Volume VI, No. 8

Journal

August 2008

Lapsation in Life Insurance

The **No-Win** Deal

बीमा विनियामक और विकास प्राधिकरण

Printed by Alapati Bapanna and
published by J. Hari Narayan on behalf of
Insurance Regulatory and Development Authority.

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Printed at Kala Jyothi Process Ltd.
(with design inputs from Wide Reach)
1-1-60/5, RTC Cross Roads
Musheerabad, Hyderabad - 500 020
and published from
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From the Publisher

In the aftermath of liberalization of insurance business in India, life insurance has made rapid strides of progress, surpassing even the most optimistic forecasts. While this very healthy trend has been observed in acquiring new life insurance business, retention has somehow not matched this growth. Life insurance contracts are long term in nature and the product designing anticipates the continuation of the contract for the entire length of its selected duration. The costs of acquiring new business are huge, apart from the fact that the distributor's remuneration is also at its peak during the initial years. All this presupposes that unless the contracts run for their full time, it ends up as a losing proposition for the life insurers. Apart from making the business economically non-viable, lapsation also results in damage to the reputation of the insurers.

Conversely, failure to keep the contracts in force ends up in a huge loss to the policyholder as well, notwithstanding the payments of surrender values, if any. The basic purpose of obtaining life insurance - to serve as a safety net in the unfortunate event of the loss of the breadwinner - itself takes a beating and could lead to the possibility of the dependents being orphaned. If both the parties to the contract are at a losing end, it remains paradoxical that lapsation continues to be in high percentages. Further, lapsation itself has been differently interpreted by various insurers and lacks uniformity. In order to make a meaningful comparison between several insurers and analyze the situation, it would make good sense to take stock of all the policies wherein the premiums have not been paid even after a period of one month from the due date.

The first and foremost reason for a policyholder to prefer not to stick to his commitments is a possible disillusionment. Several policyholders realize after the contract has been concluded that their requirements have not been taken care of by the terms of the policy and hence they tend to discontinue further payment of premiums. While no single factor can be isolated for such a situation, the distributor has a huge role to play in this regard. It would hardly need to be emphasized that a proper need identification of the prospect; followed by a need-based selling would go a long way in arresting the high lapsation ratios of life insurers. Life insurers would do well to inculcate such practices in their distribution personnel at the time of initiating them into business. It would also need spreading awareness among the policyholders.

'Lapsation in Life Insurance Contracts' is the focus of this issue of the **Journal**. Despite the promise to pay the sum assured on the happening of the event, repudiation of claims is still incidental to insurance business. 'Claim Repudiation in Insurance' will be the focus of the next issue of the **Journal**.

J. Hari Narayan

INSIDE

ISSUE FOCUS

FOLLOW THROUGH

Importance of Retention Ratios - Life Insurance Business

The lapsation ratios of several life insurers are illogically high – illogical because when the insurance contract has been entered into voluntarily for a certain number of years, why should there be justification for terminating it half way through? If one looks at the reasons for such a phenomenon, several factors emerge that make the policyholder unilaterally go back on his commitment. It is even possible that the contract has not been entered into voluntarily but the policyholder has been coerced into it, at least morally. It is not surprising that such contracts tend to experience premature closure.

While it is common knowledge that a satisfied client would continue to stay with the insurer for the entire period of contract; an oft-repeated argument in the area of lapsation, especially in emerging markets, is that the agent has filled-in the proposal form and hence the policy does not cater to the policyholder's needs. It has to be realized that in filling the proposal, the agent acts on behalf of the prospect. Further, the distributor should enlighten the applicant on all matters pertaining to the contract to ensure that need-based selling is accomplished. Also, if the distributor puts at the top of the agenda the prospect's needs rather than his own personal interests, it is sure to lead to better results in business retention. The free-look period that has been introduced in the liberalized regime should act as a great trigger for promoting long-term conservation of life insurance business. Unfortunately, this has not been witnessed to a great extent, owing to the low awareness levels of the clientele.

Lapsation brings in its fold huge disadvantages – both for the insurer as well as the insured. The insured suffers by way of interruption in coverage of risk, sometimes unknowingly, that could lead to disastrous results; sometimes, he may even face denial of risk coverage in light of the habitual lapsation. For the insurer, it certainly hampers the expected cash flows upsetting the Asset Liability Management; and is a drain on its resources. It would be in the interest of the life insurers to focus on this aspect while training their personnel. Besides, there should be a periodical assessment of the various reasons for lapsation; and proper measures should be taken to reverse the trends.

The focus of this issue of the **Journal** is on 'Lapsation in Life Insurance Business'. We open the issue with an article by Mr. V. Rajagopalan who discusses *inter alia* the vulnerabilities that insurers are exposed to on account of early lapsations. In the next article, a team of life insurance domain consultants project 'Persistency' of business as the fifth 'P', which in their opinion, is as important as the other four 'P's of marketing. Mr. David Chandrasekharan brings in his huge experience in life insurance domain in the next article, in which he talks about the important role that the distributor plays in ensuring that life insurance contracts do not die an immature death.

One significant adverse feature of high lapsation in life insurance is the financial crisis that it brings about, both for the insurer as well as the insured. Mr. Amitabh Verma discusses this aspect in detail in his article. In the article that follows, Mr. H.O. Sonig not only details various reasons for lapsations but also makes suggestions for improvement in this regard. In the last article on the focus, Dr. G. Gopalakrishna elaborates upon the different situations that lead to lapsations and the remedial measures adopted by life insurers. In the follow-through section that follows, Ms. Karpagam Sankaranarayanan talks about the importance of a proper Asset Liability Management for insurers and the technical provisions associated with it.

Although in an insurance contract, the insurer promises to pay the assured sum on the happening of the event, sometimes the claims are not paid on account of various reasons. 'Repudiation of Claims' will be the focus of the next issue of the **Journal.**

U. Jawaharlal

Report Card:LIFE

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

Sl No.	Insurer	Premium u/w (Rs. in Crores)			No. of Policies / Schemes			No. of lives covered under Group Schemes		
		June, 08	Up to June, 08	Up to June, 07	June, 08	Up to June, 08	Up to June, 07	June, 08	Up to June, 08	Up to June, 07
1	**Bajaj Allianz**									
	Individual Single Premium	34.75	71.55	76.84	7662	16939	15367			
	Individual Non-Single Premium	299.99	735.98	648.74	187817	480898	521272			
	Group Single Premium	0.14	0.51	2.15	0	0	0	227	856	1719
	Group Non-Single Premium	8.54	21.20	4.12	40	120	64	324070	758734	130877
2	**ING Vysya**									
	Individual Single Premium	4.32	10.41	4.13	451	1227	318			
	Individual Non-Single Premium	70.61	146.41	111.36	41136	82007	64926			
	Group Single Premium	2.08	4.19	0.85	0	0	0	451	870	168
	Group Non-Single Premium	0.60	0.93	0.95	15	30	4	3039	6723	30657
3	**Reliance Life**									
	Individual Single Premium	35.48	125.47	20.87	9058	32511	4417			
	Individual Non-Single Premium	162.52	401.27	150.38	107863	255915	101309			
	Group Single Premium	3.98	26.81	29.48	1	4	14	125	14536	36587
	Group Non-Single Premium	1.04	3.78	3.37	31	86	76	35463	143024	85276
4	**SBI Life**									
	Individual Single Premium	51.25	146.33	115.58	7625	20703	16699			
	Individual Non-Single Premium	175.40	457.64	231.43	50563	132990	82458			
	Group Single Premium	19.01	49.02	41.30	0	0	0	9326	25722	22665
	Group Non-Single Premium	356.68	495.68	38.08	5	17	11	220443	441928	83818
5	**Tata AIG**									
	Individual Single Premium	3.68	13.32	5.72	749	2856	660			
	Individual Non-Single Premium	62.57	212.24	124.28	45105	146588	102617			
	Group Single Premium	4.04	12.77	16.87	0	1	0	9711	44019	105601
	Group Non-Single Premium	1.53	22.30	7.23	4	21	7	16779	52228	50208
6	**HDFC Standard**									
	Individual Single Premium	13.01	33.32	22.41	3436	16369	20110			
	Individual Non-Single Premium	187.63	428.82	299.30	62141	144161	107148			
	Group Single Premium	0.33	20.07	9.08	4	36	27	23906	76562	29316
	Group Non-Single Premium	1.53	8.18	25.14	1	2	9	470	12641	12811
7	**ICICI Prudential**									
	Individual Single Premium	25.37	71.30	77.42	4394	12706	12379			
	Individual Non-Single Premium	467.75	1166.51	802.19	199147	601624	438453			
	Group Single Premium	16.93	76.90	54.43	20	101	52	102476	189471	81187
	Group Non-Single Premium	128.46	275.56	122.41	36	249	146	53608	373560	176552
8	**Birla Sunlife**									
	Individual Single Premium	3.54	9.42	7.20	9289	30111	11018			
	Individual Non-Single Premium	231.83	479.64	143.63	66170	139174	62086			
	Group Single Premium	0.98	1.34	0.76	0	0	3	660	2215	1318
	Group Non-Single Premium	4.96	11.13	23.04	21	36	32	24400	38622	26230
9	**Aviva**									
	Individual Single Premium	1.44	4.56	5.10	189	659	753			
	Individual Non-Single Premium	55.95	155.88	147.02	31653	75887	65539			
	Group Single Premium	0.03	0.04	0.93	0	0	0	12	63	343
	Group Non-Single Premium	1.02	4.84	7.30	5	18	19	121376	175178	122107
10	**Kotak Mahindra Old Mutual**									
	Individual Single Premium	2.58	6.21	4.25	281	719	535			
	Individual Non-Single Premium	88.31	211.29	96.51	44784	107075	37219			
	Group Single Premium	4.24	7.09	3.96	1	2	0	15483	33953	28936
	Group Non-Single Premium	3.33	9.47	9.90	24	102	52	36282	148632	103967

11	**Max New York**									
	Individual Single Premium	23.20	67.09	46.84	1819	5124	2684			
	Individual Non-Single Premium	163.97	418.61	240.51	109086	293763	160609			
	Group Single Premium	4.52	4.63	0.00	2	7	0	185815	187072	0
	Group Non-Single Premium	-2.17	10.84	2.39	80	181	116	-140500	189120	89944
12	**Met Life**									
	Individual Single Premium	0.45	1.09	5.21	79	222	781			
	Individual Non-Single Premium	53.46	175.13	79.34	16394	44348	27596			
	Group Single Premium	2.24	4.66	2.76	10	22	30	13466	50223	56769
	Group Non-Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
13	**Sahara Life**									
	Individual Single Premium	4.37	8.99	3.86	1128	2329	1047			
	Individual Non-Single Premium	6.03	14.35	8.07	6274	16175	13544			
	Group Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
	Group Non-Single Premium	0.00	0.00	0.00	0	1	0	0	27	0
14	**Shriram Life**									
	Individual Single Premium	14.63	48.09	18.23	2322	7750	3683			
	Individual Non-Single Premium	7.68	29.44	22.78	3906	14546	12229			
	Group Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
	Group Non-Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
15	**Bharti Axa Life**									
	Individual Single Premium	0.67	1.68	0.08	116	409	8			
	Individual Non-Single Premium	18.15	41.21	5.16	13097	28375	4569			
	Group Single Premium	0.96	1.94	0.00	1	1	0	6618	6970	0
	Group Non-Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
16	**Future Generali Life**									
	Individual Single Premium	0.01	0.02		3	4				
	Individual Non-Single Premium	0.40	1.09		1445	3323				
	Group Single Premium	0.00	0.00		0	0		0	0	
	Group Non-Single Premium	0.57	1.56		5	12		4213	19208	
17	**IDBI FORTIS**									
	Individual Single Premium	5.47	14.39		913	2118				
	Individual Non-Single Premium	5.37	11.23		2249	4795				
	Group Single Premium	0.00	0.00		0	0		0	0	
	Group Non-Single Premium	0.00	0.00		0	0		0	0	
18	**Canara HSBC OBC**									
	Individual Single Premium	0.00	0.00		0	0				
	Individual Non-Single Premium	0.20	0.20		19	19				
	Group Single Premium	0.00	0.00		0	0		0	0	
	Group Non-Single Premium	0.00	0.00		0	0		0	0	
	Private Total									
	Individual Single Premium	224.23	633.24	413.74	49514.00	152756.00	90459	0	0	
	Individual Non-Single Premium	2057.82	5086.95	3110.72	988849.00	2571663.00	1801574	0	0	
	Group Single Premium	59.47	209.97	162.56	39.00	174.00	126	368276	632532	364609
	Group Non-Single Premium	506.10	865.48	243.93	267.00	875.00	536	699643	2359625	912447
19	**LIC**									
	Individual Single Premium	1040.80	2139.96	2723.61	279293	519837	744524			
	Individual Non-Single Premium	1237.75	3135.75	4520.67	1800427	4296967	5540270			
	Group Single Premium	1075.14	2248.85	1336.56	1097	2742	4110	1032269	2620798	3895830
	Group Non-Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
	Grand Total									
	Individual Single Premium	1265.03	2773.21	3137.35	328807	672593	834983			
	Individual Non-Single Premium	3295.57	8222.70	7631.39	2789276	6868630	7341844			
	Group Single Premium	1134.62	2458.82	1499.13	1136	2916	4236	1400545	3253330	4260439
	Group Non-Single Premium	506.10	865.48	243.93	267	875	536	699643	2359625	912447

Note: 1.Cumulative premium upto the month is net of cancellations which July occur during the free look period.
2. Compiled on the basis of data submitted by the Insurance companies

PRESS RELEASE

May 8, 2008

Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited, a joint venture life insurance company promoted by Canara Bank, Oriental Bank of Commerce, India and HSBC Insurance (Asia Pacific) Holdings Limited (INAH), Hong Kong has been registered as a Life Insurer under Section 3 of the Insurance Act, 1938 with the Authority. The Certificate of Registration (Forms IRDA/R3) has been issued by the Authority today. With this registration, the total number of life insurers registered with the Authority has gone up to 19.

Shriram General Insurance Company Limited, a joint venture general insurance company promoted by Shriram Financial Services Holdings Pvt Ltd., India and Sanlam Limited, South Africa has been registered as a General Insurer under Section 3 of the Insurance Act, 1938 with the Authority. The Certificate of Registration (Forms IRDA/R3) has been issued by the Authority today. With this registration, the total number of general insurers registered with the Authority has gone up to 19.

(C. R. Muralidharan)
Member

CANCELLATION OF BROKER LICENSE

29th May, 2008 IRDA/DB-040/02

Sub : Cancellation of Broker License No 176.

WHEREAS, M/S. PEGASUS INSURANCE BROKERS PVT LTD., (hereinafter referred to as the 'Broker') having its Registered Office at 24, Col. Biswas Road, Kolkatta-700 019 and Corporate Office at A 405, Punit Tower 2, Sector 11, C.B.D. Belapur, Navi Mumbai-400 614 has been granted license by the Authority to act as a Direct Broker (General Insurance) vide License No.176 on 12th day of June, 2003 pursuant to the provisions of the IRDA (Insurance Brokers) Regulations, 2002.

WHEREAS, the Authority, in exercise of powers granted under Regulation 34 of the IRDA (Insurance Brokers) Regulations, 2002, suspended the license of the Broker vide Order No. BRO/ORD/044/October-04 dated 13th October, 2004.

WHEREAS, the Broker vide its letter dated 10th April, 2006 expressed its decision to surrender the Broking License and whereas the Authority examined the request and advised the Broker to furnish the documents/information for cancellation of license.

WHEREAS, the Broker has now submitted the requirements including the original license No.176 for cancellation.

NOW THEREFORE, pursuant to the request made by the Broker for cancellation of Broker License, the Authority hereby cancels the Direct Broker License No. 176 granted to M/S. Pegasus Insurance Brokers Pvt Ltd with immediate effect. Since, by this order, M/S. Pegasus Insurance Brokers Pvt Ltd cease to be an insurance broker, the company formed for this purpose also ceases and the change of name M/S. Pegasus Health & Risk Managers Pvt Ltd granted to it vide ROC fresh certificate of incorporation consequent upon change of name dated 17th April, 2008 does not entitle it to function as an entity registered with IRDA for any activity related to insurance.

(Prabodh Chander)
Executive Director

PRESS RELEASE

June 27, 2008

Aegon Religare Life Insurance Company Limited, a joint venture life insurance company promoted by Religare Enterprises Limited, India, Bennett Coleman & Company Limited, India and Aegon N.V., Netherlands has been registered as a Life Insurer under Section 3 of the Insurance Act, 1938 with the Authority. Besides DLF Pramerica Life Insurance Company Limited, a joint venture life insurance company promoted by DLF Limited, India and Prudential International Insurance Holdings Ltd, USA has also been registered as a Life Insurer under Section 3 of the Insurance Act, 1938 with the Authority. The Certificates of Registration (Forms IRDA/R3) have been issued by the Authority to the two companies today. With the registration of these two companies today, the total number of life insurers registered with the Authority has gone up to 21.

Bharti Axa General Insurance Company Limited, a joint venture general insurance company promoted by Bharti Ventures Limited, GIBA Holdings Pvt Limited, India and Societe Beaujon, a wholly owned subsidiary of AXA S.A., France has been registered as a General Insurer under Section 3 of the Insurance Act, 1938 with the Authority. The Certificate of Registration (Forms IRDA/R3) has been issued by the Authority today. With this registration, the total number of general insurers registered with the Authority has gone up to 20.

(C. R. Muralidharan)
Member

Claim Repudiation in Insurance

Need for Openness

'MOST OF THE PROBLEMS RELATING TO REPUDIATION OF CLAIMS IN INSURANCE CAN BE SOLVED BY MAKING THE CUSTOMER AWARE ABOUT THE TERMS OF COVERAGE AND EXCLUSIONS UNDER A CONTRACT' EMPHASIZES U. JAWAHARLAL.

The blood-line of an insurance contract is the promise to pay the sum assured on the happening of the event. The policyholder pays the premium during the contract period to fulfill his side of 'consideration' in the fond hope that he is not put to financial loss, despite the insured asset – life included – being lost or damaged. Naturally, the denial of the payment of a claim creates heartburn. Claim repudiation is, however, an inherent part of insurance business although the percentage of repudiated claims to total business varies largely between different insurers.

In emerging markets, low awareness levels as regards the nuances of insurance contracts lies at the bottom of the problem. Not given to understand fully the contractual obligations, there is possibility of a policyholder trying to enforce a claim. In order to avoid such a situation, the terms and conditions under the contract should be made very explicit and wherever necessary, emphasis should be laid on the exclusions so that the policyholder is aware of the details of coverage under the policy. This factor alone would bring down the incidence of claim repudiation by a large margin.

The reasons for claim repudiation would differ a great deal from class to class. For example, in the life domain where it is mostly an assurance, the first and foremost reason for repudiation could be suppression of a material fact, especially in cases where a claim arises during the early period. It brings us once again to the fact that lack of awareness among the common public is at the crux of the issue. The distribution personnel should explain the importance of the need for complete and factual information in the proposal form, rather than filling up the proposal form themselves. This will ensure that the policyholder will get to know most of the terms of coverage.

In non-life classes, the issue is more complicated as there is no assurance, and claim payment is purely contingent on the specific event; and subject to several conditions, at that. Proximate cause, partial settlement of the claim, actual value of the asset etc. are all examples of the problem areas in the settlement of claims in non-life insurance. The insurers should encourage the policyholders to read exhaustively and understand the terms of coverage under the policy so that the incidence of customer grievances is reduced to a great extent. The importance of the free look period has to be explained to the policyholders so that in case of any misunderstanding, steps could be taken to avoid a confrontation at a later stage.

'Repudiation of Claims in Insurance' will be the focus of the next issue of the **Journal.** We will be presenting different aspects of this very vital and sensitive area of insurance business.

Enlightening the Customer

in the next issue...

Lapsation of Life Insurance Policies

Some Causative Factors

V RAJAGOPALAN **ASSERTS THAT THERE IS A VERY HIGH LEVEL OF COMPETITION FOR PERSONAL SAVINGS FROM THE VARIOUS RETAIL FINANCIAL SERVICE PROVIDERS AND THEIR PRODUCTS; AND THIS ALSO HAS AN IMPACT ON THE BUSINESS RETENTION LEVELS OF LIFE INSURERS.**

Life insurance and pension plans are mainly promoted as long term financial service products. They are used both as insurance products for getting protection and as instruments of savings and investment to help policyholders meet a variety of life stage financial goals. However, the likelihood of the policyholder achieving his goals is dependent upon his

- continuing to keep the policy in force by paying the premiums as and when due,
- not withdrawing amounts from the policy for other than the intended goals; and
- not surrendering the policy prematurely for cash value.

