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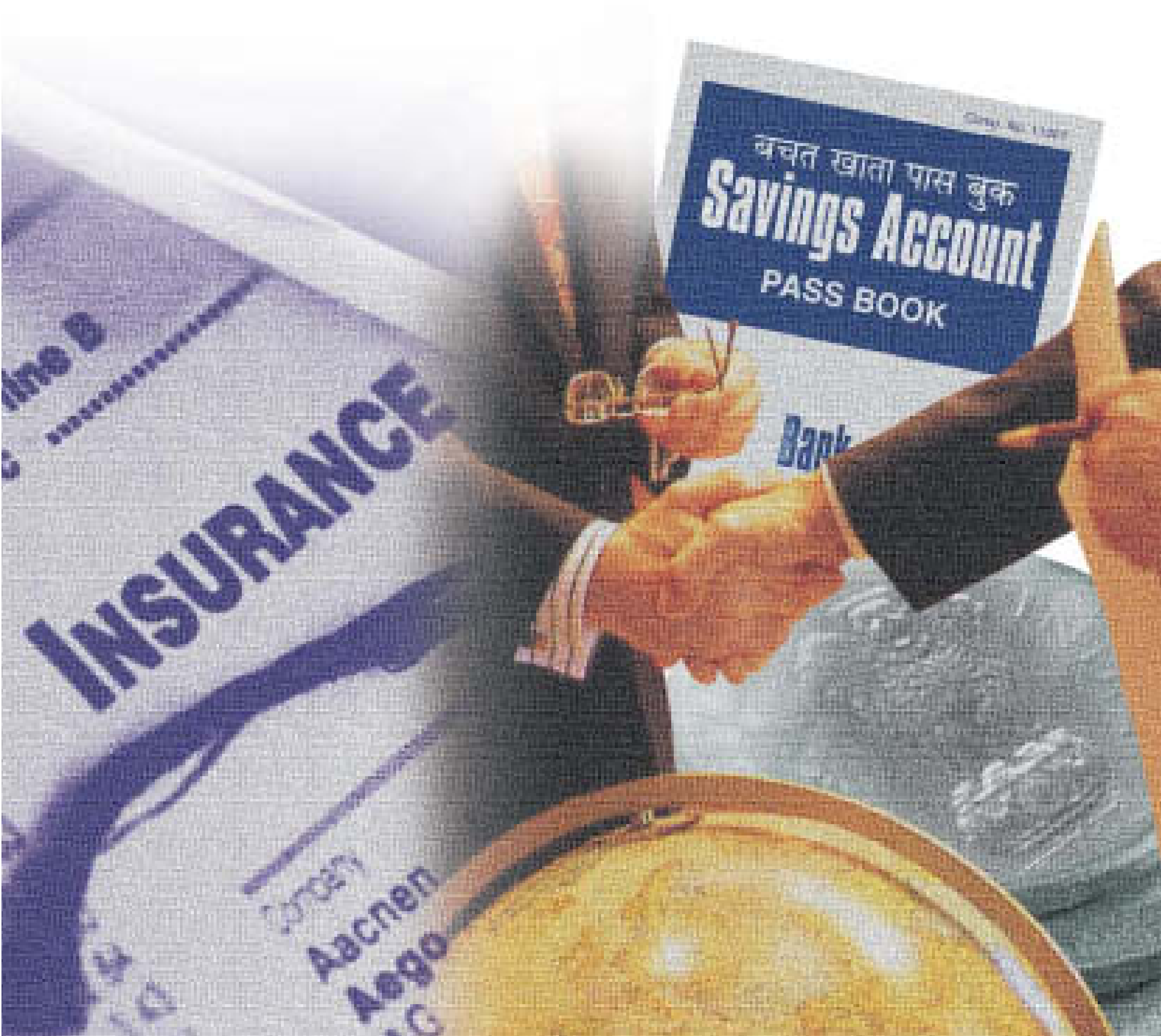

बीमा विनियामक और विकास प्राधिकरण

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Journal

AUGUST 2003

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From the Publisher

One of the important activities the Authority began recently is the awareness campaign on insurance. The second round of awareness building programmes has started being telecast and broadcast over Doordarshan and All India Radio from the last week of July.

The ground we seek to cover in these programmes is indicative of the broad areas of concern for the Authority itself. They are about consumer related issues like grievances redressal and policyholders' protection on the one hand, and about industry and market-related issues like the concept of a code of conduct for intermediaries and the practice of rebating by marketing intermediaries on the other.

Care for the customer and healthy market practices are the foundations on which any strong industry can be built. In our country we are at a transitional stage in the market which, having seen limited number of very large, public sector companies, now has a mix of big and small, old and new and public and private sector participants.

The market is also seeing the introduction of new types of intermediaries, in marketing and other services, and the rebirth of the older variety of intermediaries in a new professional mould.

At this stage it is very important that the industry, and the regulator, accord priority to develop the right market practices and strike down the undesirable ones. For this, the various sections of the industry should follow the best practices, develop a code of conduct and abide by it. The consumers now have a range of choices for fulfilling their needs, and the intermediaries have to act as their guides. Faith in the intermediaries can be built only if all of them adhere to the Code of Conduct. The Authority hopes that the intermediaries, collectively, would rise to the occasion.

The general insurance industry worldwide is facing underwriting losses and Indian companies are not and cannot be, exceptions to this rule. The Authority on its part is gearing up to monitor closely the working results of the insurance companies to protect the interests of the consumers. The monitoring of the performance of the companies will remain high on the agenda of the Authority.

C. S. Rao

C.S.RAO

Inside

COVER STORY

Blueprint for Success 20
R. Krishnamurthy

THINKING CAP

A 'To-do' List

An Agenda for the Regulator

G.V. Rao 8

Don't Discount the Rebate 36

Dr. Sanjeev Jha

Let it pour!

The monsoons are undoubtedly on us finally, after hope, speculation and despair. And that has a peculiar bearing on the Issue Focus of the August issue of the **IRDA Journal** that you hold in your hands.

Good monsoons have always cheered the marketers, and specially those who look at the rural markets. And in this issue we look at bancassurance, the selling of insurance products through the banking – and other types of retail – networks.

Still very much in its infancy, this channel has high hopes riding on it as, theoretically, it has many things that are necessary to succeed. Time will tell if the players read and respond to the market's demands made of it through this channel, but read in this issue a range of writers on what their experience has been with bancassurance, and what their hopes are. Mr. R. Krishnamurthy, Managing Director and CEO, SBI Life Insurance, speaks of his company's experience with bancassurance, and the article is significant given the size of State Bank of India, SBIL's Indian parent, and what it can achieve in the markets, specially the rural markets.

The next issue will feature investments – the hope and despair of the insurance industry (and in some measure, of all of us at some time or the other!) – and what the future is likely to hold.

Back to this issue and we have a very interesting bunch of articles for you. Mr. G.V. Rao sets out his agenda for the new Chairman of IRDA, and highlights what he thinks is wrong with the general insurance industry. Dr. Sanjeev Jha, a new writer to the Journal is an economist in addition to being an insurer (or is it the other way around?) and we bring you a thought-provoking and well argued piece on why rebating exists in the insurance market place today in India.

If insurance awaits and, indeed, chases its customer, it is surprising and disheartening to repeatedly read how the industry treats him when he comes up with a claim. Statistically, those cases may be typical or low in numbers, but you know what they say about a disgruntled customer… The issue is larger – read in this issue about a disgruntled National Consumer Disputes Redressal Commission that has told off the insurance industry bluntly, and by the description of the cases, deservedly.

We have all to live by our customers' wishes and can die by them. The insurance industry is too well founded, too vital and too intelligent not to correct its past attitudes.

K. Nitya Kalyani

Not So Other Income!

K. Nitya Kalyani

In the early nineties, before the banking industry went through the shocks of reform and emerged stronger and fitter, it went through a period of prosperity which really masked the symptoms of a tailspin elsewhere.

For a couple of years 'Other Income' steadily increased and boosted the balance sheets of the banks giving the impression of riches, but hiding behind it the fact that interest income from loans was dwindling. Not because of low rates as the case is now, the rates were spectacularly high in fact, but because borrowers had been defaulting on interest payments and loans were turning bad. What brought it to light was that banks had been asked recently to follow new prudential norms including those for income recognition and were to account for income only when received and not when it accrued.

With a high level of pre-emption of funds, which the Reserve Bank of India (RBI) required banks to invest in government securities which returned relatively low rates compared to the booming capital markets – both equity and debt – banks were squeezed out of the means to make money, and turned to the markets to maximise their earnings within the framework allowed to them, and sometimes beyond it too.

It led to other problems later, one of the lessons from which was that large companies, specially Government-owned companies, rarely are nimblefooted enough to step out of markets at the right time.

The danger of Other Income in that phase was also that in some ways it prevented attention from being focused on what was going wrong with the core business of the banking industry.

For the core income of the banks was in default and the core activity was becoming sick.

For the insurance industry what other industries call 'Other Income' is in fact core income. There are two income streams. One is premiums and the other is investment income. Premiums can be said to be merely cashflow – it does not belong to the company till it is netted off against claims or till the period of risk is over – and it is investment income that is the real income of insurance companies. In fact the marketing definition of the claim being the actual insurance product proves this.

What is happening in the insurance industry today is ironical. Underwriting experience in the non-life sector has been poor for several years now worldwide and does not show any signs of reviving in the near future. In fact, given the global nature of the business due to reinsurance, and due to the changing and ever widening nature of risk, it could well become more adverse. Indian non-life companies further face a particularly unprofitable Motor portfolio which cannot be spurned not only because it is mandatory, but also because it brings in the lion's share of the premiums.

> Premiums can be said to be merely cashflow and it is investment income that is the real income of insurance companies.

And at this time when underwriting, the core business of the industry, is bringing in losses, the 'Other Income' that traditionally provided the cushion to the bottomline is also letting it down. The cross subsidy that preserved it till now has been eroding and shows signs of proceeding further in the same direction.

This has been happening slowly in the last few years and insurance companies have faced the brunt of it along with other large investors. Being long term investors with no structured short-term liabilities like mutual funds or a constant need for creating cashflow, as banks have to, for funding asset product demand or to meet repayment of liabilities like deposits, insurers were able to sit out the initial phase of the markets turning bad.

But the situation has been going on for longer than they have the ability to withstand and adding to their woes is default on state government paper. A never-heard-of-before situation, this promises to become the nightmare for the top management in the next couple of years, if it has not already.

While the dwindling of income and defaults affects the insurance industry in terms of its profitability, the erosion in the value of the portfolio has serious repercussions for the solvency margins of companies. When interest rates fall or when equities quote at lower prices, companies face the double jeopardy of having to provide for those losses also at a time when they have already taken a financial blow.

The life insurance industry is slightly better off than the non-life industry, but not much more so. While profitability is not in question now, but their older assured return schemes at much higher rates have run up against dwindling rates. No wonder that the market expected, and the Life Insurance Corporation took the unprecedented step of foreclosing some of its assured return schemes in mid-July.

Also, the approach of the industry to investment has changed, or should change drastically, given the competitive marketplace (less assurance of premium flows and their patterns) and the vagaries of the investment market including falling interest rates and their volatility, erosion in value of securities and of course, default. From being traditional, cautious and, in many ways, laidback investors, the companies have to reinvent this activity to become predictive in markets, proactive in strategy, sharp-eyed and cautious all the same.

The market presents unusual difficulties for insurers otherwise too. Being seekers of long-dated paper, life insurance companies which also sell annuities, find that this animal just does not exist in the Indian market. For the older, larger companies, notably the LIC, there is another peculiar problem – there is not enough depth in the market and hence much of their funds are sub-optimally deployed.

Much of the hopes that the insurance industry would fund the growing need for infrastructure in the country has been belied – not so much because insurance companies have not invested in them but because bankable projects in this sector have not materialised to the extent desired and much needed by the nation.

While these answers have to be given by evolving markets, there are other solutions that could come by way of easing investment regulations for insurance companies. With the industry in its liberalised and independently regulated avtar being still in its infancy, investment regulations are growing with it.

At this stage in evolution, the regulations cannot be but ever changing to meet new needs. Like the need for sufficiently rated paper due to the erosion in the quality of the paper available. Or the articulated need to loosen some constraints on the investment formula emerging from initial practical testing of the regulations at the hands of the industry. Or indeed needs arising out of the evolving nature of the investment markets – like new rules for investing in derivatives that have entered the Indian market.

And regulations are indeed under constant scrutiny at the Authority and will be for some time to come given the state of the markets and the earning needs of the companies on the one hand, and the Authority's need to balance that with safety and prudence on behalf of the policyholders.

The entire investment scenario deserves a close look at this point in time and on a regular basis. It is with this in view that the September issue of the **IRDA Journal** will be on investments and will feature the priorities and strategies of the industry in this area and also voice their needs for changes in the regulatory environment as it stands today.

TELL US...

what you think.

The IRDA Journal will be focusing on investments in its September issue. If you want to make your views heard, write to us.

LICENSED BROKERS

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Motor Loading

Following the revision of the India Motor Tariff and its coming into effect in June 2002, there were representations from insurers about the inadequacy of the hike. The Tariff Advisory Committee (TAC) allowed companies to load the premiums by up to 100 per cent in the first year and up to 200 per cent in the second year in cases where there was adverse claims experience.

In order to introduce some uniformity into the practice the TAC has released a checklist of parameters by which insurance companies are to evaluate renewal of Motor policies and apply loading on Third Party liability (TP) premium up to 100 per cent.

According to this matrix for loading, the Liability Only premium provided in various sections of the India Motor Tariff may be loaded on the basis of individual risk perception and adverse claims experience as per the matrix of loading released by the TAC effective all renewals falling due on or after July 1, 2003.

As far as Own Damage premium loading is concerned, insurers are permitted to devise their own checklist within the parameters of maximum loading laid down in the TAC circular dated October 23, 2002. A copy of the checklist should be sent to TAC/ IRDA for information and record.

The checklist is to be filled in afresh at every renewal and premium to be loaded depending upon points scored. If the vehicle attracts loading points above 35 for two consecutive years, the Liability Only Premium (i.e. Tariff Premium) shall be loaded by 200 per cent. No loading of premium beyond this is permitted.

Special Discount Back

IRDA has on July 16, reinstated the five per cent special discount on the face of the policy in respect of tariff lines of non-life business placed directly with the insurer by the customer.

This discount was prevalent for long in the market and was given in lieu of agency commission for years and was removed through a circular from the Authority dated May 30, 2003.

Following this and arising out of representations received from insurers, insureds and chambers of commerce, the Authority has now decided to keep the said notification under abeyance with immediate effect.

Pursuant to the above decision, all notifications/ instructions issued in respect of commission/ remuneration/ brokerage prior to the notification of May 30 shall become operational and remain valid until further orders, Mr. C. S. Rao, Chairman, IRDA, has said in the circular.

THE CHECKLIST

PARAMETERS	LOADING POINTS
Age of Vehicle	
< 1 year	0
1 year to < 3 years	1
3 years to < 5 years	2
5 years to < 7 years	3
7 years to < 10 years	4
10 years and above	5
Nature of goods carried (For goods carrying vehicles only)	
Hazardous	3
Others	1
Permit (Applicable for commercial vehicles only)	
Local	1
State	2
Zonal (More than one state)	3
National (All India)	4
Hilly Areas	5
Types of road (Applicable for Non-commercial vehicles only)	
Hilly Roads	5
National/ State Highways	4
City/ Town Roads	3
District Roads	2
Others	1
Vehicles driven by	
Owners	0
Others	1
(For vehicles owned by institutions/ companies/ joint-owners one loading point shall apply)	
Driver's age	
(In case of more than one driver, the maximum loading points applicable to any one of the drivers shall be accounted for)	
< 20 years	4
20 years to < 30 years	3
30 years to < 35 years	2
35 years to < 40 years	1
40 years to < 45 years	2
45 years to < 55 years	3
55 years and above	4
Driver's experience	
(In case of more than one driver, the points applicable for the least experienced driver shall apply)	
< 1 year	5
1 year to < 3 years	4
3 years to < 5 years	3
5 years to < 10 years	2
10 years to < 15 years	1
15 years and above	0
Driver's educational qualifications	
(In case of more than one driver, the points applicable to the least qualified driver shall be accounted for)	
Below 10th standard	3
10th standard pass	2
12th standard pass	1
Graduate/ Post Graduate	0
Incurred Claims experience of the vehicle insured (expiring policy period)	
Up to 5 %	0
Above 5% and up to 30%	2
Above 30% and up to 50%	5
Above 50% and up to 70%	10
Above 70% and up to 100%	15
Above 100% and up to 125%	20
Above 125% and up to 150%	25
Above 150% and up to 200%	30
Above 200%	35
Total number of claims lodged during the last five years	
No Claim	0
1 Claim	2
2 Claims	3
3 Claims	4
4 Claims	5
5 Claims and above	6

Add all applicable loading points. The Liability Only Premium is to be loaded as per the following table :

POINTS SCORED	% OF LOADING
Up to 10	Tariff Rates
Above 10 and up to 15	10 %
Above 15 and up to 20	30 %
Above 20 and up to 25	50 %
Above 25 and up to 30	75 %
Above 30 and up to 35	90 %
Above 35	100 %

Awareness in the Air!

The second round of IRDA's awareness programmes has started going on air from July. The fourth Thursday of each month will have Phone-in programmes on Doordarshan (DD) on different topics related to insurance, the various constituents of the industry and the consumers. On All India Radio (AIR) these programmes would be arranged on the fourth Friday of each month.

All the programmes will be in egional languages and the Ahmedabad, Bangalore, Chennai, Hyderabad, Jalandhar, Kolkata, Lucknow, Mumbai, Panjim and Thiruvananthapuram centres of AIR and DD will feature these programmes.

The themes for these programmes will be:

July	:	Surveyors and Loss Adjusters
August	:	Ombudsman System
September	:	Policyholders' Protection (Life)
October	:	Policyholders' Protection (Non-Life)
November	:	Awareness Against Rebating
December	:	Code of Conduct for Intermediaries

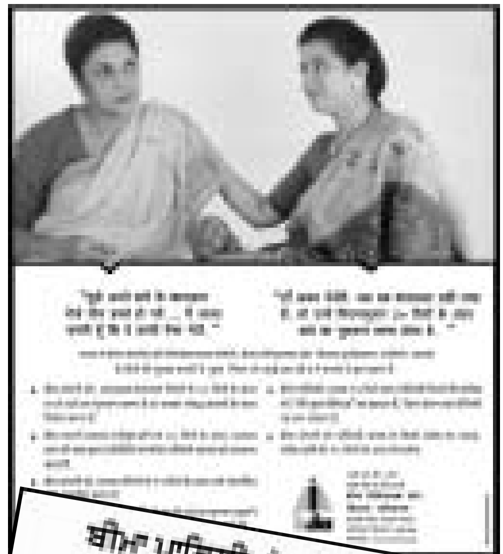
The second tranche of programmes follows the positive feedback from the first awareness campaign on AIR and DD which featured commercials and jingles about the importance of safeguarding one's property, old age security and family's security through insurance and pensions. Phone-in programmes in various regional languages also featured consumer queries and clarified them. Many of the queries related to procedural problems and grievances as also the credentials and financial strength of various players in the market.

...and in print

While the AIR and DD initiative of the IRDA focused on creating an awareness about insurance products and their criticality in daily life, the print ad campaign looks at the rights and responsibilities of consumers of insurance.

Targetted at the lower middle class customers and potential customers of insurance, the advertisements detailing the IRDA's measures for protection of policyholders were carried in many publications in all regional languages in May and June.

There was also a campaign against rebating – the practice of agents parting with or being asked to part with a portion of their commission in order to procure the business. Rebating is illegal and the IRDA has been making efforts to rid the market of this unhealthy practice which weakens the service levels that the consumer who receives a rebate subsequently gets.



A 'TO-DO' LIST

– An Agenda for the Regulator

G.V.Rao

With a new Chairman at the helm of the IRDA since June, 2003, expectations and hopes of a new thrust being given to the insurance industry are naturally on the rise. He has assumed office at a critical juncture with a host of issues needing his urgent attention. This article seeks to address a few of the several problems of the non-life sector the new IRDA Chairman has to face.

These include issues with the Government concerning financial independence, participation in the Institute of Insurance and Risk Management (IIRM) and the appointment of a Government nominee, from the Ministry of Finance, as a member of IRDA; issues with insurers whose health is not all that robust; issues relating to distribution channels that are more commercial than professional in their work attitudes and practices; the situation with Third Party Administrators (TPAs) that have lost their way in the promised deliverables; the big issue of the loss-making Motor Third Party (TP) business and its pricing and that of developing health insurance as a socially and commercially acceptable proposition.

How will he deal with these and other issues? What is the agenda he should look at to promote insurance as a catalyst for economic growth?

The market today

There was a burst of activity during the regime of the previous IRDA Chairman leading to developments like the entry of a number of insurers into the market to provide a competitive edge to insurance operations, semi-professionalisation of distribution channels like agents, brokers and corporate agents, licensing and categorisation of surveyors and the creation of a host of regulations imposing market discipline on the players in their conduct of business and in the interests of the insuring public.

There were efforts at creating public awareness of the need to insure. Insurance education took on a momentum among the youth as insurance started appearing an attractive profession. The functioning of the Indian regulatory mechanism was appreciated in other parts of the world. A semblance of accountability was introduced in the market.

While a number of proactive measures were undertaken in a short span of time, and it was always a bustling scene of activity at the IRDA office, not enough attention seems to have been paid to the evaluation of the measures taken. Quite a few measures, like the entry of brokers, of corporate agents, of TPAs as intermediaries of healthcare, recruitment of agents without a check on their subsequent effectiveness to the market, doing away with the discount on the rating the customers were enjoying till recently to enable intermediaries to benefit, which has been reinsurated recently all seem to have been done more in a hurry to fulfill promises made than by a public discussion of the issues with the parties involved particularly the insuring public and the consumer associations.

> The serious challenges to the financial health of the non-life industry need to be looked at from the point of view of insurers themselves.

The benefits to the insuring public as a result of these measures are not significant. It is the middlemen who have benefited from the several initiatives undertaken by their offering so-called professional services in the short run. There is an urgent need to engage in a national debate to determine to what extent the scene has changed as a result of these measures, benefiting the society and the insuring public at large.

Financial health

The serious challenges to the financial health of the non-life industry need to be looked at from the point of view of insurers themselves. The industry's financial health, as gleaned from the results for 2001-02, is cause for concern.

The 10 insurers in the industry produced a cumulative loss of Rs.68 crores from a position of Rs.1,000 crores profit before tax three years ago. Is the industry showing signs of sickness? The industry is running at a very high cost ratio in excess of 30 per cent on earned premium, despite a tariff structure of rating for more than 80 per cent of its business. All this is attributed to excessive Motor TP losses. How can this problem be tackled in the absence of statistics? One has to examine the non-tariff markets elsewhere and draw lessons from them to deal with the situation obtaining here.

Investment returns are going down, and pressure on operational results is growing as a consequence. The IRDA Chairman has to ensure that business costs are reduced, customer service improved without too much litigation and that insurers do produce reasonable profits to be solvent for the benefit of insuring public. Investment returns are going down, and pressure on operational results is growing as a consequence.

With a tariff binding the insurers, IRDA is as much a player as the insurers are, as the regulator participates in the market and performs an underwriting function of fixing prices of insurance covers.

As such, the financial health of the industry is very much his responsibility, as is cautioning the players of their excessive management costs, lack of productivity, poor response to customer complaints and lack of innovation in market expansion.

The IRDA should interact with the investors and the boards of insurers to get to know their action plans for eliminating these present weaknesses which lead to poor performance and to monitor them regularly.

Market development

The Fire and Marine portfolios are growing at a slow pace and not in keeping with the economic growth. The market is still lender-driven in these segments and customer-driven in Motor and Health insurance segments. There is little dynamic or creative activity from the vendor – the insurers – in creating insurance awareness in the unorganised sector to drive market penetration.

What should insurers do to actively campaign to educate and persuade potential customers of the need to insure? To organise the unorganised sector that is income-rich, time-poor, and unaware of the benefits of insurance, particularly personal lines ?

What products should be designed for the rural segments that need insurance but at affordable rates? How can the rural market be organised better than now? Is the quota system of premium alone the best check to stimulate growth? Supervising insurers' activities and initiatives is as important as judging the results at the end.

The new initiatives the insurers are putting in place to organise the unorganised and rural sectors have to be called for by the IRDA to measure their progress at regular intervals.

