60 years of Insurance Education & Training

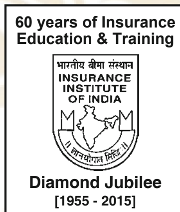
Diamond Jubilee
[1955 - 2015]

THE JOURNAL of Insurance Institute of India

Published on 15th February, 2015

VOLUME NO. II ▪ ISSUE NO. III MUMBAI January-March 2015

REGULATION AND MARKET DEVELOPMENT



60 Years of Insurance Institute of India.

2015 makes the 60th year of formation of Insurance Institute of India. The Institute has planned to celebrate its diamond jubilee year through a nationwide program. It include campaign through its all affiliated and associated institutes for spreading insurance awareness and showcasing III's role as a premier institutions of Insurance Education in India. These programs may be conducted in schools, colleges and other community forums.

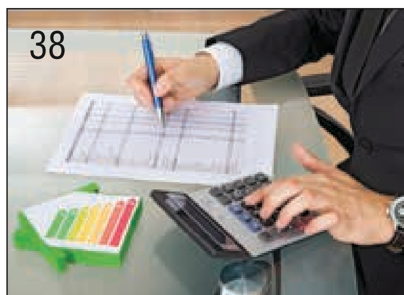
We invite you to be a part of this campaign and contribute your mite in various ways. You could get in touch with us, so that we could thus connect you to our nearest local institute.

Please send your following details

Name	
Co. / Institution Name	
Address	
Email id	
Contact No.	

Please send your details to kmc@iii.org.in

CONTENTS



02 Editorial

03 Regulation and Market Development: The Underlying Philosophy
G. N. Bhaskar Rau

07 Insurance Regulation and Market Development
K. Subrahmanyam

13 Insurance Regulation and Market Development: The Evolving Landscape
Venkatesh Ganapathy

20 Insurer's Wrecking Ball
Avez Sayed

30 Regulation and Market Development in Insurance
Ram Awadh

38 Responsibility Reporting and Disclosure Practices in Indian Insurance Sector
Alok Kumar

48 Regulations in the Indian Market: A Case for More Stringency
Anabil Bhattacharya

63 Turbomarketing Framework for Services Excellence in Insurance
Arun Kumar Sharma

66 Brand Loyalty Model for Insurance Sector- Strategy Formulation for Brand Revitalisation of ULIPs through Service Recovery Initiatives
Ajay Jose
Sonia Mathew
Saraswathiamma K P

73 India's National Pension Scheme: An Actuarial Overview
Kumar Sudheer Raj
Nabajit Saikia

86 Motor Insurance – Tariff, Detariff and Beyond…
Peeyush Agarwal

104 Indhiramma Old Age Social Security Scheme Changing the Lives of Elders
T. V. Ramana

110 Going Global 2014
Ramakrishna Laksman

119 Call for Papers

120 Guidelines for Contributors

123 Program Calender

This journal is for distribution among members only and not for sale at any retail outlets or bookstores.

The Journal of Insurance Institute of India

Established in 1974
Volume XXXIX

January-March 2015

Editorial Team
Mr. Arindam Mukherjee
Dr. Shashidharan Kutty
Dr. George E. Thomas
Mr. Pranab Misra
Mrs. Archana Vaze

Editorial Associate
Mrs. Manisha Sutar
Email: journal@iii.org.in

Printed and Published by
P. VENUGOPAL on behalf of INSURANCE INSTITUTE OF INDIA, Printed at MAGNA GRAPHICS (INDIA) LTD. 101 C&D Govt. Industrial Estate, Kandivali (West), Mumbai - 400 067 and Published from INSURANCE INSTITUTE OF INDIA, Plot No. C-46, G Block, Near American Consulate, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051.
Editor : **Mr. Arindam Mukherjee**

Editorial Support, Design and Printing by Magna Graphics (India) Ltd.
Website: www.magnagraphicsindia.com
Email: magna@vsnl.com

Notice to Readers
Publication of papers and other contribution in this Journal does not necessarily imply agreement with statements made or opinions expressed; for which the respective writers alone are responsible.

Follows us on facebook www.facebook.com/#!/pages/Insurance-Institute-of-India/164203300299381

EDITORIAL

The theme of the January – March issue (i.e. Regulation and Market Development) acquires significance in the light of the new ordinance has just been promulgated by the Indian government. India's regulator (IRDA of India) has the mandate not only to regulate but to also build the market. The developmental role calls for a much larger perspective than the need for customer protection, preserving insurance solvency and other objectives which are common to insurance regulations and supervisions across a globe.

What is market development?

In quantitative terms, it has been defined by certain parameters like:

1. Percentage of population / households covered by insurance
2. Insurance penetration defined as premiums as a percentage of GDP
3. Insurance density defined as premium per capita

There is, however, a qualitative dimension to market development. It would be determined by parameters like:

1. Market completeness – The extent to which there are appropriate insurance solutions to the various state of nature risks faced by individuals and households under various social and market situations.
2. Market efficiency – The extent to which these solutions are appropriately priced so that they reflect the intrinsic value of the risk. In other words, they are not overpriced or underpriced.
3. Economic rationality – The extent to which the market participants are informed and take rational decisions, based on such information, so that there purchase of insurance maximizes their economic social welfare.

A comprehensive definition of market development may help to identify more comprehensive and effective interventions that could lead to not only increasing the demand and supply of insurance but also enhancing its richness. We hope the papers presented here would promote a deeper dialogue in this direction.

We also take this opportunity to highlight the Diamond Jubilee celebration of the Insurance Institute of India. As part of the yearlong program, the institute proposes to have a number of insurance awareness programs being conducted across schools, colleges and educational institutions across the country – this would be organized through the local institutes. Seminars and conferences, including seminars for leading agents / seminars in partnership with other institutions would also be held as part of the programme. We also plan to bring out a compendium of research papers.

We would be happy to have your participation and support for these various programmes.

The theme for July – September 2015 issue of the Journal is **'Old Age Security'**. We invite papers on the challenges facing the aged, like income uncertainty, health, loneliness and other challenges and various approaches for addressing these problems in the global and Indian context.

Articles must reach us on or before **31st May, 2015**.

Regulation and Market Development: The Underlying Philosophy

G. N. Bhaskar Rau
Former Research Associate
and Faculty
National Insurance Academy
301, Shanti Nivas Apartment,
6 – 3 – 609/1, Anand Nagar Colony,
Khairatabad, Hyderabad - 500004.
gnb_sri@yahoo.com

Abstract

Markets are akin to any organic entities – like individuals. As they are run by individuals and all other stake holders are individuals, they tend to function mostly for self benefits, profits and aggrandizement. Market operators and users naturally tend to create gaps and 'asymmetries' in their functions and behaviour. This necessitates some authority to 'regulate' them all, both positively and normatively.

The underlying philosophy of Regulations should be "that while the markets will take care of the 'markets' growth' on their own terms and for the benefit of their own profits, the 'regulations' should take care of the 'markets' health' on their own terms and for the benefit of the market users and for the benefit of the national economy".

Keywords

Markets – Market Practices – Price Structures – Asymmetries – Theories of Regulations – Wealth of the Markets – Health of the Markets – Regulation Philosophy.

All laws, rules, codes and regulations are co-born with all organizations –social, political, economic or financial, business and commerce etc.

We can see this phenomenon in every human civilization and culture we know. We have the Manu Dharma Sastras, Koutilya's Artha Sastra, Hammurabi Codes, and Codes of Nurumu etc. Medieval ages too had their own laws and regulations suited to their communities and cultures.

However, there seems to be some difference between the ancient regulations and the medieval ones, in that the earlier ones were made to be applicable to all sartorial activities of the society like political, economic, financial etc. All were covered in one set of codes or regulations where as the later regulations were made specific to each area of human activity. One classic example is the Justinian Laws regulating the sea fare commerce etc.

In modern ages the division was much more varied and specific.

The industrial and the intellectual revolutions over the past last three to four centuries and their effects on the human mind and matters were so far reaching that man was becoming more and more searching and selective. With flourishing economies all around man's needs, wants and demands were creating all sorts of 'markets' – small, medium and large – mixed, combined and specific.

When markets are born, their practices and systems are also born – along with. Not all practices born are good or bad. They become good or bad by 'practicing' them by all concerned with the market. Further, many times these internal practices and systems tend to create certain asymmetries between the operators and the users of the markets. It is but prudence and natural justice that demand immediate *corrections* to these asymmetries and disparities between the stakeholders of the markets.

In fact, the underlying principles or philosophy of any regulatory regime is *to even out the asymmetries* that arise out of the operation of the markets.