This requires a lot of discipline on the part of the policyholder, particularly in modern times, with the availability of other investment options, advice on them and the ever increasing demands on his resources. This will also require continuous engagement by the insurance companies of their policyholders by way of service, education, guidance and follow up.

In order to understand the impact of lapses, it is necessary to understand the different types of lapses. The term "lapse" is not directly defined in the insurance legislation, except to the extent that "a policy which has acquired a surrender value shall not lapse by reason of non payment of further premiums but shall be kept alive to the extent of the paid up sum assured..." (Section113(2) of the Insurance Act, 1938).

Lapse is defined in different ways in insurance literature. In the context of conventional life insurance, it is usual to distinguish between lapse where premium is discontinued before the policy acquires any value such as a paid up value or surrender value; and lapse thereafter. There can be cancellation or termination of policies from inception for reasons such as the policyholder exercising the free look option, cancellation due to non disclosure, cheque dishonour action etc. In the case of a paid up policy, while premium may not be paid, the policy continues to be on the books of the insurance company. A broader definition of lapse could cover surrender of policies.

In the context of conventional life insurance, it is usual to distinguish between lapse where premium is discontinued before the policy acquires any value such as a paid up value or surrender value; and lapse thereafter.

Unit linked policies are sold as flexible products with facilities such as part withdrawals, option to increase or decrease premiums and sum insured and premium holiday, by which the policyholder can miss a few premium payments. For these policies, definition of lapse becomes less clear and any analysis will depend upon the policy conditions, the office's practice and the purpose of the study. Broadly there could be three types of issues, namely, i) premium persistency i.e. where the premium is received as per the terms and conditions of the policy ii)

policy persistency i.e. where premium may not be paid but the policy has not been surrendered or has not lapsed without any value and therefore continues to be in the books of the insurance company and iii) where the funds get depleted by partial withdrawals at the discretion of the policyholder, subject to the policy conditions. In this paper the terms lapses, surrenders and withdrawals are used interchangeably, depending upon the context.

If a policy lapses, the policyholder loses on his investment, particularly in the early durations when the policy has not acquired any value. Even at later durations, the surrender value may not reflect the full value of investment. Also, he runs the risk of not achieving the goals for which the policy was planned. Termination of policies at early durations results in loss and wastage of efforts for all the participants in the deal; namely, the policyholder, the agent and the insurance company. Life insurance companies have the need to get their experience right in this area which is vital to their financial performance, growth and reputation. Life insurance agents have a significant stake in their policyholders continuing to pay the premiums for their future income by way of renewal commission. An insurance agent, with a view to conserve the business procured through him, is expected to make every attempt to ensure remittance of premiums by the policyholders within the stipulated time, by giving notice to the policyholder orally and in writing. This is as per the code of conduct prescribed for insurance agents in the IRDA Regulations.

Profitability and growth

A life insurer is vulnerable to losses if a significantly large proportion of policies lapse in the early years before the initial expenses and commissions can be recovered. A loss will be made when a policy terminates at these durations even if no surrender value is paid. Also persistently high lapses and surrenders will affect the growth of the company's portfolio of business and its reputation in the market.

Termination of policies at early durations results in loss and wastage of efforts for all the participants in the deal; namely, the policyholder, the agent and the insurance company.

It is to be expected that there will be some lapses, surrenders and other withdrawals over a period in a portfolio of policies. In conventional policies it was convenient to assume that withdrawal benefits would be less than the value of the policy and in the old ways of pricing, assumptions on these could be ignored. Modern pricing methods anticipate certain level of lapses, surrenders etc. in fixing the premium rates and marketing terms. As such, the insurer will make assumptions on lapse rates; and rates at which policies will be surrendered etc., thereby taking into account the losses and profits arising from such transactions. If higher lapses occur in the early years when initial expenses and commissions have not been fully recovered, the office will make more than expected losses on such business. Normally the life insurer obtains the bulk of its profits in later years of the policy and the office's profit forecast will be defeated if a higher proportion than expected take up the surrender values.

Life insurance companies, as an essential part of management of their business, invest considerable resources in promoting persistency of the policies in their books by product design, training of agents and other intermediaries in selling products appropriate to the customer's needs and in providing after sales service, business practices and other initiatives. For regular premium policies, it is customary for insurance companies to send premium, default and lapse notices to the policyholders from time to time, depending on the premium status. They will also take up revival initiatives to persuade policyholders whose policies are in a lapsed condition. In addition to using the traditional channels and methods for communication and delivery of service to policyholders; increasing use is made of information technology to create many more touch points to provide information, respond to queries, resolve problems, send reminders and to facilitate service transactions.

Also, life insurance companies collect data of all withdrawals and analyze their experience on regular basis to monitor performance, control the sales outlets, carry out profitability analysis and for assumptions to be used in product pricing and reserving. There is also the regulatory push to monitor lapses and take action, wherever necessary.

Lapse investigations

Life insurance companies are required to submit to the IRDA lapse data, as part of the annual returns. The number of policies which had lapsed and the lapse ratios in respect of non linked business for different companies were published in the IRDA

Annual Report for 2006 – 07. For 2006 – 07, the lapse ratios, calculated as a ratio of number policies lapsed and forfeited during the year to the mean of in force policies during the year, varied from 4 % to 57 %. Out of 15 companies for which the ratios were reported, 3 had lapse ratios less than 10%, 4 had lapse ratios between11% to 20%, 5 had lapse ratios between 21% to 30 % and 3 had lapse ratios above 30%.

However, lapses reported as above had different underlying definitions taking into account the period allowed by each company to pay premium after the due date, which varied from 15 days to 60 days. Also for greater insight, companies would analyze lapses in relation to the new business written during a given period, year wise and according to the duration for which premiums have been paid. Further analysis will be carried out by other categories such as type of plan, sales channel, customer profile etc. Recently, the IRDA has undertaken a study of the lapse experience of life insurance companies and it is expected that useful information will be made available on recent experience.

In general, lapses will fluctuate from year to year due to many influences. The problem arises due to many factors some of which are external and therefore beyond the control of the insurance companies such as macro economic factors, changes in tax laws, availability and emergence of alternate investment options and customer specific features. Some others are well within the control and influence of the insurance companies such as product design and choices, marketing and distribution strategies, incentive framework, supervision and control.

Causes of lapses

Macro-economic factors:

Employment, income and inflation levels, and their changes from time to time will have a clear impact on the people investing in and maintaining their life insurance policies. Government policies with regard to taxation and fiscal incentives for life insurance premiums and benefits significantly influence people taking life insurance policies and maintaining premium payments.

Alternative investment options

Economic growth in the last two decades has opened up many other investment avenues and options such as mutual funds, direct equity, property etc. for the average person and for the affluent sections of society. This would have considerable impact on how an individual used to look at savings and investment which were mainly through bank deposits, post office schemes, PF, PPF and conventional life insurance. Tax concessions are also available for many of these savings and investment vehicles. Thus there is very high level of competition for personal savings from the various retail financial service providers and their products.

For greater insight, companies would analyze lapses in relation to the new business written during a given period, year wise and according to the duration for which premiums have been paid.

Customer specific features

Past investigations show differences in the experience of early lapses due to one or more of the following factors. An individual's decision to buy life insurance and maintain it by payment of premiums is influenced by a number of personal factors such as education level, socio economic background, age, gender, marital status etc. besides his ability to save.

Studies on lapses in the past have shown significant differences in experience between business coming from rural and urban socio economic backgrounds. It is possible that to some extent these differences are attributable to lack of communication, access to service etc. in rural areas. Within the rural market, different products may be sold to different market segments and it will be important to know whether the lapse experience in the rural market is different for each of these products compared to the urban market and the reasons for the same. In particular, rural products which have been specifically designed to meet the regulatory targets for rural business will experience different lapse ratios.

Data shows that lower value policies – low sum assured and / or low installment premium have higher lapse ratios. While a small proportion of such lapses could be due to malpractices, policies purchased by people with limited resources or from low income groups are more prone to lapses. Financial difficulties of the policyholder play a significant role in policy lapsation. Potential for higher lapses from these segments indicates the need to better understand the needs of such segments and serve them with appropriate products and services, rather than neglecting them in the sale of life insurance products.

Lapse ratios tend to be higher for policyholders in younger age groups – presumably due to smaller and more uncertain income levels, greater job

mobility and lack of appreciation of concepts like risk cover, family protection, old age provision etc.

Although the proportion of women policyholders is small in this country, the lapse rate in the case of women policyholders is lower than that of male policyholders. A part of this may be attributable to the stricter criteria followed for issuing policies to women. However, it is more likely that majority of women policyholders are from the better off and more educated sections of society, resulting in these policyholders deciding to pay the premiums and the keep their policies in force.

Lapses in the early stages of the policy such as after the first premium, first year or second year, raise questions about the sales process.

Product design and choices

Insurance companies have a variety of insurance plans and customers buy different plans for different purposes. It is reasonable to assume that the withdrawal experience will be different for different plans.

For example, pension plans will have better persistency compared to other plans of insurance, as these may have been effected as long term policies with the objective of building up a corpus to meet retirement income needs. Lapse experience may differ between types of plans depending upon factors such as the needs which are met (e.g. pure protection, mortgage cover, saving), term of the policy and size of premium. The experience of unit linked business in the last six years has shown differentiation between single premium products sold to high net worth customers as investment products and regular premium products sold to the mass market as savings products, with the former showing relatively lower persistency.

As mentioned earlier, unit linked insurance will pose challenges due to their flexible design, options and customer choices. The IRDA guidelines require that unit linked products conform to the medium and long term investment characteristics of insurance products. Also, unit linked policies will have to be for a minimum policy term of five years and no surrender value will be payable before completion of three policy years.

Past studies show that the choices exercised by the customer such as frequency of premium (yearly, half yearly, quarterly and monthly), method of premium payment (deduction from salary, debit to the bank account through banker's order or ECS, or by the policyholder by cheque or cash at the counter) result in portfolios reflecting different experience according to these factors. Quarterly and monthly modes of payment tend to have higher lapse ratios.

Sales Channels

All the life insurance companies transact significant volumes of business through alternative distribution channels such as banks, other corporate agents, direct marketing etc. There are considerable variations in the marketing strategies adopted in the sales through these channels, products sold and the market segments covered. Accordingly there will be variations in the lapse experience of the business transacted through these channels which need to be investigated separately.

Unpredictability of future experience

It is still early days for all the new life insurance companies and as a result of the fast growth, bulk of the experience would relate to early durations of policies. Except for the Life Insurance Corporation of India, it will be many years before credible data on surrenders, paid up policies and part withdrawals will be available. Even for the Life Insurance Corporation of India, linked business is new to their portfolio and the longer term experience will be known only in the future.

Besides, compared to the days when there was only one life insurance company; market dynamics are now different with intense competition both within the life insurance industry and from other savings and investment vehicles. In particular, there are issues specific to unit linked insurance business, which is vulnerable to movements in stock market values - such as policyholders' dilemma whether to continue investing in unit linked insurance or to pull out money from unit linked insurance and put in alternative investments. Therefore, results of lapse investigations covering a particular period may be of limited use as a guide to future experience. These are challenges to the life insurance companies and are also opportunities to educate their policyholders directly and through their agents and other intermediaries - that insurance plans are long term savings and wealth generation tools and that short

While advising a prospect, the agent should be influenced solely by the needs of the customer and not by the amount of commission he will get after the sale.

term volatility associated with market movements should not hamper progress towards long term financial goals.

Early lapses and quality of business

Lapses in the early stages of the policy such as after the first premium, first year or second year, raise questions about the sales process i.e. whether the policy chosen was the one which met the customer's requirements, whether the product features, the terms and conditions were properly explained to the customer and understood by the customer, whether the amount of premium and / or sum assured were reasonable in relation to the means of the policyholder and whether the business was genuine or put in to achieve the target of the agent to meet the criteria for minimum business requirement or to fulfill the conditions for incentive schemes etc.

While procuring life insurance business for the company, the agent is trusted by the prospect to advise him suitably, keeping his circumstances and needs in mind. While advising a prospect, the agent should be influenced solely by the needs of the customer and not by the amount of commission he will get after the sale. If the policyholders are sold policies which meet their needs, they are not likely to lapse. He is also bound by the IRDA code of conduct not to cause termination of an existing policy with a view to sell a new policy.

In many of the early lapses, it can be seen that the expected role of the agent is compromised. The quality of training and motivation provided to the agents and their supervisors and the alignment of incentives and disincentives to persistency criteria will go a long way in bringing down early lapses due to factors attributable to the intermediaries.

In the complaints relating to mis-selling of unit linked policies some of the causes of policyholder dissatisfaction relate to non disclosure or inadequate disclosure of the various charges and the obligation of the policyholder to pay premiums for minimum number of years. Through a circular issued by the Life Insurance Council in 2004, insurance companies are required to provide benefit illustrations for all products, to customers directly or through the agents. The IRDA has recently stipulated that, in the case of unit linked products, the benefit illustrations provided to the prospect / policyholder in the prescribed format should be signed by the prospect / policyholder and the sales person of the insurance company.

In the case of health insurance, there are different plans and riders covering e.g. critical illness, hospitalization, comprehensive medical reimbursement, specific diseases like cancer, diabetes etc. These policies differ in the scope of coverage and there are further limitations such as waiting period and exclusions some of which will be general and others which will be specific to the life assured based on underwriting. In order to make the customer understand what is exactly covered in the plan / rider together with the limitations as described above, additional efforts will have to be made during the sales process. The training of the sales staff and agents should take into account the special characteristics of the health insurance products for them to effectively communicate to the customers.

Some insurance companies have the practice of sending along with the policy document, additional materials such as Key Features Document, FAQs etc. explaining the product, terms and conditions in simple language for the customer to understand what he has purchased. Also some insurance companies selectively call their policyholders after sending the policy to obtain feedback and also use the opportunity to answer their questions, if any, on the policy. There still remains the question, namely, how many policyholders really take time to read their policy document and other informative materials provided to them by the insurance companies. In this area, on-going efforts are required by the insurance companies, Life Insurance Council and the IRDA, to raise the level of awareness and involvement of the customers.

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Persistency of Business

The Fifth 'P'

RAJASEKHAR MALLELA, VENKATA MADHUKAR KANAGALA, SREENIVASA RAO KAGOLANU AND PURNANANDA KUMAR DIVAKARUNI

WRITE THAT THERE IS A HUGE ROLE TO PLAY FOR ALL THE STAKEHOLDERS IN ARRESTING THE LAPSATION TRENDS IN LIFE INSURANCE.

Introduction

With the opening up of the insurance sector in India, the industry has been growing rapidly on several parameters including enhancing public investments through insurance products. Competition in the financial market redefined strategies within the four P's of marketing by introducing a wider range of products; attempting competitive pricing and returns; expanding distribution channels; and leveraging promotional opportunities. As a result, contribution of insurance premiums to GDP has grown to almost 5% which was thought to be a far reach, just a couple of years ago.

This phenomenal growth will have a reason to celebrate only when insurance companies can overcome the associated challenges. Among others, 'Persistency' of procured business is a key challenge to be met to stay profitable. It has become as much critical as the other four P's to the business; and therefore, this paper attempts to present persistency as the fifth 'P'.

For an insurance company, at a broader level, persistency is the percentage of business retained without lapsing or being surrendered. The algorithm excludes non-persistency parameters such as deaths and maturities. But the definition not being uniform, there could be company specific inclusions or exclusions. Insurance Regulatory and Development Authority (IRDA) has recently asked actuaries to redefine 'Lapsation' and arrive at a common definition acceptable to all insurers. Perhaps this step facilitates the Regulator and the insurance companies to have meaningful data to analyze the industry pattern; and address the causes and impacts of lapsation more effectively.

Product, price, producer and the service levels have all influenced policyholder's decision to lapse or continue the policy. Insurer, as business owner, is better placed to control lapsation and thereby to improve persistency. This paper first presents the causes-and-effects of lapsation; and then suggests strategies to improve persistency – by reinventing the other four P's.

Causes for lapsation

Product Considerations

It is said that investors discipline financial institutions. A policyholder whose expectations are not met is most likely to lapse the policy. Timing and trigger for this action vary. Response from policyholders could be the same even if the product is not of good value to him, though the product itself is good. Typically, financial products like insurance policies are too complex to understand fully for any lay man at the point of sale itself. In spite of best efforts by the advisor to get the most suitable product to the prospect, it may eventually turn out to be the one the latter did not need. This gap between '*what is the need*' and '*how product can meet it*' eventually leads to lapsation. Availability of upgraded products with better features and returns can also be a motive to lapse the existing policy and go for the new one. This could result into replacement with newer products offered by the same insurer or with the products of another insurer. Further, if the original need for taking the policy has changed, policyholder could prefer discontinuing the policy. For example, by prepayment of an outstanding home loan, policyholder may tend to lapse the collateral mortgaged policy.

Insurer, as business owner, is better placed to control lapsation and thereby to improve persistency.

Pricing 'Matters'

Policyholders could face unexpected changes in the ability to pay premium. For example, change of employment or ill health may make the premiums unaffordable leading to voluntary lapse. If financial problems are the dominant reasons to lapse the policy, then either flexible payment options are not available on the product or they are not explored.

Anther reason to lapse could be that product returns may not be meeting the expectation of policyholder. The bonus rates may no longer be attractive, or the policy cash value does not accumulate at the expected rate. It is also possible that policyholder may not be aware of the cost-return trade-off to set proper expectations of returns. For instance, majority of Unit Linked policyholders do not know that the mortality and expense charges, administrative charges, allocation charges and other such policy charges get deducted periodically from available policy value.

Similarly, if economy pushes interest rates to be higher, products offering lower fixed returns become unattractive. That leads to lapsation of existing investment products.

Quality of sales is expected to be high with broking and financial advisory firms because of the flexibility in offering products of different companies to meet specific needs of prospects.

'Producer' Factor

A study by LIMRA quotes, "Public is primarily interested in financial security and generally risk averse. They are not very knowledgeable, about financial matters, products or services…" Investors almost always prefer to take advice from qualified and designated financial advisors. And, therefore, the quality of sales made by distribution channel has great influence in maintaining high levels of persistency. Practices like churning and rebating, attributable to this channel also have been debated to be potential causes for lapsation.

Quality of sale refers to positive and negative aspects of producer characteristics that influence selling process. This includes knowledge level of advisor about products, awareness about competition, attitude, behavior and degree of professionalism demonstrated, ability to assess the needs of prospects and thereby facilitating them to choose a right product. It can be seen that tied agency business persists less than the business procured by professional channels such as corporate firms and broking firms. Quality of sales is expected to be high with broking and financial advisory firms because of the flexibility in offering products of different companies to meet specific needs of prospects.

Advisors inducing policyholders to terminate an existing policy to take a new one is churning. The motive could be to get higher first year commissions, getting eligibility for ongoing reward programs during new business registration or meeting qualifying criterion for prestigious clubs such as MDRT. Incidence of inter company churning could be high when an advisor migrates to another company.

Advisors offering some part their commission as discount on the initial premium in return for a new policy is rebating. There is possibility of prospect getting enticed to take a policy without really thinking of his affordability to continue the policy or if the product really is meeting his need. In such cases, policy would most likely lapse the moment policyholder feels the pain of paying full amount of subsequent premiums.

Rising attrition rate of producers is a new challenge for insurers. When an advisor leaves, his block of policies will become 'house accounts' and those policyholders find it difficult to manage their insurance needs. These 'orphaned' policies pose higher risk of lapsation.

Promotion & Servicing Aspects

Policyholders who had repeated unpleasant experience with the services of an insurance company or the advisor, most typically, would prefer to end their relationship with the company. One example could be that the sales literature distributed during the sale process may not provide adequate disclosures in an easy to understand way of all the risks and costs associated with the product. It may overemphasize the returns to induce the prospect close the sale. If the actual experience turns out to be different, the policyholder is disappointed not only with the product but also with the producer. They feel that loyalty is abused in such instances. Similarly, if the insurance companies do not upgrade their services and are not competitive in using technology, policyholders think they are deprived of the benefits.

Effects of lapsation

Lapsation affects all the key stakeholders - the policyholder, the producer and the insurer - the extent of impact varies, though.