Role of middlemen

The role of the intermediaries and their compensation levels need to be reviewed. In a tariff market, there is not much an intermediary can do to exhibit his technical and professional skills. Their services may be useful in the non-tariff segment to develop and organise the unorganised sector in the rural sector.

Proliferation of unhealthy practices by intermediaries in cooperation with a few corporate customers will lead to a market collapse sooner than even the unprofitable nature of business can. The situation is fraught with the possibility of corrupting the society by interested middlemen. Brokers and corporate agents have a role to play if and when business goes non-tariff as a whole. For the present, the costs of doing business for the insurers will get pushed up, driving them up the wall. It will enhance the loss-making potential of the industry even more steeply. That should be a bigger worrying factor.

Section 64 UM, even though it has the Government as the appellate authority, needs to be abolished and market forces should be allowed to operate independently.

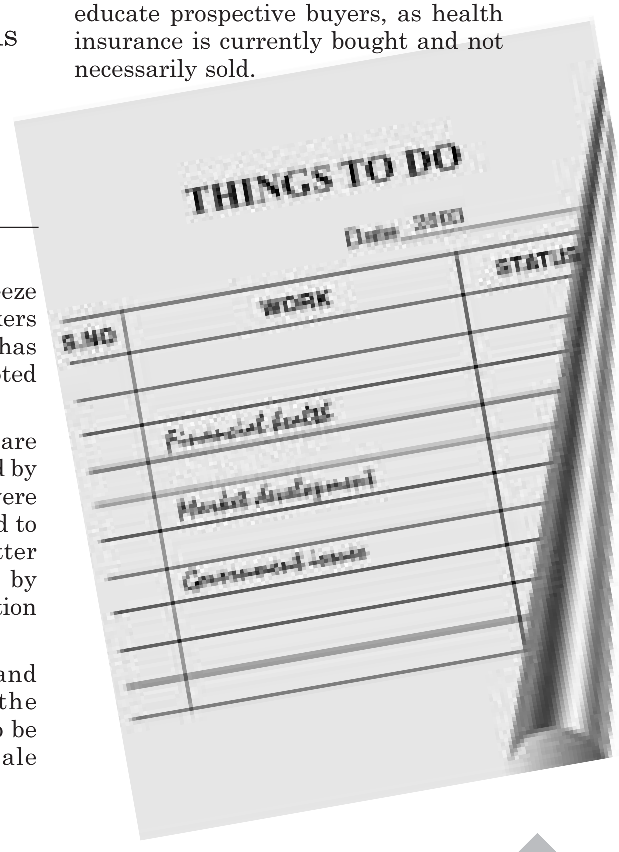
There has to be an immediate freeze on the growth of the number of brokers for a year to evaluate if the system has really helped the market or corrupted it beyond expectations.

The customers whose interests are paramount have been short changed by doing away with the discount they were enjoying. Why? Were they consulted to find out if their interests are better served by the intermediaries than by themselves? This needs reexamination and restoration.

TPAs are a source of delays and confusion at the moment in the healthcare segment. None seems to be happy. Why TPAs? What rationale exists for them? The whole mechanism needs to be looked at once again. A few TPAs are functioning as brokers as well, as a part of a group; so are some hospitals providing medical care.

Expansion of health insurance coverage seems to be the top priority of the present IRDA Chairman. What is bogging down its expansion is the moral hazard of both the parties to the contract.

This may seem an extraordinary statement to make. By not explaining the limitations of cover, knowing the proclivity of an insured not to read the policy conditions, the insurers are getting a bad image for themselves. Many insureds, knowing that it is an insurance cover for illnesses that may occur in future, and not a medical expenses reimbursement policy for known, existing diseases, take out a cover and allege that insurers have not explained the limitation of the benefits. It is usually for the vendor to tackle the issues arising out of such a situation. There has to be advertisements of the cover's limitations by insurers to educate prospective buyers, as health insurance is currently bought and not necessarily sold.



Government issues

The issues of financial independence of the IRDA, the setting up of IIRM and the membership in the IRDA of a Ministry of Finance representative have been blown out of proportion by the media. These issues will get sorted out in time and satisfactorily too.

Ensuring fair competition

With the private sector players living on the edge for business, fair competition between them and public players becomes crucial. As long as tariffs are prevalent, the private players will score over the public players on most occasions. It is public knowledge that kickbacks are prevalent in the present market and are on the rise. Proving that it is happening is difficult as long as creative accounting is resorted to as deliberate strategy to acquire profitable business. The authority of the IRDA to punish erring players is not only cumbersome to exercise but the punishment is too little and too disproportionate.

Adjudicating disputes

Provisions of Sections 2 and 3 under Section 64 UM of the Insurance Act, 1938, empower the IRDA Chairman to give directives to insurers to settle even claims that have been repudiated or are not payable under the policy conditions. He can, under these provisions, call for the claim papers, appoint another surveyor and decide to go by his recommendation.

These powers have been invoked in the past causing consternation in insurance circles. Such powers, in my view, are arbitrary, as he then exercises judicial functions without judicial process, even when courts are available to adjudicate such disputes.

Further, the appointment of another surveyor to give his report is also undesirable, as the surveyor so appointed is also licensed by the IRDA, and any decision taken thereon on his recommendations may be attributed to undue pressure by IRDA, as the surveyor is beholden to him for his livelihood.

This section, even though it has the Government as the appellate authority, needs to be abolished and the market forces should be allowed to operate independently.

In fact, insurance is still bought by the affluent, and they should not be allowed even to attempt to make use of their contacts in high places to get their way, other than through the process of law. IRDA should not be on a collision course with insurers or allow a situation where it becomes a sole arbitrator.

Reinsurance

With the international market becoming turbulent in availability of capacities and rating, there is pressure on the Indian market to dismantle tariffs as they are considered too low for the potential losses of the future. Insurers have to build enormous financial reserves to handle high value future risks. Natural catastrophes are a common occurrence in India. Government has to encourage setting aside reserves for various contingencies of a catastrophic nature to ensure that the industry grows on healthy lines.

> Though it is not mandatory, the IRDA Chairman should insist on insurers publishing quarterly results in the newspapers for public information.

The very fabric of the Indian insurance market depends on monitoring international trends in the rating by reinsurers and the contractual wordings used. Rating and the reputation of the reinsurer are both important. IRDA's involvement in this should be on an on-going basis without interruptions.

Tariffs

Dismantling tariffs is a tricky issue. Not so much the desirability of it, but its mechanics and timing. There is an urgent need for it, as the market then will become more mature with intermediaries playing a more important role. Customers are evaluated for risk exposures at an individual level. But the process has to be gradual and should start with the loss-making segments.

Keeping an eye on the financials

The IRDA should obtain quarterly un-audited financial results of every insurer for monitoring trends and carrying out checks. In fact, though it is not mandatory, the IRDA Chairman should insist on insurers publishing quarterly results in the newspapers for public information. He should encourage public debate on the performance of insurers and on customers' demand for additional conveniences. A time frame of six months may be given to put this in place.

Instead of fresh regulations, he should encourage insurers to adopt voluntary codes of conduct and ensure their publicity at the insurers' cost but for the benefit of the insuring public. He should share his responsibilities with the insurers in organising the market better.

Conclusion

The issues cited above are not new but are serious constraints that are hampering the development of an orderly market. The shift from a monopoly to free enterprise has to be slow in the initial stages, as one has to set the tone and pace for change. Public players need guidance, direction and advice to adjust to competitive environment in view of the obvious constraints they function under.

IRDA has the role of balancing the interests of all, including those of the insurers and the insuring public. There is no better way than by the method of advice and consent. The financial stability of insurers and their solvency is the most serious challenge facing the present incumbent.

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

Report Card:LIFE

The first quarter of the current financial year saw the life insurance industry gather first year premiums of Rs. 2229.84 crores with the Life Insurance Corporation of India (LIC) writing 89.91 per cent of it or Rs. 2004.79 crores.

A whopping 43 per cent of this came from the premiums the LIC wrote in the month of June, 2003, at Rs. 864.24 crores. That figure for the industry stood at Rs. 950 crores.

For the rest of the industry which, put together, had a market share of 10.09 per cent, the premium income from first year premiums at the end of the quarter stood at Rs. 225.05 crores of which Rs. 85.77 crores, or nearly 38 per cent came from June incomes.

Of the private sector life insurance companies, the highest market share of 3.15 per cent, or over 30 per cent of the market share of all private players put together went to ICICI Prudential Life Insurance Company with Rs. 70.24 crores in premiums for the first quarter. Following it is HDFC Standard Life with 1.55 per cent market share and 34.67 crores in first year premiums written during the first quarter.

Tata AIG Life Insurance Company, with Rs. 26.52 crores premium is placed third among the private sector in terms of its market share which in the industry stood at 1.19 per cent.

A look at the number of policy documents issued by the various companies reveals that LIC issued 93.36 per cent of the documents though its market share by premiums was at a lower 89.91 per cent. The private sector, for its 10.09 per cent market share of premiums issued 6.64 per cent of the documents, suggesting that either they were writing higher value policies or more group policies in their portfolio mix or both.

Life Insurance First Year Premium Figures for the Quarter Ended June 2003

(Rs. in lakhs)

S.No.	Name of the insurer	Total Premium U/W		Total No. of Policies Issued		Market Share for the first quarter based on	
		June	April – June	June	Apr – June	Premium	Policy
1	Tata AIG	927.44	2,651.73	9,015	24,613	1.19	0.77
2	OM Kotak	310.40	944.30	2,472	5,149	0.42	0.16
3	Birla SunLife	957.17	2,423.28	5,453	12,073	1.09	0.38
4	Max New York	932.18	1,751.65	9,508	19,901	0.79	0.62
5	ING Vysya	185.39	436.14	2,402	7,624	0.20	0.24
6	HDFC Standard	933.25	3,466.53	14,744	43,918	1.55	1.37
7	MetLife	96.28	237.20	1,340	3,012	0.11	0.09
8	Allianz Bajaj	956.31	1,819.56	13,248	26,330	0.82	0.82
9	ICICI Prudential	2,437.60	7,024.04	18,666	51,383	3.15	1.60
10	SBI Life	428.60	852.19	1,637	4,442	0.38	0.14
11	Aviva	327.09	714.63	4,955	11,375	0.32	0.35
12	AMP Sanmar	85.33	183.32	1,656	3,611	0.08	0.11
	TOTAL	**8,577.05**	**22,504.56**	**85,096**	**2,13,431**	**10.09**	**6.64**
13	LIC	8,6423.71	2,00,479.47	14,48,998	30,03,096	89.91	93.36
	GRAND TOTAL	**95,000.76**	**2,22,984.03**	**15,34,094**	**32,16,527**	**100.00**	**100.00**

Note: Metlife premium includes only first premium for individual and group business.

Unhealthy Competition

G.P. Sureka

The IRDA, as a regulator, has come a long way in putting the insurance business on the right track. The efforts made by the regulator are laudable. One by one, the regulator has brought the intermediaries on par with international standards. But the biggest question mark is: are we really responsible enough to follow such regulations?

We Indians are habitual lawbreakers and offenders and can put anything and everything on hold whatever efforts the regulator makes. Now when the brokers as new intermediaries are in place and a substantial number of licences have been issued, everyone is in the market to grab the piece of the cake. The regulator has put the brokerage cap on the business placed through the brokers.

Development officers who have opted for the Voluntary Retirement Scheme (VRS) are also in the race for market share as agents. Agency commission is much less than brokerage. Insurance companies, to attract direct business and avoid brokerage, are offering unofficial payouts to the tune of 20 per cent of the premium amount to the agents or the insured for placing business. Is it not surprising and amazing?

The most astonishing fact is that private as well as public sector insurance companies are practising this. If this trend continues, the life of broking community will be counted and they may have a premature death.

It has also come to our notice that one of the private insurance companies quoted to our client one third lower premium for the floater health cover for their 1,000 plus employees against the quote of a public sector insurance company. Where was the actuarial calculation? They never tried to find out what was the claims ratio in the previous year. As per our records the company had a claims ratio of 66 per cent in the last full year operation.

This year, dependent parents have also been added, which is bound to hike the claims ratio. Even then, if someone quotes such a low premium to snatch business does it not indicate that there is no appointed actuary in the organisation or no one cares to listen to him? Health insurance is a non-tariff business but unhealthy competition will put a roadblock to growth and also bring a question mark on the functioning of the regulator.

If we just take an example, had the company referred to the above accepted low premium and gone for the policy with the private insurer what would have been the result? Simple, after three months, when the new underwriter found out the claims ratio, they could have just refunded the balance premium as per rules, renounced the underwriting obligation for the balance period and could have put the insured at crossroads where no other underwriter could have insured them. Will you find a better example than this for unhealthy competition? It is the duty of the regulator to arrest such happenings by regulation and by penalising the offenders.

The author is CMD & CEO, Universal Medi-Aid Services Limited.

FINE RESCINDED

The IRDA has rescinded with effect from July 6, the fine imposed on Reliance General Insurance Company for its not having completed rural and social sector obligations for the year 2001-02.

This followed a representation by the company that during that year it had covered 54 lakh farmers in Gujarat under a group personal accident policy through the Government of Gujarat, but had erroneously interpreted that business emanating from rural areas would essentially be those covering rural assets only and so had sent a nil statement.

Also, it had not received the notice sent by the IRDA before the fine was imposed and hence the matter had been decided exparte by the regulator.

On receipt of the insurer's explanation and fresh statistics, IRDA officials carried out an inspection and discussions with the Gujarat State Government officials revealed that the company had fulfilled the obligations in this regard and that the business done by the company cited above would qualify for both rural and social sector requirements.

A Fee for the Finder!

Nirmala Ayyar

A raw diamond is a dull stone. But, hidden within it are many facets. If all the facets have been exposed by cutting and polishing well, then it becomes a sparkling diamond.

To be a successful life insurance agent, it is necessary in the first place that the raw material is there, and secondly, that it is cut and polished till it shines.

A diamond is an apt comparison because an agent needs to have many skills. Problems arise because the recruitment process assumes that selling is the only skill needed. An agent, first and foremost, needs people skills, and the ability for positive interaction with people, to empathise, and to nourish and cherish friendships without the expectation of immediate results. In other words, he should be a caring person, who genuinely has the good of the other person at heart.

Secondly, he must have the ability to communicate well. If a person knows what he wants to do, but is unable to explain it convincingly, he will lose the attention of his customer very soon.

Thirdly, he should have a money sense, the ability to analyse and show a future profit on a piece of paper today, as if it is already in the pocket of the prospect. If he can do this, he will have the ability to grasp the positive and the negative aspects of the product he is planning to sell. Anyone having these basic qualities will be able to sell a life insurance product. However, it is not easy to get such a person as a candidate.

Primarily, India is a country of many languages, but the insurance industry's wealth of knowledge is held only in the English language. The agency application is the starting point. Then there are the hurdles of training in English and the examination in English. If he manages to cross all these, then the product brochures are all in English. The implication is that a person can be a good life insurance agent only if he has a good command of the English language.

However, sales skill is not necessarily related to knowledge of the English language. People tend to interact better in their native tongue and a trust level can be established much faster in the local language. This advantage is lost to the industry because of the basic hurdle. Possibly we are unable to attract good agency material because of their fear of having to pass exams in English, which is not really needed for selling life insurance.

The other major hurdle is the training. Life insurance has legal angles, actuarial angles, financial angles – it is a very angular subject, it would seem! You have to be a really good angler to fish out the crux of the matter from the plethora of training material! And, the time available perhaps is not sufficient to master the subject. It just gives an exposure to the subject. The agent, as Goldsmith wailed, is thrown into the sea of life before he learns to swim. Considering the complexity of the subject, and the complication of the little known language in which it is taught, it is not surprising that the life insurance industry has problems building up an agency force.

Given these starting troubles, the newly recruited agent finds out that (1) it is difficult to make people part with money (unless of course they are fools as the saying goes) (2) he himself has minimal knowledge of what he is selling and on top of this, (3) people ask about competitive products. Whether what compensation he gets is adequate or excessive when he manages to sell a policy in the face of these hurdles is a matter of conscience for the insurance industry.

The LIC used to classify agents as beggars, spotters, sellers and super sellers. It is certainly necessary to eliminate the first category from becoming life insurance agents. They are doing no good to anybody and they indeed form a large percentage of the early drop outs.

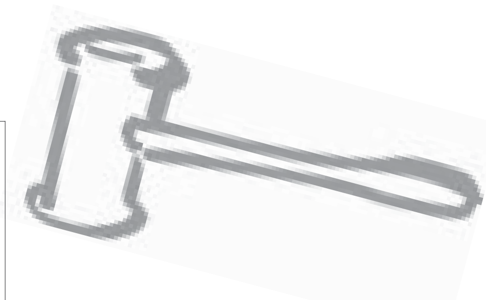
However, why not encourage the second type with suitable compensation system? These are people with contacts, and with ability to do the initial spadework of convincing the prospect to provide himself/ herself with life insurance cover, but not with sufficient knowledge of the industry or products, or enough knowledge of English to be able to suggest a product and fill up the proposal form. From this point onwards they need professional help. For the first part they do not need to pass any exams. But they are able to win over the prospect. They make it easier and less time consuming for someone else to close the sale.

By providing an intermediate tier who will help widen the circle of prospects, the life insurance industry stands to profit. It needs to legitimise this layer with appropriate compensation, and regulatory safeguards. By doing so, we will be rationalising an inevitable phenomenon, and promote the growth of the industry along healthy lines. Training costs will come down substantially and profit margin will go up. More local talent will become available to the industry. The sales supervisors' time will be better spent.

While this suggested layer may receive compensation only for new business, the one above it should become eligible for renewal commission, thus becoming responsible for the continuation of the business on the books. Since this category stands a good chance of building up into reliable agents later on, there should be a system of official recognition, compensation, and licensing based on quantum of business (number of policies and sum assured), premium income and number of years of consistent production above a certain limit. They should be eligible for exemption from examinations, if and when they qualify according to such conditions.

The idea may be worth a trial for a limited period to test if the above assumptions are right or wrong.

The author is consultant, back office processes and software implementation, AMP Sanmar Assurance Company and had worked in LIC for 25 years.

Clogging the Wheels of  JUSTICE

H.K. Awasthi

"Before concluding we must express our deep anguish at the way these petitions have been filed by the insurance company. Such type of cases are not the fodder for the legal department of the insurance company and they cannot go on a spree in filing such type of petitions. We have restrained ourselves from imposing heavy costs on the petitioners. Henceforth, if such a petition is filed by any of the insurance companies we will certainly impose heavy cost. Agony of a consumer must end at some stage. It is the duty of the insurance company to see that frivolous cases are not filed so as to clog the wheels of justice. It is neither expedient nor worthwhile to file such trivial cases. It is nothing but a waste of time. A copy of this Order shall be sent to the Chairman-cum-Managing Directors of all the insurance companies."

These were the observations of the National Consumer Disputes Redressal Commission in Revision Petitions No. 2640 of 2002 and 2648 of 2002 filed by New India Assurance Company Ltd. against the orders of the Punjab State Consumer Disputes Redressal Commission upholding the order of the District Forum wherein it was held that the medical doctors who were opposite parties in the complaints were negligent in the treatment of a patient.

No relief was claimed by the complainants from the insurance company concerned which was the proforma party. Three complainants filed a complaint in the District Forum against seven opposite parties. In Review Petition No.2640/2002, Dr. R. P. S. Walia was accused of medical negligence while performing an operation on the gall bladder of Ms. Mohinder Kaur. Dr. Ajay Goel was the anaesthetist at the time of operation.

Ms. Kaur developed ventricular tachycardia followed by ventricular fibrillation. She suffered cardiac dysrhythmia, went into coma and did not regain consciousness. There were allegations against both the doctors. The nursing home was insured with United India Insurance Company, Dr. Walia with National Insurance Company Ltd. and Dr. Goel both with United India Insurance Company Ltd. and New India Assurance Company.

Holding that it was a case of medical negligence, the District Forum awarded a compensation of Rs. two lakhs with interest at the rate of 12 per cent and costs of Rs.1,000 against all opposite parties. However, the insurance companies were liable to indemnify the insured.

The insurance companies filed appeals before the State Commission on the ground that the impugned order of the District Forum did not spell out ratio of compensation payable in respect of each of the insurance companies. The State Commission dismissed all the appeals. Therefore, the New India Assurance Company Ltd. filed a Revision Petition before the National Commission.

The National Commission observed that it was incumbent on the insurance company to pay the amount under the policy and not to file the petition alleging that there was no medical negligence on the part of the doctors. The revision petition was an abuse of the process of the whole system and simply because the insurance company has the means to challenge each and every order without regard to the circumstances of the case and its obligation to pay the amount under the policy. It was neither necessary nor proper for the insurance company to take up the cause of the doctors to save its own liability, which it was legally bound to meet.

> The IRDA should play a proactive role by issuing guidelines to all insurers to avoid frivolous litigation which amounts to harassment of the aggrieved insured by the big company.

Similarly in another case, on account of negligence of doctors, a minor suffered amputation of the hand near the joints resulting in his becoming permanently disabled. The District Forum allowed the complaints filed by the minor as well as his parents and awarded compensation of Rs. two lakhs against the doctors who were to be indemnified by the insurance company. In the appeal by the insurance company, the State Commission affirmed the order of the District Forum.

However, the insurance company filed Revision Petition No. 2648/2002 before the National Commission without any rhyme or reason, as it was neither proper nor desirable for the insurance company to file the said petition.

Needless to say, that in order to develop and promote health services in the insurance industry, it is necessary that the IRDA plays a proactive role by issuing guidelines to all insurers to avoid frivolous litigation which amounts to harassment of the aggrieved insured by the big company having a battery of consultants and legal professionals. It is like killing a fly by firing a gun.

Recently the Law Commission in its "Constitutional Paper" envisages, inter alia, strengthening of the regulatory mechanism. There is a need for a full-fledged grievance redressal mechanism. The Commission has suggested constitution of a Grievance Redressal Authority (GRA) comprising one judicial and two technical members to deal with complaints and claims of policyholders against insurers. The GRAs are proposed to replace the present system of the Insurance Ombudsman.

There is a proposal for setting up of an Insurance Appellate Tribunal (IAT) comprising a judge, sitting or retired, from the Supreme Court or the Chief Justice of a High Court as presiding officer and two members having experience in insurance. Law Commission has also suggested a provision for statutory appeal to the Supreme Court against the decision of the IAT. These measures will strengthen the regulatory mechanism while restructuring the existing legislation.

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Not for Free-Riders...

D. Varadarajan

As stated earlier, in this, the second and last part of this article, the question as to whether an insurer is liable for paying compensation to gratuitous passengers of commercial vehicles has been examined. For illuminating the liability of insurers in this regard, it will be in the fitness of things to refer to the statutory provisions under Section 95 of the Motor Vehicles Act, 1939 (Old Act), Section 147 of the Motor Vehicles Act, 1988 (New Act) prior to its amendment in 1994 and Section 147 of the New Act after its amendment in 1994, vide the Motor Vehicles (Amendment) Act, 1994, and the rulings of the Supreme Court based on such an examination.

Position under Section 95 of the Old Act

In *Mallawa* vs *Oriental Insurance Co. Ltd.* (1999) 1 SCC 403, the Supreme Court held that the insurer is not liable for any damage in cases of gratuitous passengers including owner of goods or his representative who travelled in a goods vehicle. The liability to pay compensation to the claimants of such a person is not on the insurer but on the owner of the goods.

However, this was the position of law as obtained in the then existing provisions of Section 95 of the Old Act. In *Mallawa's* case, the Supreme Court held, while interpreting Section 95(1)(b)(i) and proviso (ii) under the old Act, only a vehicle which is used for systematically carrying of passengers can be said to be a vehicle in which passengers are carried for hire or reward, hence persons travelling in a goods vehicle, whether owners of the goods or passengers on payment of fare or gratuitous passengers, could not be covered by proviso (ii) hence the insurer of the goods vehicle is not liable to pay compensation.

Accordingly, the Supreme Court approved the following observation of the Full Bench of the Orissa High Court in *New India Assurance Company Ltd.* vs *Kanchan Bewa and Others,* II (1994) ACC 117 (FB):

"The conclusion is irresistible. Unless a vehicle is a vehicle meant for carrying passengers for hire or reward or the said vehicle by reason of or in pursuance of a contract of employment is required to cover the liability in respect of death of or bodily injury to persons being carried in or upon, an insurer will not be liable to pay compensation. Admittedly, the owner of goods who has hired a goods vehicle in pursuance of a contract of employment and even if he is carrying his goods after hiring the vehicle, the vehicle does not become a vehicle meant for carrying passengers for hire or reward and consequently, would not come within the proviso (ii) to Section 95(1)(b). To come under the first part of Section 95(1)(b), proviso (ii), the vehicle in question must be a vehicle which is meant for carrying passengers for hire or reward and consequently, a goods vehicle will not come within the proviso. We, therefore, state that proviso to Section 95(1)(b) did not apply to the passengers carried for hire or reward in a goods vehicle and it is restricted to such passengers carried in a public service vehicle."