There are two theories or schools of thought on these matters of regulatory policy, namely the *positive theory of regulation* and the normative theory of regulation. It is of importance to note that in both these theories the emphasis seems to be *"to even out the asymmetries* that arise out of the operation of the markets." These two theories are mentioned below for reference and as reminders to the concerned with the markets.

"Positive theories of regulation examine why regulation occurs. These theories of regulation include theories of market power, interest group theories that describe stakeholders' interests in regulation, and theories of government opportunism that describe why restrictions on government discretion may be necessary for the sector to provide efficient services for customers. In general, the conclusions of these theories are that regulation occurs because:

1. *the government is **interested in overcoming information asymmetries** with the operator and in aligning the operator's interest with the government's interest,*
2. *customers desire protection from market power when competition is non-existent or ineffective,*
3. *operators desire protection from rivals, or*
4. *operators desire protection from government opportunism.*

Normative economic theories of regulation generally conclude that regulators should

1. *encourage competition where feasible,*
2. ***minimize the costs of information asymmetries** by obtaining information and providing operators with incentives to improve their performance,*
3. *provide for price structures that improve economic efficiency, and*
4. ***establish regulatory processes that provide for regulation under the law and independence, transparency, predictability, legitimacy, and credibility for the regulatory system."*** [1]

We all know that improper and unscientific *price structures* are the basic point for the rise of *'asymmetric information'* between the operator and users of the markets. The user is in dark of the cost structure of the product or service he buys and tends to believe that the prices are artificially *'raised'* by the market operators to increase their *'profits'*.

As Augustine says *"this jester, either by looking into himself or by his experience*

1. *Wikipedia Article on Regulatory Economics.*

> "Recent research in economic sociology also puts emphasis on the dependence of markets on other social relations. Such examples make particularly clear that the markets we know are not something independently "given", but depend on existing norms and institutions in societies, and sometimes even on certain forms of information technology.

of others, thought that all men are inclined to wish to buy for a song and sell at a premium. But since in reality this is wicked, it is in every man's power to acquire that justice whereby he may resist and overcome this inclination." [2]

Thus, the question of disparity in or uneven prices seem to have been an issue of asymmetry between the buyers and sellers, the *market,* for ages along. Therefore, all the users of the markets need and expect some *'justice'* or *'authority'* to vouchsafe that the price is worth paying for the product or service. Thus, this need of the users of the markets becomes the *'need'* for making *'regulations'* to the market's several operations. Interestingly, the recognition of such a need of the users is not alien to the Indian markets and was introduced as way back as 1239. The Moghul Emperor Alluddin Khilji was the first Indian authority to introduce market regulations in the year 1239 and *controlled or regulated market prices* of *general* merchandise, cloth and animal markets.

Historian give various reasons for the act of Allauddin Khilji in regulating the prices of commodities, but still agree up on one aspect that he did it for keeping his land's economy healthy and even. This is what exactly we see in the third mention of the normative theory of regulations cited above. It is said that once Alauddin told one of his officials, *"Even if I give wealth to the people, they will not be pleased, therefore I have decided to bring down the prices of the things."*

Thus he believed that 'controls' or regulations remove the asymmetries between the sellers and the buyers and help development of the markets and also the country's economy. He ensured market development through regulations for nearly four decades – it is said.
We can also see that even the earliest documents – mentioned in the second paragraph at the beginning of this article – were all aiming at the *'common good'* and *'common safety'* of the land and its *'economy'*, through the codes they made both to the rulers and the ruled.

Market Development and its Meaning

Market can be seen analogous to any organic entity – like any individual person. It has mind, hands and heart – like people – because it is essentially made up of people, who should *think act and react.* Its people *plan,* its people work and its people should also have *empathy, feel* and *resonate* and *react* to the *emotions* of its users. Market's efforts – like an individual's – contribute to its *growth* and *development* through its planning (*mind*) and execution or working (*hands*) and its empathy (*heart*).

"It is not what he (the market) has, nor even what he (the market) does, which directly expresses the worth of a man (the market), but what he (the market) is" (Anonymous)

What a market *has* internally and what it *does* externally both contribute to the *growth* or *wealth* of the market. What a market *is* as seen and spoken by others contributes to the *development* and *health* of the market.

The word – development – in fact literally means growing from one state to another. It has a positive connotation. But, in spirit it means growing positively with no negative shades.

Therefore, we can say that development means growth and at that positive growth and extend our notation that 'market development' in spirit means 'growing' from one state of 'wealth' of the market to another state and 'growing' from one state of 'health' of the market to another state.

Wealth of the market has its *physical* features of its *size, profits, share in the economy, manpower, product range, service levels* etc.

2. *Saint Augustine cited by Thomas Aquinas (1225 – 1274) in his Book: Summa Theologica. (http://www.documenta-catholica.eu/d_1225-1274).*

Health of the market has its *ethical* features of its *trustworthiness, goodwill, core values, healthy systems, responsiveness, affable trained manpower, good governance, moral frame-work, robust discipline, flawless service and hale working practices* etc.

Markets do not function in isolation but with in certain market isotopes.

"Recent research in economic sociology also puts emphasis on the dependence of markets on other social relations. Such examples make particularly clear that the markets we know are not something independently "given", but depend on existing norms and institutions in societies, and sometimes even on certain forms of information technology. They therefore argue that markets can only be justified if they coexist with other institutions that supplement or correct their outcomes."

Therefore whatever laws or regulations or 'controls' made should aim at increasing the *health and worth of the markets* and not mere steering of them to stay *'right'* on the written letter of the regulation but to keep the markets *'righteous'* on the intended spirit of the regulation. In other words, markets should be regulated more on their *conduct* rather than on their *structure.* [1]

For example, if there is an *'inclusive'* clause as a regulation for a market, the 'regulator' should not excuse the failing market with punitive measures like penalties etc. There should be an insistence on the performance only of the regulation and nothing else in lieu of it.

Similarly, any changes or modifications in the practices (regulations) should be seen not by-passed by any erring market.

The market 'errs' mostly to increase its *'wealthy growth'* while the regulator action should be to ensure the *'healthy development'* of the market.

A classic example to the above statement and which shows how markets circumvent laws and regulations is the reasons and background for enactment of laws like the *"Usury Act" of Pope Gregory IX, 1n 1236*.

Regulation Regime

It is generally believed that markets function with the sole aim of making profits – quick profits – and profits at any cost, especially in the face of competition.

"And, more importantly, it is generally assumed that all economic agents pursue their own interest, which may or may not include elements of the public interest" [2]

Such a motive naturally makes the markets to tread the ill-set paths of practices. It may bring in great growth levels in the initial years, the market would slowly deteriorate and will face stunted growth in the later years – causing ill-health to the market. It would induce users to develop anathema towards the market and avoid it slowly.

Therefore, any organization that regulates the market should 'regulate' it to its health.

In other words, profits being the driving force of any market it would naturally would look after its growth and wealth – may be some times at the cost of its health and ethics and real development. Hence the levering of the market to its hale and ethics and real development is the responsibility of the organization that regulates it.

As Milton Friedman said in his famous article [3] *in which he claims that "there is one and only one social responsibility of business--to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."*

And, Market Regulations should endeavour to develop markets towards this goal.

Therefore, the last word is that while the markets will take care of the 'markets' growth' on their own terms and for the benefit of their own profits, the 'regulations' should take care of the 'markets' health' on their own terms and for the benefit of the market users and for the benefit of the national economy. TJ

References

1. http://www.shareyouressays.com/114655/market-regulation-and-price-control-policy-of-alauddin-khilji
2. http://plato.stanford.edu/entries/markets/
3. http://plato.stanford.edu/entries/markets/
4. http://en.wikipedia.org/wiki/Regulatory_economics
5. http://eawc.evansville.edu/anthology/aquinas77.htm
6. http://www.uu.nl/SiteCollectionDocuments/REBO/REBO_USE/REBO_USE_OZZ/10-18.pdf

1. *Structure Theory of Regulation and Conduct Theory of Regulation are also in vogue in Market Regulatory Regime.*
2. *Johan den Hertog, REVIEW OF ECONOMIC THEORIES OF REGULATION, December 2010, Utrecht School of Economics.*
3. *Milton Friedman, "The Social Responsibility of Business is to Increase its Profits". The New York Times Magazine, September 13, 1970.*

Insurance Regulation and Market Development

K. Subrahmanyam
Actuary
204, Kaveri, Divyashakti,
Navodaya Colony, Yellareddyguda,
Hyderabad - 500073.
ksmanyam52@ymail.com

Abstract

Insurance is commerce. It touches lives and their properties. An insurer's business is to make and sell insurance products. Though his main objective is to make money, he has, indeed, a social responsibility as well.