Policyholder

A lapsed policy ceases to provide insurance protection to the insured. It forfeits benefits under the policy and possible favorable terms later in the contact. A new policy would cost more, considering the

current higher age and other related factors. Some insurers consider previous lapses as adverse factor while underwriting a new proposal. The pay back, which is part of the premium paid that cannot be forfeited, will never meet the expectations of policyholders. Certain products do not carry cash values, so they will not compensate any value on lapsation. Unit linked policies yield good returns only in the long run. If there is an early lapsation, policyholders receive the blow, in that they may not have received any gains, not recovered the front end costs and also deprived of the advantage of lower costs in the long run. Unit linked policies are priced so that the cost of insurance reduces with increasing accumulation value. So, lapsing of these policies prematurely deprives policyholder of these benefits.

Producer

Producers do not get renewal commissions if the policy is lapsed. In this case, it is possible that producer may be losing client which is more disastrous than losing commission. If policyholder is disappointed at the sales process, then it is a permanent and irreparable loss to producer. Further, insurers may also impose penalties due to lapsation, such as denying club membership associated facilities and fringe benefits.

Insurer

Lapsation would mean loss of goodwill, which can cost market share in the present day competitive environment. With early lapses, insurers would not have recovered the procuration costs on the policy increasing new business strain. The producer compensation in terms of high first year commissions, bonuses and rewards would prove unproductive. The cash flows get impacted creating asset-liability mismatch which will adversely impact returns on the participation policies which in turn works against insurer. More than assumed level of lapsation would impact policy reserves adversely. The bottom line is that lapsation hits profitability.

Persistency is an evaluation factor used by rating agencies while giving overall rating to the insurance company. Probably, insurance companies bear the maximum brunt of lapsation.

Persistency levels are key performance indicators of business functions too. Low persistency suggests a review of the quality of underwriting, new business procuration process, degree of producer professionalism promoted by insurer, customer service standards to name a few. Persistency is an evaluation factor used by rating agencies while giving overall rating to the insurance company. Probably, insurance companies bear the maximum brunt of lapsation.

Strategies to Improve Persistency

Product Innovations

Product reengineering is a continuous process in the laboratory of actuaries. The root causes of lapsation are captured, analyzed and fed back into product design system. Innovations evolved to address lapsation can be seen in various product add-ons, better usability of product features and even in accommodating flexibility to alter policy elements easily. We shall first discuss one such add-on in providing continued coverage guarantee and then move on to map certain product features that can meet unique needs of policyholders.

No Lapse Guarantee

One striking feature of an insurance product that keeps policy from lapsing is 'grace period'. For fixed premium products, typically a month's time past the actual premium due date is allowed to policyholder to pay premium and keep his coverage in force. Technically, policy lapses at the end of such grace period ceasing protection and benefits. The available policy account value is applied to non-forfeiture options.

Advanced products such as Universal Life, ULIPs, and Index linked policies do not lapse on account of non-payment premiums on schedule. These policies lapse when account value is zero and hence can not pay policy charges. A few more grace period threshold rules evolved using combinations of loaned and unloaned account values and surrender value to decide timing of lapse.

One product innovation is No Lapse Guarantee (NLG) Rider offered by these products that keeps policy in force even if account value is zero. In its basic form, NLG protects death benefit, for a guaranteed period, by not lapsing policy when total premium paid is more than a pre-defined target premium amount. Typically the guarantee period will be preset depending on issue age. The most common type of NLG uses Policy Protection Account (PPA) value which is a non-real cash value account. PPA value is calculated using relatively less favorable assumptions than those used in calculation of the actual policy account value. Also, PPA uses fixed values for parameters such as loads, expense charges, crediting rates. The coverage is guaranteed to continue as long as either of PPA value or account value is positive. If both the forms of NLG are available in a given product, then

Figure 1: Primary and Secondary No Lapse Guarantees

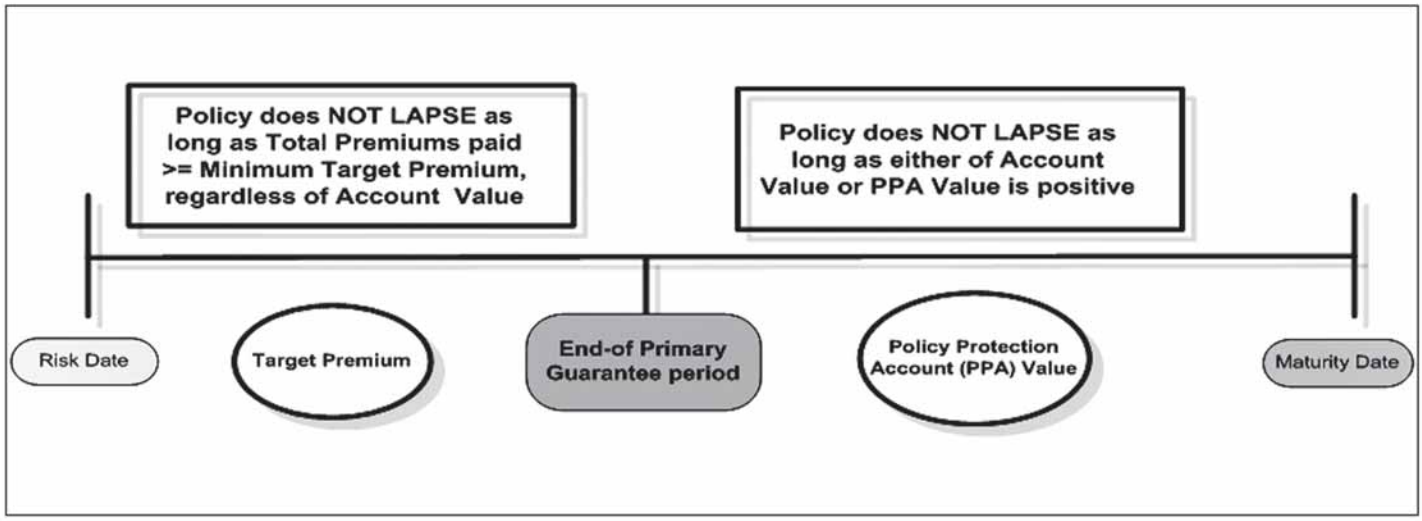
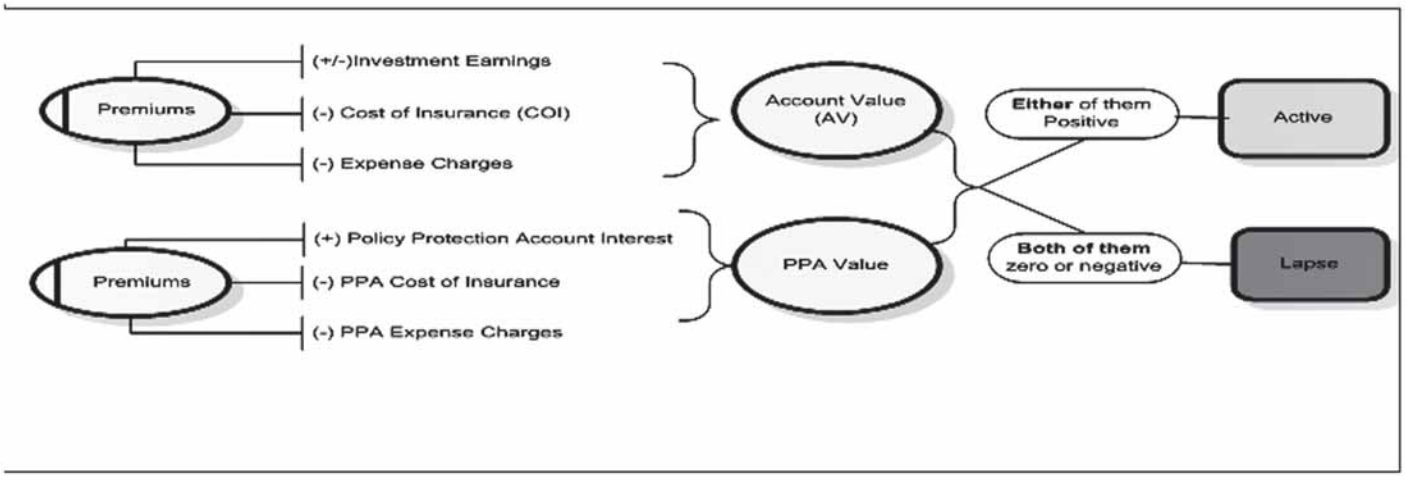


Figure 2: Policy Protection Account Value



guarantee based on PPA takes effect at the end of defined guarantee period for basic form. (Please refer to Figure 1 and 2 for diagrammatic representation of how NLG ensures continuity of coverage to policyholders).

Pricing Solutions

At a broader level, insurance products are priced using four basic factors MIXP – Mortality, Interest, Expenses and Persistency. A company with great persistency can price its policies lower than one whose lapsation is high. The converse is also true. A company with competitive pricing on its products can keep the lapsation at very low levels. For example: Higher reversionary bonus for policies with higher persistency is one that builds on the confidence of the policyholder. Let us look at a few pricing solutions to improve persistency.

Vanishing premiums

This is a pricing design concept for fixed premium products where the policy values are used to pay the policy. At the request of policyholder, premiums can vanish as long as the policy values are sufficient to cover premium costs on the policy. If the value can pay premium till the end of policy term, then premiums will vanish permanently. Policyholder no longer needs to pay scheduled premiums. In India, this concept is popular through 'limited payment' products in which the premium payment ceases ahead of the endowment period.

As we refer to Table-1 above, we see Vanishing Premium can be quite a useful feature to policyholders in providing flexible premium payment schedules. Once premiums have vanished, coverage is guaranteed without any premium payment from policyholders. They can divert the monies to other types of investments. From insurer perspective, the lapsation risk is limited to only premium paying period versus total policy term.

Persistency Rewards

These are rewards for keeping policy in

Table 1: Mapping Product Features with Policyholder Needs

The 'Need'	Product Feature Meeting The 'Need'
Existing policy does not get good returns. Market offers better returns	Equity Linked products with non traditional guarantees such as Guaranteed Minimum Death Benefit, Guaranteed Minimum Withdrawal Benefit. This provides benefit of market returns and at the same time protects from market risks. Rupee Cost Averaging, Asset Reallocation, Fund switches are a few features on ULIPs that can yield good returns in the long run.
Cash crunch – need more distributions from policy.	Policy Loans and partial withdrawals. Over Loan Protection Rider which ensures policy does not lapse even if debt exceeds account value.
Need more cash at regular intervals	Survival Benefits matching the timing of cash need
Unsure of regular cash flows to pay premiums	Automatic Premium Loans – taking policy loan to appropriate to premium due. Choose Dividends in Cash option versus accumulating in policy itself
Temporary financial hardship (change of employment, out of job)	Premium Holiday, Temporary Vanishing Premiums
Can't afford to pay full premium (Ill health, additional family burdens, no expected increase in salary, inflation)	Premium Reduction with protection to original death benefit for defined term. Conversions to another class of insurance (like term). Face Amount Reduction, Change of premium paying mode, Policy/Premium paying term adjustment
Need policy for long term but can't pay full term (Retirement ahead; policy term beyond retirement)	Limited Premium Payment Term (which is less than policy term)
Additional death benefit without insurability check	Guaranteed Insurability Option
Need comprehensive policy to cover all family members	Family Riders, Children Riders as additional coverages to existing policy itself with favorable terms

force for a long time. For flexible premium advanced products, two broad types of persistency rewards are prevalent. They are interest rate reward and mortality charge refund. In the interest rate reward, interest credit rate on accumulation value is increased after a minimum duration such as 10 policy years. The mortality charge refund provides a credit to the policy account value.

A few other types of persistency based rewards on traditional fixed premium products include a one-time increase in death benefit, special dividends or providing Cost of Living Adjustments, and Terminal Dividends.

Shock lapse

Shock lapse refers to high incidence of lapsation at the end of policy's surrender charge period – typically in Unit Linked investment products. With limited experience and data, high shock lapse rates are assumed in pricing these products. With a little less conservative assumption, product pricing can be more appealing to policyholders. To encourage continuation of policies, policyholders can be offered a few benefits like free portfolio rebalancing, automatic fund switches etc. at the end of surrender charge period. If feasible, careful internal product replacement can be examined in the sense that the new product establishes new surrender charge period.

Key feature of advanced products is unbundled pricing. This brings transparency in the pricing structure and helps policyholders and distributors to understand the costs and benefits to have realistic expectations on the performance of the product.

Producer Management

Distribution channels play very important role in improving persistency levels. Insurance companies can formulate strategy for effective producer management to improve persistency.

Conducting professional education programs, revisiting compensation strategies, and channel optimization are a few possible measures. We discuss these aspects in more detail below.

Professional Education

As part of licensing process, IRDA prescribed minimum educational and testing requirements to qualify as an insurance advisor. Designated training centers conduct training on the syllabus suggested. Further, in line with other professions, continuing educational requirements can be introduced. For instance, advisors dealing with advanced products can be asked to take up courses from NSE's Certification in Financial Market. In addition to this, insurance companies can impart producer education to improve their ability to understand competition, the product and to display good professional conduct. Conducting various producer conventions, educational tours and sponsorships to participate in international forums can promote quality of sales.

Compensation strategies

It continues to be a point of debate as to which compensation structure - levelized or heaped - is more appropriate to insurance advisors. There are pros and cons to both and insurers choose the one that best suits the interests of their distribution channel. The heaped structure provides incentive to procuring business with high first year commission and gradually reduced renewal commissions. The levelized structure reduces the gap between first and renewal commissions. With increasing focus on persistency, insurers can rethink if levelized format can be adopted which provides incentive to advisors for bestowing continued services to policyholders. In western countries where this structure is implemented, the companies experienced great persistency levels. Agents who enjoy good retention of business reaped good benefits. This would also address issues noted with rebating and churning practices.

With increased sale of unit linked and flexible premium policies, Asset Based Commissions can also prove to be effective in ensuring persistency. Asset Based Commissions are based on the total policy value on the commission payment date. With this structure, producers are motivated to advise their policyholders to keep monies invested with insurance companies.

Similarly, bonus commissions, recognition and reward programmes like entry to Agent clubs, qualification to attend various conventions, awarding prizes can be designed by including minimum persistency requirement. Special incentives for revival of lapsed orphan policies can be provided apart from giving producers a share of commissions. On the other hand, charge backs may be enforced on commissions paid for certain events like withdrawals, rescissions etc.

Advisors dealing with advanced products can be asked to take up courses from NSE's Certification in Financial Market.

Channel Optimization

Competition has presented new entrants into distribution arena. Besides independent advisors, the channel is now strengthened with the addition of corporate agents, broker firms, bancassurance, and even cyber marketing – policy writing though company web sites. Insurance companies can optimize the distribution costs by employing channels suitable to their marketing strategies. Reduction of distribution costs allow companies to provide better product value to customers, thereby promoting persistency. Engaging employees with salary plus bonus based compensation can help reducing per sale cost. These employees can be involved in lead generation leveraging existing client relationships and available databases, in direct sales and in directing warm leads to advisors.

Promotional Strategies

Key promotional strategies to ensure persistency can include continuous customer education, service delivery initiatives and leveraging information technology to empower distribution channel.

Customer education

It is in the interest of the insurer to continuously engage in customer education. This also helps to spread awareness of impacts of lapsation. An investor guide can be published on the lines of NAIC's (National Association of Insurance Commissioners) Life Insurance Buyers' Guide in the US. It has been an ongoing effort from the regulator also to improve the awareness and direct at remedial options.

Customer service camps can be conducted to explain their privileges, product features, claims processing, grievance reddressal machinery and several other policy servicing aspects. Increasing customer sophistication and product disclosures can directly assist in retention of business.

Service Delivery Initiatives

Service delivery initiatives that catch up the imagination of the policyholders can help develop brand loyalty. These can include - policyholders availing web-services for premium payment, document submission, receiving cell phone alerts for premium dues, payment through SMS, access to company data bases through toll free numbers and IVRS (Interactive Voice

Distributors like high profile individual agents, corporate agents and brokers can be encouraged to maintain their own offices to receive service requests, complaints and suggestions from policyholders.

Response System), online chats and e-mail notifications about important dates and customer service request responses.

In addition, companies can set up Business Conservation Units (BCU) to implement corporate asset retention strategies. BCUs can help policyholders to access services according to the need and assist in continued client relationships.

Channel Empowerment with Information Technology

Companies that have embraced technology stay ahead in competition. Distribution channel can be a cost effective medium for promotion of services. Distributors like high profile individual agents, corporate agents and brokers can be encouraged to maintain their own offices to receive service requests, complaints and suggestions from policyholders. Leveraging information technology, producer web portal can be installed granting controlled access to policy information to attend to certain service requests. It can enable them to place and track online requests for loans, revivals, and claims etc.

Financial advisory services can be a value addition to the customer service strategy of the insurer. Product illustration software can ease the sale process and advisors can be well positioned to present products to prospects.

Conclusion

Persistency indicates financial well being of the policyholder, the producer and the insurer. It is a result of efficient management of existing business. This paper designates Persistency as the fifth 'P' to be considered by insurance companies in devising corporate goals and strategies. A detailed discussion is also presented on how the four P's can be key drivers in achieving healthy Persistency levels. This timely debate initiated by IRDA on 'Lapsation in Life Insurance' could possibly bring in other dimensions of 'lapsation' as well to conclude on some more action points in the interest of the insurance industry.

The authors are all life insurance domain Consultants from CSC (India). All implicit or explicit views expressed in this paper are of authors only and not of their employers.

Policy Lapsation in Life Insurnace

Role of the Middle Man

DAVID CHANDRASEKHARAN EMPHASIZES THAT THE INTERMEDIARY'S ROLE IS VERY CRUCIAL IN KEEPING THE CONTRACTS IN LIFE INSURANCE IN FORCE. HE FURTHER WRITES THAT WHILE IT IS VERY IMPORTANT TO IDENTIFY THE PROSPECT'S NEEDS UPFRONT, IT IS EQUALLY IMPORTANT TO RENDER EFFICIENT SERVICE THROUGHOUT THE CONTRACT PERIOD.

Lapsation is an insurance contract gone sour and benefits nobody. It is bad for the insured who loses valuable insurance protection for his family; the agent does not get commission; and for the insurer, it means loss of premium income. If it is not really in the interest of any of the parties to let a policy lapse, why do policies lapse?

Lapsation is a major area of concern for all the life insurance companies as it eats into their profits and the need for conservation of business is therefore understood as a priority at the highest levels in the companies. This concern however does not percolate down to the lower levels in the organizations particularly to the marketing people who are for ever chasing new business and for whom 'Conservation' of business is an unheard of phrase.

If companies are really serious about conservation of business, proactive initiatives for preventing lapsation should be launched and strong messages should be given to the employees at all levels; and agents, that it is in every body's interest to ensure that policies sold remain in the books of the company and do not lapse.

Lapsation is one subject on which no insurer likes to share information with the public. Data on the subject is therefore not available in the public domain. But rough estimates made by reliable sources indicate high levels of lapsation, as much as 25% to 30%, in the first year itself. This is indeed alarming. It seems policies like those of the children face high levels of mortality in infancy. Studies also suggest that policies which are continued beyond two years have a much lower lapsation rate and tend to remain in the books of the company.

It is true that some policies lapse due to a downturn in the fortunes of the policyholders which makes it difficult for them to continue payment of premium. However, such policies constitute a small percentage of the total number of policies that lapse every year. The major reasons for lapsation are the following:

- The companies' concern for conservation of business does not result in effective action.
- Lapsation resulting from agency termination.
- Misselling in different forms by the agents and marketing personnel.
- Failure on the part of the agent in playing his role to ensure that polices sold by him do not lapse.

Concern for conservation not reflected in effective action

A major reason why policies lapse is that the marketing and sales people do not look beyond the sale. Once a particular sale is through, it is time to move on to the next prospect. This mindset which is widely prevalent is the outcome of the way their

If it is not really in the interest of any of the parties to let a policy lapse, why do policies lapse?

incentive package is structured. For them there is no incentive on offer to get them to take interest in conservation. The way the incentives are designed seems to make the message abundantly clear that ensuring conservation of business is none of their business.

While lip service may be paid to conservation of business in platform speeches, it is really nobody's business in practice except perhaps for the agent who can clearly see that he has taken a hit due to loss of renewal commission on account of lapsation. We need to get the marketing people involved in conservation of business in a way they understand. There is a case for rewarding marketing people in respect of policies which have survived the first three crucial years without lapsation. Past experience confirms that if a policy has survived for three years, it has a fair chance of not lapsing mid term. Such a step would also take care of the insured's interest as the policy will qualify for paid up value even if further premium payments are not made.

Payment of premium made easy

It should be said to the credit of the new companies and LIC also that payment of premium today is made easy and is no longer an ordeal. You have the local area and wider area networks in insurance offices making payment of premium possible any where in the country. You also now have new modes of payment such as, payment of premium online, through credit card etc. LIC continues to operate the salary savings scheme successfully which also helps prevent lapsation. All these measures would no doubt have improved conservation considerably. However, in the absence of data one can only hazard a guess.

