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TAKING STOCK

बीमा विनियामक और विकास प्राधिकरण

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From the Publisher

Evaluations can be exhilarating and sobering at the same time. As promised in the last issue of **IRDA Journal**, this issue carries an evaluation of the three years of liberalisation by the stakeholders of the insurance industry.

What has emerged is a frank inventory of the path the industry, including its regulation and policy, has tread in these months, the obstacles and pitfalls encountered and strong advocation of, and suggestions for, their correction.

A hundred metre dash does not give enough space to look back to see how far we have come. But operating in the insurance industry is not a short race. It's a marathon and three years is only the beginning of the beginning. It is, however, well worth the effort to look back to see whether we are on the right track.

Some things emerge. The Regulations are clear and the way they have been made transparent and fair. Professionalisation, new intermediaries and other enabling regulatory moves have boosted the morale of the industry.

The new players have taken their work seriously and are steadily increasing their market share. But there are worries too, the market is not necessarily widening, so the competition has not yet become intense, especially among the new players.

You will read in this issue the concerns expressed by many in the industry. Market conduct issues are worrying, some Regulations and Government policies are constraining and these need to be looked into. In the case of non-life companies, the continuing underwriting losses and unbridled management expenses are added worries. Health insurance is still trapped somewhere, unwilling to emerge and provide shelter to the people. The readiness, effectiveness and ability of the older public sector players to compete against the energetic new entrants will be a deciding factor for stability in the markets in the years to come. These are some of the concerns that have emerged and will continue to engage the attention of the Regulator.

Cautions have been sounded, against unbridled market share acquisition, against short sighted investment objectives, against forgetting the focal point of it all – the customer…..

These are things the industry should tackle through self-regulation and by working to develop professional practices with the objective of long term stability and profitability. The Regulator will watch the process and see them operationalised with the interest of the customers foremost in mind.

We should become a learning industry and when we look back on four years of liberalisation there should be the satisfaction of having put into practice most of the wisdom that has emerged today from the industry itself. Our collective aim should be to develop a healthy insurance industry and ensure complete customer satisfaction.

C.S. Rao

C.S.RAO

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Reflections

It has been a great one year, developing a communications forum for the industry and getting a feel of what it thinks and does.

It is with that satisfaction that we bring you this annual special issue that takes stock of three years of liberalisation. We have tried to bring you opinions and thoughts from every sector of the industry and a few from outside it. We hope you will find it enjoyable, useful and thought provoking.

The Indian insurance industry has come to be characterised by an openness in expressing its views and accepting and demanding debate as part of the process of doing business and being regulated. Not the smallest contributor to this has been IRDA itself, which has taken the lead in creating opportunities to listen to the industry and all stakeholders and taking on communication as a critical role of a Regulator charged with a development function as well.

What this issue of the Journal does is to capitalise on that and take it forward. There was a moment of delight when, in the course of inviting articles - and nearly everyone in the industry was invited – we suggested they write frankly, and they wondered why they had to be told!

This to my mind is the strength of the industry and one that it will do well to preserve and grow.

Three years is hardly anything in the life of an industry that is based on large numbers and used to working out decades of experience and projecting them for the future. But formative years are important and the looking back has thrown up interesting points of satisfaction and equally remarkable points of unhappiness. Not that some of them were unpredictable, but the willingness to talk about what is going wrong is always significant.

So we have on the positive side the strong regulations, transparent entry and prudential norms and an open environment. On the negative side issues are emerging relating to market conduct and a disappointing market penetration and growth of the market size. Add to this issues that could be perceived very differently like the constraints (prudence!) in investment Regulations or the oppression (safety!) of tariffs and we see the characteristics of a market that is growing up (if not yet growing, exactly!). Read what industry members and observers have to say. It's quite some food for thought….. The issue is divided into sections that will give you Overviews and Workings, in addition to sections on industry sectors. Overviews are usually by sectorwide players or industry observers while the Workings section, life, non-life and reinsurance are company specific. We hope you will be able to savour the range of opinions and thoughts we have tried to present to you.

As I said, it's been a great first year, and I look forward to increasing and deepening the communications method that we have created together. For nothing could have been possible without you readers – who are part of an industry that thinks and works the way we do.

Thank you!

K. Nitya Kalyani

Our Daily Bread

K. Nitya Kalyani

It may be apocryphal, or may even be a joke, when your friend tells you that his son thinks that vegetables come from the supermarket! But this could be so true. There is the discomfort of the knowledge that most of us in urban India have no clue about the pains and problems of raising a crop – specially a staple crop – and making a living out of it.

Equally true is that most of us, even in the insurance industry, hardly know anything about farming and raising crops, the financial and emotional hardships and risks involved in the process that somehow, miraculously ensures we get our daily rice or rotis. We hardly know anything even about their insurance!

By all accounts it's a bad business to be a farmer in India raising staple crops. The smaller you are the worse it is. Your inputs are controlled either by the Government or by your own finances or the weather gods. And your output is bought up on the basis of administered prices or by the all encompassing middle man. You never quite get out of the control regime, never mind we are in the second decade of economic reforms and there are 15 year olds who have never heard the words 'industrial licence.' It's no surprise that someone said if any industry were to be run with the constraints that agriculture is under, all the industrialists would shut shop and go home.

That the Indian farmer unquestioningly considers it his dharma to continue to raise staple crops is the only saving grace for the rest of us.

Food is a very emotional thing. That we had to go abegging for it in the 70s was one of the low points in Indian contemporary history. And that we worked to a passionate plan and set it right determinedly is one of the achievements of any economy, and especially one that has the problems that we have.

The next green revolution is waiting to happen. It's waited too long if you really think about it. This time around it should aim at making the job of raising crops a financially viable one supported by technology and the risks managed with financial tools including a proper and viable insurance scheme. That security will be the nation's prime security.

Not that there is no insurance scheme in place now. The pilot crop insurance scheme in the early eighties became the National Agricultural Insurance Scheme in 1999 and is being reborn as the Farm Income Insurance Programme (FIIP) which promises to be more extensive. In addition to yield shortfalls it will also cover price fluctuations. The Agriculture Insurance Company of India has been registered with the IRDA and is to soon commence operations offering this and other schemes.

But in many ways the crop insurance initiatives suffered from problems similar to the predominant health insurance scheme. The product was not actuarially priced and there was every possibility of adverse selection (even when the block model was followed). The pricing was controlled and subsidised, and in the case of the crop scheme, it was a government scheme rather than an insurance industry scheme. And Political meddling never helps.

Any real protection – especially on a sustained and reliable basis – will come only from a commercially viable scheme, and crop insurance is no different.

In the next issue of **IRDA Journal** we take a look at the activity of raising crops, the financial protection in the form of crop insurance, and the challenges in this activity.

If you want to write about it, you know where to reach us!

CROP INSURANCE

In our next issue...

Write to us!

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Mr. Mathew Verghese joined IRDA as Member (Non-life) in early November. The 1967 recruit to New India Assurance Company as Regional Engineer in the Chennai office, Mr. Verghese retired from the company on deputation in Kenya as Managing director and Principal Officer, Kenindia Assurance Company Ltd. in September this year.

Kenindia, a subsidiary of New India was, like the insurance industry in Kenya, going through one of its worst periods in 2001 when Mr. Verghese arrived in the land of the lion safari.

The reason? Unhealthy competition. Undercutting was rampant and companies could not pay claims or collect premiums. Having worked themselves into a spiral of dwindling revenues and, certainly, profits, the industry was in bad shape to say the least.

His solution was self discipline. "Being the largest company in the market, if we did something the others would have no choice but to follow, it is inevitable," he reasoned. And though this met with stiff resistance from his own executives, he set out norms for premium quotation and collection and for claims payments.

And it had a ripple effect. For one thing Kenindia turned around to make a profit in the very first year after he took over . But what is more, the market returned to stability with other companies also following suit and "the regulator's job was easier," he says.

Now, on the other side of the table, Mr. Verghese is ready to apply the experience again here.

Self discipline is the first thing that comes to his mind when asked about his agenda for the Indian non-life industry. IRDA has made a good beginning by putting out one of the best Regulations. There are teething troubles in the market and these will be corrected as we go along.

Supervision and inspections go a limited way he says. But the crux of the Regulator's job is to draw out the maximum possible information, evaluate it and advise the industry for correction.

As for really healthy development, "I think it's better they believe in self discipline," is his stand. Problems of the industry need to be sorted out by the companies. And IRDA has to see to it that the insurance companies run their business in such a way that the latter take on this responsibility.

What are his concerns about the industry as he sees it today? Rampant growth in management expenses and an unpreparedness for detariffing, which is around the corner.

ON BOARD!

Containment of management expenses is an area in which the IRDA has a very important role to play according to him. But right now it's a public sector problem and the cost cutting that will result from voluntary retirement scheme (VRS) is likely to be able to take care of it.

As for detariffing he says, new companies have been around for two years on an average and they have collected and mined their data. The public sector companies which have not done so yet have another 18 months or so to do it. So all of them can have indicative statistics to quote rates by when OD detariffing arrives. But that may not be a sufficient level of preparation. "We have to get them to share statistics on an industry-wide basis," he believes.

This is part of his vision that public sector companies should become more transparent. The IRDA has to step in immediately and get industry-wide statistics developed at least in one state and one metro to begin with on a pilot basis.

Meanwhile instances of breach of tariff have to be dealt with severely, he says. "A simple fine is not enough. The penalty should be sufficient to stop them from doing it again."

Apart from that Mr.Verghese believes in minimalistic supervision and more of development work. "Our role is to spread insurance coverage to reach everywhere." Health insurance is a case in point.

The 60 year old Mr. Verghese has a homemaker wife who, he says, has perfected the art of moving with him and getting things going at home in a jiffy! His two sons work in the financial sector, one in Mumbai and one in the US. His daughter, who is in human resources development, works in Bahrain.

And when not working you could find him playing a round of golf, a game he learnt during his three years in Kenya. Apart from his daily morning badminton game of course!

Report Card:LIFE

An analysis of the performance of the life insurers for the month ended 31st October, 2003:

A synoptic view of the performance of the thirteen life insurance players in the industry is given below. The trends indicated below are based on the first year premium figures (including single premium) of the insurers.

By October 2003, the life insurers had underwritten first year premium of Rs.6,66,833.97 lakhs towards 1,05,96,575 policies. Of this, individual business accounted for Rs.5,44,236.76 lakhs for 1,05,89,573 policies. The group business accounted for Rs.1,22,597.21 lakhs for 7,002 policies.

The private insurance players have captured 11.24 per cent of the total market, where as the LIC still enjoys 88.76 per cent share of the market.

Analysis of individual business statistics further reveals that LIC accounted for 87.63 per cent of the business in terms of premium and 94 per cent in terms of policies. As against this, the private insurers captured 12.37 per cent of the premium and six per cent of the policies. In terms of group business, LIC captured 93.74 per cent of the premium and 93.84 per cent of the policies. The twelve private insurers captured 6.36 per cent of the premium business and 6.26 per cent of the policies underwritten during the period for group business. Further, in terms of the percentage of number of policies, up to October, 2003 LIC tops the list with 94.23 per cent, leaving the twelve private insurers accounting the remaining 5.77 per cent.

A review of the performance of the private players further reveals that ICICI Prudential continued to lead with a 3.70 per cent market share of the premium underwritten and 1.29 per cent of the number of policies, followed by Birla Sunlife in terms of premium and Tata AIG in terms of number of policies. In terms of number of lives covered under the various group schemes, SBI Life led with 22.54 per cent, followed by Max New York Life at 11.02 per cent.

First Year Premium – October 2003

(Rs. in lakhs)

	Insurer	Premium u/w		% of Premium	No. of Policies/Schemes		% of Policies	No. of lives covered under Group Schemes		% of lives under Group Schemes
		Oct.	Upto Oct.	Upto Oct.	Oct.	Upto Oct.	Upto Oct.	Oct.	Upto Oct.	Upto Oct.
1	**Allianz Bajaj**	1,105.01	5,822.72	0.87	13,403	80,859	0.76	6,277	24,548	1.46
	Individual Single Premium	5.39	258.86	2.57	13	674	2.26			
	Individual Non-Single Premium	1,089.27	5,531.48	9.66	13,378	80,156	13.80			
	Group Single Premium		0.76	0.03		1	0.91		781	
	Group Non-Single Premium	10.35	31.62	0.64	12	28	8.72	6,277	23,767	
2	**ING Vysya**	414.16	1,672.34	0.25	6,510	26,849	0.25			
	Individual Single Premium	0.15	18.99	0.19	22	2,795	9.39			
	Individual Non-Single Premium	414.01	1,653.34	2.89	6,488	24,054	4.14			
	Group Single Premium									
	Group Non-Single Premium									
3	**AMP Sanmar**	151.23	807.19	0.12	2,785	16,342	0.15	7,310	37,383	2.22
	Individual Single Premium									
	Individual Non-Single Premium	133.32	723.24	1.26	2,783	16,331	2.81			
	Group Single Premium									
	Group Non-Single Premium	17.91	83.95	1.69	2	11	3.43	7,310	37,383	
4	**SBI Life**	1,146.12	4,428.88	0.66	11,393	26,705	0.25	48,293	3,79,782	22.54
	Individual Single Premium	287.52	753.18	7.49	4,303	5,023	16.88			
	Individual Non-Single Premium	307.18	1,055.48	1.84	7,054	21,530	3.71			
	Group Single Premium	515.71	1,754.10	65.04	1	15	13.64	4,481	17,917	
	Group Non-Single Premium	35.71	866.12	17.43	35	137	42.68	43,812	3,61,865	
5	**Tata AIG**	1,619.54	7,923.68	1.19	17,993	81,298	0.77	17,196	87,702	5.20
	Individual Single Premium									
	Individual Non-Single Premium	1,421.94	6,426.19	11.23	17,988	81,259	13.99			
	Group Single Premium	50.18	245.70	9.11		1	0.91	11,573	55,247	
	Group Non-Single Premium	147.43	1,251.80	25.19	5	38	11.84	5,623	32,455	

(Rs. in lakhs)

	Insurer	Premium u/w		% of Premium	No. of Policies/Schemes		% of Policies	No. of lives covered under Group Schemes		% of lives under Group Schemes
		Oct.	Upto Oct.	Upto Oct.	Oct.	Upto Oct.	Upto Oct.	Oct.	Upto Oct.	Upto Oct.
6	**HDFC Standard**	980.14	7,598.72	1.14	8,742	79,909	0.75	2,497	24,414	1.45
	Individual Single Premium	367.56	2,712.70	26.98	736	6,246	20.99			
	Individual Non-Single Premium	575.82	4,589.22	8.02	7,999	73,601	12.67			
	Group Single Premium	36.76	296.80	11.01	7	62	56.36	2,497	24,414	
	Group Non-Single Premium									
7	**ICICI Prudential**	6,123.33	24,642.69	3.70	23,984	1,37,133	1.29	1,549	8,123	0.48
	Individual Single Premium	1,436.00	5,241.00	52.13	1,088	5,377	18.07			
	Individual Non-Single Premium	4,592.00	19,205.00	33.55	22,888	1,31,725	22.68			
	Group Single Premium	95.33	196.69	7.29	8	31	28.18	1,549	8,123	
	Group Non-Single Premium									
8	**Birla Sunlife**	1,643.93	9,885.19	1.48	11,906	48,997	0.46	11,226	22,269	1.32
	Individual Single Premium	98.74	571.85	5.69	3,940	8,983	30.18			
	Individual Non-Single Premium	1,296.59	7,213.45	12.60	7,958	39,988	6.89			
	Group Single Premium	36.78	202.84	7.52				268	1,522	
	Group Non-Single Premium	211.82	1,897.05	38.17	8	26	8.10	10,958	20,747	
9	**Aviva**	575.12	2,789.42	0.42	4,773	31,936	0.30	6,038	26,348	1.56
	Individual Single Premium	47.19	173.39	1.72	54	314	1.06			
	Individual Non-Single Premium	525.49	2,605.82	4.55	4,718	31,616	5.44			
	Group Single Premium									
	Group Non-Single Premium	2.44	10.21	0.21	1	6	1.87	6,038	26,348	
10	**OM Kotak**	633.93	3,256.86	0.49	3,738	20,280	0.19	5,951	40,162	2.38
	Individual Single Premium	15.66	208.52	2.07	20	144	0.48			
	Individual Non-Single Premium	613.51	2,599.60	4.54	3,715	20,120	3.46			
	Group Single Premium									
	Group Non-Single Premium	4.75	448.74	9.03	3	16	4.98	5,951	40,162	
11	**Max New York**	896.20	5,264.12	0.79	8,184	51,444	0.49	2,755	1,85,706	11.02
	Individual Single Premium	51.01	96.37	0.96	20	91	0.31			
	Individual Non-Single Premium	832.09	4,803.04	8.39	8,159	51,297	8.83			
	Group Single Premium									
	Group Non-Single Premium	13.11	364.71	7.34	5	56	17.45	2,755	1,85,706	
12	**MetLife**	151.98	876.40	0.13	1,709	9,204	0.09	1,635	6,022	0.36
	Individual Single Premium	2.33	18.51	0.18	20	115	0.39			
	Individual Non-Single Premium	143.95	842.70	1.47	1,688	9,086	1.56			
	Group Single Premium									
	Group Non-Single Premium	5.70	15.19	0.31	1	3	0.93	1,635	6,022	
	Private Total	**15,440.69**	**74,968.21**	**11.24**	**1,15,120**	**6,10,956**	**5.77**			
13	**LIC**	1,07,803.21	5,91,865.76	88.76	17,43,843	99,85,619	94.23	3,74,887	16,84,976	100.00
	Individual Single Premium	5,036.93	28,562.85	73.97	7,145	45,184	60.29			
	Individual Non-Single Premium	83,188.63	4,48,371.97	88.68	17,35,344	99,33,864	94.48			
	Group Single Premium	19,577.65	1,14,930.94	97.71	1,354	6,571	98.35	3,74,887	16,84,976	
	Group Non-Single Premium									
	Grand Total	**1,23,243.90**	**6,66,833.97**	**100.00**	**18,58,963**	**1,05,96,575**	**100.00**	**3,74,887**	**16,84,976**	**100.00**

Report Card:GENERAL

Growth rates hit a low

G. V. Rao

Performance in October 2003

The performance of the general insurance companies in the month of October 2003 has hit a relatively new low of 8.7 per cent growth (Rs. 96 crores accretion) from the previous growth rates of 13.2 per cent in September 2003 (Rs. 142 crores accretion) and 11.4 per cent growth in August 2003 (Rs. 117 crores accretion). Both the public and private sector players seem to be gasping to push up stronger growth rates.

The public sector players have increased their premium volumes by Rs. 40 crores (3.9 per cent growth rate) and the private sector players by Rs. 56 crores (48 per cent growth rate) in October. While the quantitative increases in each month can vary, the growth rate in each month is an indicator of the cumulative results of the market to boost premium volumes. What is more significant in the performance of October is the apparent slow down in the energetic performance of the private sector companies one was witnessing in the past. Hopefully it is not likely to be a trend.

Sooner than later, the private sector players will have to put in place strategies aimed not at winning the existing accounts of the public players but at diversifying their market penetration as a whole. Retention of accounts won at a heavy cost and administering and servicing them would divert executive time from marketing. The private players in future would have to turn their attention to working in the unorganised and underserved markets.

The growth rate of 8.7 per cent in October 2003 has also to be evaluated in terms of the host of bank tie-ups announced by insurers, increased auto sales, introduction of brokers/ corporate agents to stimulate market demand for insurance covers and sale of Government sponsored Universal Health Insurance Scheme. What has happened to all these initiatives? Are the insurers doing enough to raise the levels of risk awareness or are they merely content to compete in the markets organised and established?

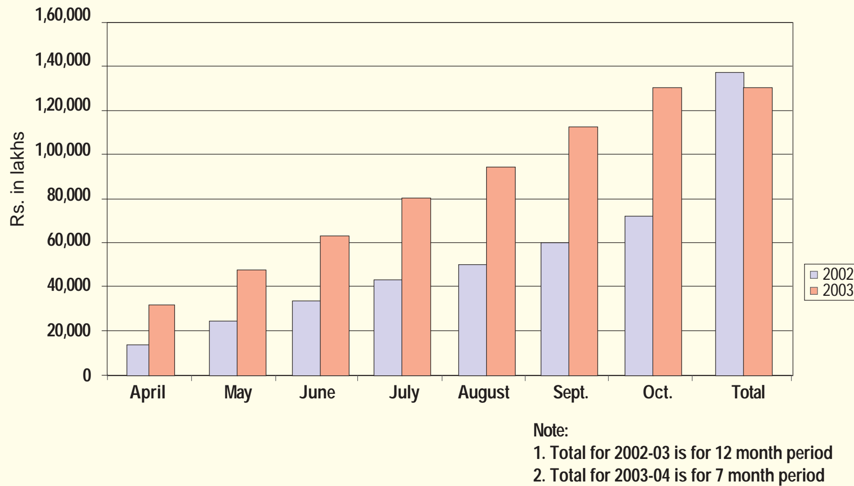
Among the public sector players, National Insurance continues its march with a growth rate of 21 per cent with the aim of reaching the top slot of the team. New India and Oriental have lost further ground by dropping premium volumes by a small margin in October. They seem to be on a path of consolidation.

Among the private sector players, ICICI Lombard with an accretion of

Gross Premium Underwritten – October 2003

(Rs. in lakhs)

Insurer	Premium 2003-04		Premium 2002-03		Market share upto October, 03	Growth % Year on Year
	For the month	Upto the month	For the month	Upto the month		
Royal Sundaram	1,680.05	14,902.42	1,408.70	10,317.45	1.60	44.44
Tata-AIG	2,350.78	21,751.89	1,953.57	13,556.75	2.33	60.45
Reliance General	1,153.91	9,246.41	1,689.95	10,300.69	0.99	-10.24
IFFCO-Tokio	2,038.68	18,808.19	2,412.87	12,610.48	2.02	49.15
ICICI-lombard	4,073.67	27,559.29	1,650.22	8,926.56	2.96	208.73
Bajaj Allianz	3,973.81	25,780.37	2,579.21	15,366.34	2.77	67.77
HDFC Chubb	1,147.05	4,742.23	28.97	28.97	0.51	16,270.14
Cholamandalam	872.03	5,227.40			0.56	
New India	30,584.00	2,25,616.00	31,450.00	2,23,926.00	24.21	0.75
National	26,360.00	1,93,263.00	21,752.00	1,66,400.00	20.74	16.14
United India	22,528.00	1,88,158.00	21,981.00	1,81,826.00	20.19	3.48
Oriental	22,696.00	1,72,788.00	22,966.00	1,69,935.00	18.54	1.68
ECGC	3,619.08	23,893.69	1,943.31	17,725.92	2.56	34.80
PRIVATE TOTAL	**17,289.99**	**1,28,018.20**	**11,723.49**	**71,107.24**	**13.74**	**80.04**
PUBLIC TOTAL	**1,05,787.08**	**8,03,718.69**	**1,00,092.31**	**7,59,812.92**	**86.26**	**5.78**
GRAND TOTAL	**1,23,077.07**	**9,31,736.89**	**1,11,815.80**	**8,30,920.16**	**100.00**	**12.13**



Rs 24 crores is at the top of the heap followed by Bajaj Allianz with Rs. 14 crores. IFFCO-Tokio and Reliance have dropped on their monthly premiums of October 2002. Royal Sundaram and Tata AIG have moderate accretion levels of Rs. three and four crores respectively.

ECGC

ECGC a public sector company has done well by recording an accretion of Rs. 16 crores on a base of Rs. 19 crores, quite an impressive performance.

Performance up to October 2003

The slowdown of growth rate in October 2003 of 8.7 per cent has brought the overall growth rate at the end of October 2003 to 11.6 per cent from the previous level of 12.4 per cent at the end of September 2003. Out of the total accretion of Rs. 950 crores, bringing the market level premiums to Rs. 9100 crores at the end of October 2003, the public players have contributed Rs. 380 crores (five per cent growth rate) and the private players Rs. 570 crores (80 per cent growth rate). National Insurance alone among the public players has contributed Rs. 270 crores.

Among the private players ICICI Lombard has so far recorded an accretion of Rs. 187 crores, Bajaj Allianz Rs. 103 crores, Tata AIG Rs. 83 crores, IFFCO-Tokio Rs. 62 crores and Royal Sundaram Rs. 46 crores. The private sector's market share seems to be stabilising at around 14 per cent.

ECGC has performed remarkably by recording an accretion of Rs. 51 crores with a growth rate of 35 per cent. Its performance in October 2003 has strengthened it further.

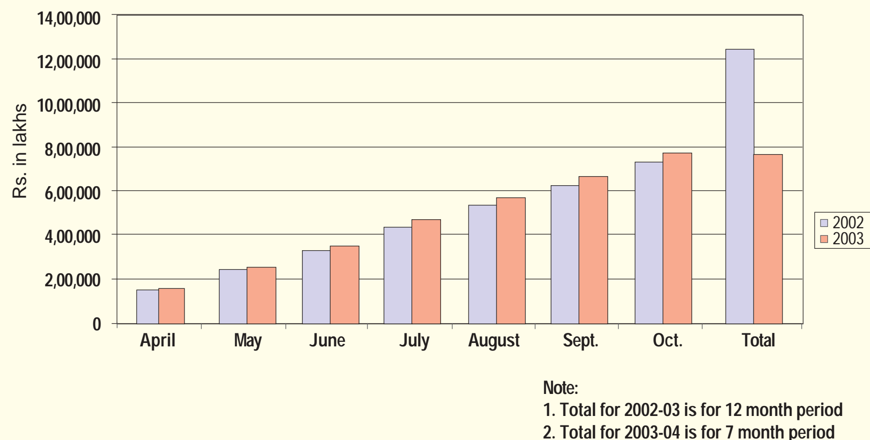
A Final Comment

Is the growth rate for the month of October of 8.7 per cent likely to be a future trend? Is the growth rate of 11.6 per cent at the end of October 2003, an indication of very tough competition for existing available business with inadequate efforts made at market expansion by the players? Was the growth rate of 21.5 per cent in 2002 - 03 a flash in the pan due to external market stimuli? What difference have the brokers/ corporate agents made to the market expansion?

The public sector players will surely have their management costs at a much higher level than in 2002 - 03 due to the poor growth in premium volumes. The private sector players will have tougher task on hand to maintain the zooming growth rates of the past. Their priorities have to change to one of organising new markets.

The present competitive zeal among insurers to fight for the renewals of each other will have to yield place to the creation of new markets in personal lines, rural insurances and selling more to existing customers. Marketing insurance covers, and not merely competing for and managing the available business, is the need of the market.

The author is retired CMD, The Oriental Insurance Company.



More Than Rocket Science!

M. P. Modi

The Committee on Reforms in the Insurance Sector (commonly known as the Malhotra Committee) made a major recommendation in its report submitted on January 7, 1994: that there was an urgent need to activate the insurance regulatory apparatus even in the then prevailing set-up of a nationalised insurance sector. A strong, effective, autonomous, compact and highly professional statutory body with independent source of funding should be established.

Government (wisely) decided to do so, even though the powerful trade unions were opposed even to this move.

In a short span of four years as a statutory body, IRDA can legitimately clam to have achieved glorious success in smoothly ushering in competition without any controversies and creating a sound and fair modern regulatory environment. The transparent and impartial process of licensing new entrants after decades of Government monopoly straightaway earned it great respect.

The Malhotra Committee (I was its Member-Secretary, and also Special Secretary, Insurance) envisioned IRDA to be modelled on the Securities and Exchange Board of India (SEBI), because that was a recent regulatory model.

It was recognised that there was no single "globally accepted model of regulation. Each country has its own laws and regulatory arrangements depending upon its experience, administrative capabilities and socio-economic and political preferences. These vary from tight regulations controlling virtually every aspect of insurance business to liberal off-site supervision."

In our context it was clear that the Indian regulatory requirements would be stringent, at least to start with, having due regard to the objectives of creating a healthy, orderly and competitive industry. In this respect too, IRDA's achievements are noteworthy.

Post liberalisation, the range of insurance products has expanded. The unbundling of products allows consumers to follow a modular approach. Unit linked products are gaining fast popularity; health related products are widely available, customer service has improved with information technology (IT) induction. Insurers have been made to set up internal grievance machineries and the Insurance Ombudsman system has been introduced. These are major positive developments, facilitated and encouraged by a proactive and accessible IRDA.

Consumer protection is central to insurance regulation and supervision. While maintenance of the insurer's solvency is a principal objective, there are other aspects, such as fair premium rates, equitable allocation of profits between policyholders and shareholders, and among different groups of policyholders, good value for money, and speedy claims settlement. Sometimes the objectives might be conflicting, as in the matter of prescribing solvency requirements. Herein lies the challenge and opportunity for the Regulator to develop a vibrant and solid industry having a small number of players.

Prescribing solvency requirements is a balancing act: low requirements will not allow the Regulator enough time to intervene; high margins will require high capital with higher costs to consumers.

In this context there are several aspects which merit IRDA's consideration; these include quality of training of agents; solvency margins; data building; taxation and unified insurance legislation.

The last one – unified law – is a crying need. There is a plethora of laws and regulations generated by demands of expediency to an extent, so widely dispersed and out of date that many provisions are inconsistent with the requirements of a contemporary competitive industry. While this falls squarely in the province of Government, there would be little progress without IRDA's determined pursuit. The provisions for subordinate legislation should be considerably enlarged.

Similarly, a great deal remains to be done in the matter of taxation in insurance industry. In life insurance, tax laws are still based on the LIC model of a single fund. In general insurance, there are issues relating to reserving with tax implications. Life insurance in particular is a long-term business; general insurance business can have long-tail claims too. The need for a long-term stable tax regime is self-evident. Moreover, for unit linked products appropriate tax provisions are necessary. IRDA is well positioned to recommend to Government suitable changes.

Prescribing solvency requirements is a balancing act: low requirements will not allow the Regulator enough time to intervene; high margin requirements will require high capital with higher costs to consumers without any additional significant protection. The control level solvency margin requirements (perceived to be high at present) may be reviewed from time to time in this perspective. This is entirely within the domain of IRDA.

A great deal has been achieved in the field of training of agents. They play a vital role as intermediaries in facilitating informed decision-making by consumers. The number of new agents is slated to grow rapidly. Many educational institutions are offering a variety of newly structured courses in insurance. The quality of training and education needs to be subjected to continuous scrutiny. Development of alternate channels is being encouraged, which would require considerable nurturing.

Reasonableness of insurance premium rates can be judged, inter alia, on the basis of purity of data maintained

by the insurance companies. Data building suffered immensely during the decades of state monopoly.

In general insurance, the situation was pathetic. The data supplied by the general insurance companies to the Tariff Advisory Committee (TAC) was often incomplete and outdated and, over the years, the system has almost broken down. In life insurance the time lag in bringing out mortality tables was rather large. IRDA deserved credit for revitalising the TAC, and supporting measures for continuous mortality investigation. This is an area which would require focused attention without interruption.

Even after three years of liberalisation, rural and social sector insurance is not viewed beyond the requirements of regulatory compliance. The share of the private sector in terms of premium and policies is still small. Yet the public sector giants are feeling the heat of competition; the critical issue of ownership of these entities has not yet been touched. Erosion in the value of these enterprises is clearly visible. Regulatory concessions may have to be made for reasons of ownership.

If the transition to change is prolonged, some of these entities have the potential of becoming monumental problems. IRDA could sound the Government in good time; after all it is has a responsibility to protect insurance companies from drifting towards unsustainable operations.

It has been said that guiding (regulating) financial institutions, including insurance companies, is a lot harder than doing things like launching spaceships which obey the laws of Newtonian mechanics that are well understood. The overall structure of all but the simplest financial institutions is very complex. IRDA has done well in developing the insurance sector and has amply fulfilled the expectations of those who prepared the road map to liberalisation.

The author is Director, ICICI Prudential Life Insurance Company. The views expressed here are his own.

Vacancies!

A. K. Venkat Subramanian

The Government of India, in exercise of powers conferred on it by Insurance Act, 1938, framed the Redressal of Public Grievances Rules, 1998, to provide a forum for resolving disputes and complaints from the insured public against insurance companies. These rules came into effect on November 11, 1998. To resolve the complaints of the insured relating to settlement of claims on the part of insurance companies in a cost effective, efficient and impartial manner, offices of the Insurance Ombudsman were set up in 1999. At present, there are 12 ombudsmen covering all parts of the country.

On the basis of the experience gained since establishment of the Insurance Ombudsman Scheme, the Government of India has also constituted an Advisory Committee in April 2003, to review the working of the scheme and advise the IRDA in this regard. The committee has met twice so far.

The unique feature of the Insurance Ombudsman Scheme is that the awards and orders of the Ombudsman are binding on the insurance companies while the insured, if not satisfied with the award or order can go to other redressal fora.

The only restriction in approaching the Ombudsman is that only individual policyholders who have taken insurance on personal lines will be covered. Further any complainant whose complaint on the same subject matter is already before a court/consumer forum/ or arbitrator or was decided by any such forum cannot approach the Ombudsman.

Despite many attractive features the Ombudsman Scheme is not well known to the insured public.

Despite many attractive features like cost effectiveness and speedy disposal with certain finality, the Ombudsman Scheme is not well known to the insured public. The total number of complaints with the Ombudsman during the year 2002-2003 was only 6,379, life insurance cases being 2,481 and general insurance 3,898. Of these, the total number disposed was 4,414; life cases being 1,917 and general cases 2,497. A majority of the cases under non-life relate to Mediclaim.

It is seen that the Ombudsman scheme needs further improvement. There has been delay in filling up the vacancies of Ombudsman as and when they occur. There is also certain avoidable rigidity in the procedure adopted for filling up the vacancies.

The Advisory Committee has suggested some remedial measures to the IRDA to ensure that the post of Ombudsman is not kept vacant unduly for a long time. The committee has also requested the General Body of Insurance Councils to bring out brochures in regional languages explaining the Ombudsman Scheme to the insureds in ordinary, simple and easily understandable terms.

It is hoped that in the coming years there will be greater awareness on the part of insured public about the scheme of Ombudsman and full use will be made of this speedy and cost effective scheme of redressal of disputes.

The author is Trustee, Catalyst Trust and Chairman, Insurance Ombudsman Advisory Committee.

A Reality Check

Naren N. Joshi

One of the key objectives of insurance liberalisation was to deepen the insurance markets by getting more and more consumers under its fold and improve on the product deliverable and customer servicing aspects of the business to bring it at par with international standards.

This would mean creating greater awareness amongst masses about the benefits and need for insurance. The general perception in the pre-liberalised scenario was that the seller rather than the buyer was calling the shots, and that insurance operations were not adequately customer-centric. The hope was that the competition in the market would move the consumer to centre-stage.

Has that really happened....

Despite a decade of economic liberalisation in India 'consumer awareness', 'consumer education' and 'consumer protection' are subjects on which a lot is talked, little is done and less achieved!

It is my considered view that in order to realise the promises of liberalisation, the focus has clearly to be on the consumer - to enable him take well informed decisions and make the right choices. The concept of risk management through the instrumentality of insurance needs to be sold much before an actual insurance product is sold. An extensive, vigorous and sustained consumer education campaign could lead to a more rapid expansion and deepening of the insurance market.

IRDA has already taken a lead by involving Prasar Bharati in its campaign. The industry leaders would do well to think of ways and means they need to adopt in order to respond to the consumers' growing appetite for more information and greater transparency in their dealings with them.

It would be fairly normal to say that induction of competition in this sector was expected to lead to a much better market penetration through development of newer markets, bring about qualitative upgradation and enrichment of the sales process, higher levels of professionalisation among the intermediaries, develop world class systems and processes, provide to the insuring public through convenient channels of distribution a fuller range of customised products which address all their perceived insurance needs to their satisfaction, adopt best market practices, be transparent and fair in dealings and keep the consumers regularly informed about the product details and other policy conditions.

Has that really happened....

