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July 2009

Risk Based Capital -
Better Management for Better Results

बीमा विनियामक और विकास प्राधिकरण

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From the Publisher

Insurance business is one of making promises; and ensuring that the promises made are kept. Failure to live up to the expectations of the policyholders, especially after they have been fulfilling their side of the commitment for a long time, could lead to disastrous results for the reputations of insurers. History has amply demonstrated that such failures have eventually led to the insurers going out of business. In order that insurers do not face such a situation, it is primarily very important that they are well-capitalized.

The current solvency regime in the Indian insurance industry is simple and does not distinguish a risky portfolio from a not-so-risky one. There have not been any major issues with regard to the solvency requirements of the insurers, nor an occasion for the supervisors to intervene and take stock. However, it has always been felt that such a conventional system may not be sustainable in the long run as it entails setting aside huge capital that could be deployed more efficiently, thereby leading to higher profitability. Towards this end, several advanced markets have moved towards Risk Based Capital system or Solvency II capital norms; and it would be desirable for the Indian insurance industry to move towards the global practices in due course.

Risk Based Capital regime considers the assessment of risk in different classes of business on the liabilities side as well as on the assets side; and as such, it requires a robust, wide and deep database. The accuracy of the assessment of any type of risk would ultimately depend upon the quality of the database. In its absence, the assessment of risk could be largely subjective and to that extent and for that reason not particularly reliable. Unfortunately, this is one area in which the Indian domain is not very strong presently; and it calls for strong contribution — both on the part of the players as well as supervisors, if we were to implement RBC successfully in the near future. There is no denying the fact that the task on hand — for the players as well as the regulator, is enormous. But considering the fact that the attempt is to move towards global standards on one hand and also target better efficiencies in the utilization of the capital on the other, let us resolve to ensure total implementation.

'Risk Based Capital in the Indian Insurance Industry' is the focus of this issue of the **Journal**. Although there are no two opinions about the fact that the bottom line for any business is profit, there are 'best practices' of business through which to achieve it. The focus of the next issue of the **Journal** will be on 'Best Practices in Insurance'.

J. Hari Narayan

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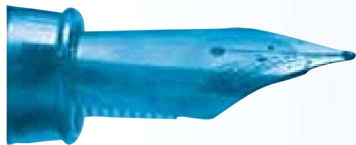

Drawing a Road-map to Higher Efficiency

The basic requirement for running a business is to ensure that the capital is large enough to withstand any eventuality. The importance of this has always been given top priority by the regulators of financial services world over. Reviewing the existing norms and analyzing the solvencies of the players is an exercise that has been one of the key functions for supervisors. In the Indian domain, the reforms in capital adequacy of banks a few years ago brought in a huge momentum in this area.

The present standards of solvency in the insurance industry are simple and are related to the total quantum of business that the insurers transact. The requirements do not take into consideration the type of business done or the risk associated with different types of commitments. While there is nothing wrong with such a plain vanilla type of solvency requirement, it is felt that, going forward, we should move towards better efficiencies of capital deployment; as also attain global standards of management. Risk Based Capital (RBC) has been adopted by several markets, mostly developed ones, over a period of time; and a benchmark has been set for the others to follow.

In order that we draw a clear road map for achieving RBC norms in due course, it is important for us to look at various models that have been designed in different domains. However, it should be realized that it may not be easy to adopt the methods of more complicated models for obvious reasons. It would make better sense to understand a model that is closely aligned to our styles of business; and to adopt the practices in a time-bound manner. For this to happen, there is need for identifying proper resources, training them properly and follow up the work done progressively to ensure that the new regime can be implemented. Apart from the industry players and the supervisors, the involvement of academia and industry experts should also be enlisted.

'Risk Based Capital in the Insurance Industry' is the focus of this issue of the **Journal.** We open the issue with an article by Mr. Alam Singh in which he narrates the importance of a collaborative approach by the industry and the regulator, in attaining reasonable success in our moving towards adopting RBC regime. The next article which is by Mr. Ashvin Parekh goes into the details of different types of risks that life insurers confront; and how RBC can provide workable answers to such challenges. The experiences of a domain that has adopted RBC norms are the crux of the next article that is written by Mr. Brett Ward. The actuarial team at IRDA represented by Mr. S.P. Chakraborty and Ms. J. Anita takes a look at the current practices of solvency for insurers in the Indian domain; and the hard work associated with adopting the RBC norms.

Agriculture Insurance is gaining more and more popularity progressively, as it should. The nuances associated with this niche insurance segment are discussed in the second part of the Research Paper by Mr. P.C. James and Ms. Reshmy Nair. We have two articles in the Thinking Cap section, the first of which is by Mr. G. Rajasekaran in which he discusses the risk management strategies for individuals and the corporates alike. The last in the series of articles in this issue is by Dr. G. Gopalakrishna in which he talks about the importance of micro-insurance, an area that we keep visiting often. We take a look at the top line of life and non-life insurers during the first two months of this fiscal, through our regular page of business statistics.

In light of the several corporate debacles globally, and even at home, more recently; there is a great deal of emphasis on the practices of business entities while dealing with their customers. 'Best Practices in Insurance' 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 May, 2009

Sl No.	Insurer	Premium u/w (Rs. in Crores)			No. of Policies / Schemes			No. of lives covered under Group Schemes		
		May, 09	Up to May, 09	Up to May, 08	May, 09	Up to May, 09	Up to May, 08	May, 09	Up to May, 09	Up to May, 08
1	**Bajaj Allianz**									
	Individual Single Premium	19.16	23.98	36.77	5267	8087	9317			
	Individual Non-Single Premium	147.18	234.60	436.01	119981	196089	293899			
	Group Single Premium	2.61	3.69	0.37	1	2	0	501	684	629
	Group Non-Single Premium	8.71	78.58	12.66	46	80	80	907554	1049199	434664
2	**ING Vysya**									
	Individual Single Premium	0.68	1.08	6.09	99	171	776			
	Individual Non-Single Premium	35.31	72.08	75.81	19062	40942	40871			
	Group Single Premium	0.79	1.35	2.11	0	0	0	292	520	419
	Group Non-Single Premium	0.06	0.08	0.33	0	0	15	681	902	3684
3	**Reliance Life**									
	Individual Single Premium	8.58	8.83	90.00	2249	2804	23453			
	Individual Non-Single Premium	128.35	216.60	238.75	138275	230556	148052			
	Group Single Premium	10.08	28.90	22.83	1	1	3	47	76	14411
	Group Non-Single Premium	2.73	6.19	2.74	38	97	55	164755	224064	107561
4	**SBI Life**									
	Individual Single Premium	21.00	31.99	95.09	4323	6294	13078			
	Individual Non-Single Premium	170.55	279.27	282.24	53616	87933	82427			
	Group Single Premium	17.45	30.34	30.01	0	0	0	8838	23048	16396
	Group Non-Single Premium	114.68	442.34	139.00	18	22	12	108462	147066	221485
5	**Tata AIG**									
	Individual Single Premium	1.19	3.03	9.64	294	918	2107			
	Individual Non-Single Premium	64.49	107.95	149.68	42441	91405	101483			
	Group Single Premium	1.13	2.76	8.73	1	1	1	2615	4607	34308
	Group Non-Single Premium	3.29	5.61	20.76	8	16	17	9965	20987	35449
6	**HDFC Standard**									
	Individual Single Premium	8.19	15.77	20.31	1459	2655	12933			
	Individual Non-Single Premium	124.31	196.08	241.19	47978	78982	82020			
	Group Single Premium	1.55	20.98	19.75	25	35	32	12449	64906	52656
	Group Non-Single Premium	0.87	1.03	6.65	0	0	1	64	225	12171
7	**ICICI Prudential**									
	Individual Single Premium	14.28	22.87	45.93	1277	2299	8312			
	Individual Non-Single Premium	190.72	282.59	698.76	108756	223655	402477			
	Group Single Premium	11.09	29.30	59.97	46	113	81	113113	165741	86995
	Group Non-Single Premium	131.63	148.78	147.10	61	189	213	71598	224386	319952
8	**Birla Sunlife**									
	Individual Single Premium	4.32	8.27	5.87	11603	18869	20824			
	Individual Non-Single Premium	121.60	183.36	247.81	111521	178788	73601			
	Group Single Premium	0.04	0.09	0.36	0	0	0	18	46	1555
	Group Non-Single Premium	33.61	50.79	6.17	13	34	15	54469	68707	14222
9	**Aviva**									
	Individual Single Premium	7.07	12.41	3.12	807	1921	470			
	Individual Non-Single Premium	37.81	61.64	99.94	14737	24568	44234			
	Group Single Premium	0.00	0.00	0.01	0	0	0	0	0	51
	Group Non-Single Premium	1.53	4.93	3.83	8	12	13	14262	147118	53802
10	**Kotak Mahindra Old Mutual**									
	Individual Single Premium	0.98	1.29	3.63	120	172	438			
	Individual Non-Single Premium	39.94	64.96	122.98	17654	27197	62291			
	Group Single Premium	2.64	3.42	2.85	0	0	1	7894	10747	18470
	Group Non-Single Premium	5.50	8.68	6.14	67	109	78	70852	97855	827640
11	**Max New York**									
	Individual Single Premium	16.94	36.01	43.89	759	2306	3305			
	Individual Non-Single Premium	114.51	239.08	254.64	72384	153236	184677			
	Group Single Premium	0.02	0.05	0.11	2	6	5	549	206232	1257
	Group Non-Single Premium	1.21	2.73	13.01	84	195	101	112216	205792	329620

12	**Met Life**									
	Individual Single Premium	0.49	0.53	0.64	56	79	143			
	Individual Non-Single Premium	47.96	62.72	121.67	17715	22812	27954			
	Group Single Premium	0.00	0.00	2.42	0	0	12	0	0	36757
	Group Non-Single Premium	1.72	12.22	0.00	20	36	0	23993	68473	0
13	**Sahara Life**									
	Individual Single Premium	1.71	2.66	4.62	518	806	1201			
	Individual Non-Single Premium	4.63	6.80	8.73	4957	7245	9902			
	Group Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
	Group Non-Single Premium	2.74	4.38	0.00	0	0	1	344842	554412	27
14	**Shriram Life**									
	Individual Single Premium	3.89	5.52	33.46	687	933	5428			
	Individual Non-Single Premium	15.77	29.73	21.76	10415	18289	10643			
	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	0.26	0.48	1.01	35	59	303			
	Individual Non-Single Premium	22.74	39.30	23.06	11337	19482	17360			
	Group Single Premium	1.01	2.50	0.98	1	2	1	1038	2458	352
	Group Non-Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
16	**Future Generali Life**									
	Individual Single Premium	0.58	0.84	0.01	99	145	1			
	Individual Non-Single Premium	15.37	22.60	0.68	14162	20686	1878			
	Group Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
	Group Non-Single Premium	2.47	5.98	0.99	12	20	7	45764	70397	14995
17	**IDBI Fortis Life**									
	Individual Single Premium	7.99	12.64	8.92	1047	1792	1208			
	Individual Non-Single Premium	12.11	22.05	5.86	3760	6848	2570			
	Group Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
	Group Non-Single Premium	0.00	0.01	0.00	0	2	0	2727	5230	0
18	**Canara HSBC OBC Life**									
	Individual Single Premium	0.36	0.76		26	54				
	Individual Non-Single Premium	29.96	75.45		2713	7619				
	Group Single Premium	0.00	0.00		0	0		0	0	
	Group Non-Single Premium	0.00	0.00		0	0		0	0	
19	**Aegon Religare**									
	Individual Single Premium	0.05	0.12		7	16				
	Individual Non-Single Premium	4.89	6.78		1877	2669				
	Group Single Premium	0.00	0.00		0	0		0	0	
	Group Non-Single Premium	0.00	0.00		0	0		0	0	
20	**DLF Pramerica**									
	Individual Single Premium	0.00	0.00		0	0				
	Individual Non-Single Premium	1.14	2.17		790	1576				
	Group Single Premium	0.00	0.00		0	0		0	0	
	Group Non-Single Premium	0.00	0.00		0	0		0	0	
21	**Star Union Dai-ichi @**									
	Individual Single Premium	1.22	2.61		198	447				
	Individual Non-Single Premium	3.22	5.92		1246	2412				
	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	118.92	191.69	408.98	30930	50827	103297			
	Individual Non-Single Premium	1332.57	2211.75	3029.55	815377	1442989	1586339			
	Group Single Premium	48.42	123.38	150.50	77	160	136	147354	479065	264256
	Group Non-Single Premium	310.75	772.32	359.38	375	812	608	1932204	2884813	2375272
22	**LIC**									
	Individual Single Premium	774.28	1201.18	1099.16	199743	322389	240544			
	Individual Non-Single Premium	1374.35	2130.94	1898.00	1711512	2983085	2496540			
	Group Single Premium	1093.18	2022.80	1173.71	1206	1993	1645	1038765	1990944	1588529
	Group Non-Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
	Grand Total									
	Individual Single Premium	893.20	1392.87	1508.14	230673	373216	343841			
	Individual Non-Single Premium	2706.92	4342.69	4927.56	2526889	4426074	4082879			
	Group Single Premium	1141.60	2146.18	1324.20	1283	2153	1781	1186119	2470009	1852785
	Group Non-Single Premium	310.75	772.32	359.38	375	812	608	1932204	2884813	2375272

Note: 1. Cumulative premium / No.of policies up to the month is net of cancellations which may occur during the free look period.
2. Compiled on the basis of data submitted by the Insurance companies.
3. @ Started operations in February, 2009.

CIRCULAR

15th May, 2009

No.007/IRDA/Motor-TP/May-09

Direction under Section 34 of the Insurance Act

To

All General Insurers,

Sub: Indian Motor Third Party Insurance Pool – Administration Fees

Reference is drawn to para 8 of the Direction of the Authority No. 035/IRDA/Motor-TP/Dec-06 dated 4th December 2006, wherein it is directed that the GIC, as pool administrator shall be paid a fee of 2.5% of the total premium on motor third party insurance business in respect of the business underwritten for the pooled account.

The Authority after consultation with the Committee constituted under Section 110G of the Insurance Act, hereby directs that **with effect from 1st April 2009**, the fee payable under para 8 of the direction No. 035/IRDA/Motor-TP/Dec-06 dated 4th December 2006 shall be **1.25%** of the total premium on motor third party insurance business in respect of the business underwritten for the pooled account.

The other terms and conditions of the said direction remain unaltered.

sd/-
(J. Hari Narayan)
Chairman

Copy to:

1. General Insurance Corporation of India
2. General Insurance Council

CIRCULAR

25th May 2009

CIR/011/3/IRDA/Health/SN/09-10

To

CEOs of all General Insurance Companies

Sub: Health Insurance for Senior Citizens

Under the provisions of section 14 (1) and (2)(b) of the Insurance Regulatory and Development Authority Act, 1999, and in pursuance of the recommendations of various committees and working groups constituted by the Authority, the Authority issues the following instructions on health insurance for senior citizens:

1. All health insurance products filed hereafter must allow entry at least till 65 years of age. Also, any differences in product specifications for different age groups or for different entry ages must be clearly spelled out upfront in the prospectus and policy documents.
2. Any proposal for health insurance of senior citizens, which are denied on any grounds, should be made in writing with reasons furnished and recorded. Such reasons should stand the scrutiny of reasonableness and fairness.
3. The premium charged for health insurance products catering to the needs of senior citizens should be fair, justified, transparent and duly disclosed upfront. The details of any loading charged must also be made available to the insured.
4. Insurers should devise mechanisms to reward policyholders for early entry and continued renewals with the same insurer.
5. Where TPAs are used by insurers, policyholders shall be given an option to seek a change of TPA which could be exercised 30 days before the renewal date of the policy, and such changed TPA would be allocated by the insurer from amongst TPAs empanelled by the insurer for this purpose.
6. Each instance of delay in issue of identity cards to policyholders beyond 30 days from issue of policy may entail a penalty being levied on the concerned insurer.
7. All health insurance policies must enclose an annexure briefly describing in simple language the coverage and the key terms and conditions of the policy.
8. Insurers will ensure data collation and timely compliance to providing the product-wise reports as and when required by the Authority, providing information on the number of persons insured, claims data, distribution, claim settlement etc.

9. Insurers will reimburse at least 50% of the cost incurred by the insured in pre-insurance medical examination, in cases where the risk is accepted. In addition, insurers will also enlist (or empanel, as the case may be) government medical institutions from which such pre-insurance reports will be accepted by them. Where the risk is accepted, copies of such medical examination reports should also be made available to the insured if requested for.
10. Insurers will ensure adequate dissemination of product information on all their health insurance products in their websites. The information shall include a description of the product, and copies of the prospectus, proposal and policy clauses.
11. Insurers will individually and collectively work towards evolving mechanisms for action against medical establishments, TPAs and policyholders guilty of making or supporting fraudulent claims and for sharing of such information among themselves.

This circular shall take effect for all policies issued or renewed on or after 1st of July, 2009. All general insurance companies are advised to ensure due compliance with the provisions contained in the circular as any failure to do so would render them liable to appropriate action under the provisions of IRDA Act, 1999, the Insurance Act, 1938 and the regulations framed thereunder.

(J. Hari Narayan)
Chairman

PRESS RELEASE

May 28, 2008

Corporate Governance for Insurance Companies — Exposure Draft

Corporate Governance is understood as a system of financial and other controls in a corporate entity and broadly defines the relationship between the Board of Directors, Senior Management and Shareholders. The Corporate Governance framework clearly defines the roles and responsibilities and accountability within an organization with in-built checks and balances. In case of listed companies, the stipulations in this regard are contained in Clause 49 of the Listing Agreement.

In case of Insurance Companies, IRDA has been entrusted with the regulatory responsibility to protect the interests of the policyholders and accordingly would like to ensure that appropriate governance practices are in place in the insurance companies for maintenance of solvency, sound long-term investment policy and assumption of underwriting risks on a prudential basis, particularly as the insurance companies are yet to be listed. The IRDA has outlined in general terms, governance responsibilities of the Board in the management of the insurance functions under various Regulations notified by it covering different operational areas. It has now been decided to put them together and to issue comprehensive guidelines on Corporate Governance for adoption by Indian insurance companies.

The Authority accordingly proposes to issue the Guidelines on "Corporate Governance Guidelines for Insurance Companies". The comments/suggestions of all stakeholders (including insurers, policyholders, academics, analysts etc.) are invited on the Exposure Draft. The comments/suggestions can be sent to crmurali@irda.gov.in by June 15, 2009.

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

NOTICE

08.06.2009

Non-renewal of TPA licence no 001-Dawn Services Pvt. Ltd.

The Auhtority had, vide its order no. 035/IRDA/ORD/TPA/FEB-09 dt. 06.02.2009, terminated the TPA licence No.001 held by M/s Dawn Services Pvt. Ltd. A copy of the order was posted on our website for the information of all concerned. The notice sent by registered post at the registered office of the company was returned back undelivered.

The general public is hereby cautioned against dealing with the company or any person claiming to be its representative, in the capacity of a TPA. Anybody dealing with them will be doing so entirely at his own risk and responsibility.

(Prabodh Chander)
Executive Director

CIRCULAR

29th May, 2009

IRDA/F&A/CIR/014/May-09

Declaration of Bonus under Section 49 of the Insurance Act, 1938

To

All Life Insurers,

Please refer to Circular Nos: F& A/CIR/011/MAR-04 dated 23rd March, 2004 and IRDA/F&A/002/Apr-07 dated 16th April 2007 issued by the Authority on declaration of bonus by life insurance companies which have set up operations post opening up of the sector.

With a view to facilitating declaration of bonus by an insurance company, where the Life Fund is in deficit, the Authority has laid down the manner of funding of the bonus subject to specified conditions to be strictly complied with. This special dispensation was available to the insurers only for the first seven financial years, beginning from the year in which the life insurance company commences operations.

Extension of the Relaxations

The Authority had received representations from life insurance companies for further extension of the period of dispensation considering the current stage of the growth of the insurance sector.

After examining the request of the insurance companies, the Authority has decided to allow the life insurers in the private sector to declare bonus to policyholders where the Life fund is in deficit for a further period of three years i.e., upto the tenth year of operations commencing from the year in which the life insurance business operations are started. The insurers should comply strictly with all the conditions as stipulated in the Circulars under reference in case they would like to avail themselves of this dispensation.