Insurance regulation is not only for regulating the market and making it orderly, but also for orderly growth of insurance market. Development and performance are closely related. You cannot develop without performance. You cannot perform without setting regulation/plan/target. Regulation flows from insurance legislation to protect the public.

What is insurance regulation? See Section 1.

What is development and How to measure? See Section 2 for that.

What is *mantra* for development? See Section 3

I have a final word at the end.

Keywords

Insurance regulation, insurance market, insurance penetration, insurance density, insurance banking, customers and market.

Preface

Insurance regulation is a key to the development of insurance market. Performance of a government is related to the standard and cost of living in the country and a strong and stable currency. If people are happy then the government is well run. It is not easy to make people happy. Few sections of the people still live in poverty finding difficulty to meet both ends. Measurement of people's happiness is done through 'per capita income'.

The higher the per capita income the happier the nation. Today we see Qatar, USA, UK, and some European and Asian countries enjoy highest per capita income, indicating that people live [by and large] happily in those countries. In insurance, the measurement is through 'insurance penetration' and 'insurance density'. These two phrases appear to be highly technical to a lay man. In simple words, if individuals allot at least 5% of their income towards insurance protection, then there is development in the insurance market. Insurance penetration is measured as that proportion of insurance premium income in the nation's gross domestic product [Premium income / GDP]. We may classify that if insurance penetration is below 5%, then the market is developing. If it is 5 to 10%, then the market is well developed; and if it is over 10%, it is highly developed [perhaps saturated market].

Insurance density is similar to per capita income. It is per capita premium. It is average premium per head. If insurance penetration is high, then insurance density should also be high. It is not enough if we measure insurance penetration. It is quite possible that wealth of the country could be in hands of a few people, and the insurance penetration could look higher. Therefore it is necessary to know whether every body in the country has been insured. 100% insurance is not possible, as we know all people cannot be insured. Insurance is offered only to those who earn. Even all earners are not insured. Even those who earn may not be fit to be insured! As we know that insurance is the least priority for earners. Most of the earnings (salary/wage) go towards food, shelter clothing, travel, and entertainment. Earners prefer to save in real estate, gold, and in bank's savings instruments such as Fixed Deposits, if they have savings after meeting their necessities [including their preferred savings which include possession of gold]. Keeping this in mind, we should try a novel method to spread insurance in the country. In this article, I am recommending 'insurance banking' model. In this model, insurers not only work as insurance companies but also work as bankers. Through the banking system, it is easy to reach people, as people wish to save or keep their money in banks. A portion of money kept in their bank accounts can get transferred to insurance accounts to provide insurance benefits to the families and in savers' old age period.

Section 1

What is Insurance Regulation?

[Health means wealth. Good regulation means good development.]

1.1 Mothers [or Ayahs!] take care of babies till they go to schools and become adults. Adults will automatically take care of themselves, because of their training and education which they get from mothers and schools. If babies are nurtured well, they behave well in schools, study well and will become good citizens.

1.2 Insurance companies are born because of insurance regulators. The promoter is a father—the provider of finance and other infrastructure. Insurance regulators should not only give authorization/registration/license to applicants who wish to become insurers, but also provide necessary care/facility/atmosphere for the growth of insurance in the country. Implementation part rests with the applicant [promoters]. Insurance industry may not develop if promoters are bad or if insurance regulators do not take necessary care. If promoters are bad, insurance regulator can kill the baby so that the society is free from them. In other words, it is 'fit and proper' concept.

1.3 When we say insurance business, it means many things. It is not confined to insurance products. It means distributors, intermediaries, brokers, etc. It is something like a house which has bricks, cement, sand, walls, doors, windows, taps, toiles, kitchen, beds, electricity, gas, etc. House gives shelter to lives that live in, sleep, and do many things.

1.4 What does the insurance regulator do? As mentioned, he gives birth to insurers. It protects those who live in the house of insurance. It has powers to do many things to protect the policyholders/customers.

1.5 In simple words, insurance is something that protects human beings from financial losses that arise on account of mishaps to life or property. It is different from bank savings. People need insurance to protect their lives and properties.

As food is necessary for living, so is insurance for better life.

1.6 In insurance regulation, the very important thing that a regulator should do is to achieve proper flow of information to the customers before and after sale. A Customer can make the right choice, if he has all the requisite information before him. The information should be accurate, complete, reliable and authentic. Customers trust the information that flows from regulators. The information will be an explanation of the product with the relevant examples and salient features.

1.7 Besides, the insurance regulator should take care of the following, considering overall interests of the industry:-

(a) Maintenance of solvency ratio [In India, it is insisted at 150%, fair enough to protect the insured] [In simple language, it is the ratio of available assets after meeting obligations to the required solvency margin –a figure to be determined as per Regulator's directions.]

(b) Expense volumes and ratios [Rule 17D of the Insurance Rules, takes care of this]. In the first 7 years [may go up to 10 years], exemption is usually granted if an insurer fails to comply with Rule 17D. Besides there is a mechanism stipulated in the Act—Insurers Association can recommend to the Regulator for a group of insurers who find difficulty in a particular year. Extravagant expenditure and violations of insurance law should be dealt with by the Regulator, of course, after giving opportunity of being heard].

(c) Conservation of business [Analysis of lapsed policies, surrendered policies, rates. This will help the regulator to revise or modify the regulations.] [In simple language, to what extent the insurer retains the customer with him forever!]

(d) Distributor turnover [Agency turnover. Problems relating to agents can be addressed, so that distribution can be more effective and lucrative.] [to sell insurance, insurer needs sales representatives who should remain with him forever!]

In insurance regulation, the very important thing that a regulator should do is to achieve proper flow of information to the customers before and after sale. A Customer can make the right choice, if he has all the requisite information before him. The information should be accurate, complete, reliable and authentic.

(e) Demographic ratios [Ratios of Actual to Expected, e.g. Deaths, claims,…] [If actual experience is favorable, compared with the expected one, then it is good.]

1.8 Focus should be on self-regulated entities [Life insurers, surveyors, brokers, agents, professional organizations, consumer associations,..]. It is necessary for the insurance regulator to have annual meetings with each. This paves the way for exchange of ideas that takes place between what the regulators will expect from them and what the group of insurers will expect from the regulator.

1.9 Co-ordination with other regulators and government agencies is necessary to further the interests of the insurance industry. Be it tax man, bank-man, pension regulator, or securities, it is nice to have regular interactions. This can be extended to overseas regulators [particularly neighbors].

Section 2

What is Development and—How to Measure?

[You cannot manage (and develop) what you cannot measure.]

2.1 Development means something more than insurance penetration. It also means the improvement in the quality of services to customers. Usual terms are:-

(a) Premium Income and its growth.

(b) Number of policies / lives (properties—vehicles, dwellings, goods, and services) covered

(c) Coverage [Sums insured]

(d) Profits / Surplus

(e) Capital

(f) Earnings per share

(g) Returns on investments

(h) Turnover [No. of employees, agents, brokers, surveyors, etc.]

2.2 Measurement of development is not always simple. One item may depend upon other item. For instance, if insurer has no products in his basket, he cannot do business, and if he cannot do business, the insurance market will not grow. Measurement is needed to indicate or point out the level of performance or achievement of development.

2.3 Certain measurements may not be objective. . Level of satisfaction cannot be measured always, as we do not know the minds of the people (for instance to what extent they need, salary, recognition, working conditions, etc.). Since we cannot measure such things properly, we cannot easily comment on performance in these areas. For instance, a claim is settled in 45 days. If this is settled in 30 days, it is some achievement. If it is in 7 days, it is a great achievement. There is no end to development. Today we are seeing the benefits of IT (Information Technology) in regard to train reservations, banking transactions, on-line sales, etc.

2.4 We need to specify certain things before we fix a target to measure performance. For fixing a target, we should consider the following:-

(a) Strengths [Access to level of IT, infrastructure, human resources, financial resources, economy,…]

(b) Weaknesses [Missing items in Strengths, or powerless tools at hand]

(c) Opportunities, and

(d) Threats.

These are common requirements to achieve a target. For insurance, a student wants to achieve 1st rank in his exam in his school/college. In such case, the student has to know about his strengths, weaknesses, etc. Same thing applies to insurance. When an insurer fixes a target of new business premium income, he must consider various factors such as the level of infrastructure [underwriting team, distributors of products, marketing and sales staff's strengths, sales outlets], level of competition for products in the markets similar to our insurer [Price, benefits, ease of settlement, response time of insurers to customer's questions], and economic conditions [tax benefits, individual savings, etc.]. For these factors, strengths and weaknesses have to be studied; what will be the opportunities and threats [from insurance regulators, and consumer associations, courts, taxation, government policies, courts and consumer forums, complaints, business ethics, etc.].

