर्याप्त नहीं है, तो सिस्टम उपलब्ध राशि द्वारा अनुमत समयावधि के लिये अवधि कवर उपलब्ध करा सकता है। कुछ समय के लिये जिन दो कंपनियों ने अपनी इकाई संबद्ध पॉलिसी के लिये विस्तारित अवधि सुरक्षा (ईटीआई) के स्वत: प्रावधान का उपयोग किया है, वह हैं आईसीआईसीआई और एसबीआई।

दक्षिण पूर्वी एशिया में काफ़ी अधिक प्रसिद्ध ईटीआई के भारत में प्रसिद्ध नहीं हो सकने का कारण जीवन बीमा के राष्ट्रीयकरण के तत्काल बाद के दिनों में हुये अनुभव पर आधारित है। भारत में मृत्यु दावा या मेच्युरिटी के समय कई लोगों को यह बताना था कि स्वत: प्रीमियम ऋणों व अनुवर्ती ब्याज के द्वारा पॉलिसी का मूल्य समाप्त हो गया है तथा पॉलिसियों के अंतर्गत कुछ भी भुगतान नहीं करना है। यह तथ्य कि उन्हें नियमित रूप से स्थिति से अवगत कराया जाता रहा, उन्हें परिस्थिति की वैधता के संबंध में कोई सांत्वना नहीं दे सका। प्रीमियम के रूप में भारी राशियों का भुगतान करने के बाद उन्होंने कुछ वापस चाहा तथा ऐसा न होने के परिणामस्वरूप क्रोध और उदासी छा गई। लोगों को समझाने में कठिनाई होने के परिणामस्वरूप एलआईसी द्वारा लाभदायक गैर-समपहरण विकल्प के रूप में एपीएल को अस्वीकृत कर दिया गया तथा समरूप स्वत: भुगतान पद्धति को अपनाया गया।

इसका अर्थ यह नहीं है कि आईसीआईसीआई एवं एसबीआई के प्रदर्शन के अनुसार एपीएल या विस्तारित समय सुरक्षा विकल्पों को छोड़ देने की आवश्यकता है। यह पूरी तरह संभव है कि इकाई-संबद्ध पॉलिसियों के लिये एपीएल पद्धति एक सचेत विकल्प के तौर पर नहीं अपनाई गई, बल्कि यह देखने के लिये अपनाई गई कि सॉफ़्टवेर क्या करता है! वर्तमान में उपलब्ध साफ़्टवेर के स्तर को देखते हुये यह संभव है कि पॉलिसीधारक को अपनी गैर-समपहरण पद्धति चुनने दिया जाये तथा यदि वह चाहता है तो उसे मध्य अवधि में भी बदला जाये। इस बारे में काफ़ी सोचने और अध्ययन करने की आवश्यकता है कि क्या अच्छा है और क्या लाभदायक है और एपीएल बनाम स्वत: भुगतान के क्षेत्र में क्या प्रसिद्ध साबित होता है। इस क्षेत्र में आने वाले वर्षों में काफ़ी प्रयोग होंगे। यह एक ऐसा क्षेत्र भी है, जहां संभावनाओं की स्थिति को पर्याप्त रूप से समझाने के लिये बिक्री बल को श्रेष्ठ प्रशिक्षण देने की आवश्यकता है।

एक और क्षेत्र, जो आने वाले समय में विस्तारित अवधि सुरक्षा के प्रसंग में महत्वपूर्ण बन जाएगा, वह आवासीय ऋणों के संबंध में ऐड-ऑन या टॉप-अप पालिसियों से संबद्ध है। भारत में बीमा आश्वासित राशि में वृद्धि एक स्थापित कार्यप्रणाली नहीं है। अन्य देशों में भी, जहां इस कार्यप्रणाली को लागू किया गया, वहां पॉलिसीधारकों के लिये अप्रकट शुल्क है, जिससे उन्हें अवगत नहीं कराया जाता।

कथित वृद्धियों की सीमा प्रारंभ में परिभाषित की जाती हैं तथा जोखिम मूल्यांकन भविष्य की संभव वृद्धियों सहित होता है। ऐसे मामले में यदि पॉलिसीधारक जोखिम सुरक्षा वृद्धि के लिये विकल्प का लाभ नहीं उठाता है, तो उसने चिकित्सा परीक्षण के लिये अनावश्यक रूप से भुगतान किया है। तथापि, आम आदमी इससे परिचित नहीं है और उच्च शिक्षित लोग भी यही महसूस करते हैं कि यदि उन्हें भविष्य में किसी भी तिथि में सिर्फ़ अतिरिक्त जोखिम सुरक्षा जोड़ने दिया जाये तो यह एक बहुत ही आकर्षक विशेषता होगी।

चूंकि कंपनियां एक-दूसरे से प्रेरणा लेते हुये नवोन्मेष जारी रखेंगी, इसलिये अध्ययन से आकर्षक संभावनाएं पैदा होंगी। कुछ कंपनियों ने साहसिक कदम उठाया है तथा ऐसे लाभों का रूपांकन किया है, जो उनके मत में लोगों को आकर्षित करेंगे। कुछ ने एहतियात बरती है, लेकिन इस तरह भी उत्पाद अपना आकर्षण बनाये हुये है।

यदि इस दिशा में अनुभव पक्ष में होंगे, तो निषेध धीरे-धीरे समाप्त हो जाएंगे और लाभ सुरक्षा बढ़ जाएगी। यह सब लागू होने वाले आयुवर्ग में रियायत, शर्तरहित भुगतान तथा लाभों के ढांचे बनाने की शर्त पर होगा। एक साथ ही विश्वस्त डेटाबेस तैयार करने के लिये संबद्ध पक्षों को एकजुट होने की आवश्यकता है, ताकि इस क्षेत्र में विकास अधिक वैज्ञानिक और संरचनात्मक हो सके।

लेखिका एलआईसी के डेटा संग्रह व शुद्धिकरण के पूर्व प्रमुख हैं। यहां व्यक्त विचार उनके अपने हैं। यह लेख आज बाजार में उपलब्ध नये उत्पादों की विविधता का पता लगाने की कोशिश है। यह कोई सर्वांगपूर्ण सूची नहीं है तथा यह लेखक, आईआरडीए या आईआरडीए जर्नल की ओर से कोई प्रत्यक्ष या अप्रत्यक्ष सिफ़ारिश नहीं करता।

Datamining - the "Secret Weapon"

- Technology and the Indian Insurer

M. Arunachalam

In the fast changing and competitive market in insurance, executives require all sorts of information that were not predicted earlier. Such information is to be supplied in a timely manner. In critical situations, it assumes greater importance. Functional managers require time-critical information. Often such demands are either impossible or difficult to meet, and result in inadequate or incorrect information.

Managers need to formulate objectives, to determine whether those objectives are being met, and then to support the decision-making process. This comes from not only analysis of operational information but also external sources.

Examples of MIS include percentage of claims processed in time, 'in force' business comparatively, profitability as compared to its competitors' products, analysis of customer feedback, and cycle time for critical operations. External organisations include regulatory agencies, consumer groups, and financial institutions besides policyholders, prospects, stockholders, brokers and rating agencies.

The key drivers for modern organisations in a competitive environment will be business intelligence (BI), derived out of consolidated data available with insurance companies. Insurers in India have to evaluate this as strategically similar to the thrust that the customer service deserves. Currently the usage of BI technologies is very low partly due to non-automation of core business processes. BI is implemented through Online Analytical Processing (OLAP) and Data Mining. Analytical processing answers business questions and therefore helps in decision support.