(C. R. Muralidharan)
Member

Creating Sound Reputation

THROUGH BEST PRACTICES

'BEST PRACTICES IN CONDUCTING BUSINESSES HAVE BEEN THE TALKING POINT GLOBALLY, ESPECIALLY IN THE AFTERMATH OF CORPORATE FAILURES. INSURERS CANNOT REMAIN ALOOF FROM THIS VITALLY IMPORTANT FUNCTION' WRITES U. JAWAHARLAL.

There is an increasing customer awareness about the way business is to be conducted, world over; and in light of the severe competition, the customer has become increasingly demanding. On the part of the business houses, there is additional pressure on the best practices that they have to adopt, the fact that their bottom line is profit notwithstanding. In the case of insurance business, the gestation period before the insurers break even is long and this period can be utilized for consolidating their reputation.

Adopting best practices in any line of business is a sure shot recipe for being successful in the long run. A huge reputation for the business entity for upholding values will go a long way in making a mark for itself in the eyes of the client. Best practices, more than being imposed, should be a voluntary effort in order that there is wholesomeness in the spirit of their being implemented. The incidence of best practices may change from business to business while the basic values remain the same. Corporate entities must identify the areas that they have to demonstrate the adoption of best practices that are unique to their line of business.

Some of the areas where insurance companies have to adopt and demonstrate best practices are product and pricing; marketing and sales channels; customer service; management practices etc. At the outset, it should be realized that the need for best practices is more pronounced in the Indian insurance domain in view of the customer awareness being low. To begin with, best practices have to be adopted in designing a product suitably. It should be ensured that the product will really serve the needs of the clientele apart from being viable for the insurer.

Marketing a product holds the key to volumes of business. Best practices in this aspect start from the process of advertising itself wherein the insurers should ensure to convey the message in a lucid manner thereby encouraging the prospect to seek the product rather than his being wrongfully enticed. The distribution personnel have to be properly trained; and groomed in such a manner that they keep the customer's interests ahead of their own. There has been enough outcry about mis-selling in insurance which needs to be arrested forthwith. Insurers should take all measures to help the prospect in taking an informed decision.

Customer service is an all-encompassing aspect that talks about the relationship between the insurer and the insured throughout the period of contract. Unlike some other services like banking, there may not be need for an insurer to render continuous services on a daily basis; and this should be all the more a factor that calls for better efficiency. Such areas like underwriting and more importantly claims settlement have to be dealt with in the most courteous manner leaving no reason for customer disenchantment. Above all, managements should clearly exhibit good skills in dealing with their customers as well as their own staff members. Being objective in their approach without fear or favour for anyone should be the motto in dealing with issues.

'Best Practices in Insurance' will be the focus of the next issue of the **Journal.** We will bring for you a healthy debate on the very important issue as perceived by different line of experts.

Best Practices
for Best Results

in the next issue...

Collaborative Approaches in Implementation

Risk Based Capital Regime

ALAM SINGH OBSERVES THAT FOR SUCCESSFUL IMPLEMENTATION OF RISK BASED CAPITAL REGIME, A COLLABORATIVE APPROACH IS VERY ESSENTIAL AS HAS BEEN EVIDENCED BY THE EXPERIENCE OF VARIOUS COUNTRIES THAT HAVE ALREADY BROUGHT IN THESE REFORMS.

Traditionally insurance regulators mandated simple formula based minimal capital standards based on percentage of premium or claims. Due to the varying risk characteristics of the insurers, the regulators in some countries started to debate if this captured the true risk profile of the insurers. Surprisingly, the usual harbinger of financial and regulatory innovations, the USA, was not at the forefront of evaluating this alternative model. Unknown by many, Finland was experimenting with a variation of the risk based capital (RBC) approach as early as the mid-1950's. Canada modernized statutory financial reporting in 1978 by introducing the valuation actuary concept and adopted risk-based minimum capital requirement in 1989. Although some discussions on RBC were happening in the 1970's in the US; prior to the 1980s, not many people in the US discussed capital from the view point of solvency. This changed in the 1980's as insurers such as Baldwin United, Executive Life, First Capital and Mutual Benefit experienced solvency issues.

The National Association of Insurance Commissioners (NAIC) started to seriously evaluate the option of adopting a risk-based approach to measure capital adequacy in the late 1980's. Some state regulators, such as New York, Wisconsin and Minnesota, had undertaken earlier initiatives in pursuing this direction than others in the US. Agencies such as S&P and Moody were also involved by the start of the 1990's. By 1993, a life RBC formula had been finalised and insurers in the US had a new mechanism to calculate their minimum capital requirements based on their risk profiles via a prescribed formula. The P&C formula was finalized in 1994 and a health formula was developed by 1998. A hallmark of the process was enhanced dialogue within the industry; and between the industry and the regulator. The early advocates of RBC clearly acknowledged that it was a minimum standard monitoring tool and not a method for companies to establish "optimal" levels of capital for comfortable business operation. Since RBC was done via a formula, its limitations were frequently debated. Due to the fact that the initial RBC formula in the US was partially a political compromise, it is understandable that it had some shortcomings. However, its credentials as a more progressive mechanism than simpler formula-based minimal capital standards became accepted by the late 1990's as more insurance markets started to evaluate or implement RBC measures and solvency frameworks.

> **Improved versions of RBC are emerging, as insurance regulators start to learn from markets where the RBC solvency regimes have already been implemented.**

Now, it is clearly understood that no solvency monitoring mechanism is perfect, and all such efforts should be viewed as continuous and ever evolving. Improved versions of RBC are emerging, as insurance regulators start to learn from markets where the RBC solvency regimes have already been implemented. In addition, new concepts and theories, such as the Economic Capital model (EC) that features risk simulations specific to

each company, are also emerging. These evolutions are the result of experience and enhanced dialogue. Therefore, when India defines a roadmap for implementing an RBC framework, it should take full cognizance of what is happening in other markets. The underlying concepts continue to evolve and the process of determining the most appropriate mechanism for defining capital adequacy is an ongoing process.

As one studies the evolution and history of RBC, it is apparent that this new approach to solvency monitoring significantly increased the amount of collaboration and dialogue between industry and the regulator. Such dialogue is cited as a critical factor for smooth implementation and this may be the single most critical factor in ensuring that the process of implementing RBC delivers the expected results in India. Therefore, it would be in our best interests to learn from the processes that took place in various countries. New best practices in consultation and regulation development are being set continuously, the Quantitative Impact Study (QIS) groups and Chief Risk Officers (CRO) forums formed to discuss and debate the Solvency II implementation in the EU, are such examples. Since the learnings of the collaborative process followed in North America and the EU may not translate well to India due to various factors such as the state of development of financial services and maturity of the regulatory regime, this article will discuss the process as it took place in select Asian markets and detail what the insurers and regulators may wish to focus on, separately or jointly.

Consultative Route Towards RBC implementation

Malaysia

The process of developing the RBC framework began in 2002 in Malaysia. Several working groups were formed, and Bank Negara Malaysia (BNM), the Central Bank of Malaysia, released two concept papers in 2004 and 2005 to the industry written by the working groups. The regulator proactively asked for feedback from the industry stakeholders and experts. Based on the comments received, the framework was developed, finalized and issued by BNM in April 2007.

The new approach encourages insurance companies in Singapore to manage their financial risk more actively, thus raising overall prudential standards in the industry.

The working groups included the RBC committee, responsible for the overall framework as well as several specialist subcommittees. New valuation bases for both life and general insurance were developed. BNM also required the industry to submit various test survey results based on working requirements to gauge and fine-tune the final formula. BNM also ensured that the framework took into consideration the developments on the international front and the various papers released from the International Association of Insurance Supervisors (IAIS), the International Actuarial Association (IAA), Solvency II, and International Accounting Standards Board (IASB).

Singapore

The Monetary Authority of Singapore (MAS) announced the RBC concept in a 2001 exposure draft. Work groups consisting of insurance practitioners and representatives from the actuarial and accounting professions were formed to look into various valuation and capital treatment issues. Three discussion papers were issued between July 2001 to December 2002 on the valuation of assets and liabilities, capital requirements for life insurance business, and capital requirements for general insurance business. MAS also engaged insurance companies in carrying out tests on the proposed framework since mid-2002. Careful consideration was given to the feedback received during that consultation phase. Necessary changes were subsequently made to the Insurance (Amendment) Bill.

On 23 August 2004, MAS implemented the new risk-based capital (RBC) framework for insurers in Singapore. Compliance with the framework became a mandatory requirement for all direct insurers with effect from 1 January 2005.

MAS had conducted industry briefings and several rounds of testing to assess the robustness of the new framework. They also conducted visits to the companies to assess their valuation processes and the readiness of their systems to implement the framework. The Authority worked closely with the insurance industry in formulating the proposed RBC framework. The new approach encourages insurance companies in Singapore to manage their financial risk more actively, thus raising overall prudential standards in the industry.

India: Moving Jointly Towards a RBC Based Regime

A gradual approach towards implementing an RBC framework would be ideal; as such an approach will enable insurers to be best prepared towards adopting such measures. The regulator, insurers and other industry experts should work closely while developing the framework. To ensure that insurers successfully implement an RBC framework, it is essential that IRDA works closely with the

> **Accounting guidelines for fair value accounting, deciding the market price of assets and actuarial valuation of liabilities are the essential pillars for successful implementation of any RBC framework.**

senior management of insurance companies. The first step would be to organise training programs and conferences to enhance the senior management's understanding of the implications for their business so they can start planning immediately. Insurers should focus on identifying existing gaps in their risk and capital management plans. Timely planning will reduce implementation costs also as any last minute compliance programs are always very costly. Later IRDA should ask all insurers to clarify their implementation planning, progress made and governance arrangements, including naming the individual responsible for RBC implementation. Also, they should help insurers in the approval process for their internal models. The roles of actuaries will be very critical and IRDA must involve them closely in all discussions. Insurers should have in place sound actuarial reserving practices including best estimates and risk margins. Mandatory actuarial reserving was introduced four years prior to the introduction of the RBC system in Singapore and Australia.

Steps to be considered by the Regulator

- **Defining Standardized Industry Wide Models:** Valuation of assets and liabilities is the core of any RBC framework. By initially defining a standard formula for valuation and subsequent calculation of risk based capital, there will be consistency in the calculation of Capital Requirements for all insurers. This will serve as a guide for the insurers to develop their own internal models which would be reflective of their individual risk characteristics. However, the validity that can be ascribed to internal models is highly debatable unless they are subject to the Regulator's review. If active industry training is planned to ensure that these models are well developed and if the Regulator can provide quality feedback on the models, then they may achieve the desired reliability. Enhancing the Regulator's capabilities so that they can provide the necessary feedback to industry on internal models can take time and should be started very early in the process. The Regulator will then be in a position to give guidance to help insurers with their preparations in doing their analyses and in developing their own internal models. It must be remembered that the Regulator will need to develop and evaluate models across different lines of business (life, general and health) so the challenge is even bigger.
- **Working Committee:** Working Committees / groups consisting of representatives from the regulatory body (IRDA), insurers, accounting profession (ICAI), actuarial profession (IAI) and other industry experts must be responsible for the time bound development of the standard formula, gauging its effect through impact assessment studies and enabling the insurers to formulate their own internal models. They must regularly report publicly on the progress. If the goal is to have a RBC regime in place within the next 3 - 4 years, then this direction may already be behind schedule. Ideally, discussion papers should have been issued to the industry and feedback should have been collected already. This view is based on the experience of other countries where it has taken 4-5 years from the start of the consultative process to the first full year of RBC reporting and compliance.
- **Impact Assessment Studies:** Quantitative assessment of the proposed Standard Model could be carried out in phases during the policy-making stage to enable insurers to prepare. A RBC policy will involve a number of changes to the way in which insurance companies calculate their regulatory capital. Consequently, insurers will incur costs both in implementing the changes and in maintaining ongoing requirements. Ahead of the implementation it would be prudent to estimate the likely additional costs that insurers will face as a result.
- **Accounting Guidelines:** The Accounting Authorities (ICAI) could be consulted for defining appropriate guidelines for recognizing, recording and reporting of balance sheet items, such that they reflect the level of risk for the insurers. Accounting guidelines for fair value accounting, deciding the market price of assets and actuarial valuation of liabilities are the essential pillars for successful implementation of any RBC framework.
- **Defining Reporting Requirements:** For an effective RBC regime, IRDA may need to re-examine the current reporting procedure in terms of both frequency and disclosure requirements. This should be done in consultation with the industry, so that they know how to organize their systems of governance to achieve those reporting deadlines.
- **Time Lines:** To meet a 4-5 year implementation target, IRDA should soon define the time frame for policy formulation, conducting impact assessment studies, policy implementation and transition from standard model to internal models and

this should be discussed with the insurers to enable them to align their internal process accordingly.

Steps to be considered by the Insurers

- **Risk Assessment:** Effective risk management and enterprise-wide governance are the cornerstones of a sound RBC system. Insurers should implement a formalized risk management system, based on an evaluation of the whole firm and its risk appetite. Weaknesses in such areas would make insurers susceptible to external trigger events which could cause adverse financial outcomes.
- **Governance Models:** Insurers will need to enhance in-house governance standards and requirements. An effective and permanent internal audit function, which evaluates the internal control system of the firm, is a key element of any Governance Model. The Governance Model should serve two main purposes: it should be conducive for supervisory reporting and public disclosure; and it should enable management of all the risks inherent in the business by addressing deficiencies such as poor information flows, weak risk management process and procedures, as well as behaviour. Insurers may require regulatory feedback as they revise their corporate governance, risk management and regulatory compliance for RBC. This can be demanding for a regulator so additional capacity needs to be developed in advance.
- **Models, Data and Analysis:** Data will be needed from operational, transactional and financial sources for various reasons. The unavailability of appropriate risk data for both management and modeling purposes may be a cause for concern. Data sourcing, management and cleaning abilities need to be well developed. It will be useful for many purposes including developing benchmarks for operational areas and models. Industry benchmarks need to be created through collaborative approaches so that insurers can appropriately quantify if they are below or above industry levels.

Insurers may require regulatory feedback as they revise their corporate governance, risk management and regulatory compliance for RBC.

Insurers may wish to use other models in addition to the standard regulatory model. These models should be subjected to stress testing and continuity testing, while model validation and calibration may also be required. Functional teams involving professionals with actuarial, risk management, finance and IT skills would be required for this purpose.

The road ahead

To ensure optimal utilization of capital under an RBC regime, insurers would need to re-engineer their existing systems, processes and controls. This has implications for the organizational structure and business processes of insurance companies. Insurers would have to align their business and IT strategies and be open to paradigm shifts in the way they do business. For this they would need to create awareness within the organization and ensure full understanding of the implications at all levels of their new Governance Model. Starting early will help reduce costs and avoid any last-minute panic expenses. Insurers will require early dialogue with the regulator to understand how to embed the new risk and capital management framework into the strategic and operational management of the business. Clear but flexible directions from the regulators in terms of appropriate risk management systems, business process re-engineering and data quality and validation requirements, will enable insurers to have a smooth transition to the new risk based capital regime. Progress along the road ahead can only be made on the basis of mutual discussion and recurring parleys between the regulator and the insurer. The process of consultation in both Singapore and Malaysia was very interactive, transparent and time bound. Discussion papers were developed in a public and interactive process and then posted online and regularly presented in open forums. Feedback was sought proactively and all feedback was posted online. In Singapore, the regulator gave detailed online responses to specific points in the feedback. This level of engagement ensured that all stakeholders and experts were fully engaged at all stages and it presented a very healthy process. Once adopted for a specific goal, such processes then generally set a benchmark for all future interaction and efforts to emulate them in India would strengthen the industry-regulator relationship. This is particularly necessary since formulas will need to change over time to accommodate justifiable criticism and changes in the environment. Thus institutionalized mechanisms of dialogue and review are needed not only to incorporate lessons learned, but, also to adapt to scenarios that may emerge in the future.

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Risk Based Capital for Life Insurers

Implications for India

ASHVIN PAREKH EMPHASIZES THAT THE SOLVENCY MODELS PRESENTLY BEING PRACTICED IN ANY OF THE DEVELOPED MARKETS MAY NOT BE EASY TO BE REPLICATED IN THE INDIAN INSURANCE DOMAIN; AND ADDS THAT THEY MAY HAVE TO BE TUNED SUITABLY TO BE APPLICABLE IN THE INDIAN SCENARIO.

Introduction

Capital requirements for the insurance industry are being revised in many jurisdictions worldwide. From being based on a simple formula approach, capital requirements have evolved to follow a more complex risk-based approach where internal models developed by companies are being used to assess unique requirements. The latter approach referred to as the Risk-Based Capital (RBC) approach, links the level of required capital with the risks inherent in the underlying business. RBC represents an amount of capital based on an assessment of risks that a company should hold to protect stakeholders against adverse developments.

RBC represents an amount of capital based on an assessment of risks that a company should hold to protect stakeholders against adverse developments.

There are several reasons why RBC has achieved such prominence in the insurance industry. The economic conditions have become volatile worldwide which necessitates deeper evaluation of market risks. Lower interest rates are causing guarantees to bite. Greater transparency is now being demanded by consumers. Regulators have become proactive and increasingly concerned for protection of policyholders and promoting good risk management practices. Rating agencies are beginning to expect firms to have operating economic capital models. The shareholders have become more financially sophisticated and demand greater analysis of their capital invested.

Risks faced by life insurers

The capital required by a life insurance company can be broadly classified as risk capital and working capital. While risk capital covers day-to-day risks of an insurance company, the working capital is required to support the on-going business strategy of the company. The significant risks faced by insurers are:

- **Insurance risk**
  Insurance risk arises due to the inherent nature of the business that is underwritten by life insurers. Insurance risk refers to the fluctuations surrounding the occurrence, timing and amount of insurance liabilities. These risks relate to uncertainties over expenses, mortality, morbidity, lapse rates and rates at which policies are made paid up.

- **Credit Risk**
  Credit risk is a risk due to the uncertainty in a third party's ability to meet its obligation towards the insurer. Third parties include reinsurers, companies where the insurer's operations have been outsourced and firms where the insurer has invested its assets.

- **Market Risk**
  Market risk is the risk due to adverse

market movements that a firm may be exposed to. It creates fluctuations in income, value of its assets or liabilities. Movements in the level of financial variables such as interest rates, equity and property prices, may effect a change in the value of asset which may not be matched by a corresponding movement in the value of liabilities.

- **Operational Risk**
  Operational risk can be described as "the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events". In recent years, it has been widely accepted that operational risks are significant but these are difficult to quantify. They include risks like internal and external fraud, business disruptions and system failures, transactional processing failures etc.

- **Liquidity Risk**
  Liquidity risk is generally seen to arise from short-term cash flows where insufficient liquid assets are available to meet policyholders' obligations as and when they fall due. This includes the risk of having to secure funding at excessive costs or realise assets at depressed values.

- **Group risk**
  When the insurer belongs to a group of companies, group risk may arise when the actions of any one company adversely affect the reputation or the financial soundness of the insurer. It may arise if there are internal loans from within the group or internal reinsurance treaties.

Different approaches to RBC

Primarily, there are three types of approaches that are emerging under the new RBC framework:

- The first approach is where specified factors are to be applied for each of the identified risks on both sides of the balance sheet. This is known as the total balance sheet approach and this methodology is being followed by USA and Singapore.
- In the second approach, specific scenarios are used by the companies to calculate surplus/deficit and hence the required capital. The Individual Capital Assessment (ICA) methodology followed in the UK is a good example of the second approach.
- The third approach is to allow the companies complete freedom to use their own internal models and their own scenarios to calculate the capital requirements. Switzerland has adopted this methodology.

Many a time, a combination of the above approaches is followed to improve risk based capital calculations and generate cost efficiencies. Generally, the regulators require more capital than the calculated RBC and the margin for extra capital depends on how detailed the calculation was.

Current regulatory framework in India

As per the existing regulations, the required solvency capital to be held by Indian insurers is based on a simple factor based approach expressed as a percentage of reserves and sum at risk. Insurers are expected to maintain a 150 per cent margin over the insured liabilities. At present, a few companies have started following the RBC approach as an internal requirement by their joint-venture partners or an initiative of their own to align with the global practices.

The Insurance Regulatory and Development Authority (IRDA) is preparing a road map to shift to RBC norms from the current solvency margin regime in 3-4 years time. Efforts are also being made by IRDA to evolve and strengthen

Generally, the regulators require more capital than the calculated RBC and the margin for extra capital depends on how detailed the calculation was.

the risk management practices across organisations.

Implications for Indian Insurers

Identification and quantification of risks are challenges for Indian insurers due to lack of data, lack of technical expertise, high cost of setting up risk and implementing risk measurement modelling techniques and limited modelling of asset returns.