2.5 Besides, we need to have time factor in the target. This is very important. Management should expect performance of the target in a given specified time. For instance, a student may be asked to write his exam in three hours. Student's target may be to achieve first rank. In that case, he should plan, using his resources (knowledge and other infrastructure, e.g. health condition) to complete the task within the stipulated time. In insurance business too, insurers will be asked to plan and achieve the target of premium income, etc., in a given time (or one year time).

2.6 You will notice that once a plan is fixed, there will be targets too which affect the main plan. We can summarize by saying that, have plans, and also fix what targets to be achieved, considering (a) available resources (of infrastructure); (b) factors that may affect the plan; and (c) time factor.

2.7 Same logic applies to quality of services. Every service has time factor. Customers expect delivery of services within reasonable time. Services include:-

(a) Issue of contract [first premium receipt cum acceptance of insurance cover]

(b) Premium notice and issue of premium receipt

(c) Cancellation of policy

(d) Settlement of claim

(e) Change of particulars in the contract.

2.8 Complaint denotes lack of good service or no delivery of service. There should be various tiers to handle complaints [the last one being court]. In-house mechanism should be efficient [every insurer has its own fashion to handle complaints, including door-to-door service.] In UK, if agent mis-sells, insurer will be punished with penalties by the regulator. Sometimes penalties will not help. Fines may help [putting the responsible person in jail]. Last resort could be cancellation of registration [asking the insurer to close offices and stop business]. Complaints can kill the industry, and people may lose confidence. So it should be the duty of the regulator to address this by various regulations—policyholders' protection, advertisement, sales illustration, etc. There could be misuse of the regulation by the policyholders. Policyholders may misuse the 'free-look period' option, for instance. It is necessary to watch such and punish them. In New York, the insurance regulator can take the policyholders to court, if they get involved in frauds.

2.9 Regulator can describe each item and measure using ratios, percentages, fixed numbers, etc. All these need to be compared with the insurer's plan [insurer should plan before, as he is fully aware of his strengths and weaknesses]. The Insurer should be given an opportunity of being heard, before awarding penalty.

2.10 Promotion of self-regulatory bodies is good for the industry. Each self-regulatory body should be asked to bring out a code of conduct/ethics/standard in respect of the services offered by them. If self-regulatory bodies do not observe code of conduct, the regulator should step in and act. Corporate governance should be a self-regulatory mechanism within the company. I feel that independent directors shall be proxies to the regulating agency.

3.11 Ultimately, happiness to policyholders is more important.

Section 3

What is the Mantra for Development?

[Mantra is a hymn recited to get benefits and peace.]

3.1 A bench mark is an expectation. We come across statements—*the train is expected to arrive at 10.10 am, but arrived ahead at 10.09 am! You are supposed to leave at 5pm, but you left early! You are supposed to settle the claim within 45 days!* Expectation has become a benchmark. In insurance business, all transactions are commercial. Customers have expectations. The Insurer needs to know their expectations and satisfy them. Proprietors too expect returns on their investment; insurers must make efforts to meet their expectations. Regulators too expect, and if regulators are not satisfied, they may impose penalty or/and fine. Continuous monitoring is necessary to meet the bench-mark. There should be a mechanism to innovate, improve, and develop the best possible method for better services to customers. We are familiar how IT changed our lives as we are seeing the fruits---best example is mobile, Cash withdrawals from bank's ATM etc. In the same way, we need to improve the quality of services to customers. Delivery of insurance contract---de-mat wherever possible and send the contract by e-mail. Payment of Premium and issue of premium receipt through e-mail/SMS. Policyholders shall be given facility to pay premiums through ATM, debit card, credit card, etc., with security [so that policyholders should know that they paid premiums to the right person]. Premium notice and frequent reminders of payment of premium can be now done through SMS/E-mail.

3.2 Certain bench marks are already fixed by the Regulators. Insurer has to meet the expectations of regulating agencies. In this regard, insurer shall put the necessary infrastructure to better the regulator's expectations to avoid penalties or fine or both. What we generally see are: *customer should get his policy document within seven days of his application; insurer should respond to customer's queries in 3 days; insurer should settle claims within 30 days of receipt of intimation of claim,* etc. Insurer should build necessary infrastructure to excel.

3.3 Certain bench marks are fixed by the industry. These are known from industry practices with regard to payments and receipts, and certain other services. For instance, an insurer must give his no objection certificate within 30 days to an agent who wishes to leave and work for another insurer; insurers shall settle commission payment in 30 days, etc. [If agents leave an insurer, then something is wrong with the insurer!].

3.4 Certain bench marks are fixed by the management for insurer's staff. Generally, these are related to performance of staff working in various departments of the insurer---sales, marketing, HR, underwriting, customer service, etc.

3.5 Certain bench marks are fixed by the proprietors (owners of the insurer). Generally these are related to premium income, market share, profits, products, investments, etc. In this area, the management (CEO and other key persons) translate into various other areas, breaking down the targets into various segments, for instance, for each business office unit [how much they have to do, etc.].

3.6 All bench marks need to be fixed by the management. CEO should review the performance in relation to targets, and appraise the management. These are difficult tasks which need to be handled using professional advice, if any.

Insurance Banking

3.7 I have mentioned about insurance banking. If an effort is made through legislation, insurance banking can work well. Insurance penetration can increase. This entity may be intended for customers --those who buy insurance while saving their monies and *vice versa*.

3.8 People not only save using 'insurance banking' but also protect their lives and properties purchasing insurance contracts from insurance bank. This means that the entities work not only as banks but also act as insurers. They will be transacting banking as well as insurance business. I strongly feel that this will benefit the people as they could fulfill at one window their dreams.

3.9 It will not pose any difficulty for the regulators as entities can be regulated and supervised well.

'Last Word'

[For every success there is always a good and dedicated effort behind it.]

4.1 People save money by keeping the cash in banks. Banking is the life line of an economy. Every transaction is a cash transaction for some payment.

4.2 In this model, it would be good for the promoters as they can not only profit from their banking operations and also from their insurance operations. If standalone insurers are allowed by legislation, then they may be asked to sell insurance contracts to employers and enterprises but not to individuals.

4.3 Insurance banking can be a good model for healthy competition for insurance and savings. It could reduce the premium rates, as the expenses can be saved by insurers and public. Reinsurers can benefit from insurance banking too, as transfer of money becomes easy.

4.4 The fear in the insurance banking will be that of likely misuse of monies in the insurance fund and banking fund. Monies may be transferred from one fund to another. This is the very reason why composites are not allowed in many parts of the world. Such transfers can be controlled, if insurance bankers were asked to hold separate funds for insurance and banking, and also for shareholders' funds. When we think of development, certain things need to be compromised in the interests of the public, while regulating and supervising transactions of the insurance bank.

4.5 Bancassurance appears to be good. In this, banks work as distributors of insurance products. This is not successful, because banks have different priorities, and may not concentrate on insurance. There are some inherent disadvantages because all insurance products cannot be sold across the banks' counters for well-known reasons [underwriting, selection, etc.], without solicitation.

I welcome comments on this. TJ

Insurance Regulation and Market Development: The Evolving Landscape

Venkatesh Ganapathy
Associate Professor
Presidency School of Business
Flat. 102, Jeevanadi Samskruti,
BMP No.12, 3rd Main, 3rd Cross,
Hal 3rd Stage, Bangalore - 560075.
gvenkatesh69@gmail.com

Abstract

The role of insurance regulation in developing the market has come into sharp focus after globalization. In India, the opening up of the insurance sector for participation by foreign players has made regulation of the sector even more necessary. With the government making all efforts to increase the foreign direct investment limits, the sector is poised for a major growth in the years to come. But this growth also presents a new set of challenges for the regulator that has to straddle between its twin roles as regulator and facilitator of business. In this article, an attempt has been made to understand the role of regulator in developing and growing the insurance market in India. A comparison has been attempted to capture the regulatory regime in other ASPAC countries. The focus of this paper is more on the non-life sector. The paper then makes a few recommendations with specific reference to the insurance ecosystem in India in view of best practices emerging across developed and developing economies across the world.

Introduction

Regulatory changes are fundamentally reshaping the insurance industry creating strategic and operational challenges for insurers. In developed economies there is pressure to align insurance rules to the banking model though this is not so in India. However across the globe consumer protection laws have shot into greater prominence especially after the 2008 financial recession that swept the global economy.

There is no doubt about the fact that insurance regulation is evolutionary. There is a clamor for new models and methods and imbibing of world class practices in consolidating the regulatory regime. While changes in regulation are essential to meet the market dynamics, it is important that regulatory changes do not cause shrinking of the market or add to unnecessary cost or confusion for the stakeholders. The regulatory changes should be in the best interest of the consumers and the market place.