Even in the advanced countries, although transaction processing is carried out efficiently, generation of management information involves a heavy strain because of 'silos' of their disparate systems, which are mostly legacies. Nevertheless, they do not fail to deliver the required information in time by using a mix of manual and computerised methods, and by relying upon data in excel sheets and different databases.

Some instances that were noticed in the US are:

- A large life insurer, with assets over $120 billion and 10 companies merged into it, with around twenty different channels of intermediaries, has isolated pockets of systems. In the nightly operation, the system triggers a process to receive data extras from different production systems and, transform, clean and load it into a repository to be available for analysis the next day. Right from the agency manager (limited to his agency) to the CEO (for the entire corporation) can view information that they require for monitoring without hassles. Information available to them on the web includes new business figures, premium income, and achievement levels company wise, agency or channel wise and so on.
- A non-life company with predominantly auto and property insurance business has data warehousing for its automobile line of business for several analyses. One of the data warehouses stores suggestions from members and tracks these suggestions during the different phases of consideration until these are logically closed with action taken.

> When new products are introduced, the existing customer database and profiles need to be mined so that the targeted customers get newly launched product details. This is yet to happen in India.

Insurers in developed countries like the US and in Europe devote serious attention to information analysis. Notwithstanding the fact that their systems are disparate and heterogeneous, the companies employ all possible methods to integrate data into a common repository and provide regular on demand information that executives require for their planning, operational, and monitoring activities. The most important method is building a correctly designed data warehouse and invoking its data, both current and past, for regular analysis (pre-defined formats) and for ad hoc needs (impromptu).

Business intelligence based on transaction details for individual clients, policies and claims, or summary information showing results and trends allows decision-makers to make decisions better. Business intelligence tools provide insights into business, and it is up to the users to identify patterns and try to infer what may be the causes of a problem like a 'fishbone analysis' or the indication of an opportunity.

A CEO (or any functional chief) has to get information when he needs it and the way he needs it. As an example, for the reported premium income, there is a need for dicing and slicing this data, say by payment method (branch, auto-debits, salary saving schemes) and within method of payment by cash, cheque, electronic transfer, and so on. To extract such and many more information in a manual way is neither possible, nor practical. Technology provides a role in generating information about:

- Performance of the product
- Comparative review based on the number of policies, annualised premium, net premium underwritten, broken into geo, channel, mode and

method of payment and so on, in relation to targets and previous periods

- Rate of and reason wise analysis of rejections of proposals
- 'What if' Analysis – If the retention was high for a class of business, what would have been the performance of the treaty
- Claim analysis by cause of loss, duration, channel, product, geo, medical examiners and so on
- Profitability Analysis – by product, channel, geo and so on, to focus on realignment of product mix
- Persistency rate of policies, product, segment and channel wise
- Persistency rate of agents, in terms of their various characteristics
- Persistency of customers, new customers etc. Persistency of business, analysed by product, geography and channels of business
- Loyal and profitable customers

There was a query: "What would be the increase in commission payments if the lapse experience decreases by one per cent, two per cent and so on". There was no way to get that impact information. This is where we think of 'what if' analysis; it is a powerful mechanism in a variety of practical situations and is an important decision facilitator. Insurers have to improve getting clues on many things that would occur years hence, which may impact profitability.

The cost of acquiring a new customer is much more than servicing and getting repeat business from the existing customer. Therefore when new products are introduced, the existing customer database and their profiles need to be mined so that the targeted customers get newly launched product details. This is yet to happen in India.

Business intelligence also plays an important role in understanding the customer better. A customer can be an individual, family or a corporate. Insurers need to know more about them, their lifestyle preferences, many of which are beyond actuarial studies, to 'cross sell' and 'up sell' their prospects on their additional products.

At all the levels and for different lines of business, measurement can be on the following dimensions (many more): gross premium, net premium, claims incurred, paid claims, outstanding claims, and outstanding premiums. Each of the level from the top can be drilled further to find more information. The information at each level can be viewed on the basis of before and after reinsurance. It is important that this information is available online real time at the point where it is required. As a picture is worth a thousand words, advancement in technology has resulted in converting numbers to various pictorial forms instantly, and is used as a powerful presentation mechanism.

All advanced countries have access to dedicated ratemaking systems with algorithms and formulae. It is very important to have such systems in place especially when Indian non-life insurance is set to be detariffed in 2005.

Insurance companies in the US and in other advanced countries notwithstanding the strain involved in collecting and collating data have taken serious steps to derive a consolidated view of information that the management needs at strategic and operational levels. Some companies view a 'balanced scorecard' to gauge the progress on financials, new business development, client care, internal effectiveness and new product development. CEOs require information on the fly and would like to have a brief view. A dashboard with a data repository built-in for critical information would be a welcome preposition. If he wants further information, he should be in a position to drill down. Management needs information on what happens now more than what happened in the past.

Business intelligence will derive advantages from external databases also. A recent news report states: The average citizen (in India) can look forward to an orderly transition to e-governance...with the Center announcing that it will create a national citizenship database in...18 months. This probably indicates that a good amount of demographic data will be available for use and Indian insurers have to set the foundation for analysis of internal data meanwhile.

Pricing

The price of insurance products is dependent upon, inter alia, the insurance industry's claims experience, which would be available from the database of premia and incurred claims.

The highest level of precaution needs to be taken for pricing calculations. Technology on pricing can help the insurer because complex formulae go into insurance ratemaking techniques and manual computations are error prone and subject to limitations and constraints. Pricing revolves around many factors such as past claims experiences and the nature and trend of loss. This information is collected preferably from all the insurers and fed into a database to generate class rates based on territory.

That needs powerful systems and massive analysis of data. Tools to perform data extraction, transforming, cleansing and loading and later do the number crunching. Models can be developed based on data that is collected and decisions taken quickly. All advanced countries have access to dedicated ratemaking systems with algorithms and formulas in respect of property and casualty and health insurance. It is very important to have such systems in place especially when Indian non-life insurance is set to be detariffed in 2005.

In the US, a variety of programs are available for basic medical insurance, disability insurance, specified insurance coverage like Critical Illness and more importantly Long Term Care dedicated to the aging population. Quite a number of managed care facilities are available. There are schemes where the health-care providers (such as hospitals, clinics and physicians) rather than insurance companies bear the risk, at least partly, and the insured person need not bear even the deductible.

In India, the public healthcare system has not been healthy and medical insurance is yet to grow in a big way with hardly any 'morbidity' data being available now. In that situation, fixing health premiums on the lines as available in advanced countries particularly in the US will be a matter of great concern. Mediclaim policies have been in vogue for quite a few years and there have been repeated revisions of premium too. It is not known whether claims under these policies, on risk factors such as age, sickness/accident/ disability, number of claim occurrences, expenses incurred and benefits paid have been built over a period of years, and whether such increased rates reflect these classified experience.

Compilation of a 'morbidity' table is more complex than the 'mortality' table and the role of IT is critical in building and maintaining such tables that can be contributed commonly and shared by all insurers.