Developing a comprehensive framework comprising of valuation of assets, liabilities, their interaction and solvency capital would be critical. Addressing the problem in a holistic manner is essential to provide the total framework. While developing the framework, the regulator will follow a consultative approach and involve the industry players.

All the concerned parties will face initial cost implications for RBC implementation. As most of the companies are new and yet to break-even, in such a scenario, the solvency levels of these companies may be affected by the additional RBC

costs. Hence, a separate model can be used for smaller companies and a compulsory RBC framework used for larger companies. For the regulator, RBC implementation would imply increased costs due to ongoing monitoring of insurance companies.

An impact on investment strategies, taxation, solvency, capitalization, product development, etc is anticipated, making it vital to ensure that before implementing the new approach the expected behaviour of the companies is in the direction desired for major factors.

Due to limited availability and illiquidity of long-term assets there is a high degree of mismatching risk and reinvestment risks for insurance companies. This may put additional strain on the capital requirement for certain products that may make them uncompetitive. Companies that have sold varied guaranteed products might find their capital requirements increasing further in the new RBC regime and hence might have to reassess their product strategy and pricing.

The present investment guideline for insurance products is stringent and leaves limited scope for allowing insurers to make optimum investment decisions. This implies that under RBC framework, unless the investment guidelines are relaxed, the insurers would find it difficult to match assets and liabilities and to make optimum choices.

A pressing issue which needs to be addressed is 'whether internals models should be allowed in India?' It leads to significant increase in the cost to supervise and regulate. It involves a substantial dependence on the office of the appointed actuary. As such a system has both advantages and disadvantages, the regulator must evaluate the costs that would have to be incurred in allowing for such a system. If used properly, such a system can improve the risk management system and may foster efficient capital utilisation within the companies but if abused, then the companies may hide major risks and may go under-capitalised.

Under RBC framework, unless the investment guidelines are relaxed, the insurers would find it difficult to match assets and liabilities and to make optimum choices.

Conclusion

The Indian market is very different from the developed markets; and hence any model borrowed from developed markets should be calibrated to the local conditions before being utilized. In this regard a phased implementation approach with well articulated phases and over a certain time frame could be developed. The industry as well as the regulators office can create the necessary capability and capacity over this time period.

RBC framework is complex in comparison to the existing framework in India, which is an adaptation of Solvency-I framework. It demands a lot of investment from the insurers' as well as the regulator's side. In European nations, the Solvency-II framework is in various stages of adoption making it crucial for India to start on the road map of implementing RBC. From the experience of other countries, we learn that the implementation of the RBC demands substantial effort and resource.

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Regulation and Resilience

Withstanding Financial Crisis

BRETT WARD ASSERTS THAT ONE PRINCIPAL REASON FOR THE INSURANCE INDUSTRY, PARTICULARLY THE AUSTRALIAN ONE, ESCAPING THE BRUNT OF THE PRESENT FINANCIAL CRISIS IS THE ADOPTION OF RISK BASED CAPITAL REGIME.

Insurers, like all businesses, have not been immune from the impact of the current financial environment.

But it seems the insurance industry, particularly in Australia, has displayed more resilience than most.

While there may be challenges ahead – for example inflating losses, deteriorating claim experience in personal injury compensation schemes and lower interest earnings – insurers have, so far, escaped some of the heavy blows which have landed on others in the financial services sector.

Part of the reason for this lies in our regulatory framework, and its minimum risk based capital regime.

The insurance industry has a track record of supporting and participating in regulatory reform. It's been seven years since the Australian Regulatory Prudential Authority (APRA) introduced reforms to the general insurance regulatory environment in the wake of the HIH collapse and the findings of the subsequent Royal Commission. But many in the industry, risk averse by definition, have been busy for the best part of a decade in terms of participating in APRA's considerable consultation on the reforms and negotiating the appropriate policy response.

Before APRA's reforms, the regulatory landscape was relatively simplistic.

Minimum capital requirements were the greater of 20% of net written premium in the preceding 12 months, or 15% of outstanding claim provisions.

The framework had problems in terms of consistency and transparency, as well as the regulator's ability to enforce it. There were few standards in terms of the preparation of claim provisions or asset quality; comparability of solvency strength between insurers was limited; and there were limited powers to address perceived weaknesses in risk management or capital solvency positions.

Under the new regime, all Australian insurers had to re-file for a licence to write general insurance business and meet a comprehensive set of requirements and standards.

Now, the Minimum Capital Requirement (MCR) includes:

- an *insurance risk capital charge*: varying capital factors applied by class of business to insurance liabilities (which includes both unexpired risks and outstanding claim provisions);
- an *asset risk capital charge*: varying capital factors applied to all classes of assets held on the balance sheet; and
- a *concentration risk charge*: which relates to the net of reinsurance cost from a maximal probable loss from a concentration of exposure. This will usually be a natural peril but could be some other scenario, such as an economic downturn for a lenders mortgage insurer.

Rules surrounding the definition of what can be included in the capital base to assess against the minimum capital requirement have been strengthened, and include a two tier classification system of assets and a limit on the so called Tier 2 component.

There are also a series of associated and far more consistent standards. These relate, for example, to risk management and business continuity, including the requirements of: submitting a Risk Management Strategy to APRA; submitting a director's annual declaration to APRA; and to have a specific risk management function or role.

Standards have also been brought to bear on reinsurance management, including requirements to submit a Reinsurance Management Strategy and annual

Under the new regime, all Australian insurers had to re-file for a licence to write general insurance business and meet a comprehensive set of requirements and standards.

> **To limit catastrophe programs to provide protection to a 1 in 250 year event on a whole of portfolio basis, insurers now regularly seek to better understand major catastrophe risk through specialist catastrophe models.**

Reinsurance Arrangement Statement to APRA; rules surrounding reinsurance contracts, assets admissibility and limited risk transfer arrangements.

Finally, there is now a requirement to have an Appointed Actuary providing advice to the Board on the insurance liability provisions and general financial condition of the insurer.

Important as consistent standards and enforceable compliance are, they are only part of the picture. An embedded culture based on sound management principles is also needed to underpin a truly strong financial system.

This culture exists, and has been responsible for significant changes or enhancements to operational management of Australian insurers.

Risk based capital

A logical extension to APRA's risk based capital model is for each insurer to focus on two further aspects:

- An appropriate overall level of capitalisation with reference to economic risk metrics including the probability of falling below the MCR; and
- Assignment of capital to individual classes of business for pricing and performance measurement purposes.

The MCR regime means there is transparency around each insurer's position, not only to the regulator but also to investors and policyholders. Most insurers publish their target level of appropriate risk based capital and express this as a multiple of MCR.

Toolsets such as Dynamic Financial Analysis (DFA) models also emerged to enhance the advice to Boards as well as assist in the assignment of varying capital levels, depending on the risk each class brings to an insurer.

The increased focus on assignment capital to insurance classes has led to a more accountable approach within insurers — it is not uncommon for portfolio managers to be highly engaged in the capital assignment process and have a good understanding of what needs to be achieved from a pricing perspective to deliver a target return on risk based capital.

Such granular accountability, aligned with rewards and incentives, mutually reinforces and embeds a risk management culture into line operations. More accurate performance assessments also support better strategic decision making, on issues such as overall mix of business, market segmentation and target market share.

Asset allocation

Similar to insurance class capital, the asset capital charges increase focus on the asset allocation of technical and shareholders' funds. There is now a greater level of conservatism here, particularly in terms of reducing equity exposure within shareholders' funds. Increased use of DFA modelling has also played a role, allowing insurers to more accurately examine the earnings profile and the impact of significant equity positions, as well as the presence of other growth assets.

This has protected many Australian insurers from significant impacts on their solvency position through the market downturn.

Reinsurance

The APRA Standards encourage greater focus on the analysis of aggregate exposure and reinsurance programs designed to net this exposure to acceptable levels. To limit catastrophe programs to provide protection to a 1 in 250 year event on a whole of portfolio basis, insurers now regularly seek to better understand major catastrophe risk through specialist catastrophe models.

Rules surrounding contract documentation and reinsurance asset admissibility have also seen significant improvements in reinsurance accounting and back office functions, as well as improved and more efficient services provided by reinsurers.

Actuaries in the Boardroom

The compulsory Appointed Actuary of each insurer has direct access to the Board and its Committees, and delivers two key reports annually — the Insurance Liabilities Valuation Report and the Financial Condition Report (FCR).

These reports provide a compendium of risk reviews from an integrated financial perspective; joining together concepts that may have been presented previously as a disparate set of reports. In strong-form usage, the FCR is an effective tool to drive and monitor improvements to financial condition through actionable recommendations that have Board oversight.

The changes wrought by APRA's reforms go beyond compliance with regulatory instruments. They have led to a fundamental shift in how insurers manage risk, and operationalize that risk management.

In doing so, they have produced a more robust industry. And while conditions were relatively benign for the first part of the past seven years, it is the recent period of uncertainty which has truly highlighted the value of the reforms; and their benefit to insurers, investors and the community.

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An Overview of RBC

Life Insurance Perspective

S. P. CHAKRABORTY AND J. ANITA OPINE THAT WHILE IT MAY NOT BE EFFICIENT FOR A COMPANY TO HOLD ENOUGH CAPITAL FOR EVERY CONCEIVABLE CONTINGENCY, AT THE SAME TIME INSURERS CANNOT RUN THE RISK OF INSOLVENCY WITH TOO FREQUENT EVENTS; AND RBC PROVIDES THE ANSWERS.

Background

The term "Risk Based Capital" (or RBC, in short) is presently growing in importance when it comes to assessing the solvency of life insurance companies. Many jurisdictions are looking at introducing a 'Risk Based Capital' framework.

What is Risk Based Capital?

RBC represents an amount of capital based on an assessment of risks that a company should hold to protect policyholders against adverse developments.

RBC is used in both the banking and insurance industries. Basel II framework describes a comprehensive measure and minimum standard for capital adequacy in banking sector. It identifies three pillars, namely, Minimum Capital Requirements, Supervisory Review Process and Market Discipline Requirements. Three major risks covered under this framework are credit risk, market risk and operational risk. On similar lines, Solvency–II also addresses various ingredients of RBC. Although Solvency-II is going to be adopted by European countries, similar concepts are in vogue in North America under the initiation of National Association of Insurance Commissioners (NAIC). Japan is already following RBC. Hence, it is not an exaggeration that the universe is moving towards RBC.

RBC is typically calculated by applying factors to accounting aggregates that represent various risks to which a company is exposed. The current NAIC formula on risk based capital for life insurance companies is based in part on modeling the risk to the company from interest rate changes over many alternative interest rate scenarios.

RBC framework aims to set capital adequacy requirements for each insurer in a manner that reflects the particular risks an insurer is subject to. Variation between the insurers exists in the areas of methodology; risks recognized weights applied to risk (i.e. risk factors); recognition and valuation of assets etc.

Separate risk based capital models apply to life companies, property/casualty companies and health organizations. These different formulas reflect the differences in the economic environments facing these different companies.

Risk Based Capital reflects prudent reserves, quantifies the asset liability mismatch and quantifies the risk associated with over exposure to certain asset classes.

RBC is usually expressed as a risk based capital ratio. RBC solvency ratio of an insurance company is the ratio of its net asset value or net worth, to be calculated using the standard accounting rules, divided again by its net asset value; but now being recalculated with possible adverse risks included in the calculation.

In general, a company needs to have a degree of comfort in its ability to withstand extreme events. It may not be efficient for a company to hold enough

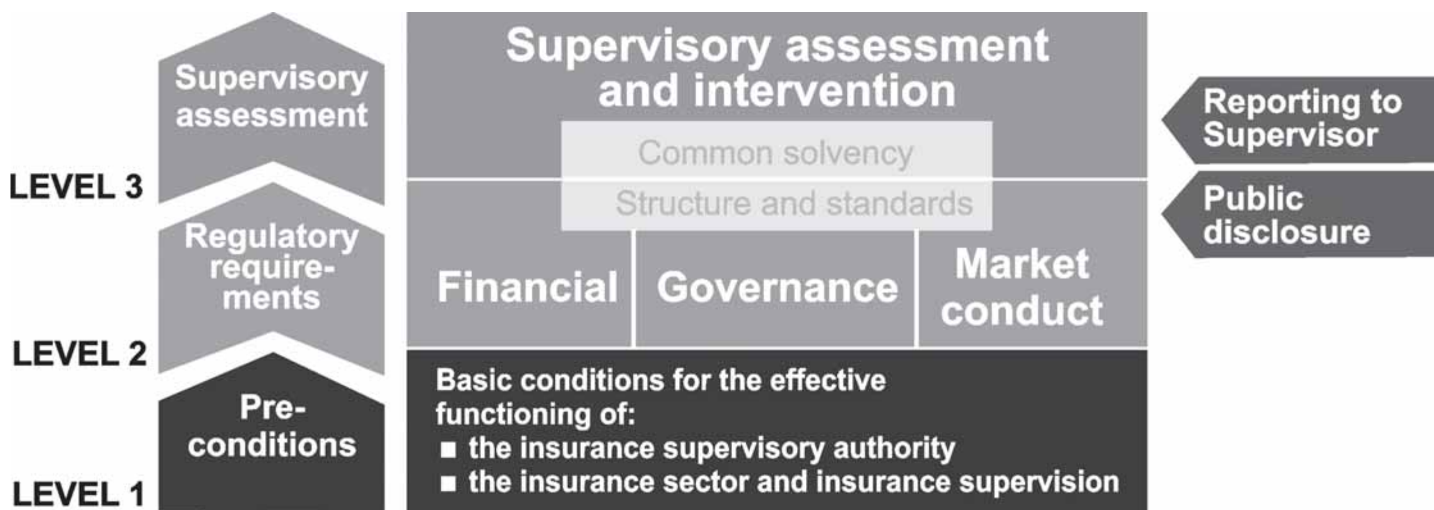
RBC framework aims to set capital adequacy requirements for each insurer in a manner that reflects the particular risks an insurer is subject to.

capital for every conceivable contingency, but neither is it efficient to run the risk of insolvency with too frequent events. Economic capital, if assessed properly indicates optimum level of capital required to meet the liabilities including those arising from events of extremely low probability but have high impact on the solvency of the company. It ensures solvency of the company to a reasonable confidence level and also capital efficiency. It recognises that assessment of capital requirement is unique to each company depending on its risk profile, resources available, operational efficiency etc. In an environment, where there is strong regulatory framework in place, the companies need to maintain regulatory capital even if it is calculated on broader assumptions.

Solvency Framework

The International Association of Insurance Supervisors (IAIS), which sets standards for national insurance regulation worldwide, has taken another step along the path to establishing a global solvency standard. The IAIS presented a coherent, risk-based methodology for setting regulatory requirements, including technical provisions, when determining required capital in a risk-based solvency regime. It also considers the more qualitative components of governance, such as market conduct and disclosure requirements. This is illustrated in the figure below:

Figure – 1: Solvency Supervision at three levels



Source: IAIS position paper on global solvency standard III, page 1.

The insurance supervisor may need to have adequate power to require insurers to assess and manage risks, and to set regulatory financial requirements to protect policyholders. Regulatory financial requirements should be risk-sensitive to provide incentives for optimal alignment of risk management. There may be a number of solvency control levels that trigger appropriate and timely intervention by the supervisor. The corrective actions that a supervisor might require should include options to reduce the level of risk to which a company is exposed, as well as requiring it to raise more capital.

Capital Requirements

The purpose of capital is to ensure that obligations to policyholders can be met as they fall due and technical provisions remain covered, despite adverse conditions. In other words, capital is needed to absorb unexpected changes in the values of assets and liabilities that a company can remain solvent. The calculation of risk-based capital involves identifying the key risks and quantifying these risks.

Key risks include

- Insurance risk
- Market risk
- Credit risk
- Liquidity risks
- Operational risks

Insurance risk is equivalent of underwriting risk, which is associated with

the uncertainty of business written in the future, both new business and the renewals of existing policies. e.g: incorrect pricing, uncertainties of future claim experience etc.

Market Risk is the risk that market movements in interest rates, foreign exchange rates or asset prices lead to an adverse movement in asset values which is not matched by corresponding movement in value of liabilities e.g.: adverse asset price movements, adverse interest rate and currency movements etc

Credit Risk covers the risk of loss if another party fails to perform its obligations, or fails to perform them in timely manner. Allowance should be made for the financial effects of non-payment of reinsurance and of the non-payment of premium debtors such as intermediaries. e.g. Reinsurance failure and impact of claim recoveries, credit deterioration of a company's reinsurer.

Liquidity Risk is the risk that a firm has insufficient financial resources to meet its obligations as they fall due, or can only secure the resources at excessive cost. Eg: Asset liability mismatch, ability to withstand sharp unexpected fund claim outflows or reductions in premium inflows etc.

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks include:

- Marketing and distribution risks
- Legal risk
- Outsourcing difficulties
- Management of employees
- Risk management resourcing
- Adequacy of policies and procedures
- Adequacy and timeliness of management information
- Internal audit
- Business continuity and disaster recovery plans

Others: Reputational risk etc.

The present Indian scenario

The assessment of capital requirement for insurance companies in India follows a formula approach which is prescribed by the insurance regulator — IRDA through regulations. Life insurance assets are valued as per Schedule I of the IRDA (Assets, Liabilities and Solvency margin of Insurers) Regulations, 2000 and IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000 for the purpose of demonstrating solvency. Certain assets are not permitted to contribute to the solvency calculation adding an element of prudence in the system. The regulation prescribes the method of valuing liabilities and guidance to set assumptions. The requirement of including a 'Margin for Adverse Deviation' over the best estimate basis provides an additional margin in the liabilities. The consistency issue is taken care of by the system. The IRDA prescribes a set of factors, called required solvency margin factors based on mathematical reserves and sum at risk in respect of each line of business. This will lead to the solvency level expected from the particular life insurer. The expected solvency is then compared with the available solvency margin achieved by calculating the difference between the assets and liabilities thus computed. The ratio of available solvency margin to the required solvency margin should be at least 150% at all times.

> **Certain assets are not permitted to contribute to the solvency calculation adding an element of prudence in the system.**

The objective of 150% is to cover all the risks associated with the life insurance business. However, this provides an assessment of risks to the insurance business on an overall basis and does not quantify the internal risks in an explicit manner. The principle of a risk based regulatory approach is to understand what the current risks to the operations of an insurance company are. It also looks at how future operations will be affected and whether sufficient capital will be available. The need to move towards risk based regulatory approach originates from the significance of identification and quantification of various risks specific to the insurers and hence assessment of the amount of capital required to protect policyholders from the future adverse scenarios.

Globalization and break down of cross border barriers have a significant effect on India in gradual convergence to many of the international practices, such as, Economic Capital (EC), Market Consistent Embedded Value (MCEV) and International Financial Reporting Standards. Although risk based capital is the ultimate goal in a sophisticated supervisory regime, where risk based supervision is the basic

objective to enable to move towards this, insurers have to work out the EC and MCEV. The last two concepts also assume importance in the light of possible IPO's in the insurance sector. In this context it is worth mentioning that the Committee appointed by Institute of Actuaries of India has submitted a detailed report on the mechanism to be followed in working out the EC and MCEV. In addition, the Committee on IFRS compliance, constituted by IRDA has also submitted its report in this regard.

It may be worthwhile to mention that the recent developments in the macro economic scenarios across the world has a considerable impact on realizing the real need to find ways to improve capital efficiency of the insurance companies without threatening solvency. Too much capital will reduce the capital efficiency and too little capital may threaten the solvency. Economic capital is a way of ensuring proper balance between capital adequacy and capital efficiency. Economic capital is the amount of capital required to keep the balance sheet solvent on a going concern basis under a stress event.

Although the current solvency regime in India takes into account the various risks of insurance business through application of a formula approach on a gross basis, there is a need to dissect the basis into different risk elements in order to assess the sufficiency of current capital requirements relative to what is required as per the principles of risk based regulatory supervision. The 'one-size-fits-all' approach does not address the fact that different insurers have acquired different levels of exposures to financial risks. This system also fails to address issues affecting the solvency such as,

- the significant fall of interest rates, globally and locally
- the significant and on-going improvement of mortality in most markets
- the recent fall in global and domestic equity markets
- the number of non-performing assets, etc.

Economic capital is the amount of capital required to keep the balance sheet solvent on a going concern basis under a stress event.

