Insurance Institute of India
C – 46, G Block, Bandra-Kurla Complex, Mumbai – 400051
INSUNEWS
- Weekly e-Newsletter
18th - 24th July 2014

• Quote for the Week •

"Success is the progressive realization of a worthy goal or ideal"
Earl Nightingale

INSIDE THE ISSUE

Insurance Industry

Insurance firms to IRDA: don't let standalone health insurers use our agents - The Hindu Business Line

General insurance companies have made a representation to the Finance Ministry and the IRDA, the insurance regulator, to reconsider its decision on standalone health insurance companies using their agents to sell health insurance policies.

A senior official from a public sector general insurance company said, "We invest in the recruitment and training of the agent and feel it is unfair that standalone health insurers who we compete with utilise them to sell their health insurance products without any additional requirement. We have asked the regulator to provide a level-playing field."

"We are at a disadvantage as the agent is working for a company which is a competitor in health insurance products," said the official.

In a bid to boost the penetration of health insurance, the Insurance Regulatory and Development Authority, in February 2013, allowed standalone health insurance companies to use the agents of general insurance and life insurance companies to distribute health insurance products.

'Yet to decide'

A senior IRDA official said, "We had allowed standalone health insurers to utilise the agents of general and life insurance companies to make it viable and improve the spread of health insurance, as they operate in only one line of business. However, we have received the representation from the general insurance companies and we are yet to decide on it."

According to industry officials, the issue of non-level playing field in distribution was taken up in the meeting of the Finance Minister with the insurance industry last month.

At present, there are five standalone health insurers — Star Health, Max Bupa, Apollo Munich, Religare Health Insurance and Cigna TTK — which exclusively sell health insurance products.

According to data from the IRDA, health insurance, which is currently a Rs 17,0000-crore market, has been one of the fastest-growing categories for general insurers, logging a 13.5 per cent growth in FY 2013-14.

Source

Back

Government to issue new norms to address management control, voting rights in insurance FDI - The Economic Times

The government will clear the fog on management control and voting rights that have sparked concerns among shareholders of insurance companies. Allaying fears that JV agreements between Indian and foreign partners of insurance firms could block higher foreign direct investment (FDI), financial services secretary GS Sandhu told ET that "he was sure the Foreign Investment Promotion Board (FIPB) would put in place a procedure in a way that undue hindrance was not created." "The government will release guidelines on the voting right and management control to clear any confusion in the insurance sector," said the finance ministry official in a telephonic conversation with ET over the weekend.

The bone of contention is the definition of 'management control'. In most insurance companies, foreign partners have decisive say in several key matters. These include board composition, business plan, appointment of senior personnel like CEO and CIO, and change in capital structure. Significantly, a foreign partner already enjoys these rights -- which are part of shareholder agreements -- even with 26% equity holding. These agreements had been shared with insurance regulator IRDA which approved them while clearing any 26% FDI under automatic route. But the Budget has spelt out that all proposals to raise foreign equity stake in insurance JVs to 49% will be cleared by FIPB which may interpret the term "management control" less generously.

Insurers are awaiting the fine print to figure out the next move. Capping the shareholding of the foreign partner at 26% may not be solution. "It becomes administratively difficult to manage different classes of shareholders with differential voting rights. A disconnect between legal right and economic right is not the ideal thing to have," said Vibha Padalkar, ED and CEO of HDFC Life Insurance. According to Girish Kulkarni, MD & CEO of Star Union Dai-ichi Life Insurance, "Limiting voting right to 26% could be a dampener. In life insurance business, along with economic ownership, proverbial functional ownership is equally important."

While it's willing to look into the matter, the ministry, however, thinks FDI will flow in. "We believe foreign players who have tieups with Indian partners are keen to invest in India. We have had detailed round of discussions about this with existing players and they have not expressed any reservation. There are happy that at least the doors are opening now, though with some safeguards...This government is clear about its intentions to attract investments from outside and if this country has to grow these investments would be needed," said Sandhu.

Besides key rights, foreign partners, thanks to their expertise and resources, also play a crucial role in actuarial and underwriting operations which are core activities of any insurer. The definitions of control in Companies Law, FIPB rules and Sebi's takeover code are similar while insurance was an exception where IRDA had the final word. The fear is if the government does not spell out the position, any FDI proposal in insurance could be either turned down or delayed like the Jet-Etihad deal, with different arms of the government interpreting management control differently. Some insurers also suspect that FIPB may even insist that existing shareholder agreements (for 26% stake) may also have to be redrafted. "One has to wait for the fine print.