Controls

In manual or semi-manual systems the scope for errors is very high. Controls, when they are built in as part of the process and systems, ensures transparency to the business operations. A US company has a system in place to record in a repository all irregularities, financial or otherwise, across all regions, and monitor them to its logical closure, and analyse the root causes for effective and proactive remedial actions. A summary of irregularities, classified by cause, timeline, geography and authorities responsible for its origin and closure is a noteworthy tool available to senior executives to administer controls. The automated analysis goes to designated authorities for review and ensures that there is no leakage in recovery or slippage in remedial action. Fraud detection is one of the important control measures.

Fraudulent practices involving non-existence of insurance subject matter, fake proofs of loss and such malpractices have taken an enormous toll on the claims reserves of insurers. Bad claims and adverse claim experience have to be tracked to prevent fraudulent claims. Association of British Insurers (ABI) estimates the total loss by insurers to fraudulent claims at one billion Pounds. The same institution released data garnered from 2,000 people that indicated that nearly half of them would not rule out making dishonest insurance claims in the future.

Compilation of a 'morbidity' table is more complex than the 'mortality' table and the role of IT is critical in building and maintaining such tables.

New technologies are helping insurers analyze and control exposure to fraud. These are powerful analytical software that can detect patterns by collusion by individuals working together. For example, this can be applied to health claim data to detect excessive billing, and improper or fraudulent charges.

Thanks to technology, frauds have been controlled in the US and in European countries. The Coalition Against Insurance Fraud (CAIF) in the US estimates a total fraud cost of $80 bn annually. Many states there require insurance companies to establish Special Investigative Units (SIUs). Combating fraud undoubtedly has been receiving increasing attention during the last two or three decades, and more so in the recent years. With every step forward in controlling this menace, organised insurance fraud perpetrators are more and more creative with new methods of perpetrating fraud and are able to elude all internal audit practices.

Anti-fraud technology has been around for sometime, but the results are only as good as the analytical tools used and the data available. Obviously without a centralised repository for sensitive data like claims and without the mechanism for the analysis being in place, fraud remains unchecked and continues to grow. The pre-requisite to wage the 'war on fraud,' is organising dependable data and creating a common view, and probably a co-operative effort by all insurers.

Regulatory compliance

Complying with insurance regulations is one of the standard duties of an insurer. Insurance companies would like to follow the regulations in letter and spirit. Regulations include adhering to the guidelines and providing periodic and ad hoc reports to the regulator. Not complying with regulations and deadlines could result in fines for insurers and could mar the image of the insurer.

Regulations also help the insurer monitor business performance. The insurers have to keep changes incorporated into the process for adherence and generation of reports, if any. In one company in the US, a set of three analysts was exclusively allotted to track changes in regulations and incorporate the needed changes into the system (of course, it is complex there because of different state-specific regulations). It is necessary to gauge the impact of changes in regulatory requirements on to the source systems. The system should be flexible to accommodate regulatory changes. How does an insurer make sure that the regulations are indeed being followed, and that he is able to comply with changing reporting requirements? If a rightly designed repository is in place, any reporting becomes possible.

In the U.S., insurance commissioners besides receiving the periodical reports, which in some cases are micro in nature, conduct state inspections. They ask for reports of information for which they frame questionnaires and format for response on the areas to be inspected, months ahead. Inspection includes critical areas such as rate of claim rejection, delays and defects in customer service, compliance of procedure on policy replacements and so on. Even though these requirements are made well in advance, insurance companies in the US strive hard to extract information, but they do produce the required information invariably on time.

In India, companies do meet the regulatory requirements, mostly statistical information, and annual returns. The regulatory requirements will keep evolving, and will undoubtedly increase as more lines of business will be transacted, health insurance will witness growth, and pension business will take new dimensions.

It is ideal to source the information from the system where the data exists rather than undergoing the pain of extracting and calculating the numbers manually; this will avoid errors and help in submitting the standard reports in time and non-standard reports when required. Regulatory requirements could be many such as stipulations on cessations, investment portfolio, risk-based solvency margins, rural/social sector business and so on. If the right kinds of IT systems and database are in place, information production, whether for internal analysis or regulatory submission, should be a matter of a simple process, rather than involving several person days such as happens at present.

Societal needs

Societal needs consist of several facets: Tapping rural and other unexplored market, inculcating savings habits, extending protection to uninsured people, offering health insurance and many more. This article will be limited to cover the rural market.

Rural business is a regulatory requirement. It is perceived as a great opportunity, rather than a societal obligation, as our rural market has around three-fourth of total population and four-fifths of working population of the country. In terms of production, rural India commands a premier position in the world. Thrift habits of village population are a boon to life insurance. However, one third of the rural population is indeed very poor but it is they who really need social protection. It could be through a subsidised group scheme.

If the right kinds of IT systems and database are in place, information production, whether for internal analysis or regulatory submission, should be a matter of a simple process,

Insurers in India are required to undertake specified percentages of insurance business in the rural or social sector and shall discharge such obligations to persons residing in the rural sector, workers in the unorganised or informal sector or for economically vulnerable or backward classes of the society and this shall include insurance for crops.

Penetration into rural areas has been receiving constant attention with varying degree of success. Initiatives include creation of rural career agents (not same but similar to debit or home service agents in US), publicity thrust in rural market and so on. In spite of efforts made by insurers, and regulatory requirement, less than one-fifth of the policies are sold in life insurance and much less in general insurance, which is again mainly for Motor insurance.

How can IT help in this direction? IT can be steadily and cleverly used to propagate products specifically for rural market. To introduce rural products, companies would have to do an assessment of the market based on geography, income level, production statistics etc., including awareness of insurance.

A part from research needed in the above direction, infrastructure has to be built in the areas of product offering, ease of selling, friendly service including claims settlement, and easy payment methods. IT systems can support all these, and can be used to establish facility to improve product information dissemination, submission of proposal data, easy customer service including claims settlement and policy inquiries, and most importantly payment of premiums.

The Indian Institute of Technology (IIT), Chennai has come out with low cost models of ATM and more of these devices can be established in rural areas. Channels like e-choupal, co-operative societies and bancassurance can play an important role. A direct link in rural area bank branches if computerized can ease premium payments. An IT support to administer the mass of rural population, group or individual, in the matter of building awareness or settling a claim, needs consideration.

The Central Government and a number of state governments have established a number of social insurance schemes, including contributory and subsidised models. IT can extensively be used for the maintenance of records including members/benefits/beneficiaries and simplify claim settlement and generate several statistics that the Government will require from time to time.

The author is Advisor, Insurance, HCL Technologies Ltd. The views expressed here are his own.

Report Card:LIFE

Life Premiums grow 62% in May over April

The life insurance industry underwrote a premium of Rs.1,42,726.96 lakh during the month of May, 2004 taking the cumulative premium underwritten during the current year 2004-05 to Rs.2,30,452.08 lakh.

The private sector insurers players received a premium of Rs.38,546.12 lakh upto May, 2004 viz., 16.73 per cent of total premium underwritten. LIC underwrote premium of Rs.1,91,905.96 lakh i.e., a market share of 83.27 per cent. LIC's market share has declined from 86.99 per cent for the year 2003-04. Most of the new players, other than ING Vysya, OM Kotak and Max New York Life, increased their market share over the year 2003-04 numbers.

In terms of policies underwritten, the market share of the new players and LIC were 9.04 per cent and 90.96 per cent as against 5.79 per cent and 94.21 per cent respectively for the year 2003-04. ICICI Prudential continued to lead amongst the new players with premium share at 5.91 per cent and policies at 2.88 per cent.