The financial impact of many of these 'risks' can however be quantified, and the impact on the solvency of an insurance company can be analysed. Quantification of some of the risks would help to avoid unpleasant surprises. RBC has the technique to quantify such risks and convert into capital requirements.

Practical Problems

A number of issues should be considered when calculating the RBC or applying the techniques which include the following:

- Communication of results
- Parameter/model risk
- Sample error
- Operational risk
- Behavioral/dynamic feedback effects.

However, risk-sensitive capital can be dangerous because it gives a false sense of security. In the same way it is so hard to measure risk; it is also easy to manipulate risk measurements. It is a straightforward exercise to manipulate risk measurements to give vastly different outcomes in an entirely plausible and justifiable manner, without affecting the real underlying risk. A financial institution can easily report low risk levels whilst deliberately or inadvertently assuming much higher risk. This of course means that risk calculations used for the calculation of capital are inevitably suspect.

Conclusion

It was generally agreed that, while RBC adoption is in its infancy and has a long way to go both in terms of technique and acceptance, it serves a vital role in focusing management on critical risks and could well evolve into providing competitive advantage. The challenge for actuaries lies in developing the skills required to implement robust RBC models and most importantly, to communicate the results to various stakeholders including the policyholders.

The authors are Deputy Directors (Actuarial), IRDA. The views expressed in the article are personal.

A Study of Yield-based Crop Insurance in India

A Performance Review by P.C. James and Reshmy Nair

THIS STUDY IS AN ATTEMPT TO EVALUATE THE PERFORMANCE OF NATIONAL AGRICULTURAL INSURANCE SCHEME (NAIS), THE MOST IMPORTANT PUBLIC POLICY EFFORT IN THE FIELD OF CROP INSURANCE IN THE COUNTRY. IT FINDS THAT THE COVERAGE AND INDEMNITY PAYOUTS HAS BEEN BENEFITING MANY REGIONS AND CROPS; AND THE PROGRAM IS FAVORABLY PLACED IN TERMS OF EQUITY I.E. IN TERMS OF PROPORTIONATE COVERAGE AND BENEFITS ACCRUED BY SMALL AND MARGINAL FARMERS. THE STUDY ALSO INDICATES THAT THE PROBLEM OF ADVERSE SELECTION COMMON IN MANY AGRICULTURAL INSURANCE POLICIES WORLDWIDE HAS BEEN SIGNIFICANTLY REDUCED IN THE RECENT YEARS. THE STUDY, IN ADDITION, LOOKS AT THE ISSUES THAT NEED TO BE ADDRESSED TO MAKE THE CROP INSURANCE PROGRAM A MORE EFFECTIVE RISK MITIGATION MECHANISM FOR THE FARMING COMMUNITY.

(Continued from previous issue)

Adverse Selection: How Has Nais Fared?

In the beginning, only 3 percent non-borrowers availed the crop insurance cover under NAIS. At present, the proportion of non-borrowers in the scheme is about 15 per cent. Out of the total coverage of 731.41 lakhs during Kharif seasons, 86 percent are loanee farmers, the non-loanee farmers forming just 14 percent. During Rabi seasons, the non-loanee farmers covered are slightly higher at 17 percent. Surprisingly, despite the provision of compulsory coverage of all eligible[1] loanee farmers under the scheme and increasing flow of credit to the agricultural sector in the recent years; the loanee farmers covered under the scheme during Kharif seasons have actually seen a declining trend from Kharif 2004 season. On the other hand, the coverage of non-loanee farmers has been observed to be gradually increasing over the seasons/years.

The participation of non-loanee farmers, who join the scheme on a voluntary basis, has been exceptionally high for a few crops like Jowar, Horsegram and Sunflower where about 50 percent of the total farmers covered comprise these sections. In the case of sunflower crop, close to 57 percent of the total farmers covered, belonged to the non-loanee category.

In the previous analysis of NAIS (Vyas & Singh, 2004, Joint Group, 2004, World Bank, 2007), it was shown that the participation of the non-loanee farmers, for whom the scheme is voluntary, has been high only during the adverse seasons. The claim experience during adverse seasons shows that the loss cost percent of the non-loanee farmers was

1. As per the scheme provisions, all farmers availing Seasonal Agricultural Operations (SAO) loans from the Financial Institutions (FIs) for notified crops in notified areas are to be compulsorily insured under the Scheme.

Table 1.9 Crop-wise coverage of Non-Loanee (NL) farmers and Small / Marginal farmers (S/M) under NAIS: Rabi 1999-00 to Kharif 2006 Season.

S.No	Crops	% NL Coverage	Loanee loss cost %	NL loss cost %
1	Paddy	11.78	6.65	23.50
2	Maize	11.76	10.32	14.10
3	Bajra	12.08	13.38	8.78
4	Redgram	26.13	8.77	14.77
5	Groundnut	5.05	18.66	20.57
6	Soyabean	13.84	5.27	24.05
7	Wheat	6.06	5.12	24.73
8	Jowar	47.79	7.94	38.11
9	Horsegram	47.01	6.96	41.49
10	Sunflower	56.98	7.84	18.16
11	Sugarcane	0.28	2.00	1.52
12	Cotton	5.31	8.61	1.31
13	Onion	26.16	6.33	39.02
	FC OS	16.14	9.87	24.44
	AC H	4.16	5.40	22.96
	TOTAL	**14.59**	**9.16**	**24.64**
Correlation Coefficient : NL Loss Cost and NL coverage				**0.61****

Source: Agricultural Census (1995-96) for the State-wise number of holdings, Agriculture Insurance Company of India Ltd.,

** Significant at 0.05 % level.

much higher as compared to the loanee farmers. The non-loanee farmers exhibit three and a half times greater risk than their loanee counterparts. It can also be seen that the proportion of farmers benefited as a proportion of the farmers covered has been much higher for the non-loanee farmers in the earlier seasons, with almost 90 percent, 93 percent and 81 percent of non-loanee insured farmers receiving claims during Kharif 2003, Rabi 2001-02 and Rabi 2003-04 seasons.

The non-loanee loss cost can be seen to be significantly higher than the loss cost ratio for the loanee farmers for most of the major crops implying participation of these farmers after knowledge of likelihood of claims. The above is however the cumulative crop-wise analysis of all the seasons taken together and does not show the trend in the recent seasons. The participation of the non-loanee farmers has been noticeably larger for crops showing a higher non-loanee loss cost ratio as revealed by the statistically significant positive correlation coefficient between percentage of non-loanee farmers covered and non-loanee loss cost percent.

The non borrowing farmers had thus been participating in the scheme selectively i.e. after a crop failure, called adverse selection in the insurance parlance. Adverse selection occurs when the farmers participate in insurance after they become aware that a claim is likely. The extension of cut-off dates for submission of insurance proposals by the non-loanee farmers[2] during most of the earlier seasons has been the most potent cause of the above problem. There has been a significant change in the observed trend in the recent years. Following the adverse experience in the past seasons, the Government and AIC have been adopting a very cautious approach with regard to extending the cut-off dates after it has been fixed at the beginning of the season. In the last few years/ seasons, the cut-off dates have only been extended in limited genuine cases.

A notable trend in this regard is the significant narrowing down of the difference in the loss cost accrued by the loanee and the non-loanee farmers in the recent years/seasons (Table 1.10 and 1.11). The non-loanee/loanee difference in the proportion of farmers benefited has also greatly declined, with almost same proportion of farmers benefited for both categories of farmers during the last couple of seasons.

This implies that the problem of adverse

2. The cut-off date for submission of insurance proposals is fixed at the start of the Season, the guiding criteria being that the farmers should insure their crops before risk is known. However, in most earlier seasons, the Government of India conceded to the State Government's request to extend the cut-off date citing delay in sowing caused by late onset of monsoon.

Table: 1.10 NAIS: Coverage and benefits accrued by loanee and non-loanee farmers in Kharif Seasons

S. No	Season	Loanee Farmers (Lakhs)	Non-Loanee Farmers (Lakhs)	Loanee Loss Cost %	Non-Loanee Loss Cost %	Loanee Benefitted as % of covered	Non-Loanee Benefited as % of covered
1	Kharif 2000	82.17 (97.71)	1.92 (2.29)	17.42	38.30	38.30	64.37
2	Kharif 2001	79.75 (91.70)	7.22 (8.30)	5.67	26.94	16.97	53.86
3	Kharif 2002	84.20 (86.19)	13.49 (13.81)	17.59	31.19	39.54	71.74
4	Kharif 2003	70.12 (87.97)	9.59 (12.03)	5.19	37.99	12.14	89.83
5	Kharif 2004	110.58 (87.16)	16.29 (12.84)	7.08	17.15	18.40	39.32
6	Kharif 2005	105.64 (83.35)	21.10 (16.65)	7.59	9.86	19.08	30.44
7	Kharif 2006	98.38 (76.06)	30.97 (23.94)	11.82	13.74	22.25	26.04
	Total Kharif	630.83 (86.25)	100.58 (13.75)				

Source: Agricultural Census (1995-96) for the State-wise number of holdings, Agriculture Insurance Company of India Ltd.,
*Figures in parenthesis denote percentages to total.

selection associated with the scheme has greatly declined in the recent years and further indicates that the problem can to a great extent be tackled by adhering to the cut-off dates fixed at the start of the season. The situation is likely to improve further by fixing state specific cut-off dates for different crops based on their planting pattern. This would ensure that the non-loanee farmers are compelled to buy insurance before being aware of the outcome of the crop.

A Critical Appraisal of The Program

The yield based crop insurance program currently being implemented in the country clearly has its distinct advantages. Notably amongst these are the heavily subsidised premium rates making crop insurance affordable for majority of the farmers, the high claim ratio implying that the indemnity benefits to farmers have far exceeded the

Fig. 1.5: Loss Cost (%) of Loanee and Non-loanee farmers during Kharif seasons

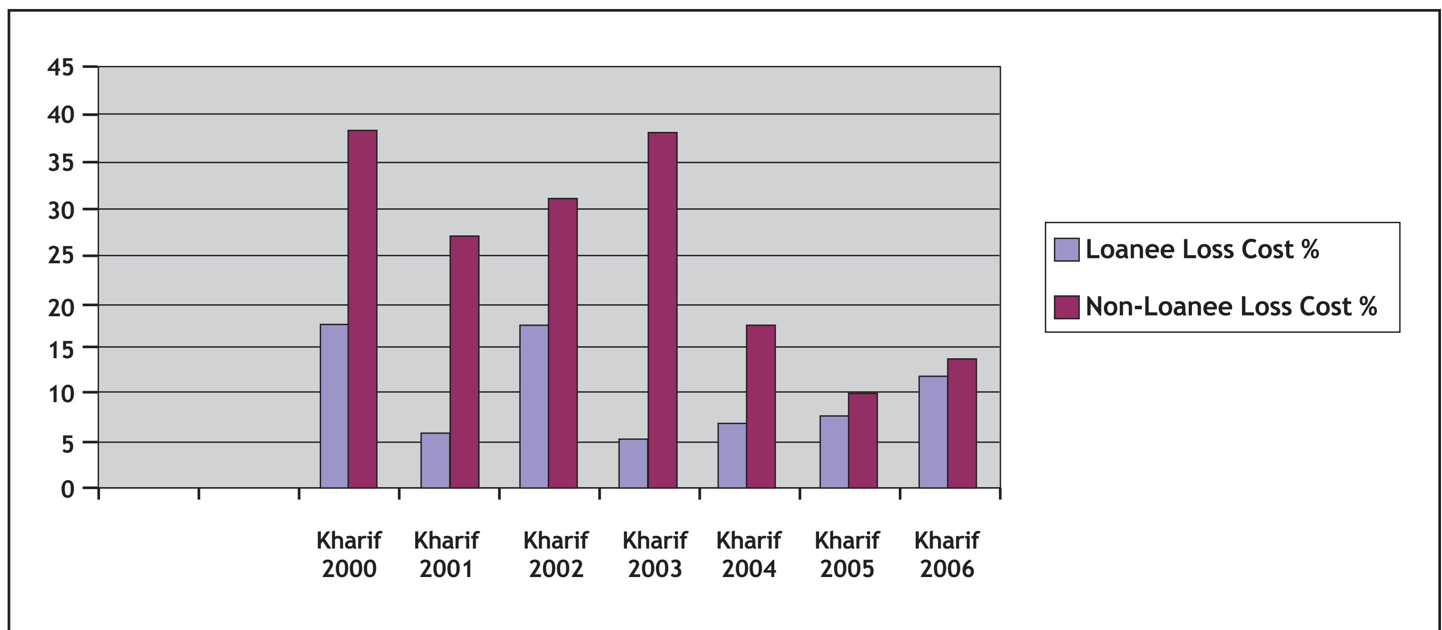


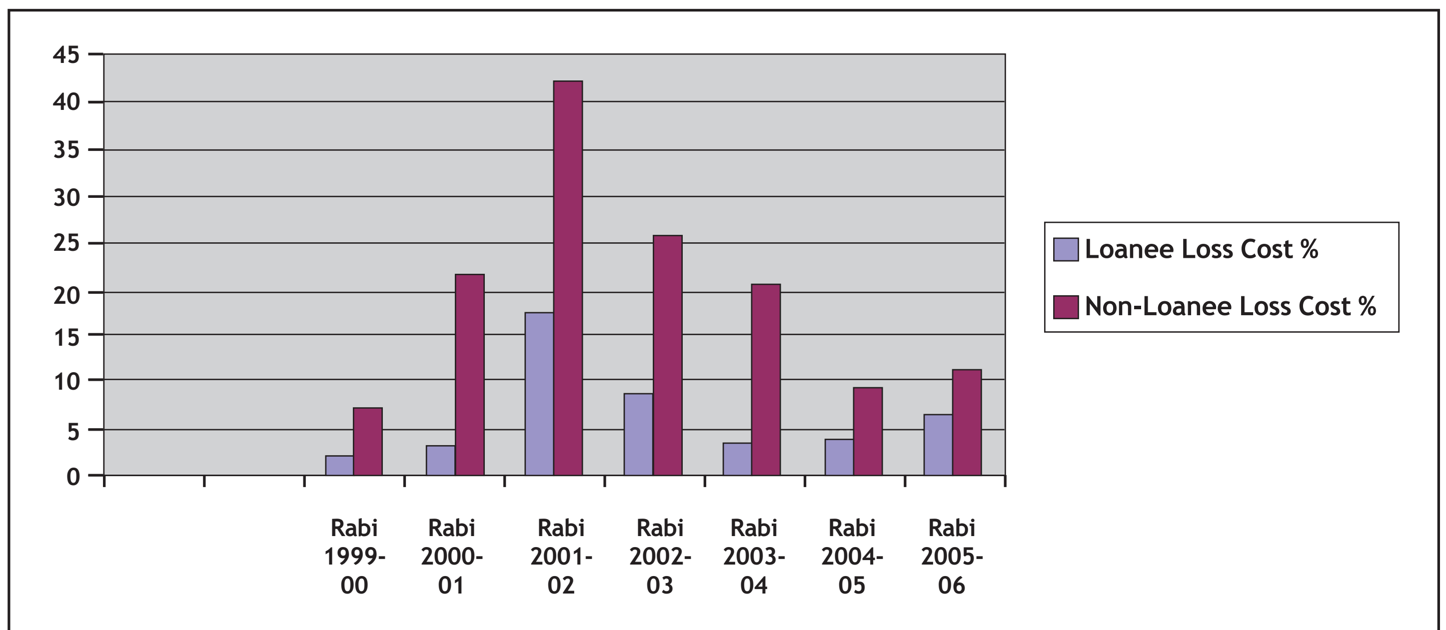
Table: 1.11 NAIS: Coverage and benefits accrued by loanee and non-loanee farmers in Rabi Seasons

S. No	Season	Loanee (Lakhs)	Non-Loanee (Lakhs)	Loanee Loss Cost %	Non-Loanee Loss Cost %	Loanee Benefitted as % of covered	Non-Loanee Benefited as % of covered
1	Rabi 1999-00	5.60 (96.64)	0.19 (3.36)	2.04	7.18	8.14	49.56
2	Rabi 2000-01	19.22 (91.91)	1.69 (8.09)	2.90	21.32	22.89	51.14
3	Rabi 2001-02	18.79 (96.10)	0.76 (3.90)	3.24	41.83	20.34	93.34
4	Rabi 2002-03	19.66 (84.48)	3.61 (15.52)	8.85	25.41	36.65	57.05
5	Rabi 2003-04	22.55 (51.01)	21.66 (48.99)	3.41	20.33	14.04	81.08
6	Rabi 2004-05	32.74 (92.72)	2.57 (7.28)	4.07	9.33	21.90	21.75
7	Rabi 2005-06	37.18 (91.84)	3.31 (8.16)	6.54	11.57	24.65	19.47
8	Rabi 2006-07	42.00 (84.38)	7.78 (15.62)	NA	NA	NA	NA
	Total Rabi	197.75 (82.63)	41.58 (17.37)				

Source: Agricultural Census (1995-96) for the State-wise number of holdings, Agriculture Insurance Company of India Ltd., Figures in parenthesis denote percentages to total.

premium generated under the scheme, the automated claim settlement procedure enabling hassle-free settlement of claims to eligible beneficiaries, without the latter having to follow up for any claims etc. The analysis carried above shows that more than 60 percent of the farmers covered under (and more importantly benefited from) the scheme are the small and marginal farmers, with significant indemnity payouts for certain crops, implying the satisfactory performance of the program from the equity point of view. The study also points out the seemingly reduced intensity of the problem of adverse selection, indicating that the magnitude of the problem can be suitably

Fig. 1.6: Loss Cost (%) of Loanee and Non-loanee farmers during Rabi seasons



addressed by adhering to apt policy decisions. Further, being a multi-peril or an 'all risk' scheme, a wide variety of crops are covered under the scheme on a national scale (as many as 48 crops during Kharif seasons and 51 crops during Rabi seasons). Achieving such substantial coverage, as under the present scheme, does not seem possible under single peril covers.

Yet despite all the associated benefits of crop insurance as a risk mitigation tool and the distinct advantages offered by the scheme, the penetration of the scheme needs to be improved. The analysis carried above shows that the disbursement of benefits has been favourable to some regions and crops. Around 60 percent of the total claims are accounted by paddy and groundnut crops. Some of the pertinent areas for improvement of the scheme are discussed below.

Area approach: While the area-yield approach reduces the traditional problems of adverse selection and moral hazard, and lowers the administrative costs relative to traditional, individual yield based crop insurance; it belies the expectations of the farmers whose yield experiences may be significantly different from those of the insurance unit. The scheme is thus distinctively dis-advantageous for farmers with higher losses than the insurance unit average. While some states like Andhra Pradesh, Uttar Pradesh, Madhya Pradesh, West Bengal, Kerala etc have moved down to smaller units, other implementing states continue to notify large insurance units as large as a district, which undoubtedly would have large intra-district variations. The lowering of the insurance unit in all the implementing states, for all the financial and infrastructural costs, is thus a needed step to ensure a fairer outcome for the individual farmers.

Financial viability: One of the important criticisms raised against the scheme is the financial non-viability of the current program, given the unsustainably high claim ratios; a direct consequence of the flat premium rates charged under the scheme. Ideally, the premium for crop insurance should be customized to the risk profile of the crop, region and the affordability of the farmer. However, premium rating under crop insurance is associated with twin problems of non-viability and non-affordability. Crop insurance thus presents a unique dilemma for the insurer: while the flat rate system lends the crop insurance financially non-viable, a shift to the alternative actuarial system would render the premium rates unaffordable for the farmers.

Actuarial premium rates: A major drawback of the present methodology of arriving at the actuarial premium rates is that it does not reflect the actual claims experience or loss cost of the crop. An analysis of the NAIS statistics reveals that this has had a significant adverse effect on the coverage of cotton crop, the coverage of which has declined significantly in the recent years. The premium rates of annual commercial and horticulture crops are set on actuarial basis. The actuarial premium rates thus arrived at turn out to be higher for crops with higher variability and the associated 'high risk factor'. Though the introduction of Bt Cotton has resulted in yield increases and lower crop failures and therefore reduced claims, the variability in yield as measured by the coefficient of variation has seen an increasing trend and consequently raising the premium rates. There is thus the need for revision in the existing methodology of arriving at the actuarial rates to reflect accurately the loss cost of the crop.