The Lehman Brothers crisis of 2008 is a grim reminder that no regulation can be ever so big so as not to fail. Post the recession many countries set up think tanks to avoid recurrence of a similar phenomenon in financial services. Some nations were forced to bring in radical reforms as one economic crisis followed another and the impact became severe due to the effect of globalization.

Across the board, it is widely felt that policymakers should strive to develop regulatory controls that make the consequences of failure manageable. US and Europe are working towards mutual recognition of each other's systems and exploring how regulatory systems can be harmonized and streamlined. The world appears to be moving towards global regulatory convergence even though regulatory regime in one nation cannot be simply cut and pasted onto another nation.

Development of New Insurance Market in Costa Rica

In recent years, Costa Rica's insurance market experienced a process of innovative transformation. It was a monopolistic market earlier and later on the market was liberalized to encourage foreign insurers (2). Thus the local population benefited from the choice available to them. Costa Rica's National Insurance Company was the sole insurer and reinsurer as per a 1924 decree by the national congress. However, this monopoly was difficult to sustain in a globalised economy. Costa Rica did not have an independent regulatory agency and the insurance market suffered from lack of modernization and diversification.

After signing the CAFTA (Central American Free Trade Government), Costa Rica had little choice but to undertake a commitment to regulate its insurance market and encourage the participation of private insurers. On 7 August 2008 the insurance market statute was passed in Costa Rica and the market was opened for private insurer participation.

This statute established the general framework for conducting insurance business in Costa Rica and made clear the roles and responsibilities of insurers, reinsurers, cross-border service providers and the licensing requirements. The competition in the market helped to create awareness about insurance in the country. The regulatory authority in Costa Rica prepared and distributed various insurance-related booklets, magazines and materials of interest to promote consumer's awareness about the importance of insurance. What is striking about the regulations is that policyholder's duties and declarations have also been clearly specified. Consequent to the liberalization, there has been an increase in the sale of life and health policies in Costa Rica. As a result of increased awareness, more consumers sought protection from insurance and as the scale expanded, the prices of insurance products fell. This growth also led to creating an opportunity for international reinsurers who started playing a key role in the development of the Costa Rican insurance market. The statute made it easier for international reinsurers but placed greater obligation on the local insurer.

Costa Rica has become an attractive centre for medical tourism and has now become a top choice for patients around the globe. There has been a reduction in health care costs due to increasing consumer traffic to the country and international reinsurers have benefited from this development. Thus, regulation and privatization have actually helped the growth of the insurance market in Costa Rica.

Drivers of Insurance Market Development

Feyen, Rodney & Rocha (2011) talk about what drives the development of the insurance sector. Insurance sector can play a critical role in financial and economic development. By reducing uncertainty and the impact of large losses, the sector can encourage new investments, innovation and competition. Insurance companies can contribute to the provision of long term instruments to finance corporate investment and housing. There is evidence of a causal relation between insurance sector development and economic growth. (3).

By introducing risk-based pricing for insurance protection, the sector can change the behavior of economic agents contributing to the prevention of accidents, improved health outcomes and efficiency gains. Presence of state insurers can stifle market development and presence of foreign insurers can contribute to market development through product innovation and marketing techniques.

The quality of legal and regulatory environment can have a significant effect on market development by enhancing the credibility of the insurance contracts. Variables that capture insurance industry development are 1. Ratio of gross life insurance premiums to GDP (Life) 2. Ratio of gross non-life insurance premiums to GDP (Non-Life). 3. Ratio of total assets of insurance companies to GDP (Assets). The first two are insurance penetration variables that capture the extent of risk management, but life insurance premiums can also reflect a savings motive. The 3rd variable captures the size of both life and non-life sectors.

In their paper, Feyen et al, say that income is an important driver of life insurance and so are population and population density. Larger clienteles, deeper risk pools, scale economies, easier distribution channels – all these contribute to the growth of the life insurance market. If the social security system in a nation is well-developed, this impacts the growth of the life insurance sector because the social security system reduces the need for insurance.

Predominance of private ownership in the life industry and a strong legal framework promote the development of the life sector and so do developed credit and bond markets. More concentrated markets tend to promote faster industry development.

For non-life sector too, income continues to be an important driver. Private ownership of non-life industry, a strong legal framework and developed credit markets promote the development of the non-life sector. This research shows that market concentration slows the development of the sector.

Supportive policies can contribute to the acceleration of the insurance sector's development. Middle East and North African countries have generated much smaller revenues from car insurance than would be expected by their fleet of cars due to several problems in the regulation and enforcement of motor third party liability insurance.

A Peep Into Non-Life Sector in India

The new Indian regulatory regime is keeping the insurance industry on its toes to safeguard the customer's interest. Price-based competition is no longer going to work for the insurance sector. (4). Let us look at the market share of non life insurance business in India.

Line of Business	2008-09	2009-10	2010-11	2011-12	2012-13
Fire	11.15	11.18	10.7	10.27	10.57
Marine	6.44	6.26	5.92	5.44	4.81
Motor	43.94	43.46	42.7	45.84	47.05
Health	20.06	21.12	23.36	22.27	22.19
Others	18.41	17.98	17.33	16.18	15.37

The Indian insurance industry has had a steady growth since privatization in 2000, but there have also been structural changes. Though life insurance penetration has increased in India, the growth of non-life sector has been lackluster. As on 31 March 2013, there were 27 non life insurers in India, of which 6 are PSU insurers. Of the 21 private insurers, 4 have been granted registration to carry on operations exclusively in the health segment.

Over the past decade, the non insurance segment penetration has been in the narrow range of 0.60-0.78%. The non-life insurance sector has grown at almost an equal rate as the Indian economy. The

structure of non life insurance growth pattern in India has changed. In India, there has been greater growth of health insurance as compared to other lines of insurance. In the last 7 years, the health insurance sector has grown at a compounded annual growth rate of 30.05%.

The premium in non life segment has increased 6 times [from ₹ 2221 crore in 2005-06 to ₹ 13975 crore in 2012-13). Disappointingly, fire insurance has only witnessed a growth of 8.45% in the similar period which is the lowest. This is despite the fact that there have been many fire accidents in India across the breadth of the country.

IRDA's Role in Market Development

Insurance inclusion, insurance literacy, proposer/ policyholder protection are pillars that are integral to the development and expansion of Indian insurance sector. Stronger the regulation, more is the need for enforcement and this will inspire greater consumer confidence and lead to development of the market.

IRDA's mission is to protect the interests of policyholders along with development of insurance sector in an orderly manner. The regulator's goal in the future is to increase insurance penetration in rural and remote areas. Just like financial inclusion that is being promoted by the government, it is also important to ensure insurance inclusion in India. This calls for promotion of insurance literacy. IRDA has to balance its roles as a regulator and as a facilitator of market development. IRDA's goal is to ensure that the customer takes an informed decision while purchasing an insurance policy.

There is a clear need to open insurance offices in rural and semi-urban areas and design simple products. On its part, IRDA has set up grievance call centers and launched a consumer education website. IRDA is also working towards strengthening health insurance regulations.

An insurance literate public helps in enhancing market efficiency since it leads to more efficient, transparent and competitive practices by insurance service providers. An informed policy holder monitors and affects the market through his / her decisions.

Customer centricity has become even more important for insurance sector now. While companies are doing all that they can do to woo the customer and with IRDA acting as a watch guard, this leads to development of the market. Role of intermediaries is also important in spreading awareness as they can play a crucial role in product and service differentiation of insurance companies.

Why is Non Life Insurance Market Development more Challenging?

Life insurance claims are certain. The same cannot be said about non-life claims. A customer experiences real service from an insurance company only when there is a claim because this is what is going to materially affect him. Underwriting and right sales offers are important too but a customer banks more on a claim as by this time he has faced a pecuniary loss. Thus, at other times, insurance is a contractual promise that is likely to be fulfilled at a later date.

In India, though it is recognized that intermediaries have an important role to play in the product brand architecture and market development, cannibalizing is a problem. One distribution channel trying to attack another channel does not help market development.

IRDA has been pushing for specialized insurance (5) companies to fuel the growth of the next phase. These specialized firms would offer unique products in areas like export credit, disaster management, agribusiness and health. To reduce current account deficit, exports have to grow and insurance can play a pivotal role in credit guarantee.

Introduction of a New Distribution Channel by IRDA (7)

IRDA has always positioned itself as a regulator that is keen on growing the insurance market in India. It has recently issued draft guidelines for insurance marketing firms that can market insurance policies along with mutual funds. A company needs to have a net worth of ₹ 10 lakhs at all times. The insurance salesperson here is not an agent, he is more like a broker. He will be responsible for soliciting and marketing insurance products. Insurance agents cannot become salespersons. The remuneration of salespersons will be fixed though they will be given performance incentives.