What is Indian management control? Would it mean Indians in key positions or persons hired by Indian shareholders? The shareholder agreements differ from company to company...If necessary, one or two rights in the agreements may have to be watered down," said Zia Mody, legal eagle and managing partner at AZB & Partners.

Valuations of insurance companies could also suffer if agreements are diluted to give Indian partners "effective control" as a foreign partner not enjoying the earlier rights may not be willing to pay as much for the additional 23% stake. "The issue is beyond IRDA or FIPB. It's a policy matter and it's for the government to clarify," said Ashvin Parekh, Advisor, Global Financial Services, Ernst & Young.

Even agreements which the JV partners had earlier entered into — allowing the foreign shareholder to raise stake either at a predetermined price or through an independent valuation — cannot be automatically given effect. "Also, there should be clarity on the term "composite cap". Will composite cap mean to include FIIs and NRIs? This may be well be the case. But the bigger issue that needs clarity is Indian management and control... there are companies where some of the key management persons are foreigners," said Souvik Ganguly, partner at BMR Legal.

Source

Back

Work begins on raising cap on FDI in insurance - The Economic Times

India is all set to raise the foreign direct investment (FDI) limit in the insurance sector to 49% with prior government approval while it will still be automatic for anything up to 26%, as the government seeks to put in place the much-debated reform aimed at easing the capital crunch faced by the industry. The finance ministry has floated a Cabinet note for inter-ministerial discussions, acting swiftly in line with the announcement in the recent Union Budget, two senior government officials familiar with the development said.

"A Cabinet note has been circulated to elicit views of concerned ministries," said one of them. Finance Minister Arun Jaitley said in his July 10 budget speech that the government proposed to raise the limit to 49% from

26%, a long-standing government pledge that hasn't yet been approved by Parliament. The freeing up of overseas investment curbs—FDI of up to 49% has been proposed in defence for instance—is part of the Narendra Modi government's bid to boost sentiment on India and make it an attractive destination for foreign money.

As per the fresh proposal floated by the department of financial services, FDI up to 49% will be allowed in the sector after the prior nod of the Foreign Investment Promotion Board (FIPB), on condition that control stays in Indian hands.

However, FIPB approval will not be required for FDI up to 26%, as per current policy. The cap would be composite, implying that it would include both FDI and portfolio investment. The measure will also pave way for insurance companies to list on the stock exchanges. The Modi government is keen to see the amendments to the insurance bill being passed in the current session of Parliament itself.

The inability of the previous government to fulfill the promise of raising the limit in insurance meant the industry was stuck in a rut. Most foreign investors in joint ventures were unable to bring in more funds as Indian partners were unwilling to pump in money that would have been needed to maintain their holding at 74%.

There is enormous potential for insurance in a country in which large swathes of the population don't have coverage. But the industry needs a Substantial amount of money to increase life insurance penetration, which was just 3.17% in 2012, while non-life coverage was even worse at 0.78%. Insurance penetration is measured as gross premium income as a percentage of GDP. With the latest move, the government has junked the earlier thinking that there should be differential voting rights to allow additional foreign investment and has opted for a simpler regime.

Source

Back

IRDA Regulation

'Insurance sector to grow in big way on FDI cap hike' - The Hindu Business Line

The recent hike in the FDI limit in the insurance sector will spur the growth of the industry in a big way, M. Radhakrishnan Nair, Member (Finance and Investment), IRDA has said. He pointed out that the hike in the FDI limit to 49 per cent in the Union Budget would bring more foreign capital to the industry. "This would help companies to expand its operation at a rapid pace and also help improve technology", he added.

The post liberalisation, he said, the insurance industry has witnessed impressive growth with life insurance business growing at a rate of 18.42 per cent in the last 14 years. Similarly, the general insurance sector has seen a growth of 16.62 per cent. The entry of standalone health insurance companies has resulted in increase in general insurance premium. He was speaking to Business Line on the sidelines of ''Kerala Insurance Conclave: Towards Development and Better Delivery" organised by CII.

According to him, the growth in health insurance has been steady with a CAGR of 33.11 per cent. The rapid growth is expected in the health insurance segment since the penetration of health insurance is abysmally low and healthcare expenditure continues to go up. The key growth drivers for the industry are fiscal incentives, capital, distribution reforms, and consumer awareness and consumer protection, he added.