FORTE (Foundation of Research, Training & Education in Insurance, promoted by FICCI and ING Insurance), in collaboration with IRDA, commissioned a qualitative research study with a view to developing an empirical base and some meaningful insights into the consumer experience prior to liberalisation, changes in expectations after liberalisation and perceived performance of insurance players vis-à-vis these expectations. The study was conducted in the five metropolitan cities of Delhi, Mumbai, Kolkata, Hyderabad and Bangalore. The trend revealed by the study indicates that the insurance companies need to do a lot more to come up to the expectations of consumers in terms of building trust and confidence.

The regulatory provisions protecting the policyholders' interests and the rules governing investment of funds need to be highlighted to help build trust in the new players.

The regulatory provisions protecting the policyholders' interests and the rules governing investment of funds also need to be highlighted to help build trust in the new players.

The consumers want real time response. They look for more knowledgeable and highly professional insurance agents and advisors. They expect prompt dispatch of premium receipts and policy documents, regular reminders about premiums due and complete, comprehensive and accurate information about the terms and conditions of the policy. And they do not want any devils in details.

They are quite unhappy about the claim settlement and grievance handling procedures. The level of dissatisfaction is pretty high in respect of claims under Motor and Mediclaim policies.

The good news, however, is that they have already seen some improvement in some of these areas of concern in so far as the life insurance sector is concerned. But the liberalisation does not seem to have made any impact on the non-life side, at least not at the retail level.

The Indian insurance sector has witnessed a slow and steady change. Post privatisation, one expected tremendous improvement in:

- Market expansion
- Product development
- Customer service
- Distribution channels

There indeed has been positive movement in almost all these areas. In fact in these early years of privatisation when the new players have started playing their role in the insurance sector, they have done relatively better than the new players in the other infrastructural sectors like banks and telecom companies.

Some of the specific areas that need closer look are as under:

Market expansion

Let us take up the life insurance sector. Thirteen companies are active in the life insurance market including LIC. The data pertaining to new business in the life insurance market is as follows:

Year	New Premium Income (In Rs. crores)	New Policies (In lakhs)
1999-00	499.90	172.10
2000-01	585.40	200.10
2001-02	747.50	235.50
2002-03	1,232.50	253.80

The market seems to be expanding and growing but only in depth and not the width of coverage. Also, whether these kinds of growth rates are sustainable in the long run without reaching out to newer

markets, remains to be seen. There has been no concerted effort on development of new markets, the overall insurance pie has not changed significantly.

The new players are not looking at development of rural markets as viable business propositions rather only for meeting the statutory requirements.

In the non-life sector, the challenge seems to be more daunting. Not only the retail market has not been impacted in any perceiveable proportion, the levels of awareness and also the standards of customer services, as perceived by the general public, are pretty low. The expansion in the rural sector also has been driven solely by regulatory compulsion.

Product Development

There certainly has been a plethora of new and innovative products offered by the new players although some other specialised products from their international product stable are not forthcoming e.g. health products. However, the expanding range of products can become meaningful only if accompanied by a massive consumer education campaign.

Customer Service

This is an area where new companies are clearly ramping up by bringing in their international best practices, operational efficiency through efficient use of technology etc. Customer servicing today has clearly become the focal point of insurance companies. There is a greater sensitivity in dealing with the customers. The public sector companies have also not remained far behind and are fast gearing up to these changes. However, a lot still needs to be done in this area as is evidenced through the FORTE survey. The real response and turnaround times in delivery of the services have to be got down to the customer expectation levels in specific areas like delivery of first policy receipt, policy document, premium notice, final maturity payment, death claim etc.

Advisors

The quality of advisors has certainly undergone a change in terms of their profile, education and approach to business, being more professional. 'Tax-based selling' of insurance is slowly being replaced by 'need-based selling'. However, as evidenced from the FORTE study, there still exist rampant unethical trade practices like rebating, misrepresentations etc. The advisor is expected to give complete information on all products and not just push high commission products, maintain regular contact with client to give information on new products/services, give premium payment reminder and be actively involved in assisting the claimants for death claims settlement and lapsed policy revivals.

Bancassurance

There have been a number of bancassurance tie-ups in India but the model is still in its nascent stage of evolution. The way bancassurance is evolving in India, it seems to be heavily dependent on the replication in some form or the other of the traditional tied agency arrangement. It has not, so far, led to sale of insurance products off the shelf by the banks. Both insurers and banks have not done enough to evolve hybrid products for the Indian market. Some analysts believe that banccassurance could grow faster if accompanied by active commoditisation of insurance products.

> There has been no concerted effort on development of new markets, the overall insurance pie has not changed significantly.

Health insurance

The health insurance sector has not really taken off due to a number of reasons like high capital requirements, lack of database for actuarial calculations, inefficient TPA network etc. Some policy initiatives on the part of the Government, particularly in the area of minimum capital requirements for companies providing health insurance products on exclusive basis seem necessary. It may also serve the cause of health insurance further if life insurance companies are allowed to offer typical health insurance products including hospitalisation and domiciliary treatments.

Conclusion

It would be fair to say that insurance industry has registered impressive growth in new premium but the growth in spread of coverage evidenced by number of policies sold has lagged behind. The development of new markets needs to be put on the industry agenda strongly. More importantly, the rural market needs to be addressed squarely for ensuring sustainable growth in the long run. There has been noticeable improvement in the quality of intermediaries, particularly the advisors and agents. However there is strongly felt need for improvement in the claim settlement processes and also for quicker responses to the policyholders' grievances as also quicker turn around of documents.

The need - and that too quite an urgent one - for more comprehensive, clear and credible consumer education campaign can hardly be over emphasised.

The author is Chief Representative, India, ING Insurance International B.V and Executive Director of FORTE.

Under Insuring!

Confederation of Indian Industry

The three years since the opening up of the insurance industry have witnessed a series of remarkable and impressive developments in the sector. A few important ones amongst these are – the entry of a large number of Indian and foreign private players in both life and non-life business, greater choice in terms of products and services available to the consumer, the introduction of new distribution channels (brokers and bancassurance), the introduction of a large number of transparent and efficient legislative instruments and the emergence of the IRDA as one of the leading financial regulators around the globe.

Having stated the above and having given due credit to the Government, the Regulator and the insurance companies for the developments so far, the gravest concern for the industry today is its incommensurate size as compared to the growth rate of the economy and the large population of our country. The current penetration level of about 1.87 percent of GDP is one of the lowest in the world.

CII strongly feels that to address this problem of the low spread of insurance products in the market, there is a need for a concerted effort by all the stakeholders in the insurance industry.

Some of the immediate concerns that need to be addressed are:

Pension reforms and life companies

The Government has recently announced proposed reforms in the pensions sector. It is imperative that insurance companies are permitted to take part in the new pensions market on an equal footing as the new players. Given the nature of the insurance business, CII strongly feels that the insurance companies are inherently suited for the pensions sector and have a critical role in the development of this important sector.

Amendments to insurance laws

In most jurisdictions, the principal legislation provides for the guidelines and the enabling provisions for the regulatory authority to frame regulations. The regulations contain all the details. This enables the regulatory authority to respond to the changing situation quickly as the changes in the regulations do not require prior approval of the Parliament.

The regulations being subordinate legislation have to be laid on the Table of the House as soon as possible but the notification does not require approval of the Parliament. While the Law Commission has adopted this approach in respect of some items, many important areas have been left out such as investment pattern and foreign equity participation. CII feels that is a need to pursue adoption of this approach for all issues.

Detariffing

Following the liberalisation of the insurance sector in India there has been a growing demand in the industry to abolish the tariff system that governs the rates and the terms and conditions of the non-life insurance business. No other market of significance, worldwide, prescribes tariffs at all, and CII feels that the true benefits of liberalisation will not accrue to the consumer unless there is competition in the pricing of the non-life insurance products. The current tariff system in the general insurance business is an anachronism and should be done away with.

> The gravest concern for the industry today is its incommensurate size as compared to the growth rate of the economy and the large population of our country.

Spreading insurance awareness

One of the prime factors impeding the growth of the insurance sector today is the lack of knowledge about insurance and insurance products amongst the common man. There is an urgent need to highlight the benefits of insurance products to the majority of the population. This measure is imperative to ensure that there is an increase in the penetration of insurance products.

Growing Health insurance

Despite a large number of health insurance licensees in India, Health insurance has not really taken off simply because it is not profitable. Deliberations on the factors impeding its growth have revealed that there are both regulatory as well as systemic barriers. While the systemic barriers have to be taken care of by the industry itself (insurers, TPAs, medical laboratories and other healthcare providers) there are two primary regulatory barriers that need to be resolved. These are:

- The 26 per cent cap on foreign participation: In India Health insurance is a poorly understood and risky business (given the systemic barriers). With this backdrop, it becomes difficult for foreign investor to participate in this sector without adequate control over operations. CII therefore suggests that the cap be raised to 49 per cent.
- High initial capital requirement of Rs. 100 crores: With such high entry capital levels it becomes difficult for the companies operating in India to even break even. In the US a system of risk based capital requirement has been adopted, wherein the capital that companies are required to maintain increases with the risk it takes on as the policy provider. CII feels that a similar model needs to adopted in India.

Tapping the rural market

There lies a large potential in rural India, not only for crop and agricultural products but also for lines of insurance business related to life, motor and retail products such as TVs, refrigerators etc. Rural markets as they are today are no doubt difficult to penetrate – given the poor infrastructure, distance and low average premium. These impediments can be overcome only by the use of innovative products (designed keeping in mind the need of the rural population) and by using new distribution channels such as village panchayats, rural banks and non governmental organisations (NGOs).

Remove Bottlenecks

Federation of Indian Chambers of Commerce and Industry

The Indian insurance sector has come of age. With the private sector companies having made a foray into the market, the scenario has begun to change.

As expected, liberalisation of this sector has helped bring about several positive developments.

- The market size has expanded,
- New products are entering the market,
- Innovative channels of distribution are being used,
- Customer servicing has improved tremendously

The insurance market is likely to grow at a rate of 22 to 27 per cent, giving enough room to all the players to grow. Of course, ultimate success will be determined by servicing and customer satisfaction.

However, consumer awareness level is still off the mark. According to the recently conducted FICCI survey on the 'Present State of Indian Insurance Sector,' of 147 respondents, the awareness levels regarding insurance are still in the realm of medium to low, as indicated by 58 per cent of FICCI survey respondents. This clearly indicates the onerous task that companies have in creating awareness about 'need to insure' and also the tremendous potential they have in expanding the markets by getting more customers into their fold by increasing awareness levels.

Despite several positive developments and the entry of several large private players in the market, there are certain areas, which need to be deliberated upon in order to reap the full potential of privatisation.

- Although the market share of the private sector has increased to almost 10 per cent market size, the moot question is have new markets been tapped? It's time now to start looking at the B and C population segments, as the metro and large urban market will saturate in three to five years time. The future success of the companies will be determined by the insurers' ability to innovate and distribute simple products for BandC population segments.

Rural markets hold tremendous potential, as suggested by several studies and surveys. In fact rural share in both FMCG and durables exceeds 50 per cent of the market share. Also, the Rural Market study conducted under the aegis of the FICCI- ING Insurance Foundation on Research, Training and Education (FORTE) shows there is sufficient awareness amongst A and B segments of rural areas about insurance, especially on the life side.

Companies need to work out appropriate consumer awareness campaigns to create 'need to insure' amongst rural masses and develop appropriate marketing strategy in collaboration with some of the existing and well trusted institutions such as bank branches, cooperatives, panchayats and non-governmental organisations (NGOs) to tap this huge market.

> The companies have an onerous task in creating awareness about 'need to insure' and also a tremendous potential in expanding the markets.

- The 26 per cent foreign equity in insurance joint ventures continues to be an issue of concern and needs to be reviewed. This was suggested by almost 41 per cent of the survey respondents. It is unnecessary to burden a local partner compared to the or international partner with an additional 23 per cent of capital because in the kind of voting rights and control over company the difference between 26 per cent and 49 per cent holding is minimal.
- Lack of clarity on the role of intermediaries, such as brokers, was identified to be one of the hindering factors by almost 54 per cent of FICCI survey respondents. Factors such as restriction on foreign equity for brokers ventures, notification of IRDA withdrawing five per cent discount on the premium for brokers for certain segment of policyholders, non-payment of brokerage on business emanating from public sector units (PSU) etc. were considered as factors hindering development of this important channel of distribution, by the FICCI survey respondents.
- The issue of rebating has been bothering the Regulator as well as the players. This needs be looked at seriously to ensure regulated and sustained growth of the insurance market.
- Taxation issues on the life side continue to bother the private insurance companies.
- Detariffing is another critical element of insurance reforms. This, sooner or later, will become a reality, as tariff and liberalisation do not go hand in hand. Worldwide, markets have gradually moved to detariffing. It is therefore important to chalk out a roadmap, prepare all the stakeholders of its likely impact, and make the process less painful.
- Health insurance has a great potential in the country, but remains highly underdeveloped in India. According to some estimates, only three per cent of India's population is covered under some form of voluntary health insurance schemes. This segment needs the Regulator's focused attention for its development.
- Last but not the least, training and education will play a critical role in the sustained development of the sector.

IRDA has indeed done an excellent job in building a strong foundation of Indian insurance sector. Now, all the stakeholders of the industry have to now work in synchrony to ensure sustained growth of the sector as also to achieve global standards. For this we look forward to the continuous guidance and support of the Regulator and the Government in creating a conducive environment.

Growing with the Industry

Liyaquat Khan

Actuarial processes within a life and general insurance office are key to its financial management and thus the viability and system of the Appointed Actuary is an important tool in the hands of the insurance Regulator.

While a number of actuarial the certifications were mandated through Insurance Act 1938 and Insurance Rules 1939 in respect of life insurance, actuarial processes within general insurance were unknown in India. The insurance world outside India had moved miles and miles in the period spanning the days of state control in India of insurance business. The Indian insurance industry was oblivious to these developments. This was true for life as well as general insurance the from management perspective as well as the regulatory perspective.

The setting up of IRDA heralded a number of initiatives for defining and setting up an appropriate framework for the insurance industry to operate in the new context. The initiatives within IRDA and the Actuarial Society of India (ASI) so as to ensure availability of actuarial input to the insurance industry and with the Regulator were one such, which has made a mark of its own.

The decision to introduce the Appointed Actuary system was a historical moment for IRDA and was a challenge of sorts for the ASI which had to prepare for it. The Appointed Actuary system is based on a premise that a financial regulatory role can best be performed by having one single named individual actuary in respect of an insurer and this role cannot be thus performed if the individual were working within the Regulator's office.

The system was introduced for all insurers though with some differing approach for general insurance as against life insurance. Side by side, ASI ensured that processes were put in place for ensuring competence and professionalism of such Appointed Actuaries on an ongoing basis.

ASI's policy of wanting its members to be competent and professionally prepared in a global context ensured that new insurers had the benefit of having qualified and competent actuaries working in India from around the world.

This had a snowballing effect on secondary actuarial services in the consulting, information technology (IT) and business process outsourcing. The result is that ASI as of now has about 3,000 students at various stages as against about 400 in the year 2000.

Two other aspects which were not heard of around that time, and which are key to ensuring a robust regulatory regime, need to be mentioned.

> The actuaries need to ensure business context and should therefore have in their mindset appropriate business orientation.

Introduction of Peer Review system mandated for the work of Appointed Actuary in life insurance is one such. Guidance Note 4 of ASI mandates this and aims to ensure that an independent opinion is available on the work of the Appointed Actuary before the actuarial report is signed off, thus ensuring higher level of confidence with the Regulator as well as the ASI that the interest of policyholders is best served.

Second and equally important is issue of illustration given to a prospective life policyholder at the point of sale. The Guidance Note 1 which is the regulatory framework of ASI for regulating professional work of the Appointed Actuaries, amongst other things, requires that an Appointed Actuary take all reasonable steps to ensure that new policyholders are not misled with regard to their expectations, e.g. in connection with illustrations at the point of sales. In ASI, we have closely worked with IRDA and the Life Insurance Council to put in place Guidance Note 5: Appointed Actuary and Principles of life insurance policy illustrations, which defines a framework within which the Appointed Actuary has to perform this function.

Certification of liability and premium for non-tariff products in general insurance by the Appointed Actuary within the framework of Guidance Note 21 of ASI is an important milestone in actuarial management of general insurance business.

The last three years have thrown up requirements to design products to serve needs of customers, which are varying. This is true for life as well as general insurance. Besides the role of the Appointed Actuary to sign off such products from Regulator's perspective, the design aspect of ensuring continuing profitability to shareholders is the focal point.

The actuaries, whether working on product development, addressing asset liability management (ALM) issues, designing appropriate distribution strategies or investment strategies, need to ensure business context and should therefore have in their mindset appropriate business orientation.

To ensure this, in the year 2000, ASI embarked upon new strategies of actuarial education which is being monitored dynamically so as to ensure that actuaries possess, besides regulatory aspects, an explicit business orientation in other roles whatever that may be.

The three-year's endeavours of both the insurance industry and the actuarial profession are a success saga without hiccup so far.

The author is President, Actuarial Society of India.

After Three Years of Euphoria...

R.Krishnamurthy

Three years is a brief period to conclude whether the objectives of opening the insurance sector stand fulfilled. The agenda set for the industry when Parliament voted the end of State monopoly was tough: go for rapid growth in the penetration ratio, commit to an increasing share of business towards rural households, develop new channels of distribution, lower the cost of customer acquisition, rapidly increase customer awareness and education, and implement the entire plan with overwhelming Indian ownership!

On a balanced judgment, the country has incontrovertibly stood to benefit from the liberalisation. The new players have brought a whiff of fresh air into everything: product range, marketing, intermediary education, technology and customer service. The staid insurance industry has suddenly started grabbing centre space in every discussion.

But ask every CEO about his/her candid view of what has been achieved and what needs to be done. The to-do list emerges longer than the completed tasks. The unfinished work, both from the insurers and the Regulator, looks far more demanding than what has been accomplished. It looks like we've just reached base camp. The peak remains an arduous journey to cover.

While there are several issues that bother the new arrivals depending on their business profile, partners' vision and other aspects, I would list three that need attention from the macro viewpoint.

First, the need to quickly revamp the archaic insurance laws. Everyone in the industry knows the inconsistencies and the irrelevance of many provisions of the 1938 legislation, which has served us well till now. While the effort to re-write the law has commenced, given our record of amending legislations, there is a palpable impatience.

What we now need is a short and simple piece of legislation that is more facilitative than prescriptive. A legislation that can serve the industry moving into a new gear, taking into account the rapid deregulation taking place in every facet of the economy.

Second, we need to quickly look at the prescriptive aspects of the investment guidelines that govern insurance companies' investment of funds. With rapid decline in interest rates, customers today expect the companies to work harder and increase the total return on their funds.

The range of investment instruments, drawn at a time when the fiscal system was pre-empting the market resources for supplementing the State's borrowings, can no longer hold good.

Investment is a function left to the prudence and good judgment of the insurance companies. We see rapid developments in new investment instruments and tools, such as interest rate derivatives, zero coupon bonds and investment in overseas securities. The rules should enable a wider investment horizon, subject to the overriding concern about safety and asset quality. And insurers should be free to pursue them whether through in-house expertise or outsourced management, subject to caution and professionalism.

> It looks like we've just reached base camp. The peak remains an arduous journey to cover.

Third, there should be an end to the nagging issues on taxation, which have been debated *ad nauseam*. We've had expert committees that have gone at considerable length into reasonable levels of taxation of surplus attributable to shareholders and policyholders. The Government should announce the final view to enable the companies to plan ahead.

On taxation, there is also a need not to tinker with the provisions concerning insurance in the annual budgetary exercise. Insurance is a long-term contract. We should encourage the flow of resources into this sector, whether by way of single premium or regular premium to increase the long-term household savings through insurance holding. The insurance industry will emerge as a catalyst for infrastructure growth. We should not treat insurance contracts as bank deposits or short-term instruments from the taxation standpoint.

On the part of insurance companies, there is a big unfinished agenda. The foremost is to become more transparent and accountable. There is a lot that remains to be done on accurately describing policy benefits and giving benefit illustrations in sales literature. The level of knowledge and competence of the intermediaries needs to increase considerably.

On rural insurance, insurance companies have yet to make serious attempts, and the unrelenting stand of the Regulator needs careful heeding. The rural sector is becoming a bountiful source of opportunity, and the first in the to-do list of companies should be clear strategies for time-bound rural penetration.

The author is Managing Director and Chief Executive Officer, SBI Life Insurance Company.

Restructure!

Venkatesh S. Mysore

Since the issue of the first license to a private insurance player in October 2000, the life insurance sector has seen significant changes. While these changes are most welcome and will benefit the growth of the industry and the customers, there are several key issues that need to be addressed immediately. I have focused here on three issues which, in my opinion, are key.

Professionalism

The insurance industry particularly on the life and pensions sector is dependent heavily on distribution. The old adage "insurance is not bought but sold" holds true even in India.

Today the customers are asking three fundamental questions; (1) Do I need life insurance? (2) If yes, how much coverage do I need? (3) Can you offer me a solution that meets my needs and my pocket book ? Therefore, the role of the intermediary is changing very fast from a mere order taker to an advisor.

The question now arises as to what the industry is doing about this.

Not much unfortunately. The approach has been one of mass recruitment of agents without much attention to selection. Furthermore, there is very little investment in training and development. Therefore the industry is today characterised mostly by part-time agents. This has resulted in very low agent productivity and poor persistency of business. Who suffers? The policyholders as well as all the stake holders.

The customer finds that within a few months of buying a policy the agent who sold the policy has left the company and in many cases has joined another company! Now this agent may even be trying to replace the original policy with a different one from the new company! So the policyholder has now become an 'orphan' and finds it hard to get any meaningful service. Companies incur substantial expenses because of agent attrition and policy attrition – popularly called the 'revolving door.' These expenses will eventually be passed on to the customers in the form of re-pricing of products.

The solution is for changes in regulations to allow for professionalism. Today the laws and regulations do not allow companies to attract full-time agents because of the limitations on compensation payable to agents. Agents are on a 100 per cent variable compensation which is also very low by international standards. Appropriate changes to sec 40 A – 44 of the Insurance Act is badly needed to facilitate changes. Without this the industry is headed for more of the same which cannot be in the interest of customers.

Scalability

In a country as vast as India where almost two thirds of the population lives in rural areas, achieving scale is critical. Building scale and reaching critical mass requires substantial capital investment. With the current limitation on foreign equity at 26 per cent, it would be very difficult for insurance companies to increase scale in the proportion needed for this market. While all players welcome good sound regulation, there is no purpose served in limiting foreign ownership. This should change as early as possible to facilitate growth. While foreign players are committed to the Indian market and are willing to bring the know-how, technology, processes and best practices, the equity cap currently is a limiting factor.

> If appropriate steps are not taken now to get the structural aspects right, this industry will potentially face many challenges that will affect growth.

Market conduct and compliance

Consistent with the points I have made under professionalism, one of the big threats to the industry is in the areas of market conduct and compliance. The significant increases being seen in 'feet on street' raises the need for substantial training and sound compliance programmes. With the low levels of productivity being seen and the relatively low level of average premiums, companies are not investing in training and compliance. This creates a situation where customers are not getting the appropriate type of advice and most importantly, disclosure.

The so called mature markets such as the US and the UK have seen major lawsuits from customers related to poor sales practices and lack of disclosure. This has resulted in companies having to pay substantial fines and restitution to policyholders. If appropriate steps are not taken today, the Indian insurance industry will also face similar consequences.

One case in point is rebating. While there is a law against it, everyone knows that this is rampant in the market place. IRDA needs to enforce this law strictly. The industry has an obligation to enforce this as well, rather than look the other way.

Replacement of business is another area. Replacement of policies is generally not in the interest of the customer. There is no attention being paid to this aspect. Proper disclosure to customers attains even more importance in the context of unit linked policies being marketed by many of the companies. Do the customers understand all aspects of this product and ways in which the benefits may be affected by market performance?

In conclusion, everyone is quite excited about the opportunities for the growth and development of the insurance industry in India. This market has the potential to grow into one of the largest markets in the world within the foreseeable future. However, if appropriate steps are not taken now to get the structural aspects right, this industry will potentially face many challenges that will affect growth.

The author is Managing Director, MetLife India Insurance Company.

The Glass is Half Full...

Nani B. Javeri

I was a stranger to the industry... just two years ago I did not know, any more about life insurance than the common man did. Now I represent one of the fastest growing companies in the world's fastest growing market. It's amazing how things could change rapidly for the better if only the right thrust were given.

I share my thoughts here as I see things from a common man's perspective.

Touching people's lives

What delights me the most about liberalisation is that I meet thousands of confident and smiling individuals who have made insurance their career and are leading decent lives as entrepreneurs. The insurance agency profession has surely changed for good. There are professionals and high society individuals who now look at this opportunity with interest. When we and my industry friends together provide career opportunities to thousands of young men and women each month not just as agents but as doctors, media professionals medical diagnostic staff, customer service executives etc., I feel happy that liberalisation has truly worked for creating employment.

Life insurance has a strong community development angle. When small families are protected and people imbibe the strong sense of savings, we truly are touching their daily lives. The opening up of the sector has made insurance more affordable, accessible and stroked a larger canvass more deeply than ever before.

I feel happy about the path-breaking product range with the best of breed customer care now available. The common man can choose from a variety of insurance plans tailor-made to match his needs and with price tags and payment options that don't pinch his pocket much.

A taxing thought

But the campaign has just started. There are millions of homes still uninsured, especially in rural India. What bothers me most is not just 'un-insurance,' but under-insurance as well. When thousands of those who already bought insurance do not realise that their insurance cover does not match their lifestyle value and their families are at great risk of compromising their basic livelihood – there's still a large job to be done. As a member of the society, I like to remind all not to buy insurance as a mere tax saving tool but as a first step in serious financial planning.

We live long

I am concerned that in India, as is elsewhere, working lives are getting shorter and organic lives longer. Increasing cost of healthcare is driving families penniless. The industry must address this colossal need with path-breaking campaign to influence the common man to shift from the short term saving mode to the long-term saving mode and to plan for his healthcare needs while he's still perfectly healthy.

> We are in the business of providing security – we cannot compromise safety for speed.

At a different level I am disappointed at the industry's minimal usage of technology –I can't see why policies can't be issued electronically in digital format and why people can not be empowered to find what's best for them in a non-obtrusive way through the Internet and other electronic means.

Life is in the fast lane

The industry is growing at a phenomenal speed...To drive safely ahead.. we must look back and learn from what happened elsewhere when top line growth was relentlessly pursued. Issues of rebating, unhealthy competition and misselling are bound to trouble us. We are in the business of providing security – we cannot compromise safety for speed.

It rings a bell

We want to be seen as a fair player.. not just by the customer. But by the Regulator, agents, employees and all. BSLI was recently voted as the 'Best Place to Work'. Perhaps that's a moment of soul searching - when I see happy people sitting and working busily at their desks around nine pm – I gently remind them about life outside the office.

We put a bell in all our sales offices.. this bell is rung every time a policy is solicited. This is a symbolic reminder not just to celebrate success but also to remind ourselves about the responsibility we have taken up.

Enduring customer value

When I joined BSLI, out of long habit I used to inadvertently refer to the company as 'the bank.' But I see truth in the statement. At an abstract level there's no difference at all. Like banks, we do take care of public money, are conscious of our social obligations, channelise savings into investment avenues and, while banks deal with accounts, we are truly banking on life itself.

Having achieved this much in such a short time we must take each further step with confidence and contentment As I propose a toast to everyone in the industry for their share of success, I see the glass half full. Pension reforms, usage of cutting edge technology for customer care, value based selling and cementing of the diverse building blocks of the financial services pyramid to produce enduring customer value would make the glass full of spirit and success.

The author is Chief Executive Officer, Birla Sun Life Insurance Company.

No shortcuts, no freespending...

James Walton

The insurance market worldwide has seen some turbulence over the last two years, with the general insurers taking some big knocks with the WTC attack and the natural disasters worldwide, while the life insurance industry is trying to grapple with declining interest rate regimes and negative interest spreads. The life insurance industry in India is still trying to come to grips with continuous drop in interest rates and it will take some time before the industry settles down to conducting business in a somewhat stable interest rate regime.

Since the privatisation of the industry in 2000, we have seen 12 new private sector insurance players set up operations with more than Rs. 2,600 crores of capital deployed so far. I am sure there will be many more insurance companies who would be interested in participating in this market with huge growth potential if the participation of foreign ownership is increased from the current 26 per cent level to 49 per cent.

Although it is too early to take a stock of the private sector insurance players (especially in terms of their profitability), there have been some significant milestones that have been achieved, and I would like to mention a few of them.

The first one that comes to my mind is the development of infrastructure by the private insurers. In this short period, Allianz Bajaj, ICICI Prudential and HDFC Standard Life have been the pioneers in developing a branch network to reach out the Indian population. Concomitantly, the agency channel has also developed significantly (total agency recruitment by the private life insurers is close to 1,50,000 with Allianz Bajaj and ICICI having more than one third of the agents).

Development of alternate channels of distribution has been another area where there has been progress. Although these are early days to predict anything, the early success of the bancassurance relationships puts India as a serious contender for being among the few countries in the world where bancassurance can work. The wide network of bank branches here also augurs extremely well for the future of such relationships.

One major change that has come through post liberalisation, is a visible change in the way insurance is being attempted to be sold in India. From a tax-incentive-driven sale, the focus has shifted (at least in the private insurers) to a need based selling approach. This will take time and will help in development of life insurance awareness as well as growth in the medium term. Awareness of life insurance has gone up over the last few years, particularly in non-rural areas. The efforts that have gone in to advertising the basic need for insurance have yielded positive results and we are already seeing the industry move to the next category of product specific advertisement. The day is not far when this market will see individual brands of life insurance stand up on their own.

Better quality of service, especially through appropriate use of technology, has been another area where there have been good improvements. For example, Allianz Bajaj has invested heavily in its proprietary IT software OPUS, through which we are capable of issuing a policy (within certain limits) at any Customer Care Centre in India over the counter in five minutes.

There is a visible change in the way insurance is being attempted to be sold in India. From a tax-incentive-driven sale, the focus has shifted (at least in the private insurers) to a need based selling approach.

Innovation in products: The initial innovations came in the form of rider benefits. Product innovations followed, especially in the area of Children's Education on the traditional products side; and whole life and retirement planning products on the unit linked platform. As the market matures, we will also see innovative products especially for the rural and group sectors, as well as in annuities. We have also seen more willingness by the customer to take on more risk and less guarantees as evidenced by the upsurge in unit linked policies.

The insurance industry will unfold much the same way it has in the West but faster, and will follow the wishes of the customer. The existing products of endowment and unit linked will evolve to more sophisticated entities. Companies that survive will either have a national brand reach or will become boutique specialists in areas like health, annuities, pensions or high net worth customers. Companies that try to be everything to everyone will run into problems.

There are additional dangers that must be constantly evaluated just to survive.

a) Companies that overspend with profit projections out 10 years will never reach that goal, as evidenced by the large list of casualties throughout other Asian countries.

b) Companies that try short cuts in quality distribution, will stumble. "Insurance in India is sold, not bought".

c) Companies that get caught in price wars in volatile negative interest spreads are sitting on a time bomb, as evidenced by the experience in Japan, Korea, Thailand, etc.

d) Companies that think they are in the investment and risk business rather than insurance will have roller coaster rides. European insurers with high exposure on equities should not be our examples.

In a market where more than 40 crore of the insurable population is still not insured, and many of those insured are also not adequately insured, the potential for growth is huge, partly reflected in the phenomenal growth of the industry over the past couple of years. The growth of the private insurance players has been phenomenal, but they will stabilise after reaching a critical mass. IRDA has also played an extremely positive role in the regulation and development of the sector. Overall, the result of three years of privatisation has been extremely positive, and the future looks very bright indeed.

The author is CEO, Allianz Bajaj Life Insurance Company.

You Ain't Seen Nothin' Yet...!

Yvo R. Metzelaar

The life insurance industry has had a brilliant take off by any (global) standard.

Customers have tremendous choice from a large variety of products from pure term (risk) insurance to unit-linked investment products. Advice and need based selling is emerging significantly through much better trained sales forces and advisors. People are buying products and services based on their true needs and not only straightforward money-back policies which is actually not a very good product to buy for long term protection and savings. Also, other distribution channels are developing such as bancassurance, corporate agents and brokers. Products and services has seen dramatic improvement with almost every product now available in the life insurance space.

In short, multi-product market segments through multi-distribution is now easily available to the public.

But, the honeymoon is over….

The tax, legal and regulatory environments need to improve significantly. Many changes and clarifications are required on the tax front such as the policyholder tax which needs to be reduced, loss carry-forward needs to be further clarified and tax free return of capital invested in the Policyholders' Fund needs to be enabled. The Insurance Act is under review and all operational matters have to be removed from the Act, such as commission limitations which need be left to the IRDA. Also on the regulatory front quite a few matters need improvement enabling the industry to grow better and faster all benefiting the customer.

Even more importantly, the boys will be separated from the men in the coming three to five years. Most of the players had a favorable experience setting up their initial businesses. We see that several players are now getting under strain finding out that their distribution models do not really work and are changing strategies too often in this regard which brings insecurity amongst employees and advisors. Life insurance is a long term game and at this stage the main challenge remains to build a robust, large and high quality tied agency sales force. Other distribution channels will gain importance but the foundations of any life insurance company remains to develop true sales professionals who understand the needs of individual customers.

Other dimensions are also becoming more important such as efficient customer services and operations, attractive products and services retaining sound profitability, expense management and asset-liability management, to name a few.

We expect around five leading life insurance companies to emerge, of which ING Vysya Life will be one !

> The Insurance Act is under review and all operational matters have to be removed from the Act, such as commission limitations, and left to the IRDA.

Pensions will be crucial for the country……

Especially since social security is almost absent in the country, it is of the essence that a sound pension framework and system be developed in the coming say five to 10 years. The Government is taking the first steps to develop a new system starting with its own employees. That is very commendable but there is still a long way to go making pension products and services available to the larger sections of society. The biggest challenge is to get the self-employed community into the system.

…and ING Vysya is ready for it

ING Vysya Life has now established itself in 20 cities where 40 large sales teams are operating, daily establishing contacts with thousands of people explaining the value of life insurance and the importance of it in life itself in the spirit of our tagline "Adding Life to Insurance".

We will continue to build scale maintaining and improving our quality of services offering compelling insurance solutions to customers. We are and will remain a leading company in India based on our strong foundations. ING, the largest life insurance company in the world, will provide global expertise and knowhow and Vysya will bring in the warmth and compassion in building meaningful, lifetime relationships with our customers by offering life, pension, insurance and other financial services through the ING Vysya Group.

The Indian life insurance industry will soon be one of the largest and one of the most vibrant in the world and has truly gorgeous prospects for customers in this beautiful and exciting sub-continent called India.

The author is Managing Director and Chief Executive Officer, ING Vysya Life Insurance Company.

Do-it-Yourself

Anuroop 'Tony' Singh

India has transited from a monopolist environment to a liberalised, dynamic insurance industry with relative ease. The IRDA has played the umpire with pragmatism and more than a little panache and the growth of the private insurance companies is there for all to see.

What should be the regulatory agenda as the insurance sector enters its second phase? It is common ground that effective self-regulation is the best way forward. But for self-regulation to work, it must be effective. It is easy to persuade ourselves into believing that everything in the garden is lovely. But it isn't. There are issues that need to be sorted out and it is in the industry's best interests to see if it can prove to the Regulator that it can do so itself.

The efforts of all life insurers should be channelled towards delivering a form of self-regulation that is widely seen as transparent, credible and, where appropriate, tough. Self-audits show maturity in sectors. Moreover self-regulation is important because over-regulation can hamper the growth and development of the industry.

Self-regulation must have the overriding objective of establishing, promoting and monitoring high standards of integrity, fair dealing and competence. It must ensure that proposed policies are suitable to the needs and resources of customers and that those buying the product are fully in the know about the product and its price.