Agency termination and lapsation

Agency termination, like lapsation, is a curse of the life insurance industry and the two are interrelated. When the agency gets terminated the policies sold by the agent become 'Orphan policies' without any agent to service them and such policies have a high lapsation rate. The remedy lies in the company framing clear and fair rules making speedy allotment of these policies possible. Once these policies are allotted, they have a good chance of remaining in the books of the company without lapsing and this is therefore an effective step in preventing lapsation.

Agency termination, like lapsation, is a curse of the life insurance industry and the two are interrelated.

Simultaneously, steps may be taken to reduce agency termination. Choosing the right persons for appointment as agents and nurturing them till they gain confidence to strike out on their own will go a long way in arresting agency termination and help reduce lapsation. While launching 'revival' campaigns, it maybe necessary for the focus to be on preventing lapsation.

Mis-selling

Selling the wrong policy to a prospect is like selling ice to an Eskimo and is the most blatant example of mis-selling. Simply put, it means selling you something you do not need and cannot use. Since life insurance is sold most often than bought, the possibility of mis-selling taking place is high. The choice of sum assured, plan and term are all issues determined by the agent leaving ample scope for misselling. Again in a situation where the prospective customer is not financially savvy, it is highly unlikely that the selling that takes place would be customer need based. However, when a sale takes place with the prospect actively taking part in the buying process and the selection of sum assured; and the plan and term are worked out as a result of informed decisions taken by him, the policy is unlikely to lapse as the selling in this case would be customer need based and the buying decision would be an informed decision taken by the customer himself. Policies sold in this manner ethically and professionally seldom lapse.

Overselling and under selling are both examples of misselling, When the customer realises that the premium he has to pay is beyond his capacity, he feels the pinch and lapsation occurs sooner than later. The policyholder feels cheated and the relationship between him and the agent sours. When the policy sold is too small, it is like small change for the customer who does not consider it worth his while to continue the policy. Policies sold solely to fulfill the 'quota', to qualify in a competition or for qualifying for MDRT etc. serve that limited purpose and can aptly be called policies programmed to lapse. Policies sold en-block under pressure to new recruits undergoing training for lower cadre posts are in the same category and face the same fate. When the pressure eases off on the new recruits completing their training and moving to their new places of posting the policies automatically lapse. We have also seen the 'sell and run ' agent who has no reservations about telling half-truths and even plain lies to close the sale; and quietly disappears after the proposer signs the proposal on the

It may be mentioned here that the code of conduct for agents also makes it abundantly clear that his role is not confined to soliciting and procuring insurance business for his company; he has to also service the policies sold by him.

dotted line and hands over the first premium cheque, never to be seen again. In all instances of misselling the policy-holder sooner or later comes to know that he had been taken for a ride and the policy lapses.

Agent's Role in Conservation and Preventing Lapsation

A good agent needs to keep both his eyes wide open: one eye to look out for new business opportunities and the other to ensure that policies sold by him stay on track and do not lapse. A good agent knows that a sale is not the end but the beginning of a long term mutually beneficial relationship (what Philip Kotler called relationship marketing) between him and his policy holder. It is clearly understood by him that his first year's commission almost entirely goes to meet his procuration costs, such as travel and telephone expenses, entertainment expenses, cost of purchase of small gifts etc. The real income for him comes from renewal commission. Therefore he recognizes the need to be in touch with the policyholder to ensure that due premiums are paid in time. Telephone calls are made, written communications are sent, greetings are sent for birthdays, anniversaries and festivals and personal visits are also made for a face to face interaction. All these are done to ensure that premiums are paid regularly, servicing needs are taken care of and opportunities for further selling of insurance are not missed. In short over a period of time the agent becomes like a member of the family and remains a friend in need throughout the journey of life till the end comes.

It may be mentioned here that the code of conduct for agents also makes it abundantly clear that his role is not confined to soliciting and procuring insurance business for his company; he has to also service the policies sold by him. A special mention is also made in the code of conduct that conservation of business is very much a part of his duty and an agent needs to take all steps to see that regular payment of premiums is made in respect of policies sold by him. It is also indicated that he should assist the policy holder in this regard by collecting the premium and paying it in the office if required.

Conclusion

It is obvious that if sale of policies is done ethically and professionally by the agent and the policy is serviced properly and assistance in given for payment of premium, chances are that the policy sold would remain in the books of the company. The agent would reap the full benefits of the sale made by getting the full renewal commission due to him. There will be other rewards for him in the form of opportunities to sell further insurance to his existing policyholders; and a flood of referrals will come his way to help him earn more commission.

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Retention of Life Insurance Business

Need for Improvement

AMITABH VERMA OPINES THAT HIGH BUSINESS RETENTION RATIOS INDICATE THE HEALTH OF A COMPANY. HE FURTHER ADDS THAT INSURERS SHOULD ADOPT DYNAMIC METHODS OF ENSURING THAT A CUSTOMER DOES NOT GO OUT OF THEIR REACH.

Introduction

The lapsation of life insurance policies has been a cause for concern worldwide for the life insurance industry. Studies have been carried out on the profile of the policyholder, nature of policies, modes of payment, channels and servicing to understand the causes of lapsation; and thereby introduce measures to achieve better persistency.

Significance & Impact

Persistency is synonymous with the health of the company. A policy may lapse if the premium payment is not persistent. The financial impact of lapsation is significant as it adversely affects the policyholder, the company, the agent and the industry in terms of the forfeiture of premiums paid, cost of acquisition not fully recovered, loss of renewal commission and wastage of scarce resources.

Persistency is one of major deciding factors for policy pricing amongst other factors such as mortality, interest earned, expenses etc. The same is due to the acquisition costs involved which include the expenses incurred to market, sell, underwrite and issue a life insurance policy. The initial expenses thus incurred must be amortized through the collection of initial premiums. Needless to say, if the acquisition costs are not covered, the same would affect the financial interest of the company adversely.

Improved persistency is not only in the interest of the company but also of the policy owner and the sales force. Lapsation adversely impacts the policyholder due to loss of risk cover and more often than not forfeiture of the premiums remitted thus far. For the sales force, lapsation translates into loss of future renewal commissions. From an industry perspective, it may hamper the growth of business.

Causes of Lapsation

Some of the probable causes of lapsation are as listed below:-

Absence of proper "Needs Analysis / Life Cycle Stage Analysis" at the time of sale: At times, this critical step of understanding customer requirements based on customer profile is missed out and requirements are not done or are done without any systematic support or structure. As a result, customers end up with a product that doesn't adequately meet their requirement leading to loss of interest in continuing that product.

Financial Crisis of Customers: Customer has bought a product which meets his requirements and he is interested in continuing with the product. However, due to unexpected financial constraints, he is not able to continue paying the premium for his policies.

Nature of product: The customer may lose interest in the product/policy leading to lapsation. For instance, adverse market

Persistency is one of major deciding factors for policy pricing amongst other factors such as mortality, interest earned, expenses etc.

conditions may negatively impact the consumer's perception of the unit linked policies and may lead to lapsation as a resultant loss of interest.

Focus on First Year commission payouts: First year commission payouts are significant and at times act as an incentive for financial advisors to sell products wherein they get higher commission, irrespective of whether the particular product suits the customer's requirement or not. A sales person having a narrow minded approach focussed solely on the first commission payout may lead to customers being sold expensive / high premium policies that he may not be able to sustain at a later date.

Lack of customer contactability: Inadequate details provided by the customer or data capture errors leading to incomplete/incorrect communication address/contact details (phone nos. etc) are also proving to be a major factor in increasing lapsation. As a result, quite often the customer does not receive the communication regarding their renewal notices.

Lack of premium payment channels: As the industry expands and moves towards the interiors and more remote locations of our country, the choice of premium payment options/modes of payment get limited. This poses a challenge for the customers at such locations from a premium payment standpoint, especially if the provider does not have a physical presence in such areas.

Orphan Policy / Servicing Issues: In some cases the policyholder's Agent/sourcing channel may no longer be associated with the company leading to poor servicing issues and consequent lapsation.

Unintentional Lapsation: At times the policyholders may simply forget to remit the renewal premium. They may have a change of address which may not have been intimated to insurance company due to which the reminder / renewal notices do not reach them.

Increasing the premium paying options as well as consumer awareness about these options, especially in smaller towns has to be a key focus area for the entire industry.

Options available for the industry to tackle lapsation

More robust Sales Process: While steps have been taken in terms of making sales processes transparent by way of benefit illustration, we need to lay greater focus on incorporating "Financial Need Analysis / Life Cycle Stage Analysis" as part of sales process. A product sold on the basis of need analysis will ensure that the product meets the customer's requirements thereby sustaining interest levels in the policy.

Focus on Financial Underwriting / Product Size (SA / Premium): Customer's financial capabilities, both current as well as projected for future must be factored in before deciding on an optimum policy/ product size for the customer. *Commission Structure for financial advisors:* The structure should induce continuation of a policy by way of higher commission payouts as the policy progresses.

Flexible Products / Product Switch / Premium Holidays / Reduced Coverage: These could be some of the measures that may be offered to customers who have the intent of continuing with their policy but due to unforeseen circumstances/sudden financial constraints, are unable to pay their premiums.

Multi / Broad based product strategy: Diversifying the product mix is beneficial and indeed critical for the health of the industry. This can provide sustainability over the long term and ride through economic downturns.

Increasing Premium Payment Channels: Increasing the premium paying options as well as consumer awareness about these options, especially in smaller towns has to be a key focus area for the entire industry.

Increasing Customer Contactability: Ensuring accurate customer details at the sales stage and capturing at least one phone no. where the customer can be contacted are other key initiatives that will drive up persistency levels.

Conclusion

Given the emphasis on retention of business, insurers can follow some of the local as well as international industry's best sales and service practices which include setting up of a focus group within the operations team to improve the overall persistency rate / reduce lapsation rates. Multiple modes of premium payment can be made available to the customers. Companies can regularly despatch premium intimation notices a month before premium due date and follow this up with a listing to all sales personnel for their follow-up. Reminders can also be sent through e-mails / SMS to policyholders/ agents wherever such information is available. Post the premium payment due dates, reminder notices can also be sent at frequent intervals, besides intimating client's about the lapsation of their policies as it occurs. Additonally, through in-house contact centre, welcome calling and reminder calling can also be resorted to.

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Business Retention in Life Insurance

Marketing Priority

H.O. SONIG MENTIONS THAT RATHER THAN CHASING FRESH PROSPECTS, INSURERS SHOULD CONCENTRATE ON LONG-TERM RETENTION OF THE EXISTING POLICYHOLDERS, WHICH IS CERTAIN TO LEAD TO REDUCTION OF EXPENSES AS WELL AS GROWING REPUTATION.

"OLD IS GOLD" they say; and it is also more beneficial. So preserve it and save it. We can aptly apply it to insurance policy too, which, more often than not, falls a prey to neglect and consequently lapses, causing loss to all concerned. With the opening up of the insurance sector, the insurance industry has progressed by leaps and bounds. Be it innovative products or addition of lacs of agents, market has expanded remarkably. Growing at the rate of about 15% every year, the market potential is tremendous. Owing to unprecedented boom in the sector, competition is the buzzword of the day. However, not much attention has been paid by the insurance companies and agents to keep the business in force by preventing it from lapsing. Retention of policies is a big challenge. Since business prospects are bright, procuring more and more business attracts everyone but retaining it is a major issue. In fact, a policy with a longer retention success is a source of company's revenue and publicity. It builds image through a word of mouth at no extra cost because a satisfied customer always remains a source of business at all times.

Let us examine why policies generally lapse. Some of the reasons may be as follows:

- Lack of proper awareness programs for agents and policy holders.
- Over emphasis on new business credit to agents and offices.
- Lack of motivation and recognition for retention of insurance policy.
- Over attention on new business competitions and incentives.
- Changing expectations and aspirations of the policy holders.

The care for lapsed policy with efforts to revive it creates a feeling of loyalty in the minds of the policy holders. It also contributes towards a sense of belongingness.

- Non-affordability to pay premiums i.e. Over-Selling.
- Higher commission rates of new business for agents.
- Lack of care for orphan policies where the original agent stands terminated.
- Inadequate commission rates of lapsed policies on revival.
- Lack of credit to serving offices for better retention ratios.
- Ignorance of the policy holders about the nature of benefits of the policy.
- Lukewarm interest of the agents in old policies.
- Termination of the agent who sold the policy.
- Premium notices not being received by the policy holders.
- Non-receipt of policy document in some cases.

Lapsation not only hits the company with financial loss because procurement of new business is always more expensive while serving the existing policy is not so; it also adversely affects the image of the company. The care for lapsed policy with efforts to revive it creates a feeling of loyalty in the minds of the policy holders. It also contributes towards a sense of belongingness. Ultimately this leads to

growth of new business and promotion of goodwill. Insurance industry is always good faith based. This begets the policy holders' positive response which they share with others. This spreads among their friends, kith and kin.

A life insurance lapsed policy, as said earlier, is not only an adverse form of publicity but also results in negative consequences to all – the insured, the insurer and the agent. All stand to lose. One reason could be lack of interest by the agents while the other could be the ignorance of the policy holders. If the motive of selling insurance is not properly explained at the time of signing the proposal papers, it may lead to discontinuance of the policy. Human life value should be a basic factor for the consideration of insurance by the customers. If this is properly explained, the insurance contract will continue. Unfortunately some of the insurance agents sell it as an instrument of investment and saving only. Naturally, therefore, comparisons are made by policyholders with other financial instruments, like Bank FDs, Mutual Funds, Capital Market gains, etc. In this process, it sometimes loses the race. Consequently policy holders stop paying for the policy; and the policy lapses.

Agents' role in preventing a policy from lapsing is very important. The policy is not revived as some agents give preference to new policies as the commission rates in new policies are higher. But, for a policyholder a lapsed policy means a lot of hassles. He has to undergo sometimes a medical check-up as per the terms of the policy. The insurer may impose an extra premium, change the original terms or even decline to revive the policy, as revival is a new contract. If any material fact is suppressed, the insurer may not entertain a claim after insured's death, if investigations reveal the suppression of the facts in the health, habits and lifestyle. Consumer awareness is, therefore, a very important factor in controlling the lapsing of policies. All concerned are worried about the cost part of the insurance company because of loss of income on account of lapsed policies. Solvency ratio of the insurers is also adversely affected, if lapsation trend of the polices is high. It is a growing concern for insurance companies also. IRDA should, therefore, help the market with awareness programmes by advertising about the steps to be taken in this regard by agents, insurance companies and insured. Radio/ TV jingles along with print media will work well, as done in the past. Also insurance company can run a programme on these lines to increase the awareness levels of the policy holders. For example: LIC has been celebrating "Insurance Week" in the first week of September every year when campaigns to revive lapsed policies are also launched but follow up steps are not adequate. Consequently it is taken as a ritual and the desired results are not felt.

For some policy holders tax saving may be an incentive while for others investments may be an alternative choice. In any case, the interest of policy holders should always be kept in view.

Such campaigns, if launched earnestly and methodically, can yield better results.

Nowadays, preference of policy holders to purchase ULIPs is gaining momentum. Therefore, if some policies have not been sold keeping in view the needs of the insured, these might lapse. For some policy holders tax saving may be an incentive while for others investments may be an alternative choice. In any case, the interest of policy holders should always be kept in view. The agent should offer products appropriate to the aspirations and expectations of the customer so that he continues to pay for them. To facilitate policy running, insurers have to refrain from promising unrealistic returns so that public is not swayed by the pamphlets/ literature distributed, guaranteeing unrealistic benefits, as many of them may not be sustainable. In fact, insurance companies should bring to the notice of the public the salient features and factors of products like ULIPs which must be assessed by the policyholders while taking ULIP insurance products.

Other aspects like risk factor, important features, investments options, transparency and the flexibility of the products, comparison of different ULIP products of different companies, should also be properly explained at the time of signing the proposal. If we look at the lapsation trends of different companies, the data may be painful as it may reflect lacs of lapsed policies with crores of rupees of sum assured. Policies not taken according to the financial capacity of the policy holder may not continue as he will find it difficult to pay for it. In the case of lapsed policies, some policy holders are trading them by assigning their rights in the favor of interested parties. It, therefore, needs attention of IRDA to examine whether it is in the interest of the policyholder.

Commission rates of lapsed policies on revival are another factor which should engage the attention of IRDA to make

It is suggested that insurance companies may consider appointing retention managers or outsourcing job to revive lapsed policies to private establishments with the help of insurance agents,

changes in the legal provisions. Remuneration in case of orphan policies is dealt with in detail in section 40 (2A) of the insurance act 1938. An insurer can give a notice in writing to the insurance agent who sold the policy, if such agent continues to be an agent of the insurer, giving him an opportunity of reviving it within a time specified in the notice, being not less than one month from the date of receipt of the notice. If the agent fails to revive the policy, the insurer may then pay to another agent an amount not exceeding half of the commission at which the original agent would have got, if the policy had not lapsed. Insurance company should make use of the provision detailed in the above section. Detailed discussions can be held in insurance council meetings also by all insurance companies.

Policies in rural areas are more vulnerable to getting lapsed. This is quite disturbing because the recent trends indicate that the business growth from the rural markets may outpace the growth from urban markets. It is estimated that more than 50% business contribution might come from the rural areas. We have therefore to examine the steps which may help in retaining the business in this sector. According to my experience of insurance market, the direct touch of the agents with the insured is one predominant factor which largely contributes to the prevention of lapsation. Sale of right products keeping in view the need of rural market is another factor to retain the loyalty of these policy holders. In rural areas, the mode of the policy is also important. Generally there are two major crops in a year. Half yearly mode of premium payment is, therefore, preferred. It has often been observed that policies with quarterly mode tend to lapse. For those who can afford it, yearly mode is the best.

There is also need for understanding the rural customer profile, his needs and aspirations. For example the health insurance or pension needs of rural customers are different from their urban counterparts. The distribution system of such products will therefore be different. Again the need of policy for rural rich will be different. The vast market size and rapid economic growth will certainly help all the insurance companies to tap this potential to their advantage. Selling the right type of products in these areas will help in creating a better image. Micro insurance products may help in this respect, as these are targeted at low income group people in the unorganized sector.

While there is no consolidated data of lapsed policies available, it is estimated that about 25% to 40% new policies lapse. This may vary from company to company. This is a huge loss to the insurance industry, costing crores of rupees annually. To meet the challenge, IRDA should examine to change the agency commission structure. As said earlier, commission in new policies is higher which attracts agents to go for new policies rather than taking pains to keep in force the old policy. It is suggested that insurance companies may consider appointing retention managers or outsourcing job to revive lapsed policies to private establishments with the help of insurance agents, if this is approved by IRDA. These managers can have a dialogue with the agents, customers and the insurance company to revive the policy. Though there is an in-house arrangement with every company to have its own team to follow up with the customer, yet the success ratio is not qualitatively up to the mark. Online policy servicing is also a good self servicing option to pay premium. It should be sufficiently publicized so that policyholders can perform policy transactions online. Agents must be kept informed, as they are always of great help in such matters.

I would like to conclude by saying that a policy in force is not only a perennial source of income to insurance companies; it also provides good publicity to all concerned. It also provides for commission to agents and better returns to the policy holders. The insurance sector has entered into a very critical but conducive phase when it is desirable to pursue not just the new business growth but also to ensure its quality and retention. Some of the companies have grown so fast that it is difficult for them to retain their old policies. It is, therefore, strongly recommended that they must introspect and look at their lapse-ratio for preventive measures, keeping in view that it is conservation of business with higher retention of policies which is the *summum bonum* of the insurance industry. Timely steps in this direction will pave the way for success to all.

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Conservation of Life Insurance Business

Role of the Parties

'ALTHOUGH A LAPSE OF POLICY COMMITMENTS LEADS TO A DISADVANTAGE FOR BOTH THE PARTIES, THERE IS HOPE IN THE FORM OF REVIVALS' SAYS DR. G. GOPALAKRISHNA. **HE GOES ON TO EXPLAIN SOME OF THE PRACTICES IN VOGUE THAT CAN RESURRECT A DEAD CONTRACT.**

Premium and the Contractual Obligation

In terms of the policy conditions, the obligation of the insurer to pay the Sum Assured as stated therein is subject to the premium being paid on the due dates. Thus, the premium is the consideration for which the insurer undertakes to discharge the liability arising under the contract. It is the price for which the insurer undertakes his liabilities under the contract. In life insurance, the payment of the premium is a condition precedent to attach liability on the insurer.