Earlier, speaking at the conference, Nair said that the future agenda for the sector include leveraging technology, pricing the agriculture insurance for wider coverage, expanding the health insurance coverage by taking advantage of government sponsored schemes, launching of new products like catastrophe bonds and mechanism for tapping uninsured vehicles.

Speaking on the occasion, VP Nandakumar, Managing Director and CEO, Manappuram Finance Ltd said "we can see that insurance regulatory framework has evolved over the last decade to match needs of the sector. It is estimated around 14 crore policies are sold every year.

"We claim that we have a better human development index thanks to the emphasis given to education, health etc. But is it a sustainable model? In the field of higher education, health, building of infrastructure, power, can we evolve a PPP model which can sustain economic growth."

Source

IRDA may allow 5-year auto insurance policies to ease renewal hassles - The Economic Times

You may soon have a way out of the annual car insurance renewal hassle, replete with the pesky calls and haggling over the amount.

The insurance regulator is considering a proposal to allow insurers to offer policies with a one-time, five-year cover and is expected to issue fresh guidelines on such long-term products. These policies could come cheaper, too.

“Some insurers have submitted proposals in this regard and we are evaluating them. We can start with such policies in the two-wheeler segment first,“ said an official with the Insurance Regulatory and Development Authority (IRDA), adding that based on the experience, similar products for commercial vehicles can be launched.

The regulator also aims to use this long-term policy cover to promote insurance, especially in rural areas. “Several companies have pointed out that insurance renewals are not happening, so if we have a long-term product right at the inception, it may also promote the insurance culture,“ the IRDA official said.

As per the latest data, insurance penetration in the country declined to 3.96% in 2012-13 from 5.2% in 2009-10. General insurance penetration in the country stands at 0.78%. The premium underwritten for the motor segment in 2012-13 was Rs. 29,777 crore. The move comes ` when the government is looking to open the insurance sector and allow 49% foreign direct investment. There are 17 private sector and four PSU general insurers in the country.

According to a report by KPMG, the under-penetration is driven by lack of overall financial awareness, lack of understanding of general insur ance products, low perceived benefits, and propensity to purchase insurance based on reactive drivers such as insistence by financers and statutory requirements.

General insurers also feel that such a product will boost the renewal business, which is quite low in rural areas. “The regulator should look at allowing a long-term cover for commercial vehicles such as tractors and mini utility vehicles. These can be further linked to the registration and fitness certificate,“ said a CEO of a private general insurer, requesting anonymity.

A senior official with a PSU general insurer said some issues need to be sorted out before such a product is rolled out.

“For example, you need a mechanism to factor in the `no-claim bonus' and subsequently the pricing of such a policy,“ he said. There are also concerns about the possible liability on such insurance products exceeding the premium received.

At present, there are 10 lakh outstanding motor third-party claims involving an amount of about Rs 22,000 crore. Customers, though, may not complain, given the hassles of renewal every year, when they are bombarded months before the policy is to expire.

Source

Back

IRDA to crack down on vehicles plying without insurance - The Hindu Business Line

With an eye on reducing the large number of uninsured vehicles in the country, the insurance regulator has started a pilot initiative in Cyberabad, Telangana, to strictly enforce the provisions of the Motor Vehicles Act, which makes it a criminal offence to ply a vehicle without insurance.

“We have collaborated with the police and they will send challans to owners of vehicles without an insurance policy. What we have found (through the pilot) is that out of the 12 lakh registered vehicles, almost 25 per cent do not have an insurance policy,” said M Ramprasad, Member, non-life, Insurance Regulatory and Development Authority (IRDA).

More states to join project

“If the results of this pilot are encouraging then we will extend it to seven more states. We are planning to collaborate with the Ministry of Road Transport to use their data on the number of registered vehicles to corroborate data from insurers,” he said.

A report by ICICI Lombard General Insurance said the number of uninsured vehicles in the country is estimated to be 40 per cent in the case of cars and 70 per cent in the two-wheeler segment. Third-party motor insurance refers to the cover provided by insurers for damage caused by a vehicle to a third party's property or life.