The Supreme Court held that the insurer is not liable for any damages in cases of gratuitous passengers including owner of goods or his representative who travelled in a goods vehicle.

The reasoning of the ruling in *Mallawa's* case has been followed by the Supreme Court in *Ramesh Kumar* vs *National Insurance Co. Ltd.* (2001) 6 SCC 713.

Position under Section 147 of the New Act, prior to its amendment in 1994

This has been examined in detail by the Supreme Court in *New India Assurance Co. Ltd.* vs *Asha Rani* (2001) 6 SCC 724. In this case, the Supreme Court has considered the decision of the Karnataka High Court in *Oriental Insurance Co. Ltd.* vs *Irawwa* AIR 1992 Kant 321, which pointed out the difference between Section 147 of the New Act and Section 95 of the Old Act with reference to the definition clause (dictionary clause) in the following words:

"It may be seen that Section 147 of the 1988 Act, like Section 95 of the 1939 Act, apart from prescribing the compulsory coverage in respect of third party risks, prescribes the compulsory coverage against death of or bodily injury to any passenger in a 'public service vehicle' caused by or arising out of the use of the vehicle in a public place. The proviso to Section 147 of the 1988 Act which is similar to the corresponding proviso to Section 95(1) of the 1939 Act, makes it clear that compulsory coverage in respect of drivers of any motor vehicle, conductors of public service vehicles and employees carried in a goods vehicle shall be limited to the liability under the Workmen's Compensation Act. Under Section 147(2) of the Act, while the liability in respect of damage to any property of third party is limited to Rs. 6,000 as regards the liability in respect of passengers as also third parties it is made equal to the liability incurred. Section 2(35) of the 1988 Act which defines 'public service vehicle' is similar to Section 2(25) of the 1939 Act and does not include a goods carriage. The difference in the definition of 'goods vehicle' given in Section 2(8) of the 1939 Act and the 'goods carriage' given in

Section 2(14) of the 1988 Act is significant. While the definition given in the 1939 Act gave an indication, goods vehicle could carry some passengers, the definition of 1988 Act omits the words 'in addition to passengers' and states that goods carriage means any motor vehicle constructed or adapted for use 'solely for the carriage of goods.' Therefore, the question whether risk in respect of passengers carried in a goods vehicle should be covered by an insurance policy does not arise at all under the 1988 Act."

It has been held in *Asha Rani's* case (*ibid*) that under the new Act, it would be a breach of condition in case the vehicle used for a purpose other than for which permit has been issued. Thus, in a case a permit is issued for a 'goods carriage,' it would not include any passengers and in case they travel, it would be contrary to the mandate of the statute and thus in view of Section 149(2), no liability could be passed on to the insurance company.

Again, very recently, this aspect came to be considered by the Supreme Court in *Oriental Insurance Co. Ltd.* vs *Devi Reddy Konda Reddy* [Civil Appeal Nos. 981-990 of 2002 with Civil Appeal Nos. 1141-1158 of 2002, decided on 23-1-2003]. Relying on its earlier ruling in *Asha Rani* (*ibid*), the Court observed: "The difference in the language of "goods vehicle" as appearing in the old Act and "goods carriage" in the Act is of significance.

A bare reading of the provisions makes it clear that the legislative intent was to prohibit goods vehicle from carrying any passenger. This is clear from the expression "in addition to passengers" as contained in definition of "goods vehicle" in the old Act. The position becomes further clear because the expression "goods carriage" is solely for the carriage of goods. Carrying of passengers in a goods carriage is not contemplated in the Act.

There is no provision similar to clause (ii) of the proviso appended to Section 95 of the old Act prescribing requirement of insurance policy. Even Section 147 of the Act mandates compulsory coverage against death of or bodily injury to any passenger of "public service vehicle." The proviso makes it further clear that compulsory coverage in respect of drivers and conductors of public service vehicle and employees carried in goods vehicle would be limited to liability under the Workmen's Compensation Act, 1923 (in short 'WC Act'). There is no reference to any passenger in "goods carriage."

The inevitable conclusion, therefore, is that the provisions of the Act do not enjoin any statutory liability on the owner of a vehicle to get his vehicle insured for any passenger travelling in a goods carriage and the insurer would have no liability therefor.

> It is always open to the insurance company to raise the question as to whether those travelling were truly owners of the goods or their authorised representatives, when confronting a claim under the amended Section 147 of the new Act.

Position under Section 147 of the new Act, after its amendment in 1994

This aspect has been examined by the Supreme Court in *Ramesh Kumar* vs *National Insurance Co. Ltd.* (2001) 6 SCC 713. In this case, the claim for the owner and his representative was not disputed, for the insurance company is liable to pay compensation for such persons even when they were travelling in a goods vehicle. This is in view of 1994 amendment in sub-clause (I) of Section 147(1)(b) of the new Act in which the following words were brought in : "...injury to any person, including owner of the goods or his authorised representative carried in a vehicle."

However, in this case, it was contended for the insurance company that even though the insurance company was liable to pay to the legal representatives of the owner or authorised representative, the question was whether those travelling were truly owners of the goods or not ?

To this the Court said: "This in our considered opinion is a question of fact which we need not avert. Only in cases it is recorded by the Tribunal that they were not the owners then only insurance company could succeed that they are not liable to pay. In any case if insurance company has not raised any such issue they cannot be permitted to raise it now. Unless such an issue was raised, foundation laid in the pleading and if not adjudicated by the Tribunal thereafter if a ground is raised before the High Court yet not decided there could be possibility of remanding the case otherwise it cannot be permitted to be raised."

Therefore, it is always open to the insurance company to raise the question as to whether those travelling were truly owners of the goods or their authorised representatives, when confronting a claim under the amended Section 147 of the new Act. However, it may be noted that such a question should be raised at the threshold before the MACT, for any belated wisdom or counsel would meet its Waterloo.

The author is a Delhi-based Advocate and Insurance and Corporate Laws Counsel. He is a Member of the Insurance Advisory Committee constituted by the IRDA. He has served as a Member of Justice T.N.C. Rangarajan Committee and has been nominated as a Member of the Group constituted by the IRDA under the Chairmanship of Mr. S.V. Mony to suggest the road map for detariffing the Own Damage portion of Motor insurance premium. He can be reached at dvarada@hotmail.com.

Fast Track for Insurance

K. Nitya Kalyani

It is a dream scenario. The huge and widespread Indian banking network meets the huge pent up demand for insurance and…. boom, magic happens. The consumers get easy access to insurance and lap it up, insurance companies reach unreached markets and banks make much needed money in the process.

That's how it was meant to work, at least. And maybe it just will yet.

But bancassurance in the wider sense as the Indian market seems to have defined it, the marketing of insurance products through the banking network – is still struggling to find its feet in India.

Not for lack of activity. There has been a spate of tie-ups, as Mr. Sanjeev Bakshi, CEO of ICICI Lombard puts it, but things are yet at an early stage to tell which way it will go. After all, regulations in this regard have been finalised less than a year ago. Mr. Bakshi's company, in a tie-up with ICICI Bank has been finding that even with the close ties between the entities, the complexity of the product means that each bancassurance channel has to be monitored and developed individually even to the extent that products should be developed to suit it.

Early days it may be, but there are interesting trends emerging.

The first is that along with the redefinition of a unique activity like bancassurance, which originally implied the ownership of the insurance product if not by the bank, at least by an insurance company owned by it or by the same group, the Indian market seems to have widened the definition to mean any corporate agency activity based on a referral model.

Thus we have non-banking finance companies taking up corporate agencies and pretty much following the same pattern of selling insurance. Which is, using their customer database to cross sell insurance products to them, and taking a fee from the insurer for this.

Which brings in a key point. The most valuable thing that most banks have to sell is their customer database and network reach. Selling skills, however, is another thing entirely, and insurance companies are finding that they have to either place their person on the bank premises or offer extensive training to the bank personnel before they are ready for it. Motivation is a completely different story and depends on the individual and the mode of compensation.

The interest levels from banks are high. With interest income being squeezed everyday and credit offtake not picking up in a long time, fee-based income was one new way out for banks, and they have been making a beeline to insurance company conference halls to make presentations about their network and depositor/ borrower base. It's actually a beauty parade that takes place, remarks Mr. Antony Jacob, Deputy Managing Director, Royal Sundaram Alliance Insurance Company.

> The most valuable thing that most banks have to sell is their customer database and network reach. Selling skills, however, is another thing entirely.

Their strategy has been slightly different. They have gone in for tie-ups with foreign banks – apart from awarding corporate agencies to their group NBFCs, Sundaram Finance and Lakshmi General Finance – and have found that there is a route to take through the direct marketing efforts that these institutions have specialised in.

The assumption was that non-life products could just be too complicated to sell over the counter, not to speak of the fact that many bank customers don't turn up at their bank's premises these days since they don't have to. With insurance company marketing people sitting with their counterparts in banks to select the customer profile that they would like to target for bancassurance mailers, RSA has been finding the channel worthwhile to pursue.

While this seems to be a better starting point, the true benefits of the channel will emerge only when combined product development starts taking place, says Mr. S. V. Mony, Vice-Chairman, AMP Sanmar Assurance Company. But before that, he says, we are still grappling with compliance issues like training which, when you take into account bank networks and staff, is a massive task.

There is also no clarity about responsibility of the bank at the time of a claim. As banks understand it they don't have a role to play, though some do. But consumers cannot be faulted if they assume and insist that since the bank sold them the policy the bank should assist them in getting claims paid. Banks could be willing to help and could even pressurise insurance companies to settle claims if they see problems arising in their relationship with their customers to whom they have cross sold somebody else's product.

The Reserve Bank of India (RBI) and IRDA may have to sort out these issues and issue clarifications.

How to account expenses is another question which has to be resolved taking into account IRDA's cap on the fee derived from these transactions.

These are just the beginning of the issues that are emerging because the channel is finding its shape and size only now. In the following pages we present to you a collection of experiences and thoughts on bancassurance from insurers and bankers. We welcome your contributions on this activity as well. You know where to write to us!

What makes Bancassurance Happen

Rumeer Shah

"Bancassurance" is a term which first appeared in France after 1980, to define the sale of insurance products through banks' distribution channels. But this term does not just refer specifically to distribution. Other features, such as legal, fiscal, cultural and/ or behavioural aspects form an integral part of the concept of bancassurance. In fact, all these characteristics combined can explain the marked differences in bancassurance across the globe. Although it is clearly a predominant feature on some markets, representing over two-thirds of the premium income in Life Insurance, other markets do not appear to have chosen it as their model. In my opinion, simply selling insurance products through banking channels and vice versa, does not symbolise a good bancassurance strategy and is bound to fail sooner or later. A bancassurance strategy can succeed only if:

1. It provides a cost-effective way to build distribution capacity, especially for new market entrants
2. It provides a shift from total dependence on tied-agency for existing insurers
3. It helps to penetrate new market segments across a broad channel
4. It increases quality of business

What makes a successful bancassurance strategy?

A viable distribution channel

Using the banking channel can boost sales productivity. A strong life insurance agent, for example, might sell only two policies a week; a less effective agent, only two a month. To compensate for this low productivity, life insurers pay agents a handsome commission on sales – sometimes as much as 50 per cent for the first-year premium, then two to five per cent of annual premiums thereafter. Naturally, these commissions are for the most part passed on to the consumer in the form of higher premiums through administrative cost loading.

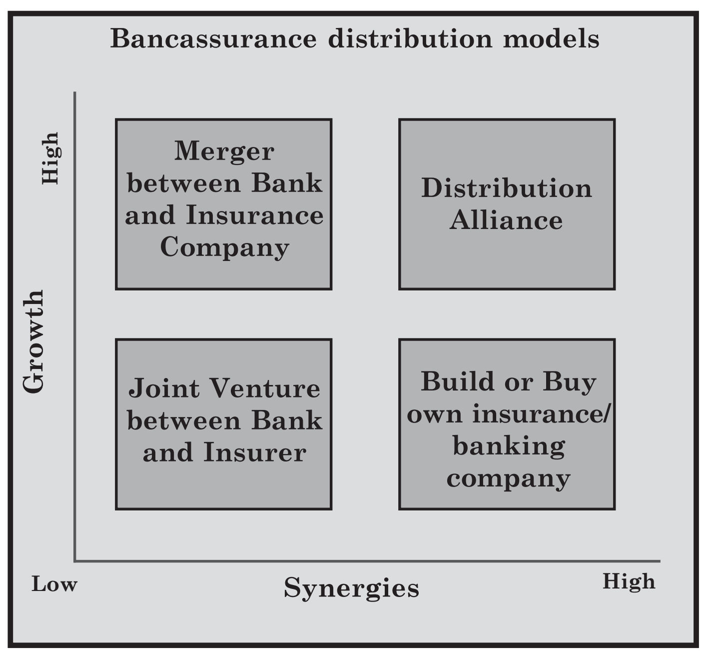
By successfully mining their customer databases, leveraging their reputation and distribution systems (branch, phone, and mail) to make appointments, and utilising sales techniques and products tailored to the middle market, banks can easily provide and convert a huge number of insurance leads into sales and achieve outstanding sales productivity, far higher than traditional distribution channels alone – more than enough to make bancassurance a viable alternative. Eventually, what distribution channel to use will solely depend on the organisation's business philosophy as well as success of such models in India and the world. The visual (see below) represents how typical models have achieved success around the world. Their success in India will depend on which quadrant the bancassurance company perceives itself to be in.

A comprehensive approach

In effect, a bancassurer is seeking to emulate on an organisational scale what the old-fashioned private banker/ insurance agent did – to be the trusted financial advisor, looking after a client throughout his/ her life. Then personal knowledge and trust overcame barriers that today would translate as data privacy and only having a share of the customer's wallet. Today, we speak of the necessity of having a holistic understanding of the customer's needs to overcome these barriers, and indeed this customer focus is absolutely imperative. However, even before that, bancassurers need to have a comprehensive understanding of themselves and the bancassurance programme they need to provide. Unfortunately, many bancassurers feel that 'bancassurance' is their corporate strategy. In contrast, successful bancassurers actively develop a strategy based on differentiation (unique positioning that matters to its desired customers), niche selection (specialising in products offered or customer segment served) and cost leadership.

The strategy

The strategy begins by defining the vision and the model to get there. Neither banks nor insurance companies truly know their clients from an institutional point of view. Effective client segmentation is more vision than reality. This is due to both historical accident and inefficient data-gathering. Most financial services firms lack a proactive customer acquisition policy focusing on specific segments. For insurance companies, the problem is often that the personal knowledge of the agent is rarely institutionalised and used for segmentation to develop more



tailored products or more focused marketing. In banking, the vague segmentation that occurs is usually more focused on internal organisation (e.g., retail versus private banking) than clearly defined customer needs. In both cases, if segmentation is taking place, it is usually based on historical data and on single products. Rarely are customer needs understood and proactively considered throughout a customer's lifetime, with segments defined and served accordingly.

Making it work

A good place to begin would be the corporate culture. Basic knowledge of bancassurance services should be mandatory for all employees, but it is important to recognise that bancassurance involves complexity, so there is in fact an increased role for product specialist and advisors. However, conscious efforts must be made (and rewarded) to encourage development of new skills.

If we do realise the inherent potential of this yet under-tapped distribution and organisational channel, why hasn't then, bancassurance picked up and stormed the financial services industry, worldwide? To this point at least, the US banking industry's response to bancassurance was probably best stated by Dick Kovacevich, Chairman of Wells Fargo: "We don't have to own the factory to sell the product." Even in terms of marketing, the bank channel appears to be best suited to selling simple, commodity-like, insurance products to customers with correspondingly simple needs. It is far less effective for products and customers that require the specialised expertise of a trained and experienced agent. Unfortunately, those simple, easily-commoditised products also tend to be the ones with the lowest profit margins and the most vulnerable to competition, so the marketing window for bancassurance products would seem to be customers with simple needs who have not yet figured out how to find what they want.

A recent Scor's Technical newsletter has made interesting observations about the success of bancassurance around the world and particularly in Asian countries. The most crucial factor is undoubtedly the legal and fiscal environment of the country. National regulations play a major role which was illustrated in Italy by the Amato Law authorising banks to invest in insurance companies. Also the repeal of the Glass-Steagall Act and the adoption of the Gramm-Leach-Bliley Act in the U.S. helped companies like Citigroup to better consolidate in the market. A low penetration rate in life insurance, encouraging foreign insurers to invest in bancassurance can also have an important impact. In fact, these insurers often choose alliances with local banks which have well-established networks and are customer-oriented in terms of their proximity.

However, most bankers around the world have good reasons for not being very interested in underwriting insurance. The risk-adjusted return on capital is not especially attractive when averaged over the cycle, the insurance cycle (at least the non-life segment) itself tends to be highly volatile, and the risks involved are not those which bankers are experienced at managing. While banks and insurance companies have some areas of expertise in common, such as investment management and capital markets, the core competence of banking is credit, not insurance underwriting. While it is certainly true that the convergence of derivatives with insurance products is continuing to grow, and that some of the larger banking companies are quite expert in derivatives, there are still substantial differences between the risks covered by derivative instruments available in the market and those faced by specific insureds. Covering those risks through underwriting is the core competence of insurance companies. That said, since both banks and insurance companies have their individualities, it would be a good idea to pool their resources. Its success would depend solely on how quickly, and effectively; the right-hand side of the following equation is managed.

Bancassurance = Bank + Insurance company + Financial services + Integration.

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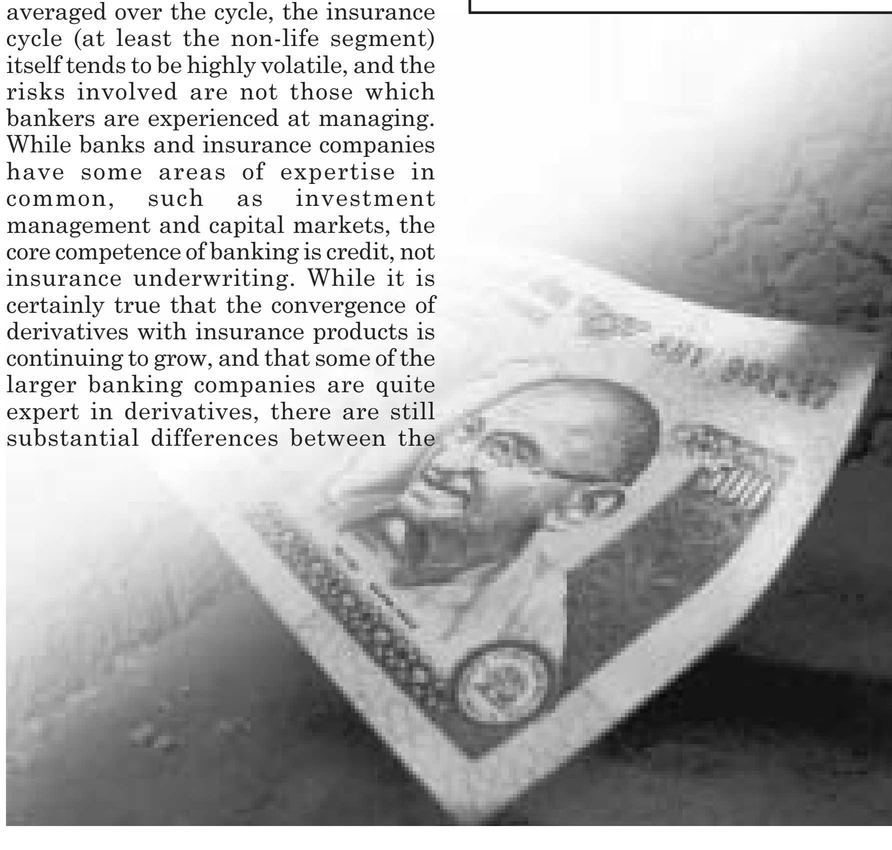

Blueprint for Success

– Bringing Bancassurance to India

R. Krishnamurthy

The bancassurance distribution channel is currently attracting the maximum attention in India from both insurers and banks. While less than two per cent of total premiums are generated through this channel, there are expectations that bancassurance will grow to register a dominant share in the widening insurance market during this decade.

World over, while both life as well as non-life companies seek to engage bank branches, non-life products have featured less prominently in bancassurance distribution. The major reason is the complementary nature of life insurance and banking products. Both are in the nature of savings accumulation, one short-term and the other long-term. The enormous trust that the banks command in the minds of public is an important reason that insurance companies seek to enter into wide ranging banking partnerships, as close knowledge of the customers' background helps banks in selling life insurance.

Bancassurance in Europe and India

Bancassurance has achieved remarkable success in some European countries. As per data compiled by the Life Insurance Management Research Association (LIMRA of the US), France, Portugal and Spain lead the pack with about 70 per cent of total insurance contracts sold through bank branches in the respective countries, followed by Belgium (45 per cent) and Ireland (30 per cent). Traditionally, European banks have been drawn to bancassurance to secure an additional source of income and to leverage their customer base. For some major banks in Europe, bancassurance commissions account for a third of their retail non-interest income.

Banks in Europe have also chosen to concentrate on bancassurance as a major fee-earning activity to beat the stringent risk-based capital needs imposed by the Basle Rules.

These factors are no less relevant for Indian banks. The squeeze on banks' profit margins and the increasingly stringent capital adequacy norms they are required to meet for asset-based expansion, are well known.

According to data published by RBI in the last '*Report on Trend and Progress of Banking,'* since the launch of the financial deregulation process, banks have been facing a steady decline in the interest spread, the difference they earn between interest income and interest expense. The spread declined to 2.6 per cent last year. (Incidentally, this is still regarded as high. Between 1995 and 2001, the interest spread for banks in Thailand had declined by 2.07 per cent). Recent data shows the worsening impact on margins due to increasing competition, sluggish asset growth and lower inflation level in the country. Commission, exchange and brokerage, which comprise a major share of 'other income' of banks in India, rose only three per cent last year.

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Impetus for bancassurance in India

There are two main factors that would provide an impetus to the bancassurance model in India.

First is the dismantling of regulatory barriers for banks to undertake bancassurance. In a far-reaching move towards convergence in the financial sector, RBI has allowed entry of banks in the insurance sector with practically no restriction as far as pure distribution arrangements are concerned, while retaining restrictions in respect of equity investments in insurance joint ventures. Banks can undertake distribution of insurance products of one life and non-life insurance company as 'corporate agents.' Equity investment by banks is restricted with reference to the capital resources of the aspiring bank, the extent of its impaired assets, profitability and the general quality of the bank management. The equity investment is also generally restricted to a maximum of 50 per cent of the capital of the insurance venture for well-capitalised banks.

The Government had also amended the Banking Regulation Act, bringing insurance distribution as a permitted activity for banks to engage in.

The Ministry of Finance, Government of India, has constituted recently a Bancassurance Working Group to study the various operational aspects pertaining to distribution of insurance products by banks with a view to promoting the active involvement of this channel, especially to penetrate the rural markets through the bank networks.

This is a refreshing contrast to the situation in several other countries in Asia, such as South Korea, Philippines and China where bancassurance regulations are not yet in place.

The second factor that would give a push to the bancassurance model in India is the existence of an impressive banking infrastructure. There were a total of 66,200 bank branches in India as at June, 2002, with rural branches accounting for nearly half of them. There is a bank branch serving every 15,000 people, and the entire network caters to the needs of people in every economic segment and in widely diverse geographical regions.

Banks in India have saving bank deposit accounts with aggregate balances of Rs. 2,79,000 crores (about $ 59 billion), and a client base of close to 100 million. The extensive presence of bank branches and the large number of bank customers would mean that India, in some ways as in the case of Japan, is an ideal candidate to take bancassurance forward.

Indian bancassurance model in evolution

The early bancassurance distribution arrangements in India are taking off under two categories: (a) distribution alliances by way of referral arrangements and corporate agency relationships, and (b) joint venture agreements.

Pure distribution arrangements provide both banks and insurance companies with additional sales potential with minimum of investment. The referral form of distribution is a loose agreement, an opportunistic approach, whereby the bank effectively controlling access to the client base passes on business leads to career agents of the insurance company with which it has tied up. The insurance company assigns career agents to sit in the premises of specific bank branches, and for every lead passed on, the bank gets a referral fee commission (with some banks also permitting the staff to receive 'incentives' from the insurer concerned).