The premium underwritten by the industry towards individual single and non-single policies stood at Rs.18,363.80 lakh and Rs.1,29,137.70 lakh respectively accounting for 41,876 and 21,88,360 policies. Group single and non-single premium accounted for Rs.77,156.45 lakh and Rs.5,794.14 lakh towards 1,588 and 242 schemes respectively. The number of lives covered by the industry under the various group schemes was 6,75,947 during the two month period. Under the group insurance business, in terms of number of lives covered, Tata AIG led amongst the new players with 41,005 lives viz., 6.07 per cent of the total lives covered, followed by SBI Life with 35,436 lives at 5.24 per cent. LIC covered 4,87,722 lives under the group schemes accounting for 72.15 per cent of the lives covered.

The accompanying table does not include the numbers under the Varishtha Pension Bima Yojana. Premium underwritten by LIC under the pension scheme upto the month of May, 2004 was Rs.70,186.15 lakh towards 35,662 policies. The rural sector accounted for 34 per cent of the premium underwritten under this plan.

First Year Premium – May 2004

(Rs. in lakhs)

Sl No.	Company	Premium u/w		% of Premium	No. of Policies / Schemes		% of No. of Policies	No. of lives covered under Group Schemes		% of lives covered under Group Schemes
		May	Upto May	Upto May	May	Upto May	Upto May	May	Upto May	Upto May
1	**Allianz Bajaj**	**2,343.75**	**3,722.72**	**1.62**	**12,014**	**18,253**	**0.82**	**1,293**	**1,751**	**0.26**
	Individual Single Premium	781.14	1,064.94		1,108	1,494				
	Individual Non-Single Premium	1,537.67	2,627.49		10,902	16,751				
	Group Single Premium									
	Group Non-Single Premium	24.94	30.29		4	8		1,293	1,751	
2	**ING Vysya**	**315.62**	**536.94**	**0.23**	**3,123**	**8,710**	**0.39**	**3,626**	**3,626**	**0.54**
	Individual Single Premium	4.07	31.39		599	4,621				
	Individual Non-Single Premium	287.20	481.20		2,522	4,087				
	Group Single Premium	11.93	11.93					69	69	
	Group Non-Single Premium	12.42	12.42		2	2		3,557	3,557	
3	**AMP Sanmar**	**317.03**	**547.28**	**0.24**	**2,263**	**4,478**	**0.20**	**4,263**	**5,308**	**0.79**
	Individual Single Premium	109.16	253.13		329	536				
	Individual Non-Single Premium	198.12	283.19		1,933	3,939				
	Group Single Premium									
	Group Non-Single Premium	9.75	10.95		1	3		4,263	5,308	
4	**SBI Life**	**1,628.56**	**2,747.39**	**1.19**	**6,147**	**10,639**	**0.48**	**17,250**	**35,436**	**5.24**
	Individual Single Premium	409.81	781.64		234	389				
	Individual Non-Single Premium	418.50	646.76		5,808	10,142				
	Group Single Premium	765.44	1,173.69		1	1		6,964	11,927	
	Group Non-Single Premium	34.81	145.31		104	107		10,286	23,509	
5	**Tata AIG**	**1,745.79**	**3,497.54**	**1.52**	**16,397**	**33,149**	**1.49**	**21,687**	**41,005**	**6.07**
	Individual Single Premium									

(Rs. in lakhs)

Sl No.	Company	Premium u/w		% of Premium	No. of Policies / Schemes		% of No. of Policies	No. of lives covered under Group Schemes		% of lives covered under Group Schemes
		May	Upto May	Upto May	May	Upto May	Upto May	May	Upto May	Upto May
	Individual Non-Single Premium	1,510.09	2,706.03		16,381	33,128				
	Group Single Premium	50.40	100.47					5,945	12,717	
	Group Non-Single Premium	185.30	691.04		16	21		15,742	28,288	
6	**HDFC Standard**	**2,018.47**	**3,300.66**	**1.43**	**9,618**	**17,019**	**0.76**	**7,067**	**18,277**	**2.70**
	Individual Single Premium	480.62	1,021.50		1,046	1,825				
	Individual Non-Single Premium	1,484.39	2,154.37		8,565	15,165				
	Group Single Premium									
	Group Non-Single Premium	53.46	124.79		7	29		7,067	18,277	
7	**ICICI Prudential**	**8,224.10**	**13,625.40**	**5.91**	**31,592**	**64,181**	**2.88**	**3,149**	**5,068**	**0.75**
	Individual Single Premium	1,532.22	2,392.15		984	1,677				
	Individual Non-Single Premium	5,345.72	8,838.52		30,598	62,480				
	Group Single Premium	4.72	5.79		2	3		408	622	
	Group Non-Single Premium	1,341.44	2,388.94		8	21		2,741	4,446	
8	**Birla Sunlife**	**3,741.89**	**5,981.81**	**2.60**	**7,534**	**14,416**	**0.65**	**1,998**	**2,951**	**0.44**
	Individual Single Premium	105.00	191.40		813	2,585				
	Individual Non-Single Premium	2,449.23	3,862.84		6,713	11,821				
	Group Single Premium	33.81	65.71					280	548	
	Group Non-Single Premium	1,153.85	1,861.85		8	10		1,718	2,403	
9	**Aviva**	**1,069.46**	**1,791.37**	**0.78**	**6,376**	**9,916**	**0.44**	**3,404**	**13,580**	**2.01**
	Individual Single Premium	59.60	90.56		21	49				
	Individual Non-Single Premium	995.51	1,666.55		6,353	9,860				
	Group Single Premium									
	Group Non-Single Premium	14.35	34.26		2	7		3,404	13,580	
10	**Om Kotak Mahindra**	**433.73**	**939.09**	**0.41**	**3,189**	**4,426**	**0.20**	**267**	**21,592**	**3.19**
	Individual Single Premium	75.00	75.70		38	40				
	Individual Non-Single Premium	354.80	477.13		3,151	4,383				
	Group Single Premium									
	Group Non-Single Premium	3.94	386.27			3		267	21,592	
11	**Max New York**	**1,066.17**	**1,460.28**	**0.63**	**11,569**	**14,059**	**0.63**	**19,542**	**24,197**	**3.58**
	Individual Single Premium	9.93	37.21		20	23				
	Individual Non-Single Premium	1,032.60	1,387.24		11,533	14,020				
	Group Single Premium									
	Group Non-Single Premium	23.63	35.83		16	16		19,542	24,197	
12	**Met Life**	**221.04**	**395.65**	**0.17**	**1,778**	**2,466**	**0.11**	**3,287**	**15,434**	**2.28**
	Individual Single Premium	9.22	10.31		29	33				
	Individual Non-Single Premium	195.52	313.15		1,742	2,418				
	Group Single Premium									
	Group Non-Single Premium	16.30	72.19		7	15		3,287	15,434	
	Private Total	**23,125.62**	**38,546.12**	**16.73**	**1,11,600**	**2,01,712**	**9.04**	**86,833**	**1,88,225**	**27.85**
13	**LIC**	**1,19,601.34**	**1,91,905.96**	**83.27**	**14,47,911**	**20,30,354**	**90.96**	**2,23,187**	**4,87,722**	**72.15**
	Individual Single Premium	8,494.62	12,413.87		19,652	28,604				
	Individual Non-Single Premium	65,629.23	1,03,693.23		14,27,263	20,00,166				
	Group Single Premium	45,477.49	75,798.86		996	1,584		2,23,187	4,87,722	
	Group Non-Single Premium									
	Grand Total	**1,42,726.96**	**2,30,452.08**	**100.00**	**15,59,511**	**22,32,066**	**100.00**	**3,10,020**	**6,75,947**	**100.00**

Note: LIC's business figures exclude Varishtha Pension Bima Yojana.