Third-party motor insurance is a loss making portfolio for general insurers with high claims ratios — in excess of 130 per cent in recent times. So, for every ₹100 collected by them as premium, insurance companies end up paying out ₹130 in claims. Incidentally, IRDA is also planning to allow general insurers to introduce three-year motor insurance policies for the two-wheeler segment, which has seen a big drop in renewal of policies. Currently, motor insurance policies are renewable annually. Ramprasad said the regulator is considering making it mandatory for two-wheelers to have a three-year motor insurance cover.

Source

Back

Life Insurance

Life insurers resort to increased customer segmentation - The Times of India

Life insurers are increasingly adopting a customer segmentation approach with respect to selling insurance plans.

HDFC Life has filed a life insurance cover with estate planning features targeting the HNI (high net worth individuals) for approval. "This plan is similar to those offered in the developed world that focuses on a corpus creation for dependents and payout to the heirs in the event of death," Sanjay Tiwari, vice-president, product development, HDFC Life, said.

In addition, HDFC is also actively targeting the wisdom investor category (40-45 years) and those who can pay annual premiums upwards of Rs 60,000. Similarly, Max Life high value customers are those who pay premium upwards of Rs 1 lakh. In Max's case, marketing to its high value clients revolves around providing differentiated, enhanced and consistent experience at every touch point.

"The customer proposition for such members includes priority on-boarding, priority service delivery, faster policy issuance, smoother claim settlement, dedicated toll free number to handle their queries on a priority basis, a special team of relationship managers to service customers better," company officials said.

Industry observers also state that insurers are increasingly looking at specific clusters. "Life insurers are increasingly looking at specific customer segments and building a business around them. Many of them have a separate team that focuses on such HNI clients," Rahul Aggarwal, chief executive officer, Optima Insurance Brokers, said.

Women too are an important focus area for HDFC Life. Nearly 23% of premiums for the company in last fiscal came from women customers as against 20% during 2012-13.

"We embarked on a customer segmentation drive in 2011 based on the results of a focus group study. We had around 50 lakh customers and the whole idea was to target those segments which are viable and where we can offer differentiated services and product levels. Our woman plan takes into life changing factors like child birth, death of spouse and illness while computing premium and payout," Tiwari said.

Some companies like Aegon Religare Life Insurance and Bajaj Allianz Life Insurance focus on lifestyle segmentation when it comes to selling of insurance plans.

"We first segment customers and then create a product bouquet based on needs. These bouquets could comprise plans of different types and a combination thereof," Yateesh Srivastava, chief operating officer, Aegon Religare Life Insurance, said.

"With increase in disposable incomes and concepts like dual income families, customers' power to spend is only going up. But, on the other hand, the idea of saving a corpus for purchasing any item is a passe, given the availability of options like EMI (equated monthly installment). In sync with these, dreams and aspirations have also changed a lot. Therefore, there is a bigger need for segregating the customers based on their priorities and needs and importance of financial investment in insurance or any other investment," Rituraj Bhattacharya, head, market management, Bajaj Allianz Life Insurance, said.

Source

Premium lapses - The Financial Express

The last five years have been very challenging for life insurance companies, with premiums declining from 4.6% of the GDP in 2010 to an estimated 2.7% in 2013, which is close to 2005 levels. Insurance penetration rose between 2006 and 2010 because of a rapid rise in sales of unit-linked products, which were sold as a short-term, tax-efficient, mutual-fund-type product, instead of a long-term savings/protection avenue. While a cap on surrender charges and expenses has significantly reduced mis-selling now, the industry is still suffering from high rates of surrenders and policy lapses.

Source

Back

General Insurance

Air India's insurance costs likely to escalate - Financial Chronicle

State-owned Air India is likely to cough up higher premium when it renews its insurance contract on October 1. Three consecutive large airline losses — downing of Malaysia Airlines flight MH17 over eastern Ukraine last week, the earlier disappearance of MH370 and hull losses due to fighting at Tripoli airport — are likely to harden reinsurance rates.

Fewer aviation losses in recent years had resulted in a decline in aviation reinsurance rates but the situation is likely to be reversed now, say insurance officials. Air India's insurance policy is the country's largest aviation policy and is due for renewal on October 1.

Two consortiums of non-life insurance companies have submitted bids for providing insurance cover to Air India. One group consists of public sector general insurance companies led by New India Assurance, with United India Insurance, Oriental Insurance and National Insurance being co-insurers.

The other group consists of private sector insurance companies, with ICICI Lombard General insurance as the lead insurer, while Reliance General Insurance and HDFC Ergo General Insurance are co-insurers.