Early this year, the insurance regulator issued guidelines to insurance companies on the subject, restricting payment of referral fee to banks within the ceiling rate of agency commission allowed under the Insurance Act, and forcing insurers to restrict such arrangements to only one bank each under life and non-life business.

The regulations require banks to file such referral agreements with the central bank and the insurance regulator for prior approval.

The regulator's objective is to nudge insurance companies to seek more formal and transparent corporate agency form of distribution arrangement with banks, which are governed by a set of regulations framed for the purpose. Unlike the referral arrangement, an agency relationship has the merit of grooming the bank staff to sell insurance products after receiving proper training in accordance with the syllabus prescribed for the purpose. The regulations restrict insurers to enter into corporate agency arrangement with only one bank for life and non-life business. Banks becoming a corporate agent need to designate a senior executive to be the nodal point with responsibility to account for adherence to the terms of the insurance regulation.

The other form of bancassurance distribution through the joint venture platform is currently practiced by a few banks, with State Bank of India leading the pack as the promoter of SBI Life Insurance Co. Ltd. A joint venture structure offers more synergy potential than pure distribution agreement. The main advantage is the scope for significant know-how transfer to take place between the parties. International evidence suggests that fully integrated bancassurance partnerships demonstrate superior performance, as the insurance company orients itself towards the bank, and the bank plays a crucial role in managing the interface with customers.

Developing a unique Indian model

As the bancassurance takes rapid strides in India, it can be foreseen that the Indian model would differ from the manner in which European banks distribute insurance products in several ways. The emerging characteristics of the Indian model can be analysed under five heads.

1. *Product Design*: Banks in Europe mainly sell insurance products that are intended to maximise tax benefits to customers, as well as investment products that are unit-linked where the returns are based on the performance of underlying assets. Banks abroad mostly target customers with hefty balances, such as those who fall under the private banking label, and sell insurance products that are off the shelf or custom-made.

In the Indian bancassurance model, the bank staff would essentially be involved in selling insurance products that are linked to bank services. Bank managements and bank staff tend to favour insurance products that complement the bank's own product range so that insurance selling gives a boost to the banking services, and enables the bank to meet the competition in the banking products.

The increasing popularity of the mortgage-linked home loan insurance product is a case in point. Home mortgage is a growth segment for every bank in India, and amidst fierce competition, banks think that creditor life insurance that is attached to home loans gives them a competitive edge, and an ideal product for distribution through bank branches.

SBI Life introduced a low premium home mortgage product that offers life cover protection on a reducing loan outstanding basis for the first time in India. The home loan borrower stands protected to the extent of his outstanding loan amount due, such that in the event of the borrower's death or disability, the insurer repays the dues to the lender. This home loan cover is regarded as adding value to the partnering banks' home loan schemes, and with minimum training, staff have taken to selling the product.

The bancassurance model will increasingly spawn several innovative products that are similarly tailored to the banks' schemes, especially in the credit life category, which is a new phenomenon in India.

The above development also means that bancassurance distribution in India will be prominent in pure term insurance products in the early phase of market development. Pure term products are easy to understand and explain to customers. The bancassurance channel is ideally suited to selling pure term products to the vast customer base. The task of collecting modest premium amounts for term insurance policies, which is a major worry for insurance companies, is rendered easy through bancassurance distribution.

It is the experience in western countries in the early stages of bancassurance development that bank staff are averse to selling investment products, especially single premium saving products, as such products are viewed as competing with bank deposit products. This is also true in India. The performance appraisal system of bank managers in public sector banks places a high emphasis on the deposit growth rate of the branch. Bank managers are wary of actively promoting sale of insurance products that would make a dent on their deposits.

Rural flavour: A unique aspect of bancassurance in India will be the predominance of rural bank branches in the sales process. Given the extensive presence of bank branches in the rural areas, strong growth of insurance demand in rural regions, and the closeness of bank staff with customers in general in rural pockets, insurance selling will be taken up more actively at bank branches in the non-metro cities and towns.

Early experience in implementing bancassurance in India suggests that bank customers in rural branches take more interest in the insurance products than metro customers. A recent study of consumer behaviour in insurance buying conducted by a research outfit attached to FICCI reveals that rural population view life insurance as an important option to park their savings, as well as for pure protection purposes.

INSURANCE MARKETING IN RURAL INDIA
SBI Life's experience with Regional Rural Banks

There are 196 RRBs in India operating in almost as many districts in every state. RRBs are local area banks, catering to rural banking needs exclusively. They have large deposit and customer base. RRB staff members hail mostly from the respective villages and have intimate knowledge of the bank customers.

SBI Life has enlisted 20 RRBs till June, 2003, as corporate agents and provided training to the employees designated as nodal staff for insurance selling.

In the first stage, *SBI Life* engaged the RRBs to roll out a group annual renewable term insurance plan (*Super Suraksha*) to the customers by offering life insurance cover up to Rs. 1,00,000. The procedure was designed in simple terms whereby the bank staff would enroll customers up to age 59 for life cover, based on their economic status.

Usually, the branch staff would meet groups of rural customers and explain the benefits of life insurance cover. Customers sign a good-health declaration and pay a uniform premium for all ages. *SBI Life* issues a master policy to the RRB branch, which in turn issues individual certificates of insurance to the customers enrolled. Premiums are collected annually on a common date suited to the local farming schedule, and the amounts are remitted free of transaction cost. RRBs capture essential data about customers enrolled in stand-alone desktops.

The RRBs provide claim verification assistance, including checking the identity of the claimants. *SBI Life* remits the claim settlement cheques direct to the RRBs, which hand over the amount to the beneficiaries against proper receipt.

The scheme has received enthusiastic response. The RRBs have enrolled 2,25,000 rural customers during the last year for an aggregate sum assured of Rs. 1,220 crores.

SBI Life is now proposing to extend its Pension Plan to the RRB customers. The product has been modified on the lines of a group scheme with customers receiving a Pension Account Certificate at the time of admission and individual annual pension accumulation statements.

India has a unique set of rural banking institutions. Apart from banks in the cooperative sector which are governed by state regulations, there are a large number of Regional Rural Banks (RRBs) promoted by large public sector banks which are solely catering to rural population. The RRBs have a combined deposit resource of Rs. 40,000 crores (about $ 8.6 billion) and together they made a net profit of Rs.600 crores ($ 130 million) last year.

Sales approach: Another important differentiating factor in the Indian bancassurance model is the adaptation of the sales process in a predominantly non-networked IT environment.

In the integrated European bancassurance model, insurance applications run on the existing bank infrastructure. Records of customer profiles are saved regularly, and the data is mined for suggesting optimal insurance solutions at the point of sales at the branches. Bank employees are able to record high level of sales productivity since the system guides them through the sales process.

In the Indian model, IT solutions based on stand-alone desktops would co-exist at bank branches that are predominantly manual or with partly computerised operations. Insurance companies would need to come up with simple IT approaches to enable the bank staff to record sales details at the branch counters. Insurance selling in rural regions would take place without practically any IT involvement, and based on the personal knowledge of the customer details on the part of bank staff.

This would mean a close involvement by the insurer with the partnering banks in understanding the internal working style and processes at the branch level so as to draw up procedures that are relevant for insurance selling and customer servicing, such as premium remittance, raising renewal premium demand, interface with customers, and other operational aspects.

Sales training: Sales training is a key aspect of implementation in every country. Indian bancassurance regulations require every bank's sales staff to undergo an insurance training and certification process, which is generally not a requirement in other markets.

While this provides an opportunity to create a cadre of insurance sales staff in banks and equip them with a fair knowledge of insurance business and the techniques of risk cover, the process of training thousands of bank staff and enable them to meet the regulatory requirement could be fairly daunting.

Insurance companies engage the services of specialised insurance training establishments authorised by the insurance regulator for the purpose, but they increasingly resort to in-house training so as to tailor the training approaches to the knowledge and skill levels of the staff. Besides, all banks have staff training institutes of their own with executive staff as in-house faculty. By providing knowledge and training to such bank faculty and additional inputs by way of sales training, the insurance companies seek to create a dedicated network of low-cost training establishments that can help to extend the sales network at branches quickly.

> It is possible to introduce group incentive plans at bank branches that show exceptional performance by offering incentives for all employees at the branch.

Incentive systems to encourage sales: A key aspect of implementation of bancassurance in India that has unique characteristics is the staff incentive system.

In the competitive bancassurance model in Europe, it is common to see aggressive incentive plans to reward individual bank staff excelling in insurance sales. There are difficulties in following similar individual incentive plans at public sector banks in India for obvious reasons of the dominance of employee unions and the regimented pay structure.

Nevertheless, with the changing times, innovative approaches could be developed to recognise sales performance among bank staff. It is possible to introduce group incentive plans at bank branches that show exceptional performance in insurance selling by offering incentives that would accrue to all employees at the branch involved in the process directly or indirectly. This would promote greater awareness of cross-selling and team spirit in insurance sales. A few insurers are also working on individual reward system to promote individual initiatives in selling after due internal consultations.

Bancassurance potential in India lies on the expected total premium income generated by bancassurers by way of additional premium as well as business diverted from the existing agency channel. The additional premium generation would accrue in the early stages from bank customers who would not otherwise have opted for life insurance cover. This represents business that is tapped from unexploited potential. According to a recent assessment of Swiss Re, the estimated contribution on this score in some of the European markets ranges from five to 15 per cent of the gross premium level.

Given the size and reach of the banking infrastructure and the various factors mentioned above, there is every reason to be optimistic that the ratio would be much more in India.

The author is Managing Director and CEO, SBI Life Insurance Co. Ltd.

Many Roads to Bancassurance...

Sudarshan Malpani

Bancassurance is an important channel of distribution for insurance companies. This channel is relatively new in India but has already taken roots. This article dwells on ICICI Bank's experiences in bancassurance across its various channels and segments.

ICICI Bank is the second largest commercial bank in India with a customer base of over five million retail customers and five million bondholders and a deposit base of well over Rs.one lakh crores. The bank is today the single largest distributor for ICICI Prudential Life Insurance Company (ICICI Pru Life) and is arguably the most successful bancassurance channel in India. Twenty per cent of ICICI Pru Life's total sales come from bancassurance, a major share of which comes from ICICI Bank.

The bank was one of the pioneers to launch bancassurance as early as 2001. The decision to offer insurance to the bank's customers was a quick one. The Universal Banking concept supported the idea of creating an optional structure for the retail business and allowed the full range of asset and liability products to be offered to all its retail customers. With the bank co-promoting ICICI Prudential Life Insurance Company (ICICI Pru Life), the selling of its products was taken up.

The bank has a large geographical reach with presence in over 230 cities across the country. Even though this is a vast market, ICICI Pru Life was unable to provide operational support in so many cities right away. Hence, it was decided to start with the top cities and slowly expand to other cities. After two years of operation, the bank today offers insurance at 25 major cities of the country.

While starting bancassurance, ICICI Bank considered various sales models. One of the options was to take a corporate agency licence and hire an independent sales force to sell insurance. It was not easy to get a corporate agency at that point of time. However, it was certain that the bank would take the insurance distribution business seriously and be the clear industry leader. It was decided to start with a referral model and then move to become a full-fledged insurance distribution house over a period of time. Under the referral model, the bank would refer its customers to ICICI Pru Life who would employ an exclusive sales force to be deployed at its branches. The bank staff would give referrals to the ICICI Pru Life employees who would follow up and close the deals.

After two years, the referral model has been a success. Cross-sales to the branch walk-in customers, Salary Account customers and Private Banking customers is effectively taking place. Here's a review of each of these channels and segments.

Branch

The branch channel has been the backbone of bancassurance for ICICI Bank. The insurance product was completely new for the entire front desk staff of the bank. A lot of groundwork had to be put in to make the branch staff aware of insurance. Training sessions were planned for the branches after banking hours and during holidays. The best part of this training was that the branch staff showed a lot of interest in learning about insurance and various insurance products. This had a positive impact on sales. Motivation of the branch staff is also important to ensure that quality referrals are continuously generated for insurance sales. Insurance referrals are a part of the Branch Manager's targets and credit for insurance sales is given to the branch.

ATM

Other channels, which service the branch customers, are the ATM network, Call Centre and the website on the Internet. ICICI Bank has the largest ATM network in the country with over 1,700 ATMs. A number of customers do not visit the branch at all, they use only the ATMs. These are the particularly savvy and higher income group customers. I am personally very bullish on the ATM channel and its strengths. The quality of leads from this channel can be improved substantially on introducing more complexities, which help to attract the customer towards the insurance product.

Internet

The Internet has proved to be one of the most potent and low-cost sales channels all over the world. However, insurance distribution is yet to take off from this channel in India. I am of the opinion that the sales through this channel can be enhanced, especially when customers are already using the bank's website for their banking needs. The Internet can be used to offer value added services like product information, customer profiling, suitable product recommendation and finally, purchase of the policy itself. Post-sale policy servicing can also be done through the Internet itself. The bank intends to significantly enhance its Internet capabilities in insurance distribution business as it views a great potential in the Internet for acquiring and servicing the customers.

Call Centre

ICICI Bank has got some of the largest in-house call centres in the country. The call centre is an expensive but effective channel which can generate quality insurance leads. The call centre Customer Service Officers (CSOs) interact with a number of customers each day. At the end of the insurance training sessions, the CSOs started generating referrals for the insurance. This is an expensive mode of getting referrals, but the leads generated are of good quality and conversion rates have been higher.

Salary Accounts

ICICI Bank has one of the largest and fastest growing Salary Account channels in the country. There can be various approaches for insurance sales to Salary Account customers, depending on the depth of relationship and employee-size of the corporate. If exclusive tailor-made products were made available for this channel from the insurance company, there would be an additional demand. ICICI Pru Life had a unit-linked pension product called Life Time Pension where a special five per cent extra unit allocation to the customers was given during the January, February, March quarter. This product has proved to be quite a hit with this customer segment.

Private Banking

The Private Banking channel of the bank is a unique wealth management service that caters to the High Networth Individual (HNI) clients of the bank. HNIs are the most prospective customers for insurance companies. Specially selected and trained insurance sales specialists service the Private Banking customers. The bank has realised that this channel has a huge potential and a special strategy is being implemented to bring greater focus and provide quality insurance advisory so that insurance can be an integral part of the HNI's portfolio.

Non-Life

The bank has a strong desire to offer a complete basket of insurance products to its customers and has kicked off sales of non-life insurance products to its customers in right earnest. It has embedded some non-life products with its existing deposit and loan products. Saving Account holders are being offered a Personal Accident cover. Home Loan customers are offered property insurance covers. Credit card holders are being given insurance covers and privileges.

Finally...

ICICI Bank has been innovating the insurance sales process to find an optimal, cost-effective and comprehensive model for insurance sales. Top management buy-in, high customer loyalty, convenience of ready availability, strong marketing pitch by ICICI Prudential, dedicated insurance sales force, stiff sales targets for the bank staff have been the contributors to ICICI Bank's leadership position in bancassurance.

The author is Product Manager-Insurance, at ICICI Bank Ltd. The views expressed here are his own and do not necessarily reflect the views of his organisation.

A Distribution Odyssey

Apparao Machiraju

We are witnessing a major transformation within the insurance industry with the entry of private insurance companies and the emergence of a variety of distribution channels. The blurring of lines between the insurance companies, banks, and other financial service institutions as well as non-traditional distribution channels in the insurance services market place contributes to significant changes all around us.

- Markets are coalescing around customer focus and not products. Demand from customers drive the companies, not what or how to sell life insurance. The insurance industry, to re-invent itself, needs to run fast to catch up.
- Customers could be inundated with information and choices. Knowing which products and services are best for one's family's financial security and future can be daunting. The need and value of knowledgeable and skillful field personnel could increase.
- What is now emerging is the embryonic shape of a new business model, a model driven by information and technology as governed by the simplest of all business principles – 'keep the promises.'

Traditional models may have worked well because there were no alternatives or because the customer lacked information. The theme emerging is a 'new way' to deliver the end-product. This write-up is an attempt to discuss the much talked-about 'Bancassurance' in the Indian context. The association of banks with insurance companies and vice-versa.

Everyone has some kind of connection with a bank. It's impossible to live in modern society without a bank account. For most of us, our contact is multifaceted, from savings accounts to term deposits to lockers to auto and home loans. And then there are personal banking services for high net worth individuals. In recent years, reasons for dealing with the banks have been multiplying – they offer credit cards, stock brokerage services, mutual funds etc. Now life insurance is the latest addition.

The presumption is that life insurance will be a natural extension of banks' other services and that they will be successful in selling insurance services also. It will be however an uphill battle as marketing/ selling life insurance services need different approaches.

1. Banks have been undergoing changes in their functioning. Downsizing through VRS schemes have happened and mergers also are foreseen and talked about. What does this mean to consumers? It means the branch they have been dealing may not be the same. If by chance it is, it may be under a different name. Example: (ING Vysya Bank). The personnel one has been dealing with also may change.
2. Another major development in the recent times is ATM access which has minimised the customer contacts with the bank personnel.

The customer database they possess is one of the most significant competitive advantages of banks for insurance companies. The depth and quality of information which banks possess stems from the fact that banks can analyse income and payment streams which may reveal a significant amount of information. Information technology facilitates systematic scanning of the customer base for selling leads. Having leads systematically generated, to a great extent, solves the problem of prospecting. However, the banks have to be very discreet in using this information for life insurance marketing purposes. There could be, in course of time, regulatory restrictions and even customer resistance to using the information.

Customer segmentation according to geographic location, occupational status, age brackets and the like can facilitate developing appropriate sales approaches.

Bancassurance practices vary from one country to the next for several reasons:

International perspective

- The regulatory environment: In most countries, regulators have for a long time strictly enforced the principle of separation between banking and insurance businesses. It is only most recently that regulators have started to relax strict restrictions on banks and insurers to enter each other's traditional lines of business.
- In general, regulations concerning cross-industry penetration in financial services can be divided into two groups: regulations concerning production, distribution of products and ownership of a bank or an insurer respectively.
- The first group of regulations concern the production of insurance by banks and of banking services by insurers which is generally prohibited in almost all countries. Reasons for such restrictions include three major arguments.

Firstly, insurance products are claimed to be inherently different from banking products, requiring a different level of expertise and knowhow which banks supposedly do not possess. Secondly, risk factors are different in insurance and banking.

It is argued however, that in order to overcome entry barriers resulting from lack of knowhow and experience, both banks and insurers could either 'buy in' executives and personnel with the desired expertise, enter a strategic alliance or a joint venture or simply acquire a bank or an insurer respectively. Secondly, the fact that risks in banking and insurance are of different natures and not necessarily correlated, is more likely to contribute to the stability of the financial service firm.

> The customer database they possess is one of the most significant competitive advantages of banks for insurance companies.

National differences

Significant differences in national tax and pension structures. In some countries, national authorities allow the creation of instruments that are called life insurance but look like bank term deposits Banks can distribute these products and they carry tax advantages. A good example is France.

- Significant differences in the role of banks in a national financial system: Bancassurance often is more prevalent in financial systems historically dominated by banks – such as France, Belgium and the Netherlands – than it is in those historically dominated by the securities market – such as the UK and the US.
- Distribution System Role : In many countries, companies have shareholding arrangements or are members of industrial groups that assign specific and insurance distribution systems and separate roles to banks – that is, the bank's branch network is the insurer's tied agent. Examples include Germany and Japan.
- Underdeveloped national insurance markets: Foreign insurance companies want to develop distribution networks and decide they can do so more cheaply through bank's branch network than on its own. The bank offers a ready supply of prospects. An example is Spain.

Marketing and distribution approach to bancassurance

- Focus on relatively simple products has been the trend in the formative stages. Products could include term and whole life, pensions and retirement as well as savings plans with risk coverage, thus covering the most essential needs of customers.
- The number of life products offered are limited to a maximum of ten. This constraint not only significantly speeds up the training process of front-line sales personnel with the new products, since the product range remains manageable, but such positioning is aimed at minimising the 'cultural' problems which may occur during the introductory stages of insurance products into a banking environment.

Incentive structure

Training of branch employees is focussed on a select group, trained and equipped with specialised knowhow for selling insurance products. While a small bonus is paid to the employees assigned for sales work, they continue to be compensated primarily on a salary basis to reduce problems of having two different reward systems side by side in the branch which may create animosity and lack of cooperation between the personnel concerned. Branches are given targets for selling insurance-related products and these are taken into account in branch managers' overall assessment.

Key success factors for banks entering insurance as identified from case studies

1. The issue of market segmentation and related marketing and distribution approaches.
2. The question of how to reconcile different payment systems which exist within the banking and insurance cultures and how to design an effective incentive system for retail financial services distribution.

Bancassurance around the world

Bancassurance is a 'fait accompli' in Latin America. While penetration is high, there is much room for growth. Foreign banks and insurers support the local players and the region is an excellent source of "how to" information for those interested in bancassurance ventures.

Brazil

The top banks play a major role in insurance in Brazil typically through bancassurance and traditional brokers. One example is lcatu, an investment bank with no retail network that distributes insurance to individuals through brokers, retail stores, credit cards and an Internet investment site. It is important to remember that Brazil has no agents as they are not allowed by law. Banks dominate the open pension business and pension reform will extend these opportunities.

Germany

Germany has a tradition of cross-shareholdings among commercial banks and insurers. Insurer tied agents dominate life distribution. There is one bank branch for every 7.7 square kilometres, twice the level elsewhere in Europe. Four major commercial banks have less than 20 per cent of the market, but opportunities for consolidation are limited.

Cross-shareholdings in Germany limit the ability of the banks and insurers to raise capital, but recent tax changes make divestment of such holdings attractive.

Japan

Many regulatory changes have taken place in Japan during the past few years. In 1998 the government partially removed restrictions on entry by an institution in one financial segment into another. Since 1999, insurers have been able to enter banking through subsidiaries. Since 2000, life and non-life companies have been able to sell each other's products.

Japan's seemingly unending financial crisis, had led to many companies faltering. During this crisis, four leading banking groups have emerged in Japan, each of which has strong links to insurers.

Mexico

Banks play a major role in the Afore (Pension), annuity and risk insurance business. Pension reform became effective in 1997. Since then, the Afores have managed individual accounts and annuity companies have been formed to manage the payouts at retirement, death and disability.

> There is also proliferation of distribution agreements between banks and insurance companies and brokerage firms.

While Mexico has a number of longstanding joint ventures between local-national and foreign companies, the late 1990s brought an upswing in joint ventures between foreign insurers and Mexican banks.

United Kingdom

In the UK, the government has introduced stakeholder pensions with capped commissions. This move has increased interest in mergers and alliances between banks and insurers. Bancassurance has had mixed results in the UK. Bank of Scotland, for example acquired National Westminister (Natwest) Bank, which ran what appeared to be a successful life bancassurance business, but then divested that business to CGNU. In addition, Lloyds' Bank TSB, which owned Abbey Life, shut it down and sold the insurers' sales force to Zurich. Nevertheless, new distribution arrangements continue to appear.

Finally, a couple of independent insurers – Prudential and Standard Life have started banks.

The USA

The Gramm-Leach-Bliley Act allowing banks and insurance companies to affiliate has been in force for over three years. For starters, the market is seeing increased bank distribution of insurance as well as insurer distribution through banks. Both banks and insurers are registering as financial holding companies, which are the legal vehicles through which bank-insurer affiliations are allowed in the country. While banks continue to merge, new banks also are being established.

It is important to remember that banks represent only one of the many distribution channels for insurance in the global market. In some countries, banks will be the primary channel; in others they will not. It is not clear which will triumph – the diversified financial services conglomerate model that Citigroup represents or the insurer conglomerate model that the American International Group (AIG) represents. What is clear is that consolidation within the banking industry will have a major impact on insurer joint ventures with banks.

Bancassurance in India

As of now, the ING Vysya and SBI Cardif joint ventures are actively positioning themselves in the Indian market. There is also proliferation of distribution agreements between banks and insurance companies and brokerage firms. We have history to learn from as to what is happening globally. Hopefully, bancassurance models will develop at a faster pace. However, the fact remains that success in life insurance marketing depends more on professional approaches as the business depends on solicitation.

The author is the Director of International Institute for Insurance and Finance, Hyderabad. He has drawn the content from different sources of reference. For any clarification or specific source of the content he can be reached at study@iiifindia.com.