Report Card:GENERAL

May growth nears 16%

G.V. Rao

Performance in May 2004

Performance in May 2004 by the majority of the non-life industry players has been impressive. They have recorded an accretion of Rs. 186 crore at a growth rate 15.6 per cent (In May 2003 the accretion was Rs. 93 crore at a growth rate of eight per cent).

The contribution of the private players to this accretion is Rs. 106 crore at a growth rate of 73 per cent (In May 2003 it was Rs. 39 crore at a growth rate of 34 per cent) and that of the four public players is Rs. 77 crore at a growth rate of 7.5 per cent (In May 2003 it was Rs. 44 crore at a growth rate of 4.5 per cent). These parameters would suggest that 2004-05 so far has been turning out to be a better year than the last.

Private sector in May 2004

Among the private companies the most impressive performance has come from Bajaj Allianz. It has recorded in May 2004 a premium of Rs. 80 crore up from Rs. 22 crore in May 2003. ICICI Lombard has recorded a premium of Rs. 53 crore up from Rs. 26 crore in May 2003. IFFCO-Tokio has surprisingly shown a marginal fall in its business in May 2004.

Though the private players have excelled in their performances, the bulk of the accretions have come from ICICI Lombard and Bajaj Allianz followed by HDFC Chubb. A perceptible differentiation in the growth strategies of the eight private players is beginning to emerge. Tata AIG and IFFCO-Tokio seem to be in the race for the third place just as the ICICI Lombard and Bajaj Allianz seem to be vying for the first rank in the private players' group.

Public sector in May 2004

The public sector players have recorded in May 2004 an accretion of Rs. 77 crore at a growth rate of 7.6 per cent (In May 2003 it was Rs. 44 crore at a growth rate of 4.5 per cent).

National Insurance has turned out the most impressive premium performance with an accretion of Rs. 86 crore. New India with a fall of Rs. 24 crore in its premium and United India and Oriental each recording accretions of Rs. seven crore, the future performance of public players seems to hinge on how well National Insurance continues to perform.

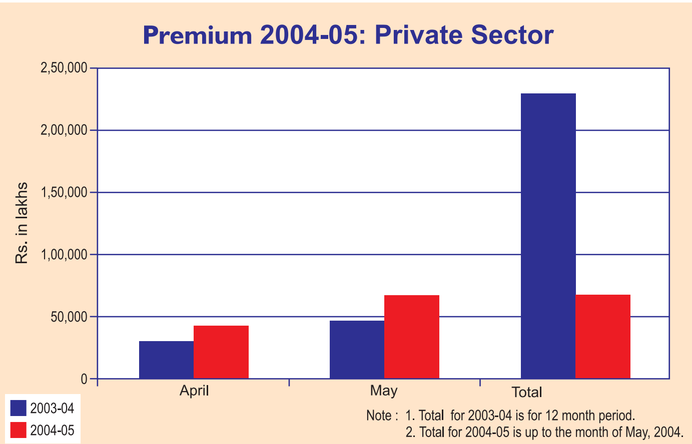
A couple of public players have revised their last year's premium figures to lower than what they had reported last year giving them a slight pick up in their accretions.

Gross Premium Underwritten – May, 2004

(Rs. in lakhs)

INSURER	PREMIUM 2004-05 FOR MAY 04	PREMIUM 2004-05 UPTO MAY 04	PREMIUM 2003-04 FOR MAY 03	PREMIUM 2003-04 UPTO MAY 03	MARKET SHARE UPTO MAY, 2004	GROWTH % YEAR ON YEAR
Royal Sundaram	1,944.71	5,646.00	1,744.75	4,833.98	1.61	16.80
Tata AIG	2,600.18	10,033.07	2,131.25	8,858.52	2.87	13.26
Reliance General	1,572.22	3,769.48	1,170.15	3,086.38	1.08	22.13
IFFCO-Tokio	3,136.32	9,755.96	3,207.93	8,779.15	2.79	11.13
ICICI Lombard	5,271.38	16,723.14	2,608.44	10,137.22	4.78	64.97
Bajaj Allianz*	7,964.89	16,050.95	2,234.96	8,624.26	4.59	86.11
HDFC Chubb	1,341.54	2,594.71	405.34	689.07	0.74	276.55
Cholamandalam	1,280.62	3,574.87	994.06	2,048.09	1.02	74.55
PRIVATE TOTAL	**25,111.85**	**68,148.18**	**14,496.88**	**47,056.67**	**19.49**	**44.82**
New India*	28,208.00	76,568.00	30,554.00	76,406.00	21.90	0.21
National*	31,652.00	73,072.00	23,121.00	57,065.00	20.90	28.05
United India*	26,317.00	64,088.00	25,602.00	62,896.00	18.33	1.90
Oriental*	23,772.00	60,819.29	22,959.88	59,380.91	17.40	2.42
PUBLIC TOTAL	**1,09,949.00**	**2,74,547.29**	**1,02,236.88**	**2,55,747.91**	**78.53**	**7.35**
ECGC*	**3,758.81**	**6,917.36**	**3,426.37**	**5,989.38**	**1.98**	**15.49**
GRAND TOTAL	**1,38,819.66**	**3,49,612.83**	**1,20,160.13**	**3,08,793.96**	**100.00**	**13.22**

* Data revised by the respective insurers for the corresponding month of the previous year.



Overall the month of May 2004 has shown a comparatively improved performance for the industry when measured against the corresponding month of last year. But the anaemic performance of public players with the exception of National Insurance for the second year stands out as a trend of some concern.

Among the private players ICICI Lombard and Bajaj Allianz stand out as important players who will increasingly aim to dominate the market. A growth rate of 15.6 per cent for the month of May 2004 is a satisfactory one, thanks mainly to the performance of three players in the market — National Insurance, Bajaj Allianz and ICICI Lombard.

Performance up to May 2004

The industry has recorded an accretion of Rs. 408 crore with a growth rate of 13.2 per cent up to May 2004 (It was Rs. 276 crore accretion at a growth rate of 10 per cent up to May 2003). This performance is indeed impressive in comparison.

The private players have contributed Rs. 211 crore with a growth rate of 45 per cent (Rs. 200 crore with a growth rate of 79 per cent last year). The four public players have contributed Rs. 187 crore with a growth rate 7.5 per cent (Rs. 71 crore with a growth rate of three per cent for the corresponding period last year). National Insurance alone has chipped in Rs. 160 crore Oriental Rs. 15 crore and United India Rs. 11 crore and with New India's growth remaining almost stagnant.

The accretion of private players of an additional of only Rs. 11 crore in 2004-05 is a pointer that they are finding the market not that easy this year. The public sector companies that have recorded an addition of over Rs. 106 crore over last year have performed very well with National Insurance alone contributing in an overwhelming manner.

Among the private players out of Rs. 211 crores, Bajaj Allianz has turned in an accretion of Rs. 74 crore, followed by ICICI Lombard with Rs. 66 crore and HDFC Chubb Rs. 21 crore.