It is only logical that an insurance agent will make a pitch to a customer that persuades him or her to buy the policy. However, in so doing, if the agent indulges in unfair criticism of rival companies it hurts the business and leaves the customer none the wiser. An insurance policy is not so much sold as it is bought. If the buying is influenced, as it often is, by extraneous factors such as offering of rebates, the entire industry suffers.

Rebating is rampant in the life insurance business and law can only do so much and no more. The industry should wake up to the reality of malpractices and evolve its own code of conduct for agents and companies to follow. Anti-rebating provisions should be made part of the agent training curriculum.

An illustration document is a tangible piece of paper vital in selling life insurance. Max New York Life took the lead in making detailed sales illustrations available to customers and it gives me pleasure to see that today it has been made a mandatory requirement from the Regulator's side with both optimistic and pessimistic views having to be necessarily illustrated. A sales illustration should be seen as an article of faith between the company and its customer.

Life insurers should be channelled towards delivering a form of self-regulation that is widely seen as transparent, credible and, where appropriate, tough. Self-audits show maturity in sectors.

While many other delivery mechanisms are likely to take their place under the sun in the future, the interface between the agent and the customer is likely to be the mainstay of insurance selling in India. At Max New York Life, we take pride in the time and money we invest in training our Agent Advisors. I believe that insurance companies must evolve a code of conduct for agents beyond the regulatory code of conduct.

Restrictions on the commission due to agents are also inimical to the industry's interests. Evolved insurance markets—among them the US and the UK, even Korea—have no caps on agent commission. The commission is what drives an agent to sell a policy and serve the customer. Given the rejections in the sale process, it is critical that the commission structure is attractive enough for quality professionals to take up insurance as a career.

Also, poaching on each other's agents and employees is a practice that should be shunned by insurers. Rather than expect the Regulator to play a role on this, it would be ideal if the members of the industry decided not to poach on each other's resource talent.

The best thing would be for insurers to voluntarily decide on a set of dos and don'ts and for IRDA to only supervise oversights. Then everything in the garden could indeed be lovely!

The author is the CEO and Managing Director, Max New York Life Insurance Company

Insurer as Teacher

Shikha Sharma

The liberalisation of the life insurance industry has been like a breath of fresh air into what was once considered a dull industry. The dozen new players, and even LIC, have introduced numerous new initiatives. Some insurers, such as ICICI PruLife, have followed their strategy to be a scale player in the mass market, by introducing a complete range of products to meet the needs of each customer. Others have taken a more focused approach, introducing select products that they believe hold potential and fill market gaps.

Undoubtedly, the biggest beneficiary of the competition amongst life insurers has been the consumer. A wide range of products and professional advice has become the mainstay of the industry, and the Indian consumer forms the pivot of each company's strategy. Service standards are being set and implemented and a series of distribution channels have thrown open new opportunities. Whatever the case may be, each life insurer has approached the category with a fresh perspective. The success of the efforts is noteworthy – private players now have about 10 per cent of new business premium income, far exceeding initial expectations.

Sure, well begun is half done. But the challenges ahead will test the mettle of the finest insurers, and must be addressed comprehensively by Government, and more so, industry.

For instance, there has been little done to address the concerns regarding claims. After all, the primary reason consumers purchase life insurance is to receive money in the event of the policyholder's death.

However, just a fraction of customers are actually aware about what they must do should the need to make a claim arise. This often leads to confusion and longer time lags for the beneficiaries, inability of the company to meet claims quickly, and a general uncertainty about the specific benefits of life insurance. The onus is on life insurers to make customers aware of their rights and responsibilities in such an event, and work towards creating a more transparent environment.

Possibly the biggest, most challenging, opportunity is in the areas of retirement solutions and pension reforms. The need for progressive, comprehensive participation in the segment has been propounded extensively; and it's an area that has been served by many public and private organisations.

As I see it, it really boils down to three issues; first: the absence of social support for the huge section of population not covered by pensions, second: the burgeoning deficit due to unfunded pensions in the Government sector and third: the need for adequate incentives for the common man to save for retirement in the face of an increasingly aging population.

The challenge remains to devise a system that encourages not just short-term, ad-hoc provisions for retirement, but systematic retirement planning over a much longer period of 20-25 years.

The first issue – the need – is undisputed. Government, companies and even individuals are recognising that efforts must be made to provide for their future, and are taking steps in this direction. It is the apparent disparity of these measures that brings us to the next two issues. The gravity of the situation and the sheer number of people affected, demand Government impetus and many more long-ranging incentives that encourage individuals to plan for their own future. The challenge remains to devise a system that encourages not just short-term, ad-hoc provisions for retirement, but systematic retirement planning over a much longer period of 20-25 years.

This is really the core of pension reforms, and unless this problem is addressed holistically, funding their golden years will remain a problem for those who will retire a decade or two down the line. Examples of countries such as Chile, that have kick-started individual planning for retirement, show that such efforts have begun with a concerted investor education campaign, and been followed through by encouraging tax breaks. Governments in such countries are able to justify such tax benefits because of their long-reaching favourable impact on the development of capital markets and stimulation of investment in infrastructure and other long-term projects.

Undoubtedly, there is scope for much improvement and reform in the system. However, the demographics are compelling, so the sector will grow. Given the lack of social security system, the onus is on individuals to plan for their own retirement, and it is the right regulatory framework and appropriate tax incentives that can help accelerate the pace of growth.

The author is Managing Director and CEO, ICICI Prudential Life Insurance Company.

Intense Learning

Deepak Satwalekar

Three years in the life of an industry is a very short period, but so much has happened since the insurance industry was opened up for private participation that its impact cannot be ignored. It has been a very exciting period marked by competition, innovation, training, distribution channel development and creating increased awareness for the consumer. In short, a period of intense learning for us all.

It has also been a period marked by the orderly development of a regulatory framework. The significance of the process of regulatory evolution in the insurance industry can be fully appreciated only in the context of the turmoil created by regulatory issues in other recently liberalised sectors.

Three developments that stand out in the performance of the insurance players during the last three years are the innovation in product development and consumer choice, the evolution of distribution channels and the increased emphasis on building consumer awareness.

Competitive forces have brought to the fore the best in product development and feature differentiation. The choice of features can now be decide by the consumer as he is offered an unbundled product with a wide variety of riders to choose from unlike in the past when he was offered a bundled product with features he may not have really wanted, but still had to pay for.

The awareness of the central role of the customer in the scheme of things and the desire to reach him when he wants and where he wants have led to the development of alternate channels of distribution, including bancassurance, brokers, the Internet and direct marketing.

If, today, I have concerns about the future development of the insurance industry, it also has to do with the same issues highlighted above.

There is the uncertainty of how the newly constituted Pension Regulatory Authority will interact with the IRDA as life insurance companies will be possibly regulated by both.

Unfortunately, in the race to gain market share and establish a presence in the market place, certain practices are creeping in which could adversely affect the image of the insurance industry in the long run. The sales process is seemingly rewarding short term gains at possible long term cost. Circumvention of Regulations to reward distributors in order to drive higher and higher new business sales may have long term implications for the viability of the players.

Another cause for concern is the delay in the formulation of a unified Act addressing all issues related to insurance. The Insurance Act, 1938, definitely needs amendment to keep up with the changes that have happened in the economy as well as in the markets. Many restrictions enshrined in the Act need to be removed from there and reframed as regulations issued by the Regulator, thus enabling a quicker response to changing market conditions.

The last concern is the uncertainty of how the newly constituted Pension Regulatory Authority will interact with the IRDA, in as much as life insurance companies will be possibly regulated by both. Initial indications in the media have led one to believe that the regulations regarding capital requirements, foreign holding, investment restrictions, etc are weighted in favour of the pension providers to be regulated by the new authority. An early clarification would go a long way in removing the uncertainty prevailing in the industry, and help the probable players to firm up their plans, so as to give the Government's initiative a quick start.

The author is Managing Director, HDFC Standard Life Insurance Company.

on the web!

http://www.irdaindia.org/irdajournal.htm

Consumer Benefits

Ian J. Watts

As I look back at the progress the Indian insurance industry has made over the last three years, it brings to mind Robert Frost's words "…the woods are lovely, dark and deep, … and miles to go before I sleep." Taking some liberties with those words I would say, "..the woods are no longer dark and deep, and we have miles to go before we sleep."

Indeed, the opening of the gates three years ago gave the insurance sector as also the economy a positive push towards growth, and it couldn't have come at a better time.

The Great Indian Insurance Market

As a percentage of the gross domestic product, the increase in contribution of insurance premium from around 1.5 to 1.7 percent in 1998-99 to 2.5 to 2.57 percent near the end of 2001- 02 confirms that this sector is on a growth trajectory.

But it's not just the numbers that are looking better post liberalisation. The entire approach to both buying and selling insurance has been turned inside out. From a completely seller dominated market, the business is now pretty much driven by what the consumer wants, what products he is looking for and how he wants to buy them, to the sheer range of options he can choose from. In short, we are now officially a buyer's market. What's heartening to see is that awareness levels have increased to such an extent that consumers are actually looking at the product for the purpose for which it was originally created.

In line with the increase in awareness and the ability to bring products closer to the consumer's door, products themselves are now tailored to meet exact market requirements. For instance, Tata AIG now offers *Tata AIG HealthFirst* – a unique, first-of-its-kind health insurance plan coupled with life insurance cover. The other product innovation we are proud of is *MahaLife Gold* – a unique whole life insurance cover that doubles up as an annuity plan and generates a guaranteed annual tax-free income.

Historically, life insurance in India was not sold by insurance companies – it was bought by consumers as tax-saving instruments. Seldom was it bought as a risk-mitigating instrument. Consequently, more often than not, the insured ended up buying a policy that did not meet his specific needs. It followed that after-sale service was not a very high priority and the consumer was invariably left running in circles for issues like premium payments, claims dispute and final settlement.

The new rules of the game

For the first time in Indian history, a once unregulated market is being reined in with regulation. The effects of discipline have benefitted not just market players but also consumers, with the establishment of best practices across the process chain.

The IRDA plays a stellar role in regulating and disciplining the market. The IRDA also closely monitors products before and after they are introduced to ensure insurance companies meet basic solvency requirements, and thus safeguard the investor's interests.

> Awareness levels have increased to such an extent that consumers are actually looking at the product for the purpose for which it was originally created.

And the players are doing their bit, lending support for the establishment of these best practices and taking on the task of educating the market. On its part Tata AIG, through its Academy of Excellence and its tie-up with the Association of Financial Planners (AFP) India, has created a dedicated programme to train its agents as full-fledged financial advisors.

One significant characteristic of India's insurance market is its one billion strong population, of which about 40 to 45 percent is insurable. This attractively large market is scattered across a huge geographical area and is not easy to cover using single mode of distribution.

Traditionally life insurers have relied solely on the agency channel. Private players have brought with them international experience, new technologies, new distribution channels and of course, new products. The ground rules of the insurance business are being redefined. Public sector insurers themselves are gearing up with their own responses to this new found competition.

The *mantra* is innovation and diversification. Distribution is more crucial for the life insurer who needs to have a mass retail base to minimise the chances of being adversely affected by any casualty.

The road ahead

The opening up of the pensions sector and the establishment of a new pensions regulator are likely to further stimulate Indian insurance. It remains to be seen though, if these regulations allow life insurance companies to participate both in the accumulations and the annuity phase.

I feel another area that needs to be addressed is the capitalisation cap on the foreign partner. Increasingly, foreign direct investment (FDI) and foreign institutional investment (FII) limits have been upped in many growth sectors like banking and telecom. We truly believe the Indian insurance industry after three years of free market rules, is now mature enough to be extended that same increase in capitalisation limits for the foreign partner.

Insurance is a long haul business and relies centrally on the financial viability of the insurance provider. Companies will need to demonstrate a long term commitment to the Indian consumer before they start seeing any profits. It is only fair from the Indian partner's perspective that the foreign partner be allowed to bring in additional capital now rather than later, when the business starts generating profits.

With a little help from our regulatory system, I strongly believe the lovely woods will be better lit, and insurers will gladly venture into more virgin territories, taking the fruits of insurance further and wider into the Indian market.

The author is Managing Director, Tata AIG Life Insurance Company.

Seek Sustainable Solutions

S.V.Mony

India is one of the very few countries that has seen the insurance industry move from total private enterprise to total State ownership and again to an open market with dominant players from the state sector. The IRDA, when it was set up, had a difficult and delicate task on hand to oversee the transition in an orderly and uncompromising manner into a developed market with its characteristics of freedom with regulation, play of market forces, development institutions, education, research, and above all expansion of the market. Its first priority was to set in place the regulatory and legal framework under which a new paradigm will evolve. In this brief overview I shall try and highlight some of the elements.

The most significant aspect of these three years has been the transparent consultative process adopted in framing Regulations and amendments to law. Instead of setting up expert groups wrapped in secrecy, an open approach with participation of all stakeholders was universally adopted, arguably to an unprecedented level. This ensured that Regulations and guidelines were widely accepted without an element of surprise. This approach has come to stay.

It is singularly noteworthy that all new Regulations, legal amendments, setting up of institutions etc., were introduced within the timeframe announced in the first place. I do not know of any other agency that has shown such consistency.

There are many aspects of the opening up that deserve to be highlighted; I wish to take up a few of the key elements for mention.

Introduction of the broker as an intermediary is of far-reaching significance though there have been some issues relating to rates of brokerage in general insurance. These are being addressed by a committee. The introduction of minimum qualifications, training and examination of agents is a good first step and the introduction of corporate agency too is significant. There is a long way to go; but it is clear that substantial penetration of insurance can be achieved through these intermediaries.

A higher level of awareness of insurance is a necessary condition for development of this sector. The initiatives of the IRDA to improve awareness through interactive programmes on radio and television are laudable.

Even though the share of the new insurers is yet to grow, all indicators point to steady growth and in due course a good balance will be achieved. The structural asymmetry in the market due to the vast difference in size and style of the erstwhile monopolies and the new entrants will continue to cause widely differing views and positions on key subjects such as dismantling of rate tariffs in general insurance, taxation and expense limits. The IRDA will have to tread carefully in achieving sustainable solutions. The changing stance in dealing with brokerage in general insurance is a pointer.

> Self-regulation will lighten the monitoring load on the IRDA even as the members of the industry become more responsible in their conduct.

The introduction of a series of detailed regulations in a relatively short time in a wide-ranging array of subjects is likely to cause difficulties in monitoring compliance. Agents' training requirements and rebating are examples. It is important to explore areas in which self-regulation can be progressively introduced. Self-regulation will lighten the monitoring load on the IRDA even as the members of the industry become more responsible in their conduct. Monitoring of intermediaries and loss assessors are examples.

Pensions business is a scenario that is still evolving. The role of IRDA and the insurance industry will no doubt become clearer in due course.

The last three years have been very eventful. The new companies have established themselves strongly though they are yet to make significant inroads.

Most life insurance players have had to inject substantial capital much higher than the minimum prescribed, which incidentally was initially objected to as too high for that business! In AMP Sanmar we, like the others, have realised that it is by no means an easy business. Establishing credibility and brand image, recruiting and training agents and other personnel, product introductions, etc. have all been challenges that were overcome.

The insurance industry is certainly poised to grow in real terms. Service takes centre-stage. Consumer awareness, particularly of rights is on the increase, competition is already intense, and there is a host of publications and correspondents examining every move, every product under the microscope and writing on the subject, thus requiring the players to be on their toes. Competitive insurance market has truly arrived. The future belongs to the fittest and that is but appropriate. Monitoring the 'healthy' practices in the market will be a challenge before the IRDA.

The author is Vice-Chairman, AMP Sanmar Life Insurance Company.

Strategies...

S. B. Mathur

Since 1991, the Indian economy and industry have undergone significant transformation, moving away from a State controlled to a competitive market economy. The most remarkable feature of this transformation has been in the financial sector, particularly in the Indian insurance industry, which has been opened up to all competitors – domestic and foreign – integrating the financial services industry to the global economy.

Liberalisation of the Indian economy, and particularly the insurance industry, has opened up tremendous business opportunities to Indian and foreign operators. The new market has also thrown up several kinds of new challenges to the Life Insurance Corporation of India (LIC) as well as to the other insurance companies.

LIC, since nationalisation, has performed exceedingly well and contributed immensely to the process of economic development through its multi-dimensional activities. As just one example, the share of life insurance funds in household financial savings has gone up from 8.7 per cent in 1993-94 to 12.1 per cent in 1999-2000 (out of which the share of LIC was 11.3 per cent in 1999-2000). In terms of GDP, insurance funds was 1.5 per cent in 1999-2000.

LIC today services over 12 crore policies which is a record for any life insurance company in the world. It settled over 86.55 lakh claims including Survival Benefit payments and Maturity Claims during the year. There is no other life insurance company in the world that settles such a large number of claims.

During the last few years, the Indian insurance industry has been witnessing a relatively better growth rate when compared with many other countries of the world. During 2000 the Indian insurance industry as a whole witnessed an inflation adjusted growth of 16.6 per cent as against 6.6 per cent of the global growth rate.

> Joint efforts need to be made by all insurance operators for the market to extend the coverage to millions of insurable people who need and can afford life insurance.

The growth of the life insurance market is also identified in terms of insurance penetration i.e. premiums as percentage of GDP. In the year 2000, life insurance penetration in India was 1.77 as against world penetration of 4.88.

In spite of significant growth of life insurance business through the outstanding efforts of LIC, only 25-26 per cent of insurable the population has been insured. Therefore, joint efforts need to be made by all insurance operators for the market to extend the coverage to millions of insurable people who need and can afford life insurance. While the market needs a wide range of insurance products, we need to focus more closely on single premium and unit linked insurance, pension market, health insurance etc.

The financial market has been undergoing tremendous changes during recent times due the entry of new products and service delivery systems, particularly in the insurance sector. To survive, insurance companies need to create an environment of understanding for the investing public by disseminating information and educating them about the relative benefits of life insurance.

Life insurance competes with other savings products from mutual funds, banks and the Government. Since the Indian market is led by personalised selling and the brand name of LIC, there is limited awareness about insurance among the investing public. However, the scene has changed somewhat in the last two years with the opening up of the insurance industry. With the private insurers and the LIC going in for aggressive publicity there is much greater awareness about life insurance today than before. This has also contributed to LIC performing much better despite the entry of private insurers in the market.

Changing products

Need is a changing phenomenon and, in a market economy, products are the offshoot of customers' need. Time relevant, customer need based, products are to be developed in the background of cost and intrinsic return. Product challenges are therefore to develop pension plans, health insurance, term assurance, investment product (unit linked insurance) and market segment related products (like corporate/ institutional agency products).

At present there are 58 products being sold by LIC. However, some of the products have been re-structured on the basis of competitive needs and emerging market demand. LIC has also

initiated steps to introduce some new products like Bima Nivesh, anticipated whole life and critical illness plans.

There is no doubt that with the Indian insurance market getting more developed and sophisticated, term insurance and pension plans, as has happened in the West, will become increasingly popular. The demand for pension products will be on the rise with fewer employers – the decrease in the importance of public sector – offering assured pension to their employees. Similarly, with younger people earning much more than ever before, the popularity of pure term insurance plans will also inevitably increase.

We have observed the recent growth in the global life insurance industry was led by single premium and unit linked insurance. In fact, these are the two most important growth drivers of the insurance industry in recent times and offer tremendous potential for growth in India also.

Pensions

The pension market all over the world has been growing at a significantly high rate and offering tremendous opportunities to insurance companies also. The share of pension and provident funds in household savings in India during the year 2000-01 was 20.7 per cent, which was much higher than the share of Life Insurance Funds.

Even LIC has achieved significant growth rate in individual pension business.

The growth rate of first premium income in respect of individual pension plans during the year 2001-02 was 355.15 per cent and the growth rate in respect of policies was 120.09 per cent. Yet, the pension market in India mostly remains untapped and this is probably the most potential segment of the life insurance market in India.

Distribution

One of the important challenges before the insurance industry is to promote innovative distribution channels to meet the new generation demand and distribution of products.

At present the product market relationship is dominated by personalised selling. But the emerging market will be characteristically different in future, particularly due to information explosion and technology led delivery system.

With the emergence of financial conglomerates, universal banking and the integration of the financial services industry and the changed the geometry of financial products, existing market intermediaries like agents need to gear themselves to the changes in the product market and consumer choice.

Channel management is going to be a hard task in future and calls for specialised channel managers who can provide a new dimension to new generation distribution of insurance products.

The pension market in India mostly remains untapped and this is probably the most potential segment of the life insurance market in India.

Rural sector

Since the rural market for life insurance distinctly differs in respect of needs, preferences, disposable income, seasonality of income, level of financial literacy and penetration of financial media, the approach, the product and the distribution need to have a different look than that followed for the urban market.

While individual life products have their own appeal among large sections of the rural population having regular income and capacity to pay premium, there is a need for products which can take into account people having seasonal income.

Further, for low income people, low premium risk cover will be desirable. For this segment, group insurance policies like Jana Shree Bima Yojana have been launched by LIC which will be attractive and useful.

Rural distribution

There is also a need for promoting a different distribution channel, for expanding the rural insurance market.

Distributors of life insurance products in rural areas must have strong local linkages. These rural distributors must be capable of educating and motivating rural people about the necessity of life insurance keeping in view local constraints. Towards this need, LIC has been promoting Rural Career Agents (RCAs) through specialised training and financial incentives. This has also helped to promote life insurance consciousness and business for LIC.

In a country like India, having wide disparities in the per capita income, disposable income, different level of education and media penetration, expanding insurance market, geographically and in the country as a whole, is no doubt a difficult task. But a consorted joint effort by LIC and other insurance companies and various media organisations can definitely provide momentum to the growth of the life insurance market.

As of now, penetration is quite low in India compared to other similar income countries and we need to have a very structured approach to capture various market segments in rural and urban areas.

The strategies suggested above can make a difference and assist further market penetration of life insurance in India.

The author is Chairman, Life Insurance Corporation of India.

Bridging Gaps

Shivaji Dam

The three year old, liberalised Indian insurance industry has shown a commendable growth and ability to embrace change. The last three years have been eventful and successful for one of India's fastest growing industries.

The private players have had been busy devising specific strategies to reach out to specific segments of the market, with innovative products. Insurance companies are now concentrating on offering products on the lines of building blocks, where in the consumers can tailor-make a product by adding only those features that he wants, from a menu of features. Also, companies have made attempts to educate the consumers on the various products. With the entry of private players into the sector, the IT investments in back office, front line customer service, etc has increased significantly. Companies are also emphasising on building a strong distribution network at retail level as well as at corporate level through tie-ups with banks, NBFCs, distribution companies, brokers etc.

The private insurers together have created a pool of over one lakh well trained Life Advisors in the last two years. This is quite a significant development in the last couple of years.

Insurance companies are today investing heavily on the tied agency force. The insurance salespersons are not more just agents whose job is to sell you any policy. They have transformed into "Advisors".

Most insurance companies realise that the importance of advising the consumer before selling him a product. However, this trend is yet at a nascent stage and many more improvements can be brought about. The role of an agent in the near future should move from agencyship to advisorship. The advisor should be capable of giving the right advice to consumers, be it with respect to the policy, or the sum assured or be it planning for the various stages of life.

The advisor is the bridge between the company and the consumer. Therefore, the insurance company will need to ensure that the bridge is firmly in place. Most companies have made significant investments in training and retention of advisors. The way forward is to have specialised training programs for advisors that are aimed at better technical understanding of the insurance products and also for better relationship skills.

Finally, the insurance companies are likely to come together and follow certain standards:

- Companies could ensure that advisors across the company undergo some basic training in personal financial services instruments. They should be able to evaluate the consumers' needs in conjunction with other investments/ liabilities.
- Companies could follow somewhat standardised templates for analysing consumer needs and recommending products to meet those needs. This kind of standardisation would also help consumers in taking a buying decision, as they can easily compare products from different companies.

  As a last thought, insurance companies should consider having a common platform, focusing on the development of the advisor force, which in effect would benefit the insurance consumer.
- Another important development in the Indian insurance industry will be that of intermediated marketing. Using banks is likely to be the big emerging trend. Already most large and private banks are busy experimenting with the marketing of insurance. It is conceivable in India that the bancassurance model could emerge as the eventual market leader in sales volumes. Many factors weigh heavily in the favour of bancassurance including the branch network and reach to individual customers.

> Two significant trends are likely to emerge: focus on investment management and focus on information sharing.

Finally, the ability to give the customer comfort on the performance of his insurance investment will make the customers trust the new insurance companies. This is likely to cause two significant trends to emerge viz. focus on investment management and focus on information sharing.

The investment management focus will result in the insurance companies retaining the best fund managers and create demand for really long term assets – ranging from 25 to 50 years' maturity. This thrust will give the entire investment management scenario in India a stable reputation that it sorely lacks due to the temporary and volatile nature of the markets.

The second focus, on information sharing, will give customer the choice to decide their investment portfolios and again generate a sense of control and trust. This will also improve the accountability and responsibility of fund managers.

In conclusion

Three very important trends that will emerge to make insurance a robust industry in the private sector are movement of the role of the individual agent to becoming a family advisor, the role of the banks in reaching the entire populace of India with the new insurance products, and the role of investment managers in earning the industry a reputation for solid and reliable performance.

The author is Managing Director, OM Kotak Mahindra Life Insurance Company.

Huge Opportunity

Stuart Purdy

Since the liberalisation of the Indian economy the opening of the insurance industry has been a key landmark. The Indian insurance industry is sitting on a volcano of growth and potential waiting to explode. Since the last three years that the industry has been opened to private players it has shown a renewed vibrancy resulting in new opportunities in terms of employment, savings, new channels of insurance distribution, wider coverage to rural areas and even to the economically deprived sections of the society.

The vibrancy of the industry has also been reflected in the growth of the individual players. The private players have managed to gather 11 per cent of the total new business. At an individual level Aviva has been successfully able to not only establish its presence in the market but has also to pioneer some new concepts in the industry like the bancassurance model. Aviva has also helped develop for the industry a code of good conduct and sales illustration rules to ensure that the policyholders' interests are protected.

One of the key contributors to the success of the insurance industry has been the presence of a strong and unbiased Regulator. Key initiatives like opening new distribution channels, encouraging players to be transparent and entry of intermediaries like brokers have helped the Indian customers.

However despite the launch of innovative products the Indian market is still at a nascent stage. There is a huge untapped potential that has not yet been explored in the selling of insurance in the country. Penetration of life insurance in India is as low as 2.15 percent of the GDP. Currently out of an insurable population of around 30 crore people only eight crores are insured. (Source: Swiss re, Sigma, 2002) Given the sheer geographical spread of the country there is a vast market that remains untapped and there is plenty of room for growth.

Most of the Asian countries with the exception of Japan, South Korea and Taiwan have low insurance penetration as compared to the developed countries. Countries with low penetration levels such as India and China present a huge opportunity.

Equity

The recent report of comments made by Mr. C.S. Rao, Chairman, IRDA, recommending to the Government a hike in the foreign investment limit to 49 per cent from the current 26 per cent is a welcome move. Insurance as a business requires regular capital infusion. The raising of the equity cap will not only bring more money but also help in expanding the industry. It will also allow the foreign shareholders to demonstrate an even higher level of committment to India. Insurance has a long gestation period to break even. It requires a long-term committment on the part of the players as well as a significant investment.

Pension

With the breakdown of the social security system, India needs to evolve a more mature and developed pension system. The pension fund market comprises over 240 million investors and funds worth $40 billion (comparable to the entire life industry). Pension is an area where companies like us have significant experience. We would like to use that expertise in India also.

To allow the development of the pension market the Government has to not only allow life insurance companies to participate in the accumulation phase but it also cannot afford to restrict the number of players in the market.

If we really want pensions in India to be a success, we need to take them into metros, cities, towns, district headquarters and villages. Life insurers, with their one million agents, and their bancassurance partners can do this. Aviva, like many insurers, also has the benefit of having distribution partnerships with leading banks.

To allow the development of the pension market the Government has to not only allow life insurance companies to participate in the accumulation phase but it also cannot afford to restrict the number of players in the market. In many countries around the world, life insurance companies are the main mode for saving for a pension. We look forward to the Government allowing companies like us to operate freely and competitively in the pension market. This is also in the consumer's interest.

Rebating

Though IRDA does not allow rebating by the insurance agents, this is not the reality in the market. The Indian consumer has been used to his agent passing on a percentage of the commission to him. Private players have been lobbying for freedom to vary commissions on insurance policies sold by their agents. In fact agents' commission in India is amongst the lowest in the world. Experience in other countries shows that commission rates typically rise in the early stages of deregulation and later find their own natural levels. In the UK it is not uncommon for an independent financial advisor to invest his entire commission into the product on behalf of his client and only charge fees by the hour for the financial advice rendered. This benefits the customer significantly as the insurance company invests the additional sum into the Policyholders' Fund.

Summary

The Indian insurance industry is set to accelerate taking pensions, savings and insurance products into the homes of many more consumers. Insurance companies build distribution and harnessing that distribution power to popularise pensions and insurance products is a huge opportunity for legislators to grasp. It is clear that the revitalised LIC and its 12 private competitors are rising to the challenge.

The author is Managing Director, Aviva Life Insurance Company.

Time for Some Soul-Searching

D.Sampathkumar

In India's recent economic history the opening up of a sector to private players has resulted in a sharp growth in the size of the market.

The automobile and mobile telephony industries are two cases in point.

The year 1998-99 saw Hyundai, the South Korean auto major, commencing its operations in India, a year which also saw Tata Motors (then known as Telco) coming up with its own small car offering. Maruti too responded with a dramatic price reduction on its flagship product the Maruti 800. The result was a dramatic increase in sales in the following year with sales going up from 4.93 lakh units in 1998-99 to 7.34 lakh units in 99-00.

In the case of mobile telephony even the mere prospect of the arrival of third and fourth players saw the competitive instincts of incumbents being triggered to a point where a combination of price cuts and promotion saw the market doubling in fiscal 2001 and again in 2002 over the previous year. The tempo of growth had been kept up in the following year with the mobile connections going up by another 75 per cent.

There is no doubt that the entry of private players in the life insurance industry over the last three years has caused a sea change in the level of awareness in the public mind, about the need for some kind of income security against the risk of mortality. The energy demonstrated by private players that are so characteristic of any new entrant into a market has certainly been an important factor. Equally, the competitive instincts unleashed in the Life Insurance Corporation of India (LIC), the public sector market leader, by the advent of private players has been no less significant in this context.

The increased awareness has, to a certain extent, also translated into expanded market size with a larger percentage of the income-earning population opting for some form of social security for its dependents. But sadly, the story of rapid market expansion hasn't quite repeated itself in the case of the life insurance industry. The growth in new business can only be described as modest.

Sadly, the story of rapid market expansion hasn't quite repeated itself in the case of the life insurance industry. The growth in new business can only be described as modest.

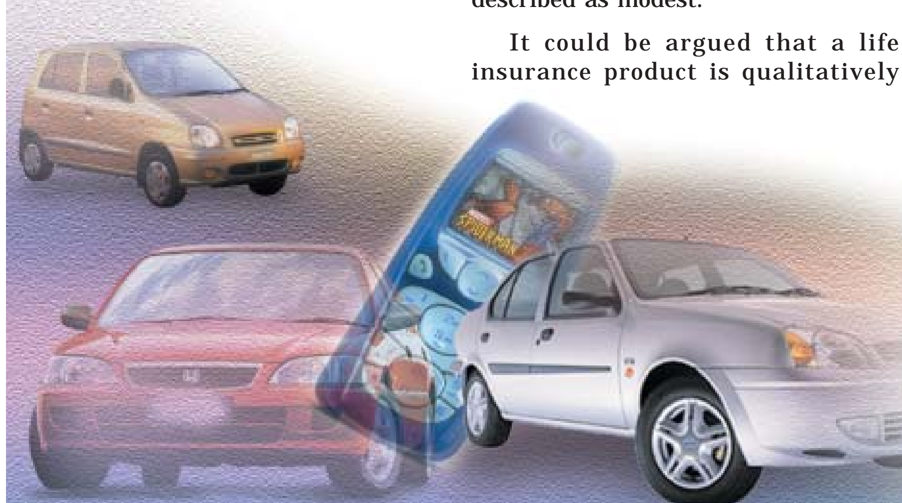
It could be argued that a life insurance product is qualitatively different from a traditional consumer good, whether of the durable or non-durable variety. But it could be argued with equal force that an insurance product is not all that much different from a traditional consumer good.

Hedging a risk (of mortality) after all, ought to instill a sense of well being in a consumer's mind given its connotation to family welfare. There is thus a value proposition of a current consumption nature putting it on par with a fast moving consumer good. It is another matter that the industry has sought to emphasise the savings dimension in its marketing communications.

But even if the comparison with consumer goods is open to debate what cannot be denied is that there is a huge gap between the potential market and the market penetration achieved by the public and private players have been woefully inadequate. This becomes clear if one looks at the current levels of household incomes in the economy, which need to be secured against a contingency of premature death for the dependents in the household and the size of the 'life fund' in the industry. A rough, back-of-the-envelope calculation shows that the level of market penetration is only around 10 per cent when measured by this yardstick.

Clearly the growth opportunity is being missed by the industry for some reason or the other. Is this a problem of marketing communication? Or has ownership structure got something to do with this?

There has to be some serious soul-searching within the industry on some of these questions. Perhaps this is an issue where the Regulator can take the initiative in setting forth a strategic agenda so that the community can enjoy the fruits of financial security at an affordable cost that an expanded market must necessarily offer.



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Time for Reforms Part II

L. P. Mehta

Even as the initial euphoria is dying down, it is now time for the second generation of reforms in the liberalised domestic insurance sector. The sector has witnessed high drama in the last three years and it would continue to be exciting in future. In the last three years 20 private sector companies including some of the top names of the Indian corporates and multinational insurers are changing the face the sector. With higher performance and expanding network thus far, each of these companies has an enriching experience to share.

The foreign companies are ready to increase their stake and Indian partners are pumping more funds and are realising the value of their investment in a short period of time. Some non-life companies have already started making profits. The convergence trend in the financial sector - banks, insurance, capital markets - is quite distinct.

The private sector companies may not have written a huge business during the last three years but have definitely ushered in a competitive atmosphere in the sector. And I wish they go public much faster than what they had projected in the beginning.

However it is time to go beyond the battle for market share and a public and private sector dichotomy. Social security - in terms of life insurance, property and casualty, including health insurance, and pensions - are the dire necessities of India and should be the focus of the market.

In 2000, after five years of countless deliberations (Malhotra Committee submitted its recommendations in 1994), the great insurance drama unfurled with the unanimous view that domestic insurance should be opened up to the private sector for achieving multiple oblectives.

Indian and foreign companies were ready with their figures on the size of the Great Indian Market waiting to be tapped. Some pegged it at 250 million, others put it at 350 million insurable people.

Armed with statutory powers IRDA, headed then by Mr. N. Rangachary, moved with great speed to make the liberalised industry operational. As the industry moves fast forward, the greatest threat to the free market is unethical practices. The market before nationalisation in 1956 and 1971 has enough evidence to prove this.

Be it life or non-life, there is practically enough, rather plenty, for everybody. Let IRDA be given more teeth to ensure an orderly functioning of the market. A wholesome insurance market is a virtuous proposition benefiting citizens, both rich and poor, and the country's economic development, much faster and wholesome way.

From among the range of issues like regulations, market conduct, detariffing, the investment scenario, profitability, consumer satisfaction, professional development and intermediation what warrants Government and IRDA's constant actions immediately are: increasing the foreign direct investment to 49 per cent from 26 per cent , detariffing, penetration of insurance and pension market, professional development and, above all, customer service. Only 10 per cent of the 100 crore Indian population has some kind of insurance, and the total premia for both life and general insurance is around two per cent of the gross domestic product (GDP) compared to four per cent of GDP in East Asia.

> In India, premium from retail and personal insurance businesses has remained stuck at eight to10 per cent of total premium. In developed countries, the figure is 70 per cent!