In May, Air India (the merged entity of erstwhile Air India and Indian Airlines including its subsidiaries and affiliated companies including joint ventures) had invited technical bids for insuring its fleet of 105 aircraft valued at $9 billion, even as it is in the process of acquiring the remaining 13 of the 27 Dreamliners it had ordered. The technical bids had to be submitted by insurers by June 4, after which the commercial bidding process would begin.

The head of an insurance company that has submitted a bid said, "Disappearance of MH370 and downing of MH17 are two large losses that have hit reinsurers. Rates will harden once we approach the reinsurers. According to some reports, losses from MH17 could be to the tune of $600-700 million."

AGCS, a division of Germany's Allianz, is the lead reinsurer covering the MH17 aircraft, which London-based insurance broker Aon has valued at about $97.3 million. AGCS is also the lead liability reinsurer for Malaysian Airlines. A total of 298 people were killed when Malaysian Airlines flight MH17 travelling from Amsterdam to Kuala Lumpur was struck by a surface-to-air missile last week.

For Air India, the premium rates and terms and conditions of the policy are determined by foreign reinsurers. The Air India insurance policy is a bouquet of three policies, which cover aircraft value, passenger liabilities and suits in case of accident, flood, fire or natural calamity, besides providing cover against war liabilities.

For 2013-14, the three state-owned insurers had won the bid. The total hull sum insured was $9.5 billion of which 'hull all risk' was $180 million while the combined single liability limit was $1.5 billion. The gross premium paid by Air India was $23 million approximately.

The technical bid requires the insurers to reinsure the risk with A-rated reinsurers, besides a confirmation that they will be able to reinsure 90 per cent of the risk in the international market. Insurers also have to confirm that they will fully settle Air India's claims even if any of the reinsurers fails to pay its share.

Source

Reinsurance

Malaysia Airlines MH17 crash may be 'act of war' for insurers - The Economic Times

The fact that the ill-fated Malaysian flight MH17 was brought down by a missile may trigger the war exclusion clause, which will mean that aircraft insurers pay only towards compensation for victims. General Insurance Corporation (GIC) of India is part of the consortium of worldwide underwriters which have covered the airline. The underwriters may term the crash an 'act of war', sources said.

Bulk of the claim arising out of an aviation accident is not the cost of the aircraft but the compensation paid to the victims. Given that there were 295 passengers on board, the total liability claim could be in the region of $400 million or Rs 2,400 crore.

GIC's share is 3-4% of the total claim. But since that the reinsurer has protection for losses over $6 million, which ensures that the maximum balance sheet impact is limited to Rs 36 crore due to the liability claim. Although the cost of a new aircraft is a little over $300 million, insures said that the hull claim for the 17-year Boeing 777 would be in the region of $100 million.

Malaysian Airlines has announced an initial compensation of $5,000 per passenger. But the total amount would be substantially higher as compensation for air accident victims is decided under the Montreal Convention and usually ranges between $150,000 and $175,000 per passenger.

Insurance brokers say that the issue of whether the plane was downed because of an act of war could get contentious since officially none of the countries are war. There is a possibility that the airline might make a claim for terrorist attack since there is a likelihood that the missile was fired by rebels. Insurers say that whether the act is one of terrorism will be determined by the language of the contract.

Source

For GIC, this is the second major aviation claim this year. The corporation has already paid out around Rs 75 crore towards its share of the claim in respect of the missing Malaysian Airline MH370 earlier this year.

Back

Survey & Reports

Why People Don't Take Adequate Insurance? - The Economic Times

LIFE insurance penetration in India is very low, primarily because of the low level of financial literacy in the country. But, it is surprising that even high income earners are not adequately insured. A study of 3,000 individuals by Bigdecisions.in, a financial services portal, shows that even high income earners may be going about in life with barely 10-20 percent of the insurance they actually need.

Life insurance is meant to provide financial support to your family and dependants if some thing untoward happens to you. So, the life insurance cover should be big enough to generate an income for the family of the insured person. This would take care of the living expenses of the family. But, the cover should also settle all outstanding loans as well as provide for big-ticket onetime expenses, such as a child's higher education and wedding.