ECGC

ECGC has shown an increase of 15 per cent with an accretion of Rs. 10 crore up to May 2004.

Market shares

The private players have continued to maintain their market share of 20 per cent as at the beginning of 2004-05. Bajaj and ICICI have market shares of almost five per cent each. Tata AIG and IFFCO have about three per cent each. Together these four companies among the private players and National Insurance among the public players are likely to be the trendsetters for the growth strategies for the future if their current progress in their premium performance is any indication.

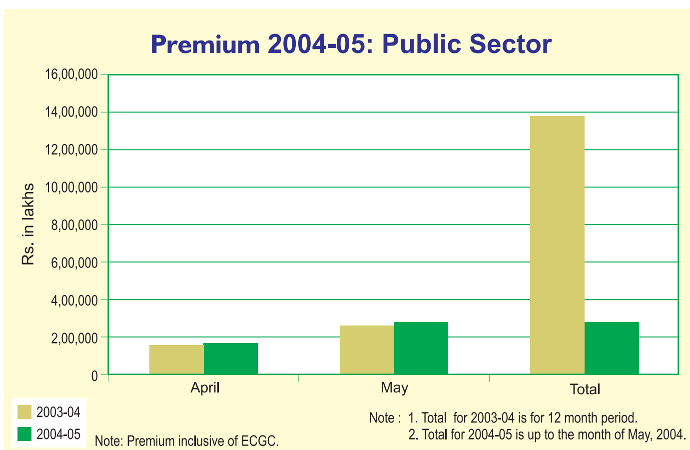
Prospects

What of the future? While the year 2004-05 has begun on a promising note of improved growth rates on a comparative basis, will the current year trends prevail in the future? Will the big three growth companies – National, ICICI and Bajaj continue to maintain their current grip on the future growth rates as before? What sustains their continued high growth for two years in succession?

With agriculture and rural sectors gaining the attention of the new governments at the centre and in a few states, will there be expansion of insurance sales in these sectors? Why have the numerous tie-ups with banks for distribution of new products failed to significantly benefit insurers like New India and United India who have many bancassurance schemes as part of their marketing plans?

While the market has performed better this year than last, it would seem that among the 12 non-life players, it is only four or five insurers that seem to be the creators of new markets.

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



States want Pension Reforms

IN a bid to contain exploding non-development revenue expenditure, state governments have sought continuity in the pension reforms, newspaper reports say.

States want these reforms to be structured in such a way that they can reduce their mounting pension expenditure. Pensions currently amount to at least 15 per cent of the net revenue expenditure. For some states, these liabilities are as high as 25 to 30 per cent per annum.

Total pension payouts by all the states including the union territories are currently in the region of Rs. 40,000 crore. These liabilities were exclusive of other payouts such as gratuity benefits.

Since the beginning of the decade pension liabilities of state governments have risen at about 10 per cent per year, which is almost double the growth rate of state government revenue receipts. Pensions, salaries, interest and subsidies are the major load points on the state revenue receipts. In fact, pension outflows are currently one of the major factors contributing to high fiscal deficits of the states who would like to convert them into funded liabilities and thus reduce the liquidity problems faced by the state finances.

Premiums through ATMs

SBI Life Insurance company has launched a facility for payment of premium through State Bank of India ATMs.

Policyholders can use any of the 2,000 SBI ATMs for payment of premium for SBI Life policies, the company said in a press release.

"The facility constitutes yet another demonstration of SBI Life's intent to make it convenient for the general public to acquire and own life insurance protection," its CEO and MD Mr. S. Krishnamurthy is quoted saying.

Insurance for TN Handloom Weavers

Handloom weavers in Tamil Nadu who are members of the 'Savings and Security Scheme' will get the benefit of a new life insurance scheme with the state government decision to pay the premium on their behalf.

'The Bunker Bima Yojana' scheme of the Life Insurance Corporation of India (LIC) is being extended to the weavers who were being covered by the existing 'Self Insurance Scheme'. LIC's new scheme is structured to be funded by the Union Government, LIC and the weavers.

LIC's DATAMINING PROJECT

The Life Insurance Corporation of India is undertaking the country's largest data warehousing project after the Reserve Bank of India, it is reported. It has roped in Wipro and IBM to undertake the project.

The objective is to analyse consumer behaviour and assign a single customer identification number to profile a customer by all the products he owns like mutual funds, a home loan, or bank accounts.

The project will be implemented over the next three years. Capturing and analysing consumer behaviour will help LIC chalk out and devise customised insurance solutions as well as evolve new marketing strategies, LIC Managing Director, Mr. R.K. Vashishtha has been quoted saying.

Today, each LIC policyholder is identified against his insurance policy document number. The project will give LIC a holistic picture of customers, in terms of their behaviour and consumer behaviour analysis will help LIC play a major role in the competitive insurance market.

The consumer behaviour identified through the ongoing exercise of data purification and this would highlight important facets of purchase such as the number of customers going in for loans, paying premium within the due date, and defaulting in premium payments.

INSURANCE FOR ORANGE CROP

ICICI Lombard General Insurance, in association with the Government of Rajasthan, has announced the launch of a comprehensive weather insurance scheme for farmers growing oranges, to compensate them for losses due to deficit rainfall.

In a press release the company said orange cultivation was subject two principal weather perils — unavailability of effective shower for initiation of flowering and dry spell during during flowering. Orange trees require an effective shower of at least 60 mm of rainfall on any three consecutive days to initiate flowering and are vulnerable to dry spells during the flowering period. A dry spell of 10 to 15 days could lead to flower drop and consequent yield loss.

The most critical period is July to September. Accordingly, ICICI Lombard has decided to offer the cover for this peril from July 1 and last till September 28, both days inclusive.

The insurance company said discounts on insurance cover would be applicable only to those farmers who were availing themselves of insurance without subsidy.

Commenting on the product, ICICI Lombard Chief Executive Officer and Managing Director, Mr Sandeep Bakhshi is quoted saying "Weather insurance does not suffer from the usual moral hazard and adverse selection and high administrative costs of traditional crop insurance, and it is therefore better suited even to small farmers in rainfall-dependent countries such as India."

AEGEON LOOKS FOR INFO-TECH PARTNER

Aegon, the Netherlands-based insurance group major, is looking out for a life insurance joint venture partner among domestic infotech firms with a large market capitalisation, it is reported.

"It could partner with either such an IT company or its promoter," Aegon sources have been quoted saying.

Apart from their ability to rustle up the large investments required in life insurance business, Aegon also expects such a partner to put in place the IT network for the venture.

E-learning for Insurance Agents

The Boston Group (TBG), a global information technology (IT) solutions and e-learning provider, has joined hands with College of Insurance and Financial Planning (CIFP) and International Institute of Insurance and Finance (IIIF) to launch a certificate course in insurance salesmanship.

The online course is offered through TBG's dedicated portal, www.financialcampusindia.com.

The company is planning to offer it to insurance companies who want their agents to be trained in the soft skills of salesmanship and individuals directly wanting to take up the course could be few in number.

ECGC'S PRODUCT FOR THE SOFTWARE SECTOR

Export Credit Guarantee Corporation (ECGC) plans to shortly introduce a special credit insurance package for software exports that would be designed to meet the industry's unique challenges.

ECGC's Chairman and Managing Director, Mr. P.M.A. Hakeem is quoted saying that he would approach the company's board of directors for approval for the credit insurance package for software exports.