Days of Grace

A life insurance policy is a long-term contract and the consideration for the contract viz., the premium is collected at convenient, agreed periodicity called the mode of payment of premium. The policyholder is given a grace period of 30 days from the due date to make the payment; and thereafter up to six months the premium can be paid with the due interest. Thus, a payment within the days of grace is deemed to be a payment on the due date. The legal aspect governing the days of grace is that, as a general rule, where subsequent premiums are payable under the policy, the insurer allows a certain number of days as grace for payment of each premium. This is not an indulgence shown by the insurer, but days of grace are allowed under the policy conditions. In the event of the death of the life assured during the days of grace and before payment of the premium, the non-payment of premium cannot be a ground for avoiding the policy. In view of this, though there is a default on the part of the policyholder to pay the premium during the days of grace, the claim would be paid in full and the premium for the current year is deducted from the claim amount.

It is open for the insurer, depending on the circumstances of the case, to decline revival of a policy or to offer revival subject to such fresh terms and conditions as are deemed necessary.

Lapse and Revival - Contractual Implications

The terms and conditions of the policy stipulate, where the premium is not paid within the days of grace, the policy lapses but may be revived during the life time of the life assured. A policy that has lapsed is thus not irretrievably dead but can be revived. Revival is a valuable contractual right and the insurer has no arbitrary or discretionary right to refuse reinstatement, if the conditions laid down have been complied with. An application for revival of a lapsed policy is an exercise of the existing contractual right and is different from an application for an altogether new policy.

A revival brings into being a fresh contract (*novatio*) regarding which the insurer is entitled to impose fresh terms and conditions. It is open for the insurer, depending on the circumstances of the case, to decline revival of a policy or to offer revival subject to such fresh terms and conditions as are deemed necessary.

As the provision for revival is one of the terms and conditions of the policy, a fresh policy is not required to be issued, but the revival may impose certain obligations on the insured by virtue of the statements made by them at the time of revival and a policy can be avoided for suppression of

material facts at the time of revival. However, whether the revival of a lapsed policy constitutes a new contract or not for other purposes, it is clear from the operative part of Section 45 of the Insurance Act, 1938 that the period of 2 years for the purpose of that section has to be calculated from the date on which the policy was effected.

By the end of six months the policy lapses and can be revived only after satisfactory evidence of good health submitted and arrears of premium are paid with interest. As such, follow up of premium collection and follow up of unpaid premium becomes a very important activity for a life insurance office with a view to retain the business already in books.

A lapse causes loss to both the parties in a life insurance contract

If a policy lapses it results in loss to both the insured and the insurer and benefits neither. The insured loses the valuable protection that the life insurance policy ensures. It signifies a reversal of the decision to arrange for the insurance cover and therefore, exposes the policyholder to possible adverse circumstances. It is also a reflection on the agent's efforts as it (the lapse) suggests that the policyholder had not been fully convinced about the usefulness of the insurance plan.

The insurer also loses in a different way. While fixing premium rates it is assumed that every policy will be kept in force for the full sum assured for the period it should remain up to the time of claim by way of maturity or death. A level charge is made in the premiums for expenses and premiums charged are uniform for a stated term. The expenses actually incurred are not uniform for each policy year but are substantially higher in the first year of insurance. Thus even though the first year's premium contributes only the uniform amount provided in premium; the insurer incurs much higher expenses towards higher commission to agents, medical fees, policy stamps etc. The excess amount spent in the first year is expected to be recovered in successive years when renewal premiums are received. Therefore, in the event of discontinuance of the policy it would not be possible for the insurer to recoup the excess expenses incurred. Consequently such a policy entails a loss to the insurer. Because of this reason, every effort is made by the life office to reduce the incidence of lapse and take several measures to conserve the business from going out of books of the office.

Sending premium notices is not a legal obligation under the contract and non-receipt of the notice will be no excuse for non-payment of premium in time.

It is the practice of insurers to send regular notice to the policyholder about the premium falling due under the policy. Notices are not issued in respect of policies where the mode of payment of premium is monthly. Sending premium notices is not a legal obligation under the contract and non-receipt of the notice will be no excuse for non-payment of premium in time. Notices are sent only as a matter of courtesy to remind the policyholders. This however helps timely payment of premiums by a large number of policyholders and in turn help in conservation of business. This will ensure regular and even flow of funds enabling the insurer to prudently invest the same and earn handsome dividends that will help ensure meet their commitments. This will also ensure regularity of payment of premiums by a large number of policyholders and many times the policyholders make the premiums they have to pay an essential part of their family budgets. Life insurance instead of being a luxury for a few will become a necessity for many. Non-payment of even one installment of premium may lead to undesirable consequences. A larger payment may have to be made later including further installments along with interest. The policy itself may lapse which will result in the withdrawal of risk cover by the insurance company defeating the very purpose for which the policy is purchased by the policyholder. Sending Advance Premium Notices therefore has become an essential part of the services rendered by the insurance company to the policyholders.

Revivals

A policy lapses if premium, which has fallen due, is not paid within days of grace. If, however, a default in payment of premium occurs after premiums have been paid for at least three years, the policy becomes automatically paid up for a reduced amount. It is primarily the responsibility of the policyholder to see that the premiums are paid on the due dates so that the policy remains in force. The insurer helps him by sending premium notice in advance and by reminding him if he has defaulted in payment. The policy conditions provide for revival of discontinued or lapsed policies.

Because lapsation affects both parties adversely, and because lapsation is not always intended by the insured to happen (lapsation may occur due to just neglect or oversight or because of temporary financial difficulties), insurers make it possible for lapsed policies to be brought back into full force by reviving them. Insurers have different schemes of revival, with a view to help policyholders revive lapsed policies on easy terms and obtain back the intended protection and security for themselves afforded by the insurance cover which they so thoughtfully planned to possess. The different schemes for revival offered by the LIC will illustrate some of the considerations for revival.

For revival of polices, the following will normally be necessary.

- Arrears of outstanding premiums with interest
- Proof of continued good health
- A fee for reinstatement or revival.

Some insurers do not allow revival, if the policy has remained in lapsed condition for more than five years. This is because of the possibility that the arrears of premiums on such a policy would be too heavy and that it would be better to take out a fresh policy.

The requirement of proof of good health varies according to the duration of lapse and also according to the Sum Assured. Up to six months from the date of lapse, no proof is necessary. Only the arrears of premium will do. This period of six months is extended to twelve months in the case of policies, which have been in force for at least five years. If the policy is due to mature within a year, then also only arrears of premium are called for.

Where proof of continued good health is necessary, the nature of proof can be a simple declaration or an elaborate medical examination with special reports. The considerations are the same as in the case of a fresh proposal for insurance. A revival is effectively a decision to underwrite a risk, the risk being equal to the original Sum Assured under the policy less the paid up value (not including vested bonus) on the date of lapse. The underwriter may agree to revive as per the original policy terms or on modified terms or even decline to revive. This decision is made after examining the risk factors at the time of revival, which may have changed since the original policy was taken.

The underwriter may agree to revive as per the original policy terms or on modified terms or even decline to revive.

Subject to the underwriter deciding that the revival can be done, various alternatives are offered by life insurers, some of which are as follows.

The Special Revival Scheme is allowed if

- the policy had not acquired any Surrender Value on the date of lapse
- the period expired after lapse is not less than six months and not more than three years
- the policy had not been revived under this scheme before.

On revival under this scheme, there will be a new policy with the same plan and term as the original policy but with the following changes.

- The date of commencement is advanced by a period equal to the duration of lapse, but not more than two years. For example: If the original policy commenced on 1.10.1999 and had lapsed on 1.1.2001, on revival on 1.7.2002 (period of lapse being 1 year and 6 months), the new date of commencement will be 1.4.2001, 1 year and 6 months forward. If the revival was to be done on 1.4.2003 (period of lapse is 2 years 3 months), the new date will be 1.10.2001 (only two years forward), and not 1.1.2002.
- Premium is recalculated for the age corresponding to the date of commencement after revival.

The original policy is endorsed for changes in the date of commencement, age, premium, date of last installment of premium, and maturity date. The difference between the old premium and the new premium with interest thereon will have to be paid. The policyholder will be required to pay the endorsement fee. The revival consideration, in monetary terms, is quite low under the special revival scheme, as arrears of premium will not be paid for the entire period of lapse.

Under the **Installment Revival Scheme,** the policyholder will not be required to pay the full arrears but only six monthly premiums, two quarterly premiums, one half yearly premium or half of the yearly premium. The balance of the arrears will be spread over the remaining due dates in the policy year current on the date of revival, and two full policy years thereafter. A policy revived under this scheme will be endorsed to the effect that the assured will have to pay the enhanced premium for a fixed period. This scheme is made available if the policy cannot be revived under the special revival scheme, where the premium is outstanding for more than one year and no loan is outstanding.

Another scheme offered is **Loan-cum-Revival Scheme,** whereunder the arrears required for revival are advanced out of the surrender value of the policy as a loan under the policy. The policy will be revived immediately, and the loan will have to be repaid like any other loan under insurance polices. If the loan available under the policy is more than the amount required for revival, the excess may be paid to the policyholder, on request.

If the policy is a Money Back kind of plan, in which a survival payment is due, the said survival amount can be adjusted towards the outstanding dues for revival. This is the **Survival-cum-Revival Scheme**.

Conclusion

By taking a few proactive measures and ensuring that premiums are remitted in time, not only does the lapsation of life insurance policies get arrested but it would go a long way in furthering the larger interests of both the parties concerned viz., the life insured and the life insurer.

The author is a Retd. Sr. Officer, LIC of India.

Valuation of **Assets, Liabilities and Technical Provisions**

General Insurance

KARPAGAM SANKARANARAYANAN ASSERTS THAT ASSET LIABILITY MANAGEMENT BEING A FUNCTION OF VITAL IMPORTANCE, THERE MUST BE PRESET STANDARDS ACROSS THE GLOBE THAT WOULD ENSURE THAT INSURERS ARE NOT CONSTRAINED TO FACE HURDLES IN THEIR FUNCTIONING.

Valuation of assets and liabilities is crucial for asset liability management, cash flow, investment management and profitability of the insurance companies, as any mis-match and incorrect valuation would impact the balance sheet, profit and loss; and in turn would lead to excess or inadequate capital. Proper management is important for capital provisioning as under-capitalization will jeopardize the solvency of the insurer; and over provisioning, the profitability and competitiveness of the insurance enterprise.

Valuation of assets and liabilities is a complex issue and there are many methods and techniques of valuation depending on the purpose of valuation.

Valuation of Assets and liabilities is getting attention from the insurance supervisors because of its impact on maintaining the solvency of the insurance companies. In this regard, Solvency II, an EU initiative is working at designing a method for valuing insurance company's assets, liabilities and technical provisions such that capital requirements for the insurance companies could be arrived based on their risk potential. The recently released CEIOPS Quantitative Impact Study 4 (QIS4) is important from the perspective of valuation for solvency.

QIS 4 is a valuable guideline for insurance companies in estimating, managing and providing capital for conducting insurance business and currently is still under development and when implemented, would be binding on insurers in European Union.

This article discusses the valuation principles, guidelines and key findings of QIS4 on valuation of assets and liabilities and technical provisions as applicable to Non life insurance.

Valuation of Assets and Liabilities

The market, income, and cost approaches are generally accepted under fair value measurement method of valuation. Under the market approach, prices for market transactions for identical or comparable assets or liabilities are used. The income approach uses valuation techniques to discount future cash flows to a present value amount. The cost approach is based on the current replacement cost such as the cost to buy or build a substitute comparable asset after adjusting for obsolescence. Availability and reliability of data related to the asset or liability is a major factor in selection of method for valuation. The purpose of valuation which may be financial reporting, consolidation, Mergers & Acquisition, Initial Public Offer, Reorganization, Leverage buy out or sale may also impact the choice of the valuation method.

Proper management is important for capital provisioning as under-capitalization will jeopardize the solvency of the insurer; and over provisioning, the profitability and competitiveness of the insurance enterprise.

Generally, a single or multiple valuation technique may be needed based on the situation and a multiple valuation method would be used to value assets, liabilities and provisions.

QIS4 provides guidance on approach to valuation of assets and liabilities, technical provisioning and range of techniques for the best estimate valuation of technical provisions.

QIS4 on Assets and Liabilities valuation

The purpose of QIS4 is to specify the frameworks for valuation of assets, liabilities and technical provisions of insurance companies such that the required capital for maintaining solvency can be assessed. QIS4 proposes principle based valuation method for Assets and Liabilities.

The principles specified in QIS are:

- The assessment should be made using an economic, market-consistent valuation of all assets and liabilities
- Mark to market, mark to model, proxies and national accounting figure would be the valuation techniques to be used in that order. Where marking to model valuation technique is used it has to be benchmarked, extrapolated or otherwise calculated from a market input, in which case characteristics of model and inputs used should be specified.
- In the case of ring-fenced funds in place which separate part of the resources from the rest of the business, the calculation of the liabilities and assets for each ring-fenced fund should include all cash-flows in and out of that fund.
- For solvency purposes, the economic value of most intangible assets is considered to be nil or negligible, since they very rarely have a cashable value. Accordingly Goodwill, brand value and similar intangible assets are not valued in calculating solvency capital.
- Valuations can be based on accounting figures when the difference between economic value and accounting value is insignificant; and/or the cost of calculating economic value is uneconomical.

Assumptions

The QIS4 guidelines for any underlying assumption are as follows:

- Where no credible information is available, the assumption used should be realistic.
- Cash-flow projections should reflect expected demographic, legal, medical, technological, social or economic developments.
- Appropriate assumptions for future inflation should be built into the cash-flow projections. Care should be taken to identify the type of inflation to which particular cash-flows are exposed. For some cash-flows, the link may be to consumer prices, but there are other links such as salary inflation, which tends to exceed consumer price inflation.
- The inflation used in the calculations should be the market consistent base underlying inflation plus the necessary amount to reflect the specific features of the cost or cash-flows.

IFRS & Solvency II

International Financial Reporting Standard (IFRS) is the common accounting standard in Europe. It is expected that India will adopt IFRS as accounting standard by 2011. Solvency II framework accepts IFRS

Balance Sheet Item	Recommended Valuation and Solvency Adjustment for QIS4
Intangible Assets	
Goodwill on Acquisitions; and Intangible Assets	Valued at nil for solvency purposes.
Tangible Assets	
Property, Plant & Equipment	IAS 16 revaluation model as given below is accepted if valuation is recent. *Initial valuation* – At cost *Subsequent Valuation* – - cost model: cost less any depreciation and impairment loss; - revaluation model: fair value at date of revaluation less any depreciation or impairment In other cases using fair value at balance sheet date using economic value should be considered.
Inventories	IAS valuation of - at the lower of cost and net realisable value is acceptable.
Finance Leases	The treatment under IAS 17, to the extent that fair value and not the present value of the minimum lease payment is used, is considered an acceptable proxy for valuation on an economic value basis.
Investments	
Investment Property	IAS valuation basis of initially at cost; then either fair value model or cost model is an acceptable proxy.
Participants in subsidiaries, associates and joint ventures	Fair value treatment as in IAS 39.
Held to maturity Investments Loans and Receivables	Amortised cost.
Available for sale financial assets	Fair value with valuation through equity.
Financial assets at fair value though profit or loss	Fair value with valuation adjustment through profit and loss account.

Other Assets	
Non current assets held for sale or discontinued operations	The treatment under IFRS 5, to the extent that fair value and not the carrying amount is used, is considered an acceptable proxy for valuation on an economic value basis
Deferred tax assets	The treatment under IAS 12 is an acceptable proxy for valuation on an economic value basis. Participants are not required to include in their solvency balance-sheet a deferred tax item specifically related to the change in value of technical provisions arising from the move from Solvency I to Solvency II. However, in line with the economic approach underpinning Solvency II, all expected future cash-out and -in flows related to taxes applicable under the fiscal regime currently in force in each country should be recognized in the solvency balance-sheet. In particular, to the extent that a deferred tax item currently appears on the accounting balance-sheet in relation to technical provisions, this should be included in the QIS4 balance sheet.
Current Tax Assets	As under IAS 12 - Current tax assets are measured at the amount expected to be recovered.
Cash & Cash equivalents	Current tax assets are measured at the amount expected to be recovered.
Impairment	IAS 36 and IAS 39 to be applied where relevant
Provisions	Similar to IAS 37 where in the amount recognized is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.
Financial Liabilities	
Financial Liabilities at fair value though profit or loss	Fair value with valuation adjustments through profit and loss account.
Other Financial liabilities and amounts payable	All financial liabilities should be valued at fair value in accordance with the guidance provided in IAS 39 with no adjustment, where applicable, for own credit standing. If a different valuation basis is used, full explanation must be provided.
Other Liabilities	
Deferred Tax Liabilities	As in IAS 12, Deferred tax liabilities cannot be discounted and are measured at the tax rates expected to apply when the liability is settled and must be reviewed at each Balance Sheet date.Participants are not required to include in their solvency balance-sheet a deferred tax item specifically related to the change in value of technical provisions arising from the move from Solvency I to Solvency II. However, in line with the economic approach underpinning Solvency II, all expected future cash-out and -in flows related to taxes applicable under the fiscal regime currently in force in each country should be recognized in the solvency balance-sheet. In particular, to the extent that a deferred tax item currently appears on the accounting balance-sheet in relation to technical provisions, this should be included in the QIS4 balance sheet.
Current Tax Liabilities	Unpaid tax for current and prior periods is recognised as a liability. Current tax liabilities are measured at the amount expected to be paid
Employee benefits	
Short term employee benefits	As in IAS 19, Recognise undiscounted amount expected to be paid as a liability (accrued expense), after deducting any amount already paid.
Post employment benefits including pensions, Other Long Term employee benefits and Termination Benefits	As in IAS 19

standard as proxy for valuing many of the balance sheet items. CEIOPS has identified items where IFRS valuation rules might be considered consistent with economic valuation, and where necessary, adjustments to IFRS are proposed which are intended to bring the IFRS treatment closer to an economic valuation approach.

In all cases where IAS valuation is accepted for solvency purposes but the insurers use internal valuation model which is different, a suitable explanation is to be provided by the insurers.

Valuation of Technical Provisions

Technical provisions consist of premium and claims provisions; and are likely to be the biggest amount in balance sheet of insurers apart from investment. Fair Value of technical provision is imperative for arriving at the capital requirement and solvency of the insurer.

The technical provisions are established with respect to all obligations towards policyholders and beneficiaries of insurance contracts. The calculation of technical provision should be based on current exit value and should reflect the amount for which they could be transferred or settled.

The technical provision is equal to the sum of a best estimate and a risk margin where both are valued separately, with the exception of hedgeable (re)insurance obligations. Stress is on using current and credible information for calculation purposes.

For non-life direct insurance, the amounts of technical provisions should be indicated for each of the insurance categories

- Accident and health – workers' compensation
- Accident and health – health insurance
- Accident and health –others not included under first two items
- Motor, third-party liability
- Motor, other classes
- Marine, Aviation and Transport

- Fire and other property damage
- Third-party Liability
- Credit and Suretyship
- Legal expenses
- Assistance
- Miscellaneous non-life insurance

Proportional non-life reinsurance should be treated as direct insurance, i.e. it should be allocated to one of the 12 lines of business (LOBs) listed in the previous paragraph.

Non-proportional reinsurance shall be split into property, casualty and Marine, Aviation and Transport (MAT) business.

For those Non-life LOBs which have contracts similar to life insurance, participants should disclose separately the best estimate of liabilities similar in nature to 'standard' applicable non life principles and the best estimate of liabilities where life principles need to be used.

Techniques of Valuation

There are three techniques specified for technical provisions valuation –

- Best Estimate
- Simplified and
- Proxies.

Best Estimate

The best estimate method uses the time value of money, using the relevant risk-free interest rate term structure and is equal to the probability-weighted average of future cash-flows.

Insurers should use statistical methods compatible with current actuarial 'best practice' and should take into account all factors that might have a material impact on the expected future claims experience.