The neglected area of annuities and pension schemes (with considerable potential among the self-employed as only 100 million people are covered by provident fund or pensions) is now getting its due attention. Health insurance, house protection and accident insurance have been neglected in the past because it is easier to market high-value general insurance policies like fire or marine insurance to large corporaes. As a result, non-life insurance has remained confined to products like Fire, Marine and Motor insurance.

In India, premium from retail and personal insurance businesses has remained stuck at eight to10 per cent of total premium. In developed countries, the figure is 70 per cent!

Health insurance with a base of over Rs. 1,000 crores is virtually non-existent today. Only 2.5 per cent of the population is covered by health insurance policies and the premium rates have remained high and customer service and healthcare infrastructure continues to be extremely poor. In that way the show has just begun and, with appropriate debate, policy decisions and products it is up to the Government, the IRDA and market players to put their acts together to take the course of insurance liberalisation forward.

The author is Editor, Asia Insurance Post.

Paleontology & Palingenesis

P. B. Ramanujam

Role of GIC before opening up

Uncrowned *Rex et Imperator* of the Indian reinsurance world

Reinsurance to GIC is what fish is to water. It was all along the sole, if peremptory and prokeleusmatic, mentor for the Indian reinsurance market as a whole. It scripted the entire reinsurance philosophy for all the four public sector unit (PSU) insurers. The reinsurance programme was drawn up for the Indian market, in its entirety, taking into account the combined financial and operational skills and strengths of the four PSU companies on the principle of *Conjunctis viribus*.

This had enabled it to become monogenic in nature speaking with one voice and operating with one objective, namely, to maximise retention in the country. It had controlled the obligatory cessions, market pool arrangements, market surplus treaty facilities and facultative placements of direct insurers. The property (large and listed) risks were underwritten on a market basis by the GIC and were communicated to the companies for accounting and record keeping. It had arranged reinsurance protection both for self and subsidiaries. In other words, it was the only interface the between the Indian insurance market and the global reinsurers.

Hence, it had considerable brand equity and reputation in the reinsurance world on account of its enormous financial strength, reinsurance underwriting skills, academic excellence and professional experience. This could ensure long standing, enduring relationships with a number of leading global reinsurers. It used to operate both directly as well as through a set of established brokers having standing in certain specialised global reinsurance markets. Moreover, the entire Foreign Inward insurance was centralised at GIC through what was called 'SWIFT' an acronym for Single Window Inward Facultative and Treaty. Logic then was that the gullible, greenhorn direct insurers on a standalone basis had neither the *Sophia Kai Phronesis* (knowledge and experience) nor networth and market standing to provide adequate market capacity and thus are vulnerable to exploitation by global giants.

In a nutshell, the performance of GIC as a sole statutory reinsurer, as far as Indian outward reinsurance business was, measured in financial terms, a net inflow of Rs.1,190 crores from 1976 to 2000.

Even if this period is broken down into five year cycles, except during the 1991-96 period, when there was a net *outflow* of Rs.635 crores, the other time cycles produced positive results. However, the results of SWIFT i.e. the foreign inward acceptance portfolio, regrettably, have not been too flattering for various reasons. Concededly the true purpose of centralising the entire inward business was not accomplished at all. *Remedia sunt graviora pericula!* the remedy was worse than disease.

Role of GIC post liberalisation

***Avanculus Maximus Benevolus* - A new GIC reborn - a deuteromorphosis - What a paradigm shift!**

With the re-designation of GIC as the National Reinsurer by IRDA, the character and the business profile of GIC has undergone a change from the role of gubernator to benefactor and enabler to the Indian reinsurance market. Some of other significant changes are :

1. The Indian Market (Property) Pool has been discontinued
2. The inter-group cessions in respect of large and listed risks is now confined to the four PSUs.
3. Indian reinsurers are accepting inward business from India as well as from abroad on their own strength and standing either directly or through brokers.
4. The categorisation of risks into listed, medium sized and small have been left to the companies.

Reinsurance knowledge is no longer a zealously guarded monopoly of GIC. If you wish to multiply knowledge, divide it! An oxymoronic truth. Companies now are at liberty to make placements abroad if local terms are not suitable. Brokers are being licensed and they play an ever aggressive role in helping the direct insurers in securing facultative placements abroad especially in aviation, energy risks, petrochemicals risks and so on.

GIC currently extends the following facilities to the companies in addition to managing Obligatory Cessions: Offer to participate in companies' surplus treaties, market surplus treaties and facultative acceptances, protecting their net account through excess of loss (XL) arrangements.

GIC is an active member in the FAIR Property, Energy and Aviation Pool. It is also a member in the Asian Reinsurers' Summit. All these are to create further facility to the Indian market. GIC has also set up a Terrorism Pool on behalf of the Indian market which is functioning satisfactorily with a reasonable sized corpus of around Rs.300 crores as on March 31, 2003. If this trend continues, Indian market may not be looking to international market too keenly. Further, GIC has started life reinsurance business besides promoting a separate institution for the agriculture insurance business.

GIC has extended its foreign business frontiers in a big way. There is a quantum leap in foreign inward business from $ 63 million in 2001-01 to $ 214 million in 2002-03.

GIC offers the following seven critical services to the Indian Market.

- Enhanced peak risk protection through optional facility from Rs. 1,500 crores to Rs. 3,000 crores PML and CAT (EQ) XL from Rs.850 crores to Rs.1300 crores
- Protecting companies Net Account with XL arrangement (which contains Retro Cession business)
- Motor Obligatory Cessions – absorbing proportionate (20 per cent) losses from the market (it might be a revelation to note that *overall* obligatory cession portfolio of GIC is a loss because of this dimension)
- Affording automatic facility through Market Surplus Treaties (Marine premium rates are deplorably low)
- Offering terrorism protection over the pool capacity –

  i) Rs 300 crores Xs Rs 200 crores (stand alone risks)

  ii) From ground up Rs 500 crores (package policies)
- XL covers for Motor/WC (That too Motor deparment of all things !)
- Enhanced Aviation capacity

GIC has however, to redouble its efforts to develop the following new business lines and create capacity which is no doubt a daunting challenge :

1. Oil and Energy
2. Telecom / cellular networks covers
3. Liability, D&O and Professional Indemnity
4. Jewellers Block Indemnity
5. Credit insurance
6. Agricultural insurance
7. Life reinsurance – annuities, financial reinsurance, catastrophe reinsurance, total permanent disability (due to sickness) on group schemes

Matters of serious concern

While the Indian reinsurance market is chugging along comfortably, all is not hunky-dory yet. Some of the anxieties are enumerated below – these are only illustrative and not exhaustive.

1. The pious and sublime dictum (or is it a mere exhortation ?) of IRDA to exhaust local capacity before placement abroad is not strictly followed. *Sequentia perdita* are two fold :

   (a) Loss of precious premium and foreign exchange

   (b) Unutilised capacities created *at extra cost* goes down the drain – a double jeopardy.
2. Companies are accepting risks at premium rates which will make the market surplus treaty unviable. Errors of a few would lead to holistic bereavement to all.
3. Companies are retaining only a gossamer thin margin for themselves while quoting rates for businesses. This goes against very spirit of copious reinsurance commissions intended as a cushion against adversities.
4. The proclivities/propensities of composite brokers would be to corner the entire market because they have the reinsurance edge over direct brokers.
5. Brokers have to be categorised and rated and regulatory inspection be tightened further to prevent unfair trade practices and also to ensure prompter settlements of huge balances at their disposal including facilitating settlement of commutation proposals.
6. The cascading impact of the cost of direct broking on the reinsurance commission structure, especially in the context of overall loss experience of the obligatory cessions portfolio. In the case of Motor obligatory cessions the loss is so huge as to wipe out surplus in other non-motor obligatory arrangements.
7. Insurance is risky; reinsurance is riskier; retrocession is riskiest. Hence, there should be separate regulatory prescriptions regarding reinsurance (including retrocession) business especially with regard to :

   a) Solvency norms (T*is custodiet ipsos custodes* – who will guard the guardians themselves?)

   b) Foreign assets allocation and prudential diversification norms

   c) Currency matching principle in Asset- Liability management

   d) Financial accounting and reporting standards

   e) Catastrophe and equalising reserves and the tax concessions thereon.
8. Intercontinental regulatory harmonisation needed to facilitate greater and smoother cross border business flows.
9. Insurance and reinsurance companies should be permitted to do information technology enabled back-office work.
10. All market conduct regulation be, gradatim, dismantled while, in the same breath, strengthening financial condition regulations.

Piece de resistance

Finally, paradoxical as it may sound, suggestion coming from me (a kind of *ipse dixit*) the Indian direct insurance market deserves the competitive presence of a few more reinsurance players. This would enable GIC to rediscover itself. What I call *auto anagnorisis* – a self revelation. The market pie is too huge. Come one, Come all! There is enough and to spare. *vivo et vivat* – Live and let live !

The author is Managing Director, General Insurance Corporation of India.

Derisking Reinsurers' Entry

Dhananjay Date

The purpose of reinsurance is to remove volatility in an insurer's results and the reduce the negative impact on the balance sheet and profit and loss account. It also provides substitute capital for an insurer, brings global knowledge and technical expertise to a local market and provides employment in a local market.

Swiss Re appreciates that in the first phase the authorities have necessarily been preoccupied with the primary insurance market because it is this market which addresses the insurance needs of the man in the street. Much has been achieved by the authorities over the past three years and today the primary market has grown significantly, stabilised and given the Indian consumer a wider choice of insurance products and providers. The compulsory tariff and mandatory reinsurance cessions are the remaining impediments to an open and competitive market.

However, since insurance and reinsurance are two sides of the same coin, the time is now ripe to address the reinsurance aspects. Swiss Re believes that it will be in the best interest of the Indian insurance market if the authorities consider the following :

Business model

Amend existing Regulations so that international reinsurers have the freedom to choose, like in any commercial activity, a suitable business model for India. The present Regulations only permit a joint venture (JV) in India where the minimum capital requirement is Rs. 200 crore and the foreign partner's equity is capped at 26 per cent.

> Allow an international reinsurer to choose its own business model; this will encourage the reinsurer to bring its technical know-how and international expertise to the local market.

Entry capital

International experience reveals that even a capital base of Rs. 500 crores (i.e. 2.5 times the present prescribed amount) would be inadequate for a reinsurer in India. There are several Indian risks which have values in excess of Rs. 10,000 crores. Moreover, India is vulnerable to natural catastrophes like earthquake, cyclones and flooding and these events have the potential to destroy well over Rs. 500 crores.

A JV with the referred equity split, or even a fully owned subsidiary for that matter, would still be inadequate because a subsidiary's capital is normally less than its parent's. Creditors of a "limited" company, as is well known, can only recover what can be salvaged from its limited capital. The parent is not obliged, and seldom does, reimburse a subsidiary's creditors.

The branch way

International reinsurers should be permitted to set up a branch in India. Swiss Re firmly believes that this is best for the Indian market. The branch model has already run well in India in the case of international banks. In reinsurance, where huge risks and potential catastrophic losses are involved, a branch model makes sound sense ; the parent's balance sheet backs the branch's liabilities.

Allow an international reinsurer to choose its own business model; this will encourage the reinsurer to bring its technical know-how and international expertise to the local market. It will also generate employment and offer career opportunities in the local market.

In many developed insurance markets in the world, a noticeable trend is that the authorities are encouraging the branch model over the subsidiary or JV because of the peculiar nature of insurance/reinsurance and because of the simple but compelling advantages that a branch operation has.

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Miles to Go...

Aloke Gupta

Increase in penetration of Health insurance was one of the express objectives of opening up the insurance sector to private players. Even as we complete three years of this change, this article takes stock of how Health insurance has fared during this period. It would be worthwhile to reflect on the

- Growth of Health premiums – crossing Rs.1,000 crores
- The TPA experiment and
- The path ahead

Public sector and private sector non-life insurers offer a range of health insurance products including Mediclaim (Individual and Group) and Overseas Mediclaim Policy (OMP)

The numbers

As per available figures, gross Health insurance premium written in 2002-03 was Rs. 1,144 crores as against Rs. 519 crores in 2000-01. This represents a growth of over 120 per cent in the three years of a liberalised insurance regime. These figures can be misleading in absence of a break-up of the premium figures by types of policies.

Without doubt, the plain vanilla offering of Mediclaim would account for the lion's share of the total. But a closer look would reveal that premium generated from Overseas Medical Policies (OMP) is also included in the more generic term of gross health insurance premium. Clubbing of OMP premium figures (with total health insurance figures) projects an erroneous picture since by no stretch of imagination can this policy be seen to be increasing health insurance penetration in the country.

If and when the bifurcated figures are made available, we might be surprised to note that the dramatic growth in Health insurance over the last few years has largely been propelled by growth in OMP premiums. It is interesting to note that among the private sector non-life players, during 2002-03, Tata AIG clocked the maximum health premium amounting to Rs. 32.82 crores. And Tata AIG does not even have a Mediclaim equivalent policy ! No prizes for guessing that all this came entirely from OMP.

To this if we add the premiums for this policy from all insurers – public and private – a not very happy conclusion about the growth and penetration of Health insurance in the country might well nigh emerge. Other policies under Health Insurance are not very popular and will not account for a significant share of the total.

Life insurance companies have been selling critical illness riders, which are an important component of Health insurance. These riders, which are benefit riders in nature as against medical reimbursement policies, provide a real fill-up in the product range in Health insurance. Critical Illness riders in fact, provide leverage to a policyholder of optimising coverage vis a vis premiums by 'layering' of different types of health policies.

> The Indian healthcare sector lacks any widespread form of accreditation, clinical protocols and guidelines, quality benchmarks and, any uniformity of hospital charges.

Critical illness premium figures, lives covered and claims figures need to be combined with the Health insurance figures of the non-life companies to get the correct picture of penetration of Health insurance.

Third Party Administrators

Even one year ago, available Health insurance policies (read Mediclaim) were essentially indemnity plans, without any facility of 'cashless hospitalisation'. There were no tie-ups of health providers with insurance companies. Mediclaim was marked by adverse selection and resultant high claims ratios, inadequate coverage (confined to hospitalisation), stringent exclusions especially pre-existing diseases and rigidity of the premium rates. An unregulated healthcare sector, provider malpractices and lack of standards, accreditation and quality benchmarks further compounded the problem.

Though most of these problems still remain unresolved, the IRDA did take a significant step forward when it introduced Third Party Administrators (TPAs) in 2002. The public sector unit (PSU) non-life insurers empanelled 11 TPAs on a regional basis to provide 'cashless hospitalisation' to Mediclaim policyholders all over the country.

A Third Party Administrator (TPA), is a service organisation under contract from an insurance company to administer its health insurance policies, by providing a bouquet of services to the policyholders. A TPA performs the role of a services integrator – a *triage* between the insurer, the insured and the healthcare provider. The range of TPA services includes Enrollment and Benefits Management, Claims Management, Provider Network Management, Medical Management and Customer Service Management for the Health insurance policyholders of an insurance company.

TPAs have now been in operation for two years. During this short period many pertinent issues relating to their operations as well as spread of health insurance have been thrown up:

Insurer specific

Junior level functionaries of the PSU operating offices see TPAs as a threat to their jobs and are hence are antagonistic towards them. The managerial cadre on the other hand eye TPAs with suspicion fearing a nexus between TPAs and healthcare providers. Hence, on an operational level, the institution of TPA has started operations with a handicap. Due to these negative perceptions, TPAs have experienced delay in periodic replenishment of claim float leading to

a cascading effect of delay in claims settlement to providers, providers refusing 'cashless hospitalisation' to policyholders ultimately resulting in policyholder dissatisfaction.

Healthcare provider specific

The Indian healthcare sector is unregulated. It lacks any widespread form of accreditation, clinical protocols and guidelines, quality benchmarks and, as a result, any uniformity of hospital charges. There is a plethora of homegrown hospital information and billing software in use and healthcare providers do not follow the internationally acceptable disease coding system.

All these make it difficult for TPAs to capture health diagnosis and expense related information in a uniform manner making archiving and mining of this information near impossible. This information which can be a critical input for insurers and their actuaries to develop adequate pricing and newer products remains obscure and 'un-minable'.

Cartelisation by healthcare providers in certain areas to resist price negotiation has also been observed. This form of collective bargaining, in the absence of healthcare sector regulations, spells disaster for the efforts of TPAs and insurers to control claim costs and provider fraud.

TPA specific

TPAs have generally not performed up to the expectations of the policyholders and insurers. There have been complaints of delayed issuance of ID cards and mailing of collaterals. Dedicated call centres have really not been 'dedicated' and policyholders demanding 'cashless hospitalisation' have been turned away by healthcare providers. Claims have not been settled in 15 days, as promised, either to the healthcare providers or policyholders who decided to go out of the provider network and hence did not avail of the 'cashless facility'.

All these are probably transient start-up troubles but what is disturbing is the information about growing unholy nexus between some TPAs and healthcare providers resulting in increased utilisations and 'kick-backs'. Insurers need to be vigilant of this phenomenon since this could well shroud the entire Health insurance industry in doubt, distrust and despair.

A silver lining is however the decline of incurred claims ratio after the advent of TPAs. As per figures available from GIPSA, the incurred claims ratio of public sector non-life companies Health insurance portfolio came down to 91.07 per cent in 2002-03 as against 99.21per cent in 2001-02.

Accreditation of healthcare providers

Accreditation of healthcare providers is a critical requirement for enabling quality benchmarking of services and healthcare facilities, eventually standardising provider charges. The services and facilities provided at the diagnostic centres, nursing homes, and hospitals need to be standardised. The introduction of a rating mechanism that is compulsory for participation in insurance schemes can fulfill this need.

> The drawback with the rating process is that it is voluntary, expensive and apparently does not add value to healthcare providers in the general apathy towards quality.

The system of healthcare facility grading is necessary to differentiate healthcare organisations on a graded scale based on their ability to deliver quality patient care. The organisations graded higher are expected to have better facilities, superior quality levels and consistency in service delivery, and as a result, to provide quality healthcare to the patients.

All efforts in the last few years to promote a voluntary healthcare provider accreditation agency have not borne fruit. The health sector is divided over the issue. A system of rating of healthcare providers has been introduced by credit rating agencies, ICRA and CRISIL. These agencies have not met with much success since only a few tertiary level hospitals have got themselves rated, mainly to source domestic and foreign funding. The drawback with the rating process is that it is voluntary, expensive and apparently does not add value to healthcare providers in the general apathy towards quality. The accreditation process needs to percolate down to at least secondary level of care for it to make any significant impact on the quality of healthcare delivery in the country.

Realising the necessity of an accredited healthcare provider network, insurers recently decided to appoint lead TPAs in metro regions to commence empanellment of an accredited common provider network. These TPAs were to develop and apply some credentialing parameters. In spite of initial setbacks that it has suffered, this initiative needs to be carried to its logical end.

Common standards

There is also a need to create common standards and norms for coding of diseases and for treatment procedures. The exercise started by public sector non-life companies' in 2002, to develop standardised billing formats from the healthcare providers

seems to have derailed. The IRDA should still press for standard formats of crucial treatment related documents for insurers, TPAs and providers

Some of the changes may call for involvement of Indian Medical Council and even changes in laws. The IRDA should play the role of a coordinator and drive the changes required in this field.

Entry of new players

Despite opening up of the insurance sector, no global health insurance company has shown interest in entering the market. Government's intent through legislation to give preference to registration of those insurers who intend to carry on Health insurance business has not yielded the desired result as the minimum capital norm for exclusive health insurers is felt to be on the higher side.

The experience of the public sector non-life companies has also not been encouraging with regard to coverage and financial performance. As a result, no initiative has been taken to introduce new Health insurance products. The private sector non-life companies have introduced slight variations of the existing Mediclaim and the private sector life insurers have introduced critical illness riders to their life policies.

Global insurance licensing practices allow life insurers the freedom to offer products that cover contingencies that may affect a covered life e.g., life, health and accident, and are termed as employee benefits. For a life insurance agent, Health insurance is an extension of a life policy. The process of life policy selling is more intense and often results in a long-term relationship.

Life insurance agents report that most life insurance prospects or policyholders ask for a health insurance product, and would be confident buying it from them. But present regulations restrict life insurers from selling reimbursement type wider health insurance covers and only allow them to offer critical illness riders to life policies.

Critical illness riders are useful more as top up layers or as supplemental covers to a wider health insurance policy like Mediclaim and sub-optimal solution as sole health insurance cover.

Since comprehensive revision of insurance laws is underway, it is an opportune moment for IRDA to bring about far reaching changes for promotion of health insurance in the country. Such changes relate to – (i) Allowing life insurers to write all forms of Health insurance (ii) Reviewing capital requirement and related norms for standalone health insurers.

The path ahead

Health issues are acquiring urgency due to factors like medical inflation,

For a life insurance agent, Health insurance is an extension of a life policy. The process of life policy selling is more intense and often results in a long-term relationship.

increasing life expectancy, increasing load of lifestyle diseases and uncertainties in individual employability and earnings. Paradoxically, living long and dying young are both creating new tensions in society. With the virtual absence of a health social security system and a high proportion of national health spending being met by households, the need for a widespread Health insurance system is urgent and pressing. Each set of players in the game needs to play his part honestly.

- Relaxation of entry norms for health insurers needs to go hand in hand with reforms to allow health insurance to be freely written by all players.
- Hospitals desirous of coming up with integrated health plans which combine healthcare financing and delivery need to be encouraged and supported.
- Data capturing, archiving and mining is critical for Health insurance. Standard formats need to be used to report to IRDA on premiums, claims, and lives covered for *each type* of policy.
- New products are required to cater to the changing needs of a dynamic society. Products like dreaded disease, organ transplant, mental disease, etc. can be introduced on a pilot basis.
- Existing Mediclaim premiums can be rationalised by introducing pricing based upon the type of room occupancy. This will widen and deepen the reach of Mediclaim.
- Insurers should re-look at the pre-existing diseases clause which causes maximum heartburn. This calls for adequate pricing of Mediclaim which remains the benchmark product.
- High claims being a weighty issue, a technique like DRG based contracting with providers is crucial to contain spiralling medical costs.
- TPAs also need to learn and introduce claims costs management techniques like pre-admission testing, pre-authorisation prior to admission, utilisation and continued stay reviews, etc.
- Policyholders' education programme informing them about the changes being introduced and the reason and rationale for it will pre-empt complaints about arbitrary and unilateral action.

It is a long and difficult road ahead but not a day too late to begin the journey in right earnest.

The author is a Health insurance consultant.

Two Steps Forward, One Step Back

Nimish R. Parekh

'Health for all by 2000!' was the Government of India's position on health until the year 2000. 'Health for all by 2020!' is the Government's latest mantra. How will any of these statements be possible without the widespread use of a financial mechanism like health insurance?

Since the 1980s, the nationalised insurance companies have been selling the Mediclaim health insurance policy. With subsequent modifications the number of policy holders increased and so did the claims paid-out.

In 1996, the first Third Party Administration (TPA) organisation was launched, offering services such as cashless hospitalisation, 24-hour call centre support, enrolment and claims administration. The TPA, Sedgwick Parekh Health Management, offered its services as a 'wrapper' to any health financing plan – be it insured or self-funded. The model was successful and within a short span of three years, over 75 major employers had availed of these services.

The model was simple – a specialised service provider that could introduce significant efficiencies in administration, services that catered to the customer and controlled cost through negotiated/contracted rates with hospitals. The model required the TPA to contract directly with the employer. The insurance contract was independent, and was drawn directly between insurer and employer.

In 1999, the nationalised insurance companies began to recognise that TPAs (of which there were now three) were able to add significant value to the product but were unsure as to how to work with TPAs. Threatened by the TPAs' relationship with their clients, in May 2000, they quit formal arrangements with with TPAs.

Simultaneously, TPAs had begun discussions with the IRDA for the propagation of a Health insurance model that would include TPAs and would allow the average consumer to access healthcare in a simple, cashless manner. The IRDA warmed to the idea and decided that it would be important to 'legitimise' the TPA model by introducing regulations to bring the TPA under its ambit. A working group was formed in 2001 and the Regulations – Third Party Administrators (Health Services) Regulations - were introduced in early 2002. Twenty organisations were granted licenses in early 2002.

Mediclaim pricing and costs

The average claim value per in-patient claim in metros and semi-metros has risen from Rs. 8,500 in 1995 to over Rs. 30,000 in 2002! But Mediclaim premium has been revised only in 1996 and then in 2002. The result of this inherent underpricing is that health insurance portfolios will demonstrate inferior performance in a year just prior to an increase in premium.

> 'Health for all by 2020!' is the Government's latest mantra. How will it be possible without the widespread use of a financial mechanism like Health insurance?

The impact is further amplified when taking the pure risk premium (which today is just 58 per cent of total premium, the rest being marketing and administrative overheads) into account. Even when a gross premium increase of 30 per cent is factored in between year 2000 and 2001, the loss ratio continues to increase alarmingly.

Moreover, Mediclaim is often sold to groups (employers) as one component in a basket of non-life products and the insurer typically reduces the premium on Group Mediclaim to accommodate the client and give him a better deal. This is a further discount on an already underpriced product and the gross loss ratio gets further amplified.

The state of Health insurance

In 2002, Mediclaim was operating at a gross loss ratio of over 100 per cent and covered approximately 50 lakh people. Of this, most were employees of organisations who had purchased Group Mediclaim. In fact, a large segment of the covered population was the employees and families of the six nationalised insurance and reinsurance companies!

Five years after the first major modification to the Mediclaim policy structure and premium, the insurers were buckling under the losses propagated by this policy. A decision was made to increase the premium by five to 30 per cent (depending on the age band). In addition, the annual maximum limit (sum assured) was increased to Rs. 5,00,000. There was some resistance from policyholders but the premium increase was generally absorbed by the market.

Progress of the TPA model

In May 2002, TPAs were invited to submit bids for the provision of TPA services for the four nationalised insurers, by General Insurance (Public Sector) Association (GIPSA). The tender did not even specify the detail of services to be provided and still demanded that a commercial proposal be submitted as part of the bid. Most of the 23 licensed TPAs submitted bids (after guessing the commercials!) and a selection was made. The TPAs that had not been selected raised several objections to the selection process. At which point, the GIPSA chose to have the entire selection dissolved.

Meanwhile, private sector insurers had conducted surveys and due diligence reviews on TPAs and proceeded to select one or two for their health insurance products. Many had a Mediclaim equivalent as they could not go against what the market dominators offered in terms of price.

In August 2002 the public sector companies again went through a round of selection and - with no due diligence and with the basis of selection being unclear – selected 10 out of the 23 TPAs.

TPA fees for the nationalised companies ranged from 5.2 to 5.4 per cent of gross premium, depending on the region selected. There was no clear indication of the revenue realisation in Rupee terms for any of the TPAs as the insurers themselves did not have clear information on the premium realisation on a zonal basis.

After this round of selections, there was a concerted effort on the part of the TPAs to identify exactly what services were to be performed. Several discussions were held by the insurers and TPAs to nail down the legal contract. The terms were finalised in October/November 2002. The first Mediclaim policy inclusive of TPA services sold in October 2002 to employers that renewed. Nine out of the ten selected TPAs proceeded to execute the contract in October and November 2002 without even understanding what income they were to receive as they did not have information on the premium realisation for the zone that they were to cover.

Parekh Health Management, which was selected for the West Zone by Oriental Insurance Company, insisted on accurate premium information prior to contract execution, and got this information in late December 2002. The fee worked out to approximately Rs. 60 per member per annum. Parekh Health recognised that working at these pricing levels, the business was commercially unviable and informed Oriental that they were unable to work with them on this product at the given pricing levels. It was the only TPA to have refused to accept this business.

> TPA selection must include thorough due diligence of infrastructure, knowledge, experience, capacity and technical capability. A political selection process is not only insufficient, it is irresponsible!

State of the market today

Since the launch of the Mediclaim policy with TPA services there has been a lot of criticism of the product in the media. Interestingly, network hospitals have been the loudest in their criticism primarily because they have not been paid as per their agreements, with many payments delayed beyond reasonable time limits. Consumers too have shared their experiences in delayed enrolment, lack of response at call centres, non-recognition of their ID cards at hospitals among others.

All-in-all, the health insurance market from the nationalised companies' Mediclaim point of view seems to be in turmoil. An interesting contrast is the experience with private insurers and their version of Mediclaim. They too have had their share of problems, but not to the degree of negative publicity as has been faced by the public sector insurers and TPAs. In fact, most employers who have purchased private insurance with TPA services seem to be satisfied with services. The negative publicity may primarily be due to the sheer volume that the nationalised companies continue to serve versus the private companies; however, there are some fundamental issues that exist that need to be addressed.

TPA selection

Health insurance administration is a specialised field and requires highly skilled personnel and technology. The TPA provides a critical service to the industry in both customer facing and back-office areas to an insurer. The services form an integral part of the successful delivery of a health insurance product, which means that the TPA must be selected with care and diligence. TPA selection must include thorough due diligence of infrastructure, knowledge, experience, capacity and technical capability. A political selection process is not only insufficient it is irresponsible!

Responsibility

The primary responsibility of the state of health insurance lies with the insurance company and NOT the TPA. The consumer relies on the insurers' capabilities to select the right service provider particularly when he/she has

no choice in selection therefore the insurer's primary responsibility to the consumer cannot be vacated. The TPA is responsible to the consumer indirectly. Let me state categorically that it is irresponsible of a TPA to solicit business that it is not capable of serving – either due to lack of capital or lack of experience and know how. TPAs that accept business despite their inability or lack of capacity to handle the business should have their licenses revoked by the IRDA as they are doing a disservice to the consumer and to the development of a healthy market as a whole.

Now what?

The IRDA, insurance companies, TPAs and medical providers will all have to participate in the ongoing development of the health insurance market.

IRDA

The IRDA has taken a huge leap in the health insurance market development by introducing regulations for TPAs. It now needs to look ahead by facilitating the development of other important facets such as uniformity of data and information, adoption of standardised coding systems and confidentiality of medical information. It will also need to evaluate the need for a distinct set of regulations governing Health insurance. Finally, it will be important for the IRDA to consider the inclusion of life insurance companies in the Health insurance arena. They should be allowed to provide not just riders but full-fledged Health insurance as, in many markets, health insurance is considered to be allied with life insurance.

Insurance companies

Insurance companies need to take a hard look at two major aspects of their Health insurance aspirations:

a) Product design and pricing
b) Service provision capabilities of their administration partners

In my opinion, Mediclaim is the single biggest deterrent to the innovation and development of health insurance products due to its pricing. It is critical that the nationalised insurance companies recognise that the long term sustainability of portfolio based pricing is low and that healthcare cost inflation will mar any efforts to shore up a losing portfolio as has been demonstrated in markets all over the world.

Health insurance products will have to be evaluated on their own merits

> Finally, it will be important for the IRDA to consider the inclusion of life insurance companies in the Health insurance arena.

and the critical medical loss ratio parameter will have to be brought into the evaluation protocol. This is the single most important aspect of health insurance in India that will have to be taken into consideration by the industry if we wish for consuming Indians to choose from a rich offering of varied health insurance products that are priced fairly and designed to suit every need.

Insurance companies will also have to view their TPAs as partners and not vendors. TPAs will be the deciding factor in the success or failure of each insurers' health insurance aspirations. TPAs that fail to perform or fail the due diligence review or demonstrate a lack of responsibility to the consumer in any way must have their licenses revoked!

TPAs

TPAs will have to mature very quickly to ensure that they take on business of a size that is commensurate with their capacity. TPAs will have to also ensure that they have easy access to capital as their needs in a growing market will demand constant increases in capacity in a step function approach. TPAs will have to recognise that they are similar to the BPO/ITES organisations in that scalability and quality of service are the only yardsticks that they will be measured on. Adherence to Service Level Agreements and unrelenting pursuit of customer satisfaction (both insurer and policyholder) will be the only path to success.

Medical providers

Hospitals, diagnostic centres, physicians, pharmacies and other paramedical providers will all need to reconcile themselves to the fact that the payor (insurance company through its TPA/s) will play an ever increasing role in the financing of healthcare. With this participation, there will be increased accountability and demand for information from them. They will also need to recognise and react to the leverage exerted by the payor in pricing. Gone are the days of irrational pricing by physicians. It will serve the consumer best for this group of stakeholders to engage the payors in productive discussion and partnership to ensure that the consumer is served best.

In conclusion, if we are able to take these next steps prudently, I'm sure that "Healthcare for all by 2020" will become reality rather than an empty promise.

The author is Chief Executive Officer, United Healthcare India. The views expressed here are his own.

Advantage, Large Customers

G. V. Rao

It is over three years since the general insurance market in India was liberalised by allowing the entry of private sector players to provide competition to the four public sector players, operating under a monopoly regime, since nationalisation of general insurance in 1973.

Objectives of liberalisation

Insurers, in a liberalised market, are expected to create new demands for the insurance products that they market by enhancing the levels of risk awareness among the uninsured public. Instead of being mere service providers, it was expected that they would lead a marketing revolution to widen the market base by netting more and more uninsured public to avail the benefits of insurance. How have the insurance players performed?

By creating a competitive environment the standards and levels of customer service were expected to go up to benefit the insured public. In keeping with the trends of the growing economy and rising incomes, new products to take care of the hitherto unattended risk exposures were expected to flood the market. The State was to benefit by more investments flowing into the financial system to help the economy grow. How have these objectives been met so far?

Gains of liberalisation

A quantitative and qualitative assessment can be made of the objectives to gain an insight into what has been achieved and where the future should lead us to optimise the benefits of liberalisation. This article seeks to examine market growth, customer satisfaction levels, competitive trends, and problems hindering the future development of the market as a part of the analysis from their annual financial statements for 2002-03.

Market growth

There has been an impressive growth in the volumes of premium income of the insurance market in 2002-03. The premium income has grown by 21.5 per cent to record a level of Rs. 14, 000 crores. The public sector players have contributed Rs. 12,600 crores and the private sector players Rs. 1,400 crores.

Fire business grew by 10.6 per cent, Marine by 15.8 per cent and Miscellaneous by 26 per cent. The reasons for the impressive growth could be to increased premium levels of mega-sized risks wherein the rates are dictated to by reinsurers, increase in the Motor tariff premium rates and increased auto sales and a customer-led demand for medical insurance schemes. The buoyant economy has also assisted in the growth of business.

In 2002-03, the premium income grew by 21.5 per cent to record a level of Rs. 14, 000 crores.

Public sector performance

The public sector players posted an excellent growth rate of 14.4 per cent in their gross premiums and recorded Rs. 12,600 crores as income. But the portfolio growth showed that it was the growth in Marine segment at 12.7 per cent (Rs. 1,145 crores gross premium) and the Miscellaneous, usually a loss-making portfolio at 19.5 per cent (Rs. 8,954 crores gross premium) that was responsible for this performance. The Fire portfolio remained stagnant at Rs. 2,500 crores.

Whereas the gross Fire premium of the market grew by Rs. 284 crores the share of the public players was only Rs. four crores! In Marine they improved their income by Rs. 130 crores out of a total increase of Rs. 167 crores. In Miscellaneous the growth was Rs. 1,458 crores out of the market growth of Rs. 2,016 crores.

The market share of the public players dropped to 90 per cent from the previous 96 per cent. The have missed out on the growing size of the Fire premium and this should be a matter of utmost concern to them.

The earned premiums, a true measure of growth, showed that the growth rate was nine per cent, the same as the year before. Their retention level of business earned premiums has fallen to 73 per cent from the 77 per cent in the previous year, showing a heavier dependence on reinsurance support. Another feature noted was that though the Marine premiums grew by Rs. 130 crores at gross levels, at the earned premium levels it showed a fall of Rs. seven crores! Evidently a good portion of the Marine business increase has come from risks that were reinsured very heavily.

Their claims ratio on earned premiums has dropped to 84 per cent from the high of 93 per cent in the previous year. The management expense ratio on earned premiums has risen to 32.2 per cent up from 30.4 per cent in the previous year. The expense ratio continues to be a matter of concern as the public sector depends almost entirely on the vagaries of claims ratios rather than on cost cutting as a tool to stay profitable. The present level of 32 per cent is unacceptably high from the insuring public point of view.