He explained that the software industry, a key contributor to India's exports, faced challenges that were unique.

LIC wants pensions tax break increased

Highlighting the importance of financial security for old age, Life Insurance Corporation Chairman Mr. S. B. Mathur said that that there must be a mechanism to encourage more investment into pensions.

"The current tax exemption limit of Rs 10,000 per annum is not sufficient to give an effective post-retirement benefit. A good kitty is possible only if a person commences pension investing early on," he is quoted saying.

He said that the limit should be raised to Rs. 40,000 per annum as prevalent in the mid-80s.

GIPSA NOW IN DELHI

General Insurers' Association of India (GIPSA) has shifted its office from Mumbai to Delhi. The association coordinates among the member companies for evolving a common approach on matters relating to personnel, technical, reinsurance and investment, has been based at Mumbai since its inception in 2000.

HARYANA TO JOIN NAIC

The Haryana Government has decided to implement the National Agriculture Insurance Scheme from this kharif season.

Mr. Rajiv Arora, Director of Haryana department of agriculture has been quoted saying that the scheme will be on a blockwise and cropwise basis unlike the normal procedure of segregation on the basis of villages. Each crop will have a definite area of operation. For example, for cotton, six districts have been selected namely, Hisar, Fatehabad, Sirsa, Bhiwani, Rothak and Jind.

Likewise, for bajra 13 districts have been selected while for arhar and maize four districts will come under crop insurance scheme.

When it comes to claims, the State will pay 90 per cent for arhar, 80 per cent for maize and bajra and 60 per cent for cotton.

For determining the compensation, the average crop yield during the past five years and damage during the particular crop year will be taken into consideration.

Punjab, the only other state that was not part of the scheme has not yet joined.

APRA INVESTIGATES REINSURANCE OF ZURICH

Reinsurance written by Zurich Insurance Australia, a division of Switzerland-based Zurich Financial Services, is being investigated to find out what risk, if any, was transferred in the contracts.

Recent scandals in the reinsurance sector have involved purported insurance contracts that were disguised loans.

Suspicious contracts were uncovered during a routine compliance review by the Australian Prudential Regulation Authority (APRA) and were being reviewed with the insurer's full support, the company is quoted saying.

The Australian Securities and Investments Commission is supporting the inquiry.

Zurich, the nation's seventh-largest reinsurer, has said the probe involves contracts that have been unwound and that no policyholders will suffer any loss.

The Australian operation said it had nearly doubled the prudential regulator's minimum capital requirement to meet its solvency test and the European parent had said it would provide additional support.

The insurer also said the inquiry did not involve its life insurance, superannuation and managed funds businesses.

US STUDY FINDS BROAD GAP IN HEALTH INSURANCE

Nearly 82 million people–one–third of the U.S. population younger than 65–lacked health insurance at some point over the last two years, and most of those were uninsured for more than nine months, says a study by the private group, Families USA.

The problem reaches deep into the middle class, affects African–Americans and Hispanics disproportionately and is most pronounced among people younger than 25, according to the group's analysis of census data.

The study found that 8.5 million Texas residents, or 43.4 percent of the nonelderly population there, did not have health insurance–the highest rate in the country

CHINA TO SET UP FIRST PENSION INSURANCE COMPANY

The China Securities Regulatory Commission (CSRC) has approved a Shanghai company's application to set up the country's first professional pension insurance company, a move seen as a breakthrough in China's corporate pension management market.

Shanghai-based Taiping Life Insurance Company, one of China's oldest insurance companies, said that it had started preparation to set up Taiping Pension Insurance Co Ltd, which is scheduled to start operation in August this year.

The new company will have a registered capital of 200 million yuan (US$24 million) from five shareholders including Taiping Life, China Life (Holding) and Fortis Insurance International NV.

It will cooperate with commercial banks closely to provide full services to corporate businesses, sources with Taiping Life said.

Last year, Taiping Life became the country's first insurance company to set up a corporate pension department.

The question of regulating insurance managers

UK companies are awaiting clarification by the government and the Financial Services Authority (FSA) about an insurance directive from Europe.

Mr. Nick Chown, Chairman of the Association of Insurance and Risk Managers in Industry and Commerce (Airmic), told the body's annual conference that there was a lack of clarity from the Treasury and the FSA over whether managers who bought insurance for their own companies would be subject to regulation.

Insurance intermediaries who will be covered by the regulations must apply for registration with the FSA by July 13 to comply with the European Union directive, which comes into force in January next year. Mr Chown said Airmic had requested clarification from the FSA nine weeks ago but the regulator had said only that anyone who buys insurance "by way of business" must register.

"Whenever we ask them what they mean by the term 'by way of business', they admit they don't really know," he said. "This lack of clarity is wasting time and costing business a lot of money in legal fees."

Mr Chown said the UK appeared to be the only country in the EU where risk managers might be regulated, which he said would make the UK "a less efficient" place to do business.

Mr. David Hough, Executive Director of the London Market Insurance Brokers Committee, said he saw no reason for managers arranging insurance for their own companies to be regulated.

"There's no consumer protection issue, they are not acting as intermediaries or being remunerated according to what they buy or not," he said.

The FSA and Treasury have acknowledged that regulating risk managers would serve no public purpose but neither has issued any clarification.

US crop insurance industry sues USDA

A coalition of US insurance companies is suing the U.S. Department of Agriculture, claiming the government has shortchanged them millions of dollars in a programme to provide crop insurance to farmers.

The lawsuit, and a separate disagreement over new terms set by USDA for the Federal Crop Insurance Program, are the latest battles between the crop insurance industry and the government.

Taxpayers subsidise the programme to help farmers who lose crops to natural disasters — such as the flooding, hail and tornadoes that struck across a large swath of the Midwest this spring. The result is lower premiums for farmers, but insurance companies complain they aren't reimbursed adequately by the government.

"The way it's been going, you've had a significant amount of unreimbursed costs that have been imposed on the companies for years," said Ms. Elizabeth Haws, a lobbyist with the American Association of Crop Insurers, a trade association.

The companies warn that cuts to the programme could reduce insurance availability to farmers or force companies in the industry into merging to be able to make a profit.

In their lawsuit they claim the government violated a 1998 contract when Congress cut their fees and subsidies. They said the changes cost the companies at least $60 million between 1999 and 2002.

Eight of the 12 companies in the lawsuit, including ACE Property and Casualty Insurance Co. and Alliance Insurance Cos., continue to take part in the programme, originally started in the 1930s to help farmers cope with the Dust Bowl.

USDA this week announced further cuts in subsidies in a new agreement with companies. Companies have until June 30 to decide whether to sign the agreement, which reduces reimbursements industrywide by $36 million over two years.

Trade groups predict that some of the 14 companies now in the programme will opt to drop out or merge. That will mean fewer choices for farmers, especially in high-risk areas where companies don't want to operate, officials said.

"This year certainly is starting out to be very challenging, so I think the crop insurance industry is justifiably very worried about what's going on," said Mr. Paul Horel, president of the Crop Insurance Research Bureau in Overland Park, Kan. "It's going to be real challenging for much of the industry to be profitable over the next couple years with this agreement."

Farmers and ranchers paid more than $3 billion in premiums to protect 215 million acres of land under the program in 2002, according to the research group.