प्रकाशक का संदेश

प्राधिकरण द्वारा पिछले दिनों जो सबसे महत्वपूर्ण गतिविधि प्रारंभ की गयी वह थी जागरूकता अभियान। दूसरे दौर का जागरूकता कार्यक्रम दूरदर्शन तथा आकाशवाणी पर जुलाई के आखिरी सप्ताह में प्रारंभ होगा।

इन कार्यक्रमों में हम जो क्षेत्र अपने दायरे में लाना चाहते हैं, वे क्षेत्र हैं जिनके प्रति प्राधिकरण सजग है। ये क्षेत्र उपभोक्ता मामलों से संबंधित हैं, जैसे शिकायत निपटान तथा बीमाधारक के हितों का संरक्षण एक तरफ तथा दूसरी तरफ उद्योग तथा बाजार से संबंधित विषय जैसे आचार संहिता तथा बाजार मध्यवर्तियों के बीच कमीशन देने की प्रथा शामिल है।

ग्राहक की चिंता तथा स्वस्थ बाजार प्रथायें आधार है जिन पर सशक्त उद्योग का निर्माण हो सकता है। हमारे देश में हम परिवर्तन के दौर से गुजर रहे हैं, हमारे बाजार ने सीमित संख्या में बडे सार्वजनिक क्षेत्र की कंपनियों को देखा है और अब यहां छोटे बडे सभी सम्मिलित हो गये हैं। इसमें नये पुराने सार्वजनिक तथा निजी सभी क्षेत्रों की भागीदारी है।

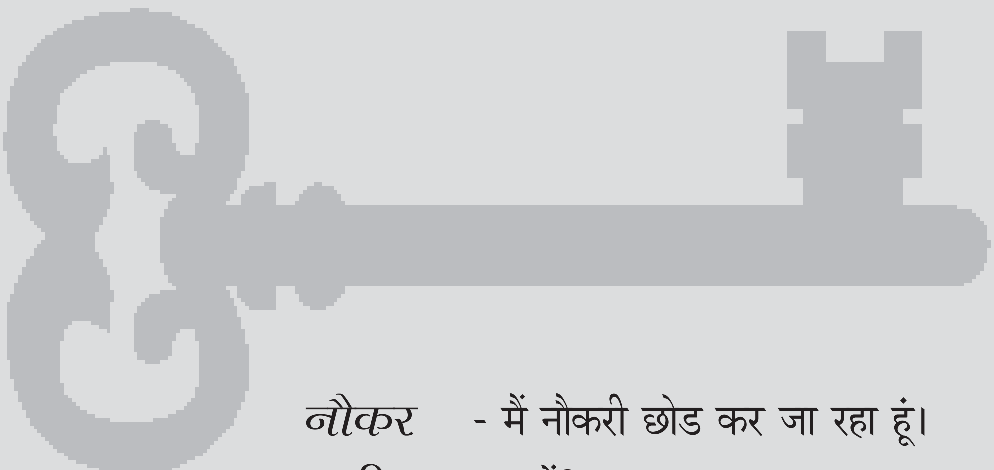
बाजार ने नये प्रकार के मध्यवर्तियों का उदय भी देखा है जो विप्पणन तथा अन्य सेवाओं में हैं और पुरानी मध्यवर्तियों का पुर्नजन्म नये व्यावसायिक ढांचे में देखा है।

ऐसे समय में यह महत्वपूर्ण है कि उद्योग तथा विनियामक प्राथमिकता के आधार पर ठीक प्रकार की के बाजार की प्रथाओं का विकास करे तथा इसके लिये उद्योग के विभिन्न क्षेत्रों को बेहतरीन प्रथाओं का पालन करना है तथा एक आचार संहिता को विकसित कर उससे बंधे रहना होगा। उपभोक्ता के पास अब विकल्पों की सूची है जो उनकी जरूरतों को पूरा कर सकता है तथा मध्यवर्तियों को अब उनके मार्गदर्शक का व्यवहार करना होगा। मध्यस्थों के मध्य विश्वास तभी बनाया जा सकता है जब सभी अपने आप को आचार संहिता से बांधे रखें।

प्राधिकरण यह उम्मीद करता है कि मध्यस्थ एक समिति के रूप में इस अवसर पर पूरा पूरा उभरेंगे।

साधारण बीमा उद्योग विश्व में बीमालेखन हानि झेल रहा है और भारतीय बीमा कंपनियां इस का अपवाद नही हो सकती। प्राधिकरण अपने प्रकार से इस सब पर नजर रखे हुये है जिससे बीमा कंपनियों के परिणामों के अनुसार उपभोक्ता के हितों की रक्षा की जा सके। कंपनियों के कार्यनिष्पादन की समीक्षा प्राधिकरण की कार्यसूची में सदैव सबसे ऊपर है।

सी. एस. राव



नौकर - मैं नौकरी छोड कर जा रहा हूं।

मालिक - क्यों?

नौकर - आपको मुझ पर विश्वास जो नही रहा।

मालिक - किसने कहा? तिजोरी तक की चाबियां टेबल पर पडी रहती हैं।

मालिक ने सहज भाव से कहा।

नौकर - लेकिन उनमें से एक भी चाबी से तिजोरी नही खुलती है।

"कुछ तो लोग कहेंगे"

अन्य विकसित बाजारों की तुलना में भारत में छूट देना एक बड़ी समस्या है। मुझे याद हीं कि नियामक स्वंय कभी इस समस्या की जानकारी आम लोगों को देने के लिये समाचार-पत्रों में विज्ञापन देता हो, लेकिन ऐसा मैनें केवल भारत में ही देखा है।

श्री गैरी जी. बेनानेव, अध्यक्ष तथा मुख्य कार्यकारी अधिकारी, न्यू यार्क लाइफ इंटरनेशनल

विवाद, प्राकृतिक विपदाएँ, आतंकवाद - इन तीनों क्षेत्र में बीमा को अपनी भूमिका निभानी है - पुन:निर्माण, मरम्मत और सुरक्षा जो नई योजनाओं में जोखिम लेते हैं।
इनमें से कुछ जोखिम नये है और कुछ सदियों पुराने। लेकिन विकास परिवर्तन चाहता है, और परिवर्तन के लिये आपको सदैव जोखिम लेने तैयार रहना पड़ेगा।

लॉर्ड पीटर लेविन, अध्यक्ष, लॉर्ड्स ऑफ लंदन, बदलती प्रकृति तथा उसके जोखिम के बारे में कहते हुये।

एलआईसी की उपस्थिति के कारण आम जनता यूटीआई की योजनाओं की ओर लौट रही है और इसमें व्यापक सुधार भी आया है।

श्री एस. बी. माथुर, अध्यक्ष, भारतीय जीवन बीमा निगम

उद्योग में यह मत है कि उचित जोखिम दर अब बेलनाकार परिवर्तन नही कर सकती, यह मौलिक आधारभूत परिवर्तन है (क्योंकि) न केवल आप अपने मौलिक व्यापार पर हानि उठाते हैं यदि आप दर में कटौती करें आपको अधिक पूंजी लगाने की आवश्यकता होगी जो अंशधारकों को समझाया नही जा सकेगा।

आस्ट्रेलिया बीमा ग्रूप के मुख्य कार्यपालक - मिहेल हाकर आस्ट्रेलिया कि प्रूडेंशियल विनिमयन प्राधिकरण (एपीआरए) की पूंजी दंड पर एचआईएच बीमा कंपनी के ध्वस्त होने पर।

मेरे ऊपर लीजहोल्ड बंधन है जिसके अनुसार मुझे पोर्ट प्राधिकरण को 120 मिलियन डालर किराया प्रति वर्ष देना है। यह दस मिलियन वर्ग फुट ट्रेड सेंटर को बदलने तक है। मेरे पास एक बीमा पॉलिसी है, यह मुझे इस स्थिति में रखती हैं जहां में पुर्ननिर्माण कर सकता हूं। हम आगे बढ रहे हैं और हम ऐसा कुछ कर रहे हैं जिसका हमें गर्व हो। मैं सच मैं यह सोचता हूं हमारे पुननिर्माण को यदि हम नही करेंगे तो आतंकवादी जीत जाएंगे।

लैरी ए स्लीवर स्टीन, विश्व व्यापार केन्द्र, न्यूयार्क की लीज पर। जिन्होनें अपने बीमाकर्ता को सात बिलियन डालर 11 सितम्बर 2001 को ट्विन टावर्स पर हमले के लिये मुकद्दमा किया है।

यदि वर्तमान बाजार की परिस्थितयां चलती रही तो यह गारंटी है कि कोई भी बीमाकर्ता ग्राहक के लिये दरों में कमी नही करेगा।

जापान जीवन बीमा एसोसियेशन के प्रमुख टोमिज्येरो मोर्टिया जापान बीमा बाजार पर प्रतिक्रिया करते हुये, उस वक्त जब एक अधिनियम पारित हुआ कि बीमाकर्ता अपनी लब्धि को ग्राहकों के लिये कम कर सकते हैं।

जब बीमित सहयोग न दे

सी.पी.उदयचंद्रन

बीमा पेशेवरों का यदि आप भी वार्तालाप सुने होंगे तो आपको पता चलेगा कि उनमें से कुछ लोग बीमित की सामान्य मानसिकता तो बिल्कुल पसंद नहीं करते।

मोहन गिडवानी एक दावा सर्वेक्षक है। वे कहते हैं - दावे से संबंधित किसी भी प्रश्न का खुलासा जवाब बीमित नहीं देता है। बीमित से सही तथ्य का जरूरतमंद जानकारी प्राप्त करना एक ढेढ़ी खीर है। वे आमतौर पर खामोशी रूख अख्तियार कर लेतें हैं और फलस्वरूप दावे की जाँच करने वाले तथा बीमाकर्ता को दावे को एक संदेह की दृष्टि से देखना पड़ता है।

दूसरी तरफ बीमित का नजरिया बिल्कुल विपरीत है - सर्वेक्षक और बीमाकर्ता की रूचि केवल उन्हीं बातों को जानने की होती है जिससे वे दावेदार में ही गलतियाँ निकाल सकें। ऐसा कहना है सुरेश का जो एक मध्यम दर्जे के व्यवसायी हैं।

वे जब बार-बार जानकारी लेने के लिये बुलाते हैं तो उनका एकमात्र उद्देश्य होता कि किस प्रकार दावेदार को दावा की गई राशि नही दी जाये या फिर कैसे उसमें कटौती की जाये।

इस बात में कोई दो राय नही है कि बीमित और बीमाकर्ता - दोनों पक्षों के बीच एक आम सहमति बन चुकी है कि विपरीत पक्ष ही दावे की प्रक्रिया को पूरी करने में बाधित है। दोनों पक्षों के बीच यह अविश्वास इतना अधिक विकसित हो चुका है कि दावे के फाइनल निपटारे के समय दोनों ही पक्ष एक दूसरे को संदेह की दृष्टि से देखते हैं।

बीमाकर्ताओं के बीच एक आम धारणा है कि बीमित बुरी नियत से आवश्यक तथ्यों को छिपाने का भरसक प्रयास करता है और बीमाकर्ता को धोखा देना चाहता है। दूसरी तरफ बीमितों में यह अवधारणा है कि बीमाकर्ता का प्रयास दावों को झूठा साबित करने का होता है औव उसके लिये वे साक्ष्य पैदा करने का प्रयास करते हैं। जब दावे की रकम ज्यादा होती है तो मामला और भी संगीन हो उठता है।

दुर्भाग्य से व्यावसायिक व्यवस्था के सामने बीमाकर्ता लाभ नही देने के लिये बार-बार अपने बचाव पक्ष में यह दलील देता है कि वास्तविक तथ्य कुछ और है। प्राय: दावे के निर्धारण की प्रक्रिया के दौरान ही सही व पूरी जानकारी मिलने के अभाव में ऐसा होता है। दावे के मूल्यांकन के दौरान इन खास जानकारियों, सूचना के अभाव के कारण सही-सही मूल्यांकन नहीं हो पाता है और दावेदार नाराज भी हो जाता है।

अक्सर, बीमा पेशेवर, चाहे वे सर्वेक्षक हो या दावा प्रबंधक, दावेदार से समझौता करते वक्त भूल जाते हैं।

यदि आप अपने बीमित से बेहतर व्यवहार चाहते हैं तो आप उनके प्रति वैसा ही रवैया अपनाये जैसा आप उनसे अपने प्रति चाहते हैं।

प्रयास भी करें की आप उनकें सम्मुख एक बेहतर श्रोता बन सकें। यदि आप यह पहचानने का प्रयास करेंगे कि बीमित द्वारा असहयोग देने का क्या कारण है तभी आप खुली भावना की कुंजी पा सकते हैं। क्या बीमित दावे की स्थिति पर हो रही जाँच के प्रभाव को लेकर चिंतित है ? क्या वे बीमाकर्ता की भावनाओं को संदेह की दृष्टि से देखते हैं ? यदि आप क्या कारक की पहचान करने में कामयाब हो जाते हैं तो दावे के मामले को बखूबी संभाल सकते हैं। लेकिन यदि आप उम्मीद रखते हैं कि शालीन व्यवहार के लिये नियमों का जिक्र योजना में किया जाये तो यह आपकी सबसे बड़ी भूल है।

स्पष्ट रूप से दिये गये विवरण और दावे के निर्धारण के लिये बीमित द्वारा आवश्यक जानकारी प्रदान किये जाने की स्थिति में दावे का निपटारा न हो पाने की विशेष बन्दुओं की ओर ध्यान आकर्षित किये जाने पर न्यायायिक फोरम द्वारा बीमाकर्ता के समर्थन में जवाब देने की उम्मीद की जा सकती है। हालांकि वे सामान्य सूचना की बीमित ने संबंधित सूचनाएँ नहीं दी या वे जानकारियाँ नहीं दी जो दावे के निपटारे के लिये जरूरी है जैसी घिस-पीटी बातों को शायद ही स्वीकार करेंगें।

दावा प्रक्रिया में पेशेवर का अभाव भी एक समस्या है। असहयोगी बीमित एक मित्र है। धोखा-धड़ी की नीयत रखने वाला बीमित बहुत सहयोग देता है और बीमाकर्ता को वह बेहद सहज और सुलभ भी लगता है।

दावा प्रक्रिया के दौरान बीमित दो कारणों के कारण सहयोग नही देचा है - या तो उससे पेशेवर तौर पर व्यवहार नहीं किया गया या फिर वह कुछ छिपाना चाहता है।

एक पेशेवर दावा प्रबंधक पहली समस्या को अपने सभ्य व्हयवहार, तीक्ष्णता और आदर की भावना के साथ संभाल सकता है। बीमा योजना मसौदे की बीमित को पेशेवर रूप में दिये गये स्पष्टीकरण और दोनों पार्टियों का एक दूसरे के प्रति दायित्व को साधारण व समझने वाली भाषा में समझाया जा सकता है। एक प्रशिक्षित साक्षात्कार एक अनिच्छुक गवाह को भी अपने विश्वास में ले सकता है। एक अनुभवी जांचकर्ता तथ्यों और सार्वजनिक रिकार्ड से दस्तावेजों को प्राप्त कर सकता है। इससे बीमित द्वारा सहयोग न देने पर भी जाँच में भी मदद मिलेगी।

सहयोग, ज्ञान, अनुभव और प्रशिक्षण के कारण बीमाकर्ता को बीमित सहयोग देने को बाध्य होना पड़ता है। जब कुछ भी काम न करे तब पेशेवर अपने पेशेवर अंदाज में बीमा योजना की भाषा में बीमित बीमित को असहयोग के बिन्दुओं की ओर ध्यान आकृष्ट करते हुये पत्र लिखे जिसमें दोनों पक्षों का दूसरे के प्रति परस्पर सहयोग दायित्व का भी जिक्र हो।

सच्चाई यह है कि कठिन मनुष्य को मानवता से ही मारा जा सकता है। दावा पेशेवर को कभी भी क्रोध नहीं करना चाहिये तभी उसे वह सूचनाएँ प्राप्त कर सकता है। उद्देश्य यह होना चाहिये की बीमाकर्ता और दावा प्रबंधक एक साथ मिलकर दावा निपटान का कार्य करें।

और अब मुख्य बातें यदि बीमा उद्योग, दावे निबटाने में पेशेवर रूख नही अपनाता है, यदि दावा निबटाने वाले लोग योजना की व्याख्या बीमित को साधारण व सरल भाषा में नहीं समझा सकते, यदि समायोजक निर्माण नहीं समझ पाये, निजी सम्पत्ति का मूल्यांकन नही कर पाये और जाँच करने की तकनीक न अपनाये तो वकील विवाद खड़ा कर सकते है जिससे उनकी प्रैक्टिस तो बढ़ जायेगी लेकिन उसका मूल्य बीमाकर्ता को चुकाना पड़ सकता है।

लेखक यूनाइटेड इंडिया इंश्योरेंस कम्पनी, एर्नाकुलम क्षेत्रिय कार्यालय में उप-प्रबंधक हैं।

परिचय कराते हैं...

वित्तीय संकटों से झूलती राज्य सरकारों की नैय्या पार कराने से लेकर वर्तमान बीमा उद्योग को नये जमाने में ढालने तक श्री चेल्लापिल्ला सत्यनारायण राव ने अपने जीवन में कई चीजों का परिवर्तन देखते हुये भी उन्हें यथावत् स्थिति में पाया है।

राजस्व सचिव के पद से सेवानिवृत्त होने के पश्चात आपने हाल ही में 10 जून से आईआरडीए का पदभार संभाला है। इसलिये बीमा उद्योग के संदर्भ में उनकी योजनाएँ और विचार जानने के लिये लोगों को थोड़ा इंतजार करना पड़ेगा।

पढ़ाई में अंग्रेजी साहित्य व इमरसन में विशेष रूचि है और जहाँ तक आपके कैरियर का सवाल है आपने राज्य व केन्द्र के वित्त मंत्रालय, ग्रामीण विकास, सिंचाई और उपभोक्ता मामले जैसी गहन जिम्मेदारियों व दूरदर्शिता वाले क्षेत्र में कार्य किया है।

ओवरड्राफ्ट नियंत्रण योजना की चर्चा करते ही आपके चेहरे की मुस्कुराहट दिखाई पड़ती है। राज्य सरकारों को डेप्ट स्वेप योजना के बदले बाजार से उधार लेने जैसी परियोजनाएँ अपनाने के लिये तैयार नि:संदेह एक दुरह कार्य था। लेकिन जब राज्यों को महसूस हुआ कि वह उनके लिये एक बेहतर विकल्प है तो उन्होनें इसे अपनाने में जरा भी देर नही की और ग्यारवें वित्त आयोग द्वारा सृजित राजकोष सुधार सुविधा को अपना लिया जिसमें प्रोत्साहन और कड़े लक्ष्य भी साथ - साथ रखे गये थे।

अन्य परियोजना जिसके लिये आप याद किये जाते हैं, वह है विपत्ति प्रबंधन योजना जिसे आपने आन्ध्र प्रदेश में लागू किया और यह केन्द्र तथा अन्य राज्यों के लिये एक आदर्श बन गया।

आन्ध्र प्रदेश में सन् 1990 में आये भयानक चक्रवात ने भीषण तबाही मचाई। इसका प्रभाव राज्य के 12 तटीय जिलों पर पड़ा। इन जिलों में फसल और गाँव पानी में डूब गये। इस घटना से आपको 1977 के हादसे का स्मरण हुआ। आप कृष्णा जिले के जिलाधीश हुआ करते थे। उस समय भी कई गाँव पानी में बह गये थे। उनके पुनर्वास व पुर्ननिर्माण को पूरा करने में एक साल लग गया।

आन्ध्र प्रदेश के वित्त सचिव पद पर रहते हुये आपने विश्व बैंक के लिये एक परियोजाना रिपोर्ट तैयार की क्योंकि विश्व बैंक ने पीड़ित इलाकों के दीर्घावधि पुर्नवास कार्यक्रम में अपनी रूचि दिखाई थी।

आपके नेतृत्व में यह परियोजना रिपोर्ट केवल 6 सप्ताह की अल्पावधि मे पूरी हुई व विश्व बैंक के साथ पूरी बात-चीत केवल 2 माह में हो गयी।

256 मिलियन डॉलर की सहायता की विश्व बैंक ने मंजूरी दी और पूरे कार्य की समाप्ति अवधि 3 वर्ष दी गई और कोष का उपयोग भी इसी अवधि में किया जाना था। विश्व बैंक इस परियोजना के लिये केवल एक नोडल अधिकारी से संवाद बनाये रखने के पक्ष में था और आपने यह कार्य भी बखूबी संभाला।

आप कहते हैं- तबाही के कारण पीड़ित क्षेत्रों की अन्य समस्याओं को भी मैनें समझा। प्रथम समस्या थी संचार की और दूसरी कृषि उत्पादकता की क्योंकि बाढ़ का पानी सड़कों और खेतों को बुरी तरह क्षति पहुँचाता था।

पीड़ित क्षेत्रों की पहचान कर, परियोजना द्वारा राज्य राजमार्गो को दुरस्त किया गया तब तक राष्ट्रीय राजमार्गो में भी सुधार का कार्य जारी रहा। तटीय सड़कें बनाई गई और उन्हें विशेष मजबूती दी गई ताकि भविष्य में ऐसी तबाही आने पर लोगों तक सहायता पहुँचाने और विपत्ति में फंसे लोगों को बचाने में किसी प्रकार की कठिनाई न हो।

खेतों में पानी भर जाने की समस्या से छुटकारा पाने के लिये कृष्णा-गोदावरी डेल्टा के पास जल निकास प्रणाली विकसित की गई। स्थानीय लोगों ने इस कार्य में हमारी मदद की और एक फसल अपने खेतों में नही बोई लेकिन इसका पुरस्कार उन्हें अगले वर्ष ही मिल गया जब चक्रवात तो आया लेकिन उनकी फसल को किसी भी प्रकार का नुकसान नही पहुंचा।

चन्द नवयुवा आइएएस अधिकारियों के साथ श्री राव ने परियोजना कार्यान्वयन केन्द्र की स्थापना की जो योजनाओं की पहचान करते हुये उन परियोजनाओं को विश्व बैंक द्वारा दी गई अवधि के अंदर कार्यान्वित करता था। यह परियोजना कार्यान्वयन केन्द्र साथ ही सरकार को लेखा बही प्रस्तुत करता था और निर्धारित समय में ही खर्च राशि वापस ले लेता था।

100 करोड़ डालर्स का आहरण पहले ही वर्ष कर उनका उपयोग किया गया। मुझे बताया गया कि बड़ी परियोजनाओं के लिये भी लोग इतनी तेजी से धन नहीं देते। यह संभव हुआ क्योंकि हमने लेखा पद्धति को नये तरीके से विकसित किया था तथा दूसरा परियोजना कार्यान्वयन केन्द्र का हमने विकेन्द्रीयकरण कर रखा था। आपने प्रत्येक जिले के सभी विभागों में भुगतान एवँ लेखा संस्थान की स्थापना की जहाँ व्यय के सारे विवरण जमा होते थे और वे सीधे पीएमयू को भेजे जाते थे।

इससे काम में गति आई और आबंटित सहायता राशि का इस्तेमाल हुआ। इस कार्य के दौरान जब सहायता राशि अनुमोदित की गयी एक डॉलर का मूल्य 16 भारतीय रूपये हुआ करता था और कार्यावधि के दौरान इसका मूल्य 31 भारतीय रूपये हो गया। श्री राव ने उपर्युक्त संदर्भ में विश्व बैंक से वार्तालाप कर परियोजना हेतु सहायता राशि के विस्तार की सहमति प्राप्त की।

परियोजना का विस्तार कई अनोखे पहलुओं में भी हुआ। पीएमयू मॉडल की लोगों ने प्रशंसा की तथा वित्त मंत्रालय द्वारा भी ऐसे ही एक केन्द्र की स्थापना की गयी जिसे सभी राज्यों का जिम्मा सौंपा गया ताकि परियोजना जल्द पूरी की जा सके और सहायता राशि का इस्तेमाल ठीक से किया जा सके।

बाजार भी श्री राव से भली-भांति परिचित है। मार्डन फूड्स - देश के पहले सार्वजनिक उपक्रम का विनिवेश तब किया गया जब श्री राव खाद्य एवँ उपभोक्ता मामले के मंत्रालय में अतिरिक्त सचिव एवँ वित्त सलाहकार हुआ करते थे।

पहला विनिवेश होने के कारण हमारा प्रयास था कि यह मामला जल्दी और अच्छी तरह से निबट जाये और ऐसा ही हुआ तथा सरकार को प्रत्येक 100 रूपये के शेयर के 1000 रूपये मिले।