The four public sector players have, however, ample reasons to congratulate themselves for turning out a performance beyond the market expectations. The combined profits before tax have soared from a meagre Rs. 36 crores in 2001-02 to Rs. 840 crores in 2002-03.

The significant contribution has come from the reductions achieved in the underwriting losses by Rs. 621 crores. Though the industry continues to reel under operational losses, the underwriting loss in 2002-03 has dropped to Rs. 1,441 crores against Rs.

2,062 crores of the previous year. The investment and other income grew from Rs. 2,098 crores to Rs. 2,282 crores to produce a profit before tax (PBT) of Rs. 841 crores.

The Fire and Engineering businesses did not witness any major losses. The Motor business, a perennial source of concern, had a relatively lower loss ratio than before due to increases in the tariff rates that took effect from July 2002. With the exception of United India, whose underwriting loss went up from Rs. 368 crores to Rs. 400 crores, the other three insurers have managed to reduce their underwriting losses. Oriental has performed exceptionally well, and has reduced its underwriting loss from the massive Rs. 534 crores of the previous year to Rs. 250 crores, the lowest among the four insurers.

While the financial performance of the public sector players has been satisfactory on the overall, how have they performed on other parameters of growth, expenses and settlement of claims? The following tables show the performance figures.

Table A shows the earned premiums of each insurer with their loss ratios in brackets, Table B the underwriting results, Table C the results of investment and other incomes, Table D profits before tax, and Table E the management expenses and the ratios on the earned premiums.

The outstanding losses in amounts and their number as at March 31, 2003 are shown in Table F to demonstrate

that the insuring public should be given a better deal. The outstanding losses are mounting up at the rate of Rs. 1,000 crores per annum. The figures in brackets show the number of outstanding claims and it is significant.

Table A: Earned Premiums and Loss Ratios

(Rs. in Crores)

Company	2002 - 03	2001 - 02	2000 - 01
National	1,965 (83 %)	1,817 (95 %)	1,704 (86 %)
Oriental	1,855 (79 %)	1,821 (100 %)	1,684 (89 %)
New India	3,297 (82 %)	2,859 (89 %)	2,577 (89 %)
UIIC	2,110 (90 %)	1,973 (90 %)	1,822 (98 %)
Total	**9,227**	**8,470**	**7,787**

Table B: Underwriting Results

(Rs. in Crores)

Company	2002 - 03	2001 - 02	2000 - 01
National	(301)	(463)	(245)
Oriental	(250)	(582)	(275)
New India	(490)	(534)	(446)
UIIC	(400)	(368)	(420)
Total	**(1,441)**	**(2,062)**	**(1,386)**

Table C: Investment and Other Income

(Rs. in Crores)

Company	2002 - 03	2001 - 02	2000 - 01
National	440	360	335
Oriental	425	358	350
New India	803	761	685
UIIC	614	610	429
Total	**2,282**	**2,098**	**1799**

Table D: Profits before Tax

(Rs. in Crores)

Company	2002 - 03	2001 - 02	2000 - 01
National	139	(97)	90
Oriental	175	(235)	75
New India	313	208	239
UIIC	214	157	8
Total	**841**	**36**	**413**

Table E: Management Expenses

(Rs. in Crores)

Company	2002 - 03	2001 - 02
National	646 (33%)	554 (31%)
Oriental	640 (34.5%)	585 (32.1%)
New India	895 (33%)	758 (29.3%)
UIIC	614 (29%)	525 (29%)
Total	**2,795**	**2,422**

Table F: Outstanding Claims

(Rs. in Crores)

Company	2002 - 03	2001 - 02	2000 - 01
National	2,253 (3,40,000)	2,124	1,867
Oriental	2,490 (3,12,000)	2,524	2,159
New India	3,929 (3,60,000)	3,384	3,022
UIIC	3,244 (4,35,000)	2,963	2,793
Total	**11,916**	**10,995**	**9,841**
Cumulative Total	(14,47,000)		

The public sector insurers should not only be concerned with the competitive pressures generated by brokers and the private players but deal with the issues of how to cut their high costs and give their customers a better deal. The statistics shown above are to be seen in the light of focusing their attention on the areas needing their urgent attention.

The technical reserves, called the policyholders funds, are Rs. 16, 944 crores as on March 31, 2003. The net worth of the four companies amounts to Rs. 6,744 crores. The industry's investment income of Rs. 2,300 crores is geared by 70 per cent of policyholders' funds.

Private sector performance

The private players have raised their gross premiums to Rs. 1,340 crores from the previous Rs. 466 crores. The accretion has come from Fire by Rs. 280 crores, Marine Rs. 38 crores and miscellaneous by Rs. 558 crores. They have targeted Fire and Engineering business as the strategic portfolios to build their assault from. Their earned premiums have gone up to Rs. 390 crores from Rs. 40 crores. Their retention is 29 per cent up from nine per cent. Their claims ratio on earned premium is 75 per cent down from the previous 102 per cent. Their underwriting losses have reduced from Rs. 127 crores to Rs. 98 crores. Their PBT showed Rs. 19 crores as profit from a loss position of Rs. 68 crores in the previous.

Market and liberalisation

The private sector players' performance has been impressive on all counts. With no track record and with limited financial resources and constrained infrastructure they have acquitted themselves well.

The market growth of 21.5 per cent has been an outstanding achievement testifying to the dynamism that prevails at the market. That is a big plus point in favour of liberalisation. The inability of the public sector players to adjust to the newly emerged competitive environment is stark. What should be worrisome to them is that there is no attempt made even now of how their future has to be shaped. In a tariff environment the credit for reducing claims ratios cannot be claimed as solely due to the efforts of management.

Only when the insurers cut costs of operations by raising their revenues per employee, render acceptable claims services and bring in new customers in to their fold, can the managements claim acclamation from the public or by their investors.

How truly free is the market?

By encouraging competition with the entry of private players and yet retaining price and product feature controls through a tariff regime, the market has unwittingly served to encourage unhealthy and undesirable practices to flourish. By bringing in brokers and corporate agents as a part of distribution channels, there has been a heightened awareness of competition created. The competitive advantage one has to demonstrate is not professional expertise but extraneous considerations. This has hurt the public sector players more than anyone else. The market has not been liberalised enough for it to grow faster and for the customers to experience the benefits of price and product feature competition. Continuation of this state of affairs will damage the market and retrieval may be very difficult.

> By encouraging competition and yet retaining a tariff regime, the market has unwittingly served to encourage unhealthy and undesirable practices to flourish.

It is now time to take the next step to detariff the entire market and allow enterprise and marketing skills to be displayed and for players to be more innovative and market savvy. Unless this is done immediately, the market will be subjected to rebating and kickbacks, the bane of the previous regimes.

Who has benefited by liberalisation?

The immediate beneficiaries of liberalisation have been the big-sized corporate customers who are now flooded with offers of service and advice by a number of players. This has led to their making demands outside the control regime.

The individual customers that do not have substantial premiums to back them up have been served poorly. The rising number of grievances, the heightened apathy for customers and the growing number of outstanding claims testify to the fact that nothing has changed for them. It is business as usual for all the insurers. Whether it is the public or private sector players, it is only the big corporate customers that are the attraction. Was this the objective of liberalisation? The individual customer remains uneducated on either risk awareness or on the benefits of the insurance bought. Not service but sales seem to be the goal of insurers.

Conclusion

The urgent need now is to bring in more competition to make the insurers to work harder for procuring their premiums. Detariifing will make the customers more aware of the product features and prices at which they are made available. This kind of customer involvement will generate a market that bargains for mutual interests. Risk management and underwriting skills will come to the fore. Fight for survival will induce creativity and more energetic marketing efforts by insurers, keeping the customer in focus. It is time for the customer to come in to bat for himself.

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Road Tolls

H. Ansari

Just as nationalisation had helped in mobilisation and deployment of massive financial resources together with the spread of life and general insurance business in the country, liberalisation was expected to usher in an era of plenty where the benefits of insurance can be taken to the doorstep of the consumers. Further, liberalisation is also expected to bring about market expansion and focussed penetration.

The CII Sub-committee on Distribution and Intermediaries in 1999 had estimated that life insurance premium in the country would increase to Rs. 60,000 crores by 2005 and cross Rs. 1,40,000 crores by 2010. Non-life premium would aggregate closer to Rs. 20,000 crores by 2005 and touch Rs 40,000 crores by 2010.

As regards pension, the estimates projected the premium to go up to Rs.4 ,000 crores by 2005 and increase to Rs. 14,000 crores by 2010. The consumer mega-trends indicated that the early years of the new millennium will witness major social and economic shifts that will change the way the consumers behave. More than two thirds of the population will become literate. Close to half the people will be under the age of 20-25 years. Modern telecommunication will spread far and wide. Information technology will pervade our homes. Personal computer penetration would increase from one in every 500 persons to one in every 50 by 2008.

These changes would give rise to two developments; a new demand at the lower end of the market spectrum and a dramatic shift in the nature of demand at the upper end of the market. The key to capturing these opportunities would be technology. Delivering value for products will also require a cost effective but multi-distribution network. The growth will come from all those players who would provide the best value for their products at optimum prices.

The fear about the liberalised scenario was, first and foremost, the insolvency of the insurer. This feature is not uncommon even in developed markets with the US leading the pack with nearly 300 insolvencies in the last 20 years. The other fear was that agents would misinform customers. Further, persons belonging to the same pool would be treated differently. There would be discrimination in settlement of claims and also non-payment of claims.

To overcome these fears, the capital requirements for those wishing to enter the market was pegged high i.e. at Rs. 100 crores. This is the highest capital requirement for an insurance company in this part of the globe. In addition, the solvency margin to begin with was kept much higher than the normal international standards. The Regulator had advised all insurers that their assets at all times should be 150 percent of their liabilities. Further, out of the total capital of a new direct insurer of Rs. 100 crores, the solvency margin was required to be not less than Rs. 50 crores at any time. This was consciously done to ensure that the players remain both solvent and functional in the market.

> There have to be ground-rules in competition and the *Lakshman rekha* needs to be observed by all players.

Let us now look at the realisation from liberalisation. The new companies are gradually settling down. Many of them have become aggressive. The existing companies are putting their strategies and reform agenda in place. The competition is gradually hotting up.

The market in life insurance up to the end of March 2003 indicated that the private sector had garnered 7.97 per cent of the market with LIC's share being reduced to 92.03 per cent.

The non-life business in 2002-2003 grew 20 per cent as compared to 2001-2002 financial year. Whilst the public sector grew by around 13.5 per cent, the private sector growth was an impressive 180 per cent. The public sector companies' share came down to 90.5 per cent. The total non-life premium grew to nearly Rs. 14,100 crores at the end of 2002-2003.

The trend in the current financial year 2003-2004 is on expected lines. In life insurance, LIC continues to lead but with a reduced share of 89.05 per cent of the market premium ending September, 2003. The share of private sector has climbed upto 10.95 per cent. In respect of non-life, the public sector companies share has been eroded from 9.5 per cent at the beginning of the financial year to the extent of 13.70 per cent as on September 30, 2003. They now command 86.50 per cent of the market. If this trend continues, the private players may end up by capturing almost 20 per cent of the market on the non-life side by the end of March 2004. The overall non-life premium by the end of March 2004 is likely cross Rs. 16,700 crores but with a lower rate of growth.

The current score card would indicate that the estimates forecast earlier appear achievable. The life insurance premium as at March 31, 2003 has already crossed Rs. 50,000 crores and is well on course to crossing Rs. 60,000 crores by 2005. The Non-life premium for the financial year 2002-2003 stands at slightly over Rs. 14,000 crores and would almost touch the estimates predicted by 2005.

Though the market is on the move, market conduct has been a casualty. Whilst regulations for various intermediaries have been notified, the market behaviour of some of them is unethical. The guiding criterion appears to be snatching of business at whatever cost. The level to which some of the companies have lowered their standards to garner premium has never happened in the past. Hence the need for all to cooperate and lay down proper guidelines for implementation. Competition is no doubt good. It is also beneficial for the consumer. However,

there have to be ground-rules in competition and the *Lakshman rekha* needs to be observed by all players. The Life Insurance and General Insurance Councils are required to play a more pro-active role in developing market conduct for strict implementation.

Motor insurance continues to be the fastest growing portfolio in the general insurance business in the country. Though it appears to be the simplest, the experience of the Indian market on this portfolio during the last 15 years, has been anything but satisfactory. It controls more than 38 per cent of the total general insurance business in the country. As at March 31, 2003 the motor premium of the industry was around Rs. 5,000 crores.

Apart from being the fastest growing portfolio, Motor also accounts for the maximum number of documents. Nearly 60 per cent of all documents, issued and 60 per cent of claims reported emanate from this portfolio. One of the primary reasons for the continued underwriting losses of public sector non-life companies in India has been the higher outgo – both for Own Damage (OD) and Third Party (TP) liability claims under this portfolio. Added to the claims cost is the business acquisition cost and high management expenses which makes this portfolio highly loss prone.

With a road network of over 8.7 million kilometres, and a vehicle population of around 50 million in the country, Indian roads take a toll of more than 85,000 victims every year with over 3.5 lakh accidents reported annually. Our accident per thousand vehicles is the highest in the world i.e. 31.80 per cent and is more than twice that of the UK and 2.5 times that of the US. Our motor crash / accident ratio works out to around 0.17 per cent per year.

As against this, in the US, with a larger road network and with over four times the vehicle population of around 220 million, the motor related accident cases are only around 42,000. Their vehicle population to motor crash / accident ratio is 0.019 per cent per year.

This large loss to human life and accident claims in the country translates into a high cost to the insurers and the society. All constituents need to concentrate on motor road safety. Till recently, the country had to contend with a few models of vehicles on the Indian roads – the likes of Ambassadors and Fiat and few models of commercial vehicles. The situation in the last seven years has undergone a sea-change with high-tech and high value vehicles with greater acceleration and greater probability of damages being now on the roads.

With greater numbers of newer and costlier models vying for space on congested Indian roads, the result is an increase in number of accidents and road related casualties. Road safety issues are of critical importance and insurers must pay attention to it. At present, against every Rupee collected as premium for insurance in the country, the outgo in respect of damage to the vehicle is around 70 to 80 paise with over Rs. three incurred for death and personal injury. This has made Motor insurance unviable for Indian insurers.

> It is wrong to expect an insurer to perpetually bleed and yet underwrite TP business in the country.

The India Motor Tariff was revised with effect from July 2002. The revision however, can only improve the position of OD claims. TP claims, in view of inadequate premium coupled with court awards will continue to bleed the non-life insurers in the market. Our Motor premium rate at around 3.5 per cent is the lowest in the world. The world's average is six per cent and above. In respect of TP there is an urgent need to increase the premium and cap the upper limit on compensation. The liability cannot be unlimited. If railways and airlines can have a limit of liability, then why not motor? Alternately, any liability beyond an upper limit of say Rs. five lakhs can be taken over by the state. It is wrong to expect an Insurer to perpetually bleed and yet underwrite TP business in the country.

Motor insurance in view of its large volume, cannot be ignored by insurers. It is the only portfolio which gives year-round liquidity. The business however, requires to be underwritten with underwriting safeguards and control. The leakages, which are rampant, need to be plugged and complete statistical data is to be maintained by all insurers which will assist them in pricing their products when the market is detariffed in the near future.

Insurance in India continues to be a "superior" good with demand growing relatively with income. Traditional insurance however, is outdated. Customers have begun to switch over to packaging and alternative products. Technology will change the very foundation of our working. It will erode long term advantages.

Risk assessment, risk evaluation and interpreting customer needs will hold the key for future survival. India has a large potential for insurance with our middle class growing rapidly. All players in the market have a responsibility to shoulder. The market was opened so that the customers will have a better future. The players have now to show results through product innovation, improved servicing standards, better marketing and sales techniques and grater product awareness. All this would result in value addition and add to the bottomline. This would not only help the consumer but would also improve the image of the insurer in this part of the world. The Regulator as friend, philosopher and guide and also as facilitator will have his hands full to ensure that the insurers live up to this high promise.

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One of a Kind!

Geetha Muralidhar

Credit Insurance in India has been prevalent in the export sector only as far as trade credit goes. Bank credit or institutional credit was insured either with the Deposit Insurance Credit Guarantee Corporation (DICGC) or Export Credit Guarantee Corporation of India Ltd (ECGC), the latter for covering export credits.

ECGC has been in existence since 1957 primarily as an export promotion institution providing export credit insurance and credit guarantees. Originally it was exempted from the purview of the Insurance Act 1938 and also from provisions of General Insurance Nationalisation Act 1972.

After prolonged correspondences including with the parent Ministry, (Ministry of Commerce) and legal counsels it applied for registration with the IRDA in 2001 and was granted registration in September 2002. Going by the spirit of opening up of the insurance sector, ECGC is also pitted against other private and public sector insurers.

Export credit insurance is a voluntary one unlike Marine insurance, an allied cover which is mandatory as far as the beneficiary is concerned. Hence to make the former self sufficient, comparatively high rates of premium are attracted and products are designed to ensure reasonable spread of risks.

Government of India has launched programmes like Focus Africa, Focus LAC (Latin American Countries), Focus CIS (Commonwealth of Independent States) in order to push exports to these regions which are laden with high political risks. Just as the Regulations provide for obligatory contribution to the rural sector for all insurers, the corresponding area of concern, and hence the need to introduce a mandatory contribution, will be towards the difficult markets in export credit insurance.

Needless to mention that the best outcome in the wake of three years of liberalisation are the many positive developments in ECGC. Earlier only ECGC was doing credit insurance, but now other non-life insurers both privately owned and those owned by Government of India are also reportedly starting to offer this cover.

ECGC now offers a range of products in the place of a single scheme which existed for 44 years. The covers have been tailored as per the exporters' needs. Rationalisation of the premium rates have led to an overall reduction to the extent of almost 40 per cent particularly for transactions pertaining to Focus countries. Underwriting decisions have been hastened. Claim procedures have been simplified and streamlined resulting in quick disposals.

Adequate delegation and discretions have been included in the terms of cover to the exporter to enable minimisation of losses. No Claim Bonus has been enhanced. Upgradation of information technology (IT) systems has resulted in WAN (Wide Activity Network) and e-connectivity to customers. The branch network is being expanded continuously to reach out to exporters.

> **The best outcome in the wake of three years of liberalisation are the many positive developments in ECGC.**

Corporate agency arrangements have been tied up with various banks. Bancassurance in this sector of insurance is only formalising an already existing arrangement since insurance of receivables is prima facie the concern of banks. ECGC has left no stone unturned to provide the best possible products and services to enhance the competitiveness of Indian exporters.

Leading credit insurers are diversifying into related services for which they could charge fixed fees and bolster income without increasing risk exposure. ECGC also provides many other specialised services to exporters by guiding them in export related activities, providing information on different countries with its own credit ratings, assisting exporters in recovering bad debts and offering information on the credit-worthiness of overseas buyers. It is also offering Maturity Export Factoring without recourse to exporters.

In the recent past, credit insurers worldwide have suffered due to high insolvency related claims and scarce yet expensive reinsurance. Credit risk issues have not been the cause of the reinsurance losses. But the trade credit and political underwriters have had to pick up a share of the tab. However, they have tried to contain the impact on customers.

It is observed that however well they manage their own operations and exposure to credit and political risks around the world, underwriters covering international trade risk cannot escape the impact of wider problems in the global insurance market. At the same time, credit underwriters have seen a surge in claims on business in key western economies, reflecting the general downturn in economic conditions.

Trade credit and political underwriting operates on different risk patterns from most of the rest of the insurance market; its risk is widely spread – in both geographical and industry terms. One area where credit insurers' offerings continue to score well is in their inclusion of political risk coverage. Political and economic risks are intensifying. Companies are seeing that the political risk map of the world continues to change and the threat of war and heightened anti-establishment activity are difficult to evaluate.

In a protracted favourable climate there is a general tendency to think that customer risk management is an easy discipline for a company, without any economic consequences. But the prevailing world situation has reminded exporters of the value of insurance, and its unavoidable cost. Thus it can be concluded that there is an increased worldwide acceptance of credit insurance.

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Shore up Credibility

Shrirang V. Samant

Very few sectors of the new economy have received such public scrutiny as the insurance sector. Given this fact, the general insurance sector seems to be headed towards a credibility crisis. This is a strong statement by any standards; however, when one views the current situation as a concerned observer and participant, one sees a sense of cynicism creeping into the general insurance market in India.

The liberalisation of the insurance industry has happened in a most admirable manner. The Regulator has won worldwide accolades for this orderly transition and for the transparent regulatory mechanism. It is now the responsibility of the rest of the non-life industry to ensure that the regulatory expectations are fulfilled in letter and spirit, which includes conducting themselves in a highly professional manner.

The industry consists of three elements - the insurers, the intermediaries and the customers. There is a legitimate expectation that the liberisation of the industry would be beneficial to the consumer by broadening and deepening the non-life market and introducing better service standards. It was also expected that the intermediaries would play a complimentary role in promoting the industry. Above all, it was expected that the new insurers would bring in global best practices in the country.

Underlying these expectations was the assumption that competition is good for everyone.

However, the competitive spirit seems to have expressed itself in the form of a free for all. All three parties i.e. insurers, intermediaries and clients seem to be contributing to this. Insurers are buying business by quoting unrealistic prices and short circuiting tariffs. Intermediaries keep pressurising the insurers to raise the level of remuneration beyond what is permitted by the Regulations and insurers are abetting this by finding ways and means to do it. Large buyers expect some of the intermediary commission to be passed back in terms of discounts or kickbacks.

There are several reasons for this, but the primary reason is the impractical combination of partially tariffed regime and regimentation of intermediaries' remuneration.

Let us examine how tariff regime contributes to the unhealthy practices. Most of the Fire and Engineering products are governed by tariff. These are the products normally bought by large corporates. Tariff based pricing creates a presumption in buyers' minds that they are being overcharged and consequently they have an expectation

> The competitive spirit seems to have expressed itself in the form of a free for all.

that the insurer will compensate for the high tariff rates by charging lower rates in non-tariff products e.g. Marine and other Miscellaneous policies.

In fact the existence of tariff, i.e. price and form control, discourages brokers from demonstrating any value addition. The intermediaries therefore just become one more element in the transactional chain who, in fact, take away value rather than add it. They effectively become rent seekers, leveraging their relationship with the buyer.

When the market was opened for agents and brokers a number of people saw the agency commission/brokerage as a low hanging fruit ready to be plucked, simply for positioning themselves between the insurance buyer and the company. The rates fixed for agency commission and brokerage became the floor rates rather than ceilings. A common question one encounters from the brokers today is

how much the insurer is willing to part with over and above the statutory limit.

Since buyers also recognise that brokers are not in a position to add value and know that they receive commission from insurance companies they feel justified in asking for part of the commission back either directly or indirectly. The big buyers have now realised that insurance companies are out to buy business at any cost.

It is quite evident that none of the insurers, in both the private and public sectors, has really contributed to spreading the message of insurance amongst the general public in the area of non-life insurance. There are several reasons for it. In the mind of an individual buyer non-life insurance is equated with Motor insurance, home insurance and Health insurance.

Motor insurance is statutory hence it gets bought rather than sold. Promoting home insurance in fact requires investment in distribution which is not cost effective for private sector players because of the small ticket size of an average home policy. The need of the hour is to bring out a simplified home product which is easy to explain and easier to administer. There are structural problems with the Health insurance product viz. Mediclaim. The corporate clients use the group Mediclaim facility

as an employee benefit and have no hesitation in asking the insurers to cross-subsidise the adverse claim ratio in Mediclaim product by premiums in other classes of business from the same corporates. This precludes any form of underwriting or claims control.

At an individual level too it is difficult to introduce a medical product which can be underwritten with appropriate controls in the shape of room charges and fees for procedures until the public sector insurers change the structure of Mediclaim policy which provides a blanket cover across all sections. It is also worth noting that in other parts of the world Health insurance generally undertaken by specialised health insurers. IRDA's recent announcement that separate entry norms might be considered for setting up health insurance companies is a very welcome direction in building the Health insurance industry in the country.

The solution to the foregoing problems, particularly the unhealthy competitive practices, does not lie in harsher regulation but in liberalisation. Total detariffing can bring about significant improvement in the situation. A really free market is incompatible with product and price control, which is what tariff means. The tariff stops the insurer from product differentiation, underwriting these on the merits of each risk and pricing them appropriately. In a tarriffed market the buyer is the ultimate loser.

Detariffing will also allow the intermediaries to add value. In a really free market the intermediaries, particularly brokers, play an important role by advising the buyers about the products, coverages and price etc. Once the market is detariffed, it is important to allow the market process to determine the intermediaries' remuneration rates. These will automatically find their right level once the insurers learn to price the product on a net basis and the intermediary is able to demonstrate value to the customer so that the customer determines what level of intermediary commission he is willing to pay.

> To argue against detariffing on the grounds of consumer protection is anachronistic. Regulation is all about prudential regulation i.e. monitoring the solvency position of the insurers.

To argue against detariffing on the grounds of consumer protection is anachronistic. Regulation is all about prudential regulation i.e. monitoring the solvency position of the insurers. Fortunately most of the private players in India are backed by top ranking international and domestic promoters and hence their ability to maintain the capital base is more or less assured. The Regulator's focus should be on monitoring solvency, which will automatically ensure that the insurers charge adequate price and keep their acquisition cost under control.

In summary, the only logical solution to the current deteriorating market conduct of some of the players in the non-life industry is to do a complete and swift de-tariffing, to remove restriction on agency commission and brokerage and continue to monitor service standards and solvency position. This will enable the local non-life industry to develop world class underwriting skills and the ultimate beneficiary of the whole exercise will be the consumer.

The author is Managing Director, HDFC Chubb General Insurance Company.

GOOD AND BAD

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The Agony and the Ecstasy

Dalip Verma

It all seemed only yesterday that we were basking under the joy of being one of the newly licenced insurance players. We keep saying 'new player' and we are already almost three years young. How fast time flies!

Looking back, I am happy that we stayed our set path and didn't stray and hence have little regrets on anything. My mission as we set out was:

- To provide cutting edge customer delight – 24 / 365
- To "build" good strong distribution channels – howsoever slow and tiresome it may be, rather than "rent" or "buy" distribution
- To build a wholesome well balanced portfolio of good quality business with emphasis on retail growth

The above ideals were not achieved by sudden flight. In fact like the old saying goes "but by toiling through the night" and burning the candles at both ends. We were the first to set up a nation wide 24 hour call centre with a toll free number manned by our very own people and, right from the word go – it was a runaway success. Not only were queries of customers and agents catered to at any time, but even claims could be lodged from anywhere, at any time. We have set industry standards in terms of contactability.

When it came to building distribution – it required 'sweat equity' and I can say with full confidence – hard work pays – in the long run.

We were aware that in non-life insurance - 'selling' products was indeed more challenging than customers 'buying' products for mandatory reasons. We went with the tide, but ensured that we rowed too and kept to the planned path. Today we have a well-balanced portfolio and are working to grow and maintain it that way.

Like the parents of a growing child, it's the environment - Regulatory, Economic, Social and Technological (REST) – and the market forces that are clear areas of concern. We see that there is less concern on underwriting losses and high acquisition cost, sacrificing long term interests on the altar of quick wins and short term goals and wonder about its long term effect on the market.

Achievements - Industry

IRDA efforts and industry initiatives have allowed tremendous progress to accompany the opening of the sector. They Include improvements in consumer awareness, customer focus, distribution channels and IT enabled services, unbundling of savings and protection products to serve customer needs better, development of more professional sales force through structured comprehensive training processes and the expansion of retail focus with the development of additional distribution channels - bancassurance, direct marketing, affinity marketing etc.

Rural and social sector insurance needs are being addressed and consumer protection regulations have been introduced. IRDA sponsored publicity programmes were launched aimed at increasing awareness.

> Like the parents of a growing child, it's the environment and the market forces that are clear areas of concern.

Achievements - Tata AIG

- 24 /7 customer response centres and improved service levels
- Product innovation and enhanced flexibility which gives customer more options
- Value addition through high quality product literature and detailed sales illustrations
- Claims servicing - introduction of global best practices to accelerate claims handling
- Positioning of insurance as a viable career option - entrepreneurial opportunities.
- Continuation of ongoing initiatives in product, retail and technological improvements.

What more needs to be done

Regulatory reform

- Review of capital requirements - toward encouraging local, regional and niche players
- Health insurance - to be viewed in isolation
- Development of Health insurance through segment specific requirements
- Ministry of Health support essential - drive toward uniformity - standardisation of procedures and diagnostic codes - enabling data collection across health care providers, TPAs and health insurers

Distribution channel reform

- Positioning of insurance as a viable career option - entrepreneurial opportunities
- Establishment of agents / brokers as professional financial advisors and ensuring that there is a good value proposition to attract and retain good professionals.
- For agents - creation of a career path to promote professionalism and allowing allow companies to experiment with different models of agency structure

Other challenges

- Insurance programmes, courses and seminars across schools, colleges, universities and workplaces.
- Sharing of information and resources - creation of central information registry.
- Preparing the market towards detariffing.
- Increasing penetration levels cannot occur in isolation. All concerned - state and private insurers, Government bodies and the regulators - must work in unison toward achieving common industry goals

In summary

No generation has had the opportunity as we have to build a great future for the Insurance Industry. It is a wonderful opportunity, but also a profound responsibility. Keeping pace is simply not enough. Competitive advantage lies in getting ahead and staying ahead. In the words of Victor Hugo:

- The future has many names
- For the weak it is unattainable
- For the fearful it is unknown
- For the bold it is opportunity

The author is Managing Director, Tata AIG General Insurance Company.

Expand the Pie!

V. Jagannathan

Three years is a short time in the life of a country or even an industry. But the last three years have been very significant for the insurance industry in India. For more than two and half decades, the position was stable with the industry being a Government monopoly.

The last three years have witnessed the emergence of an open environment with private players entering the market. The first step was taken by separating the owner, Regulator and service provider. Earlier, the Government had undertaken all the three roles. The setting up of an independent regulatory authority and allowing of private ownership marked the end of the old era and the dawn of the new one.

The Regulator has been active, coming out as it has with a host of Regulations, covering a wide area of operations like accounting, publicity, intermediaries and re-insurance. Practically, all operational fields have been brought within the ambit of the Regulations. New concepts have been introduced.

The attempts at professionalising the intermediaries has started giving results. Compulsory training of agents has forced the companies to organise their training programmes and also ensure that the new entrants have a basic grounding in insurance. The refresher training envisaged in the Regulations will ensure continuous updating of standards.

Eroding profits have been a cause for concern. As an industry, the profits have been declining in the last few years and this trend appears to be accelerating.

Insurance, for long, has been an industry neglected by the media. The debates during the liberalisation process and the high visibility has had a salutary effect in attracting professionals to this industry as intermediaries. All this should go a long way in improving customer servicing.

Eroding profits have been a cause for concern. As an industry, the profits have been declining in the last few years and this trend appears to be accelerating. Fire and Marine, which have been the profit making portfolios, have not been growing to the desired extent, while Miscellaneous (of which Motor constitutes a major segment) has been increasing its share.

It is common knowledge that the insurance industry has been bleeding heavily on account of Motor insurance. The Government insurers account for most of the Motor premium and unless immediate and drastic steps are taken to restructure the premium or compensation or both, there is every likelihood of the entire industry becoming sick. And this appears to be a distinct possibility when viewed along with the falling interest rate scenario.

A major cause for concern are reports of unhealthy practices creeping into the market place for business procurement. With intensifying competition and with high stakes, the temptation to cut corners is high. Unless this is nipped in the bud, the chances of this malaise getting institutionalised is real. There is no doubt that the Regulator would take required steps to set things right in this matter.

Ultimately, all the changes should result in expansion of the market. This is one of the major objectives of the liberalisation process. This will be achieved only if more people are drawn into the insurance net. Currently, the focus of all the players is on getting a share of the existing pie. An attitudinal change has to occur and all the players have a responsibility in ensuring that this goal is reached.

While concluding, I am sure that there is a bright future for insurance industry in India. The road ahead is nice, there is a good car available and all that matters is how the car is driven!

The author is Chairman and Managing Director, United India Insurance Company.

Mind-Boggling Prospects

H.S.Wadhwa

Development of the insurance industry over the last three years has brought about a paradigm shift in the way business is being conducted. A Regulator and the corresponding mechanism, opening up of the industry to the new players, new intermediaries, liberalisation and globalisation of the industry perspectives have caught the imagination of everyone.

This has substantially raised the profile of the industry and increased the mindshare of insurance among the general public. There is considerable interest in the media and industry associations and groups are excited by the prospects of the industry as well as a gamut of new services that could add value to their premium Rupee.

The consumer has been the biggest beneficiary not only in terms of choices of providers and products but also in the range of quality and service. The Indian insurance industry has been characterised by very low penetration. The mindset on insurance and its benefits have considerably improved and the industry appears to be at a take-off stage.

The opening up of intermediation through professionalised agents, corporate agents, brokers and bancassurance has dramatically improved the visibility of the insurer and their products and services. This coupled with information technology (IT) facilitation is going to make insurance available at the doorstep of the customer anywhere, anytime. Insurance premium has been considered to be high and policy terms and conditions rigid. This has led to a movement in favour of detariffing and pluralisation of rates and terms, offering customers a diversified menu of products and services.

There has been considerable stress on professionalisation, which has generated a host of insurance educational progammes including professional courses. Interest has also been generated in areas such as actuarial studies and risk management courses.

However there are grave concerns that the freedom and opportunities which are available to the new entrants, can make them susceptible to take shortcuts and fall for short-term gains. Immediate stress has to be therefore placed on total professionalisation of all the new players and in their abiding in toto to the letter and spirit of the Regulations including those of the Tariff Advisory Committee (TAC.)

Sharp practices in the area of pricing and offering of commissions etc. are going to erode the credibility and destroy the long-term prospects of the industry. We acknowledge the concerns the IRDA is showing in these areas and would be happy if all players of the industry join in upholding highest standards of insurance professionalism and conduct. The primary task of every player is to widen and deepen the market by attracting new customers and enhancing the loyalty of old customers. This can be achieved by high level of dynamism and ethical conduct.

> Sharp practices in the area of pricing and offering of commissions are going to erode the credibility and destroy the long-term prospects of the industry.

As far as National is concerned we have been on the fast lane in every area responding to the initiatives taken by the Regulator and the Government. We have pioneered a series of tie ups starting with leading auto giant Maruti which transformed intermediation and has given a new meaning to after sales service to car owners in auto insurance. In the area of bancassurance the largest number of tie-ups have been entered into by us. Similarly maximum initiative has been shown by us in the recruitment and training of agents with as many as 116 training centres countrywide. Innovative products like Sampoorana Suraksha Bima, a seven in one package, has received enquiries even from abroad. More new products from the National's Suraksha series are in the pipeline.

Opening up of the insurance industry has brought about a revolution in the way people insure. Simultaneously it has opened new challenges before both the old and the new players. If the market is developed properly, the premium generation will be mind boggling.

We are sure that all the players will rise to the occasion and make the Indian insurance industry grow rapidly and become a model for other countries in ensuring customer protection as well as social and economic betterment.

The author is Chairman and Managing Director, National Insurance Company Limited.

Regulations Good, Policing Better

S. L. Mohan

I still remember the days of early 1990's clearly, when serious talks were on about privatisation of the insurance industry in India. At a time when there were only a few of us left who had had the opportunity of working in a total private environment prior to 1973, these talks of impending privatisation appeared to be more out of sheer inquisitiveness rather than out of any real concern about the welfare of the industry. Then came the Malhotra Committee and the rest is history before you.

The insurance industry is not the same now as it was when the Malhotra Committee was formed, which was the first positive step in the direction to invite private initiative in insurance. Nor will it be the same again at any time in future. The questions that we ask ourselves at this stage are, whether privatisation has taken the direction that was intended for it, whether it has done good to the industry in particular and community at large, whether public sector insurers are benefited or handicapped by such privatisation and whether any further regulatory steps are to be initiated by the Regulator at this stage.