GLOBAL WARMING WILL HEAT UP INSURANCE PREMIUMS

The Association of British Insurers (ABI) has warned that premiums in the home, motor and health insurance markets were set to rise significantly over the next few decades, as the effects of global warming begin to set in.

In a report published last week, written by Mr. Andrew Dlugolecki, a former insurance industry executive and academic, the association warns its members not to underestimate the effects of climate change on their businesses, advising them to start adapting now.

The report says claims for storm- and flood-related damage have already doubled to more than £6 billion (R71.3 billion) since 1998, and this figure could triple to almost £20 billion by 2050.

Premiums for home insurance, particularly those that provide cover against weather-related damage, have already begun to increase as a result.

Longer, hotter summers - predicted to occur in two out of every three years in the future - are also set to take their toll.

Motor insurance premiums could also rise as a result of climate change, with early signs already starting to emerge of an increase in claims resulting from weather-related accidents. The report warns that this trend could accelerate.

In the health insurance market, Dlugolecki says the rise in pollution and heat stress in summer could contribute to reduced longevity and higher premiums.

"Managing the impacts of climate change is a major challenge for society," said Mr. John Parker, the head of general insurance at the Association of British Insurers.

"Insurers must be equipped to analyse the new risks arising from climate change, and to help customers protect against them."

Mr. Steve Kingshott, the head of home insurance at More Than, said many people were already finding it hard to find flood cover.

"While some insurers are starting to use new technology to help them understand the risk of flooding, a lot of others are still using crude risk assessment methods," he said.

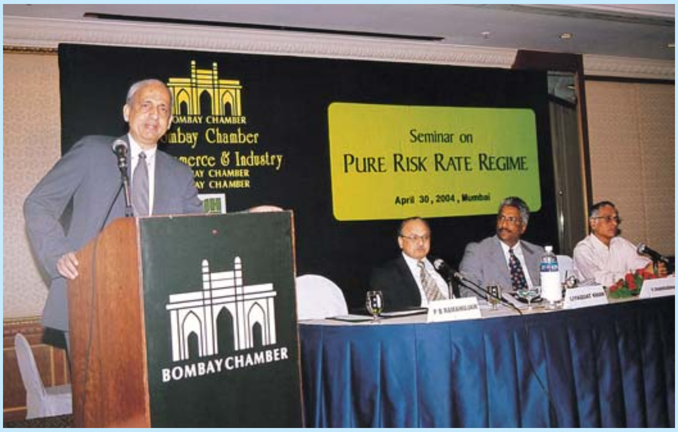
ROAD MAP...

The S. V. Mony committee, constituted by the IRDA to draw up a road map for detariffing Motor Own Damage business submitted its report in April, 2004

L to R: Mr. H. S. Wadhwa, Chairman and Managing Director, National Insurance Company Limited and member of the S.V. Mony committee, looks on as Mr. C. S. Rao, Chairman, IRDA receives the committee's report from its Convenor-Member, Mr. P. K. Swain. Mr. S. V. Mony, Vice Chairman, AMP Sanmar Life Insurance Company and Chairman of the committee and Mr. Jagdish Khattar, Chairman, Maruti Udyog, who was part of the committee look on as well.

RATING RISK

Bombay Chamber of Commerce and Industry conducted a one day seminar on Pure Risk Rate Regime in April.



L to R: Mr. P. B. Ramanujam, Managing Director, General Insurance Corporation of India speaks at the Pure Risk Rate Regime Seminar. Also in the picture are Mr. Liyaquat Khan, President, Actuarial Society of India, Mr. P. Chandrasekhar, Co-Chairman, Insurance Committee, Bombay Chamber and Head, Insurance and Risk Management, Hindustan Lever Limited and Mr. P. A. Balasubramanian, Member (Actuary), IRDA.

E-NABLING E-LEARNING

Mr. C. S. Rao, Chairman, IRDA inaugurates an online Certificate Course in Life Insurance Salesmanship in Hyderabad on June 12. The course is being offered by The Boston Group and The College of Insurance and Financial Planning, Hyderabad, in association with the International Institute of Insurance and Finance, Osmania University, Hyderabad.

L to R: Dr. B. S. R. Rao Dean, IIIF, Mr. D. P. Sharma, Managing Director, The Boston Group and Mr. C. S. Rao Chairman, IRDA.

Insurance is in the frontline of climate change. Few businesses sectors have attempted to analyse the impact of climate change on their industry and customers.

Mr. John Parker, Association of British Insurers (ABI)

As capital is not a problem for LIC, there is little need for it being listed.

Mr. R.K.Vashishtha,Managing Director, LIC

We are aiming at a minimum of 20 per cent this year, but are keeping our fingers crossed for the Budget next month.

Mr. S. B. Mathur, Chairman, LIC referring to business growth prospects and taxation.

Intra-group transactions and exposures (ITEs) can adversely affect the solvency, liquidity and profitability of individual entities within a group. ITEs are also sometimes used as a means of supervisory arbitrage, thereby evading capital or other regulatory requirements altogether.

Report of RBI's Working Group on Financial Conglomerates

Regulators and politicians ... must face the hard truth that auto premiums will continue to go up unless they implement reforms to set limits on court awards and eliminate no fault benefits that lead to fraudulent claims. Ultimately, they must not put the financial health of the insurance industry — and therefore the consumers they represent — at risk due to the demands of politicians whose views may be clouded by the need to attract votes.

Lord Peter Levene, Chairman, Lloyd's of London commenting that the Canadian insurance market is one of the most highly regulated.

Of the 2,39,361 private sector nonfarm workers who were separated from their jobs for at least 31 days in the first quarter of 2004, the separations of 4,633 workers were associated with the movement of work outside of the country, according to preliminary data. Domestic relocation of work–both within the company and to other companies–affected 9,985 workers.

US Bureau of Labor Statistics, Labor Department, study on offshoring and layoffs.

RNI No: APBIL/2002/9589

Events

5 - 10 July 2004
Venue: Pune
Market Intelligence in Non-Life insurance by National Insurance Academy, Pune

8 - 10 July 2004
Venue: Pune
Harnessing Rural Business Potential (Life), by NIA, Pune.

11 - 14 July 2004
Venue: London
International Insurance Society Conference,

15 - 17 July 2004
Venue: Pune
Actuarial Appreciation Progrmme for Senior Executives (Life)

18 - 21 July 2004
Venue: Seoul
APRIA Conference

29 July 2004
Venue: Sydney
Australia and New Zealand Insurance Industry Awards 2004

30 - 31July 2004
Venue: Pune
Strategic Issues for Global Competition by NIA

09 - 14 August 2004
Venue: Pune
Website Design by NIA

1- 2 September 2004
Venue: Mumbai
4th Asian Healthcare Insurance Conference by Asia Insurance Review
With a Special Focus on Coping with Healthcare Needs of the Indian Market

4 - 8 September 2004
Venue: Monaco
Monte Carlo Rendezvous

2 - 4 September 2004
Venue: Pune
Management of Executive Stress by NIA

6 - 11 September 2004
Venue: Pune
Data Warehousing and Data Mining by NIA

13 - 18 September 2004
Venue: Pune
Insurance Management of Infrastructure Projects by NIA

13 - 18 September 2004
Venue: Pune
Research Methodology and Market Research by NIA

13 - 14 September 2004
Venue: Pune
C.D.Deshmukh Seminar on Agenda for Growth of Insurance Industry by NIA