ASPAC Perspective [Source: KPMG Report: 2014]

Country	Introduction	Solvency Capital	Health Insurance	Primary Distribution	M&A & FDI
India	Focus on facilitating needs based selling, increased transparency and protection of consumers	Factor-based model, with a solvency margin requirement of 150%	New health insurance regulations by IRDA in February 2013 – standard wording in health insurance policies, pre-authorization forms and claim forms	Domination by agency channel; growth in internet sales; bancassurance to fuel growth of insurance in rural areas; banks can become insurance brokers for multiple insurers; regulation of bancassurance still evolving.	Foreign ownership restricted to 26%, this is being revised. M&A opportunities less attractive than other markets.
Indonesia	Financial Services Authority is the regulatory authority	Development of an enhanced Risk based capital framework; calibrated increases in minimum capital requirement to culminate by 2014 end. Minimum capital for insurers and reinsurers to increase to 100 billion and 200 billion respectively	New social security system proposed, but not clear how this will affect the private health insurance market	Distribution by agency channel; Licensing requirements for agents in 2010; an agent can represent only one insurance company; Telemarketing is growing and so is bancassurance	FDI limit 80%; existing foreign shareholders may increase the shareholdings beyond 80% limit by injecting more capital into company to meet higher RBC requirements
Japan	JFSA is the regulator – 3 focus areas – timely claims, improved risk management and advancement in consumer protection.	RBC based solvency regime. Risks categorized as insurance, interest, market, credit, operation and catastrophe. Regulator is working on developing an economic-based solvency regime.	Japanese people live long; whole life health insurance products have become more popular.	Mixed channels of distribution. Larger life insurance companies have sales representatives	No limitation in FDI amount or holding of shares, insurers have to maintain their capital adequacy via the solvency regime.
Malaysia	Bank Negara Malaysia focused on raising standards in governance and risk management practices. Strengthening and updating prudential rules in line with international regulatory standards.	RBC framework implemented on 1 January 2009. Capital adequacy of 130% has to be maintained.	Agency channel is dominant mode of distribution. Bancassurance and direct sales growing in popularity. Composite licences are no longer allowed.	Low penetration of health insurance. No significant regulatory developments impacting the health insurance segment.	Domestic firms control the general insurance sector while foreign providers provide life insurance. FDI limits raised to 70%.

Country	Introduction	Solvency Capital	Health Insurance	Primary Distribution	M&A & FDI
New Zealand	Reserve Bank of New Zealand new regulator. Threat of natural catastrophes. Need for innovation and modified distribution channels. More need for financial and prudential information. Governance and risk management crucial areas.	Risk based solvency standards in place	Both private and publically funded health care system. Free health care for residents. Secondary market for health insurance.	Direct selling and brokers. Comparative websites for insurance plans are available	Mergers and acquisitions subject to approval of reserve bank. M&A encouraged in case additional capital is needed.
Singapore	Monetary Authority of Singapore regulatory authority.	RBC2 enhances risk coverage	Two medical insurance schemes – one for medical and other for hospitalization expenses	Agents and brokers dominate. Bancassurance and direct selling also exist as other modes.	No limits on foreign ownership, developments in RBC2 may lead to M&A activity.
South Korea	Regulator has focused on claims fraud and suitability products for consumers	RBC implemented in April 2011	New forms of risk being covered	Agency and brokers. Bancasssurance growing in prominence in recent years; Internet sales also growing.	Any change in equity holders' share over 10% needs approval from Financial Supervisory Committee

With sweeping regulatory changes, the Indian insurance market has undergone a complete transformation in terms of focus, products and regulation. In the last few years, IRDA has been pushing for a customer centric focus in the Indian insurance industry.

Conclusion

Indian insurance industry is growing rapidly. At a penetration level of 4% of GDP, it collected around US $ 60 billion. [₹ 350,000 crores in 2013-14]. Increase in working population, cars, vehicles, houses are all becoming growth drivers for the insurance sector. Actuaries are in short supply in the non life sector compared to life insurance sector where the focus is more on improvement in internal controls. In non-life, risk pricing itself is getting affected due to the shortage of skilled talent. Even in a de-tariffed scenario, non life insurers are not making profits as expected, hence there is a need for rationalizing the pricing approach. The lines of business that are bleeding the non life sector have to be explored in detail to find out the root causes and future strategies have to be based on the claims history.

Insurance is a transparent and customer friendly financial service offering. Consumer awareness and protection has been a prominent part of the regulatory agenda. Life insurers are looking at new types of policies like whole life plan where there are survival/ maturity benefits when the policyholder becomes 85 years of age. Rather than focus only on risk, life insurers are also looking at insurance as a means of investment.

Technology, stronger processes, customer relationship management, customer experience management are all needed for improving service efficiency. Asking questions like – who are not our customers, what can we do to bring them into our fold is important. New gen products have to deliver a greater value proposition to the consumer.

This article has focused on non-life insurance sector more because this sector has not grown as much as the life

insurance sector in India. Even in the case of life insurance, LIC has remained the undisputed king despite penetration of market by private life insurers as well as online mode of distribution of insurance policies.

In case of non-life insurance, though the industry keeps talking about losses this point of view is more uni-dimensional. Is paying a claim a loss for insurance? May be the industry should rethink about this. There is no point in talking about insurance claims as losses and then about customer centricity in the same breath. This writer has taken a non-life medi claim policy from a private insurer where the parent company is a reputed manufacturing company. Excepting for sending reminders about payment of premium, there is very little that this insurer has done in terms of servicing me as a customer. The regulatory authority should take note of the same. Mine may not be an isolated case.

The question that I would like to ask the insurance community is – Is customer engagement confined to sending reminders about premiums and due dates? What about service quality? Despite the facility of portability of insurance policies, I am still overcome by inertia to change my medi claim insurer.

No market that treats the customers shabbily can ever hope to grow. For every 1 complaint that the regulator may receive, there are 100 complaints that are never received because they are never filed! Controlling the losses in non life insurance sector needs an innovative approach. For example – take the case of motor insurance… this needs a complete overhaul in terms of pricing and claims processing. If someone can buy a vehicle for ₹ 15 lakhs then he needs to share a greater contribution in the claims – this can be mandated by law/ regulation; so the next question is has detariffing and dismantling of TAC really worked in favour of the non life insurance industry? Market based pricing may have intensified competition and may have provided a plethora of choices for the consumer, but has this led to reduction in misspelling, filing of false claims and long drawn out arbitration proceedings? The Motor Accident Claims Tribunal is choking having become a white elephant.

If the regulator wishes to grow the market for non life insurance, then these evils need to be looked with larger lenses and corrective actions need to be taken. Fire insurance like motor insurance has to be made mandatory. A bold step needs to be taken in terms of differential pricing mechanisms.

In case of crop insurance, the Government can imbibe the lessons learnt from the ITC e-choupal experience. Considering the huge opportunities presented by India's rural market, if the insurance sector cannot take cognizance of this and cannot take concrete actions to grow the business, then it will be a big tragedy.

In case of motor insurance and health insurance, greater regulatory intervention is needed by the regulator so that fraudulent cases are not only detected but actions are also taken to deter similar such events in the future. Setting up a think-tank to specifically look into the problems of non life sector is a must. Which are the sectors that are bleeding the prospects of the non life sector? Why? These are important questions that cannot be overlooked.

Let India learn from best in class global practices. Let us use technology to improve processes. Let the insurance sector focus on customer experience management and customer engagement. Let the Indian insurance sector learn from the solvency requirements of insurance firms in other nations. How have the distribution channels evolved? How are governments and regulators in these countries meeting the challenges that face them? In countries where foreign participation has increased, has it led to development of the insurance sector?

The wisdom gained by learning from these experiences across the world will pave the path for a regulation that not only keeps the insurance industry in check but also facilitates the development of the industry. TJ

References

Evolving insurance regulation, KPMG report, March 2014.

http://whoswholegal.com/news/features/article/29591/costa-rica-development-new-insurance-market

Feyen, Erik., Lester, Rodney., & Rocha, R. 2011. What drives the development of the insurance sector. World Bank Policy Research Working Paper 5572, 1-45. http://econ.worldbank.org

Asia Insurance Post, February 2014.

Asia Insurance Post, April 2014.

Asia Insurance Post, June 2014.

http://www.livemint.com/Money/1jNKSNCTOq0Vt24g99ly9I/Irda-issues-draft-guidelines-for-insurance-marketing-firms.html

Insurer's Wrecking Ball

Risk that Matters and Matters of Risk

Avez Sayed
Associate Vice President –
Enterprise Risk Management
ICICI Lombard General Insurance
Company Limited
ICICI Lombard House, 414,
Veer Savarkar Marg,
Near Siddhivinayak Temple,
Prabhadevi, Mumbai - 400 025.
sayed.avez@icicilombard.com

Identifying an individual cause of failure for an insurance company is often not possible. More likely than not failure occurs due to a combination of factors and these may, or may not, be visible to external parties during the months or years preceding failure. There is however one factor that appears common to most failures, and that is the adoption of poor risk management practices.