Privatisation is still in its infancy for us to get an answer to the first question. The Government has considered all aspects of the situation before embarking upon privatisation. Globally, greater competition has brought out the best in every competitor and we believe that this generalisation would be true of privatisation of insurance industry also. Again, it is too early to say anything significant about the impact of privatisation on our industry and our community. The market has been used to dealing with public sector insurers continually for over three decades and the recent global events on terrorism and spurt in natural calamities have impelled a large segment of the community to avail insurance covers.

Gone are the days when insurance was talked of only to comply with a legal requirement, or when there was an external compulsion from a bank or financial institution. Insureds are nowadays better informed and desire to be so. From this point of view alone, I may say that there could not have been a better timing for a larger number of players in the field.

For most of us in the public sector, it is the third question that is of greater relevance to us. What have we gained from privatisation and what have we lost? Competition was existent among the four major players even before privatisation. The public sector insurers are, therefore, not new to competition. Even today, we find that a public sector underwriter competes as much with other public sector units (PSUs) as with the private players. The addition of a few more insurers in the arena has enlarged the scope for such a competition. One major gain from the privatisation for the PSUs would be the change in their functioning from being sheer output-oriented to technology oriented. There has been a tremendous surge in the inflow of technology. This is almost certain to benefit the customer by greater speed of issuing documents and settling claims.

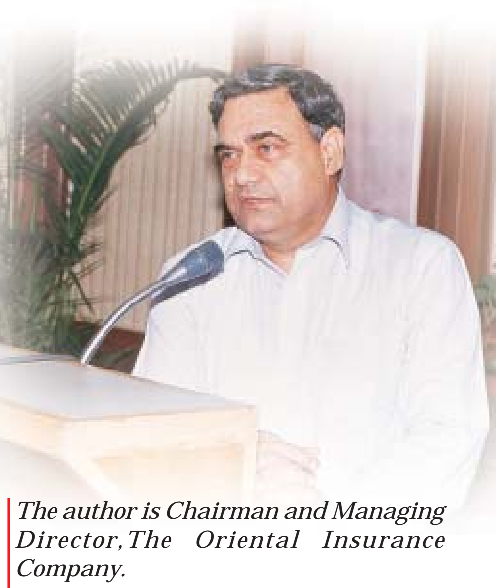
> From making available a selected list of schemes for the public to choose from, insurers have started probing into market requirements. The gain, therefore, is the R & D that goes into the efforts.

A second gain could be the change in the outlook on market segmentation. All insurers have started looking keenly at the requirement of the various customer groups so as to coin new schemes to cater to their needs. From making available a selected list of schemes for the public to choose from, insurers have started probing into market requirements. The gain, therefore, is the R & D that goes into the efforts.

On the other side, the private players have shown significant growth of their portfolios. Growth rate may not be a true indicator on this, as their opening base is quite small. Nevertheless, every player in the field has made a significant contribution. I would, however, view this as an opportunity rather than as a loss to the PSUs for two reasons. First, it has proved that market penetration into unexplored areas is more possible by PSUs. Second, our country has a general insurance potential of over Rupees one trillion, even according to a very conservative estimate and the collective efforts of all insurers put together hardly sum upto even a small fraction of this. The cake is very large for the too few insurers to share.

On the last question, full credit should be given to IRDA for trying to ensure that there is no growth of unwanted grass where trees are expected to grow. Traditionally, there has been no dearth of laws, rules and regulations in our country. Effective policing is the requirement of the day. One area where the Regulator should be, and I am sure the Regulator would already have been greatly concerned, is the orderly growth of the industry. It must be ensured that in a tariff regime as it stands today, intermediaries contribute effectively to the customer service and not become a device or tool to illegal rebating of premium leading to unintended price competition.

The second area of concern for the Regulator would be improving the lot of policyholders and also the building of safeguards in the Balance Sheet which reflect IRDA's anxiety on this. The successive Chairmen of IRDA have shown great resilience in ensuring that there is orderly growth of the industry.



The author is Chairman and Managing Director, The Oriental Insurance Company.

The Market Speaks

Arun Agarwal

The years leading up to the opening of the insurance market were justifiably full of expectations relating to the introduction of newer practices on products, processes, placement and promotion of insurance precepts and practices. The opening up of insurance and the licensing of the new private companies – with or without joint ventures – has resulted in a virtual explosion of ideas. They say "all revolutions begin in the mind."

The product range has dramatically increased, not only through the introduction of more generic versions but also through more variations and add-ons to the generic versions. The momentum is only going to pick up further pace with the gradual withdrawal of tariff - allowing the underwriters to evolve customer specific covers resulting in buyers getting what they want. It is only a natural corollary that the concomitant processes work to the facilitation and introduction of new generation of products and ideas - Indian IT has specially blossomed at the right time to let this happen!

The Indian market had never seen this kind of placement and promotion of insurance products with virtually every technique in the book of distribution being employed – be it traditional mode of one to one selling or burgeoning of channels or through direct marketing, bank assurances, broad marketing, worksite marketing and so on. The promotion techniques are getting even more sophisticated and refined with niche marketing being the mantra of the day.

The Indian general insurance industry is thus well poised on its evolutionary journey. The increasing competition, declining interest rates, pricing deregulation and an evolving regulatory frame work are the true aids and hallmarks of an industry where the sharpest and the keenest will survive more in the eyes of the customer before they get caught with the regulators. The likely detariffing, which would definitely catalyse changes in the pricing environment, increase in the operating leverage and re-pricing of investment portfolios, likely increase in the business sourcing costs and the consequent and likely decrease in 'float' availability because of faster claims settlement due to increasing competitive pressures will result in the industry's behavioural profile getting changed much faster – and the beauty of it all is that it would happen at the behest of the Market – with both industry and the market saluting the supremacy of the ultimate customer.

> The Market has begun to talk – it is a benefactor to those who listen and would be a destroyer to those who ignore it.

It is an important lesson and recognition in the whole journey of the Indian insurance industry, and perhaps a more pronounced realisation is the fact that the Market has begun to talk – it is a benefactor to those who listen and would be a destroyer to those who ignore it.

There is a more important recognition that the market can and should never, ever, be policed. The players can merely be enabled and made to conform - to good governance, ethical standards, legitimate consumer interest and best of service standards.

It is then that the insurance industry would subserve its true role - and aid and a helper in the growth and developmental processes of the society.

The upshot will be that the Market and stakeholders (as opposed to just shareholder's values as in the West or employees' welfare as in the Far East), together, will be richer.

The author is Chief Executive, Cholamandalam MS General Insurance Company.

WHAT DO YOU THINK?

Do our Issue Focus stories make you want to say something too?
You too can write in with your views.

Send them to:
The Editor, IRDA Journal, Insurance Regulatory and Development Authority, 5-9-58/B, Basheer Bagh, Hyderabad - 500 034.

Staying Power Prime

Sandeep Bakshi

The Insurance Industry was nationalised in 1973 and over hundred companies which existed prior to nationalisation were collapsed into four. These companies have indeed done yeoman service to the Indian insurance space.

The human capital of the Indian insurance industry has come to be respected all over the globe and that is seen in various international assignments where they have accredited themselves with aplomb.

The opening up of the sector three years ago has seen eight new players come in, each with a strong parentage and having financial strength and/or powerful international presence.

The task for the new companies was not easy as the existing companies had forged strong relationships, understood the risks well, had powerful databases, a physical distribution setup and an agency force which had been built up over the years.

The new companies had a limited distribution and therefore needed the support of the intermediaries to get technical evaluations and the databases. The limited distribution has also forced them to look at alliances like bancassurance besides focusing on the intermediaries.

Further a specific effort has been made to make the customers aware of customised products as there is little perceived differentiation in a tariffed product regime. The new companies have used their local and internal linkages, support from intermediaries, customised products and alliances/bancassurance partners to get a share in the market which has grown from four per cent in 2001-2002 to ten per cent in 2002-2003 and about 14 per cent in the first half year of 2003-2004.

In spite of the growth in penetration the client companies continued to have apprehensions about the ability of the new players to pay large claims. While these companies had been making a case with their ability based on strong reinsurance arrangements, this was not getting accepted without being tested. The last six months have been very eventful in this regard as some of the largest explosion, Fire and Engineering claims have happened in risks being lead by the new players. The prompt and efficient settlement has in fact built a huge credibility for the new players regarding their claim settlement ability.

One of the expectations which remains unfulfilled in spite of the eight new players is that of developing the personal lines. Years of experience have demonstrated that the low cost policies like householders policies etc. cannot be sold through the physical distribution channel as the friction cost viz. acquisition cost and operations cost in the policy issuance eat into a large chunk of the premium. The answer to this lies in technology solutions.

India's demographic profile is moving towards a younger population which is extremely comfortable with the virtual technology platform. One believes that a robust virtual platform with the ability for online policy issuance and secure payment gateway is the way forward for the large scale development of the personal lines products. The success of bank ATMs which has increased the branch capacity tenfold and increased the web trading of shares gives us optimism that efficient use of technology could lead to a quantum growth in the personal lines.

> One of the expectations which remains unfulfilled in spite of the eight new players is that of developing the personal lines.

Tariff was introduced in the Indian market to achieve certain core objectives of stability and managing policyholder's interest by ensuring that the companies remain robust. The purpose has been served as we have an industry in a sound state of health. The time is probably appropriate to look at detariffing as the existing public sector companies have a strong war chest on account of the gains in their investment books and data profiles while most of the new companies on the other hand have international exposure in operating in a detariffed regime. While the view may sound radical, detariffing along with the freeing up of brokers'/agency remuneration is the panacea for this sector. These steps could result in an initial rate cutting and some losses but in the long run it would lead to optimum pricing of risks and the companies emerging stronger.

Liberalisation has produced different results in different sectors and it remains to be seen what the outcome in this sector would be. For example, after ten years of liberalisation the penetration of new/ multinational banks/private banks is about 25 per cent while the penetration of the new players in mutual funds is over 70 per cent. However strong growth has been recorded in both the sectors and the biggest beneficiary has been the customer.

Whatever be the scenario, the distribution channel both physical and virtual is to play a key role in the development of the sector. The insurance distribution channel is offering huge opportunities in the Rs.15,000 crores business which is continuously recording a double digit growth. We expect global majors in broking to set up strong distribution platforms. Over the next couple of years the companies are expected to become carriers of capital and risk with physical and virtual channels contributing to the business inflows.

The industry is blessed to have a Regulator which is managing the challenges in the sector arising out of opening up to private sector, changes in tariffed regime, intermediaries, policyholders' interest, competition and the social responsibility with great maturity. In addition, platforms and industry forums have been set up for the sectors. One believes that the right business conduct and collaboration in the area of databases, negative list, frauds and the like will be of immense benefit to all the participants.

The insurance sector in India has a total investment corpus of about Rs.40,000 crores. Insurance is largely seen as a protection product and most of the offerings are believed to be commoditised in a tariffed regime. New products in the area of liabilities, credit insurance, performance guarantee etc. are expected to take insurance to the platform of business facilitation. This, coupled with the growth in the personal lines where the retentions are high, is expected to result in a sharp increase in the investment corpus. The area of investment will only grow in the future.

We have seen the sector attracting a lot of media attention. The gross written premium (GWP) numbers which are reported so regularly for the private sector have little relevance as the building up of an insurance business is like a marathon and we are all in the first few laps of that race. The challenge for all the participants is to maintain quality growth without fatiguing.

Let me conclude by saying that the sector is extremely exciting for all the players and we are fortunate to be a part of this phase. The opportunities are there for all the participants and we can justifiably look to the future with a degree of optimism.

The author is Managing Director and CEO, ICICI Lombard General Insurance Company.

A Smooth Journey...

Sam Ghosh

The insurance industry has undergone an extensive change in the last three years with the entry of some 20 new companies in the life and general insurance sectors. The change has been smooth, courtesy of the regulator – IRDA.

The policies have been fair to all the parties and whatever apprehensions were there was resolved through constant dialogue and deliberations. In the past three years, almost all companies after receiving the licenses have been active in the market and trying to capture a sizable share of the insurance pie.

If we trace the events back, some of the significant regulations introduced by IRDA are – quick implementation of insurance regulations, speedy, simple and non-controversial licensing formalities, compulsory training for becoming an agent, and opening of new channels of distribution for insurance products like agents, banks, and, the most important of all, heralding the entry of brokers in the market. These measures had a catalytic effect to the penetration of the insurance market besides increasing the general awareness about insurance.

With the major issues concerning the insurance industry having been addressed by a series of regulations over the past three years, IRDA will have a major role to play in the coming years. Major issues, which need to be addressed, are the smooth transition of the market to a detariffed scenario.

With most of the companies in their third year of operations, it will take another two years to actually harvest the fruits of liberalisation. Most of the new players may not have the might and learnings of the public sector insurance companies. However, the new players in the industry have learnt to gradually be on their feet. On the life and non-life sides the new players have garnered over 10 per cent market share, which is significant considering that in some of the mature markets the time taken to achieve this was well over five years.

The Rs.14,000 crore general insurance market has witnessed some changes in procedures and systems hitherto unheard of in the insurance industry. The entry of new players had its spillover effects in other sectors like this industry and has given a fillip to the employment market. Suddenly the job market looked up after years of downturn. The industry has created new employment opportunities in both the skilled and the unskilled sector. Professionals like lawyers and chartered accountants have taken to specialised skills in insurance field. Actuarial practice, an important insurance profession, has a lot of new avenues in the liberalised environment.

Overall we are thankful that the market has opened up quickly and in an orderly manner thanks to the Regulator and his team. We wish them all the best for the future.

The author is CEO, Bajaj Allianz General Insurance Company.

Detariff

Antony Jacob

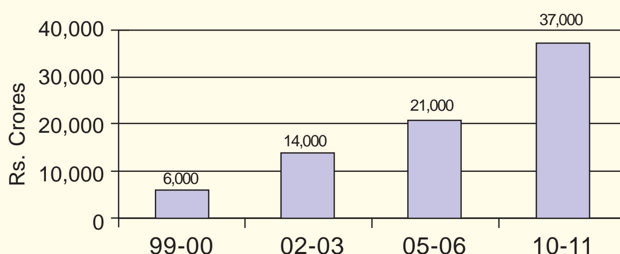
The Indian Insurance Industry has grown tremendously since liberalisation in 2000. The multi-channel distribution pattern to improve insurance penetration, increased focus on customer service and innovative product ranges to cater to the unique needs of different segments of the society have all contributed to the industry's current levels of growth.

This growth has been aided by the unstinting support of the Government and the IRDA. Last year's increase in rates under the Motor insurance tariff followed by the introduction of the broker and corporate agent regulations were significant steps towards streamlining the industry.

With a steady growth record over the past few years, the outlook of the Indian insurance industry is extremely positive. There is scope for substantial growth in the industry over the next five years, as illustrated below. Within this, health will be a major growth area, besides the small business segment. In essence, Retail will become 'Red Hot' for insurers like Royal Sundaram.

One major area of focus for the future is the proposed removal of tariff. We see the transition being from a tariff and 'rate card' environment to that of sound technical and differential pricing models for the vast range of general insurance products designed for specific customer segments, in line with global developed insurance markets.

Over the past few years, it is heartening to note that the industry has taken several strides towards tapping the vast potential offered by the one billion population in the country. Insurance companies - especially those in the general insurance sector – have made significant progress at improving the penetration of insurance with their multi-channel distribution of products and services. Royal Sundaram's distribution strategy - through strong bancassurance partnerships, brokers and agents has witnessed the impressive growth of its customer base to over 4,20,000. As in other developed insurance markets, intermediaries such as banks, agents and brokers will soon become drivers of innovative products and contracts.



The development of the broker intermediary channel will contribute significantly to improving professionalism within the industry, besides catering to the need for proper risk management. While brokers working on behalf of the insurer help customisation of insurance products and promote better risk management practices, agents working on behalf of the insured enable the client to receive the best advice on the most suitable insurance products. Bancassurance has also emerged as a key distribution channel for both life and non-life insurance.

Relationship management has emerged a clear area of focus for the industry, which is now looking at customer retention as a sure step towards building a loyal customer base. At Royal Sundaram, excellence in relationship management extends not only to the customer but also to the route to the customer, comprising the distribution and marketing network.

As the overall range of general insurance products and solutions tend to closely converge due to stiff competition in the industry, the sole distinguishing factor for the market leader would be excellence in customer service. Royal Sundaram

believes that excellence in customer service delivery is an integral component in the achievement of sustainable competitive advantage.

Accessibility to the customer through toll free lines, simple policy wordings for better understanding of the product, easier buying procedures and effective claims management are some prerequisites to reach general insurance to India's potential customers. The current emphasis should be on the thriving retail and small business segment, which remains largely untapped.

Given the large rural spread in India, insurance for the rural and social segments is another focus area. Special features such as simple buying procedures, easy modes of remittance of the affordable premiums, high level of service standards, regular visits by company officials for further guidance, speedy and fair settlement of claims and periodical review of operating systems, as with Royal Sundaram go a long way in taking insurance to this sector.

We are pleased with the direction the industry is taking. There are a number of challenges that lie ahead - including the removal of tariff - but we are confident that growth can be sustained. With support and guidance from an able regulator, the future of the insurance industry in India is, I feel, extremely positive with several more milestones to cross!

The author is Deputy Managing Director, Royal Sundaram Alliance Insurance Company.

Risk Carrier as Competitor

Neil R.Mathews

I would like to explain the broker's perspective on the progress made to liberalise the industry and, in particular, to comment on some of the issues that have a direct bearing on the brokers' contribution to this initiative.

In the first instance, I would like to preface these comments by reminding the reader that, brokers have only been in existence for approximately 12 months, a very short time frame to be able to draw any meaningful conclusions, but we can take a snapshot of what has transpired to date and perhaps comment on some directional changes that may be considered to optimise the broker channel to enhance choice and professional service to clients.

It would be useful to consider the intention of introducing a multi-channeled delivery system which includes a prominent role for professional insurance brokers.

In many developed markets, the percentage of insurance business, particularly in the non-life segment, handled by brokers represents a high proportion of the total, and there are statistics to indicate that the growth factor in such markets are superior to those where brokers do not have a prominent presence.

This indicates that brokers have a valuable role to play in the development of the insurance industry and the distribution of products and services to various industry segments and socio-economic groups. The healthy competition that is generated is generally beneficial to the insurance buyer and the industry as a whole. It is also an accepted fact that the role and function of the broker generally takes over some of the functions currently performed by insurers, thereby reducing the risk carrier's acquisition costs.

Having said all this, there is frequently a question that is posed, as to the real 'added value' that a broker can bring in to a tariff dominated market. In the first instance, I would mention that there is a vast difference in the professional services provided by the broker as compared to an agent in the critical areas of market selection, risk management, portfolio management, and claims services.

Professional brokers take a broad view of their role, reaching well beyond transactional intermediation of risk into the area of strategic risk consulting, which involves a review of the full range of risks to which business is exposed i.e. property/fire protection, health and safety, environmental, business continuity and technology risk, legal, financial, etc.

Through the process of risk identification and assessment, the broker assists the client to develop risk control strategies which are designed to lower their overall costs of financing these risks. The process is intensive and helps to raise the standards of good governance and risk awareness within the client organisation.

> Through risk identification and assessment, the broker assists the client to develop risk control strategies which are designed to lower their overall costs of financing these risks.

The ability of a broker to deliver all of these value-added services is dependant largely on his ability to derive revenue at a level consistent with broker remuneration in other parts of the world and be able to compete fairly and equitably with other channel service providers as well as the direct sales networks of insurers. There is therefore a prerequisite for a level playing field where all intermediary service providers can compete in the market place to deliver their services.

The current practice of direct discounts to clients being offered officially in the form of a five per cent discount on major tariff classes and to a greater extent the unofficial discounting that is indulged in by certain insurers with scant regard to the Regulations, not to mention business ethics and good governance, is a direct and serious impediment in the path of developing a comprehensive and efficient broker delivery channel.

There are of course, matters in the area of ethical business practices and professionalism that need to be addressed by the broker community itself and these are currently being tackled by the brokers' representative body, the Insurance Brokers Association of India (IBAI). Equally it is felt that the IRDA as regulatory body needs to pay urgent attention to the activities of some of the risk carriers on the issue of rebating.

In the acutely price sensitive environment that we find ourselves promoting and successfully selling the value proposition of a professional brokerage service is, to say the least, challenging. When this is compounded by some insurers offering illegal incentives, in certain cases as much as 22.5 per cent to clients direct, the position for brokers becomes almost untenable. It is ironic that in the process of liberalising the market and creating fair competition, we find ourselves in the invidious position of our erstwhile and future business partners – the insurers – taking the role of our biggest competitors in their unprincipled scramble to acquire market share.

In conclusion, I would like to share with the readers my vision that despite the current challenges and difficult trading conditions, India will become a major broker driven market which will not only develop the insurance sector at a significant rate but also help distribute products and services widely amongst all sectors of the community within a finite period of time.

The author is Chief Executive Officer, Aon Global Insurance Services Pvt.Ltd.

Evolution with Moderation

Bharat J. Boda

The presence of intermediaries other than agents is of recent origin in the Indian market. Without exception each type of intermediary has been allowed to come into existence, licensed and encouraged to find space for their type of business in the existing insurer driven market.

The types of intermediaries are enumerated below:

- Agents - i. Individual for life, general or both; ii. corporate for life, general or both.
- Brokers - i. direct for life, general or both; ii. reinsurance for life, general or both.

  There were no brokers previously.
- Bancassurance - a referral facility provided by banks to insurers to their own customers for which the banks earn a fee.
- Consultants are recognised by the regulations but not regulated. They are appointed by the client or by the insurer and are no different than they always were. They tend to be more visible now due to emergence of the other intermediaries as enumerated above.

The rationale in throwing open these opportunities in intermediation was:

- penetration and growth
- improved efficiency in purchase of insurance
- increased awareness of risk issues and insurance

Nationalisation in 1972 emphasised the need to take the message of insurance to the common man. Liberalisation in 1999, 27 years later, is repeating the same message. Distribution is considered a key area of attention now as against consolidation 27 years ago.

The new regulatory environment is geared to move towards solvency based regulation of insurers rather than managing their solvency through market tariff and directed reinsurance. The India Motor Tariff is under review by a committee to detariff Own Damage (OD) premiums by year 2005. There can be potentially a movement towards partial, if not full, detariffing, to enhance competition between insurers. This can be expected to bring improved values of risk bearing from insurers to their customers. Intermediaries with professional expertise will mature in that situation and enhance the quality of insurance purchase and claim service.

The IRDA has been issuing frequent notifications regarding the levels of commission payable to the brokers and agents. There is also disparity between the levels of commission and it has also been wrongly linked with the level of paid-up capital of the corporate client. Thus, it would be observed that the Indian market is still feeling its way on the correctness of its rules of the game.

Intermediaries have come into existence. Uncertainty prevails on the exact role they have to play and the level of justifiable remuneration. This has probably been the main cause of slow progress in development of broking activities. Added to this, the still burning issue of the five per cent Special Discount also needs to be quickly resolved.

> The interface of the foreign broker with the Indian insurance market also requires a clearer enunciation.

Broadly there are three sets of intermediaries - those that represent the insurers, those that work for clients and those that provide consulting.

Those that represent insurers have their role cut out, responsibilities taken care of but restricted to the single insurer option in a competitive situation.

Those that work for clients have to gain client acceptance, hold themselves responsible for their actions and work with a multiple insurer option in a competitive situation.

The consultant can influence the work and responsibilities of insurers and brokers.

The Indian client will need to understand the above perspectives before he can actively and efficiently start using intermediaries. This process requires attention by all concerned to make the Indian intermediary accepted in the insurance buying process. This is part of market evolution and if properly catalysed can enable earlier maturity of the Indian intermediary.

As things are it is not necessary for an Indian broker to go in for foreign collaboration particularly for direct business. He can use his own expertise and experience in developing the direct local business. Joint venture in insurance companies was introduced after a great deal of thought and consideration. The equity participation of the Indian and foreign promoters are allowed to equalise at 26 per cent after ten years of proven business results.

Similar thought and consideration appear to have prevailed in respect of brokers as well. There is an exception in that reinsurance broking can be transacted by brokers based overseas without having to be licensed in India. There are four foreign brokers at present in joint ventures in India. Many others operate as reinsurance brokers from outside India though not licensed by IRDA. The interface of the foreign broker with the Indian insurance market also requires a clearer enunciation.

There is a perception that the Indian insurance market has not added to its premium. There has been diversion of business from public sector insurers to the private insurers. The ground reality is that public sector insurers have to support and come to terms with intermediaries – both agents and brokers. The private sector require to build a critical mass in premium and they are aggressive directly and through their agents irrespective of the services of a broker.

The broker is portrayed as harmful to healthy practice in the market. On the contrary, with the in different approach of

public sector insurers on one side and aggression of private insurers on the other, the broker is harmed against in his practice as an intermediary and not allowed a healthy opportunity. These evidence that there can be hiccups as we go forward but it should be possible to attend them fully and emerge as successful intermediaries.

Insurers, particularly private insurers, need to reach across the country. By allowing brokers to relate with individuals and firms in different towns and cities, a wider and immediate distribution network is made possible. Such network can be made possible in two ways – (1) federate the brokers as a mutual support system and (2) create a network of sub-brokers. While the first may not be much of an issue for the Regulations, it is limited in scope. The latter of course will require a further liberalisation of broker Regulations. This opens up greater immediate access to buyers across the country and is therefore presented as a strong recommendation to the IRDA for its consideration.

World markets witness considerable share of insurance placements done by brokers as amongst all forms of intermediaries. This is clearly an evidence of the direction for the Indian market too!

The author is President, Insurance Brokers Association of India and Chairman and Managing Director, J. B. Boda and Company Ltd.

'Regulator duality needs to be addressed'

K. K. Srinivasan

Three years of liberalisation have seen significant changes in the Indian insurance industry. Eight private sector insurers have entered the market in the non-life side and the competition is heating-up.

In keeping with the tenets of liberalisation, the market is expected to become a completely non-tariff market within a time frame to be set by the insurance Regulator. As of now tariff products constitute an estimated 70 per cent of the volume of the non-life insurance business in India.

Prior to liberalisation, the last major step in de-tariffing was taken in 1994 when Marine Cargo insurance was de-tariffed. This was when the market was under the erstwhile oligopolistic setup where there were only four public sector insurers. The only major class to be de-tariffed since liberalisation is the insurance of mega risks (Fire and Engineering) with threshold limits of Rs.10,000 crores sum insured or Rs.1,054 crores probable maximum loss (PML). This was done in December 1999.

Resistance to detariffing – the cradle baby syndrome?

To a large extent, resistance to de-tariffing appears to be from the insurers themselves. A case in point is the transit and allied insurances of tea, coffee, cardamom and rubber. This class of business was not included when the Marine Cargo business was de-tariffed in 1994 and hence continues to be under tariff. The total estimated volume of business of this class is less than Rs.20 crores. The Workmen's Compensation (Insurance) tariff is another example. The reason for this kind of resistance is perhaps that tariffs give assured premiums to insurers and takes away their drudgery of pricing risks more scientifically.

With this kind of resistance, the market can sooner or later expect to see more active intervention of the insurance Regulator in the de-tariffing process.

In 2002, IRDA appointed a committee under the chairmanship of Justice T. N. C. Rangarajan to examine the matter of de-tariffing the Own Damage (OD) portion of Motor insurance. Based on the recommendations of the Justice Rangarajan Committee, IRDA has appointed a committee under the chairmanship of Mr.S.V.Mony, former Chairman of General Insurance Corporation of India (GIC) and currently Vice-Chairman of AMP Sanmar Life Insurance Company Limited, to prepare the roadmap for de-tariffing the OD portion effective from April 1, 2005.

Stunted product development

Since customisation is difficult in a tariff regime, the loser in a tariff market is the customer who has to be content, largely, with plain-vanilla tariff products. In other words, product innovation and product development are stunted in a tariff market.

Future role of TAC

India is perhaps the only market in the world where two statutory regulators (namely, IRDA and Tariff Advisory Committee (TAC)) in insurance have been allowed to co-exist. Though IRDA is the supreme Regulator and is mandated to supervise the functioning of TAC, this duality needs to be addressed. There are a few other tariff markets in the world but in these markets tariff administration is at best a departmental activity of the insurance Regulator.

In tune with the changes in the economic environment, TAC is in the process of re-aligning itself as the data repository of the insurance industry. In the non-life area, a beginning has been made in computerising the data collected from insurers. In the life area, a computerised database on 'declined lives' for the exclusive use of life insurers has been set up.

TAC is also expected to assist IRDA in off-site and on-site supervision of insurers. On-site inspection of exempted insurers for the year 2002, has already been completed. TAC is also actively involved with the Bureau of Indian Standards in evolving and updating safety standards. For competency enhancement in data management, actuarial and rate-setting areas, TAC has recently entered in to an agreement with the World Bank. In short, TAC is gearing to face the future challenges.

The author is Secretary, Tariff Advisory Committee (TAC). The views expressed here are his own.

Catch'em Young

Fali A. Poncha

The opening up of the insurance sector has undoubtedly been a good move on the part of the Government and once the necessary legislation was approved by Parliament, the change from a monopoly system into a free enterprise system was made as smooth as possible by the pragmatic and transparent approach of the IRDA.

Three years have passed since the first license was granted and specifically with regard to non-life insurance with which I have greater involvement, the questions I ask myself are -

Is there greater consumer awareness?
Have any benefits of the opening up reached the common man?
Has penetration improved?
and my conclusions are as follows:

Whilst the IRDA has initiated a campaign for awareness through mass media and the insurers have expended lavish budgets on trying to create their own brand names, the awareness in real terms has not markedly risen. No doubt there is a greater general awareness that there are more players in the market offering a greater variety of products but that has so far not led to a micro level awareness about insurance, its benefits and the need for various covers that could reasonably adequately counter misfortunes striking an average family.

Why is this so?

It is so because the insurers and their field staff have largely targeted corporates as the most cost effective way of improving their bottom line. These being commercial organisations, one cannot not blame them for doing so but at the same time one can say that they are missing the woods for the trees. Ultimately, the real potential for growth and penetration can only come about if the purchasing base is substantially widened and this can only happen when serious efforts on the part of insurers are directed accordingly.

In my view, the awareness can best be brought about through practical information on insurance being imparted at the secondary school level. This should be an important part of broad based education that eventually would go a long way in preparing every individual to manage in future his/her own personal risks. As they say, "the child is the father of the man".

> Awareness can best be brought about through practical information on insurance being imparted at the secondary school level.

Of course, the next hurdle would be how to go about it because insurance still largely continues to be bought and not sold. This is even more so relating to personal lines insurance. By and large the intermediary, like the insurer, is only ready to invest his time and effort on large corporate accounts to maximise his ratio of earnings to time and effort.

Perhaps, one way to address this is for the Regulator to permit higher levels of remuneration to agents and brokers, say anything up to the maximum of 30 per cent allowed under the Insurance Act for non-life and selected personal lines non tariff products. For life insurance, the first year commission is, although not as attractive as in many other countries, still reasonably attractive to sales persons as it additionally generates recurring income for many years.

Another suggestion worth considering is whether personal lines insurance covers could allow for a return of a percentage of the premium (something in the nature of a profit commission) if say for five years of continuous coverage with the same insurer, there has been no claim.

I make this suggestion because one of the typical drawbacks, one may even call it a mental block, is that unlike in the case of life insurance, the prospective buyer of non-life insurance if he has made no claims, feels disadvantaged as he has only paid out premiums without getting any benefit back. As an insurance person, I do not for a moment suggest that this expectation is justified but the ground reality is that it exists. Industrial risks are eligible for discounted premiums for good claims experience so savings linked products is an accepted concept.

One other area that needs to be seriously addressed is for insurers to streamline their claims service. Claims of large corporates always get priority in processing over individual claims Those who have had an unsatisfactory experience, justified or not, talk of their woes to as many of their friends and colleagues in office as they can, creating a cascade effect.

The fact that the insured has recourse to consumer courts and ombudsmen is of little solace to an average individual insured who is ill equipped to get a quick resolution of his problems. What is required is an overall attitudinal change. Perhaps, insurers could consider setting up Assistance Cells for their insureds. This would benefit the PSU insurers who have large surplus of manpower resources and if such cells are dedicated to make the difficult path of the insured easier, this alone could bring about a greater spread of awareness translating into satisfied customers and increased purchase of insurance. Additionally, an in-depth review by the IRDA of the Policyholders' Protection Regulations needs to be considered.

Some or all of these, suggestions taken as a package could bring about a win-win situation for all concerned interests.