However, a transition to actuarial rates (with revision in the existing methodology, whereby the premium rates reflect the loss cost for the crop) in turn would present another dilemma. It remains amply clear that high risk insureds are undercharged under area approach. If individual risks cannot be identified and the premiums are based on some aggregate risk measure, then the low risk producers will be overcharged for their insurance and the high risk producers will be undercharged. As a result, high risk producers are more likely to insure; and the proneness of risk of the pool tends to be higher than would be the case if the premiums were actuarially fair (An actuarially fair premium is the one which equates premiums to expected indemnities). Research studies (Goodwin, 1993) have demonstrated that high risk producers are less responsive to premium increases than the low risk producers. This is because the demand for insurance by high risk insurers is mostly inelastic, while that of the low risk insurers is highly elastic. Thus, any across-the-board increase in the premium rates would only result in retaining the base of high risk insurers in the program. Owing to this, any effort to lower losses by transition to actuarial rates, with premium rates showing the realistic loss experience; would complicate the existing situation as high risk producers comprise an increasing proportion of the small insurance pool. Thus the actuarial premium rates would have to be necessarily supported by adequate level of upfront subsidy in premium, keeping in mind the affordability of the economically vulnerable farmers.

Delay in settlement of claims: A critical problem associated with the Scheme is the long delay in the payment of indemnities, with the average time of payout being a year, the result of the time

taken for the crop cutting experiment (CCE) data to be collated. Alternative mechanisms of speedy settlement of claims specially when there is an extensive damage to the insured crop are to be considered and implemented. The recommendation for 'on account' payment of claims by the Joint Group (2004) based on agri-meteorological data/ satellite imagery (without waiting for the yield data) if the expected yield of the season is less than 50 percent of the normal yield, if operationalized would go a long way in alleviating the financial difficulties of farmers in case of large scale crop failure.

Levels of Indemnity: The present levels of indemnity are 60 percent, 80 percent or 90 percent corresponding to high, medium and low risk crops. Needless to say, the small and medium intensity adversities do not get covered when the guaranteed yield is 60 percent of the average yield (3/5 years). During Kharif 2007 season, 53 percent of all crops were in the 60 percent indemnity zone and 33.68 percent in the 80 percent indemnity zone. However, restricting the indemnity levels under the Scheme to 80 and 90 percent would also have the consequences of raising the premium rates and it would be particularly burdensome for the annual commercial and horticulture crops given the applicability of actuarial rates for these crops. Thus while 60 percent indemnity fails to provide adequate coverage, it has the advantage of offering attractive premium rates. It may therefore be fruitful if the farmers can be offered more than one indemnity level. Thus the farmers opting for higher indemnity level may do so at higher premium rate.

Guaranteed Yield: NAIS deploys a three year moving average for rice and wheat and a five year average for all other crops multiplied by the indemnity level (90 percent, 80 percent and 60 percent depending on the variability in yield of the crop) to arrive at the guaranteed yield, thus failing to provide protection to the farmers in States/areas where there has been consecutive adverse seasonal conditions. A major improvement suggested is to take the best five out of seven years in the calculation of threshold yield. However, since an area yield estimate is intended to reflect what farmers in the area can normally be expected to produce, the inclusion of a few best or recent years of production records would certainly not be a true indicator of expected production in the future. It is therefore felt that a longer time series in place of the current practice would be more ideal as that would reflect yearly coverage fluctuations and reduce the farmers' dissatisfaction relating to inadequate coverage.

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The opinions expressed in the article are of the authors and do not reflect the views of the organization they work for.

A Risk Management Perspective

Regulatory and Developmental Functions of IRDA

G. RAJASEKARAN EXHORTS THE REGULATORY AND THE DEVELOPMENTAL ROLES OF IRDA; AND COMMENTS THAT THE USEFULNESS FOR WHICH THEY HAVE BEEN ASSIGNED IS BEING INCREASINGLY FELT IN AN INDUSTRY THAT IS STILL EVOLVING.

Introduction

Insurance unlike other services is a service wherein the customer/client/ insured opts for in surance and pays the consideration/premium/fee at the outset with the expectation that he would be served in accordance with the terms of the insurance contract. In anticipation of such service the customer places trust not only on the insurance company but also on the entire system. This trust in the system has to be maintained and protected for the industry to progress. The trust is maintained by the insurance company by meeting all the obligations as and when they become due. However, this is dependent on the existence of the insurance company at the time of claim events, it being solvent and willing to meet the obligation. This places a huge burden on the government to ensure a fair marketplace for insurance which is essential for economic development. Further the significance of insurance for economic development necessitates measures to increase insurance penetration and density in India which at present is relatively very low.

Pursuing of any objective is fraught with risks and achieving the former requires managing the latter. Therefore successful accomplishment of an objective requires successful risk management.

To meet the aforesaid requirements the government has established the Insurance Regulatory and Development Authority (IRDA), vesting on it both regulatory and developmental functions. As a regulator, IRDA plays a vital role in maintaining the trust in the insurance system by regulating and supervising the players; and by ensuring that the new players who enter the industry are fit and proper and have long term commitments towards the market; and as a nodal authority for insurance development, IRDA performs such functions as promotion of rural, social and micro insurance and spreading insurance awareness by educating the public through media.

The way the aforesaid functions of the authority help pursue the overall objective of the insurance sector and the national economy can be seen through many perspectives, one of which is the perspective of risk management. Risks are pervasive, omnipresent and sometimes even omnipotent.

Pursuing of any objective is fraught with risks and achieving the former requires managing the latter. Therefore successful accomplishment of an objective requires successful risk management. It is in this light that this article looks at the regulatory and developmental functions of IRDA through a risk management perspective.

The regulatory and developmental functions of the IRDA aim at establishing prudent Risk Management systems and methods for the policy holders, the insurers, the insurance industry and the economy to enable each of them manage risks they necessarily face.

Insurance as a risk transfer and pooling mechanism is a component of the risk management process. Every individual will have his/her own risks and methods to

manage them. An individual would choose risk transference i.e. opt for insurance, to manage his/her risks, only when required and only as required. IRDA's functions helps to establish effective, simple, accountable, transparent and equitably accessible risk transfer avenues. This enables an individual to decide whether to transfer the risk or to manage it by other methods; and in case of transfer it enables in opting for a credible way for a suitable strategy to transfer his/her risks.

An insurance company has to manage the risks that it had acquired by adopting various techniques of risk management. In addition the company has to invest the premium collected to earn returns which would enable it meet its liabilities and earn profit in the normal course of business. Every such investment is subject to market, credit and operational risks. Moreover an insurance company would also face all those risks which are usually incidental to any business activity. As a result, an insurance company's risk management has two facets, one the management of the risks acquired and the other the management of risks attendant to the business activities. IRDA's regulations aim to establish, maintain and promote proper risk management systems and methods in the insurance companies for both the purposes.

The insurance industry comprising all the insurers and intermediaries, among others, faces multifarious risks like that of risk of destructive competition, unethical practices and the contagion effect of global financial crisis. IRDA's functions, by preventing such practices and negative impacts, help manage the risks of the industry as a whole.

The obverse of risk is opportunity and consequently 'no risk' would mean no opportunity for growth and development in general. As risk and opportunity are two sides of the coin of growth and development, effective risk management would result in increased opportunities for growth. Economic growth and development too therefore require an effective risk management at its base. That would help the various participants – individual and the organisations, to realize their potential even as they contribute to the economy without the hindrance of risks. IRDA's regulatory functions help establish an effective insurance sector to help the players in the economy at large to manage their risks. Further IRDA's developmental functions provide avenues of risk transfer to the rural, social and unorganised sectors thereby creating an inclusive financial risk management system for the economy. As a result a macro risk management system for the entire economy becomes effectively functional.

In sum, IRDA's regulatory and developmental functions create, maintain and promote appropriate risk management systems and methods at different levels ranging from the individual at the micro end to the whole national economy at the macro end.

An insurance company's risk management has two facets, one the management of the risks acquired and the other the management of risks attendant to the business activities.

Risk Management of individuals

Risk is generally imminent in every pursuit of an individual or organisation. IRDA aims at establishing an effective and credible risk transfer mechanism for those opting for insurance as a part of their individual risk management strategy and mitigating risks involved in the operation of such mechanism. The Policyholders' Interests Regulations, 2002, framed in this regard, protects the policy holders' rights to achieve the aforesaid objective. This protection begins at the proposal end and continues till the claim settlement and grievance redressal.

To begin with, the regulation mandates clarity in description of the mechanism of risk transfer – cost, terms and conditions, covered and excluded perils, riders and add-on covers and other services appending to the product, to the prospects.

To this effect, the way the policy document and proposal forms are to be worded with clarity and the way intermediaries communicate the product features to the prospects has also been mandated.

Proper claim settlement reposes trust in the system of insurance services. To ensure this, the regulation has mandated appropriate claim settlement methodologies to the insurance companies. Also, the information relating to grievance redressal mechanism along with the details pertaining to the authority of the ombudsman has been mandated to be provided to the prospects. The grievance redressal mechanism and the institution of ombudsman and their functioning establish trust right at the outset in the

minds of the prospects to go for insurance.

With all the relevant information that is required to decide upon the necessity and modality of transfer of risks, an individual can take a more rational decision thereby enhancing the effectiveness of his/her risk management strategy.

In addition IRDA's regulation helps implement the fundamental principles of insurance contracts. For instance, the mandate with regard to disclosure of material information ropes in the principle of utmost good faith on both the insurer and the insured. In effect, IRDA's regulation to protect policy holders' rights have been aimed at helping the individual's risk management efforts on the one hand and mitigating possible risks in insurance services on the other.

Risk Management of insurers

Insurance generally involves pooling of the transferred homogenous risks on the basis of *a posteriori* probability to spread the loss, should it occur, so as to disperse the damage. The task of identifying and pooling such homogenous risks lies with the insurers who accept risks which they have to manage. In addition, they also have to manage risks attendant to their business activities. As a result their risk management involves the two facets of managing the acquired risks and managing the attendant risks.

Management of the acquired risks should begin right at the time of its acquisition. Risk acquisition, therefore, requires a strategy. The strategy for acquisition of risk for an insurer is the insurance product which enables the transfer of risk from the insured on the one end and the acquisition of risk by the insurer on the other. Just as the suitability of the product determines the success of risk management for the insured the prudence of the product marks the beginning of a successful risk management of the acquired risks for the insurer, thereby making product design the pivot around which the risk management of the insured and the insurer revolve. Due to this significance of the product design, which needs to be appropriate and workable, IRDA has introduced the File and Use procedure for insurance products.

Under the File and Use procedure all new products and all changes in existing products require the regulator's approval to be introduced. In other words, they will have to be filed with the IRDA before being used. In case of life insurance products, the procedure requires the demonstration of the risks the insurer wishes to accept under the product and the limitations that it would impose in accepting the risks. It also requires the declaration of the insurer's definition of insurable event and the availability of coverage for such events across time, area and the populace. It further requires the insurer to state clearly other options and features offered in the product like loans, forfeitures, alterations etc. The risk that the insurer would avoid, the risk sharing arrangement – reinsurance, that the insurer has; the cost of risk transfer to the insured – the premium, that the insurer would charge; and the mobilisation for acquisition of risks – the distribution channels and the procedure of claim settlement need to be declared as well. The actuarial basis of the product and its financial projection for a set period are also required to be filed.

Management of the acquired risks should begin right at the time of its acquisition. Risk acquisition, therefore, requires a strategy.

In case of general insurance products, in addition to the aforesaid the way in which the benefit of risk transfer accrues to the insured – benefit, indemnity, reinstatement etc., the measure for risk reduction post loss – recovery under subrogation, the risk reduction measures like deductibles which the insurer would take and the board approved under-writing policy along with the operational arrangement in accepting risks like manner and extent of delegation of underwriting authority have to be filed.

In addition to the file and use procedure, the IRDA has framed the IRDA (Life insurance – Reinsurance) regulations, 2000 and IRDA (General insurance – Reinsurance) regulations, 2000 mandating a regulator approved reinsurance arrangement for the insurers and retrocession arrangement for the reinsurers. While these aforesaid regulations specifically mandate a risk sharing arrangement, the file and use procedure requires the insurers to declare the way they would accept, reduce, share and control the acquired risks i.e. the way they manage the acquired risks. In effect, the procedure and the aforesaid regulations subtly mandate a risk management strategy for the acquired risks.

The attendant risks for an insurer include the market, credit and operational risks involved in investing the premium collected and the operational risks involved in its business activity.

The attendant risks for an insurer include the market, credit and operational risks involved in investing the premium collected and the operational risks involved in its business activity. IRDA's Investment Regulations, 2000 as amended from time to time broadly regulate the portfolio of an insurer's investments based on the risks perceived in different investment avenues. It also sets the exposure norms of the investments to different sector. Declaring the set of approved investments, the regulation requires periodic submission of certified returns regarding investments by the insurers to the regulator.

The operational risks involved in business activity require to be managed by an operational arrangement of the organisation. Such an operational arrangement would be effective only when it is put in place right at the outset. The IRDA'S Registration of Indian Insurance Companies Regulations, 2000 helps achieve this objective. The regulation lays down clear and prudent norms for registration of companies to enter into insurance business. With only the company form of organisation considered capable of carrying out an insurance business, the said form is mandatory for requisition of application for registration. The regulation requires disclosure of all relevant details regarding the promoters, both domestic and foreign, including their past 5-year financial performance and their record of legal compliance. Further all relevant information with regard to the directors and key persons of the company, including their background and past work records need to be disclosed. Essentially, these requirements make the insurance companies to have a system of corporate governance right at the outset.

Once issued, an application for registration has to disclose the information pertinent to operational aspects of its business including financial projection for 5 ensuing years, infra-structure for IT systems, customer services, internal controls, administrative expenses and personnel management with regard to recruitment and training. In this process the regulation subtly mandates the establishment of a strategy for managing operational risks. Further, right at this time an insurance company is mandated to disclose where it would operate and on what sensitivity analysis and market research it would rest its operation on, what underwriting approach it would adopt, what basis of costing of risk acquisition it would use and what retention limit and reinsurance arrangement it purports. It is upon this mandated arrangement at the outset that the risk management strategy for the acquired risks grows.

The regulation also requires disclosure of source of capital and the capital structure of a company requesting for application and disclosure of investment strategy of a company applying for registration. This provision addresses both the possible default risk and the investment risk of a company.

The regulation also lays down stringent measures to prevent laxities on the part of companies applying for registration and measures to curtail unethical and deviant practices of companies already in insurance business. Such stringent norms include a bar on applying again for the same business for five years in case of applicant companies and cancellation of registration issued to companies already in business.

In sum, the provisions of the regulation with regard to registration instils and maintains an appropriate risk management strategy to manage the risks involved in the business.

The Actuarial Report and Abstract (ARA) Regulations, 2000, Preparation of financial statements and auditor's report of insurance companies regulations, 2000 and the Assets, Liabilities, and Solvency Margin (ALSM) of Insurers Regulations, 2000 prop the effectiveness of risk management instilled as aforesaid.

The ARA regulations require the insurers to submit their actuarial report to the regulator detailing their valuation bases, value of assets, returns earned and their pattern of distribution, new products and reserves for the different classes of insurance business they carry out. The regulation regarding preparation of financial statements standardises the financial reporting of the company to the regulator. In short, both these regulations give out what to report and how to report.

The ALSM regulations require the insurers to maintain and report the value of their

assets, liabilities, required and available solvency margin in the format laid down. The regulator can take measures to achieve and maintain required solvency margin among insurers. This helps keep the insurers solvent to meet their liabilities as they arise. Absence of solvency connotes prevalence of risk in risk transfer. Control of that risk boosts the requisite credibility in the system which is essential for the insurance industry. Therefore ALSM regulations act as a tool of risk management for the regulator to manage the risks involved in insurance business.

In effect, the accountability of the insurers to the regulator helps maintain continuous compliance to financial regulatory norms thereby effectively preventing adverse deviation from the intended objective of the regulations.

The final outcome of the coordinated implementation of all the aforesaid regulations and pertinent circulars and guidelines issued by IRDA in these regards; is establishment, maintenance and development of an effectively working risk management system for the insurers to manage their acquired and attendant risks, and effective tools of risk management for the regulator to sustain such systems and strategies.

Absence of solvency connotes prevalence of risk in risk transfer. Control of that risk boosts the requisite credibility in the system which is essential for the insurance industry.

Risk Management of the insurance industry

Insurers and intermediaries are the major players amongst all in the insurance industry. Successful and smooth functioning of the insurance industry depends upon the prevalence of healthy competition among all the players, the complimentary role played by the intermediaries and the protection of the industry from exogenous risks. The risks of destructive competition, unhealthy practice and the contagion effect of global financial crisis therefore need to be managed if not avoided. This requires a risk management system for the insurance industry as a whole. IRDA's role as a regulator assumes a phenomenal importance in this regard.

Insurance intermediaries in India include agents, corporate agents, brokers, third party administrators, loss assessors and surveyors. The intermediaries help the insurance business by helping to tide over the information asymmetry between the insurer and the insured. They help overcome material and human resource shortages of the insurers for business acquisition and transaction; and in this process they also reduce the acquisition cost for insurers. If the intermediaries act in unethical ways or if the intermediaries and insurers collude for unethical market practices, the smooth functioning of insurance industry gets disrupted. This risk is sought to be prevented by various regulations framed by the IRDA for each class of intermediaries. In general, the regulations detail who can act as what type of intermediary, what their eligible qualification – skill and financial are, how they should be trained, how they should conduct business, how they should deal with the insurers and the insured; and how, what and when they should report to the regulator. These provisions enable the regulator to monitor and supervise the functioning of the intermediaries to ensure their functioning as the vital link in the insurance sector. Since deviant conduct of intermediaries would bear risk to the entire industry, IRDA's functioning in this regard helps manage such risks for the benefit of the industry as a whole. This effort of IRDA in combination with its efforts pertaining to the insurers as aforesaid successfully manages the risks in the insurance industry in totality.

Risk Management of the economy

Economic growth and development require seeking, making and using opportunities. Risk is imminent in economic growth and development. Effective risk management therefore is warranted for the economy. Further, every participant in the economy should have access to various avenues for risk management without which there would be no holistic economy wide approach to risk management. In other words, there should exist an inclusive risk management system for the economy to bring within its fold all the sections of the populace channelizing their economic participation for the overall development of the national economy. IRDA as an authority for regulation and development for the insurance sector helps achieve such a system.

The sum effect of various regulations of the IRDA establishes a credible and vibrant insurance sector which can accept risks involved in various economic activities. This helps the different players across various sectors of economy to take bold initiatives towards growth and development. Further, IRDA's Investment regulations, 2000, help channelize funds into deserving sectors of the economy through optimally risky investment avenues. These investment provisions make available funds which fuel economic growth. Moreover the Reinsurance Regulations, 2000, mandate maximum retention within the country. This prevents outflow of funds which would otherwise be available for domestic investments. As a result of these regulations the insurance industry acts as an absorber of risks attendant to economic activities and also as a provider of funds for such activities thus creating a supportive and functional macro risk management system for the economy as a whole.

While the regulatory functions of IRDA create a macro risk management system for the economy, its developmental functions attempt to make the system inclusive. The Registration of Indian Insurance Companies Regulations, 2000 requires disclosure of the manner in which the prospective insurer would plan its rural business and meet its obligation towards rural unorganised and backward sectors right at the time of requisition of application for registration. Further the Obligation of Insurers to Rural Sectors Regulation, 2002, which had qualitatively and quantitatively increased the obligation of insurers to rural sectors in comparison with the earlier regulation in this regard, clearly imposes the tenet of corporate social responsibility on the insurers to provide insurance services in otherwise neglected and commercially difficult rural sector. Further the Micro Insurance Regulations, 2005 establish a credible and functional system of micro insurance in rural areas involving cooperation of the insurers and the rural community including rural self help groups.

The sum effect of various regulations of the IRDA establishes a credible and vibrant insurance sector which can accept risks involved in various economic activities.

In addition to the above developmental functions, functions of IRDA also include efforts towards capacity building in the insurance industry and spreading of insurance awareness among the public through different media. In fact IRDA's establishment of Institute of Insurance and Risk Management in partnership with the Government of Andhra Pradesh as a professional organisation to meet the requirement of skilled human resource in the industry is also a developmental function. In sum the developmental functions of IRDA enhance the swift pursuit of increasing the insurance penetration and density in India which are very low in comparison with those of developed countries.

Together IRDA's regulatory and developmental functions as aforesaid create, maintain and promote an inclusive and holistic macro risk management system for the economy thereby enabling to seek, make and use opportunities for economic growth and development.

Conclusion

Every regulation of IRDA has had a system wide positive impact. The relative insulation of Indian insurance sector from the contagion effect of the prevailing global financial crisis, the notable increase in insurance penetration and density in India on account of regulated liberalisation and privatisation and increasing inclusive nature of insurance services stand example to this.