श्री राव वापस हैदराबाद आ गये हैं । आपकी धर्मपत्नी स्नात्तक (कानून) एवँ गृहणी है। आपके ज्येष्ठ पुत्र एमबीए, उनका विवाह हाल ही में हुआ है, अमेरिका में है। कनिष्ठ पुत्र पिता पर गया है और उसे भी अंग्रेजी साहित्य में गहन रूचि है। वह एक लेखक है और उसकी पहली किताब का प्रकाशन पेंगुइन ने किया है। श्री राव को इमरसन अभी भी थोड़ा बहुत याद है। उन्हें कर्नाटकिय संगीत बेहद पसंद है और वे सुनते भी हैं, खास तौर पर डा. एम. बालामुरलीकृष्णा एवँ एम. एस. सुब्बुलक्ष्मी को।

जीवन बीमा – जल्दी में समझदारी

आज की इस दौड़ती भागती दुनिया में कब, कहाँ, कैसे, क्या हो जायें? यह कहना मुश्किल ही नही नामुनकिन भी है। आज जहाँ मध्यम तथा उच्च मध्यम वर्ग अपने परिवार को उच्च श्रेणी की सुविधायें उपलब्ध करवाना चाहता है। इसके लिये वह विभिन्न प्रकार के ऋण लेता है जैसे आवास ऋण, वाहन ऋण, क्रेडिट कार्ड आदि। एक दृष्टिकोण से देखा जाये तो वह दुनिया की सारी सुख व सुविधायें अपने परिवार की झोली में डाल देना चाहता है परंतु यदि सोचा जाये कि अचानक उस व्यक्ति को कुछ हो जाये तो उसके पीछे उसके परिवार का क्या होगा? ऋण न चुकाने के फलस्वरूप ऋणदेयता सभी चीजें अपने कब्जे में कर लेता है। अपने परिवार को इन सभी आकस्मिक दुर्घटनाओं से बचाने के लिये जो विकल्प व्यक्ति के पास रह जाता है वह है - जीवन बीमा।

आज बाजार में विभिन्न प्रकार के बीमा उत्पाद उपलब्ध है। जहाँ आप अपनी जेब के अनुसार अपने ऊपर जोखिम धारण कर सकते हैं।

जीवन बीमा सिर्फ आकस्मिक मृत्यु में ही आपकी मदद नही करता है साथ ही आपको सेवानिवृत्ति के पश्चात, धन संचय करने, बच्चों की शिक्षा तथा शादी में भी मददगार साबित हो सकता है। बस आपको अपना लक्ष्य निर्धारित करना है और उसी के अनुसार आज अपने लिये योजना चुन सकते हैं।

जीवन बीमा कंपनियाँ (निजी तथा सार्वजनिक) आपकी इन्हीं आवश्यकताओं की पूर्ति हेतु बाजार में अपने विभिन्न प्रस्ताव समयानुसार तथा उपभोक्ता व्यवहार के आधार पर प्रस्तुत करती रहती हैं।

सेवानिवृत्ति समाधान

आंकडे कहते हैं कि आने वाले 20 वर्षों में मँहगाई काफी बढ़ जायेगी। अपने बुढ़ापे को सुखमय तथा आरामदायक गुजारने के लिये हमें आज से ही योजना बनाते हुये धन संचय करना होगा। विज्ञान तथा चिकत्सा में हुये विस्तार के परिणामस्वरूप आज मनुष्य की औसत आयु लगभग 80 वर्ष हो गयी है। एक व्यक्ति लगभग 30 वर्ष कार्य करता है और उसे उसे उतना धन संचित करना पड़ता है जिसे वह अपने सेवानिवृत्ति के वर्षों में खर्च कर सके। इन सबके साथ प्रमुख समस्या यह भी है कि आदमी की उम्र औरत से प्राय: कम होती है। अर्थात् हमें न सिर्फ अपनी जिंदगी बल्कि अपने हमसफर द्वारा व्यतीत किये जाने वाले एकांतवास के बारे में भी सोचना होगा।

इन्हीं सब बातों को ध्यान में रखते हुये जीवन बीमा कंपनियों ने भिन्न भिन्न तरह के सेवानिवृत्ति समाधान बाजार में पेश किये हैं। जो परंपरागत तथा बाजार आधारित योजनाओं से संबंधित हैं। जहाँ सेवानिवृत्ति के पश्चात के वर्षों में न सिर्फ आप बल्कि आप के पश्चात आपके जीवनसाथी को भी सेवानिवृत्ति की रकम अदा की जाती है तथा अन्त में क्रय मूल्य आपके उत्तराधिकारी को दे दिया जाता है।

इस समाधान की मांग अभी बाजार में सबसे अधिक है और आज का मानव अपने वर्तमान से ज्यादा भविष्य की चिंता में जुटा है।

सेवानिवृत्ति से संबंधित योजना में आप अपने जीवन शैली के अनुसार प्रतिमाह रकम जमा करते हुये जहाँ अपना बुढ़ापा सुदृढ़ करते हैं साथ ही आपका जीवन भी सुरक्षित होता है। इन सभी फायदों के अलावा सेवानिवृत्ति योजना में रकम जमा करने से आपको 10000 रूपये तक के भुगतान पर आयकर की धारा 80 सीसीसी (1) के अंतर्गत लाभ भी मिलता है।

धन संचय योजनायें

धन संचय करने के लिये आप परम्परागत जीवन बीमा की योजना ले सकते हैं। जहाँ आप अपनी मियाद पूरी होने के पश्चात अपना पूरा धन एक साथ प्राप्त कर सकते हैं। वहीं कुछ योजनायें ऐसी भी हैं जहाँ आपको हर तीसरे/ चौथे या पांचवे वर्ष आपके द्वारा बीमित की गयी पूंजी का कुछ भाग मिलता रहता जो आपको जीवन के कठिन दौर में काम आ सकता है। आज बाजार में बाजार आधारित योजनाओं की मांग भी अच्छी है जिसे बीमित न सिर्फ अपनी इच्छानुसार चला सकता हैं बल्कि अपनी बचत में एक अच्छी बढ़त भी पा सकता है।

बच्चों की शिक्षा तथा विवाह

हर अभिभावक का सपना होता है कि उसका बच्चा उच्च शिक्षा प्राप्त कर जीवन को सुचारू रूप से जी सके। इसी संदर्भ में लगभग सभी जीवन बीमा कंपनियों ने अपने प्रस्ताव आपके स्मार्ट नन्हे के लिये प्रस्तावित किया है। जो आपके बच्चे की उच्च शिक्षा तथा विवाह में मददगार साबित हो सकता है।

आकस्मिक निधन

मौत का कोई भरोसा नही। कम्ब्खत कब आ जाये! कब ये आपके खुशहाल परिवार को बेहाल कर दे कह पाना अत्यंत कठिन है। इसीलिये जरूरी है की आप अपनी सुरक्षा करके चलें। ताकि आपके पश्चात आपके परिवार को धन की कोई कमी महसूस न हो तथा वो अपना जीवन - यापन आपके बिना भी उसी तरह चला सकें जैसा आपके साथ चलाते थे। जीवन बीमा कंपनियों की कई ऐसी योजनाएँ है जो आपकी लाइफ को गार्ड करती है। यहाँ आप नाममात्र भुगतान देकर अपने ऊपर एक बड़ा जोखिम ले सकते हैं।

यह उत्पाद मध्यम तथा उच्च मध्यम वर्ग के लिये सर्वोच्च है क्योंकि उन्हें यहाँ कम भुगतान पर एक बहुत बड़ा जोखिम मिल जाता है।

इन सभी बातों के अलावा एक प्रश्न और उभरता है कि मनुष्य को कितने रूपये तक का जोखिम धारण करना चाहिये। यह निर्भर करता है आपके जीवन के मूल्य पर और इसे साधारण तौर पर पेश किया जाये तो 30 वर्ष के व्यक्ति के पास जहाँ अपनी वार्षिक आय से 8 गुना अधिक का बीमा होना चाहिये वहीं 35 वर्ष की आयु के पास 6 गुना तथा 40 व इससे अधिक के पास लगभग 3.5 गुना ज्यादा बीमा होना चाहिये ताकि यदि बीच राह में उसे कुछ हो जाये तो भी उसके परिवार को किसी प्रकार की आर्थिक कमी महसूस न हो और वे अपने जीवन को सुचारू रूप से व्यतीत कर सके।

जल्दी में समझदारी

जीवन बीमा एक ऐसा निवेश का साधन है जहाँ आप कम आयु में कम निवेश कर ज्यादा धन उगाह सकते हैं वहीं यदि आपकी आयु ज्यादा है तो आप ज्यादा धन निवेश करने के पश्चात भी अल्प आयु में किये गये छोटे निवेश से ज्यादा धन उगाही नही कर सकते हैं। इसीलिये जीवन बीमा में निवेश जितनी जल्द हो सके करना चाहिये।

यदि एक 30 वर्षीय व्यक्ति 10000 रूपये प्रतिवर्ष अगले 30 वर्षों तक करता है तो धन चक्रवृद्धि ब्याज के साथ जादुई अवस्था में लंबे अंतराल के लिये धूमता है। आपको जल्द निवेश करने के कारण एक अच्छा धन मिलता है जो आपके बुढ़ापे में लाठी का काम करता है।

यदि एक 45 वर्षीय व्यक्ति 25000 वर्ष प्रतिवर्ष अगले 15 वर्षों तक करता है तो उसे जल्द निवेशकर्ता की अपेक्षा कम धन उगाही मिलती है।

अपने आपको पहचानो

भारतीय समाज में बीमा के दो क्रीटिकल क्षेत्र स्वास्थ्य व सड़क दुर्घटनाओं के संबंध में आंकड़ों व समय संबंधित सूचनाओं के अभाव को दूर करने के लिये भारतीय बीमा विनिमय प्राधिकरण योजनाएँ बना रहा है।

स्वास्थ्य बीमा से संबधित आंकड़े जुटाने की आवश्यकता इसलिये महसूस हुई की इस विषय पर विश्वसनीय आंकड़े या सूचनाएँ उपलब्ध नहीं है। चाहे व्यक्तिगत स्वास्थ्य का इतिहास हो या किसी आबादी में इसका अध्ययन, बहुत कम सूचनाएँ एकत्र की जाती है, उनका विशलेषण किया जाता है और आम जनता को इसकी जानकारी दी जाती है।

भूगौलिक और सामाजिक आर्थिक वर्गो में होने वाली बीमारियों की घटनाओं से संबंधित आंकड़े इकठ्ठे करने की योजना है। साथ ही डायगनोस्टिक, उपचार, दवा के प्रभाव, उनकी उपलब्धता और देश भर में उनके मूल्य की जानकारी भी जुटाई जायेगी। इस सूचा के आधार पर मोरबिटी और मोरटेलिटी के पेटर्न का पता लगाया जा सकता है, और बाजार, बीमा का मूल्य और मेडिकल सुविधायें विशलेषित किये गये आंकड़े के आधार पर अपनी आवश्यकताओं के अनुरूप समायोजित कर लेगा।

दूसरी परियोजना वाहन दुर्घटना और सड़क सुरक्षा से संबंधित है। भारत में अन्य देशों की तुलना में वाहनों की संख्या कम है। लेकिन खराब सड़कों के मामले में हम पूरे विश्व में अग्रणी है। दूसरी और सामान्य बीमा उद्योग इस वर्ग के व्यवसाय पर होने वाले नुकसान को लेकर अपना दुखड़ा रोता रहा है। सामान्य बीमा उद्योग 14000 करोड़ रूपये से भी ज्यादा की प्रीमियम राशि इकठ्ठी करता है जिसमें से लगभग 40 प्रतिशत प्रीमियम केवल वाहन बीमा से प्राप्त होता और व्यापार के दूसरे वर्गों से हुये लाभों से इस क्षेत्र में हुई हानि की क्षतिपूर्ति करनी पड़ती है। लेकिन साथ ही उनके पास अपनी बात साबित करने के लिये कोई भी आंकड़े उपलब्ध नहीं है।

सड़क दुर्घटनाओं से संबंधित आंकड़े जुटाने व उनका विशलेषण करने के लिये आईआरडीए की योजना सामान्य बीमा कंपनियां, पुलिस, सड़क परिवहन, प्राधिकरण, वाहन निर्माता, वाहन ऋणदेयत्ता, अस्पताल, न्यायालय से मदद लेने की है और तत्पश्चात ये सब मिलकर सड़के को एक सुरक्षित स्थान बना सकते हैं।

सड़क सुरक्षा के लिये तीसरा कदम है वाहनों का सुरक्षा के दृष्टिकोण से परीक्षण और वैज्ञानिक परीक्षण के नतीजों से उन्हें जोड़ते हुये सड़क पर सुरक्षा से संबंधित क्षमता का अध्ययन। ये योजना के संबंध में सामान्य जानकारी है। इनका प्रकाशन इसलिये किया गया है कि पाठकगण अपने विचार और टिप्पणियों से अवगत कराये और इस परियोजनाओं पर जनता की भागीदारी हो और हम किसी ठोस व सार्थक नतीजों पर पहुँच सकें।

परियोजना से संबधित किसी भी बिंदु या आंकड़े जुटाने के मुद्दे व उसके इस्तेमाल के संबंध में पाठकों के विचार आमंत्रित हैं। जनसामान्य के इस्तेमाल की इन सुविधाओं के कार्यान्वयन को लागू करने के पूर्व आंकड़े की सुरक्षा, विश्वसनीयता और निपटा तथआ इस परियोजना की स्थिरता पर भी जनता की बहस व सुझाव आवश्यक हैं।

हमें इस पते पर लिखें

संपादक, आईआरडीए जर्नल, बीमा विनियामक और विकास प्राधिकरण

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वाहन दुर्घटना के आंकड़े

इस परियोजना के अंतर्गत वे एजेन्सियां जो सड़क दुर्घटनाओं के प्रबंधन से जुड़ी है या नुकसान की भरपाई करती है से आंकडे जुटायें जाएँगे।

भारत में गैर-जीवन बीमा में सबसे अधिक प्रीमियम वाहन बीमा के व्यवसाय से आता है और सबसे ज्यादा राशि भी इसके दावों के लिये दी जाती है। इसके लिये प्रीमियम का निर्धारण दि इंडिया मोटर टेरिफ द्वारा किया जाता है, इसमें क्रेडिवल व सामाजिक रूप में स्वीकार्य बढ़ोतरी वाहन दुर्घटनाओं से होने वाले नुकसान व दावों के भुगतान के विश्वसनीय आंकड़ों पर आधारित होती है जो इसकी आवश्यकता को प्रतिष्ठापित करती है व प्रीमियम बढ़ाने के अनुमान में सहायक होती है।

आज उद्योग के पास अपनी इस केस पर बहस को आधार देने के लिये संगठित आंकड़े उपलब्ध नही है, साथ ही एक वर्ग का मोटर बीमा ग्राहक दूसरे को रियायत देता है और प्रीमियम का निर्धारण केवल मोटे तौर पर वाहन की क्यूबिक क्षमता क्षेत्र जहाँ इसका इस्तेमाल होता है के आधार पर किया जाता है और वाहन मालिक/इस्तेमालकर्ता की वास्तविक जोखिम स्थिति इसके बिलकुल विपरीत होती है।

सामान्य बीमा उद्योग के मोटर बीमा व्यापार के लाभ में लाने के लिये सही आंकड़ों का संकलन एवँ विशलेषण आज एक जरूरत बन गया है।

यदि यह हो जाता है तो इस गतिविधी का काफी महत्व होगा। कंपनी से कंपनी आधार पर ही नही बल्कि पूरे राष्ट्र के लिये यह हितकारी साबित होगा। नुकसान को कम करने में इसकी एक महत्वपूर्ण भूमिका होगी और बीमा उद्योग का नुकसान घटेगा और फलस्वरूप मुनाफे में वृद्धि होगी और दीर्घावधि में यह योजना अत्यंत लाभकारी साबित होगी।

इससे ग्राहकों को भी लाभ पहुँचेगा क्योंकि उन्हें बेहतर उत्पाद मिलेंगे और प्रीमियम कम देना पड़ेगा।

हालांकि, भारत में सड़क दुर्घटनाएँ, चोट और मृत्यु में कमी लाई जा सकती है और इसका सामाजिक - आर्थिक प्रभाव व्यक्तिगत व समाज पर देखा जा सकता है।

हमारे पास एक समाज नाते, ट्रेफिक, सड़क व वाहन सुरक्षा के ठीक से संचालन व उन्हें लागू करने की न तो प्रणाली विकसित है और इसको लेकर जन-सामान्य में जागृति का भी अभाव है। इस बात का पता इस तरह चलता है कि दुनियाँ में भारत ही एकमात्र राष्ट्र है जहाँ सबसे ज्यादा सड़क दुर्घनाएँ होती है जबकि वाहनों की संख्या सबसे ज्यादा नहीं है। इसके अतिरिक्त हम जोखिम प्रबंधन में बिलकुल पीछे हैं। राजमार्गों की तो बात छोड़िये, यहाँ तक की शहरी सीमाओं में होने वाली दुर्घनाओं का भी बचाव कार्य हम ठीक तरह से नहीं कर पाते हैं।

हमें इस बात की न तो जानकारी है और न ही हमारा नियंत्रण है कि खरीदे गये वाहनों में से कितनों का पंजीयन किया जाता है (एक अखबार के अनुमान के मुताबिक 20 प्रतिशत) और पंजीकृत वाहनों में से कितनों का बीमा हो रखा है(एक बीमा कंपनी के अनुमान के मुताबिक

40 प्रतिशत) हालांकि कानून के अंतर्गत तीसरी पार्टी दायित्व बीमा आवश्यक है। आगे जो सवाल उठते हैं, वे हैं वाहन किसका है, कौन चलाता है और कौन संचालित करता है, चोरी हुये या गुम गये वाहनों का पता कैसे लगाया जाये, दुर्घटना मामले में गलती किसकी है पहचान कैसे की जाये आदि। और जब तक हमें सही तथ्य मालूम नहीं होगें हमें असुविधा होगी।

विचार यह है कि संकलित किये गये आंकड़ों को एक ही जगह प्रोसेस कर उनमें शोध, सर्वे, विशलेषण व प्रस्तावों को भी जोड़ा जाये और स्टेक होल्डर्स और जनसामान्य को उपलब्ध करया जाये।

सबसे महत्वपूर्ण स्टेकहोल्डर वर्ग है- बीमा उद्योग जिसे संगठित आंकड़े मिलेंगे और विस्तृत विवरण के साथ, उनकी जरूरत के अनुसार, बारीक जानकारी मिलेगी। इससे ग्राहकों के जोखिम निर्धारण में उन्हें मदद मिलेगी।

इसमें ड्राइवर का स्वास्थ्य, मालिक की वित्तीय स्थिति (नैतिक स्थिति की तरफ इशारा), वाहन के इस्तेमाल का पेटर्न, दुर्घटना एवँ दावे पेटर्न, गैरेज और सर्वेयर की कार्यप्रणाली की स्थिति भी शामिल है।

इस परियोजना में स्टेकहोल्डर्स के रूप में वाहन निर्माताओं को भी शामिल किया जायेगा और कल-पुर्जो की उपलब्धता, मूल्य और गुणवत्ता को लेकर पूरे बाजार पर नजर रखी जायेगी ताकि बीमाकर्ता को दावे के निपटारे के समय अच्छे कल-पुर्जे एवँ सेवायें न्यूनतम दरों पर मिल सके और ग्राहक को उसका वाहन मरम्मत होने पश्चात मिल सके।

सारांश में,मोटर डेटा केन्द्र, वाहन, उनकी सुरक्षा, सड़क सुरक्षा और भारत में दुर्घटनाओं से संबंधित आंकड़ों व सूचनाओं को संकलित करेगा, विशलेषण करेगा, उन्हें रखेगा, उस पर शोध करेगा उसको विक्रय तथा प्रकाशित करेगा।

जिन आंकड़ों के संकलन को प्रस्तावित किया गया है वह इनसे संबंधित हैं

- **वाहन:** उनका अधिकार और संचालन, उनका बीमा और ऋण सूचनाएँ और सड़क दुर्घटनाएँ
- **मालिक:** उम्र, स्वास्थ्य, मालिक की व्यक्तिगत जानकारी, मालिकाना स्थिति, वित्तीय स्थिति, जीवनशैली, भौगोलिक स्थिति, वाहन के इस्तेमाल के पेटर्न (लंबी मात्रा, नवयुवाओं द्वारा चालन, इस्तेमाल की अवधि), रख -रखाव की जानकारी।
- **संचालन:** पंजीकरण स्थिति, आयु, स्वास्थ्य व व्यक्तिगत जानकारी, जीवनशैली (शराबखोरी)
- **लाइसेंसिंग प्राधिकण:** लाइसेन्स रखने वाले की जानकारी
- **पंजीकरण प्राधिकरण:** वाहन मालिक की जानकारी
- **कानून इन्फोर्समेंट:**

  यातायात पुलिस: सही समय के आधार पर सड़क दुर्घटनाओं पर सूचनना और केस के विकास व खत्म होने की जानकारी।

  अपराध पुलिस: चोरी गये वाहनों की जानकारी
- **वाहन ऋणदेयता:** ऋण लने वालों की जानकारी
- **वाहन निर्माता:** निर्मित किये गये वाहनों के आंकड़े और भौगोलिक स्तर पर बिक्री का नक्शाकरण कल-पुर्जे एवँ सेवाओं की जानकारी।
- **चिकित्सालय के आपातकालीन कमरे:** विभिन्न प्रकार की दुर्घटनाओं में होने वाली चोटें और ट्रुमा (टकराने पर सर की स्थिति, ओवरटर्निंग) और विभिन्न परिस्थितियों में (दुपहिया वाहन सवार हेलमेट पहने था या नही, सीट बेल्ट का इस्तेमाल, शराब या नशीले पदार्थ के प्रभाव में)
- **आपातकालीन सेवाएँ एम्बुलेन्स सेवायें ब्लड बैंकस आदि**

  यह परियोजना सड़क दुर्घटनाओं पर सही समय पर सूचना देने का क्लीयरिंग हाउस बन सकता है। कोई भी स्टेकहोल्डर दुर्घटना सूचना वास्तविक समय के आधार पर डाल सकता है और उन स्टेकहोल्डर के बीच जो घायल का उपचार करना चाहता है या उनके परिजनों अथवा विभिन्न अधिकारियों को इसकी जानकारी देना चाहता है को ये सूचनायें प्राप्त हो सकती हैं।

इससे समाज के विभिन्न वर्गों को निम्न तरह से फायदा होगा:

बीमा कंपनियाँ इन आंकड़ों की मदद से उन्हें मूल्य निर्धारित करने, बेहतर मुनाफा की प्राप्ति के कारण नये व बेहतर उत्पाद ग्राहकों को उपलब्ध कराने में मदद मिलेगी। इन वास्तविक समय सूचनाओं से अन्य सेवाओं व गतिविधियों में सुधार होगा तथा नुकसान कम होगा।

पुलिस: जब कभी कोई अपराध या दुर्घटना घटेगी तो वाहन के संबंध में उन्हें चंद क्षणों में सभी आवश्यक जानकारी प्राप्त होगी। इससे पुलिस के काम में गति आयेगी, केस को जल्दी बंद किया जा सकेगा, पीड़ितों को सहायता दी जा सकेगी, उनके परिजनों को अन्य औपचारिकताओं से अवगत कराया जा सकेगा क्योंकि सामान्य सूचना एकत्रित करने में जो समय लगता है, वह समय बिलकुल नही लगेगा।

सड़क परिवहन प्राधिकरण: बिक्री किये गये वाहनों और उनके पंजीकरण में एक अंतर है और इस परियोजना से सड़क परिवहन प्राधिकरण को सबसे पहले जो लाभ मिलने का मौका मिलेगा वह है राजस्व नुकसान की रोकथाम। वार्षिक कर भुगतान पर भी वे नजर रख सकते हैं, और दुर्घटना हो जाने पर, गुम हो जाने पर, चोरी या प्रदूषण जाँच, पुन: पंजीकरण, फिटनेस जाँच की कानूनी औपचारिकताओं को आगे बढ़ाया जा सकता है।

चिकित्सालय: दुर्घटनाओं की मिलनेवाली सही समय की जानकारी आपातकालीन कक्ष सुविधओं को बढ़ाने में मदद मिलेगी। आंकड़ों से प्राप्त होने वाले ट्रेंड से सभी को राष्ट्र स्तर पर बेहतर उपकरण व बेहतर केन्द्रीयकृत आपाताकालीन वार्ड के ढांचे का निर्माण, स्थानीय व क्षेत्रिय आवश्यकतानुसार जिसमें बराबर होने वाली चोटों का प्रकार व संख्या जिनका वे बराबर सामना करते हैं के संचालन व बेहतर कर्मचारियों को रखने में मदद मिलेगी।

वाहन ऋणदाता: दुर्घटना में शामिल वाहन, चोरी गये वाहन या फिर माने गये वाहन की चोरी हो गयी, ऋणदाता के लिये खराब ऋण पैदा हो जाते हैं। विश्वसनीय व सही समय पर प्राप्त सूचनाओं से मामलों का समाधान जल्दी होगी और ऋणदाता को होने वाले नुकसान में कमी आयेगी।

वाहन निर्माता: दुर्घटना, सड़क सुरक्षा, वाहन के इस्तेमाल, सुरक्षा जानकारी जो आंकड़े के विशलेषण से प्राप्त होगी वे उच्च सुरक्षा मापदंडों को विकसित करने व उन्हें कार्यान्वित करने में मददगार होगी। भविष्य में किसी भी निर्माता के लिये, खासतौर पर वाहन निर्माता के लिये उत्पाद व जनता की जिम्मेदारी जोखिम भरे क्षेत्र होंगे। इन जोखिम के प्रबंधन के लिये उन जानकारियों की आवश्यकता होगी जिसकी खोज किसी निष्पक्ष संस्थान द्वारा की गयी हो।

वाहन मालिक व बीमित: को बेहतर प्रीमियम दरें प्राप्त होगीं जो उनकी जोखिम प्रोफाइल से जुड़ी होंगी। क्योंकि इस परियोजना की मदद से सही जानकारी पकड़ में आयेगी और आर्बीट्रेरी दरें जो इंजन की क्यूबिक क्षमता से जुड़ी होती है, पुरानी बात हो जायेगी।

वाहन सुरक्षा शोध एवँ जाँच: यह हिस्सा वाहन सुरक्षा के फील्ड आंकड़ों पर आधारित शोध करेगा।

इस क्षेत्र में जो विषय प्राथमिकता के आधार पर जोड़े गये हैं वे हैं पैदल चलने वालों की सुरक्षा, दुपहिया की सुरक्षा, हेलमेट का इस्तेमाल, सड़क सुरक्षा पर इसका प्रभाव, मोबाइल फोन का इस्तेमाल, सड़क की बनावट, व्यावसायिक ड्राइवर की थकान व शराब का इस्तेमाल, सीट बेल्ट की इस्तेमाल, ट्रैफिक प्रबंधन आदि।

इस कार्य के लिये कुछ तकनीकी सुविधाओं की भी आवश्यकता पड़ेगी जैसे वाहन सुरक्षा व डिजाइन की जाँच के लिये इस्तेमाल किये जाने वाले उपकरण लेकिन इसमें डेस्क पर किया गया कार्य भी सम्मिलित होगा।

जाँच उपकरण से होने वाले शोध के दो प्रकार के काम होंगे जो ग्राहकों के लिये भी उपयोगी होंगे। उदाहरण के लिये, वाहन के लैम्प की क्षमता की जाँच से सुरक्षा शोध को लाभ मिलेगा साथ ही ग्राहक संगठन के प्रकाशन जो खरीदने की सलाह देते हैं भी लाभान्वित होंगे।

Don't Discount the Rebate
– Separate Price-for-advice and Price-for-service

Dr. Sanjeev Jha

The regulators and associations of many financial products' providers have been rightly concerned about curtailing the widespread practice of rebating (the practice of an intermediary passing on the commissions rightly due to him to a customer in an effort to seal a deal).