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प्रकाशक का संदेश

मूल्यांकन करना खुशी देने वाली बात है भी और नहीं भी। जैसा कि मैने आई.आर.डी.ए. जर्नल के पिछले अंक में वादा किया था कि अंक में उदारीकरण के तीन वर्षो का मूल्यांकन बीमा कंपनी में संलग्न लोंगों द्वारा किया जाएगा। जो खुद सामने आया है वह है उद्योग के लिए स्पष्ट सूचीगत रास्ता जिसमें शामिल है इसके विनिमय तथा नितियाँ, जिसने पिछले महिनों में इन रुकावटों को कुचल दिया है तथा उसके सुधार के लिए मजबूत पक्ष समर्थन तथा सुझाव प्राप्त हुए है।

एक सौ मीटर का हाशिया पर्याप्त नही है हमें पीछे मुड़ कर देखने के लिए कि हम कहाँ तक उद्योग का खुलना एक संक्षिप्त दौड़ नही थी वह तो मैराथन थी तथा तीन वर्ष तो प्रारंभ का ही प्रारंभ है। यह उपयुक्त होगा यदि हम यह जानने का प्रयास करें कि हम ठीक रास्ते पर है। कुछ बातें प्रकट हुई है वह है विनिमय स्पष्ट है तथा जिस प्रकार ये बनाये गए है वह पारदर्शक तथा उचित है। पेशेवर तथा नये मध्यस्थों द्वारा विनिमायक के द्वारा उद्योग की इच्छा शक्ति को आगे बढा का उचाँ उठाया जा रहा है।

नये कारोबारियों ने उनके कार्य को गंभीरता से लिया है तथा स्थिरता से वह अपने बाजार अंश को बढाते जा रहे है। लेकिन कुछ चिंताए है बाजार विस्तारण आवश्यक रुप से नही हो रहा हैं इसलिए इसमें अभी गहरी प्रतिस्पर्धा भी है विशेष रुप से नए कारोबारियों के मध्य आप इस अंक में उद्योग में सलंग्न कई लोगों की चितांए पढेगें। बाजार आचरण के सम्बन्ध में जो चिंता दे रही है। कुछ विनियमन तथा सरकारी नितियाँ मजबूर कर रही है तथा इन्हें देखने की जरूरत है। विशेषता गैर जीवन बीमा क्षेत्र की कंपनियों के सम्बन्ध में । सतत बीमा लेखन हानि तथा तत्कालिके प्रबन्ध खर्च चिंताए को बढा रहे है।

हैल्थ बीमा आज भी कंही फँस कर रह गया है जो लोग को सुरक्षा प्रदान करने के लिए प्रतिबद्ध नही है। पुराने सार्वजिनिक क्षेत्र के कारोबारियों कि तैयारी, प्रभाव तथा योग्यता, नवगत उर्जा स्थिरता निर्णयक कारक आगे आने वाले वर्षों में होगा । ऐसी चिंताए आयी है। तथा वह निरंतर विनियमन का ध्यान खीचती रहेगी।

छोटे समय के लिए निवेश उदेश्यों के कारण तात्कालिक बाजार अंश अधिगृहित करने के लिए जो ग्राहक के सभी महत्वपूर्ण बिदुंओ को भुला देती है के प्रति सावधान किया गया है।

लंबे समय के उद्देश्य को ध्यान में रखते हुए स्थिरता तथा लाभ के लिए निपटारा करना है। जो विनियमन तथा पेशेवर आचरण से जुडी हुई है। ग्राहक के हिता को ध्यान में रखते हुए प्रचालित करेगें।

हमें एक विद्वता उद्योग बनाना है और जब हम पीछे मुड़ कर उदारिकरण के 4 सालों को देखते है हमें इस बात की संतुष्टि होनी चाहिये कि आज जो संयुक्त विवेक स्वस्थ बीमा उद्योग द्वारा प्रकट हुआ है इसी उद्योग द्वारा ही है इसका विकास होना चाहिये तथा जिसका लक्ष्य ग्राहक की पूर्ण संतुष्टि होना चाहियें।

सी. एस. राव

"कुछ तो लोग कहेंगे"

बीमाकर्ताओं को अपने लागत आधार के ढाँचे के लिये लंबे समय का सख्त रास्ता अपना होग लागत ढाँचे में अलचीलापन (इसको चाहे कर्मचारी, परिसर, सिस्टम आदि के साथ लगायें) यह सतत् प्रोहत्साहन हानि पर बीमा लेखन करवाने के लिये देता है। वित्तीय सेवा क्षेत् के अन्य भागों में इस प्रकार की चुनौतियों का पहले से ही सामना किया जा रहा है। लेकिन बीमाकर्ता के लिये यह एक गंभीर वास्तविकता बन गयी है।

श्री डेविड स्ट्रेचन, निदेशक, बीमा फर्म डिवीजन वित्तीय सेवा प्राधिकरण (एफ एस यू), ग्रेट ब्रिटेन

उन्होंनें प्रीमियम में वृद्धि की जरूरत की वकालत की है, क्योंकि हमें बीमाधारकों को आँखों में आँखे डालकर कहना होगा हमारे पास दावा भुगतान करने के लिये पर्याप्त धनराशि है और हम दावों को तभी आवरण दे सकते है यदि उसके लिये पर्याप्त धनराशि उपलब्ध हो।

लार्ड पीटर लेविन, अध्यक्ष - लॉयड्स ऑफ लंदन

बीमा की जमा योजनाओं के उल्टे प्रतिफल होंगे 'उन्होंने कहा इससे सामान्यता यह है कि बैंक गिर जायेंगे, नैतिक जोखिम के कारण बीमा की जमा योजनाओं के साथ एक समस्या और भी है वह है इसकी लागत बैंक के ग्राहकों को भेज दी जाती है। बैंक ग्राहकों को यह ऊँचे शुल्क तथा प्रभार के रूप में भुगतनी पड़ती है।

श्री डेविड बेल, मुख्य कार्यपालक - आस्ट्रेलियन बैंकर एसोशियेशन

यह मान्यता है कि बीमाकर्ताओं की अलग पहचान नही है तथा उत्पादों को अन्य वस्तु ही समझा जाता है ... इसलिये ग्राहक मूल्य पर खरीदना चाहता है, वह उपलबध सभी सेवाओं तथा उत्पादों के बारे में जाँच-पड़ताल नही करता है।

श्री जॉन सिम, अध्यक्ष - चब्ब यूरोपियन व्यक्तिगत रेखा यूनिट

हमें मलेशिया में सीईओ में से बड़ी पहल चाहते हैं... जो बेहतरीन निगमित प्रशासन पद्धति को लागू कर सकें। अपने संगठनों में ग्राहक संबंधों में सुधार लाये। इस प्रकार कि बीमा उद्योग में बड़ा आत्मविश्वास आये तथा सहकारिता अधिक क्षमता द्वारा कार्य करे। जिससे मलेशिया में स्वंय विनियामित होना मजबूत हो सके।

बैंक निगारा, मलेशिया - अपने आदर्श बीमा सीईओ की अपेक्षा पर

हमें घर में रहने की शर्तें सामान्यत: शर्तें अपरिष्कृत रखनी होगी। इसलिये हमने अपना आधार बाहर मजबूत बनाया है तथा राजस्व बढ़ाया ।

श्री सुसमू उचिंदा, प्रबंध निदेशक - मुत्तसुरी सुमिटो बीमा कंपनी

लाभप्रदता सदा दबाव में

आईसीआरए की दर रिपोर्ट सार्वजनिक उपक्रम की कंपनियों के लिये।

■ लाभप्रदता पर दबाव संभव ■ बीमालेखन गुण ही मूल्य का संचालन करेंगे
■ बड़े निवेश पोर्टफोलियो, उच्च शोधन क्षमता अनुपात तथा मुक्तांश छोटे समय के घटकों को संरक्षित करेंगे

साख मूल्यांकन एजेंसी आईसीआरए लिमिटेड समय-समय पर सार्वजनिक क्षेत्र की कंपनियों का कार्य संपादन का पुनरीक्षण करती है। आईसीआरए की हाल में हुई दर निर्धारण अभिमत जो सार्वजनिक क्षेत्र की बीमा कंपनियों के संबंध में दिया है उसके अनुसार इनकी दर आईएएए यह प्रदर्शित करती है कि उनमें दावा देने की क्षमता अधिकतम है।

सारांश अभिमत

घरेलू बीमा उद्योग ने अपने वर्ष 2000 में हुये विनियम के बाद से समुचित विस्तार किया है। दोनों ही इकाईयाँ सार्वजनिक क्षेत्र तथा निजी क्षेत्र आक्रमक रूप से अपना व्यापार बढ़ा रहे हैं। मुख्य रूप से प्रतिस्पर्धा की अल्पाधिकारी प्रकृति के कारण साथ ही उनकी संपूर्ण राष्ट्र में उपलब्धता तथा मुक्तांश प्रभुसता स्वामित्व निम्न परिचालन तथा वित्तीय नियंत्रण तथा स्थापित पुर्नबीमा समझौते।

इसके अतिरिक्त इनकी वित्तीय शक्ति पुर्नस्थापित हुई है। इनके सशक्त निवेश पोर्टफोलियो के द्वारा (उच्च ब्याज दरों के समय तैयार की गयी थी) तथा उनका अच्छे दर्जे के इक्विटी पोर्टफोलियो पर पकड़ जो विचारणीय तरलता वित्तीय लचीलापन को प्रदान करती है। यद्यपि यह अभी सशक्ता के पीछे संयत प्रणाली का अप्रभावी होना है तथा किन्ही व्यवसाय की संरचना में टैरिफ का उपलब्ध न होना है जो उनकी बीमालेखन की लाभप्रदता को निरंतर प्रभावित करता है।

आईसीआरए का अभिमत है कि नये परिदृश्य में सार्वजनिक क्षेत्र की कंपनियाँ अद्योलिखित चुनौतियों से जुझेगी।

प्रतिस्पर्धा में बढ़ोतरी जो लाभप्रदता, अग्नि था इंजीनियरिंग व्यवसाय को हानि के रूप में परिवर्तित होगी निजी क्षेत्र के भागेदारों के लिये जो सेवा आधार पर अपनी गणना बनाये हुये हैं।

▲ संभावित प्रशुल्क हटाना जो दर वातावरण को मुख्य स्त्रोत में परिवर्तित करेगी
▲ परितागन उत्तोलन में बढ़ोतरी तथा वर्तमान पोर्टफोलियो की दरों का पुन: निर्धारण जो कुछ समय अवधि में परिपक्व हो जायेगी कम प्रतिफल पर
▲ व्यवसाय उद्गम लागत में संभावित बढ़ोतरी
▲ प्रवर्तन की उपलब्धिता में कमी क्योंकि जल्द दावा निपटान प्रतिस्पर्धा दबाव को बढ़ाता है

भूमिका

सार्वजनिक क्षेत्र की कंपनियों ने अब तक सशक्त वित्तीय स्थिति का मजा लिया है। यह उन्होनें अपने पक्ष में पूँजीगत स्तरों से ली थी, पुर्नबीमा समझौतों को स्थापित किया तथा उनकी पकड़ मजबूत निवेश पोर्टफोलियो पर थी। पिछले कुछ वर्षों में मोटर तृतीय पक्ष (टीपी) व्यवसाय की दरों का काफी न होना तथा बढ़ते हुये खर्च ने बीमालेखन लाभप्रदता पर काफी दबाव बना लिया है। मिश्रित अनुपात (शुद्ध उपर्जित दावे + प्रबंध खर्च) / शुद्ध प्रीमियम लेखन, जहाँ शुद्ध अर्जित प्रीमियम शुद्ध बीमालेखन + आरक्षित में असमाप्त जोखिम के लिये परिवर्तन। सार्वजनिक उद्योग के उद्यमियों के लिये वर्ष 2002-03 में उल्लेखनीय प्रगति के बावजूद लगातार उच्च जोखिम में बना हुआ है। आगे चलते हुये आईसीआरए यह महसूस करता है। बाजार लगातार अच्छी प्रगति की और अग्रसर होगा। वर्ष 2000 में जो प्रक्रिया विनियमन के लिये प्रारंभ की गयी थी, वह प्रतिस्पर्धा दबाव बढ़ा रही है, ब्याज दर घटा रही है, दरें विनियमिन हो रही है और विनियमित ढाँचा इन सार्वजनिक कंपनियों के लिये चुनौती उत्पन्न कर रहा है। इसलिये इस पेपर की विशेषताओं का अध्ययन करने की जरूरत है। इनमें से कुछ विकास ने भविष्य में होने वाली इन कंपनियों के कार्य निष्पादन का अनुमान लगाने के लिये कोशिश की है।

चालू वित्तीय स्थिति के पीछे मूल कारक

सार्वजनिक क्षेत्र की साधारण बीमा कंपनियाँ - न्यू इंडिया एश्योरेंस कंपनी लिमिटेड, यूनाइटेड इंडिया इंश्योरेंस कंपनी लिमिटेड, ओरिएंटल इंश्योरेंस कम्पनी लिमिटेड तथा नेशनल इंश्योरेंस कम्पनी लिमिटेड - इस क्षेत्र के विनियमन के लिये ने संक्षिप्त एकाधिकार वातावरण में काम किया। प्रतिस्पर्धा की कमी तथा बाजार का भारी दबाव ने पिछले वर्षों में इन कंपनियों को यह मान्यता दी है जिससे वह मजबूत वित्तीय स्थिति स्थापित कर सके। निम्न स्तर के परिचालन तथा वित्तीय उत्तोलन मजबूत पुर्नबीमा संबंध तथा एक स्वस्थ निवेश पोर्टफोलियो उच्च ब्याज दर के काल में बन गया था। इन कंपनियों के लिये दूसरा शक्तिस्त्रोत बना इक्विटी पोर्टफोलियो जो इन्हें तरलता वित्तीय लचीलापन प्रदान करता है।

वर्ष 2002-2003 के लिये सार्वजनिक क्षेत्र की कंपनियों की बीमालेखन स्थिति में बहुत सुधार आया जिसमें शुद्ध दावा अनुपात देखिये तालिका 1। पिछले दो वर्षों में सुधार के लिये यह उन्नित मुख्यत: मोटर ऑन डेमेज (ओडी) प्रशुल्क में बढ़ोतरी तथा अग्नि पोर्टफोलियो निष्पादन में बेहतर प्रदर्शन के कारण संभव हुआ। (वर्ष 2002-2003 में किसी महाविपदा के अभाव में)

तालिका 1 सार्वजनिक क्षेत्र कंपनियों का शुद्ध दावा अनुपात

दावा अनुपात	2002-03	2001-02
नेशनल	83	95
ओरिएंटल	79	100
यूनाइटेड	90	90

तालिका 2 सार्वजनिक क्षेत्र की कंपनियों का संयुक्त अनुपात

संयुक्त अनुपात	2002-03	2001-02	2000-01
नेशनल	115.3	125.4	114.5
ओरिएंटल	113.6	132.9	116.4
यूनाइटेड	118.9	118.7	123.1

इस क्षेत्र में इन कंपनियों की लाभप्रदता चिंता का विषय है। जैसा कि इनके संयुक्त अनुपात से ज्ञात होता है (देखें तालिका 2) वर्ष 2002-03 में उन्नति के बाद भी बुरी रही। इसका कारण मुख्यत: मोटर पोर्टफोलियो विशेष रूप से टीपी व्यापार की दरें काफी न होना है, जहाँ दरें विनियमित रहे तथा उच्च खर्च स्तर कंपनी के लिये बने रहे।

साधारण बीमा व्यवसाय के विनियम के बाद बाजार का फैलाव

जैसा कि अधिकांश बढ़ते हुये बाजारों के साथ हो रहा है जहाँ बीमा प्रतिस्पर्धा के लिये खोल दिया गया है। भारतीय बीमा बाजार ने भी वर्णन योग्य फैलाव प्राप्त किया है। पिछले दो वर्षों में जैसा कि अद्योलिखित तालिका 3 से स्पष्ट है।

तालिका ३ सकल प्रीमियम लेखा

(करोड़ रू. में)

	2002-03	2001-02	2000-01
नेशनल	2,890	2,349	2,117
न्यू इंडिया	3,929	3,512	3,041
ओरिएंटल	2,782	2,498	2,199
यूनाइटेड	2,971	2,781	2,441
सार्वजनिक क्षेत्र	12,572	11,140	9,799
उन्नति (प्रतिशत में)	13	14	
निजी क्षेत्र	1,307	465	7
योग	13,879	11,605	9,806
उन्नति (प्रतिशत में)	20	18	

पिछले दो वर्षों में प्रगति दर पिछले वर्षों में उद्योग के उदारीकरण के 10 प्रतिशत से अधिक देखी गयी। निजी क्षेत्र ने अपने चिन्ह जमा लिये। भारतीय बीमा बाजार में अल्पकाल में (नौ प्रतिशत बाजार हिस्सा प्रदान करते हुये) बीमा उद्योग के विनियमन से सार्वजनिक क्षेत्र की कंपनियों को भी लाभ हुआ है जो पिछले दो वर्षों में तीव्रगति से विकसित हुई है।

बढ़ता हुआ प्रतिस्पर्धात्मक दबाव

भारत में साधारण बीमा व्यवसाय तीन बड़े वर्गों में बाँटा गया है अग्नि, मरिन तथा विविध (विविध के अंतर्गत मोटर, टीपी व ओडी, इंजीनियरिंग, विमानन्, स्वास्थ्य तथा व्यक्तिगत व्यवसाय शामिल हैं) आज-कल 70 प्रतिशत से अधिक बीमा लेखन (अग्नि, मरिन हल, मोटर तथा इंजीनियरिंग) प्राशुल्क नियंत्रण पर आधारित है, जो अलग-अलग व्यवसाय रेखाओं पर आधारित है जो लाभप्रदत्ता के आधार पर निर्भर करती है। उदाहरणत: अग्नि उच्च लाभप्रद व्यवसाय वर्तमान दरों पर बना हुआ है। मोटर जिसमें दावा अनुपात 100 प्रतिशत से अधिक है अभी भी लाभप्रद नही है। टीपी व्यवसाय एक अस्थिर मुद्दा बना हुआ है। जिसमें दावा अनुपात 220 प्रतिशत है तथा दर परिवर्तन एक राजनैतिक आधारित मुद्दा है। मध्यम काल के लिये दर अपर्याप्त रूप से इस प्रकार बने रहने की उम्मीद है फिर भी बीमा कंपनी कुछ मामलों में प्रीमियम को बढ़ा रही है।

बाजार के विस्तार के बावजूद जानना काफी रूचिकर होगा कि निजी क्षेत्र को निगामित लाभप्रद व्यवसाय ने आगे बढ़ाया है। सार्वजनिक क्षेत्र की कंपनियाँ मूल रूप से खुदरा तथा मोटर पोर्टफोलियो पर निर्भर कर रही है।

निजी क्षेत्र के कारोबारियों ने अपना लक्ष्य लाभकारी अग्नि तथा इंजीनियरिंग पोर्टफोलियो की ओर रखा है तथा अपने लक्ष्य को पाने में सफलता प्राप्त की है। जिसका आधार उनके अभिभावकों से संबंध तथा उनकी प्रणाली से मिलने वाला सहयोग है व अच्छी दावा प्रशासन प्रक्रिया है। यह प्रदर्शित होता है तालिका 4 के द्वारा जो वर्ष 2002-03 का पोर्टफोलिया के अनुसार प्रीमियम बताती है।

आंकड़े स्पष्ट रूप से निजी क्षेत्र कारोबारियों का निगमित क्षेत्र के लक्ष्य पर प्रदर्शिन करती है। अग्नि तथा इंजीनियरिंग पोर्टफोलियो सकल प्रीमियम का 40 प्रतिशत बनाते है। यह भी उल्लेखनीय है कि वर्ष 2002-03 में सार्वजनिक क्षेत्र की कंपनियों में बहुत कम वृद्धि हुई (1 प्रतिशत वर्ष 2001-02 के ऊपर) यह दिखाता है कि व्यापार में कितनी प्रतिस्पर्धा बढ़ी है।

आने वाले भविष्यमें आसीआरए अनुमान है कि विशेष रूप से निगमित व्यवसाय में प्रतिस्पर्धा की बढ़ातरी यह कह कर लालच बढ़ायेगी। निजी क्षेत्र की बीमा कंपनियों को पुर्नबीमा की आवश्यकत होगी जिससे कम बीमा जोखिम रखने की क्षमता बढ़ सके।

यदि वे वर्तमान स्तर से अपना निगमित व्यवसाय बढ़ाने चाहते हैं। एक बार जब निजी बीमाकर्ता अपना वर्तमान व्यवसाय आज के स्तर से बढ़ा लेंगे तथा इष्टतम आकार पर पहुँच कर अपना पूँजीगत स्तर बढ़ायेंगे। वह इस स्थिति में होंगे कि एक दिखाई देने वाली चुनौती सार्वजनिक क्षेत्र की कंपनियों को दे सके उसके बाद यह जरूरत होगी की कार्यनीति लाई जाये जिससे बाजार की स्थिति को बनाये रखा जा सके।

तालिका 4 पोर्टफोलियो प्रीमियम 2002-03 के अनुसार

(करोड़ रू. में)

	अग्नि	मरिन	मोटर	इंज	स्वास्थ्य	अन्य	योग
सार्वजनिक	2,557	1,122	5,037	590	963	2,303	12,572
प्रतिशत	20	9	40	5	8	18	100
निजी	416	83	371	128	83	226	1,307
प्रतिशत	32	6	28	10	6	17	100
योग	2,973	1,205	5,408	718	1,046	2,529	13,879

मेरा मित्र, बीमा एजेंट

रामानुजम श्रीधर

यदि अन्य बातें सामान हो तो लोग अपने मित्र से खरीदना पसंद करेंगे और यदि अन्य बातें सामान्य न भी हो तो भी लोग अपने मित्र से खरीदना पसंद करेंगे।

यदि मित्र को मार्का से बदल दिया जाये। एक मार्का बीमा क्षेत्र में या अन्य किसी क्षेत्र में इसे कैसे भी एक मित्र के रुप में देखा जाना चाहिये।

यह मुझे मेरे युवास्था के दिनों की तरफ ले जाता है और मेरी पहली पकड़ बीमा उद्योग में एक एजेंट के रूप में।

उसका नाम था सौवराजन। हम उसे सोवरी कहा करते थे। एक प्रकार से वह परिवार का हिस्सा था। मुझे याद है वह सराय के ऊपर नीचे दौड़ता था तथा मेरी बहन की शादी में यात्रियों की देखभाल करता था।

उसने मेरी पहली बीमा पॉलिसी 20 वर्ष की आयु में दिलवा दी थी। उसने उसको इस प्रकार बनाया था कि 40 वर्ष की आयु में मुझे कार खरीदने के लिये पैसे मिल जायें। एक कार! वह एक बैक क्लर्क के मस्तिष्क में कैसे प्राथमिकता हो सकती है जो दूसरों लोगों की धनराशि गिनने व अन्य लोगों की सावधि जमा राशि की रसीद लिखने में व्यस्त हो।

आज मेरे पास कार है और मैं अब चैन्ने मैं नही रहता, अन्य बीमा परामर्शदाता जिसका नाम राजेन्द्रन है मुझे कहता रहता है कि मैं पूरी तरह बीमित नहीं हूँ (भारत में कौन है?) और कैसे मैं अपने बच्चों का बीमा करवाऊँ।

मेरे लिये बीमा मार्का का विकल्प एलआईसी है (जिसमें मेरे परिवार तथा मेरे बीमा व्यवसाय का शत प्रतिशत अंश है) और इसके एजेंट मेरे लिये मात्र संपर्क हैं, मार्का के साथ। हाँ एक बीमा मार्का के साथ अनेक लोग है जो उसे संचालित करते है और वह सभी उसकी छवि बनाते हैं।

बीमा मार्का का निर्माण:

मार्का से तात्पर्य अपूर्व व अलग से है। और यह समस्या बीमा मार्का के साथ भारत में जुड़ी हुई है। यह एलआईसी द्वारा प्रबलता द्वारा रखी गयी है जो इस सुनहरी खान का नेतृत्व करती है।

भारत में बीमा योग्य जनसंख्या 40 करोड़ आंकी गयी है जबकि 80 प्रतिशत जनसंख्या के पास बीमा आवरण नही है व सकल प्रीमियम सकल घरेलू उत्पाद के प्रतिशत के आधार पर मात्र 2 प्रतिशत है। इसलिये वास्तव में कोई भी विज्ञापन फैला हुआ बेकार होगा और साधारण ही अच्छा होगा। अन्य वर्गीकरण जैसे स्वास्थ्य बीमा जसमें जनसंख्या का केवल 0.2 प्रतिशत ही आवरण प्राप्त है।

ऐसे परिदृश्य में जहाँ कुछ समय पूर्व तक एलआईसी ही एक कारोबारी था ज्यादातर विज्ञापन या तो सूचनापूरक थे या दर्दपूर्वक मंद थे। मार्का अनियत होने का जोखिम उठा सकते थे तथा एकाधिकारी अवस्था में बीमा रख-रखाव रहित था और हमारे पास बहुत उदाहरण हैं जैसे एचएमटी जिसने जल्द ही प्रतिद्वंदता की गर्मी को पहचाना तथा धीरे-धीरे पर प्रबलता से अपने आप को अलग किया।

फिर भी स्पष्टता के साथ एलआईसी का मार्का वृहद बीमाधारकों के आधार पर खरा नही उतरता। इन्होनें अपनी अनुक्रिया, सेवा तथा नीति को सुधारा है वह बहुत व्यवहार्य है। आश्चर्यचकित बीमाधारकों को आग्रिम चेक भेजे जाते हैं। विज्ञापन पूर्व से बेहतर हुये हैं और यह बताना जरूरी है। एलआईसी को अपना सार्वजनिक उपक्रम का बोझ उठा फेंकना चाहिये। 10 विभिन्न विज्ञापन एजेंसियों के साथ काम करना बंद करना चाहिये उनमें से सभी मार्का को भिन्न-भिन्न तरीकों से प्रस्तुत करते हैं।

एलआईसी को अपने व्यवसाय को संमेकित करने का प्रयास करना चाहिये। स्पष्टतापूर्वक, सुदृढता से तथा उन्हें एक -दो विज्ञापन एजेंसियों की सेवायें लेनी चाहिये। क्या एलआईसी सुदृढ है, विश्वास योग्य है? नवीन है? उसके साथ और क्या? स्पष्ट रूप से एक कंपनी अलग अलग लोगों के लिये अलग-अलग नही हो सकती और अलग अलग विज्ञापनों में अलग अलग विज्ञापनों को प्रदर्शित नही किया जा सकता। और विज्ञापन एजेंसी यह विभाज्य जो ना कहते हुये भी हाँ करता है। यह स्पष्ट रूप से एचएमटी नही है और न यह होना चाहते हैं और यह सुनिश्चित करना होगा कि किन बीमा मार्कों का मेजबान बना जाये, कौन बीमा बाजार में अपनी जेब में डॉलर डाल कर तथा आँखों में सपने लिये घुसे हैं?

यदि एलआईसी की बात करें तो वह सोने की खान पर बैठी है। उच्च शुद्ध संपत्ति के व्यक्तियों के जो पूरी तरह आवरित नही है। एलआईसी को शायद ही कोई संबंध विपणन प्रयास करना होगा जिसकी चर्चा की जाये। क्या यह जेट एयरवेज या शॉपर्स स्टॉप से कुछ सीख नही सकती है? मार्का निष्ठा एक अद्भुत चीज है जो प्रयास के द्वारा विरले ही प्राप्त की जा सकती है। लेकिन मुझे आश्चर्य होगा अगर एलआईसी इस तरफ प्रयास कर रही होगी।

एमएनसी ब्रांड्स - यह क्या करते हैं?

यह तथ्य की एमएनसी ब्रांड्स के लिये जेब होनी चाहिये सर्वविदित तथा सर्व-दस्तावेज पूर्वक है और फिर भी केवल स्त्रोत सफलता को सुनिश्चित

नही कर सकते। हम जानते है कि कैलोगस ने अनाजों के नाश्ते को अपनाने पर बल दिया। लेकिन मेरे जैसे व्यक्ति को इडली - वड़ा की आदतों को नही बदल सके। कुछ समय बाद एक नयी संकल्पना नाशते अनाज को लेकर आये कैलोगस की तरफ से लेकिन वे मोहन के पास अनाज का थैला लेने चले गये।

वैसे मैने उस हद तक वित्तीय बाजार का अध्ययन नही किया है जिस हद तक में इसे करना चाहता था। फिर भी में अनुमान लगाने का जोखिम ले सकता हूँ।

अंतर्राष्ट्रीय साझेदारों का नाम तथा आकार भारतीय उपभोक्ताओं के लिये ज्यादा मायने नही रखता यह बड़े चमकदार भारत में (मैक्सिकों मे) इस बात के लिये जाने जाते है कि वह अपना परिचालन सावधानी की एक बूंद पड़ने पर समेट लेते हैं इसलिये महत्वपूर्ण क्या है? वह है भारतीय साझेदार। यदि वह यहाँ होता तो क्या करता? उसका वितरण क्या होता? क्या वह इतना पुराना है जितने पहाड़, इसलिये वह साख तथा हितों के बदले में जो कमाया जाता है वह उपलब्ध नही हो सकता? मुझे संदेह है कि आईसीआईसीआइ, सुन्दरम तथा कोटक अच्छा करेंगे अपने साझेदार का आकार देखते हुये।

कई एमएनसी बीमा कंपनियाँ मार्का बनाने में लगी है, कुछ ने जन संपर्क का प्रयोग किया और कुछ ने विज्ञापन तथा जन संपर्क से मजबूती पाई है।

कुछ अभियान मेरे मस्तिष्क में आ रहे हैं। कोई भी मैट-लाइफ द्वारा स्नोपी के प्रयोग के प्रयोग को स्मरण कर सकता है। बिलकुल एक मामला जो भूमंडलिय आधार पर बढ़ाया जा सकता, यह एक मामला है संकल्पना का जिसे भूमंडल आधार पर देखा जा सकता है।

इसके लाभों को जानने के पहले या बाद में कोई भी अपनी गर्दन हिलायेगा और कहेगा भारत में सनोपी जीवन शैली नही है। यही कारण है मैट लाइफ का अभियान अभी बदल गया है।

अन्य अभियान जो स्मरण होते हैं वह है एएमपी सनमार द्वारा स्टीव वॉ, आस्ट्रेलियाई टेस्ट क्रिकेट कैंप्टान जिन्होंने भारत को दूसरा घर बनाया का प्रयोग। वह एक सितारे हैं तथा उनके बार बार दौरे फील्ड पर दोहन करते हैं तथा उनकी धर्मादा में मदद मिलती है।

अन्यथा में अनुभव करता हूँ कि ज्यादातर बीमा विज्ञापन गर्म हैं, भावुक संबंधों को बताते है तथा आसानी से परिवर्तनीय है। एक कोशिश की गई है कि हास्य को अपनाया जाये और किसी को यह नही भूलना चाहिये कि रेडियो एक विकल्प के रूप में आगे आया है।

विज्ञापन

अधिकतर विज्ञापन विभिन्न मार्कों को स्थापित करते हैं। कभी एचएलएल, पीएंडजी, नेस्ले से पूछे। अब वित्तीय उत्पादों का क्या होगा तथा उनके विज्ञापनों का भी?

मुझे संदेह है बीमा संसार में विज्ञापन का सारगर्भिता कम मायने रखती है। यह सूचना देती है, जागरूकता बनाती है तथा आश्वस्त करती है। लेकिन क्या इससे बिक्री होती है? ऐसा नही है लेकिन नि:संदेह यह स्वस्थ कारक है और विज्ञापन कर भी सकता है वह है 'मेरा भी' संसार।

बीमा के संसार में ऐसा लगता है बहुत कम जिलेट मैक थ्री एस है और बहुत सारे भी-दूसरे है।

जिलेट एक चमत्कारी सफल कंपनी है जो ऐसे उत्पादों के साथ आयी जो कार्य निष्पादन में अच्छे है अपने प्रतिद्वंदियों की अपेक्षा। पहले यह था जिलेट सेंसर और अब है मैक थ्री, जिसमें तीन ब्लेड है अपने प्रतिद्वंदियों से स्पष्ट रूप से उन्नत।

ऐसी बात की चर्चा करें जो आंतरिक रूप से सर्वोत्तम हो वह संभव तथा साध्. है और हममें से कितनों को यह लाभदायक है? इसी तरह एक से नाम सुनने पर एक से उत्पाद मिलते हैं। इसका परिणाम है बहुत से समरूप उत्पाद, विज्ञापन तथा मार्क उत्भोक्ता को भ्रम में डाल देते हैं या सामान्य रूप से अपनी रूचि नही बताते। तो कौन सी बीमा कंपनी वित्तीय मैक थ्री के अनुसार सामने आयेगी। एक ही अवसर उपलब्ध है और कौन सी कंपनी अपने लिये निगमित स्पष्ट छवि बना पायेगी?

तो भविष्य क्या है?

मार्का का बीमा उद्योग में भविष्य अपेक्षित है, ज्यादातर हमारी जरूरत सीखने की है, इसे अवश्य ही अपने उद्योग से बाहर से सीखना चाहिये।

हाँ स्पष्ट रूप से बीमा उद्योग को बाहर देखना चाहिये। टाइटन ने क्या किया? उन्होनें महसूस किया कि उपहार देना एक सनकीपन नही बल्कि एक झुकाव है और इसके द्वारा एक झुकाव प्रारंभ हुआ। आज टाइटन की कुल बिक्री का 55 प्रतिशत उपहार स्वरूप दिया जाता है। इंटल ने क्या किया? उसने अंतिम उपभोक्ता से संवाद किया जबकि वास्तविक उपस्कर निर्माता से संवाद आसान था।

कार्यनीति किसी भी कार्य की धुरी होगी। समस्या यह है कि मार्का चिंता करते है (काफी बार बेकार में ही) छोटे समय के लिये कार्य करते हैं। बीमा कंपनियों को यहाँ लंबे समय के लिये रहना चाहिये।

हाँ भारतीयता प्रश्न यह है कि क्या यह आपके पास है? तथा प्रश्न का जवाब साधारण है- मेरे दोस्तों एलआईसी एजेंट व्यक्तिगत संबंधों में बहुत मजबूत है। लेकिन प्रतिस्पर्धा में कम है। आज की नयी पीढ़ी बहुत सक्षम है लेकिन काफी के पास नेटवर्क या संबंध बनाने की कुशलता नही है। मार्का जो उसका भविष्य बनायेगा के लिये एक अपूर्व स्वाद दोस्ती तथा क्षमता का बनायेगा। इसलिये मेरे मित्रों बीमा में 'बस कर डालो'।

लेखक ब्रांड कॉम के कार्यपालक हैं। अपनी प्रतिक्रिया sridhar@brand-comm.com पर प्रेषित करें।

बीमा विज्ञापनों का बीमा

रश्मि अभिचंदानी

पिछले तीन वर्षों में भारतीय बीमा बाजार ने नयी कंपनियों का आगमन देखा है जो विविध बीमा उत्पाद उपलब्ध करवा रहे हैं। गैर जीवन तथा जीवन दोनों ही क्षेत्रों में। प्रत्यक्षत: उपभोक्ताओं में सूचना का प्रभाव तीव्रता से बढ़ा है। पुरानी तथा नयी कंपनियों के परिवर्धन द्वारा और इसमें शामिल हैं कम्पनियों द्वारा यह एक प्रयास है जिससे अनेक उत्पादों को वृहद भारतीय बाजार तक पहुँचाया जा सके।

विभिन्न सेवाओं विशेषत: वित्तीय सेवाओं के क्षेत्र जिसमें बीमा शामिल है सूचना के उतार-चढ़ाव से पीड़ित है। इस नजरिये से की स्वस्थ प्रतिस्पर्धा संप्रेषण उयोग के मध्य हो तथा ग्राहक बड़े पैमाने पर तथा इस दृष्टि से की अनुचित तथा गलत विज्ञापनों को जो बीमाकर्ता द्वारा दिये जाते हो अथवा मध्यस्थों द्वारा दिये जाते हो या बीमा अभिकर्ताओं द्वारा प्रकाशित किये जाते हो जिससे पॉलिसीधारक के हितों की रक्षा की जा सके। बीमा विनियमन तथा विकास प्राधिकरण 1999 की अधिनियम धारा 26 में दी गयी शक्तियों के अनुसार बीमा सलाहकार समिति से सलाह करते हुये बीमा विनियम विकास प्राधिकरण (बीमा विज्ञापन प्रकटीकरण) विनियमन 2000 (विज्ञापन विनियमन) तैयार किये गये हैं।

विनियमन पूर्णरूप से सभी बीमा विज्ञापनों पर लागू हो तथा प्राधिकरण को यह शक्ति देते हैं कि वह हस्तक्षेप कर सकता है यदि विज्ञापन विनियमन के अनुसार तैयार न किये गये हों।

विज्ञापन विनियमन की धारा 2 के अनुसार जो परिभाषाओं से संबंधित है के विनियमन 2(ब) के अनुसार बीमा विज्ञापन शब्द इस प्रकार परिभाषित किया गया है कि इसका अर्थ में प्रत्यक्ष या अप्रत्यक्ष जिसका संबंध पॉलिसी से हो तथा अन्तत: पॉलिसी को विक्रय करने की प्रार्थना जनता के सदस्यों से की जाये तथा उसमें सभी प्रकार का मुद्रित तथा प्रकाशित सामग्री शामिल है अथवा अन्य कोई सामग्री मुद्रण का प्रयोग करे। सार्वजनिक संप्रेषण में जैसे समाचार पत्र, पत्रिका, विक्रय की बातें, बिलबोर्ड, होर्डिंग, पैनल, रेडियो, टेलीविजन, वेबसाइट, ई-मेल, पोर्टल्स, मध्यवर्तियों द्वारा प्रतिनिधित्व पर्चे, विस्तृत साहित्य, परिपत्र बिक्री के लिये ऋण, पत्रों द्वारा उदाहरण, टेलीफोन, प्रार्थना पत्र, व्यवसाय कार्ड, वीडियो, फैक्स अथवा अन्य किसी प्रकार का संप्रेषण भावी बीमाधारक को बीमा खरीदने के लिये नवीकरण बढ़ाने, जारी रखने अथवा परिवर्तन करने के लिये प्रार्थना करना।

उदाहरण से स्पष्ट है कि उसे विज्ञापन नही समझा जायेगा यदि वह प्रयोग न किये जाये। खरीदने, बढ़ाने, परिवर्तन करने अथवा बीमा पॉलिसी बनाये रखने के ये प्रेरित करते हो।

इसमें शामिल है बीमा कंपनी द्वारा प्रयोग की जाने वाली सामग्री अपने संगठन के भीतर से और जो न बनी हो जनता में वितरण के लिये। बीमाधारकों से सम्प्रेषण उस सामग्री से अलग जो क्रय, बढ़ोतरी, परिवर्तन, अभ्यर्पण अथवा कोई पॉलिसी जारी रखने के लिये। सामग्री जो केवल प्रशिक्षण भर्ती तथा बीमाकर्मियों की शिक्षा के लिये हो मध्यवर्ती, परामर्शदाता अथवा प्रार्थना से संबंधित हो परन्तु वह सार्वजनिक क्रय के उत्प्रेरक अथवा एक बीमा पॉलिसी जारी रखना चाहते हो तथा साधारण फरमान जिन्हें बीमाधारकों के समूह ने भेजा हो कि एक बीमाधारक लेखाबद्ध हुआ है या व्यवस्थापित किया गया हो।