The success of the regulations in having such an impact is the result of their successfully creating, maintaining and promoting effective risk management systems at different levels ranging from those for individual to the one for the whole economy. Thus viewing from a Risk Management perspective the regulatory and developmental functions of the IRDA are effective, successful and evolving. This makes the pursuit of the wider national socio-economic goals possible with the economic reforms still on-going amidst a global slowdown.

In a nutshell IRDA's regulatory and developmental functions manage the risks in facing challenges while seeking opportunities for growth. No birth is glorious until the born lives so. The birth of IRDA was glorious.

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Need of the Hour

Micro Insurance

DR. G. GOPALAKRISHNA ASSERTS THAT IN ORDER TO ACHIEVE THE DESIRED END-RESULTS OF FINANCIAL INCLUSION, IT HAS TO BE UNDERSTOOD THAT MICRO-INSURANCE BECOMES AN INTEGRAL PART OF MICRO-FINANCE.

Micro-insurance provides a complementary strategy to improve access to social security to the excluded people. Micro-insurance in simple terms caters to the insurance needs of the low-income strata of society. The term 'micro' refers to the products that are designed for the benefit of low-income individuals or groups. Micro-insurance can be considered as an offshoot of micro finance and it offers protection to the low-income households against those risks which they are unable to protect themselves.

In the case of MFI, they have two-fold programme. One is obviously the social aim by the nature of the object group, and the other one for a profit motive in a commercial objective. They have their own method of micro-insurance. The premium is collected in the form of insurance fees or it is deducted as a percentage from the loan disbursed on account of insurance from the prospect. The fund so collected may be termed emergency fund, disaster fund or insurance fund. Micro-insurance mitigates disaster losses, protects client's investments and ensures their repayment of loans.

> The NGOs more or less work on 'no profit no loss' basis and they have their own system of micro insurance.

The NGOs more or less work on 'no profit no loss' basis and they have their own system of micro-insurance. One of the methods adopted is creation of self-help groups. These self-help groups make contributory savings which are managed by the group members themselves. The group lends to the needy participants and collects interest on the disbursed loan. The NGOs enter into insurance and the insurance premium is paid from the interest generated by the savings of the participants. The pooled amount thus accumulated by insurance premium may be sufficient to meet the losses sustained by the group members. In view of the catastrophic risks, some of the NGOs have transferred this risk management to the traditional insurance companies.

Both MFIs and NGOs have some limitations, such as (1) Regulatory requirements for indulging into insurance business (2) Lack of vast geographical distribution resulting into restricted concentration of the risks (3) Chances of adverse selection and (4) Lack of experience in insurance business. But traditional insurers have not shown much interest in this field of micro-insurance. The reasons are firstly, micro-insurance products have high transaction costs and secondly, the insurers are always on check to undertake the moral hazard of the participants. The vulnerability of risk of this section of the society with more chances of adverse selection and the major factor of affordability aspect are also the pertinent pointers for them to undertake such risks.

The IRDA regulations on obligations of insurers to rural and social sector have come in handy for the development of micro-insurance. The regulator's intervention in this area by making it mandatory for the insurers to fulfill certain obligations towards the rural and unorganized sector has made the insurers ponder over this issue. What is required in the present circumstances is convergence of MFIs, NGOs and the traditional insurers. A suitable policy to meet the requirements of the prospects at an affordable price would promote micro-insurance well.

There is a wide variety of self-financed social insurance schemes, ranging from the totally informal and unwritten systems within a small group to the more formal ones catering to the needs of larger numbers and based on many complex arrangements. In addition, the initiative may originate from within the group or be motivated by non-governmental and voluntary agencies. In India, there is a wide variety of ventures promoted and successfully experimented with, in the areas of credit, health care, education,

employment and overall development. For the poor and lower income groups, the need for money exists universally and continuously. Hence it is not surprising that most self-help groups operate around credit requirements. These in turn are integrally related to contingencies such as death, disability, disease, old age, unemployment and destitution, the very area with which social security schemes are concerned.

After the insurance sector was opened to private participation many new insurance companies have come up and they are offering novel schemes of health insurance and pension products. They are essentially private insurance schemes. Any individual can join the scheme if he/she satisfies the prescribed conditions. They cannot be regarded as social security schemes. India has propelled into an era of prosperity and technological advancement like never before, but we still lack a proficient risk management system for the poor. Improving the quality of life of the poor would require meaningful funding besides appropriate measures to improve the risk-management for the poor.

The backbone of the Indian economy is the farming population and the poor people in the unorganized-sector. These poor people are hit on both fronts once they meet with an accident or fall ill — they cannot work and they usually cannot afford doctors or medicines either. Crisis is a recurrent feature in their life. Such emergencies — personal, social or natural — often involve high expenses and drive them deeper into poverty. The range of crises that the poor are vulnerable to includes sudden accidents and hospitalization of the bread earner, loss of crops, assets or livestock; and above all the natural calamities like flood, earthquake, droughts etc. Such crises are managed either by borrowing from moneylenders, sale/mortgage of assets or drawing on scarce savings.

Every serious illness, every accident, every natural disaster threatens the survival of the poor people and usually wipes out a life time work, leaving them without

Micro-insurance as a concept is relatively new and its documented experience is still fairly scarce.

resources or assets and leads them into a debt trap that is passed down through generations. In the past, insurance was never considered as an option to the people in un-organized sector. The poor are considered too poor to afford insurance premium. Rural markets do promise tremendous growth potential but they do not always assure investors of reasonable returns on their investments. High transaction cost, low quantum of commission and business with no or low profits has kept the rural India a no-zone for insurers in the recent past. The insurance industry has not made any determined efforts to tap this segment. Under-insurance or no insurance are the characteristics of the rural market. Though the imperfect insurance schemes exist at some places in rural sector they cannot be relied upon as full protection.

Post-privatization, however, micro-insurance has caught the attention of the policy makers, donor agencies, non-government organizations and lately the Regulator. It has been understood that there is a need for risk-management for socially and economically disadvantaged section of the population; and the insurers licensed to operate in India must come up with appropriate micro-insurance products to cater to such needs. To promote more professional and expansive risk management of the poor and to make micro-insurance to be integral part of Indian insurance system the IRDA has also notified the 'Micro-Insurance Regulations–2005'.

Micro-Insurance as A Concept

Micro-insurance as a concept is relatively new and its documented experience is still fairly scarce. It is a form of health, life or property insurance, which offers limited protection at a low contribution (hence 'micro'). It is aimed at poor sections of the population and designed to help them cover themselves collectively against risks (hence 'insurance'). Micro-insurance is essentially 'a financial service which uses risk pooling to provide compensation to low income individuals or groups that are adversely affected by a specified risk or event.'

The rural poor generally access credit for their livelihood and life cycle needs. They are exposed to the crippling impacts of disorder, accidents and illness that often trap them in a cycle of poverty. It is also a fact that these people are unaware that insurance is an option, to reduce this vulnerability to cruel events. Micro-insurance can play a significant role in providing access to credit that enhances income-earning opportunities and deliver safety nets during times of emergencies. It is believed that long term micro-insurance strategies covering the different risks that poor people are exposed to can be one of the answers to sustainable social uplift programmes in developing countries like India especially in situations where citizens lack a State-sponsored social-security net.

Recognition of micro-insurance is motivated by two important considerations.

Social Aspect: Poverty and social exclusion remain major problems in the world. There is an increased recognition for risk-management for poor households. Access to credit and savings can be potentially important means of self-insurance for the informal economy along with specialized insurance instruments based on risk pooling. In particular, households in informal economy need better-managed risk protection against economic shocks and income loss; nature-related shocks and resulting loss of assets and income; life-cycle events (death) and health-related risks (illness, death and accident).

Both formal and informal risk management mechanisms need to be strengthened.

Different players have a role to play in reducing the vulnerability of the poor — including Government subsidizing micro-insurance products (MIPs) and Regulator ensuring proper development of both social and rural sector. The notified regulations for micro-insurance are a step forward for the promotion of micro-insurance in India and recognition of the need for risk-management of the poor.

Commercial Angle: The low cost mass insurance schemes have failed to pick up, paradoxically because they are low-cost. The sales officials of insurers do not feel motivated to mop up individual policies, as the average premium collection per document doesn't give them enough income. However, industry as a whole had sold large number of group policies to low-income groups. The extension of micro-insurance with micro-credit has also attracted many insurers to ink tie-ups with rural banks. The micro-credit that started in 90's has not only gathered strength in last few years but it has also shown that poor can be made credit worthy if they are organized in groups. The micro-finance practitioners have responded to the need of the poor for financial services. Micro-finance is now emerging as a concept that denotes a set of financial services, which not only includes savings and credit but also includes insurance as its integral part. Insurance enhances the stability and profitability of poor households and it also reduces the impact of clients' risk on loan and savings portfolio. Insurance fits into risk-management thus reducing clients' vulnerability and economic losses. There is, therefore, a growing realization of providing MIP as a component of integrated micro-finance and risk-management service and it is the main reason this segment has been brought now into the commercial agenda of insurers. After all, personal lines insurance penetration is the surest way to establish a robust insurance system in the country.

Today, with falling agricultural prices and increasing healthcare expenses the poor in unorganized sector cannot access the micro-insurance on their own.

Linking Micro-insurance with Micro-finance

Micro-finance phenomenon is one of the most remarkable socio-economic developments of our times. It is leading to the spread of micro-insurance among its clients. For MFIs, integrating insurance with credit and savings activities make logical sense as it helps them to reap scale of economies in financial management, provides them with a captive market and enable them to use their existing network and distribution channels to sell micro-insurance.

Micro-insurance is the most under-developed part of micro-finance. The success of micro-credit programmes has recognized that poor people are creditworthy and bankable if they are organized in groups. The role of micro-insurance as such is significant as it can ensure the long-term inclusion of poor people in economic life and can actually strengthen the financial sustainability of the Micro Financial Institutions (MFIs). A major question is whether insurance *per se* is a proper vehicle for risk management of the poor. Linking micro-insurance with micro-credit makes it cheaper for borrower to have both these financial services. Insurance helps in reducing interest rate charged on credit. With insurance, interest rate together with premium may be lower than interest rate charged in the absence of insurance. The intuition runs as follows: Contingencies such as illness, accident, life etc., have a bearing on project performance and thereby on loan recovery. For example, micro-health plan improves financial access to medical care of insured and reduces disruption in the economic activity for which loan is taken and thus enables the borrower to repay loan. Higher loan recovery is an important determinant of low interest rate charged by MFIs as it reduces the risk of loan default due to sudden contingency and enables credit provider to reduce interest rate. For these reasons it makes better sense for micro-credit organizations to link it with micro-insurance.

Financing the poor is sometimes a risk. This risk comes from the nature of investments and health hazard of client itself, which makes the loan repayment uncertain. As insurance is one of the scientific methods of handling risks, it reduces risk to both the clients and the MFIs.

Micro-insurance Schemes for poor in India

Micro-insurance for the poor is a relatively recent phenomenon in India. The strength of Indian economy is the rural community and it deserves to be well-maintained. India has shockingly small organized private sector — less than 10 million workers. Today, with falling agricultural prices and increasing healthcare expenses the poor in unorganized sector cannot access the micro-insurance on their own. In formal sector the rural segment has been ignored till date though some of the initiatives have been taken in the informal-sector for the past several years either by NGOs due to the felt need in the communities in which these organizations were involved or by trust hospitals. Micro-insurance has now gathered momentum partly due to the development of micro-finance activity and partly due to the regulation that makes it mandatory for all insurers to extend their activities to rural India.

Designing of Micro-Insurance Product (MIP)

A micro-insurance revolution could be a major step towards improving the well being of the poor but it is important to design products with a full picture of how the products will fit into their lives. Insurance products meant for rural areas and for socially disadvantaged sections of population have not come up in any significant way though there has been some innovation in product design after the opening up of the sector to the private insurers. The insurance industry has not made any determined efforts to tap this enormous market. Innovative product design with new marketing techniques and timely product launches within the defined product lines will enable insurers to grab this opportunity of tapping this virgin sector.

In defining what a MIP is, the regulator has created two products as General MIP and Life MIP with minimum and maximum amount of cover, term of cover, age on entry and on exit. Unless the products sold by insurers meet these criteria their products will not be classified as MIP. The insurers will have to design the products that are visualized as bundle of utilities by the rural poor.

Unlike with other insurance products, the regulation permits life insurers to offer micro-general insurance products and general insurers to offer micro-life products. These companies can tie-up to offer a composite product (covering life, health, cattle, crop, livestock and other assets) to the rural poor through a single window.

> Viability of life insurance product is higher due to the lesser possibility of moral hazard and fraud.

Life Insurance Product

Human capital is most important asset for the poor. Before getting to crop insurance, health insurance or insurance for business tools; it is important for the poor to insure this critical asset. Death of bread earner is surely a great economic and emotional loss to poor household and more immediately burdens the family with high funeral cost. Viability of life insurance product is higher due to the lesser possibility of moral hazard and fraud. It is relatively a straightforward business. This product has played an important role in releasing the savings of rural areas, which were traditionally held in form of unproductive assets like gold and jewellery. The basic objective behind keeping these assets was to meet any unforeseen event in future as these assets are considered as good as liquid cash. This product is well recognized in rural areas and it is cheaper to cover the future uncertainty of life by buying this cover than to block funds in unproductive assets.

Affordability of Micro-Insurance Product

One of the commonest perceptions about the poor is that they are too poor to either save or buy insurance. While this may be true for the poorest of the poor who struggle to survive every day, it is not necessarily true for those living close to poverty line. Their apparent inability to join micro-insurance scheme may not be the result of affordability *per se*, but of institutional rigidity such as credit constraint that prevents their latent demand from translating into effective demand for micro-insurance. In such situations easing credit constraint rather than subsidizing premium may help to improve the reach of micro-insurance scheme.

Role of Government

The Government of India continues to make huge investments in rural India with an effort to improve quality of life of the rural masses and urban poor. However, many of the interventions are supply driven and are generally unsustainable. It is now commonly accepted that the involvement of the rural community in all facets, from planning to implementation to post implementation operation and maintenance is imperative if interventions are to be sustainable. Consequently, the government is now gradually shifting from being a provider to becoming facilitator. Further, instead of investing more and more on healthcare infrastructure and its maintenance to provide free access to public healthcare services, it is more convenient to integrate healthcare facilities into micro-insurance schemes and subsidizing premium to make them viable and stable schemes.

The Government involvement is also required to direct micro-finance towards rural India. India has a wide network of banks but the low-income people especially in rural areas have been largely by-passed by formal banks. It becomes imperative for the Government to have clear thinking on how to promote micro-finance with insurance cover to have positive impact on poverty reduction and empowerment of the poor.

Development of micro-credit does not mean that government is spared of its responsibility. The experience with micro-insurance in the country suggests that micro-insurance cannot progress if it is totally market-based, in fact it needs external funding. The experience world over in micro-insurance schemes suggests that these schemes critically depend on some external funding and in a social sector like health there is a clear justification of subsidy to the low-income people. In India, government provides subsidy to two popular micro-insurance schemes viz., Universal Health and Janshree Life for BPL families. However, profit in these schemes, if any, should be kept in separate policyholders fund and should be utilized for further reducing the rates or to meet the catastrophe.

Micro-insurance advocates argue that selling insurance to poor will give households new freedom to pursue profit without fear. They also argue that incomes will rise as a result and poverty will fade substantially. They then argue that the micro-insurance projects should be generously subsidized by the government. It is cheaper than blocking the funds in creating infrastructure and maintaining it. Private sector can take care of building efficient infrastructure in health and micro-credit sector. Government can provide essential subsidy for up-scaling, extending and expanding micro-insurance scheme.

Role of Regulator

The forms of controls and regulations exercised over insurance industry are shaped by political and economic philosophy of the country; its economic and social compulsions; and pressures from interested groups. Based upon these factors, different countries evolve their own regulatory mechanism. The nature of regulations and the extent to which they are applied in a country, determine the basic structure of insurance industry in that country. The Indian insurance industry is governed by the Insurance Act, 1938, General Insurance Business (Nationalization) Act, 1972, Life Insurance Corporation of India Act, 1956 and IRDA Act, 1999. Micro-insurance regulation is an emerging field and before the notification of Micro-Insurance Regulations – 2005, specific regulations for micro-insurance did not exist in India. It is recognized that regulations can either promote or restrict insurance provision for lower income groups. Regulations define the requirements of an insurer, provide consumer protection through supervision of insurers to safeguard their solvency and thus shield the customers from buying insurance from an unsuitable company. More specifically micro-insurance regulations:

- Protect poor customers from misleading sellers.
- Protect the financial viability of insurers.
- Define the general features of insurance marketing including actuarially approved pricing, type of products and kind of intermediaries.
- Ensure suitable products at fair price as each product and its pricing needs approval of regulator before it is placed for marketing amongst the consumers.
- Define the condition for entry and exit of players in the market and their social and rural obligations for rural population.

IRDA has done an outstanding job in creating a competitive environment by weaving a web of regulations dealing with designing and distribution of micro-insurance products. At present, the insurers are bound to a quota system that compels them to sell a percentage of their insurance policies to de facto low-income clients. Regulations, at present do not insist on a quota on rural branches but from time to time it may introduce system for opening branches so that insurance services are available over the entire geographical area of the country.

The regulation has been the vehicle for important innovation in the sector. The major challenge before regulator is to provide a framework in order to motivate formal insurers and to bring informal insurance providers in legally recognized micro-insurance set up. A joint effort is needed to move forward with increased sharing of information and increased co-ordination in future research efforts, work-shops and pilot projects to identify best practices for micro-insurance schemes.

Micro-insurance advocates argue that selling insurance to poor will give households new freedom to pursue profit without fear.

Conclusion

Everyone agrees that the country's insurance industry is on a roll. Micro-insurance that deals with insurance for poor is emerging in India. This is partly the result of policy intervention and partly due to the development of micro finance activity in the country. Insuring people with low-income is a significant challenge but it is also true that there is vast untapped market that insurers should realize. Innovations are required at all stages for product design, in pricing and in distribution channels. Success of marketing micro-insurance products depends on understanding the social and cultural needs of the target population with proper understanding of the dynamics of marketing-mix, rural conditions, felt needs and affordability of poor people.

A micro-insurance revolution could be a major step towards improving the well being of the poor and to help to improve the living conditions for those who do not have access to financial services (including micro-insurance). Concerted efforts are required from Government, Regulator, Micro-Financiers, NGOs, SHGs and donor agencies to find solutions to problems and then to turn these solutions into action step-by-step so that the vulnerability of the poor can be reduced. The current reach of micro-insurance is limited, but when regulations have been put in place and policy-induced and institutional innovations are promoting micro-insurance among the poorest, micro-insurance for sure will not remain a no-go zone for the insurers.

The author is a Retired Senior Officer, LIC of India.