The principles behind Best Estimate valuation of technical provisions are:

- The calculation of technical provisions is based on their current exit value.
- The calculation of technical provisions shall make use of and be consistent with the information provided by the financial markets and generally available data on insurance technical risk.
- The technical provisions are established with respect to all obligations towards policyholders and beneficiaries of insurance contracts.
- The value of the technical provisions is equal to the sum of a best estimate and a risk margin.
- The calculation of best estimate should be based upon current and credible information and realistic assumptions and be performed using adequate actuarial methods and statistical techniques.
- The cash-flow projection used in the calculation of the best estimate should take into account all the cash in- and out-flows required to settle the obligations over their lifetime.
- The best estimate should be calculated gross, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles.
- The valuation of the best estimate for claims outstanding provisions and for premium provisions should generally be carried out separately. However, if such a separate treatment is not practical, valuation could be done together.
- Insurers should use statistical methods compatible with current actuarial 'best practice' and should take into account all factors that might have a material impact on the expected future claims experience. Typically, this will require the use of claims data on an occurrence/ accident year basis or an underwriting year basis for the run-off triangles.
- "Goodness-of-fit" tests should be applied to all statistical methods considered. The results from this analysis should be taken into account together with the estimate of future trends, the relevance of past data (particularly the inclusion of exceptional events) and other elements of actuarial judgment in determining the best estimate provisions.

Premiums provisions

Premium provisions substitute current unearned premium provisions and unexpired risk provisions. Premium provisions relate to the coverage period when the insurer provides the service of accepting and managing the risks to its policyholders. The calculation of the best estimate of the premium provision relates to all future claim payments arising from future events post the valuation date that will be insured under the insurer's existing policies that have not yet expired, administrative expenses and to all expected future premiums.

Premium provision is determined on a prospective basis taking into account the expected cash-in and cash-out flows and time value of money. The expected cash flows should be determined by applying appropriate methodologies and underlying models and using assumptions that are deemed to be realistic for the line of business or homogenous groups of risk.

Post-claims technical provisions

Post-claims technical provisions relate to the settlement period between claims being incurred and claims being settled. During the settlement period, the insurer is at risk due to uncertainties regarding the number of claims not yet reported

Where there is an unsure distinction between hedgeable and non-hedgeable cash-flows, or where market-consistent values cannot be derived; the non-hedgeable approach should be followed.

(IBNR claims), the stochastic nature of claim sizes and the timing of claim payments as well as uncertainties related to changes in the legal environment.

For short-tail claims, either the result of their individual valuation (case by case) or the result of sound statistical methods may be assumed as reasonable proxies of their best estimate, provided it is proved to be a consistent method by back testing.

For claims with significant uncertainty, in either timing or amount, generally long-tail claims; the best estimate should in principle be valued using relevant actuarial methods based on run-off triangles. To guarantee that the insurer controls both model and parameter errors, some general principles are suggested:

The best estimate should be assessed using at least two different methods that could be considered reliable and relevant. Judgment should then be used to choose the most appropriate method. A most appropriate method is a technique which is part of best practice and which captures the nature of the liability most adequately. If the available data do not offer a robust behaviour to be integrated directly into run-off triangles and treated through generally accepted actuarial methods, the participant will try to adjust the historical data using objective and verifiable criteria, maintaining in any case homogeneity of different series used. If this adjustment were not possible or reliable, a case by case assessment is preferable to the application of too heterogeneous methods or to inconsistent sets of data. However, if it is considered that the claims handlers consistently under or over estimate claims, this should be reflected in the overall best estimate provision.

Risk Margin, Reinsurance and Hedging

The risk margin is to ensure that the value of technical provisions is equivalent to the amount that (re)insurance undertakings would be expected to require to take over and meet the (re)insurance obligations. It is to be calculated by determining the cost of providing an amount of eligible own founds equal to the Solvency Capital Requirements necessary to support the insurance (re)obligations over their lifetime.

The (re)insurance obligations are split into "hedgeable" and "non-hedgeable". The valuation of the technical provisions should cover both hedgeable and non-hedgeable (re)insurance obligations. Where there is an unsure distinction between hedgeable and non-hedgeable cash-flows, or where market-consistent values cannot be derived; the non-hedgeable approach should be followed.

A cost-of-capital methodology should be used in the determination of the risk margin.

Under the cost-of-capital approach, the risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the insurance and/or reinsurance obligations over their lifetime. In order to do so, participants should produce a projection of their insurance and/or reinsurance obligations until their extinction and then, for each year, participants should determine the amount of the SCR to be met by an undertaking facing such obligations.

For the purpose of QIS4, participants are requested to perform their SCR calculations on the basis of the standard formula, when calculating the risk margin, even if it should be possible to use the output of an approved internal model to perform the SCR calculation under the future Solvency II framework.

Where the risk margin calculation is based on the standard formula, it should be calculated net of reinsurance. Where participants calculate the risk margin using an internal model, they can either perform one single net calculation or two separate calculations.

The risk modules that need to be taken into account in the cost-of-capital calculations are operational risk, underwriting risk with respect to existing business and counterparty default risk with respect to ceded reinsurance. The QIS4 framework provides detail for arriving at this risk and however is not discussed here as this is beyond the purview of this article.

Other Considerations

Insurance company's valuation differs due to inherent uncertainty in estimating its liabilities and assets. Discounting of cash flows, expenses, reinsurance recovery and default risk needs special attention.

Discounting

Cash-flows should be discounted at the risk-free discount rate applicable for the relevant maturity at the valuation date. These should be derived from the risk-free interest rate term structure at the valuation date. Where the financial market provides no data for a maturity, the interest rate should be interpolated or extrapolated in a suitable fashion.

To determine that alternative risk free interest rate term structure, a model which is close to the model used by the European Central Bank could be used. In Indian scenario this could be model used by RBI.

Expenses

Expenses that will have to be incurred in the future to service an insurance contract are cash flows for which a technical provision should be calculated. For the valuation, firms should make assumptions with respect to future expenses arising from commitments made on or prior to, the valuation date.

All future administrative costs, including investment management, commissions, claims expenses and an appropriate amount of overheads should be considered. Expense assumptions should include an allowance for future cost increases. These should take into account the types of cost involved. The allowance for inflation should be consistent with the economic assumptions made. For disability income and other similar types of business, claims expenses may be a significant factor.

To the extent that future deposits or renewal premiums are considered in the evaluation of best estimate, expenses relating to those future deposits and renewal premiums should usually be taken into consideration as well. Expenses related to the cash flows due to future premiums are excluded if the latter are excluded from the evaluation of the best estimate.

Firms should consider their own analysis of expenses, future business plans and any relevant market data. As an alternative to using the analysis of their own expenses and future business plans, a new company (with anticipated cost-overruns for an initial period) may consider the likely level of costs that would be incurred if the administration of existing policies were outsourced to a third party.

Whenever the present value of expected future contract loadings is taken as a starting point, any shortfall relative to future expenses that will have to be incurred in the future to service an insurance contract should be recognised as an additional liability (and the opposite).

Expense assumptions should include an allowance for future cost increases. These should take into account the types of cost involved.

Reinsurance Liabilities and Special Purpose Vehicle (SPV)s

The best estimate of the insurance liabilities of the insurers should be calculated gross of reinsurance contracts and SPV arrangements. The value of reinsurance recoverables should be adjusted in order to take account of expected losses due to counterparty default, whether this arises from insolvency, dispute or another reason.

In certain types of reinsurance, the timing of recoveries and that of direct payments might markedly diverge, and this should be taken into account when valuing reinsurance and SPV recoverables. Recoverables should also fully take into account cedents' deposits. In particular, if the deposit exceeds the best estimate claim on the reinsurer, the recoverable is negative.

Risk of counterparty default and Margin Assessment

As there is a possibility of default by counter party, the associated risk of default has to be calculated and appropriated/ provided for.

The counter part default assessment should be based on an assessment of the probability of default of the counterparty and average loss resulting from such a default (loss-given-default). The assessment should also take the duration of the reinsured liabilities into account. Credit spreads, rating judgements, information relating to the supervisory solvency assessment, and the financial reporting of the counterparty are some of the sources of information that could be used for assessing the risk. The assessment of the probability of default should take into account the fact that the probability increases with the time horizon of the assessment and the average probability should be assessed.

If no reliable estimate of the loss-given-default is available, 50% of the value of the amounts recoverable should be used. If no reliable estimate of the probability of default is available, the probability of default of the counterparty according to the default risk sub-module of the SCR standard formula should be used for a time horizon of one year.

As far as recoverables are covered by a collateral or a letter of credit, the probability of default of the collateral or the letter of credit occurring at the same time as the default of the counterparty, along with its loss-given-default may replace the probability of default and the loss-given-default of the counterparty.

The adjustment for expected loss should be calculated separately for each counterparty. However if the estimates of the probability of default and the loss-given-default of several counterparties coincide, no separate calculation is necessary under the simplified approach.

Future premiums from existing contracts

The cash flows included in the best

estimate of the (re)insurance liability should only include cash flows associated with the current insurance contracts and any existing ongoing obligation to service policyholders. This should not include expected future renewals that are not included within the current insurance contracts.

Recurring premiums should be included in the determination of future cash flows, with an assessment of the future persistency based on actual experience and anticipated future experience.

Where a contract includes options and guarantees that provide rights under which the policyholder can obtain a further contract on favourable terms (for example, renewal with restrictions on re-pricing or further underwriting) then these options or guarantees should be included in the valuation of the insurance liability arising under the existing contract. Where no such restrictions on re-pricing or underwriting exist, there is no ongoing obligation to service policyholders.

In particular, future premiums should be included in the determination of future cash flows when the payment of future premiums by the policyholder is legally enforceable or guaranteed amounts at settlement are fixed at subscription date.

Simplified Method

A simplified method uses actuarial methods and statistical techniques to calculate insurance liabilities and is appropriate in case the risk underwritten by insurance companies is not complex in risk and scope. Simplified method is advised in the case of following scenarios:

- Homogenous group of risk that is not complex
- The insured risks underwritten are stable and claims pay out could be predicted with great certainty or future claims related cash flow could be projected with greater accuracy.
- Liability valued is not material in absolute terms or relative to the overall amount of total best estimate
- This guidance on materiality is applicable with respect to all simplifications to determine the value of the best estimate and/or risk margin

Proxy Method

Proxy method can be used where there is insufficient company-specific data of appropriate quality to apply a reliable statistical actuarial method for the determination of the best estimate or when the calculation of an economic value is unjustifiable and impractical in terms of cost incurred and benefits derived.

Applied to Proxy	Claims provision	Premium provision	Discounting	Gross to net
Market development patterns	✓			✓
Average severity/frequency	✓		✓	✓
Bornhuetter-Ferguson	✓			✓
Case by case	✓		✓	✓
Expected loss		✓		✓
Simplified application of standard statistical techniques	✓			✓
Premium based		✓		
Claims handling costs	✓			

The following table specifies applicable actuarial and other proxy method for calculating various provisions.

It is possible that an insurance company may use any of the above methods to value its assets, liabilities and technical provision subject to the fact that consistency is maintained and wherever a deviation takes place, it should be ensured that the method is appropriate and explanation be provided.

To conclude, the global nature of insurance business and insurance companies has created a need, wherein the regulators across the globe are looking at convergence in accounting and reporting standards. With the emergence of IFRS as a possible global standard, it is expected that EU's initiative towards Solvency II could become accepted as a standard for valuation for Solvency Capital Requirements and Mandatory Capital Requirements calculation by regulators outside Europe also.

QIS4 framework provides guidance for valuing the Assets Liabilities and Technical Provisions of the Insurance Companies, considering the complexities involved in organization, funding model, lines of business, complexity of the products sold, portfolio strength, and reinsurance arrangements. It provides for co-existence of standard and internal models for valuation. The fact it is still evolving would mean that it might undergo some changes but it is hoped that the underlying principle would not change much. Insurance being a highly regulated business it is expected that testing capital adequacy for solvency purpose would be a prime method of valuation in addition to valuation conducted for any other purpose.

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"મેં કલેમના બધા જ દસ્તાવેજો મોકલ્યાને આજે ત્રણ અઠવાડિયા થયા છે... મને આશા છે કે તેઓ મને પૈસા જલદી મોકલશે."

" હા, ચોકકસ મોકલશે. બધા જ દસ્તાવેજો માગ્યા અનુસાર હોય તો તેમણે ૩૦ દિવસની અંદર જ કલેમનું સમાધાન કરવું જોઇએ. આ કાયદો છે ! "

ધ ઇન્શ્યૉરન્સ રેગ્યુલેટરી ઍન્ડ ડેવલપમેન્ટ ઑથોરિટી (આયઆરડીએ), જે ભારતમાં ઇન્શ્યૉરન્સ કંપનીઓની સુપરવાઇઝરી બૉડી છે તે પૉલિસી ધારકોના હિતોનું રક્ષણ કરે છે. આઇઆરડીએ દ્વારા નક્કી કરાયેલા કેટલાંક નિયમો અહીં નીચે આપવામાં આવ્યા છે :

- વીમા કંપની દ્વારા કોઇપણ કલેમ તે માટેના જરૂરી દસ્તાવેજો મળ્યાના ૩૦ દિવસની અંદર ઉચિત કારણો દર્શાવી ચુકવવો કે વિવાદાસ્પદ ઠેરવવો જરૂરી છે.
- વિમા કંપનીએ પ્રસ્તાવ સ્વીકાર્યાના ૩૦ દિવસની અંદર સંભાવિત પૉલિસી ધારકને પ્રસ્તાવ પત્રની પ્રત વિનામૂલ્ય પૂરી પાડવી જોઇએ.
- વીમા કંપનીએ પ્રસ્તાવ તેમને મળ્યાના ૧૫ દિવસની અંદર જ ચકાસીને તે અંગેનો નિર્ણય જણાવવાનો હોય છે.
- બધાજ જરૂરી દસ્તાવેજો રજૂ કરાયા પછી કલેમના સમાધાનમાં વિલંબ થવા પર વીમા કંપની વ્યાજની નિર્ધારિત રકમ ચૂકવવા જવાબદાર ગણાશે.
- જીવન વીમા પૉલિસીધારક પૉલિસી રદ કરવા ૧૫ દિવસના 'ફ્રી લૂક પીરિયડ' (પૉલિસી મળ્યાની તારીખથી) માટે હકદાર છે.
- વીમા કંપનીએ તેના પૉલિસીધારક તરફથી કોઇપણ પત્રવ્યવહારનો પ્રત્યુત્તર તે મળ્યાના ૧૦ દિવસની અંદર આપવો જરૂરી છે.

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• प्रकाशक का संदेश

भारत में बीमा व्यवसाय के उदारिकरण के परिणामस्वरुप, जीवन बीमा में उर्ध्वाधर प्रगति हुई है जिन्होने सभी अच्छी भविष्य वाणियों को सकते में डाल दिया है, यह स्वस्थ परिपाटी नये जीवन व्यवसाय को प्राप्त करने में देखी गई है लेकिन बीमा रख पाने की क्षमता में यह वृद्धि नहीं देखी गई है। जीवन बीमा के समझौते प्रकृति से लम्बे समय के होते हैं तथा उत्पाद का डिजाइन यह समझ कर बनाया जाता है कि चुनी गई अवधि में यह उत्पाद सतत जारी रहेगा। नये व्यवसाय को प्राप्त करने की लागत बहुत अधिक है इस तथ्य के साथ की वितरण के लिए दिया जाने वाले परितोषिक प्रारम्भिक वर्षों में अपने उच्चतम स्तर पर होता है। यह सभी अनुमान जीवन बीमा कर्ता के लिए हानि का सबब बनाते हैं यदि समझौता पुरे समय नहीं चलता। व्यवसाय आर्थिक रूप से गैर व्यवसायिक होने के साथ पालसी का बीच में ही समाप्त होना बीमाकर्ता की छवि को भी खराब करता है।

पालसी धारक के लिए भी समझौते को जारी न रख पाने की अलफलता भारी होने में परिवर्तित होती है, यदि कोई समर्पण मूल्य हो उसके बावजूद भी। जीवन बीमा को लेने का मुख्य कारण - रोजी-रोटी कमाने में एक सुरक्षा जाल के रूप में कार्य करता है। जब स्वयं इसे मार पडेगी तो यह निर्भर रहने वालों को यतीम बना सकता है। यदि बीमा समझौते के दोनों दल हानि में रहने वाले हो तो यह असत्य सा नहीं होगा की पालसी का कालित होना उच्च प्रतिशत में होगा। कालित पालसीयों के बारे में अलग अलग बीमाकर्ताओं की अपनी व्यवसाय है तथा इसमें एकात्मकता की कभी है। विभिन्न बीमा कर्ताओं के मध्य अर्थपूर्ण तुलना तथा स्थिति का विश्लेषण, एक अच्छी समझ सभी पालसीयों के बारे में देगा जहां देय दिनांक के एक माह बाद भी प्रीमियम का भुगतान नहीं किया गया।

पहला तथा सबसे महत्वपूर्ण कारण पालसी धारक द्वारा अपने वचन बद्धता पर न रुकना मोह भंग होना है। बहुत से पालसी धारक इस निष्कर्ष पर पहुंचते हैं कि उनकी आवश्यकताओं की पूर्ती नहीं हुई है पालसी की अवधि में तथा वह भविष्य की प्रीमियम किश्ते देना बंद कर देते हैं। ऐसी स्थिति के लिए कोई भी एक कारक अलग से एक स्थिति के लिए उत्तरदायी नहीं हो सकता। वितरण कर्ता के लिए इस सम्बन्ध में एक बड़ी भूमिका निभाने की जरूरत है। यह जोर देना होगा की भविष्य के लिए ठीक आवश्यकतों की पहचान के बाद जरूरत के आधार पर विक्रय बड़ी पालसी कालित होने की अनुपात को जीवन बीमाकर्ता के लिए कम करेगा। जीवन बीमाकर्ता के ऐसी परिपाटियों को अपने वितरण के लिए व्यवसाय प्रारंभ करने समय रखता होगा। इसके लिए पालसी धारकों के लिए जागरुकता फैलाने की आवश्यकता भी है।

''जीवन बीमा समझौता में कालित'' जर्नल के इस अंक के केन्द्र बिन्दु में हैं। घटना के घटित होने के समय धनराशी दिये जाने के वचन के बावजुद दावों को रद् करना अभी भी जीवन व्यवसाय के बीमा में है। बीमा में दावों को निरस्त करना जर्नल के अगले अंक के केन्द्र बिन्दु में होगा।

जे. हरि नारायण
अध्यक्ष

दृष्टि कोण

उच्च प्रबन्धकों को विस्तृत जोखिमों के जोखिम का अनुभव होना चाहिये। यह कहना आसान लेकिन करना कठिन है। जबकि जोखिम प्रबन्धन विशेषता एक कम मात्रा से उपलब्ध वस्तू है - विशेष रुप से यहाँ एशिया में।

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श्री जे हरि नारायण
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वृद्धि की प्रक्रिया को आगे बढ़ाने के लिए बाहरी क्षेत्र तो महत्वपूर्ण है ही घरेलू क्षेत्र का अधिक प्रभाव है। इसके अतिरिक्त सेवा क्षेत्र वृद्धि के स्त्रोत के लिए अधिक महत्वपूर्ण हो गया है।

डा. जेटी अक्तर अजीज
गवर्नर, बैंक निगारा, मलेशिया

जब हम आगे की चुनौतिया तथा अवसरों पर परिचर्या करते हैं मैं यह समझता हुँ कि विनियामक तथा उद्योग के लिए एक निकटवर्ति साझेदारी करना जरूरी है। विनियामक के लिए एक मुख्य उद्देश्य एक अच्छा विनियामक वातावरण प्रदान करना है जिससे मजबूत प्रतिस्पर्धा को बढाया तथा प्रोत्साहित किया जा सके।

श्री यून जियून-हून
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एक सुपरवाइजर के रूप में हमें अपने वचन को साथ रखना है जैसा की उद्योग के लिए जरुरी है, जिससे यह सुनिश्चित किया जा सके कि हमारी स्मृति में पाठ जुड जाए तथा उस पर कार्यवाही की जाए।

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यदि किसी को यह स्वीकार करना है कि जोखिम के संसार का विस्तार हो रहा है तथा जोखिम की प्रकृति में परिवर्तन हो रहा है। यह स्वयं व्यापित है कि ग्राहक अधिक जोखिम संवेदन हो गए है। कई बीमाकर्ताओं की जोखिम प्रबन्धन के सम्बन्ध में अधिक तक पूर्वक दृष्टिकोण है तथा वह अपने जोखिम को समझने के लिए अधिक भागेदारी रखते है।