Quite rightly, the regulators and associations have also been insisting on a minimum qualification and training for any individual/ corporate who wants to intermediate to sell financial products, the rationale being that financial products are sophisticated in nature where one fit/ design need not suit all.

But unfortunately, this is a belief based on the sales experience of not only insurance but other financial products also, the evils of rebating and wrong selling by offering discounts will not go away. Sure, these regulations will make it more difficult but unless the basic economic rationale of why this happens is tackled, the practice will become more ingenious and will still stick.

The fundamentals of this 'why' is that customers across India believe that the current level of service/ advice offered by the intermediary does not merit a commission of 15 per cent (in non-life insurance) or a more than double commission fee for selling a life insurance product (when the commissions for selling an equity mutual fund is merely 1.5 per cent). And as customers they feel cheated if they have to bear the cost of such inefficiency. They are also incredulous that no provider exists who can offer this discount upfront for the simple fact that (a) the customer may know his products and (b) the customer can walk to the provider's office and complete any transaction without needing any help.

Quite frankly, would you ever actually give any attention to free advice? Most probably you would become irritated at any unsolicited advice, as do many of us.

Would you therefore listen to advice given by someone with a vested interest in your taking this advice? Would you, in a hypothetical sense, pay an advisory fee to a person who is selling his car to you for information on this same car? Never!

Thus, it is surprising that today, in India (and in many other parts of the world), we listen to advisors of financial products (including insurance) knowing fully well that the so called advisor is actually getting a commission from the product that he is trying so hard to sell to you.

The root of this problem has been the relatively recent evolution of private consumption of financial products. Until just a few decades ago, the private individual had little or insignificant need to purchase financial products. This was due to our average level of economic being as reflected in low per capita incomes. All the earnings were being consumed in satisfying the basic needs of roti, kapda and makan. There was little or nothing left for purchasing a risk mitigation product (insurance) or a wealth enhancement product (mutual funds, bonds, etc.). Thus, to sell financial products what was required was not simple sales professionals or even educated advisors but evangelists. The need was for preachers who convinced you of the need to save/ insure and finally offered you salvation by saying "Hey, today is your lucky day. I happen to be an agent of company XYZ." This evangelist agent was not merely selling a company's product but actually creating the demand so essential for the company to survive.

> Economic history has shown that the best regulations are those that articulate a given market practice. It is very rare that regulations drive change.

Today, the scene is quite different. With rising income levels, changes in the socio-cultural security blanket, better levels of education and with vast monies being spent on marketing financial products, the need for such evangelists has been mitigated. And what is now required is servicing and, to some extent, advice (best reflected in the positioning of various banks as 'wealth managers').

The reality of competitive pressure is that even in the most branded of products (like the global colas) margins are coming down and distributor fees are shrinking or getting pegged to success. But ironically, in insurance (which largely remains a commodity) the intermediation fees (margins) are as high as 17.5 per cent (non-life insurance brokers). Obviously someone is paying for this and it is surely the consumer immediately, and in the longer run the 'cowboy' providers who are running around gunning each other for achieving market share. And the industry is content with this practice, rationalising this as advisory fee when at best it can be described as a fee for a combination of courier and secretarial assistance.

The power of such 'advisory' skills can be easily tested. Assume an offer that tells the customer that the renewal for his motor insurance will be sold to him with a 15 per cent discount. However, if he wants home delivery and secretarial help the customer will have to pay two per cent of the premium and if he wants advice he will have to pay an extra 15 per cent of the premium.

Clearly, there will be no takers for the advisory options though there may be some for the secretarial convenience. Assuming such a '15 per cent off' insurance shop does come up, there will be a queue outside and the offices of the existing agents/ advisors of the non-life insurance industry will inevitably obtain a discount on their fire premium for being a 'silent risk!'

The above is not an illustration of the effectiveness of discounting but of the fact that in most non-life insurance products the advisor/ agent provides little or no value addition. And therefore by insisting on paying him a hefty commission we are actually doing a disservice to the customer. A disservice which, while regulations will protect, practice will debunk. And agents will continue to rebate belligerent customers until even the regulators finally accept the reality.

In the UK, where the financial regulatory environment is possibly at its most evolved best, the debate on the irrationality of advice of such tied agents has been going on for some time now. It is also evident that the UK regulations will soon change to take cognisance of the sub-optimality of the same in achieving greater customer benefits.

Today, the Indian regulator recognises only the tied-agent and the broker. But ironically even the broker is expected to earn commissions and not advisory fee from the customers. There is no regulatory provision for an Independent Financial Advisor (IFA) and that has necessitated many Indian IFA aspirants to hold multiple tied-agencies in different shell companies. This deviation from the spirit of the regulation is only with the honourable intent of providing neutral advice to the customer. It is but a matter of time before the regulators recognise the role of such IFAs and modify regulation. This was done in the late eighties in the UK, when the IFA was recognised as a distinct business model from a tied-agent.

But for regulation to align with economic rationale and to ensure that the customer gets the best choice it is important that the following changes are debated:

- Regulatory recognition for the existence of (a) tied-agents (b) independent financial advisors and (c) brokers
- Permission for IFAs/ brokers to function on a fee basis and not only on a commission basis
- For earning a fee, a pre-requisite would be the refund of any commission received – either to the provider in terms of net rate or passed to the customer (legalised rebating) by the IFA/ broker
- Making consumers better informed and more confident about choosing an advisor by ensuring disclosure by the intermediaries of the service they offer and how the payment is being made

If the above were to happen, the margins in non-life insurance would come down to a realistic level and the customer will surely benefit not only by better advice but also by better products that the provider will be forced to look into to enhance market share.

The customer benefits, since, now he can clearly delink the cost of advice from the cost of the product/ service. Thus, for standard vanilla products (like most tariff products) consumers would be able to buy directly without having to pay for advice that they do not want. At the same time the customer would be willing to pay a fee for the service and the convenience of a professional intermediary.

> The customer can clearly delink the cost of advice from the cost of the product / service. He can buy directly without having to pay for advice he does not want, and would be willing to pay a fee for the service.

This delinking would also be critical to improve the standards of advice. Agents/ brokers who today profit by being mere courier agents would get the fee they deserve and, in most cases, would be linked to the success/ satisfaction as perceived by the customer and not by the provider.

Providers would now actually be able to do a proper strategic analysis on outsourcing distribution or investing in this competency in-house. The strong agents would be in a position to demand high commissions. But this strength would again be a factor of their own competencies and not a regulatory protection.

There is no doubt that today we tend to be psychologically more disposed to a commission-based type of system and also therefore the practice of rebating. Since intrinsically, as customers, we abhor paying a high fee for a perceived low value-added service. Going ahead, as intermediaries pick up advisory skills, new models of reimbursement would evolve. Some would be purely transaction-based, while others would be retainer-based, with a bonus for success.

Economic history has shown that best regulations are those that articulate a given market practice. It is very rare that regulations drive changes. Today, as compared to some decades back, the customer has the need to purchase financial products. However, the purchase of financial products demands greater discretion than purchase of any other type of asset. Many customers are very well versed with the intricacies of making a financial purchase and many are not. Thus, as providers, these customers need to be treated differently. It is therefore imperative that we move towards delinking the price for advice with the price of the product/ service. If we can do so, the winner will be the customer. After all, that is who we all exist for. Right?

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Report Card: GENERAL

Growth Up in Q1

G.V. Rao

June, 2003, was an exceedingly good month for the general insurance industry. It has recorded a business growth of about Rs.200 crores (20 per cent), pushing up the growth rate of 9.7 per cent at the end of May, 2003, to 12.7 per cent by the end of first quarter 2003-04.

The market has grown by about Rs.477 crores and recorded a premium of Rs.4,300 crores at the end of the quarter.

The private players' contribution to it is Rs.291 crores (89 per cent growth) while that of public players is Rs.186 crores (5.5 per cent growth).

The public players have shown a premium growth of 14 per cent in June (Rs.122 crores increase) to bring up their overall growth rate of three per cent at the end of May to 5.5 per cent (Rs.186 crores cumulative increase) at the end of the first quarter 2003-04. They have recorded a premium of Rs.3,600 crores (Rs.3,424 crores).

The private players, with an overall increase in premium of Rs.291 crores (against Rs.186 crores of the public players) at the end of the quarter are continuing their enterprise-led growth. They have recorded a premium of Rs.622 crores in the first quarter of 2003 as against Rs. 331 crores for the corresponding period last year.

The overall growth rate of 12.7 per cent at the end of the first quarter, with June alone witnessing a 20 per cent growth rate, seems to indicate buoyancy in the insurance market. Whether what is witnessed is customer-led growth or vendor-driven, is difficult to judge in the absence of department-wise premium numbers.

Public Sector

An analysis of the four public players shows that it is the performance of National Insurance with a growth rate of 15.6 per cent at the end of the first quarter 2003-04 that carries the team as a whole to a 5.5 per cent growth. The other three players are nowhere near its growth rate, the nearest one being Oriental, with a four per cent growth

Gross Premium Underwritten – June 2003

(Rs. in lakhs)

Insurer	Premium 2003-04		Premium 2002-03		Market share upto June, 2003	Growth % Year on Year
	June	April – June	June	April – June		
Royal Sundaram	2,215.86	7,048.91	1,320.17	4,371.17	1.64	61.26
Tata AIG	2,566.62	11,426.29	1,569.92	6,804.66	2.66	67.92
Reliance General	2,142.13	5,228.51	1,867.86	6,191.00	1.22	-15.55
IFFCO-Tokio	1,628.16	10,407.33	1,050.17	5,234.64	2.42	98.82
ICICI Lombard	2,478.21	12,615.42	919.75	3,608.80	2.94	249.57
Bajaj Allianz	3,280.48	11,904.75	1,257.27	6,863.37	2.77	73.45
*HDFC Chubb	503.63	1,192.70			0.28	
*Cholamandalam	367.87	2,416.22			0.56	
New India	28,941.00	1,05,373.00	25,310.00	1,03,826.00	24.54	1.49
National	27,059.00	85,176.00	21,564.00	73,711.00	19.83	15.55
United India	22,529.00	85,410.00	21,605.00	83,033.00	19.89	2.86
Oriental	23,719.00	84,882.00	21,507.00	81,793.00	19.77	3.78
ECGC	3,353.21	6,342.27	2,774.14	5,794.35	1.48	9.46
PRIVATE TOTAL	**15,182.94**	**62,240.11**	**7,985.15**	**33,073.64**	**14.49**	**88.19**
PUBLIC TOTAL	**1,05,601.21**	**3,67,183.27**	**92,760.14**	**3,48,157.35**	**85.51**	**5.46**
GRAND TOTAL	**1,20,784.15**	**4,29,423.38**	**1,00,745.29**	**3,81,230.99**	**100.00**	**12.64**

* Commenced operations in October, 2002.

Note: The business figures of Tata AIG for the months of April and May, 2003, have been resubmitted by the insurer. As such, its premium for the said months may be read as Rs.6,727.40 lakhs and Rs.2,131.25 lakhs respectively.

rate. Why is there such a glaring disparity among them? It is difficult to pinpoint the reasons for it in the absence of more information on their relative department-wise performances.

Private Sector

It is obvious that it is more the private players' performance that is pushing up the market boundaries in premium volumes – their growth of Rs.291 crores as against the Rs.186 crores growth of the established public players at the end of the quarter is a significant trend. It shows that the private players are taking a lead in widening the market base despite their handicaps of a lack of infrastructure, inadequate man-power and low-capital base. Their growth rate has jumped from 79 per cent at the end of May, 2003, to 88 per cent by the end of June, 2003.

ICICI-Lombard continues to be the star performer and leads the pack with a premium of Rs.126 crores. Bajaj-Allianz has turned in the best performance in June, showing a growth of Rs.20 crores, the best among them to rank below ICICI-Lombard.

Market Shares

The market has grown by Rs.477 crores (12.7 per cent growth) and touched a premium volume of Rs.4,300 crores. This is, however, not comparable yet to the growth rate of 20 per cent that was witnessed in 2002-03 for the market. Perhaps, the growth momentum may pick up July onwards.

The market shares have remained the same, with the public sector companies at 85.5 per cent and the private sector at 14.5 per cent that was seen at the end of May, 2003. Will these remain stable enough in the remaining months? With the broking community having their roles expanded by the withdrawal of five per cent special discount to customers on tariff covers, how will the market equilibrium change in the immediate future? The results of the next quarter will show definite trends.

Conclusion

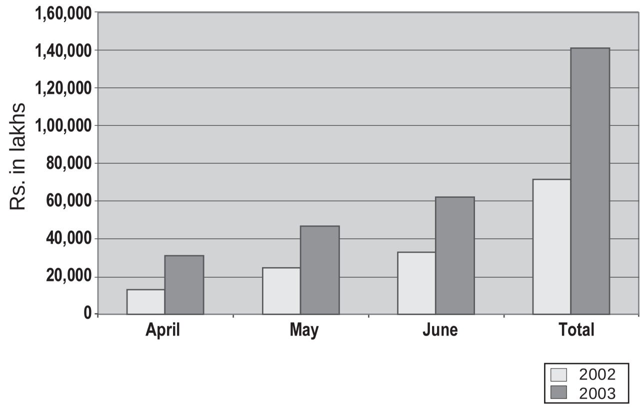
Public players have done comparatively better in June, 2003, but their market share has remained the same at 85.5 per cent. It is evident that National Insurance, by its remarkable performance on the premium front, is propping up the entire team. The private players' performance, with an accretion of Rs.291 crores, is keeping up the growth momentum of the market as a whole.

Is this growth due to the effects of liberalisation and introduction of more middlemen or due to the sheer weight of economic growth one is witnessing in the country? In the absence of department-wise premium levels, it is difficult to comment if the growth witnessed has emerged in the fields of Motor and Health segments that are primarily customer-led, or due to vendor-led initiatives by the insurers becoming more active in creating risk-awareness in the unorganised markets to mobilise premium incomes.

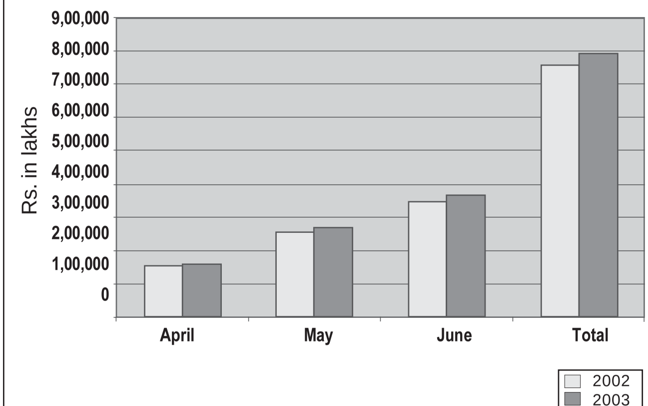
A better understanding of the future market trends can be reached only when the financial statements of all the insurers for 2002-03 are published.

The author is retired CMD, Oriental Insurance Company.

PREMIUM GROWTH 2002-03
PRIVATE NON-LIFE COMPANIES



PREMIUM GROWTH 2002-03
PUBLIC NON-LIFE COMPANIES



Setting off Service Tax

R. Anand

With the objective of the Government to expand the service tax net year-after-year, companies are now saddled with the responsibility of understanding and administering service tax provisions over and above the daunting task of taking care of other legislations like Companies Act, Insurance Act, Income Tax Act, IRDA Act and SEBI regulations. For the general insurance business, the levy of service tax is of paramount importance since Finance Act, 2003, has expanded the scope of levy to include ten more services which have either a direct or indirect correlation to the insurance business. The taxable service relating to insurance business is governed by:

Section 65(104)(d): Service provided to a policyholder by an insurer carrying on general insurance business

Section 65(104)(zx): Service provided to a policyholder by an insurer carrying on life insurance business in relation to life insurance business.

Section 65(104)(zy): Service provided to a policyholder or insurer by an actuary, or intermediary or insurance intermediary or insurance agent, in relation to insurance auxiliary services concerning life insurance business.

Section 65(104)(zl): Service provided to a policyholder or insurer, by an actuary, or intermediary or insurance intermediary or insurance agent, in relation to insurance auxiliary services concerning general insurance business.

Since service tax was developed on the broad model of Central Excise Act and Rules, the facility of credit or set off to MODVAT credit and set off has also been implemented from 2002.

Finance Act, 2002, inserted a new clause E in Section 94(2) providing for credit of service tax paid on input services used in the output services where both the input and output services fall within the same category of taxable services. Consequent to this amendment, rules were framed to prescribe the manner of availing such credit (refer notification No.14/2002 dated 01/08/2002). Recently, Finance Act, 2003, has expanded the scope of credit for service tax by inserting Section 94 (2)(eee) wherein credit has been provided for service tax paid on services consumed or duty paid or deemed to have been paid on goods used for providing a taxable service. As can be clearly seen, this facility of credit is not a one-to-one credit as originally envisaged in 2002, but the ambit and scope of the credit has been expanded to cover various components and types of service tax paid which is debited to the profit and loss account and to provide credit of these taxes paid against any service tax to be charged to customers.

For example, a general insurance company will be legitimately paying service tax on telephone bills. This service tax paid can be captured separately and set off against service tax in turn payable by such companies on the premium charged and collected under various heads.

Recent Notification

By Notification No.5/2003 dated 14/05/2003, the Service Tax Credit Rules, 2002, have been amended to provide not only for input credit on the same category of taxable services, but also credit facility of input tax falling under any other case of services where service tax is paid and input credit can be availed in respect of invoice, bill or challan issued after 14/05/2003. For example, a general insurance company will be legitimately paying service tax on telephone bills. This service tax paid can be captured separately and set off against service tax in turn payable by such companies on the premium charged and collected under various heads. This is the objective of the newly introduced set off facility. This facility is subject to certain rules and conditions provided in the Service Tax Credit Rules like maintenance of books and records etc.

Administrative issues

First and foremost, capturing of service tax paid by insurance companies under various heads of expenditure like advertisement, management consultancy, communication costs etc. itself is a challenge and is a pre-requisite to claim the credit. Obviously, a robust system will have to be developed to ensure that the basic expenditure is kept separately and service tax component of such expenditure is kept separately.

Secondly, various categories of services rendered by a general insurance company will have to be identified and captured for levy of service tax. These would essentially consist of premium income.

The third step will be maintenance of records to substantiate that the input service tax paid is in relation to input service which is intended for use in relation to rendering output services which are chargeable to service tax. This is the single most important factual test to satisfy to get the benefit of set off.

Wherever the insurance company is not able to maintain separate account of input service meant for consumption in relation to rendering of output services which are chargeable as well as exempt services or non-taxable services, there is a limit prescribed in the rules for utilisation of service tax credit. The rule provides that the quantum of set off cannot exceed 35 per cent of the amount of service tax payable on such output service. For example:

	Rs.		Rs.
		Premium Income	100
		Service Tax – 8%	8
Telephone Expenditure	50		
Service Tax – 8%	4		

The amount available for set off is restricted to 35 per cent of Rs.8, which is Rs.2.40.

In this case, the restriction of 35 per cent will apply only where distinct records are not maintained for the expenditure incurred in relation to output service relatable to premium income. If the company is able to establish a one-to-one correlation between the expenditure incurred and the output services availed, set off of Rs.4 is available. There is a prescribed form for availing the credit which requires information on the input service and the input service provider. A few items have been added to the form in the Notification No.5/2003, which are

(a) Description of output services in relation to rendering of which the input services are consumed.

(b) Whether separate account is maintained for receipt and consumption of input service meant for consumption in relation to rendering of output services which are taxable or exempted or non-taxable service.

Conclusion

With acute competition in the insurance business and claims to premium ratio being the main cause of concern which also decides the profitability of insurance business, a company's ability to control its expenses of management will also come up for scrutiny.

In dealing with expenses of management, management of service tax can also contribute substantially to the bottomline of fledgling companies which are now saddled with several legal requirements. The facility of set off available under the Service Tax Rules as amended will have to be given its due share of recognition and attention so that companies do not lose out on their legitimate right to get the benefit of set off against service tax chargeable on their output services. It will not be out of place to mention that insurance companies should have a foolproof system in place to ensure that these requirements are taken care of and there is no income leakage on this count.

The author is Vice-President, Corporate Affairs, Sundaram Finance Ltd. The views expressed here are his own.

No service tax for new health scheme

Premiums paid for the Universal Health Insurance scheme will not attract service tax payment.

The Finance Ministry has taken a decision to the effect that service tax would not be applicable on any taxable services provided under the scheme by an insurer in general insurance business, it is reported.

The scheme was launched in mid-July by the Prime Minister, Mr. Atal Behari Vajpayee, along with the Varishta Bima Pension Yojana, the nine per cent assured return scheme for senior citizens.

The scheme provides health protection to the disadvantaged sections on a daily premium of Re. 1. The premium is Rs. 1.50 per day for a family of five and Rs. 2 per day for a family of seven and will make them eligible for reimbursement of medical expenses up to Rs. 30,000 towards hospitalisation, a cover for death due to accident up to Rs. 25,000 and compensation due to loss of earning at the rate of Rs. 50 per day up to a maximum of 15 days.

The scheme is a group insurance scheme on the lines of the Mediclaim policy for groups of a minimum of 100 people. Below poverty line families who are enrolled in this scheme will receive a pension subsidy of Rs. 100.

State-owned general insurers have set limits on claims under the scheme. Of the Rs. 30,000 that an insured person is eligible to claim in case of an illness, the policy limits room expenses to Rs. 150 a day, surgeon and nursing expenses at Rs. 4,500 per illness and anaesthesia, blood, oxygen, operation theatre and diagnostic charges will also be limited to Rs. 4,500 per illness. The step has been initiated as insurers wanted to check any misuse of the scheme, it is reported.