प्रकाशक का संदेश

बीमा वायदों का व्यवसाय है तथा किये गये वादों का सम्मान होना चाहिये। जब लम्बे समय तक पालिसीधारक अपनी प्रतिबद्धता को पूरा करते है यदि पालिसीधारक की अपेक्षाओं के अनुरूप निर्वहन करने में असफल रहें इसके दुःखद परिणाम बीमाकर्ता की छवि के लिए होंगे। इतिहास ने विपुलता से इसका प्रदर्शन किया है कि ऐसी असफलता अंततः बीमाकर्ता को व्यवसाय से बाहर कर देगी। इस व्यवसाय का ध्यान रखते हुए कि बीमाकर्ता ऐसी स्थिति का सामना न करे यह प्राथमिक रूप से बहुत महत्वपूर्ण है कि इनका पूर्ण-पूँजी करण किया जाए।

भारत में वर्तमान सोल्वेंसी सत्ता जो भारतीय बीमा उद्योग के लिए है वह सरल है तथा वह जोखिम पोर्टफोलियो तथा अधिक जोखिम का पोर्टफोलियो नहीं में विशेष अंतर करती। बीमाकर्ता के सोल्वेंसी आवश्यकताओं के बारे में अधिक मुद्दे नहीं है न ही ऐसा कोई अवसर है पर्यवेक्षकों के लिए कि वह मामले में दखल दे तथा जानकारी प्राप्त करें। यह सदैव अनुभव किया गया है कि ऐसी परंपरागत प्रणाली लम्बे समय के लिए ठीक नहीं होगी क्योंकी इसमें बडी पूँजी को एक तरफ रखना पडता है जिसे अधिक प्रभावशाली ढंग से लगाया जा सकता था। जिससे अधिक लाभ किया जा सकता था। इसको देखते हुए कई उन्नत बाजार जोखिम आधारित पूँजी प्रणाली अथवा सोल्वेंसी। पूँजी मानक की तरफ अग्रसर हुए है और यह भारतीय बीमा उद्योग के लिए वांछित भी है। जिससे नियत समय में ग्लोबल प्रथाओं की तरफ जा सकें।

जोखिम आधारित पूँजी सत्ता जोखिम का मूल्यांकन अलग अलग वर्ग के व्यवसाय के लिए देयता तथा सम्पत्ति के आधार पर करती है तथा इसके लिए बलशाली, विस्तृत तथा गहरे डाटाबेस की आवश्यकता है। किसी भी प्रकार के जोखिम के मूल्यांकन के लिए डाटाबेस की गुणवत्ता का आधार होगा इसकी अनुपस्थिति में जोखिम का मूल्यांकन मुख्य रूप से विषय परक होगा तथा उस हद तक जिसके कारण यह विश्वसनीय नहीं है। दुर्भाग्यवश यह एक ऐसा क्षेत्र है जिसमे भारतीय डोमेन की स्थिति अधिक मजबूत नहीं है तथा यह मजबूत अंशदान – उद्यमियों से तथा पर्यवेक्षकों से अपेक्षित है। यदि हमें आर.बी.सी. को निकट भविष्य में सफलतापूर्वक लागु करना है । इस तथ्य से भी नकारा नहीं जा सकता कि हाथ में लिया गया कार्य उद्यमियों तथा विनियामक के लिए बड़ा है। लेकिन इस तथ्य को जानते हुए कि कोशिश एक तरफ ग्लोबल मानक की तरफ जाने की है, तथा साथ ही दूसरी तरफ बेहतर निपूर्णता को पूँजी के प्रयोग के लिए है। आये निश्चय करे की संपूर्ण अनुपालन होगा।

भारतीय बीमा उद्योग में जोखिम आधारित पूँजी इस अंक के केन्द्र बिन्दू में है। वैसे इसके दो विकल्प नहीं है कि किसी भी व्यवसाय का आधार लाभ होता है यहां "अच्छी प्रथाएँ'' व्यवसाय के लिए है जिससे इसे प्राप्त किया जा सकता है। जर्नल के अगले अंक के केन्द्र बिन्दू में ''बीमा में सर्वोत्तम प्रथाएँ होगा''।

जे. हरि नारायण
अध्यक्ष

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दृष्टि कोण

अभी तक बीमा उद्योग ने वित्तिय संकट को संभाला है। फिर भी कुल मिला कर वित्तिय क्षेत्र ने अति-आशावादी मूल्यांकन के मामले देखे हैं जिन्होंने वर्तमान वित्तिय संकट ने उत्पन्न किया है।

श्री अल ग्रोस

अध्यक्ष, तकनिकी समिति, आई.ए.आई.एस

राज्य की सुदृड साल्वेंसी विनियामक प्रणाली तथा उपभोक्ता संरक्षण ने उपभोक्तओं को भली-भति सेवा प्रदान की है, जैसा की बीमा बाजार की अपेक्षाकृत, स्थिरता से प्रतीत होता है।

सुश्री थैरेसी एम. वगाहन

एन.ए.आई.सी. की मुख्य कार्यपालक अधिकारी

अन्तराष्ट्रीय वित्तिय प्रणाली पिछले वर्ष एक असाधारण दबाव तथा गहरी आर्थिक मंदी विश्व भर में देखी है। हालाँकि अन्तराष्ट्रीय वित्तिय स्थिति में स्थिरता आयी है। स्थिति अभी भंगुर है और हमें सावधान रहने की आवश्यकता है।

श्री गोह चोक टोंग

वरिष्ठ मंत्री तथा अध्यक्ष, सिगापुर मौनेटरी एथोरटी

सभी बीमा कंपनियों के कार्य में अधिक पारदर्शता लाने के लक्ष्य के रूप में इन अतिरिक्त प्रकटीकरण को मानना होगा। सभी बीमा फर्मों के लिए यह अनिवार्य होगा कि वे अंतरस्थापित अथवा अंतर्भूत मूल्य को प्रति वर्ष प्रकट करें।

श्री जे हरि नारायण

अध्यक्ष, बीमा विनियमक विकास प्राधिकरण, भारत

चीन में संकट का प्रभाव अन्य देशों की तुलना में न केवल इसलिए कम हुआ कि सरकार ने उत्तेजक पैकेज उपलब्ध करवाया वरन् चीन की आर्थिक प्रणाली अभी भी ग्लोबल आर्थिक प्रणाली से अंशतः जुडी हुई है।

श्री एडेयर टर्नर

अध्यक्ष, वित्तिय सेवा प्राधिकरण - यू के

समुह पर्यवेक्षण का विवेकपूर्ण लक्ष्य यह सुनिश्चित करना है कि समुह वित्तिय रूप से मजबूत हो तथा समुह की गतिविधियों तथा आन्तरिक संबन्ध लाइसेंस बीमाकर्ता के अपने ग्रुप के अन्दर वित्तिय सुदृढता को बुरे रूप से प्रभावित न करे।

श्री जान ट्रोब्रिज

कार्यकारी सदस्य, आस्ट्रेलिया प्रुडेंशल विनियामक प्राधिकरण

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बच्चों का भविष्य - माँ-बाप की योजना

आर.एन.आई.एस. रिसेर्च ब्यूरो

चिंता का चिंतन

वो दिन लद गए जब बच्चों का भविष्य अधिकतर स्वयं उन्हीं पर निर्भर करता था। आज आप के बच्चे का भविष्य उतना ही आप पर निर्भर है जितना कि स्वयं उस पर! हमारा तात्पर्य बच्चों के कुलीन जीवन के वास्ते उसकी उच्च शिक्षा के लिए धन, व्यवसाय के लिए आरम्भिक पूँजी एवं विवाह के लिए भारी खर्च के इन्तज़ाम से है।

यह कोई बहुत ज़्यादा पुरानी बात नहीं है जब मध्यम वर्गीय माता-पिता अपने बच्चे की एम.बी.ए. डिग्री के लिए दो लाख रूपए का प्रबन्ध मात्र 50,000/- रू. पी.पी.एफ., एन.एस.सी. अथवा सावधि-जमा में निवेश करके अस्वस्थ हो जाते थे क्योंकि वह 50,000/- रू. दस-बारह वर्षों में दो लाख बन जाता था। आज न तो दस-बारह साल में पचास हजार के दो लाख होने का आश्वासन है और न ही दो लाख रू. में एम.बी.ए. की डिग्री की पढ़ाई सम्भाव है।

> सरल भाषा में कहें तो मुद्रा स्फीति का अर्थ है किसी वस्तु अथवा सेवा के लिए पहले से अधिक कीमत चुकाना।

इस आर्थिक प्रलय में एक ओर तो पी.पी.एफ. / एन.एस.सी. एवं सावधि-जमा जैसे सुगम सरल निवेश-मार्गों से मिलने वाले लाभ में गिरावट का भयावह सूखा है तो दूसरी ओर विकराल मुद्रा स्फीति की झुलसाने वाली लू! पी.पी.एफ. / एन.एस.सी. से मिलने वाले लाभ में हुई कमी तो प्रत्यक्ष दर्शी है – 12% से घटकर 8% पर आ लगी है – अर्थात जो पचास हज़ार रुपए दस-बारह साल बाद दो लाख होकर मिलता था अब यह डेढ लाख भी हो जाए तो बहुत समझिये। परन्तु मुद्रा स्फीति एक ऐसी अदृश्य लाठी है जो दिखती तो नहीं पर निरंतर घाव पर घाव दिए जा रही है।

सरल भाषा में कहें तो मुद्रा स्फीति का अर्थ है किसी वस्तु अथवा सेवा के लिए पहले से अधिक कीमत चुकाना। आइऐ इस को ऐसे समझने का प्रयास करें। आप अपने पाँच वर्षीय बच्चे के बारे में चाहते हैं कि वह कालेज की पढ़ाई पूरी करके एम.बी.ऐ की पढ़ाई करे। एम.बी.ए कोर्स की फ़ीस आज छः लाख रुपए है, पर आप के बच्चे को तो अभी पंद्रह साल बाद यह कोर्स करना है। यदि इस फीस में प्रति वर्ष औसतन आठ प्रतिशत की वृद्धी हो तो पंद्रह वर्षो बाद एम.बी.ए. के लिए आपको चाहिए होगा लगभग बीस लाख रुपया! और यह भी केवल कोर्स फ़ीस के लिए; बाकी का खर्च अलग से।

भले ही उपरोक्त उदाहरण केवल उच्च शिक्षा के संदर्भ में दर्शाया गया है परन्तु बच्चे का विवाह हो, उसके लिए सम्पत्ती खरीदने के लिए योजना हो अथवा व्यापार आदि के वास्ते पूँजी जुटानी हो, कहानी सभी संदर्भों में एक जैसी ही होगी। किसी भी रूप में देखें, मुद्रा स्फीति आपकी योजनाओं में दरारें पैदा कर सकती है। सो, समझदारी का तकाजा यह है कि बच्चे के भविष्य के लिए वृहद् आर्थिक योजना बनाएं।

शुभस्य शीघ्रं

प्रायः माता-पिता बच्चे के लिए निवेश प्रक्रिया में इसलिए देर कर देते हैं क्योंकि उनके पास पर्याप्त धन नहीं होता और वे किसी 'सही' मौके की प्रतीक्षा में इस प्रक्रिया को टालते जाते हैं। इस से बचें। उचित यह होगा कि निवेश-प्रक्रिया तो प्रारंभिक अवश्था में ही शुरू कर दें और जो कमी-पेशी है उसे बाद में पूरा किया जा सकता है। निवेश प्रक्रिया शुरू करने में देरी का अर्थ है आर्थिक लक्ष्य को कठिन से कठिनतम् बनाना।

आइए एक सीधा सा उदाहरण देखें

मानो गुप्ता परिवार एवं सिरोही परिवार अपने-अपने बच्चे के लिए आज से 15 वर्षो बाद के

लिए पूँजी जुटाने का एक-सा लक्ष्य बनाते हैं। गुप्ता परिवार तो अभी से 10,000/- प्रतिवर्ष 8% की लाभ-दर पर निवेश शुरू कर देता है और सिरोही परिवार आज से सात वर्ष बाद 20,000/ – प्रतिवर्षत 8% लाभ दर पर निवेश करता है।

आप देखिए, आज से 15 वर्ष पश्चात गुप्ता परिवार के पास बच्चे के लिए तीन लाख से भी अधिक की पूँजी होगी जब कि सिरोही परिवार के पास दो लाख से भी कम! संदेश स्पष्ट है! जल्दी शुरू कीलिए अधिक लाभ अर्जित कीजिए।

अभिभावकों में बच्चों का बीमा अधिक लोकप्रिय है क्योंकि यह मार्ग अधिक आश्वस्त, सरल एवं सुगम है।

कहां करें निवेश?

यह तो हुआ बच्चे के भविष्य क लिए योजना क्यों और कब। आइए थोड़ा उपलब्ध निवेश साधनों पर गौर कर के देखें। वैसे तो आपके बच्चे के भविष्य के लिए वित्तीय योजना क्रम में इक्विटीज़, म्युचुअल फण्डज़, निश्चित-आय दस्तावेज़ एवं इन्श्यूरेंस जैसे सभी साधनों का समावेश होना चाहिए, परन्तु यहां हम अभी केवल इंश्यूरेंस विकल्पों की चर्चा करेंगे।

अभिभावकों में बच्चों का बीमा अधिक लोकप्रिय है क्योंकि यह मार्ग अधिक आश्वस्त, सरल एवं सुगम है। मोटे तौर पर हम बच्चों से सम्बन्धित बीमा उत्पादों को दो श्रेणियों मं बांट सकते हैं –

- एक वो जो केवल बीमा-आवरण ही प्रदान करती है,
- दूसरी वो जो लाभ और बीमा-आवरण दोनों की जुगल बन्दी हैं जैसे कि निवेश-सन्धि वाली बीमा योजनाएं।

आप की योजना में दोनों तरह के उत्पाद को स्थान मिलाना चाहिए। उदाहरण के लिए जहां टर्म प्लान में कम कीमत पर मिला बीमा-आवरण आपके न रहने की स्थिति में आप के बच्चे के लिए आर्थिक सम्बल प्रशस्त करेगा, वहां एन्डाउमेंट अथवा यूलिप्स जैसी निवेश युक्त पॉलिसी एक लम्बे अरसे में अच्छी-खासी धन राशी जुटाने में सहायक सिद्ध होगी।

सौजन्य आर एन आई एस. रिसर्च ब्यूरो

कितनी लाभदायक हैं गारंटिड रिटर्न वाली बीमा योजनाएं?

आर.एन.आई.एस. रिसर्च ब्यूरो

पिछले वर्ष की तीसरी तिमाही ने लुढ़क गए शेयर बाजारों में दलाल स्ट्रीट में भारी नुक्सान से निराश छोटे निवेशकों का वृहत् पलायन देखा। अपनी दूभर बचत के लिए किसी सुरक्षित शरणस्थली के प्रति आश्वस्त न होने के कारण निवेशक चिर् परीक्षित पारम्परिक परन्तु अनुदार विकल्प अर्थात बैंको की ओर कूच करने लगा जहां कम से कम उसका मूलधन सुरक्षित था चाहे उस पर मिलने वाला लाभ उदार न सही। जल्दी ही बैंक आपसी होड़ में बेहतर ब्याज दरों की पेशकश करते दिखे जिसके फलस्वरूप उनके खजानों में धन की बाढ़ सी आ गयी। इस से बीमा कम्पनीयां अपनी प्रीमियम आय के स्रोत सूखते देखकर सकते में आ गयीं।

तब बीमा कम्पनीयों के पास यूलिप्स से सचेत हुए ग्राहकों को लुभाने के लिए क्या विकल्प रह गया था?

बीमा कम्पनीयों ने अपने वृद्धी के इतिहास को उलट पलट कर देखा तो पाया कि ग्राहक तब दक उनके द्वार पर नही आयेगा जब तक कि वह इस बात को लेकर आश्वस्त नहीं होता कि उसका निवेश धन न केवल सुरक्षित है बल्कि उसे बीमा कम्पनी के ओर से निश्चित लाभ की गॉरंटी भी है। फिर इस पर यदि बीमा कम्पनी जोखिम-आवरण भी दे दे तो यह ग्राहक को लुभाने में सोने पे सुहागा है जिस पर हर लोलुप निवेशक उछल पड़ेगा। और ऐसा हुआ भी है जिसका प्रमाण है एल.आइ.सी. की क्लोज-एन्डिड ''जीवन आस्था'' एकल प्रीमियम पालीसी जिसने मात्र 45 दिनों में दस हजार करोड़ रुपये समेट लिए। एल.आइ.सी. को यह वित्त बाजार की वाष्प-स्वरूप स्थितियों में काया पलट जैसा लगा तथा वह इस के तुरंत बाद सतत् प्रीमियम भुगतान वाली पालीसी – ''जीवन वर्ष'' – ले आयी है। यदि कोई यह समझता हो कि ऐसी सफलता का केवल यही एक उदाहरण है तो उसे फिर से सोचना होगा क्योंकि लगभग हर एक बीमा कम्पनी की थाली में एक ना एक ऐसा उत्पाद मौजूद है।

ये गॉरंटेड लाभ अथवा आश्वस्त लाभ वाले उत्पाद हैं क्या? सरल शब्दों में ये वो बीमा योजनाएं है जिनके अन्तर्गत खरीदार (अर्थात पॉलीसी धारक) को उसके प्रीमियम में निवेश वाले धन पर एक निश्चित लाभ-दर का आश्वासन दिया जाता है। कम्पनी एक निश्चित धन का जीवन बीमा आवरण भी प्रदान करती है और ये बीमा धन पूर्ण अवधि में एक समान भी रह सकता है अथवा वर्ष-प्रति-वर्ष परिवर्तनशील भी हो सकता है।

> यदि बीमा कम्पनी जोखिम-आवरण भी दे दे तो यह ग्राहक को लुभाने में सोने पे सुहागा है जिस पर हर लोलुप निवेशक उछल पड़ेगा।

किसी खरीदार के द्वारा दिये गये प्रीमियम में दो घटक सम्मिलित होते है – मृत्यु आवरण की बीमित व्यक्ति की आयु से सम्बद्ध है, तथा निवेश के लिए बाकी धन। अतः जब तक कि आयु के अनुसार प्रतिवर्ष परिवर्तित प्रीमियम ना लिया जाय, जब तक निवेशत धन पर लाभ व्यक्ति की आयु पर निर्भर करेगा।

इसको और अधिक स्पष्ट करने के लिए आइऐ एल.आइ.सी. की प्रीमियम वसूली की दृष्टि से सर्वाधिक बिकी पॉलीसी जीवन आस्था पर नजर डालें। इस योजना में दस वर्ष की अवधि वाली पॉलसी में गॉरंटेड बोनस की दर 100 रुपये प्रति हजार तथा पॉच वर्ष की अवधि वाली पॉलीसी पर 90 रुपये प्रति हजार है जो वास्तविक रूप में बीमित व्यक्ति की आयु के आधार पर क्रमशः 7.25 प्रतिशत तथा 4.75 जा बैठती है। इसके अतिरिक्त मृत्यु होने पर मिलने वाला बीमा धन भी प्रतिवर्ष परिवर्तनशील है। प्रथम वर्ष को छोड़कर बाद के वर्षों में बीमा धन उग्र रूप से कम होता चला जाता है।

दूसरी विविधाः सतत् प्रीमियम गॉरंटिड रिटर्न

(यूलिप्स प्रायः यही गॉरंटी देता है) मृत्यु हितलाभ अर्पण करती है जो आमतौर पर या तो (देय तिथि पर) 'केवल फंड वैल्यू' होगी या फिर 'फंड वैल्यू तथा बीमा राशी' दोनों हो सकती है। पहला विकल्प अर्थात 'केवल फंड वैल्यू' वास्तव में बीमा है ही नहीं, और दूसरा विकल्प – अर्थात 'फंड वैल्यू तथा बीमा राशी' – मृत्यु बीमा आवरण की भारी कीमत के साथ आता है।

अब प्रश्न ये है कि यदि आपसे बीमा आवरण का मोल वसूला जा रहा है तो आप वही मोल (या फिर सम्भवतः उससे भी कम) देकर केवल बीमा आवरण वाली पॉलीसी ही क्यों ना लें। निवेशण योजना से जुड़ा हुआ बीमा आवरण लेने में भला क्या तुक है।

वार्षिक प्रीमियम गॉरंटेड रिटर्न वाली यूलिप पॉलीसी में आप को कम से कम तीन वर्ष तक का प्रीमियम देना होता है तथा धन वापसी की इजाज़त पॉच वर्ष के लाक-इन काल के बाद होती है। एकल प्रीमियम यूलिप पॉलीसी की तरह इन पॉलीसीयों में भी आप का प्रीमियम म्यूच्वल फंड में निवेशित होता है और आप को न्यूनतम् लाभ की गॉरंटी दी जाती है – और वो भी केवल प्रथम प्रीमियम पर! और यदि आप विभिन्न शुल्कों का हिसाब करें तो यह गॉरंटी भी निरर्थक हो जाती है। इस तरह म्यूच्वल फंड में सीधे निवेश करना एक बेहतर एवं सस्ता विकल्प लगता है।

विभिन्न शुल्क गॉरंटेड लाभों को किस हद तक कम देते है इसका उदाहरण है आइ.सी. आइ.सी.आइ. प्रूडन्श्यल का ''रिटर्न गॉरंटेड फंड'' – आर.जी.एफ.। आर.जी.एफ. का एक यूनिट पॉच साल में पचास प्रतिशत की गॉरंटेड रिटर्न के साथ 10 रुपये में मिलता है अर्थात पॉच वर्ष बाद उसका गॉरंटेड ''शुद्ध आस्ति मूल्य'' (एन.ए.वी.) 15 रुपये होगा। इस आश्चर्य जनक योजना का लाभ आप तभी उठा सकते है यदि आप उन की वार्षिक प्रीमियम वाली योजना – 'लाइफ स्टेज पेन्शन' या 'लाइफ स्टेज गोल्ड' – में शामिल हो। आप कहेगें, ठीक है कम से कम मेरे प्रथम प्रीमियम पर पचास प्रतिशत का गॉरंटेड लाभ तो

यदि आप को मृत्यरोपरांत लाभ की चिंता है तो एक विशुद्ध जीवन बीमा पॉलीसी खरीदिये जिसमें बन्दोबस्ती, निवेश, धन-वापसी, गॉरंटिड रिटर्न की साज-सज्जा ना हो।

मिल रहा है। इसका उत्तर है 'नहीं' क्योंकि आप के प्रथम प्रीमियम का केवल एक भाग ही यूनिट खरीदी पर लगाया जायेगा। आप के दिये गये प्रीमियम का लगभग 20 प्रतिशत 'प्रीमियम ऐलोकेशन' शुल्क के रूप में काटा जाना है। इसका अर्थ ये हुआ कि यद्यपि आप तो ये आशा कर रहे हैं कि 50 प्रतिशत की गॉरंटेड रिटर्न के कारण आप का 10 रुपये वाला यूनिट 5 वर्ष के पश्चात् 15 रुपये दिलायेगा जबकि 5 वर्ष के बाद वास्तविक लाभ 20 प्रतिशत के आसपास रह जायेगा। यह तो बड़ी दयनीय गॉरंटी हुई! बैंक के सावधि जमा में आप को इससे ज्यादा मिल जायेगा। इतना ही नही, कुछ दुसरे शुल्क – जैसा कि पॉलीसी एडमिनिस्ट्रेश चार्ज (6 प्रतिशत प्रतिवर्ष) तथा मृत्यु आवरण चार्ज – यूनिटों को रद्द करके वसूले जाते हैं। मतलब यह कि आप इसका तो अनुभव ही नहीं कर पायेंगे। आप की दृष्टि तो शुद्ध आस्ति मूल्य (एन.ए.वी.) पर केन्द्रित रहेगी जबकि यूनिटों की संख्या वर्षोपरांत क्रमशः घटती जायेगी। कुल मिलाकर ऐसा नहीं लगता कि इसे 'गॉरंटिड रिटर्न' ना कह कर 'गॉरंटिड चार्ज' योजना कहा जाए?