Abstract

Globalization and deregulation in financial markets, combined with increased sophistication in financial technology, have introduced new and additional complexities into the activities of insurers and therefore added weight to their existing risk universe. These reasons underscore insurers' and regulators' growing focus upon the identification and measurement of risk.

Risk is the beating heart of insurance. The wide variety of risks and, more importantly, the scale of these risks faced by insurers today range from fraud, system failures, lapse of internal controls to climate change, environment hazard, terrorism and business interruption. The identification and measurement of these risks is a real and live issue for modern-day insurers, however insurers do not always manage their own risk as well as they manage the risks they're insuring against. Below we discuss many facets of the risks generated from the insurance business that can wreck an insurer's performance, profitability and its survival.

Keywords

Insurance risk factors, risk areas in insurance, reasons why insurers fail, risk that matters for insurers, insurance company risk management, enterprise risk in an insurance company.

Introduction

Risk is costly and is *omnipresent. You find risk everywhere ranging from simple things such as walking to more serious things such as flying in an airplane, or conducting surgeries. Unmanaged risk can prove disastrous and the recent economic crisis is a continuing testimony to this fact*.

Quite recently Google recorded 510 million hits on the word "risk", many more than other popular words in economics such as "profit" or "tax" but less than "money". Do all of us use the word "RISK" in the same way? The knowledge of risk differs systematically by risk types. Regardless of the specific meaning of risk being used, greater risk usually implies greater cost.

> Many times in the past, financial risks have resulted in major blowouts wiping out billions of dollars of wealth from the system and pushing people and economies into bankruptcy. Stock market crash of 1987, Asian crisis of 1997, dotcom bust of 2000, September 11 terrorist attacks, Rogue trading losses at Société Générale, Barings, National Australia Bank, Enron, American International Group, HIH Insurance, Independent Insurance, Global financial crisis of 2008 and the latest and still fresh Euro Zone crisis are some of the notable examples of risks going out of control and are reminders of the potential impact of mis-management/ignorance of risk.

In the world of insurance, the concept of risk is very important. Successful risk management requires constant grappling with the known, the unknown and the unknowable risks. Understanding the nature of the differences across risk types and their relative contribution to total earnings volatility can shed light on the portion of the risk space within insurance that is known and knowable—and hence manageable—versus unknown and unmanageable risks.

An insurer is unique in that it faces the same business risks borne by any and all the businesses; but it also purposely assumes an additional risk of insurance hazard as its core purpose of being. There are a number of risks, both specific to the company and of a general nature, which may either individually, or in combination, materially and adversely affect the future operating and financial performance of a company. Whilst one seeks to manage these risks to prevent adverse outcomes, many of these risks are outside the control of the insurer, its directors and management.

Our focus in this article is to highlight on risks that insurers are exposed to which can cause catastrophic losses to them – ***"Insurer's wrecking ball"*** - as discussed through a broader insurance risk taxonomy according to risk group, risk categories and risk areas detailed below:

Insurance hazard risk in this context is the risk assumed by the insurance enterprise from outside parties in exchange for a premium. For a company's

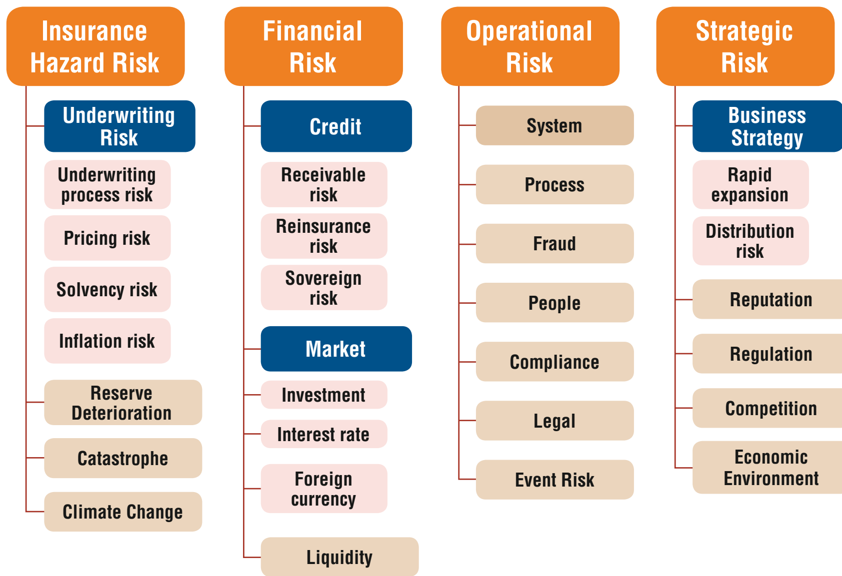


Figure 1: Risk Taxonomy Source: Sayed Avez

> A mega-catastrophe is no surprise: One will occur from time to time, and this will not be our last. We did not, however, price for manmade mega-catastrophe, and we were foolish in not doing so. In effect, we, and the rest of the industry, included coverage for terrorist acts in policies covering other risks and received no additional premium for doing so. That was a huge mistake and one that I myself allowed.
>
> ***Warren E. Buffett***
> *To the Shareholders of Berkshire Hathaway: November 9, 2001.*

own exposure, hazards represent only down-side risk. But for an insurance company, insurance hazard risk is two sided with an element of speculative risk, as it represents the firm's reason for being.

Underwriting risk is the risk that the total cost of claims, claims adjustment expenses and premium acquisition expenses will exceed premiums received and can arise as a result of numerous factors, including pricing risk, reserving risk, product design risk and catastrophe risk. Beyond this, the insurer faces these issues with regard to incorrect allocation of policy sum insured, incorrect deductible and excess clauses and non-capture/incorrect capturing of clauses and conditions in policy leading to an ***underwriting process risk***.

Pricing risk is the possibility that the premium charged for insurance is not adequate to cover the losses generated from that insurance over time as insurance pricing is notoriously cyclical. A sustained period of charging too little for each risk will over a time erode the free capital of the company which will eventually have insufficient capital to support business. If it is not appreciated that prices are too low then it is easy to set the reserves too low. This adds weight to the belief that rates are adequate and will lead to continued low rates or even further price cutting. Sometimes underpricing is difficult to ascertain for a number of years, creating an accumulation of losses that is subsequently recognized as reserve deficiency.

Solvency risk - Risk that the insurance company will be unable to satisfy future obligations they assumed. The Insurer's ability to comply with minimum solvency requirements stipulated by regulator is affected by a number of factors, and compliance might force for having additional capital, impacting growth. The minimum solvency is affected basically by the policy reserves required to be maintained, which in turn are affected by the volume of insurance policies an insurer sells and by regulations on the determination of statutory reserves. If insurer continues to grow too rapidly, additional capital will be needed to meet solvency requirement or else the momentum of growth needs to be pared down.

Insurer's earnings depend significantly upon the extent to which our actual claims results are consistent with the

assumptions used in setting the prices for our products and establishing the liabilities. Any material impairment on insurer's solvency level could change customers' or business associates' perception about the financial health of the company, which in turn could adversely affect sales, earnings and operations.

Another risk associated with underwriting is ***risk of Inflation***. Price inflation and social inflation, defined as an increase in insurance claim costs due to higher jury verdicts, increased arbitration awards, aggressive regulatory action, adverse case law development, etc. Each type of inflation puts at risk the adequacy of current rupees set aside to pay claims in the future.

Reserving risk is the possibility that an insurance company's estimates of future claims payments, will be inadequate to cover the claims when they are eventually paid. Reserving risk is determined primarily on the basis of reserve utilization and corresponding reserve made for each class of business. This means setting an adequate reserve for each claim that is reported and allowing for claims that have not yet been notified. There is often pressure for an insurer to declare good results. If these figures are deliberately or accidentally set too low then the insurer will look to have made more profit than it actually has. This extra profit may not then be available when the claims are required to be paid and can lead to the insurer becoming insolvent.

Catastrophe risk is the possibility that insurance companies will suffer very large losses if there is a catastrophe or an accumulation of risk. Both the Retail & Corporate portfolios of an insurer are exposed to Catastrophe (CAT) risk that generates significant levels of damage, the extent of which may neither be foreseen nor priced for and the same will not be managed effectively by the claims department once they occur. The actual failure due to a catastrophe may arise because of a number of different factors or a combination of them:

- An unexpectedly high exposure to the catastrophe,
- The failure of the company's reinsurers because of their exposure to the event,
- Cash flow problems caused by having to pay out on claims before recoveries can be made,
- The company did not know its actual exposure,
- The company knew its exposure but ran the risk anyway.