HIGH-INCOME EARNERS AT MAXIMUM RISK One may think that high-income earners have lower need for insurance. On the contrary, they require higher cover because most people have huge home loans and other big-ticket borrowings. “With higher expense levels the higher income group is at a higher risk,“ says Manish Shah, co-founder and CEO of Bigdecisions.in. The study by the online portal shows that despite the popularity of online term plans offering huge cover at low rates, individuals in the high income bracket of Rs 35 lakh - Rs 40 lakh per annum are inadequately covered. “We also noted that the insurance cover did not increase in the same proportion as the increase in the income,“ says Shah.

Adequate life cover won't cost the earth if you buy the right type of policy . Traditional plans offer a smaller cover because they are essentially investment vehicles. At the age of 30-35 years, a person will be required to pay a premium of almost Rs. 8 lakh-10 lakh a year for a cover of Rs 1 crore. Only the super rich will be able to afford such a plan.

For the average buyer, a better option is a pure protection term plan which can offer the same cover for Rs 8,000-15,000 a year, depending on the age and social habits of the buyer.

One should not be lulled into thinking that the life insurance cover he has is enough. A sum of Rs 1 crore might sound big, but even an inflation-adjusted monthly withdrawal of Rs 50,000 will deplete the entire corpus in less than 20 years. This is when we have assumed annual re turns of 9 percent from the cor pus and an inflation of 8 percent.

SHOULD WE BLAME IT ON LOW COMMISSION FOR AGENTS?

Why are people not taking ade quate insurance? It's not diffi cult to see where the problem lies. Traditional life insurance policies, which offer very low cover, but charge a high premium, are the focus of insurance agents because they fetch higher commissions. An agent will pocket Rs 30,000 - Rs 35,000 if he sells a traditional policy with an insurance cover of `10 lakh. A term insurance policy with a cover of Rs 50 lakh, on the other hand, barely earns him Rs 1,000-1,500. The study finds that protection is a lower focus area and a larger portion of the premiums are going into savings-cuminsurance plans.

Source

Back

IRDA Circular

Source

IRDA uploaded updated list of Non-Life Insurers.

Back

Global News

Malaysia: Local insurers' exposure to MH17 is 3% - Asia Insurance Review

Local insurers that are part of the aviation insurance pool for Malaysia Airlines' (MAS) fleet, which includes the ill-fated MH17 aircraft, are unlikely to be hit hard by the loss of the jet, the second major incident to befall the airline in four months, as the bulk of the claims is expected to be covered by the war risk insurance underwriter.

Domestic insurance companies retain only 3% of the risk of the aviation hull and liability policy where the amount covered is small and shared among the pool members and therefore does not pose a systemic risk, reported The Sun Daily.

It is learnt that all domestic insurers involved have submitted a statement to Bank Negara Malaysia, at the regulator's request, on the status of their exposure and claims related to MH17. However, an insurance executive said that the insurers are still compiling figures from various sources, including brokers, before the total claims can be finalised.

"It's still early days but the indication we are getting is that it would take another three weeks before we can get a final figure," she said, adding that claims would be determined by the cause of the loss of aircraft, among others.

The MH17 aircraft, a Boeing 777, was shot down by a missile on 17 July while flying over a conflict-torn region in eastern Ukraine. All 298 people on board were killed.

It is understood that Malaysian insurers, which are part of the pool providing all-risk comprehensive cover insuring hull and liability, is likely to only be exposed to the liability portion of it as Lloyd of London's unit, Atrium Underwriting Group, the lead underwriter for MAS's war-risk insurance, covers the plane against malicious acts.

German insurer Allianz Global Corporate & Specialty (AGCS) is the lead insurer for the MAS fleet for the hull and liability policy.

The aviation hull and liability policy for flight MH17, like MH370 which disappeared in the Indian Ocean on 8 March, is underwritten 100% by Etiqa Insurance and Takaful Bhd, with the majority of the risk ceded to AGCS.

Malaysian Reinsurance (Malaysian Re), a unit of MNRB Holdings, is one of the local players exposed to the risk as well.

The insurance executive said: "Under the war risk insurance, our net share is nil which means our loss is 100% recovered. However, if there is legal liability, then it would be covered under the hull and liability insurance." In such an instance, the source said that underwriters would require third parties or family members of the passengers to prove negligence on the part of the airline before any settlement is forthcoming.

Source

Nevertheless, MAS is likely to have to make payouts under the Montreal Convention. The accord caps payouts at US$170,000 per passenger regardless of whether the airline is at fault.