गॉरंटिड रिटर्न बीमा योजनाएं ना तो फिक्स्ड लाभ वाले अन्य साधनों (जैसा कि बैंक सावधि जमा, पी.पी.एफ. आदि) से अधिक लाभ की गॉरंटी देती हैं न ही सस्ता बीमा आवरण। वास्तविकता ये है कि यूलिप्स की ये योजनाएं मात्र म्यूच्वल फंड में ही निवेश करती हैं। तो फिर क्यों अतिक्ति शुल्क दिया जाये और गुप्त क्लाजों का शिकार बना जाये?

टेक्स नियोजन के इस समय में आप के मूलधन का सर्वोत्तम एवं सर्वोच्च लाभकारी उपयोग ये होगा कि आप इसे सीधे म्यूच्वल फंड में या सुप्रतिष्ठित 'इक्विटी लिंक्ड सेविंग स्कीम' (ई.एल.एस.एस.) वाले म्यूच्वल फंड में करे। इन में यूलिप्स अथवा अन्य गॉरंटिड रिटर्न बीमा योजानाओं के मुकाबले कम शुल्क जुड़े है। केवल इस लिए कि आप ने बाजार में ऊँचे भावों के समय निवेश करने का गलत निर्णय ले लिया था अब सस्ते भावों के समय खरीदने में हिचकिचाहट क्यों?

यदि आप को मृत्यरोपरांत लाभ की चिंता है तो एक विशुद्ध जीवन बीमा पॉलीसी खरीदिये जिसमें बन्दोबस्ती, निवेश, धन-वापसी, गॉरंटिड रिटर्न की साज-सज्जा ना हो। इस तरह आप बीमा आवरण के लिए बहुत कम प्रीमियम देगें और आप को ये भी स्पष्ट रहेगा कि आपको वास्वत में क्या मिलेगा। उदाहरण के तौर पर एल.आइ.सी. की 'जीवन अनमोल' विशुद्ध बीमा आवरण प्रदान करती है। यदि आप की आयु 30 वर्ष है तो आप 5 लाख रुपये के लिए दस वर्ष का बीमा 1200 रुपये वार्षिक अथवा 8300 रुपये एकल प्रीमियम देकर ले सकते है।

(अर्थात बीमा आवरण आपके वार्षिक प्रीमियम का 400 गुणा या एकल प्रीमियम का 60 गुणा!)

सौजन्य आर.एन.आई.एस. रिसर्च ब्यूरो

नयी अंशदायी पेन्शन योजना - वृद्धावस्था हेतु आर्थिक सुरक्षा

आर.एस. भटनागर कहते हैं कि, बेहतर स्वास्थ्य सुविधाओं के फलस्वरूप दीर्घ आयु तक जीवन (लान्गेविटी) में वृद्धि के कारण हो रहा है।

पेन्शन लोगों के लिए आजीवन आर्थिक सुरक्षा, सुनिश्चित करने का एक अद्वितीय साधन है, विशेषकर जब वृद्धावस्था के कारण उनकी आय सृजन-क्षमता क्षीण या समाप्त हो जाती है, परन्तु आर्थिक आवश्यकताऐं बनी रहती हैं।

प्रायः हम देखते हैं कि व्यक्ति अल्प या मध्यम् अवधि में उत्पन्न होने वाली आवश्यकताओं या दायित्वों की पूर्ति हेतु योजना बनाते है, जैसे मोटरकार खरीदने या अपने बच्चों की शिक्षा हेतु व्यवस्था। यह अच्छी बात हैं, परन्तु इससे भी अधिक यह आवश्यक हैं कि हम अपनी दूरगामी एवं दीर्घकालीन आवश्यकताओं, जैसे सेवानिवृत्ति के उपरान्त अपनी आर्थिक आवश्यकताओं की पूर्ति हेतु योजना बनायें।

यदि सम्पूर्ण विश्व में बीमा कम्पनियों द्वारा प्रदान की जाने वाली सुरक्षा योजनाओं एवं सेवाओं की ओर देखा जाए तो हम पाते हैं कि मुख्यतः यह दो प्रकार के जोखिमों को आवरित करते है:-

1. शीघ्र मृत्यु का जोखिम तथा 2. अधिक आयु तक जीवित रहने का जोखिम।

यद्यपि समान्यतः बीमा प्रथम् प्रकार के जोखिम (शीघ्र मृत्यु) तक ही सीमित समझा जाता रहा हैं परन्तु बदलते आर्थिक एवं सामाजिक परिदृश्य में लगभग सभी बीमा कम्पनियाँ अपने वार्षिकी (ऐन्यूटी) व्यवसाय में निरन्तर उत्तरोत्तर वृद्धि कर रही हैं। ऐसा बेहतर स्वास्थ्य सुविधाओं के फलस्वरूप दीर्घ आयु तक जीवन (लान्गेविटी) में वृद्धि के कारण हो रहा है।

जीवन बीमा व्यवसाय की तुलना में ऐन्युटी व्यवसाय में जोखिम अधिक होता हैं। अधिक जोखिमों के कारण बीमा कम्पनियों के समक्ष दो बड़ी चुनौतियाँ हैं:

- पहली ऐसे उत्पाद विकसित करना जिनमें लोगों की बदलती आवश्यकताओं की पूर्ति का आकर्षण हो तथा दूसरी अनिश्चित (वोलेटाइल) मुद्रा बाज़ार में निवेषकों के हितों की सुरक्षा।

इस प्रकार की योजनाऐं निम्नांकित कारणों से अति महत्वपूर्ण हैं:

- ऐसा देखने में आ रहा हे कि पिछले 10-15 वर्षो में लोगों के सामान्य स्वास्थ्य में सुधार के कारण मृत्युदर में ह्रास हो रहा हैं, अतः 60 वर्ष से अधिक आयु वर्ग में तेजी से वृद्धि हो रही है तथा आगामी 20 वर्षों में यह संख्या दोगुनी हो जाजाऐगी। भारत में लगभग 8 करोड़ वृद्ध हैं, जो कि संसार में वृद्धों की कुल संख्या का लगभग आठवाँ भाग है। इस वर्ग में 3.8 प्रतिशत की दर से वृद्धि हो रही है जबकि कुल जनसंख्या की वृद्धि दर 1.8 प्रतिशत ही है। लगभग 31.7 करोड़ लोगों में से 3.5 करोड़ लोगों को ही किसी प्रकार की पेंन्शन सुविधा प्राप्त हो रही है। परन्तु असंगठित क्षेत्र के लोगों को अभी तक किसी पेंन्शन योजना का लाभ नहीं मिल पा रहा है।

अभी तक केवल संगठित क्षेत्र, विशेषकर केन्द्रीय तथा प्रदेशीय सरकार तथा कुछ बड़े निगमों एवं

> **जीवन बीमा व्यवसाय की तुलना में ऐन्युटी व्यवसाय में जोखिम अधिक होता हैं। अधिक जोखिमों के कारण बीमा कम्पनियों के समक्ष दो बड़ी चुनौतियाँ हैं।**

> नयी पेंन्शन योजना असंगठित क्षेत्र के वृद्ध लोगों को आर्थिक सुरक्षा सुनिश्चित करेगी। यह योजना स्वैच्छिक है।

कम्पनियों के कर्मचारियों को ही मुख्य रूप से पेंन्शन सुविधा उपलब्ध है। परन्तु इन योजनाओं को कार्यान्वित करने में सरकार तथा नियोक्ताओं को अत्याधिक आर्थिक बोझ वहन करना पड़ रहा हैं। वर्ष 1993-94 में इस मद पर व्यय सकल घरेलू उत्पाद (जी.डी.पी.) का 0.66 प्रतिशत था जो वर्ष 2005-06 में बढ़ कर 1.69 प्रतिशत हो गया था।

किसी ग्राह्य एवं प्रभावी पेंन्शन योजना को निम्नांकित 3 मूल स्तरों पर खरा उतरना चाहियें:-

स्तर एक – इसके अंन्तर्गत शासन द्वारा देश के सभी लोगों को एक योजना द्वारा आवरित किया जाता है। इसका उद्देश्य गरीबी रेखा कम करना होता है। हमारे देश में सरकार द्वारा लागू इस योजना में 65 वर्ष से अधिक वृद्ध एवं दरिद्र लोग ही राष्ट्रीय सामाजिक सुरक्षा योजना द्वारा लाभान्वित होते है।

स्तर दों – यह एक अनिवार्य व्यवसायिक पेंन्शन योजना होती है जिसके अन्तर्गत कर्मचारी एवं नियोक्ता पेंन्शन फंड में योगदान करते हैं। इसमें संगठित क्षेत्र को निर्धारित अंशदान दथा निर्धारित हितलाभ आदारित योजनाओं द्वारा लाभ प्रदान किया जाता है।

स्तर तीन – यह स्वैच्छिक योजना है जो निजी सोतों द्वारा लोगों की बचत तथा बीमा द्वारा वित्तपोषित की जाती है। यह पूर्णरूपेण स्वैच्छिक एवं सीमित योजनाऐं है, जिन्हें लोक भविष्य निधि, सेवानिवृत्ति योजनाओं तथा वैयक्तिक बीमा योजनाओं द्वारा लागू किया जा सकता हैं।

कुछ समय पहले तक उपलब्ध पेंन्शन योजनाओं का लाभ बहुत कम लोगों (संगठित क्षेत्र तक ही) को मिल रहा था।

उपरोक्त तथ्यों को ध्यान में रखते हुऐ भारत सरकार ने एक नई अंशदायी पेंन्शन योजना लागू कर दी है।

नई अंशदायी पेंन्शन योजना

ऐसी किसी समन्वित पेंन्शन योजना के सभी पहलुओं पर विचार करने हेतु भारत सरकार ने वर्ष 2001 में एक विशेषज्ञ समिति (एक्सपर्ट ग्रुप) का गठन किया। इस समूह / समिति की संस्तुतियों के आधार पर अक्टूबर 2003 में पेंन्शन निधि नियामक तथा विकास प्राधिकरण (पी.एफ.आर.डी.ए.) का गठन किया गया। योजना के प्रभावी क्रियान्वयन एवं संचालन हेतु नवम्बर 2008 में नेशनल डिपाज़िटरी लिमिटेड को सेन्ट्रल रिकार्इ कीपिंग एजेन्सीः- बैंक ऑफ इण्डिया को ट्रस्टी तथा एस.बी.आई., यू.टी.आई.ए.एम.सी. तथा एल.आई.सी. को फन्ड मैंनेजर नियुक्त किया गया। इन फन्ड मैनेजरों द्वारा अंशदाता (सदस्य) को इन्डेक्स नं. आंबटित किया जाएगा तथा सदस्यों के निवेश का लेखा-जोखा दैनिक एन.ए.वी. के आधार पर रखा जाऐगा।

नयी पेंन्शन योजना असंगठित क्षेत्र के वृद्ध लोगों को आर्थिक सुरक्षा सुनिश्चित करेगी। यह योजना स्वैच्छिक है परन्तु सकल घरेलू उत्पाद (जी.डी.पी) के 35 प्रतिशत तक की जाने वाली बचतों के कारण देश का कामगार वर्ग (वर्किंग क्लास) स्वंयवित्त पोषित इस अंशदायी योजना में बचत द्वारा निवेश करने में उत्प्रेरित तथा उत्साहित होगा।

इस योजना की कुछ प्रमुख विशेषताऐं

निम्नांकित विशेषताओं के कारण यह योजना वृद्धावस्था हेतु आर्थिक सुरक्षा सुनिश्चित करने का सर्वोत्तम साधन बनेगीः

- कुल जनसंख्या के लगभग 88-90 प्रतिशत लोगों को लाभ प्राप्त होने की सम्भावना।
- किसी कर्मचारी (सदस्य) द्वारा अपना वर्तमान सेवा नियोजन (नौकरी) छोड़ कर किसी अन्य सेवायोजन में जाने की स्थिति में उसे अपनी संचित निधि के स्थनान्तरण की सुविधा।
- किसी अन्य पेंन्शन योजना की तुलना में क्रियान्वयन तथा संचालन लागत (आपरेशनल कॉस्ट) कम।
- कोई प्रवेश शुल्क (ऐन्ट्री लोड) तथा निकास शुल्क (एक्ज़िट लोड) न होना।

लेखक भारतीय जीवन बीमा निगम, लखनऊ मण्डल सेवानिवृत में प्रशासनिक अधिकारी हैं।

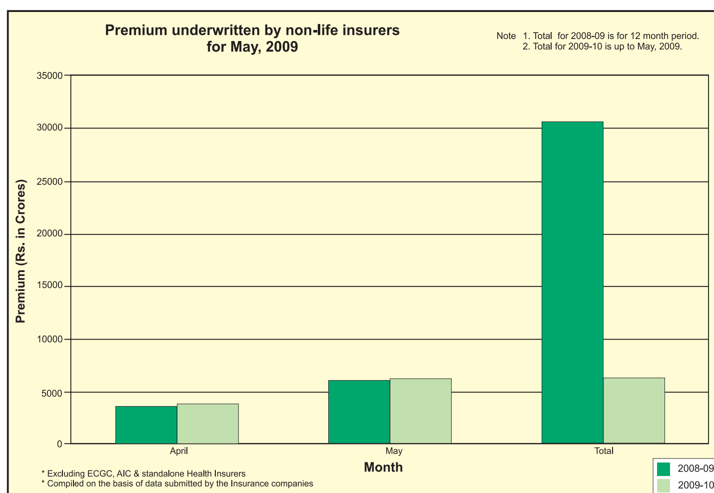
Report Card: General

GROSS PREMIUM UNDERWRITTEN FOR AND UP TO THE MONTH OF MAY, 2009

(Rs.in Crores)

INSURER	MAY		APRIL - MAY		GROWTH OVER THE CORRESPONDING PERIOD OF PREVIOUS YEAR
	2009-10	2008-09	2009-10	2008-09	
Royal Sundaram	64.50	56.90	142.66	131.05	8.87
Tata-AIG	59.51	74.08	206.95	222.05	-6.80
Reliance General	169.23	152.27	385.62	426.22	-9.53
IFFCO-Tokio	114.59	132.11	284.18	274.33	3.59
ICICI-lombard	206.71	257.56	631.37	800.84	-21.16
Bajaj Allianz	192.35	232.71	424.60	508.85	-16.56
HDFC ERGO General	46.75	16.61	136.17	31.22	336.17
Cholamandalam	62.15	52.42	166.86	147.46	13.16
Future Generali	28.70	9.19	62.49	19.55	219.55
Universal Sompo	8.60	0.05	27.24	0.18	
Shriram General @	17.18	0.00	44.34	0.00	
Bharti AXA General @	12.49	0.00	28.33	0.00	
Raheja QBE $	0.00	0.00	0.01	0.00	
New India	421.45	411.54	1177.47	1095.48	7.48
National	334.69	363.07	773.46	819.54	-5.62
United India	404.92	359.62	898.05	797.64	12.59
Oriental	345.29	304.85	836.43	731.93	14.28
PRIVATE TOTAL	**982.76**	**983.90**	**2540.80**	**2561.74**	-0.82
PUBLIC TOTAL	**1506.35**	**1439.08**	**3685.41**	**3444.59**	6.99
GRAND TOTAL	**2489.10**	**2422.98**	**6226.21**	**6006.33**	3.66
SPECIALISED INSTITUTIONS					
1.Credit Insurance					
ECGC	67.07	57.53	124.14	104.59	18.69
2.Health Insurance					
Star Health & Allied Insurance	9.98	4.47	151.16	62.68	141.17
Apollo DKV	9.57	3.94	14.71	5.44	170.22
Health Total	**19.54**	**8.41**	**165.87**	**68.12**	143.49
3.Agriculture Insurance					
AIC	34.42	19.56	80.24	43.24	85.55

Note: Compiled on the basis of data submitted by the Insurance companies
@ Commenced operations in July, 2008.
$ Commenced operations in April, 2009.



Date / Venue	Event
06 - 07 Jul 2009 Venue: NIA, Pune	**Global Meltdown and Lessons for the Insurance Industry** By *National Insurance Academy*
09 - 11 Jul 2009 Venue: NIA, Pune	**Reinsurance Management** By *National Insurance Academy*
10 Jul 2009 Venue: Federation House New Delhi	**17th Annual Strategic Issues Conference** By *FICCI*
22 - 23 Jul 2009 Venue: Beijing, China	**3rd Asian Conference on Microinsurance** By *Asia Insurance Review, Singapore*
23 - 25 Jul 2009 Venue: NIA, Pune	**Management of Motor Claims** By *National Insurance Academy*
04 - 05 Aug 2009 Venue: Singapore	**Motor Insurance Workshop** By *Asia Insurance Review, Singapore*
10 - 15 Aug 2009 Venue: NIA, Pune	**Effective Underwriting in General Insurance** By *National Insurance Academy*
20 - 22 Aug 2009 Venue: NIA, Pune	**Corporate Governance** By *National Insurance Academy*
24 - 26 Aug 2009 Venue: NIA, Pune	**Management of Motor Underwriting & Claims** By *National Insurance Academy*
31 Aug - 02 Sep 2009 Venue: NIA, Pune	**Management of Distribution Channels** By *National Insurance Academy*

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view point

Thus far, the insurance industry has weathered the financial crisis well. However, overall the financial sector has seen too many cases of over-optimistic valuations leading up to the current financial crisis.

Mr Al Gross
Chairman of Technical Committee, IAIS

State regulation's strong solvency system and consumer protections have served consumers well, as evidenced by the relative stability in the insurance markets.

Ms Therese M Vaughan
NAIC Chief Executive Officer

The past year has witnessed a period of extraordinary stress in the global financial system and a deep economic recession worldwide. Although the global financial condition has stabilised, the situation is fragile and we need to remain vigilant.

Mr Goh Chok Tong
Senior Minister and Chairman,
Monetary Authority of Singapore

All insurance companies will have to comply with the additional disclosures as the goal is to bring in more transparency in their operations. For instance, it will be mandatory for all insurance firms to disclose their embedded or intrinsic value every year.

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

The impact of the crisis in China has been less than in some other countries not only because of the government's stimulus package but also because the Chinese financial system is still only partially integrated into the global financial system.

Mr Adair Turner
Chairman, Financial Services Authority, UK

The prudential goal of group supervision is to ensure that the group is financially sound and that group activities and inter-relationships do not adversely affect the financial soundness of the licensed insurers within the group.

Mr John Trowbridge
Executive Member, Australian Prudential Regulation Authority