No Licence, Valid

The Supreme Court has ruled that an insurance company will be liable to pay compensation to a vehicle owner, even if the vehicle involved in a mishap is manned by a driver without a valid licence.

It reversed the finding of the National Consumer Commission, that if a driver had no valid licence, the insurance company was not liable to pay.

In the case under consideration, a van was being driven by a person with a fake licence when it caught fire.

When the owner claimed damages, the district consumer forum in Bihar granted him Rs. 86,000. However, the state commission reversed it on the grounds that the driving licence was not valid.

The national commission approved of this view. This finding was set aside by the Supreme Court Bench comprising Justice Santosh Hegde and Justice B P Singh.

Insuring the Weather

ICICI Lombard is in the process of structuring a weather insurance product for the country's agricultural sector and is in talks with the India Meteorological Department (IMD) for a data sharing arrangement, it is reported.

Weather Index Insurance, the insurance product, is likely to be structured in such a way as to cover risks arising out of the vagaries of weather – mainly rainfall but may also include hailstorm and snowfall.

The company is working on defining the band of rainfall variation based on a 15-year data from IMD. "If a particular area has suffered a severe variation in rainfall as compared to the 15-year average, claims from insured farmers in that area would be taken up," an official of the company is reported saying. This is based on the premise that a severe variation in rainfall is most likely to result in crop damage.

The insurance firm will not take up claims from areas that are declared drought-hit or under pest attack.

ICICI Lombard is also in talks with reinsurance firms for this product so as to reduce its risk.

For ICICI Lombard the project has become a reality primarily because of the involvement of ICICI Bank in agricultural lending. The bank had disbursed Rs. 2,000 crore towards agriculture and food-based projects during the 2002-03 fiscal.

BoB plans life insurance foray this year

Bank of Baroda (BoB) has shortlisted some foreign players for its plan to foray into life insurance business, say reports, even as the approval from the Reserve Bank of India (RBI) is pending.

BoB Chairman and Managing Director Mr. P. S. Shenoy is reported saying that after getting the RBI go-ahead, it would apply to the IRDA, and if everything goes right, would start the life business by 2005.

BoB intends to hold 74 per cent stake in the life insurance venture while offering 26 per cent to a foreign partner. DSP Merrill Lynch has got the mandate from BoB for scouting for a foreign partner.

Now, Weather Futures !

The National Commodity and Derivatives Exchange (NCDEX) which was launched in late July, plans to launch weather futures, the latest product in the derivatives market, in India by early 2004, it is reported.

"The idea for rainfall index and weather futures has been frozen," said NCDEX Chief Executive Officer (CEO) and Managing Director P.H. Ravikumar, and the product is likely to be launched early next year. Only some leading international commodity exchanges offer this product, used by farmers and utility companies.

Launched in 1999, weather futures (temperature-related weather derivatives), were first traded on the Chicago Mercantile Exchange (CME). Trading volume of these products, which are based on anticipated monthly average temperatures of 10 key US cities, has grown rapidly. Since then, the weather derivative products are now also traded on the Euronext-London International Financial Futures Exchange (LIFFE).

In the Indian context, weather futures would prove immensely beneficial, especially to the agriculture sector, which is dependent on monsoon. This derivates product could be an alternative to the crop insurance product, the premium for which, at around 18 per cent, is seen as costly by the farm community.

The World Bank is understood to have asked NCDEX to prepare a concept paper on weather futures. Accordingly, NCDEX is likely to be ready with the paper over the next two months. However, regulatory formalities may see the formal launch of weather futures by next year.

According to UNCTAD's global expert on commodity futures Lamon Rutten, who is also a director on NCDEX, weather futures is a good example of product innovation. "Weather futures are important and cheaper than crop insurance which is important to make the agri-sector cost-effective under the WTO regime."

NCDEX plans to offer trading in commodity futures from mid-October. In phase I, NCDEX will offer trading in futures of bullion (gold and silver) and seven agri-products – soybean, soyoil, rapeseed/ mustardseed and its oil; crude palmoil, RBD palmolein and cotton.

RBI says no to LIC's call money market wish

The Reserve Bank of India (RBI) has refused a special request from the Life Insurance Corporation (LIC) to park more funds on a day-to-day basis in the call money market, it is reported. The fund will be generated out of the Varishta Bima Pension Yojana. The higher day-to-day limit sought by LIC was Rs.2,000 crores, up from the current level of Rs.600 crores.

Expecting a heavy flow of funds from Varishtha Pension, the corporation had made a special request to RBI for parking additional funds to manage the fund flow on a day-to-day basis.

The yield in the call money market, which currently hovers around five per cent, would have supported the scheme. However, the monetary authority has refused to sanction the extra limit, a senior official of the LIC was quoted saying.

GIC plans to sell mutual fund

The national reinsurer, General Insurance Corporation of India (GIC), could offload its entire stake in mutual fund subsidiary GIC Asset Management Company, along with its four erstwhile subsidiaries to a private player.

"We might offload our entire stake in GIC Mutual Fund because this activity does not fall in line with our core activity," Chairman of GIC, Mr. P. C. Ghosh was quoted saying.

In addition, GIC Housing Finance, which holds 10.5 per cent in the fund arm, wants to move out of non-synergistic businesses.

The four insurance companies have no strategic interest in mutual fund operations as they are hardcore insurers and want to remain so.

Mr. Ghosh, however, ruled out the possibility of merging the fund with either the State Bank of India or Life Insurance Corporation asset management entities.

"If we get a good offer from a private party or some other mutual fund we might sell it off. Nevertheless, we will not offload our stakes in the company until and unless we have sorted out the issue with the Soros group," he explained.

"We will not get a good response from the market until and unless we have settled the issue with the Soros group and we do not want to make a distress sale," Mr. Ghosh added.

"The public sector promoters want to see the fund fall in good hands," he said.

The mutual fund is facing redemption pressure for its various closed-ended assured returns schemes and has recently asked for increasing the capital base of the fund which the promoters are considering.

INSURANCE HALL OF FAME

Edmund Tse, Senior Vice Chairman and Co-Chief Operating Officer of American International Group (AIG), and Clemente Cabello, CEO of Mexico's Grupo Nacional have been named to the prestigious Insurance Hall of Fame by the International Insurance Society (IIS), Inc. They were honoured in New York City, July 15, at the annual IIS Seminar at the Waldorf Astoria.

Tse, who is also Chairman and CEO of AIA, the largest life insurer in Southeast Asia, began his career with AIG in Hong Kong in 1961. "Over the years, he has promoted the development of insurance in the Asia region and played a key role in opening up China's insurance business. He has promoted the status of Hong Kong as a leading international financial centre," said the IIS bulletin. In addition to his work in Hong Kong he has built up AIG's market share in Taiwan, Indonesia, Japan, Thailand and the Philippines, to the point where it now ranks as the leading insurer in many Asian markets.

The announcement described Cabello as "one of the most widely known and respected insurance executives in Mexico and throughout Latin America," noting that he "began his work as a clerk in the actuarial department of Grupo Nacional Provincial, the company where he now serves as Chief Executive."

The company is one of Mexico's largest and most prestigious insurance enterprises, and "Cabello has gained a reputation for setting standards in the industry that are both imaginative and bold," the announcement continued. "He has been a major innovator in product design and development for his country. He introduced the concept of universal life in Mexico; he introduced dividends to his company's products; he was a major innovator in the field of health insurance; his concept of inflation-proof insurance was applied to property insurance as well as to life insurance. He participated in a group of Mexican actuaries that gathered mortality experience in order to develop new mortality tables for the country. Under his leadership his company introduced the first insurer-owned clinics to enhance health services for customers." He is recognised as a counsellor on insurance concerns throughout Latin America.

The New York-based International Insurance Society operates the Insurance Hall of Fame, which was established in 1957 by the Griffith Foundation for Insurance Education, Columbus, Ohio. It later moved to The University of Alabama, where it was founded and developed by Dr. John Bickley, Emeritus Professor of Insurance of that institution.

The Hall will open a new digital gallery in New York in July, organised by the Society and the St. John's University School of Risk Management. All laureates will be displayed in state-of-the-art digital photography with biographies and audio-video materials.

"There are 108 laureates, including the two most recent, from nearly 20 countries who are honoured," said the announcement. "The qualifications for installation in the Hall of Fame include exceptional contributions to the advancement of insurance locally or globally and innovation in developing insurance benefits for the security and well being of society and individuals. Members are selected by the membership of the International Insurance Society in a secret ballot."

US Insurers try to stop Asbestos Bill

US insurers wrote to Senate Majority Leader Bill Frist to try to stop a bill creating an asbestos compensation fund of up to $ 153 billion from reaching the Senate.

Concerned that nearly half the fund's cost would fall on a handful of insurance companies, the American Insurance Association's (AIA) President Robert Vagley said in the letter that it was essential to fix the "corrupt asbestos litigation system" but that the bill was "grossly unfair" and the wrong way to do it.

The measure would take thousands of asbestos lawsuits out of the courts and instead compensate victims from a trust, to be funded by industry and insurers. The bill was cleared by the Senate Judiciary Committee earlier.

The fear is that the insurers would be called on to fund half of the contingency money, since they were already being asked to supply half the core funding for the trust since the plan calls for most of the costs to be split equally among 8,500 industrial companies facing asbestos litigation and about a dozen insurers.

"It is grossly unfair to cause insurers to bear half the cost of contingent funding when the industrial defendants have a far greater exposure," Vagley said.

Also, Vagley complained, the committee had provided for a possible return to the court system for asbestos victims, robbing business of needed finality on asbestos liabilities.

Organised labour, meanwhile, does not think the payouts have gone high enough. Asbestos was widely used for fireproofing and insulation until the 1970s, when scientists concluded that inhaled fibres could be linked to cancer and other diseases. Lawsuits over the mineral have driven 67 companies into bankruptcy.

Mandatory driver insurance in Russia

Drivers in Russia, among the most accident-prone in Europe, have to now insure themselves against Third Party liability under a law that the government hopes will cut the number of fatal crashes.

In contrast to Western countries, automobile insurance has never been required in Russia. Instead, drivers involved in collisions usually settle through the courts or pay each other compensation in cash on the spot.

Insurance companies, which are counting on the legislation to provide hefty profits, are also confident that notoriously indisciplined drivers will act more responsibly under the carrot and stick system of insurance premiums.

"If you don't have any accidents, you get a five per cent no claims discount the next year. If you break road rules, the cost of the insurance will rise. This should encourage road safety," Mr. Andrei Shavilev from the Russian automobile insurance association quoted.

At present, only 12 to 15 per cent of people have car insurance in the major cities of Moscow and St. Petersburg and seven per cent in Russia as a whole. Car owners in Russia have six months to adapt to the new rules, which took effect on July 1, as those who have no insurance policy will not be fined until January 1.

The level of car ownership has shot up in recent years, causing traffic congestion in major cities and further boosting the accident figures. The number of cars in Russia is estimated at 22.7 million, including three million registered in Moscow alone.

Within five days of an accident, a technical investigation of the cause must be carried out and within 15 days the insurance company has to pay out on deserving claims. One per cent of the profits of insurance companies will be spent on improving road safety, including installing new traffic lights and road signs.

The annual insurance premiums, averaging 3,800 rubles ($122) in Moscow, were deliberately set low to reflect Russians' modest standard of living.

This means that the maximum annual payout under the government's mandatory scheme is 4,00,000 rubles (around $ 1,300), although drivers can boost their insurance cover by paying extra.

The death rate from traffic accidents in Russia last year was 33,000, with 2,15,000 people injured in accidents. Of the 1,84,000 accidents 22,500 of them were caused by drunk drivers.

Every year in Russia 171 out of every 1,00,000 inhabitants die in road accidents, compared to 20 out of every 1,00,000 in Portugal, which has the worst road safety record in the European Union, and 15 in the US.

The Russian insurance industry only began to develop after the collapse of the Soviet Union in 1991. In Soviet times, only two state-owned companies provided insurance services, Gosstrakh and Ingosstrakh.

Munich Re gets first nationwide China licence

Munich Re has become the first international reinsurer to receive a country-wide composite reinsurance operating licence in the People's Republic of China from the Chinese Insurance Regulatory Committee (CIRC).

The responsible Member of the Board, Karl Wittmann, stated: "We are delighted to receive this honour. This milestone marks the beginning of a new era in Munich Re's long-standing collaboration with the Chinese market."

Munich Re has done business in China since 1956 and currently has three offices there, in Beijing, Shanghai and Hong Kong. The new licence will make the company "eligible to participate in the Renminbi Yuan denominated reinsurance business which was previously reserved for local companies only," said the announcement.

The bulletin stressed that China's "annual double-digit growth rate" makes the country's insurance market "an integral part of one of the most dynamic and promising economies in the world (PRC Gross Premium Income 2002: $ 37 billion overall or 44 per cent growth over 2001, thereof $ 27 in life and $ 10 billion in non-life). "It added that "Munich Re will now be in a perfect position to benefit from its longstanding network of strategic relationships with the Chinese insurance industry by cooperating in all life, health and non-life business lines."

OFFSHORING & INSURANCE

Offshoring back-office work to India may be a new risk to be covered by US corporates and to be revealed as such in their balance sheets according to a newly released study report.

Aon Corporation released its "Report Card for the World," identifying "unconventional threats" to the balance sheets of US firms conducting business abroad. They included:

*Risks from war on the Korean Peninsula since it is a crucial supplier of high-tech components including computer memory chips

*Risks from hostilities between India and Pakistan – although India is a small market for US companies, the country is becoming increasingly crucial as an "offshoring" centre for back-office functions (e.g. call centres) of US firms.

In this section, we will answer the questions and doubts that readers have regarding the insurance industry in their many capacities like customers, potential customers, employees, students, researchers and so on.

The following questions have been compiled from phone-in programmes conducted on Doordarshan as part of IRDA's consumer awareness campaign on insurance and pensions.

Please write in your doubts and questions and we will do our best to respond to them in this section.

Mrs. Kusum R. Bhatt, agent for LIC and UIIC in Rajula, Gujarat asks:

1. When life insurance policies are transferred from the issuing branch to another, why are commissions not being received? This has been a longstanding administrative problem.
2. I have a valid agency licence issued by the IRDA. I started my insurance business with United India Insurance Company Limited (UIIC) in 1999. On the basis of the licence issued by UIIC I have taken an agency from the LIC. Recently I have renewed my licence through UIIC's Ahmedabad Regional Office from the IRDA.

My question is : Can I change my insurance company, whether life or general? Can I choose from private and government companies? If yes, are there any procedures?

1. The first issue pertains to an internal servicing problem of the LIC. Please contact them to sort it out.
2. An agent can change from one insurer to another. The agent has to obtain a "No Objection Certificate" from the insurance company he or she represents currently. After obtaining the NOC, the agent can approach the insurance company with whom he/ she intends to work.

Regarding the NOC, it has been reported to the Authority time and again that insurance companies are not issuing NOCs to the agents when such requests are received.

On June 25, 2003, Mr. P.A. Balasubramanian, Member (Actuary), IRDA, in his capacity as Chairman, Life Council, issued a circular to all insurers wherein it has been stated that:

"Whenever a request is received by an insurer from an agent, the insurance company will issue an NOC within a period of 90 days from receipt of such request and on fulfillment of the requirements of the insurance company. If no response is received from the insurer within the aforesaid period, it will be presumed that the insurance company has no objection and the agent will be free to change the insurer. The insurer with whom the agent intends to work may consider giving agency based on the acknowledgement received from the previous insurer."

The LIC of India invests its funds in the social sector and in government securities? Will the private companies too invest in the same?

The investment pattern mandated by the IRDA for all insurance companies is common. In the case of life insurance companies all of them, whether in the private or public sector, should invest their policyholders' funds as given below:

- Central Government Securities: Not less than 25 per cent
- State government and other approved securities: (inclusive of Central Government securities) not less than 50 per cent
- Infrastructure and Social Sector: Not less than 15 per cent
- Other Investments: Not more than 35 per cent of which not less than 20 per cent should be invested in approved investments.

All general insurance companies have to invest their policyholders' funds in the following manner:

- Central Government Securities: Not less than 20 per cent
- State government and other approved securities:(inclusive of Central Government securities) not less than 30 per cent
- Housing and loans to state governments for housing and fire fighting equipment: not less than 5 per cent
- Infrastructure and Social Sector: Not less than 10 per cent
- Other Investments as governed by exposure norms: Not more than 55 per cent, provided that not more than 25 per cent of the assets can be invested in other than approved investments.

Insurers should invest in the following manner funds belonging to the pension and general annuity business:

- Central Government Securities: Not less than 20 per cent
- State government and other approved securities:(inclusive of Central Government securities): not less than 40 per cent

Balance to be invested in Approved Investments subject to prudential and exposure norms: Not more than 60 per cent

LIC advances loans for policyholders on the basis of paid-up value arrived at on the particular policy. For this, the company charges a high rate of interest. In other words, a policyholder's money is given back to him or her by the way of loan at a high rate of interest. At the same time, the same policyholder's money is advanced to the public for housing loans at a lower rate of interest. How does IRDA justify this fact?

One cannot compare interest rates between a policy loan and a loan issued for building a house. The premium collected to cover a risk on a policy is computed based on morality rates for a particular segment of insureds, income from the investments that are made by an insurer and management expenses and since the last two calculations are affected when a policy loan is given, there has to be a balance created.

Moreover, the purpose of an insurance contract is to make good the loss and not to facilitate loans for the policyholder which makes the risk cover lose its value since it takes those funds out of what the company could invest on behalf of the very same policyholder for the long term.

A loan advanced for building a house is market driven and highly competitive on the other hand, and refinance rates, which are usually soft lines of credit also go into determining the rates and providing spreads.

Behind the Scenes

The Federation of Indian Chambers of Commerce and Industry (FICCI) conducted a Conference on Natural Disasters – Fiscal and Financial Management on June 25-26, New Delhi.

L to R: Mr.Naren Joshi, Advisor-Insurance, ING Group, Mr.Omkar Kanwar, Chairman and Managing Director, Apollo Tyres, Mr.C.S. Rao, Chairman, IRDA, Mr.P. Murari, Advisor to President, FICCI and Mr.N. Rangachary, Chairman (Retd.) IRDA.

Change of Address ?

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Dear Editor

Agents' Compensation

For every problem the cause lies in its roots. The same holds true of the compensation system of our marketing people.

First of all, the commission structure followed by the insurance companies, especially in life insurance, is like a mountain. The first year the commission is at its peak at 35 to 40 per cent, to a sudden drastic low in next few years to as low as five per cent.

It is said that a high commission is paid initially to encourage the new agents to get more business. For doing this, agents offer more rebates to consumers, break laws and thus create havoc. This is where our second problem lies. Offering of huge rebates as high as one year's premium by agents has spoilt the insurance sector.

Our own industry leaders have encouraged rebates to get more business. It is same as our political system where the leaders assure us freedom from poverty, corruption, etc., but are themselves so corrupt that we should ask how they can assure us that they will eliminate corruption.

So it is first the senior officers who should stop pumping agents to offer rebates so as to create a healthy environment in this evergreen sector.

So, the objective should be: more freedom to insurance companies to decide the commission rates, clean minds of those in superior positions and IRDA taking action against the erring companies.

Here are few pieces of advice

Firstly, insurance companies should be given more freedom to decide commission structures, obviously with a ceiling to curb expenses. The existing commission structure is not ideal. It would be much better if a flat commission structure is implemented rather than 35 per cent in the first year and down to five per cent in the later years.

Secondly, more qualified people should be recruited to serve this service sector better and delight customers. It is not enough that the qualified are recruited only at the top management. Equally important are those at the lower cadres too. Agents, brokers and staff should be highly qualified to serve better and act fairly.

Finally, IRDA, the giant, should come forward to educate consumers, promote the industry, recruit and appoint better people, bring a level playing field, and last but not the least, take strict action and penalise the culprits.

Nitin Bhandari
an agent of LIC and a
student of ICRIM (ICFAI)

What about Risk Management?

First let me congratulate you on your excellent journal. It is very rare to see a Government Journal so well brought out and thought-provoking.

One observation I have is that you have not carried any article/ feature on Risk Management.

As you can appreciate Risk Management is an integral part of insurance business and world over insurance companies promote this in a big way. It is happening in some way in India but not to the extent that its impact is felt everywhere, I feel in the larger interest of Industry this particular discipline needs to be encouraged and all stake holders should actively contribute.

N.V. Subbarao
CholaAXA

The article 'Consumer Has Recourse' (**IRDA Journal**, July, 2003, page 9) elucidated the issues regarding consumer rights under the Insurance Ombudsman Scheme very clearly.

I thank your Legal Department for going into such detail so that consumers like me who are seeking justice at consumer forums and with ombudsmen are better informed about our rights.

Please publish more such articles that provide insights on how to be better customers and establish our rights and responsibilities.

Keep up the good work!

Vandana Deve
Varanasi

Have your say!

Questions, comments or just your reflections on what we published. We would like to hear them, and so would our thousands of readers. Write them down and send to:

Editor, IRDA Journal,
Insurance Regulatory and Development Authority,
Parisrama Bhavanam, III Floor, 5-9-58/B, Basheer Bagh,
Hyderabad 500 004 or e-mail us at irdajournal@irdaonline.org

(Rebating) is more a problem in India than other developing markets. In my 30 years of experience in the industry, I don't remember another time when a regulator itself put ads in newspapers to tell the people of the problem.

Mr. Gary G. Benanav , Chairman and CEO, New York Life International Inc.

Litigation, natural catastrophes, terrorism – three broad areas where insurance has a part to play – rebuilding, repairing and protecting those who risk all on new ventures.

Some of these risks are new, others centuries old. But progress requires change, and to change you must be prepared to embrace risk.

Lord Peter Levene, Chairman, Lloyd's of London, about the changing nature and impact of risk.

Because of the presence of the LIC, the public is returning to the new UTI schemes again and there is considerable improvement.

Mr. S. B. Mathur, Chairman, LIC, on LIC being entrusted along with three banks with the responsibility of running the UTI-II schemes.

...the view is strong in the industry that (setting appropriate risk prices) is no longer a cyclical change – it is a fundamental structural change.... (because) not only do you make a loss on your original business if you underprice it, you also have to find more capital to put in, which is not easy to explain to shareholders.

Insurance Australia Group Chief Executive Michael Hawker reflecting on Australian Prudential Regulatory Authority's (APRA) capital penalty – following the collapse of HIH Insurance – if insurers underprice risk.

I have a leasehold obligation requiring me to pay the Port Authority $120 million a year in rent and an obligation to replace the 10 million square feet at the trade center. I have an insurance policy. All of this puts me in a position to rebuild. We're going to move forward and do something we can all be proud of.

I really feel we have an obligation to rebuild. If we don't, the terrorists will have won.

Larry A. Silverstein, lessee of the World Trade Center, New York, who has sued his insurers to get $ seven billion following the terrorist attacks on September 9, 2001.

If current market conditions continue, no insurer will cut the rates it guaranteed (to customers).

Japan's Life Insurance Association's head Tomijiro Morita, commenting on rising Japan markets shortly after a law was passed in Japan allowing insurers to cut their yields to customers.

RNI No: APBIL/2002/9589

Events

August 4-9, 2003
Venue: Pune
Data Warehousing and Data Mining
by National Insurance Academy (NIA)

August 11-16, 2003
Venue: Pune
Pension & Group Insurance Business by NIA

August 18-19, 2003
Venue: Mumbai
4th Conference on Bancassurance & Alternative Distribution Channels,Choosing the Right Bancassurance Business Model
by Asia Insurance Review

August 21 – 22, 2003
Venue: Bangalore
5th Asia Pacific Conference & Exhibition on IT & E – Applications in Insurance IT & E – Applications to Boost Business & Efficiency – Getting Beyond the Hype & Mantras to Exploit the Right Technologies Best suited to your Business
by Asia Insurance Review

September 1-6, 2003
Venue: Pune
Reinsurance Management by NIA

September 1-6, 2003
Venue: Pune
C.D. Deshmukh Seminar on Group Insurance and Social Security Schemes – A Global Perspective
by NIA

September 2-4, 2003
Venue: Kuala Lumpur
2nd Asian Conference on Claims Management in Insurance with a One day Workshop on Motor Insurance

September 8-13, 2003
Venue: Pune
Actuarial Practices in Life Insurance by NIA

September 15-20, 2003
Venue: Pune
Financial Risk Insurance and Insurance Derivatives by NIA