अत: विज्ञापन शब्द वाक-पटुता के आधार पर विनियमों में परिभाषित किया गया है। विनियमों में ऐसी आवश्यकताओं को बताया गया है जो बीमाकर्ताओं द्वारा पूरी की जाती है इसे मध्यवर्तियों द्वारा अथवा अभिकर्ताओं द्वारा भी पूरा किया जाना है जो विज्ञापनों को विभिन्न माध्यमों से प्रकाशित करने जिसमें वेबसाइट तथा ई-मेल भी शामल है और इन्हें प्रगतिशील विनियमन कहना गलत न होगा।

मैं इस संदर्भ में एक उदाहरण देना चाहूँगी। एक बार एक कंपनी के द्वारा विज्ञापन जारी किया दया जो उसके उत्पाद ख की खरीद पर मुफ्त बीमा देने की पेशकश करता था। प्राधिकरण ने सख्ती से बीमा कंपनी से स्पष्टीकरण माँगा। बीमाकर्ता ने प्रार्थना की कि विज्ञापन प्राधिकरण के पास जमा नही किया गया था क्योंकि यह बीमाकर्ता का विज्ञापन नही था तथा बीमा कंपनी एक समझदारी ज्ञापन (एमओयू) कंपनी क के साथ जुड़ी सै तथा एक विशेष आक्समिक पॉलिसी जारी की है।

बीमाकर्ता ने अपनी सफाई विनियमन 2 (ब) के अनुसार दी जो कहता है ''कोई साधारण घोषणा जो बीमाधारकों के समूह द्वारा हस्ताक्षरित हो जो प्राप्त समूह के सदस्य हो कि एक पॉलिसी लेखाबद्ध अथवा नियुक्त की गयी है''।

प्राधिकरण ने मामले की छान-बीन की तथा यह मान्यता दी कि उस विशेष उपलबध पॉलिसी उत्पाद ख की सभी खरीददारी पर उपलब्ध होगी था विज्ञापन का प्रयोजन बीमा व्यवसाय को अग्रिम करना था, कुछ छूट जो बीमाकर्ता द्वारा माँगी गयी थी वह उसे उपलब्ध नही थी और यह निर्णय लिया गया कि संबंधित विज्ञापन ने विनियमों को अपराधित किया है तथा बीमाकर्ता से विज्ञापन को रोक देने को कहा गया। यह एक उदाहरण है सावधानी का जो प्राधिकरण द्वारा रखा जाता है।

सबसे जरूरी तथा आधारभूत आवश्यकता यह है कि विज्ञापन अनुचित अथवा दुष्प्राचरक न हो। शब्द अपने आप में बोलते हैं फिर भी इन्हें विनियमों में परिभाषित तथा वर्णित किया गया है।

एक उदाहरण जिसमें कंपनी बड़ा उतरजीविता लाभ 80 वर्ष की जीवन बीमा पॉलिसी के लिये देती है। विज्ञापन में पूरी सूचना नही दी गयी उत्पाद के बारे में केवल प्रमुख विशेषतायें दी गयी जिसमें एक विकल्प था कि उतरजीविता 80 वर्ष की रहे। वास्तविक उत्पाद को देखते हुये यह निकल कर आया कि 80 वर्ष पूरे होने से पूर्व मृत्यु होने पर

लाभ कम होंगे और यह नही बताया गया क्योंकि जितना विज्ञापन जारी किया गया था वह उत्पाद की आंतरिक विशेषता नही थी वरन् वह प्रीमियम स्तर पर आधारित था। बीमाकर्ता को इसे संबंध मं सूचित किया गया और विज्ञापन को प्राधिकरण की संस्तुति के अनुसार बदला गया।

विज्ञापन विनियम यह आज्ञा देता है कि सभी बीमाकर्ता या मध्यवर्ती अथवा बीमा अभिकर्ता एक ऐसी प्रणाली बनायेंगे तथा निश्चयपूर्वक नियंत्रण करेंगे। जिसमें विज्ञापने के अंश, प्रकार तथा प्रणाली का प्रसार इस प्रकार हो कि संबंधित पॉलिसी के लिये एक अनुपालन अधिकारी हो जिसका नाम तथा संगठन में आधिकारिक स्थिति प्राधिकरण को सूचित की जाये तथा वह उत्तरदायी होगा संपूर्ण रूप से विज्ञापन कार्यक्रम पर दृष्टि रखने के लिये तथा एक विज्ञापन पंजिका रखेगा अपने निगमित कार्यालय में तथा सभी विज्ञापनों की एक नमूना प्रति रखेगा न्यूनतम तीन वर्षों के लिये, सभी विज्ञापनों की प्रति प्राधिकरण में जमा करवायेगा जैसे ही वह पहली बार जारी किये जाते हैं तथा प्रत्येक विज्ञापन के लिये एक पहचान संख्या होगी। अवधि संख्या पॉलिसी विज्ञापनों लिये तथा कब उत्पाद को प्राधिकरण द्वारा स्वीकृति प्राप्त हुई, विज्ञापन का विवरण तथा माध्यम की पद्धति इसके निवारण के लिये प्रयुक्त के लिये एक प्रमाण-पत्र दाखिल करना होगा अपनी वार्षिक विवरण का पालन करते हुये। विनियमनों के अनुसार विज्ञापन में किसी भी प्रकार के परिवर्तन को नये विज्ञापन के रूप में प्रतिफलित किया जायेगा।

विनियम 6 में आवश्यकता है कि सभी विज्ञापन बीमाकर्ता को प्रभावित करते हो का अनुमोदन विज्ञापन जारी करने से पहले लिखित रूप में बीमाकर्ता द्वारा लिया जाना चाहिये तथा उसमें कहा जाना चाहिये कि इसका उत्तरदायित्व बीमाकर्ता पर होगा कि यह सुनिश्चित किया जाये कि इन विनियमनों का पूर्ण अनुपालन हो रहा है तथा यह भ्रमित करने वाले तथा गिरावटी नही है।

आगे विनियमन की माँग है कि विज्ञापन में पंजीकृत बीमाकर्ता का पूरा नाम/मध्यवर्ती/बीमा अभिकर्ता तथा वह अतुल्य संप्रेषण करेगा कि बीमा आग्रह की विषय-वस्तु है। यह लक्ष्य सुनिश्चित करने के लिये किया गया है कि विज्ञापन की पहचान तथा पता जनता को स्पष्ट रूप से पता चल सके।

विनियमन 10 एक कदम आगे बढ़ कर पृष्ठांकन तथा तृतीय पक्ष का योगदान प्रतिबंधित करता है। केवल वही योगदान मान्य है जिन्हें विनियमों में बताया गया है। विनियमों की आवश्यकता है कि प्रत्येक बीमाकर्ता अथवा मध्यस्थ को मान्यता प्राप्त मानक जो पेशेवर आचरण के लिये भारतीय विज्ञापन मानक परिषद द्वारा बनाये गये है तथा अपने कार्य को बीमाधारकों के हितों के लिये बनाया जाये। आगे यह आज्ञा करते हैं कि वैधानिक चेतावनी को शामिल किया जाये जिसमें बीमा अधिनियम 1938 की धारा 41 के अनुसार बट्टा देने पर प्रतिबंध है, सभी उत्पादों के प्रस्ताव पर।

विज्ञापन को प्राधिकरण में जमा करने की प्रक्रिया का दृष्टिकोण एक पैनी नजर विज्ञापन पर रखने के लिये है। जिससे यह सुनिश्चित तथा पुष्टि की जा सके की उद्योग के मध्य स्वस्थ संप्रेषण स्थापित हो अन्ततः आम जनता के हितों का संरक्षण किया जा सके।

वास्तव में यह केवल प्राधिकरण ही नही है जिसने विज्ञापन समस्या को देखा हो साथ ही सजग उपभोक्ता भी प्राधिकरण के ध्यान में वह कमियाँ लाते हैं जो वह देखते हैं।

प्राधिकरण लोगों को कान और आँखे खुली रखने की सलाह देता है तथा अपनी मदद करने के लिये प्राधिकरण की मदद करनी है यदि कोई भी विज्ञापन भ्रमित करने वाला या अनुचित हो।

विनियमन 11 के अनुसार किसी भी स्थिति में प्राधिकरण के विनियमनों ते उल्लंघन की दशा में विज्ञापनदाता को स्थिति को निश्चित समय में स्पष्ट करने के लिये पत्र लिखा जायेगा। यह समय 10 दिनों से अधिक नही होगा अथवा विज्ञापनदाता को निर्देश देंगे कि विज्ञापन को परिवर्तित किया जाये, उस तरह जिस प्रकार की प्राधिकरण द्वारा निर्देशित किया जाये अथवा विज्ञापनदाता को निर्देश दे कि विज्ञापन को बंद करें और अन्य कोई कार्रवाही जो प्राधिकरण ठीक समझता हो।

विज्ञापनदाता के संबंध में असफल होने की स्थिति में आगे की कार्यवाही हो सकती है जिसमें जुर्माना भी शामिल है।

यह कहना असंगत न होगा कि प्राधिकरण ने कई बार विज्ञापनदाता को निर्देश दिया है कि विज्ञापन को ठीक या परिवर्तित किया जाये या पूरी प्रक्रिया बीमाधारक के हितों का संरक्षण करने के लिये महत्वपूर्ण भूमिका निभायेगी। मेरी राय में जमीनी कार्य वर्तमान विनियामक ने किया है और काफी हद तक जनता के हितों को संरक्षण भी मिला है तथा एक कमी एक जिसकी तरफ ध्यान आकृष्ट करने की आवश्यकता है वह है प्राधिकरण में विज्ञापन जमा किये जाने के समय मूल्यांकन।

आजकल किसी भी विज्ञापन के पहली बार जारी होने के दो दिनों के भीतर प्राधिकरण में जमा किया जाना चाहिये। यदि कोई समस्या हो जब तक प्राधिकरण उसमें जायेगा सारी जनता द्वारा देखा जा चुका होगा और नुकसान पहले ही हो चुका होगा। इसलिये मेरा यह सुझाव है कि प्रक्रिया को बदला जाना चाहिये तथा प्रयोग से पूर्व फाइल की व्यवस्था की जानी चाहिये। जिससे प्राधिकरण का दखल और ज्यादा प्रभावशाली हो तथा अधिक महत्वपूर्ण है नुकसान होने से पूर्व ही उसे बचा लेना।

यह सुनिश्चित करेगा की विज्ञापन जो बहत महत्वपूर्ण है प्रभावशाली तथा शक्तिशाली विपणन का माध्यम बन सकेंगे तथा वह स्वस्थ तथा स्वीकार्य होंगे जिससे जनता की रूचि अधिक संरक्षित हो सके। संक्षेप में सही समय पर किया गया कार्य समय को बचाता है।

लेखक आईआरडीए में सहायक निदेशक के रूप में कार्यरत है.

Accounting Non-Standards

P. S. Prabhakar

IRDA's Regulations appear to have approached the applicability of Accounting Standards to the insurance companies rather casually. Except for an ornamental mention that the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) would be applicable to insurance companies, save a specific few, there has been hardly an attempt to import this all-important concept seriously into the Regulations.

To study only a few points on this, let us take the applicability of AS-3 (Cash Flow Statements). Realising fully that the 'soft' aspects of accounting, which include estimations and provisions in a mega scale in an insurance company's accounting, the IRDA's Regulations very specifically provided that the Cash Flow statements will have to be prepared only under the Direct method. None of the insurance companies listened in the first year. We still have to wait and see what they are up to in their second year. An industry that is largely dealing with public funds will have to come to terms with the regulatory aspects of accounting and cannot do only what is convenient to itself.

In AS-17 (Segment Reporting), for reasons best known to the Authority, the definition of 'Segment' itself has been truncated to mean only portfolio segmentation. As the business is done in the whole nation, it may perhaps be necessary to include the geographical segments also.

As there are Regulations to mandate presence of the companies in social / rural sectors also, it will only be fair that the concept of Segmental Reporting is extended sectorally also. After all, the basic premises on which the concept of accounting standards sits are transparency and disclosure. With so much public funds at 'risk', is all this asking for too much?

In fact, IRDA should insist on a separate comprehensive Accounting Standards for the insurance industry. With so much uniqueness, this industry certainly deserves one. Perhaps a complete review by an expert study group, jointly sponsored by the IRDA and the ICAI, could be constituted to evolve Accounting Standards for general insurance industry to be made mandatory for all companies.

At the cost of sounding uncharitable, it has to be mentioned that the ICAI's guidance note on 'Audit of General Insurance Companies' borders on mediocrity.

Audit Requirements

Originally in the Insurance Act, mention about Audit was a restricted one. Sec. 12 of the Insurance Act which was titled 'Audit', talked about audit of non-corporate insurers only. (Sec. 11 was on Accounts). Obviously, the Insurance Act intended, wisely though, that the provisions of Companies Act were adequate enough for the industry's statutory audit requirements.

Upon the nationalisation of life insurance business and on the formation of Life Insurance Corporation of India (LIC), the audit of the corporation came to be governed under Sec. 25 of the LIC Act. In 1971, when the general insurance business was nationalised, the General Insurance (Business Nationalisation) Act had no reference on this issue.

However, since all the general insurance companies came under public sector, Sec. 619 of the Companies Act came to govern the statutory audit requirements. Besides this, the Comptroller and Auditor General (CAG) has been having its own inspections, which are more of 'propriety audits' in nature.

IRDA Act inserted Sec.114A in the Insurance Act, which facilitates issuance of various regulations by IRDA. This section grants powers to IRDA to make regulations on various issues and methodically goes section by section of the Insurance Act, in seriatim, where all regulations thought of had their spaces respectively.

Sec.114A (2) (f) mentioned "the preparation of balance sheet, profit and loss account and a separate account of receipts and payments and revenue account under sub-section (1A) of section 11". This sub-section does not talk about audit at all. However, the regulation on "Preparation of Financial Statements and Auditor's Report of Insurance Companies" not only has the audit in its very name but also in the contents. But, the legal sanction for regulating audit function was perceptibly missing.

While this is the statutory position, in the current scenario where private insurers have begun operating, the appointment of auditors appears to have come within the ambit of functions of the IRDA, in terms of the Regulations referred above. (Here, the IRDA Act does not make any distinction between public sector and private sector insurance companies.)

Accordingly, IRDA has started compiling a panel of chartered accountants and for the purpose has also prescribed certain exacting parameters for such empanelment. In the parameters only the longevity, size etc. of a firm seem to be given importance rather than the specialised qualifications in the field or the domain expertise of the partners. This is rather sad.

An industry that is so unique and important cannot be 'audited' casually and generally, when specialisation is the order of the day.

Another question that is generally asked is, in as much as the Statutory Auditors of a company are accountable to and only to the shareholders of the company, who alone should be the appointing authority, why is the Regulator, who is primarily the custodian of the policyholders, should have anything to do with the same. One cannot rule the question out as devoid of merits.

In the humble opinion of the author, the IRDA should perhaps leave the appointment of statutory auditors to the respective companies' general bodies but arm itself with the responsibility and the authority to conduct all encompassing, comprehensive inspections (like the RBI does for all banks) for all insurance companies on a routine basis, with terms of reference focusing on policyholders' interests. For this purpose, the panel created already, which also should be augmented constantly, could be made use of. ICAI's newly introduced post qualification course on insurance can be perhaps thought of as a preferred qualification to get empanelled. This way, IRDA can and will ensure quality inspections on matters of importance like Investment Regulations, cost control, Treaty Quarterly accounts checking, RI programmes verification etc. on a thorough basis. While the auditors would be reporting to IRDA, the structured fees can be made payable by the respective insurance companies. This, of course, will require amendment to IRDA Act.

When such rigorous IRDA inspections are introduced as a routine, the CAG audits presently in vogue for PSU insurers can be dispensed with.

The author, who used to work with the nationalised general insurance industry, is a practicing Chartered Accountant. In this series he deals with various aspects of financial reporting, disclosure and audit requirements of insurance companies.

National Re's Summit !

The General Insurance Corporation of India (GIC) held a two day Indian Insurers' Summit on October 19 and 20 in Goa.

Mr. C. S. Rao, Chairman, IRDA, speaks at the Indian Insurers' Summit. Also in the picture are Mr. P. B. Ramanujam, Managing Director, GIC and Mr. P.C. Ghosh, Chairman, GIC.

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Lloyd's moves to annual accounting

The insurance market Lloyd's has announced that it will move to annual accounting for its statutory reporting by adopting UK Generally Accepted Accounting Principles (GAAP) from January 1, 2005.

After this initial move Lloyd's will adopt International Accounting Standards (IAS) when there is more clarity on the proposed standard on accounting for insurance conracts says a press release from Lloyd's which adds that this should minimise the impact to the Lloyd's market in terms of costs and new systems.

The move is in line with the commitment by the Lloyd's Franchise Board for syndicate accounts to be more transparent and comparable with the accounts of their global industry peer group.

Lloyd's has been hitherto following a three year accounting period and this move is expected to create more transparency and comparability with its peers.

Gen Re to apply for China license

General Re, a subsidiary of Berkshire Hathaway Inc., announced that the China Insurance Regulatory Commission (CIRC) has invited the company to apply for a national reinsurance license to conduct both life and property/casualty business throughout China.

It also announced that Chairman and CEO Mr. Joseph P. Brandon, has been "presented with the prestigious Marco Polo Award, which is given to those individuals and organisations who have made contributions to the Sino-U.S. exchange of talent and expertise."

The announcement noted that Gen Re has been active throughout Asia for many years, with offices in Beijing, Hong Kong, Shanghai, Taipei, Seoul, Singapore and Tokyo. It has also been doing business in China as an offshore reinsurer working with all of the leading Chinese insurers. "However, once Gen Re has a national reinsurance license in China, the Company will be able to accept premiums in Renminbi, which will enable more efficient and convenient transactions for clients throughout the region," said the bulletin.

Australia wants more disclosure

An Australian federal government plan to ease the indemnity insurance crisis would require doctors, lawyers and other professionals to disclose more information about their potential negligence.

The Australian Financial Review said the government had accepted recommendations from its own review panel which was set up in response to the HIH Insurance collapse, rise in litigation and September 11 terrorist attacks.

Insurers would not have to pay claims by professionals who failed to keep them informed of circumstances that might give rise to a claim, the Review said.

But insurance companies would have to give professionals more time to reveal potential problems - even after their insurance policies expired.

"While the change has long been sought by the insurance industry, the government also plans to force insurance companies to give professionals a 45-day `grace period' in which they can disclose potential problems after their insurance expires," the newspaper said.

Assistant Treasurer Ms. Helen Coonan said the government was trying to balance the interests of insurers, professionals and anyone who might rely on indemnity policies for compensation.

Common motor cost database for Malaysia

Motordata Research Consortium Sdn Bhd (MRC) said 38 insurance companies have complied with Bank Negara Malaysia's (BNM) directive that all vehicle claims use a standardised database for motor parts prices and labour charges when estimating repair cost. There are 40 insurance companies at present.

At a signing ceremony between MRC and 38 chief executive officers of General Insurance Association of Malaysia's (PIAM) members, its chief operating officer, Mr. Khaeruddin Sudharmin, said BNM had instructed insurance companies to use the database back in October 2001.

He said the success and adoption of this national initiative would benefit all industries and individuals associated with motor insurance claims, and instil greater professionalism, transparency and consistency in motor insurance claims servicing.

The slow implementation prompted the central bank to set June 30, 2003 for 60 per cent usage and end-2003 for full usage.

Mr. Khaeruddin said that at present, about 12,800 claims were referred to MRC each month, representing about 85 per cent of the total number of claims filed by insurance companies.

"Currently, our database has prices of 272 derivatives of 14 different vehicle makes, which covers more than 89.7 per cent (total industry volume) of private vehicles on Malaysian roads," he said.

On the processing fee payable to MRC by insurance companies, Mr. Khaeruddin said it had been lowered to RM10 per claim, effective August 1, 2003, from the RM20 per claim agreed in 1997.

Japan non-life insurers' net profits rise

Seven of Japan's nine largest nonlife insurers reported an increase in net profits, as elevated stock prices helped cover for limping sales.

Net premium — the equivalent of sales — inched up just 3.8 percent on a year-on-year basis to 3.5 trillion Yen, as competition whittled away prices.

High exposure to stock prices worked in non-life insurers' favour this year, elevating corporate worth. Unrealised gains on domestic stocks shot up 65 per cent from the end of March to 3.5 trillion Yen.

Meanwhile, unloading of stockholdings and bonds by major players helped rake in a total 201.9 billion yen, up five percent from a year earlier.

Insurers' massive stockholdings keep companies at the mercy of stock prices. Companies learned this to their cost last year, when they wrote off 75.8 billion Yen in one-off costs for stocks whose prices had plunged 30 percent or more from their book prices.

This year, that cost was just 17.4 billion Yen.

Net profit growth was especially prominent at the nation's second-largest non-life insurer, Sompo Japan Insurance Co., which booked a net profit of 36.3 billion Yen, compared with a 3.9 billion Yen loss the previous year.

Other large insurers saw huge growth spurts.

Mitsui Sumitomo Insurance Co.'s net profit rose 164.7 percent to 79.2 billion Yen, while Aioi Insurance Co.'s net profit saw 141 percent growth to 9.1 billion Yen.

Nipponkoa Insurance Co.'s net profit grew 79.7 percent to 18 billion Yen.

But the industry leader, Millea Holdings Inc., booked a net profit of 56.3 billion Yen, down 36.6 percent from a year earlier partly due to a one-off factor linked to exchange-traded funds.

Fuji Fire & Marine Insurance Co. posted a net profit of 4.9 billion Yen, down 8 percent from the previous year.

The remaining three firms are Nissay Dowa General Insurance Co., Kyoei Fire & Marine Insurance Co. and Nisshin Fire & Marine Insurance Co.

Executives of the companies admitted times are tough. They collectively sighed over struggling revenues from their mainstay, automobile insurance. That sector has been hit by slow auto sales and fierce competition.

"We expect conditions to continue to be rough at home," said Susumu Uchida, managing director of Mitsui Sumitomo Insurance Co. "That is why we are strengthening our base overseas and increasing revenues there."

Net premium effectively grew 2.5 percent to 6.1 trillion Yen at Mitsui Sumitomo, whose major revenues came from unloading stocks at home and cashing in on underwriting services overseas.

Effective policy volume grew the most at Mitsui Sumitomo and at Nissay Dowa General Insurance Co., where it rose 3.6 percent on a year-on-year basis to 148.9 billion Yen.

Industry giant Millea saw effective sales stall at 864.2 billion Yen, down 0.6 percent on a year-on-year basis. The number of policies in force grew, though revenue fell as the company was forced to lower rates.

Not for small investors

The Monetary Authority of Singapore (MAS) has decided for now not to allow second-hand insurance policies to be sold to small investors because of the complexity and risks of these products.

In a consultation paper, the central bank said it favours restricting the distribution of these instruments - known as traded endowment and traded life policies (TEP/TLPs) - to non-retail investors. These are defined by MAS as investors with personal assets of more than S$2 million or incomes of not less than S$3,00,000 in the past 12 months, or corporations with net assets of at least S$10 million.

'In line with our disclosure-based philosophy, MAS prefers not to be prescriptive in determining which products are suitable for investors, so long as clear and adequate disclosure of all pertinent risks are provided,' it said.

'However, MAS notes that for TEPs and TLPs, adequate disclosure alone may not offer investors enough protection.'

MAS said those distributing such products here should be licensed and supervised by the central bank, and proposes to include TEP/TLPs as a class of investment products under the Financial Advisers Act (FAA).

Relatively new instruments here, TEP/TLPs are whole life and endowment policies sourced from overseas which are given up by the original policyholders for a number of reasons. There are two types of TLPs: life settlements, which are policies given up by the elderly, and viatical settlements, which are those given up by the critically ill. The investor buys a policy at a discount to its future value or death benefit and the return is realised when the insured dies. On TEPs, investors buy an endowment plan that was given up by the policy-holder before maturity. The returns accrue when the endowment matures.

While TEPs and TLPs may offer attractive returns, 'such products are complex and bear significant risks,' MAS said. These products are currently unregulated as they fall outside the scope of both the Insurance Act and FAA.

LIC Bans Lapsed Policy trade

It is reported that Life Insurance Corporation of India (LIC) has totally banned high potential secondary market transactions in any of its lapsed policies (policies which are inoperative due to non-payment of premium).

The secondary market for tradable insurance policies (TIP) in the life insurance segment is a new concept in the country where the original policy holder manages to sell his lapsed policy to another buyer (who may be an individual or an institution) at discount and the latter revives the policy and receives all the returns and benefits of the policy the original buyer is entitled to.

Such revival would not help LIC today since older policies typically have higher return rates, and in a falling interest rate scenario this would be an added burden.

Referring to the benefits LIC would have received by having the premium of the lapsed policies, the official clarified that the institution is prepared to give all support to original policyholders in case they want to revive the policies.

At present, the purchasers of the tradable insurance policies are not only high net worth individuals but also institutional investors such as mutual funds and provident funds which are looking for high-yielding instruments in the falling interest rate regime.

The secondary market for life insurance policies is a big business in markets like the US and UK. This market is growing at a rate of more than 30-40 per cent in these markets.

Varishtha Bima's market investment

LIC has obtained permission from its investment committee to invest five per cent of the Varishtha Bima Pension Yojana in equities it is reported. The move comes after the Government reportedly did not respond to LIC's request for high-coupon bonds with yields matching the high returns of the pension scheme.

The Varishtha Bima scheme, introduced earlier this year, assures a return of nine per cent to senior citizens. Although it is administered by LIC it is a Government scheme and the Government has committed to meeting the difference between the returns LIC earns from the market and the assured return.

The scheme has so far collected close to Rs. 3,200 crores and the corpus that would be invested in equities would be to the tune of Rs. 160 crores. But, with indications that the scheme would be an ongoing one, the corpus would grow substantially over the months. Until now LIC had invested bulk of the funds in government securities.

The diversification is due to the sustained fall in gilt yields was widening the gap between returns earned by the fund and the promised return. The investments of the Varishtha Bima Pension scheme are governed by the IRDA investment guidelines for pension funds. The guidelines allow market investments up to 60 per cent.

LIC's investments in equities had touched 10 per cent of its life fund a few weeks ago it is reported. This has come down to nine per cent on account of profit booking in the recent rally in the stock markets.

Mandatory insurance for workers going abroad

Being constantly burdened with meeting repatriation costs of out-of-job migrant Indian unskilled workers through its embassies, the Government has got non-life insurers to come out with a compulsory cover that will meet these expenses. This cover — Pravasi Bharatiya Bima Yojana — has been made compulsory for all undergraduate workers going abroad from December 25.

The Government — more particularly the Ministry of External Affairs and the Ministry of Labour — has been discussing this cover with insurance companies for several months. One reason for the delay was that while the Government had wanted the scheme to cover all repatriations, insurers wanted to restrict it to health grounds only. After much discussion the Government and the insurance companies have come out with a standard policy that will be offered by all the non-life insurance companies.

The scheme would offer insurance cover of a minimum Rs. 2,00,000 payable to nominee and legal heir in the event of death or permanent disability of any Indian emigrant going abroad for employment purpose, an official release said.

It would also offer a medical cover of minimum Rs. 50,000 as cashless hospitalisation or reimbursement of actual medical expenses in case of accident or ailment of the emigrant.

Moreover, the policy would provide a minimum Rs. 20,000 maternity benefit for women emigrants.

The family of the emigrant consisting of wife and two dependents would also be entitled to a maximum Rs. 10,000 hospitalisation cover.

In the event of death of the emigrant, the scheme offers cost of transporting the dead body and one-way airfare of one attendant.

Covering Outsourcing

Cost-cutting by outsourcing may be the latest mantra for most corporates, and India may be the hottest destination today for business process outsourcing (BPO) along with Russia, the Philippines and Brazil. Caution, however, is becoming the catchword, and advice is being dispensed on taking adequate cover against the risk in these regions — also the most politically and militarily explosive ones, with India rated the highest in political and violence risk levels.

For, "the political perils aren't new. The ability to cover countries like India isn't new. The ability to cover extra expenses isn't new. What's new is the ability to cover extra expenses resulting from the termination of a service contract. Standard trade disruption insurance covers extra expenses if goods are lost in transit — basically, having to hunt for an alternative supplier of the goods, and that costs more," warns a leading US-based risk solutions provider, Aon Corporation, as it touts a new insurance product it has devised.

A white paper explains how Aon Trade Credit placed a novel political risk insurance programme for a Fortune 150 company, protecting against relocation expenses resulting from the unexpected termination or abandonment of the company's overseas outsourcing contracts in India.

The paper also sports a chart in terms of current risk levels in the top emerging markets for offshore BPO as identified by AT Kearney.

The risk ratings have been based on Aon's Trade Credit and Political Risk Map, ranging from low to moderate, medium, high and very high. India tops the rating, owing to its regulatory environment which it dubbed "notoriously tricky".

That said, BPO operations have the connections required (and generate enough exports) to avoid many regulatory pitfalls. India's democracy is essentially stable, but troubled by frequent ethnic, religious and separatist violence, and the possibility of war with Pakistan, Aon noted.

GIC doubles project risk cap

General Insurance Corporation (GIC), the country's national reinsurer, has doubled its risk underwriting capacity to Rs. 3,000 crores for any single project for reinsurance support to large domestic companies.

This means that GIC is now capable of paying up to Rs. 3,000 crores claims on any single project from its own funds.

GIC's move would help large domestic groups like to place reinsurance deals of their mega projects with GIC rather than looking to international markets. This can also save outflow of foreign exchange as GIC can be paid in Rupees.

General Insurance Corporation , which enjoys a monopoly status in the country with regard to reinsurance, is currently exploiting its financial muscle to tap the growing demands for higher capacities and retentions so as to widen its clientele both in India and abroad.

General Insurance Corporation also manages an 'Indian terrorism pool' where the maximum loss payable is Rs 200 crore per risk. The pool is protected by an excess of loss cover with an underlying of Rs 100 crore.

New crop insurance scheme

A new insurance for farmers will be introduced soon to cover yield and price fluctuations under a single policy.

The Farm Income Insurance Programme (FIIP) will be introduced in 23 districts of 18 states for the wheat and rice crop in the Rabi season. The policy is an improvement over the existing National Agricultural Insurance Scheme which covers yield discrepancies only. It will be launched across the country from the next kharif season.

Based on the results of the pilot project, the FIIP will be fine-tuned for formal launch in Kharif 2004, Union Agriculture Minister Rajnath Singh said. The newly registered Agriculture Insurance Company of India (AICI) will handle the policy.

Under the FIIP, a farmer's yield and price risk would be protected by ensuring minimum guaranteed income. A premium subsidy of 75 per cent is proposed for small farmers, while others would get 50 per cent.

The programme will be available in all states and be compulsory for farmers availing seasonal agricultural operation loans. The NAIS will be withdrawn for crops covered by FIIP, but would continue to be applicable for others.

Over the past few years, average agricultural production has outstripped official consumption requirement and increased procurement of wheat and paddy is proving unsustainable. Stocks were 65 million tonnes in 2001-02, against a 25 million tonne requirement. This takes its own toll on procurement agencies. The Food Corporation of India's subsidy bill is nearing Rs 28,000 crore a year.

Under the new scheme, Government estimates are that even in extreme situations, gross claims would not exceed Rs. 12,000 crores.

While this isn't the first attempt at crop insurance, it is the first to cover production and price risks together. The total area it may cover eventually is 45 million hectares under paddy and 25 million hectares under wheat. Premium subsidy here would add up to Rs. 5,200 crores a year. There will be no subsidies on claim settlement.

Have your say!

Dear Readers

The **IRDA Journal** was launched in December, 2002, to serve as the forum for stakeholders of the insurance industry to make their views and experiences known to the Regulator and to teach others. You have supported us with your views and suggestions on various aspects of what is happening in the industry and your experiences and ideas. Where your support has been most visible and encouraging is in the steadily increasing requests for copies that arrive at the office expressing interest in the contents of the Journal, encouraging us to take strength in the belief in which the publication was launched, which is that the industry needs such a medium of communication to listen to its stakeholders.

Once again, as always, we want your opinion. This time on the Journal itself. The Journal is shortly to complete its first year of existence. To help us take stock of where we have come and what needs to be done ahead, please answer the following questions and send it back to us by post to:

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Please suberscribe your envelope with the words 'IRDA Journal Survey' or mention this in the subject line of your e-mail. Please feel free to use extra sheets of paper if you need them.

Do you find the IRDA Journal useful in your day to day work?

What sections are the most useful and what can be bypassed in future when we revamp contents?

What new sections or types of articles (including topics) would you like to see regularly featured in the Journal?

Do you find the writing in the Journal easy to read and understand. Is the reading experience enjoyable?

What needs to be done with regard to writing, rewriting and editing?

Your comments on the design, layout and use of visual elements in the Journal.

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“ ”

Insurers need to take a long hard look at the structure of their cost base. Inflexibility in cost structures (be they attributed to staff, premises, systems etc.) provides a perverse incentive to write business at a loss. Other parts of the financial services sector have already had to face up to this challenge, but for insurers it is perhaps only starting to become a serious reality.

Mr. David Strachan, Director, Insurance Firms Division, Financial Services Authority (FSA), UK

Premium increases are necessary, because we need to be able to look policyholders in the eye and tell them that there will be sufficient funds to cover claims should disaster strike. And we can only cover claims if there are sufficient funds to do so.

Lord Peter Levene, Chairman, Lloyd’s of London

Deposit insurance schemes have adverse consequences. They actually increase the probability that a bank will collapse because of moral hazard. The other problem with deposit insurance is that the cost of it is passed through to bank customers in higher fees and charges.

Mr. David Bell, Chief Executive,
Australian Bankers’ Association

The perception is that insurers are not differentiated enough and the products are viewed just as commodities, ... (so) customers tend to buy on price and don't investigate the full range of services and products available.

Mr. John Sims, Head,
Chubb's European Personal Lines unit

We would like to see CEOs in Malaysia take greater initiatives to ...implement the best corporate governance practices in their organisations, improve customer relationships in a manner that inspires greater confidence in the insurance industry and co-operate more effectively through the industry associations to strengthen the self-regulatory infrastructure in Malaysia.

Bank Negara Malaysia on its expectations
of an ideal insurance CEO

We expect conditions to continue to be rough at home.That is why we are strengthening our base overseas and increasing revenues there.

Mr.Susumu Uchida, Managing Director,
Mitsui Sumitomo Insurance Company

RNI No: APBIL/2002/9589

Events

December 1-9, 2003
Venue: Pune
Lateral Thinking & Decision Making organised by National Insurance Academy (NIA), Pune

December 8-9, 2003
Venue: Hyderabad
Eighth Insurance Summit, 2003, organised by the Confederation of Indian Industry (CII)
Theme: Realising the Growth Potential

December 8-13, 2003
Venue: Pune
Management of Change by NIA

December 16-17, 2003
Venue: Pune
Seminar on Geographic Information Systems by NIA

December 13, 2003
Venue: Kolkata
Insurance India 2003
National Seminar on:"Emerging trend in insurance sector" organised by Merchant Chamber of Commerce, Kolkata and Microsec Risk Management Limited.

December 23-24, 2003
Venue: Pune
Boda Marsh Seminar on Natural Hazards and Catastrophic Losses

February 18-19, 2004
Venue: Delhi
Sixth Global Conference of Actuaries organised by the Federation of Indian Chambers of Commerce and Industry (FICCI)in association with Actuarial Society of India (ASI)

February 10-11, 2004
Venue: Korea
4th CEO Insurance Summit

March 2-3, 2004
Venue: Singapore
1st Asian Conference on Commutations & Run-Offs