औसत लागत तथा संभावना को जोखिम के द्वारा कम करने का दबाव बढ़ रहा है यह भी दबाव है कि जोखिम के विस्तार को रोका जाए। दायित्व हार के लिए निवारण के कदम उठाने के लिए वैद्यानिक रूप से बाध्यकारी है। स्पष्टीकरण तथा लेखा परिक्षा के सम्बन्ध में सरकार की तरफ से अधिक दबाव है यह मानक - आधार तथा विक्रय प्रणाली के द्वारा भारत में उच्च स्थान बना चुका है। अस्थिरता की स्थिति में आवरण के नये नियम सामने आये है वह है भारतीय बीमाकर्ता का ध्यान इस और खिचा जाना की ग्राहक की अभिवृद्धि को परिभाषित किया जाए जबकि ग्राहकों द्वारा सर्वत्र रूप से दर कम करने की माँग हो। यह लेन देन की स्थिति होगी तथा एक तरफ की नहीं जैसे की हो रहा है।

जोखिम प्रबन्धन का एक आयाम यह भी है कि एक क्षमता था योग्यता को सीमित किया जाए की वह जानबुझ कर अथवा बिना जानबुझ कर ऐसे बड़ी हानियों को न कर पाये। किसी भी समय किसी व्यक्ति के व्यवहार को जानना कठिन कार्य है। जो प्रणाली का प्रयोग नियोक्ता को नुकसान पहूँचाने के लिए कर सकता है। आतंकवाद जोखिम के सम्बन्ध में वित्तिय हेराफेरी जैसा की सोसीट गेनरेल आई एल जी बेयरिग के मामले में हुआ सह प्राथमिक संकट इत्यादि तथा अनिश्चित के नये क्षेत्र। अंतध्वंस अन्य जोखिम है। सांख्यकी तथा अन्य बीमांकक दृष्टिकोण काफी नहीं है ठीक प्रकार के जोखिम प्रबन्धन के लिए। किसी बीमाकर्ता पर निगमित शासी का प्रभाव तथा उसका मूल्यांकन जोखिम नियंत्रण के संदर्भ में जोखिम प्रबन्धन का एक तत्व है जिसकी समीक्षा बीमाकर्ता को करनी चाहिये।

> बीमाकर्ताओं को यह दबाव है कि वे अब बाजार मूल्य-बनाने वाले नहीं है। वह अब अधिक से अधिक मूल्य प्राप्त करने वाले हो रहे हैं।

जोखिम प्रबन्धन अब सजातीय जोखिम का प्रबन्धन नहीं रहा है, जिनकी दर निर्धारित की जाए। एक ऐसा संसार जो अधिक से अधिक महत्वपूर्ण भूमिका निभा रहे है प्रणाली की अपेक्षा जिसकी ये विषय वस्तु है - धन्यवाद आई टी - अब यह प्रश्न जोखिम से बरताव करने का है एकल रूप में। जोखिम से जोखिम तथा प्रत्येक व्यक्ति जो जोखिम सखता है। जोखिम को एकत्र करना तथा उसका एकलिकरण करना उसी समय में भविष्य के पैटने जोखिम स्वीकार्य के बनाना। जोखिम का चुनाव तथा जोखिम को विभेद करना एक कसौटी बन गया है।

जोखिम निरीक्षण परिदृश्य से माँगी गई सूचना परिदृश्य तथा प्रकटीकरण तथा गोपनियता के साथ आती है। ऐसी सुचना को आचार निति के साथ निपटाया जाना चाहिये बीमाकर्ता के द्वारा जोखिम प्रबन्धन की संयुक्त उत्तरदायित्व जोखिम की बडी प्राकृति के व्यारण बीयाकृत तथा बीमाकर्ता के मध्य होना चाहिये तथा बीमाकर्ता को विकसित किया जाना चहिये तथा उसका प्रतिबंध नये समझौतो में दिखाई देना चाहिये।

बीमाकर्ता की भूमिका

बीमाकर्ताओं को यह दबाव है कि वे अब बाजार मूल्य-बनाने वाले नहीं है। वह अब अधिक से अधिक मूल्य प्राप्त करने वाले हो रहे हैं। यह बाजार है जो मूल्य का निर्धारण करती है,

> बीमाकर्ता को डाटाबेस तैयार करना होगा जिससे बड़े जोखिम प्रतिपादकों को अपने व्यवसाय प्रोफाइल में शामिल कर सके।

बीमाकर्ता को केवल आवरण शर्ते निर्धारित करने के लिए छोड़ देती है। एक प्रतिस्पर्धात्मक बीमा संसार में यह आवरण तथा शर्त है - जो काफी हद तक जोखिम प्रबन्धन है - यह अब बीमाकर्ता के स्वयं के काफी हद तक निमंत्रण में है। निष्कर्ष के नियन्त्रण पर अवसर जिससे वह परस्पर स्वीकार्य हो सके तथा उपयोग हो? जोखिम प्रबन्धक प्रक्रिया उसके बाद को आज्ञाकारी परिवर्तन बनाये यदि भारतीय बीमाकर्ताओं को मूल्य के बातचीत में अपनी बात सखनी थी। जोखिम प्रबन्धन बातचीत बाजार के बचे रहने के लिए जकरी है।

जोखिम पर सूचना बढते हुए रूप में अन्य आर्थिक एजेंटों पर फैल रही है - जैसे बैंक मोटर निर्माणकर्ता तथा वित्तिय प्रदाक्ष करने वाले परिणामस्वरूप अधिक से अधिक कोमर्शियल बैंक बाजार में प्रवेश कर रहे हैं। आबद्ध ग्राहक आधार के साथ। किराया खरीद वित्तदाता भी रुचि दिखा रहे हैं। परिस्पर्धात्मक प्रतिवाद जब ग्राहक सभी के साथ नये आयाम बाजार विकास के लिए कर रहे है। कोई नयी शताब्दी में कैसे नए बाजार को प्रबन्धन कर सकता है? कैसे बीमाकर्ता बदलते हुए व्यवहार पैटर्न जो ग्राहक है तथा अपने अंशधारकों के है वह कम पर ज्यादा चाहते है?

डाटाबेस तैयार करना

बीमाकर्ता को डाटाबेस तैयार करना होगा जिससे बड़े जोखिम प्रतिपादकों को अपने व्यवसाय प्रोफाइल में शामिल कर सके। जिस प्रकार के जोखिम प्रबन्धन प्रतिपादक जोकि प्रत्येक बड़े जोखिम प्रतिपादक के लिए है वह एक दूसरे के विरुध है। बीमाकर्ता की वर्तमान परिपाटि को आवश्यक रूप से परिक्षज करना चाहिये जितना अधिक अनुपालन प्रत्येक अवस्था में आवश्यक हो। इसी प्रकार को डाटाबेस जो दावे के घटित होने पर प्रतिपादित होता है वह बीमा लेखक के पास बीमाकर्ता के रूप में उपलब्ध होना चाहिये, दुर्घटना का कारण, हानि का सीमा, निवारक उपाय जो सुझाये गये उनको सूची बद्ध सव्य जाना चाहिये प्रत्येक दावे के अनुसार इससे बीमलेखक यह निर्धारित कर सकेगा कि किस प्रकार का पैकेज उसके लिए बनाया चाहिये। ऐसा करने के उपरान्त न्यूनतम तथा अधिकतम दर का सुझाव दिया जाना चाहिये। उस स्तर के अनुसार जिस पर बीमा कृत ने अनुपालन किया है तथा वारंटी लगायी गई है। फिर बीमकर्ता के पास बहुविकल्प उपलब्ध होगे फिर उसे विभिन्न पैकेज पर निर्णय लेना होगा जो दर पर उसके बंधन के साथ उपलब्ध होगी, तथा केवल एक मूल्य पर नहीं तथा उसके लिए बीमाकर्ता से किसी कटौती की आवश्यकता नहीं है।

अन्तिम शब्द

जोखिम का संसार तथा बीमाकर्ता को स्वर्ग - तेजी से बढ़ रहा है जो सतत् वृद्धि सुनिश्चित करता है। बाजार में प्रिमियम क्षमता की। लेकिन ग्राहक पर उनकी पकड़ तथा छवि, ज्यादा सूचना के कारण ढीली पडी है, जानकारी तथा स्त्रोत को बीमाकर्ता द्वारा अपनाये जाते थे वह बाद में भी थे। व्यवहार के पैटर्न जोखिम से सम्बन्धित विकास परंपरागत जोखिम के लिए भी सफल हो रहा है। जोखिम को पूल करने की अवधारणा जिससे इनेक जोखिम की दर निर्धारित की जा सके एक अपर्याप्त औजार में बदल रहा है जब यह भविष्य की बीमा लेखन के साथ आता है।

एकल जोखिम के बदलते परिवेश के कारण, जब वह अंतरसम्बन्ध तथा स्वतन्त्र हो पूल जोखिम सत्र कम से कम प्रतिनिधित्व करने वाला हो जाता है। जोखिम भेदभाव, जोखिम प्रबन्धन में भी पूल जोखिम को अधिक खंगलने की आवश्यकता है।

बीमा एक सिद्धांत के रूप में सामने आया था जिसमे सजातिय समुदाय के आपस में बाँटना था लेकिन यह अब जटिल हो चला है। एकल रूप से समुदाय से लोग अलग है वह अपने जोखिम तथा जोखिम प्रबन्धन व्यवहार में भी अलग है। अब दो अलग बीमित समुदाय एक तरफ नहीं की जा सकती जैसे पहले होता था। लेकिन यह अब अधिक परस्पर अन्तरिमसंम्बन्ध है। जब प्रणाली व्यक्तियों पर निर्भर है।

समय की माँग है कि बीमाकर्ता को नये दृष्टिकोण को विकसित करना हो तथा जोखिम प्रबन्धक के द्वारा न केवल वर्तमान जोखिम से निपटना होगा वरन संसार में जो नये जोखिम सामने आ रहे है उन्हे भी देखना होगा। क्या इसमें इससे निपटने की तकनीकी क्षमता है यह लाख टके का प्रश्न है।

लेखक भूतपूर्व सीएमडी, ओरियन्टल इंशूरेंस क.लि.

भारत में पर्याप्त हैल्थ बीमा का विकास - अन्तर्राष्ट्रीय अनुभव से सबक

आर. कृष्णमूर्ति तथा गेल एडमस कहते हैं कि हैल्थ बीमा उद्योग का एक गुंजन शब्द बन गया है।

तीन वर्ष पूर्व आईआरडीए द्वारा तीन नीति परिवर्तन की घोषणा के साथ ही भारत के हैल्थ बीमा क्षेत्र में हल्का विस्फोट हुआ जिसने इसके मजबुत संकेत भेजे की विनियामक की भूमिका विकास की भी है।

पहले : आईआरडीए द्वारा स्थापित की गई समिति द्वारा हैल्थ बीमा की परीक्षा करना जिसने मजबुती से उन विनियजनों को बताया जो इस क्षेत्र में युद्ध प्रचलित है साथ ही एक आवाज कम पूँजी तथा सोल्वेस आवश्यकताओं की प्रति।

दूसरा : हैल्थ बीमा के धीमी गति से प्रारंभ को लेकर तथा दृष्टिकोण से की व्याप्त व्यवसायियों के मध्य प्रतिस्पर्धा उत्पत्र की जाए। विनियामक ने यह अनुमति दी है कि जीवन बीमाकार्ता शुद्ध हैल्थ बीमा उत्पादों को बिना मृत्यु लाभ आवरण के प्रस्तुत करें। यह एक बड़ा परिवर्तन जीवन बीमाकर्ताओं के लिए था जो की बहुत से हैल्थ बीमा राइडर प्रस्तुत कर रहे थे जो कि उच्च दर पर रखे गये थे तथा बहुत कम बेचे जा रहे थे। इसने हैल्थ बीमा क्षेत्र में प्रभावशाली रूप से दृष्टि डालना प्रारंभ किया।

तृतीय : वितरण के क्षेत्र में विनियामक नं. विशेष अवसर खोला एकल हैल्थ बीमा उत्पादों को के साथा। हैल्थ बीमा कंपनियों को जीवन तथा गैर जीवन वितरण के लिए अनुज्ञा प्राप्त एजेंटो की सेवा को लेने की अनुमति प्रदान की गई इसके अतिरिक्त की वह अपनी जगह स्वयं मजबूत कर सके। इसके द्वारा नई पीढी के हैल्थ बीमाकर्ताओं को बड़े पैमाने पर वितरण के चैनल का दोहन करने तथा जनसंख्या के सभी वर्गो को हैल्थ बीमा उत्पाद वहन योग्य मूल्य पर उपलब्ध करवाने का अवसर दिया गया।

आवश्यक परिवर्तन तथा अतिरिक्त कर - समर्थन प्रोत्साहन जिनकी धोषणा हाल ही में की गई है। हैल्थ बीमा उद्योग का एक गुंजन शब्द बन गया है। दोनों उत्पादों में एक प्रसारण तथा उसकी आपूर्ति, जिसके साथ सतत प्रिमियम वृद्धि के परिणाम स्वरूप (कुछ समय मनोहर) न आने वाले समय के लिए अपेक्षाएँ दी है।

> भारत के बीमाकर्ता धीरे-धीरे विश्व के उत्पादों के लक्षण तथा प्रबंधन प्रणाली को अपना रहे हैं। जबकि सफलता के लिए इससे अधिक की जरूरत है।

भारत के हैल्थ निधिकर्ता तथा प्रस्तुतिकर्ता के पास प्राप्त करने के लिए एक बहुमूल्य अवसर है उछलने का प्रभाव। अगले 10-20 वर्ष बाद भारतीय स्वास्थ्य बीमा बाजार किस प्रकार का दिखेगा यह इस पर निर्भर करेगा की अगले 5 वर्षों में कैसा उभर आता है।

बुद्धिमत कार्य से अब अर्थ होगा कि बड़ी सफलता, उच्च स्तर की हैल्थ डिलिवरी तथा वित्तिय बाजार जो मूल रूप से सामाजिक संपत्तियो तथा अच्छी व्यवसाय अवसरों से भरा होगा। विरोधाभास में गलत चुनाव जो अब लिए जायेगें वे छोटी व अप्रभावि बीमा बाजार में बदल जायेगा अव्यवहार्य उत्पाद तथा एक बुरा तथा अप्रभावी हैल्थ केयर प्रणाली।

वर्तमान दशा

भारत के बीमाकर्ता धीरे-धीरे विश्व के उत्पादों के लक्षण तथा प्रबंधन प्रणाली को अपना रहे हैं। जबकि सफलता के लिए इससे अधिक की जरूरत है। यह कुछ रूप से इसलिए है क्योंकि प्रत्येक हैल्थ केयर बाजार की अपनी विशेषताएं तथा उत्प्रेरक होते है तथा अधिकांश देशों के द्वारा हैल्थ बीमा के सभी तत्वों को देखा नही जाता है।

बहुत से विदेशी प्रथाएँ बीमाकर्ता के रूप में यह दर्शाती है विशेष इतिहास परंपरागत कारक साथ ही विशेष विनियामक बाध्यता तथा देश की मूल्य प्रणाली। यहाँ तक कि छोटे तथा एक से दिखने वाले देश जहां पर एक से उत्पाद तथा प्रथाएँ होती है। वहाँ भी बड़ा भेदभाव मेडिकल

> अधिकांश बीमा कंपनियों में हैल्थ बीमा के मामले में वरिष्ट प्रबंधक के ध्यान का आधार अलग- अलग होता है तथा विशेषता भी बहुत हद तक अलग होती है।

क्षतिपूर्ति अनुभव में है तथा क्षेत्रों के बीच मनोवृत्ति में भी। साथ ही पिछे रह गयी हैल्थ डिलिवरी प्रणाली मूल भूत परिवर्तनों के फैलाव की तरफ है।

नये बीमा उत्पाद जो भारत में पेश किये जा रहे है वह छोटे मेडिकल लाभो जैसे मेडिकैड के रूप में विशेष खर्च के लिए है जो जीवन शैली / आय के समर्थन से उत्पाद दूर है जैसे गंभीर बीमारी अथवा असमर्थता आय उत्पाद। बहुत से उत्पादों का संबंद विश्व की प्रथाओं पर आधारित है तथा उन्हें अलग-अलग सफलता मिली है।

अधिकांश बीमा कंपनियों में हैल्थ बीमा के मामले में वरिष्ट प्रबंधक के ध्यान का आधार अलग-अलग होता है तथा विशेषता भी बहुत हद तक अलग होती है। इसने बड़ी असमकपना को परिपाटयो, मानको तथा उत्पाद की विशेषताओं को यहाँ तक की काफी हद तक उस समुह के दूसरे अत्पादों के लिए भी आयाम दिये है। जैसा की ऐसी युवा तथा व्याप्त बाजार से अपेक्षा की जा सकती है। यह मजबूती तथा अनुपालन की योग्यता तथा प्रबंधन इन प्रोत्साहनों के लिए भिन्न थे जो प्रदर्शित करते थे अलग-अलग मूल प्रतिस्पर्धा, अनुभव, आन्तरिक योग्यता तथा स्त्रोत। हैल्थ बीमा को व्यक्तिगत आधार पर विस्तार देने के लिए प्रोत्साहन कारको को अधिकांश व्यवसायिक द्वारा का परिणाम प्रारांभिक समस्याओं तथा हित धारको के मध्य तनाव के रूप में सामने आया।

उदाहरण : बढता हुआ बाजार अशान्ति का वातावरण क्योकि बीमाकृत यह स्त्रोत है कि उनकी व्याप्त स्थिति को आवरण नही प्रदान किया। कुछ हैल्य राड़डर पर 50% कमी नवीकरण के समय दर्ज की गई है तथा बीमाकर्ता पर लंबे समय के दावों की संमाव्यता को बहुत कम आंका जा सकता है। और यह बढता जा रहा है हैल्थ प्रणाली के विकास के साथ ही।

जोखिम प्रबंन्धन के मूल मामले

बड़े पैमाने पर उत्पाद जिन्हे हैल्थ बीमा समझा जाता है। यह ठीक ही होगा कि एक कार्यक्षेत्र का विचार किया जाए जिसके अन्दर इन पर विचार हो सके। एक कार्यक्षेत्र उत्पादन का कारण क्या है क्या वह इसलिए बना है कि (1) एक विशेष प्रकार का खर्च जिसका लक्ष्य छोरे लाभ लेना है। अथवा (2) आर्थिक साधारण आय। जीवन शैली को समर्थन देना (जिसका लक्ष्य बड़े असत् लाभ उठाना नही है)।

जिस प्रकार लाभ को अदा किया जाता है उसका विभाजन भी महत्वपूर्ण है उदाहरण : क्या एक मुश्त। गंभीर बीमारी, मेडिकल क्षतिपूर्ति) कई अस्पतालों के नकद उत्पाद) लाभ कारण तथा प्रकार का उत्पाद प्रबंधन बीमा लेखन पर प्रभावशाली प्रभाव होता है जो वितरण तथा दावा प्रबंधन पर भी होता है। यह विशेषताए तथा उत्पादो का प्रबंधन अन्ततः उससे कुछ हद तक अलग होती है उसकी अपेक्षा जो जीवन शैली / आय का समर्थन अन्ततः बताता है।

बीमांकन प्रबंधक के दृष्किोण से बहुत बड़ा पर्क है मैडिकल क्षतिपूर्ति तथा असक्षमता आय को जिसका प्रभाव उत्पाद प्रबंधन पर भी पड़ता है जिसमें शामिल है।

- किसी बीमाकृत गतिविधि की अवधारणा : यह अधिक स्पष्ट नही है तथा अपने प्रभाव को समय के साथ बदल सकता है जिसकी तुलना माल की टोकरी से बदली जा सकती है।

  उदाहरण : कुछ समय से एक्स रे के अनुपात में खुले हृदय की शेल्प चिकित्सा कम हुई है जबकि एमआरआई तथा एंजियोग्राम बढ गया है यह मोटर बीमा से अलग है जहॉ चोरी हुये रेडियो कैसेट प्लेयर को बदला नही जाता है नये तकनिक के डीवीडी राइड सिस्टम द्वारा जीवन बीमा में मृत्यु की संकल्पना अच्छी तरह परिभाषित है।

  यह संभव है जब दावा अनुभव अधिक स्थिर हो क्योकि लाभ आधारित है मेडिकल प्रैक्टिस के पैटने पर जो समय पर बदलता है और कुछ हद तक सप्लाई तथा आपूर्ति को प्रभावित भी करता है। नये इलाज नियमित रूप से सामने आते है तथा प्राइवेट हैल्थकेयर क्षमता को तथा बीमित घटना की बारंबारता को बदलते है। ऐसी बढोत्तरी बीमित जनसंख्य के लिए बुरे दिन लाती है।

- एक चंचल तथा प्रभावशाली दावा प्रसार प्रवृत्तिः जीवन बीमा का अनुभव धीरे-धीरे समय के साथ अच्छा होगा जवकि अस्पताल तथा मेडिकल के आधार पर उत्पाद का विषय बड़े स्तार पर अनुभव के परिवर्तन पर होता है दावे वर्ष में 15 प्रतिशत से अधिक वर्ष में बढ सकते है तथा लम्बे समय का जारी रहने वाली वृद्धि कई देशों में देखी गई है।

  दावों का रूझन थोड़ा मुद्रा स्फीती से तथा हैल्थ लागत से प्रभावित है। यह पालसी धारको के लिए यह समझा कठिन बना देता है की दरों में बढोत्तरी क्यो हुई, आम तौर से लोगों में यह दृष्टिकोण होता है कि बीमकार्ता लाभ कमा रहे हैं।

  चंचलता का उत्पाद के डिजाइन पर काफी प्रभाव पडता है तथा ग्राहक से सम्प्रेषण पर भी। बीमाकर्ता को प्रिमियम गारंटी के बारे में

भी सतर्क रहना चाहिए कि वह क्या देने को तैयार है। उत्पाद की लाभशीलता को कम से कम वार्षिक रूप से मूल्यांकन किया जाना चाहिए और कुछ बार तथा एक ऐसा अनुभव देती है जो ग्राहक से मददगार प्रकार का होता है।

जहाँ प्रिमियम गांरटी होती है, काफी देख रेख की जरूरत है जबकि लम्बे समय का जोखिम उठाया जाए इसका अनुपालन आवश्यक पूँजी सालवेसी के लिए तथा पर्याप्त प्राप्तियों के लिए अंशधारक: के प्रति होता है। अन्य बाजारो में बीमाकर्ता कई बार ध्यान योग्य हानियों को प्रिमियम गांरटी तथा उसके बाद बढते हुए बिना अनुमान के उच्च स्तर पर दावे होते है।

- कई ग्राहकों की यह अवधारणा की क्या वास्तव में बीमाकर्ता रहेगा भी। यह एक तथ्य है कि बीमाकृत जब एक पालसी लेता है तो बीमाकृत की घटना घटित होगी यह इसलिए है कि प्रतिपूर्ती का आधार मेडिकल खर्चों का होना है न की घटना का न होना। एक ग्राहक जो दर्द से पीडित है वह एक खर्चिली प्रक्रिया का अपनायेगा यदि उसकी लागत का वहन बीमा द्वारा किया जा रहा है वह ऐसा नही कोगें यदि अन्हें अपने परिवार की बचत को प्रक्रिया में लगाना पडे। एक ग्राहक के मरने की बाखारता कम भी क्योकी वे जीवन भीमा पालसी लेते थे (स्वयं को नुकसान तथा बीमा लेखन एक तरफ)

- छोटे दावों की अधिकता : मेडिकल दावा क्षतिपूर्ति की अलग-अलग आकार तथा बारमवारता के उत्पाद प्रबन्धन पर प्रभावशाली प्रभाव होंगे, विशेष रूपसे दावों के लिए, बीमांकक तथा प्रचलन के लिए। संस्थाओ के लिए विशेष रूप से प्रभावशाली तथा समय बद्ध कार्यालय दावा देय प्रणाली लाती दोगी। इसी प्रकार का दावा साईज कई बार यह अर्थ देता है, बीमा करता जब अपना दावा दाखिल करेगा तो उसमें काफी देरी महिनो की देरी होगी। इसलिए यह महत्वपूर्ण हो जाता है कि बीमांकक एक गंभीर तकनीक का प्रयोग बचे रह गये दावों के अनुमान अथवा अनुमान से परे के दावों के लिए प्रिमियम में बदलाव के लिए करें।

  दावों का समय से भुगतान न हो पाना ग्राहकों की संतुष्टि में कई बार सामने आता है, बुरी प्रेस तथा बीमाकर्ता की खराब वित्तिय स्थिति के बारे में अफवाह नुकसान पहुँचाती है। अच्छी दावा सेवा आम तौर से बड़ी प्रतिस्पर्धा का बिन्दु है।

- किसी जोखिमकार की लागत के जानकारी में कमी के कारण दावों पर प्रभाव :

  उदाहरण : जीवन पर उच्च वक्त चाप के प्रभाव की जानकारी हमे है लेकिन यह प्रभाव मेडिकल लागत पर कब और कैसे पड़ेगा। साथ ही संबंध सेहत स्थिति जैसे अस्थमा का बहुत कम प्रभाव होगी मृत्यु दर पर लेकिन उसकी वार्षिक दवाओं का खर्च हैल्थ बीमा प्रिमियम के अनुपात में होगा। इसके परिणामस्वरूप बीमाकर्ता प्रय: इस पर निर्भर करते है कि यह अपवर्जन हो न कि अतिरिक्त प्रिमियम लगायें जब अलग-अलग जोखिम प्रोफाइल की बात जाती है। इसका ध्यान रखा जाना चाहिए कि विदेश के बीमा लेखन पर अधिक निर्भरता न रहे क्योंकि विशेष परिस्थिति का असर अलग-अलग देशों में अलग-अलग होता है।

  जीवन बीमा कंपनिया हैल्थ बीमा क्षेत्र में प्रवेश करती है वह इसे प्रोत्साहित करेगें की जीवन बीमा लेखन को कुछ कारक जो ठीक नही पड़ते जहा ज्यादा निर्भरता स्वयं के प्रकटीकरण पर हो दावा करना, उत्पाद के स्तर पर अपवर्जन तथा पूर्ण प्रतिक्षा की अवधि। हैल्थ बीमा में बीमाकर्ता को जोखिम की अधिक विषम जानकारी से साक्षात्कार होता है।

- ठीक प्रकार से प्रबंधन किये जाने वाले डाटा प्रबंधन की हैल्थ व्यवसाय में आवश्यकता है। जनसंख्या बीमा कर्ता के लिए कम संबंध रखता है उसके अनुभवों के लिए है उसके अनुभवों के लिए है मृत्यु दर केवल एक दावे को निर्धारित करने करने वाला कारक है जब मेडिकल व्यवहार दावे के लिए अधिक महत्वपूर्ण अनुभव बन जाता है। जिस हद तक डाटा को एकत्र किया जाता है तथा इसके विशलेछण की क्षमता अधिक तयी कंपनियों में शैशव है। हैल्थ इंशुरेंस में प्रणाली का विश्लेषण एक जटील तथा कठिनाई से जान जाने का मुद्दा है।

ठीक प्रकार से प्रबंधन किये जाने वाले डाटा प्रबंधन की हैल्थ व्यवसाय में आवश्यकता है।

भारत का ग्राहक से मित्रता वाले उत्पाद चाहिए ।

बीमा के सभी प्रकारों की तरह, यह आवश्यक है कि हैल्थ बीमा क्षेत्र में भी अच्छी कार्य निष्पादन दिखाया जाए आधार जिन्हे विशेष प्रोत्साहन की आवश्यकता है उसमें शामिल है मजबूत उत्पाद डिजइन, प्रभावशाली तथा उचित दावा निपटान प्रबंधन, पर्याप्त वितरण मजबूत बीमांकन तथा वित्तिय नियंत्रण तथा प्रभावशाली बीमा लेखन।

मूल रूप से भारत को आवश्यरता है ऐसे सरल उत्पाद की जिनके लाभ स्पष्ट रूप से पालिसी धारक को ज्ञात होने चाहिए। ग्राहकों की असंतृष्टि का मुख्य कारण बुरे प्रेस तथा विनिमयों के बुरे करने के लिये मेडिकल बीमा आवरण के क्षेत्र की जानकारी न होना है।

> अच्छा रहने के कार्यक्रम में एक भावी जोखिम भी है यह मेडिकल खर्च को बढा दें विशेष रूप छोटे समय के लिए।

हालकि प्रत्यक्ष समांतर नही है, किसी को भी भारत में युनिट लिंक निवेश योजनाओं तथा अन्य के बीच एक तुलना का विभिन्न बाजारों में महत्व होता है। जो कि पिछले कुछ वर्षो में हुआ है। एक जटिल व्यूह रचना उत्पादों की तथा उनकी डिजाइन जो कि कुछ ही पॉलिसी धारक समझ पाते है, नियमित रूप से गलत विक्रय की रिपोर्ट तथा खराब ग्राहक प्रबंधक एक आवश्यकता है कि ऐसे गलतियों को न किया जाए नये हैल्थ बीमा क्षेत्र में।

कंपनियों को व्यवहारिक अनुपालन आवरण के लिए एक या दो वाक्यों में सरल अंग्रेजी (तथा स्थानीय भाषाओं में) परिभाषित करना चाहिए और उसे यह अनुमति नही होनी चाहिए कि वह छिपा रहे अनगिनत आन्तरिक सीमाओं के बीच अथवा मेडिकल शब्दावली के मध्य।

यह महत्वपूर्ण है कि दावा नियंत्रण तथा समाज के लिए कि उत्पाद डिजाइन मेडिकल प्रयासो तथा उनके उपयोग को प्रोत्साहित करें। अच्छी प्रकार से डिजाइन किये गये जोखिम बाटने की विशेषताओं जैसे सहदाता - अधिक्य तथा सह अंश मूल्यववान तथा मजबूत औजार है। प्रदान करने वाले समुह के साथ लाभ बॉटने का समझौता उपयोगी हो सकता है निपुणता प्राप्त करने के लिए।

अच्छे रहने के संबंध में प्रोत्साहन

हेल्थ बीना बाजार के पहले स्तर पर भारत के बीमाकर्ताओ को ऐसे उत्पाद डिजइन करने चाहिए जो समझदारी की हैल्थ केयर ड़ेलिवरी को सुनिश्चित करे सके और जहॉ संभव हो बचाव भी।

उपचार अथवा अच्छे रहने के तत्व उत्पाद में पहले आकर्षक होगें विपणण तथा दावों के अनुभव के दृष्टिकोण से भी। काफी चर्चा विदेशी बाजार की कई अच्छे रहने वाले प्रोत्साहनों के संबंध में हुई है जिसने मूल हैल्थ बीमा आवरण को फैलाया है। यह फैले है हैल्थ स्क्रीनिंग, वार्षिक स्वास्थ्य जॉच, रोग प्रबंधन कार्यक्रम तथा मेडिकल सेविंग खाते तक।

यह संबंधित है कि अच्छे सेहत के प्रोत्साहन विदेशों में परिपक्व बाजार में कई कारणों से प्रछलित है जैसे :

- दावा सागत को कम करने हुए प्रिमियम को कम करने की इच्छा।
- पालिसी धारक की इस इच्छा के प्रति जवाब देने के वह अपनी पालसी का जब भी उपयोग करना चाहै जबकि वह बीमार नही भी है उसे इसकी अच्छी सेहत / जीवन शैली के लिए इनाम दिया जाना चाहिए।
- एक चतुर विशेषण हूक के रूप में इसको उत्पादो के विक्रय बढाने में उपयोग किया जाना चाहिए।
- बीमाकर्ता को सार्वजनिक दावे सुधारने के लिए ऐसा बाताना की उसकी देखभाल की जाती है।

कुछ पहल सर्वत्र सफल रही है और कुछ अन्य सफल नही है। इसके पीछे के कारण कई है तथा उन्हें भारतीय संदर्भ में लागू नही किया जा सकता। अधिक जटिल पहल रोग प्रबंधन कार्यक्रम है जिसे आम तौर पर परिपक्व बाजारों में उतारा जाता है।

बींमांकाक के दृष्टिकोण से बीमाकर्ता को चाहिए कि वे विशेषता की लागत पर ध्यान दे जो बीमा उत्पादो को अच्छे रहने के लिए प्रबंधन करने में लगाती है। यह संदर्भ रूप से सस्ता तथा आसान है कि वार्षिक मेडिकस चैकअप अथवा नवीकरण के समय कम दांव पर बट्टा दिया जाए। इसी समय अच्छे रहने के पहले लम्बे समय की पालसीयों में जोखिम कम करने के औजार के रूप में है तथा उसका अनुपालना कठिन है, जिसके लिए बड़े स्त्रोत चाहिए। उदाहरण : एक कार्डियक केयर कार्यक्रम की प्रतिस्थापना तथा प्रबंधक प्रभावशाली औजार के रूप में।

यह महत्वपूर्ण है कि ऐसी पहल का कुल प्रभाव जोखिम प्रिमियम पर देखा जाए नये व्यवसाय परिमाण, ग्राहक वहनता तथा दावा लागत।

मूल प्रश्न यह है कि क्या अच्छे रहने का कार्यक्रम इसको न्यायसंगत बानाता है की प्रबन्धन के विकास आंतरिक रूप से किया जाए तथा इस प्रवृत को आगे लोने के लिए व्यवसाय का कारण केवल विपणन वाला है या प्रिमियम को कम करके लाभ को बढाने वाला है।

अच्छा रहने के कार्यक्रम में एक भावी जोखिम भी है यह मेडिकल खर्च को बढा दें विशेष रूप छोटे समय के लिए। बीमाकर्ता को यह देखना चाहिए भाविष्य के दावो के लिए आपेक्षित अच्छी स्वास्थ की गारंटी कर सकती है अपेक्षकृत छोटे समय के लिए। उदाहरण दो प्रकार की रोग प्रबंधन पहल जो गंभीर बीमारी अस्थमा तथा हृदय रोग के कार्यक्रम 10 वर्ष को बचत को प्रारंभिक लागत को पुरा करने के लिए ले सकते है। जबकि कुछ अस्थमा कार्यक्रम दो वर्षो में ही टुट जाते है।

कुछ बीमाकर्ताओं ने कम अथवा कोई दावा नही बट्टा के गुस्ताख नीति के चलते साधारण पालसी धारक की उस इच्छा के दिया जहा पालिसी का मूल्य एक पुरस्कार के रूप में स्वास्थ्य रहने के लिए मिल सके जो कि एक गंभीर पहल है।

लेखक भारत के उल्लासी हैल्थ बीमा क्षेत्र में बीमांकक तथा व्यवसाय की प्रथाओं की परीक्षा करते हैं।

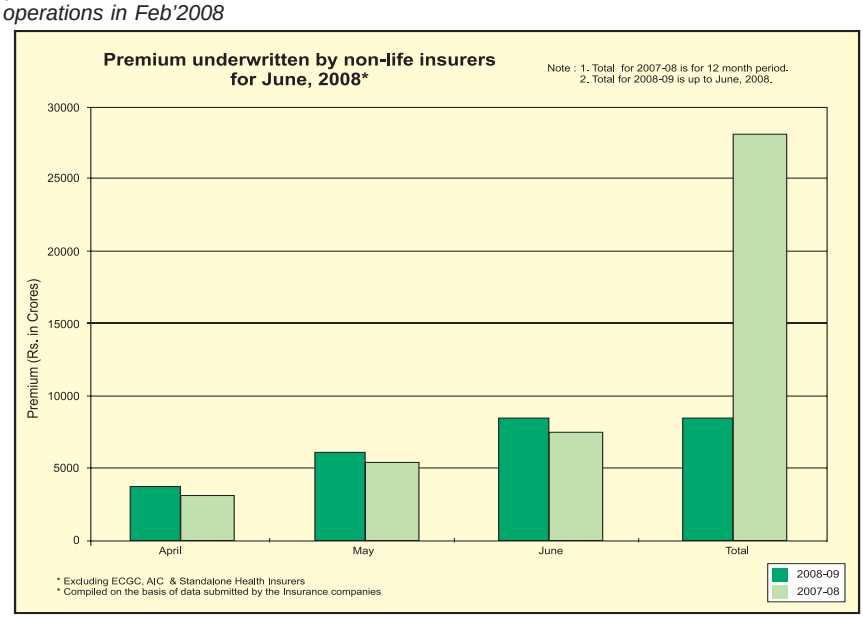
Report Card: General

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

(Rs.in Crores)

INSURER	JUNE		APRIL - JUNE		GROWTH OVER THE CORRESPONDING PERIOD OF PREVIOUS YEAR
	2008-09	2007-08	2008-09	2007-08	
Royal Sundaram	59.46	50.76	190.51	168.13	13.31
Tata-AIG	66.63	53.28	288.68	225.32	28.12
Reliance General	130.22	166.18	556.44	529.05	5.18
IFFCO-Tokio	139.85	102.01	414.18	310.07	33.58
ICICI-lombard	276.28	235.72	1077.12	886.65	21.48
Bajaj Allianz	224.69	183.06	733.53	573.73	27.85
HDFC ERGO General	21.03	17.35	52.25	52.01	0.46
Cholamandalam	52.93	38.20	200.35	147.93	35.44
Future Generali*	8.26	0.00	27.81	0.00	0.00
Universal Sompo**	0.73	0.00	0.91	0.00	0.00
New India	445.53	412.41	1535.63	1444.05	6.34
National	354.59	324.35	1174.13	1048.66	11.96
United India	316.49	271.99	1113.25	1002.73	11.02
Oriental	340.49	306.04	1072.42	1049.76	2.16
PRIVATE TOTAL	980.08	846.56	3541.78	2892.89	22.43
PUBLIC TOTAL	1457.10	1314.79	4895.43	4545.20	7.71
GRAND TOTAL	2437.17	2161.35	8437.22	7438.09	13.43
SPECIALISED INSTITUTIONS					
Credit Insurance					
ECGC	60.11	50.31	164.70	88.09	86.98
Health Insurance					
Star Health & Allied Insurance	62.07	1.53	124.75	36.83	238.74
Apollo DKV*	1.51	0.00	6.95	0.00	0.00
Health Total	63.58	1.53	131.70	36.83	238.74
Agriculture Insurance					
AIC	12.81	31.26	53.55	78.39	-31.69

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



On 14th July 2008, Institute of Insurance and Risk Management (IIRM) organized a formal inauguration of the academic year 2008-09 for the students admitted to the 5th batch of the one-year Post-Graduate Diploma Courses in Insurance and Risk Management; and 2nd batch of the two-year P G Course in Actuarial Sciences.

Mr. Vepa Kamesam, Managing Director, IIRM welcoming Mr. J. Hari Narayan, Chairman of IRDA and IIRM.

Mr. J. Hari Narayan addressing the students of IIRM.

07 - 08 Aug 2008 Venue: New Delhi	**Fostering Quality Healthcare for All** By *FICCI, New Delhi.*
11 - 13 Aug 2008 Venue: Pune	**Programme on Marketing Strategies (Life)** By *National Insurance Academy, Pune.*
18 - 19 Aug 2008 Venue: Pune	**Symposium on Risk Management** By *National Insurance Academy, Pune.*
21 - 23 Aug 2008 Venue: Pune	**Programme on Frontline Marketing Strategies** By *National Insurance Academy, Pune.*
26 - 27 Aug 2008 Venue: Bangalore	**Globalization of Finance - Capturing New Growth Markets** By *India Retail Banking & Insurance Forum*
29 - 30 Aug 2008 Venue: Mumbai	**Seminar on Current Issues in Life Assurance (CILA)** By *Institute of Actuaries of India*
21 - 23 Sep 2008 Venue: Shanghai, China	**9th China Rendezvous 2008** By *Asia Insurance Review, Singapore.*
22 - 23 Sep 2008 Venue: Pune	**CD Deshmukh Seminar on Balance Score Card for Life Insurance Industry** By *National Insurance Academy, Pune.*
24 - 25 Sep 2008 Venue: Shanghai, China	**4th Insurance Executives' Summit on Technology** By *Asia Insurance Review, Singapore.*

RNI No: APBIL/2002/9589

view point

Senior management should comprise people with experience in a broad range of risks. Indeed this is easier said than done with risk management expertise being a scarce commodity, especially so here in Asia.

Ms Teo Swee Lian
Deputy Managi ng Director, Prudential Supervision,
Monetary Authority of Singapore

The underlying purpose of allowing an insurer to determine its MCR (minimum capital requirement) based on its internal model is to have capital requirements that better reflect the nature and extent of risks in the insurer's particular business structure and business mix.

Mr John Trowbridge
Member, Australian Prudential Regulation Authority

While protection of policy-holders' interest is paramount to the regulator always, we will also ensure the spread of insurance in rural and health sectors.

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

While the external sector remains important, domestic demand now has a more significant role in driving the growth process. In addition, the services sector has become a more important source of growth.

Dr Zeti Akhtar Aziz
Governor, Bank Negara Malayasia

As we debate the opportunities and challenges ahead, I believe it is essential for both regulators and the industry to forge a close partnership. For regulators, one key objective is to provide a balanced regulatory environment so as to improve and promote sound competition.

Mr Yoon Jeung-Hyun
Chairman, Financial Supervisory Commission, Korea

As supervisors, we must retain our resolve, as must the industry; to ensure that the lessons are ingrained in our memories and acted upon.

Ms Julie Dickson
Federal Superintendent of Financial Institutions, Canada