2002-2005:
Several international non-life insurers and reinsurers failed, including Mutual Risk Management Ltd., Trenwick Group Ltd., GLOBALE Rueckversicherungs - AG, and Converium Reinsurance (North America) Inc., predominantly due to deficient reserves for casualty lines following a period of inadequate pricing industry wide, compounded by weak risk management.[1]

Climate change – It is surprising that climate change risk is only now identified as one of the significant and greatest strategic threat for the insurance industry with recent events manifesting its force. In addition to earthquakes, climate change can lead to broader and more gradual consequences including floods, windstorms, hailstorms, unseasonal rainfall, and increase in mortality and health problems, the spread of environmentally related litigation and effects on capital markets. These implications affect insurers pricing structures and reserving policies as well as solvency and corporate viability and could result in building up claims correlations across geographies and insurance classes – perhaps sooner than expected.

Financial risk includes risk in the insurer's asset portfolio related to volatility in equity prices, credit quality, interest rates, foreign exchange rates and liquidity. Though all companies have some degree of financial risk, insurers are somewhat unique in this regards, as well, given the preponderance of invested assets on the balance sheet relative to the company's equity.

Credit risk is the risk of loss resulting from the failure of a counter party to honour its financial obligations towards the company. Credit risk arises predominantly with respect to investments in debt instruments, insurance contract

One insurer that came near to failure following the terrorist attack on the World Trade Center (WTC) in 2001, was Japanese Taisei Fire & Marine Insurance Co. Ltd. The losses incurred exceeded Taisei Fire's capital such that it merged with Sompo Japan Insurance Inc. soon after, in December 2002.[1]

receivables, recoverable from reinsurers and receivables from counterparties. Credit risk can be with effect from

a. Receivable risk – The regulatory guidelines provide for disallowance of receivables beyond defined thresholds for various classes which hence has an impact on the solvency of the company. These disallowances build up significant impact on solvency. Disallowance in solvency is generally higher due to delay in receipt of reinsurance, co-insurance receivables &policyholders premium payments from Government related insurance schemes.

b. Reinsurance risk – Choosing reinsurance poses many of the same issues that choosing insurance poses e.g., type of treaty, treaty or facultative, how much protection, which reinsurer, what should be the retention?

A mistake that has led to insolvencies of insurers in the past has been over-reliance on reinsurance. The reinsurers may fail to pay for many reasons few of them being :

- If they themselves are insolvent,
- A simple refusal to pay,
- Their retrocessionaires are not paying claims as they fall due,
- They may claim that the insurer did not write the sort of business they were expecting, or had agreed or did not tell them everything they should have.

According to Indian regulations, (Re)Insurers shall place their reinsurance business outside India with only those reinsurers who have over a period of the past five years counting from the year preceding for which the business has to be placed, enjoyed a credit rating of at least BBB (with Standard & Poor) or equivalent rating of any other international rating agency.

Credit risk can be a factor with respect to reinsurance, if a reinsurance company is either slow to pay its claims contributions or unable to make such payments the effects on insurance company performance (and hence value) could be significant.

c. Sovereign risk – Refers to the risks resulting from a country's in/action. A country's willingness, ability to repay and political scenarios are often factors looked at when evaluating the reinsurance treaties. Sovereign risk can significantly increase recoverable risk from a reinsurer with a troubled political, economic and legal system. A default by one or more reinsurers could materially and adversely affect an insurer's financial condition and results of operations.

Market risk is based on a firm's sensitivity to adverse changes in values of financial instruments resulting from fluctuations in foreign currency exchange rates, interest rates, property prices and equity prices. Though insurance companies collect premiums every month, the bulk of the previously collected premiums are invested in equities in an effort to increase profits and/or payout reserves. If stock market values sink considerably, an insurance company may not have an adequate pool of funds to pay all potential claims.

In 1985, Insurance Corporation of Ireland came close to formal liquidation due to poor underwriting in its London branch. Its failure caused a run on its parent company, Allied Irish Banks[2].

d. Investment risk – The risk that one's investments will not yield as expected, or depreciate because of stock market dynamics causing one to lose money. Most of the reserves and free capital that an insurer holds will be invested in fixed income products such as term deposit, government bonds, subordinate bonds

issued by financial institutions, corporate bonds and equities. In deciding where to invest the funds the insurer has to balance the desire for greater expected returns with the need to limit the investment risk. The danger here is that the value of the assets drops to below that of the value of the liabilities. There is also an element of credit risk associated with investment portfolio as the possibility of an enterprise defaulting on its debt payment. This risk is exacerbated if an insurer has limited free capital to start with.

> Falling values of sovereign bond holdings can affect solvency, as seen in the recapitalization needs of some insurers following the 2012 Greek sovereign debt restructuring.[1]

e. Interest rate risk – Risk to the earnings or market value of an investment portfolio due to uncertain future interest rates. The profitability of some of the products and investment returns of insurance companies are highly sensitive to interest rate fluctuations, and changes in interest rates could adversely affect investment returns and results of operations. A rise in interest rates would adversely affect shareholders' equity in the immediate fiscal year due to a decrease in the fair value of fixed income investments. Conversely, a decline in interest rates could result in reduced investment returns on newly added assets and have an adverse impact on profitability. It may be noted that interest rate fluctuation risk is not so much of a risk for general insurers since they are into indemnity business substantially and the tenure of general insurance policies generally is of one year.

f. Currency risk – A form of risk that arises from the change in price of one currency against another. If an insurance company underwrites insurance, adjust claims, reinsures risk or invest in securities of its domiciled country, it faces uncertainty with respect to the value of the rate of foreign exchange on both a transaction and translation basis. The insurer is exposed to foreign currency risk through transactions conducted in currencies other than Indian Rupees with regard to certain transactions like facultative reinsurance, reinsurance inward and other miscellaneous classes of business.

Liquidity risk "the risk that a firm, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost". Simply put, a firm faces liquidity risk when, in spite of holding a higher level of assets than liabilities, these assets are 'illiquid', and not easily convertible to cash. This forces it to sell its assets at a discount to quickly raise the required cash resources. Alternatively, the firm may borrow funds, which will further require a payment of interest on the loan, therefore giving rise to the 'excessive cost'. Liquidity risk includes both funding liquidity risk and asset-liquidity risk.

The greatest threat to liquidity may occur during a catastrophe when a large number of claims are received at once or there may be prospects of a significantly large claim.

> 1992-1994: Several significant U.S. life insurers, including Executive Life Insurance Co., Mutual Benefit Life Insurance Co., and Confederation Life Insurance Co., failed due to a combination of illiquid asset concentrations and a lack of liquidity to meet maturing liabilities.[1]

Operational risks are the execution risks of the company. Insurers are in the business of accepting the insurance risk of others, so they understand and accept that insurance hazard, and even financial performance, is random. However, beyond the obvious randomness in the business, insurance companies face the same risk as do all businesses: Despite the best of intentions, things don't always turn out as planned.

Operational risks include, for example, information technology & security, human resources, outsourcing, tax, legal, fraud and compliance.

System risk – The failure in the system used to process the day to day activity of an insurer along with cyber security is everyone's problem. Today cyber-crime has emerged as a top concern and a systemic threat to the financial services industry. Recently, we witnessed several denial of service attacks, account

takeovers and incidents of identity theft against large multinational, and midsized companies alike, proving that no one is immune. In response, the insurance industry will need to build out stronger programs to combat Cyber Security Risk and enhance their overall level of threat intelligence. This will require greater collaboration and stronger relationships within the industry, local law enforcement, and prudent regulations. Information and best-practice-sharing will be critical, as budgets and resources for cybercrime differ drastically across organizations.

Process risk is probability of loss inherent in business process like underwriting & claims, financials and taxation, corporate agent's management, payroll process and IT systems. To avoid this, the company needs to periodically review all its existing processes and check for breach in compliance, any areas of gaps; and redesign the existing process to establish new controls and mitigate the identified gap which can result into significant operational losses.

Fraud risk – As India's burgeoning insurance market continues to grow, fraud and other nefarious business practices have become more widespread, and factors such as the inherent nature of the industry, the decrease in the ethical quotient across society, the retail character of its customers, the lack of availability of data/ information, and unhealthy focus on numbers has exposed the insurance sector to fraud and misconduct of various types.

The significant role fraud plays in negatively affecting the insurance sector is often under-reported or discounted, which affects both the parties — insurers as well as policyholders. Frauds increase the cost of insurance, resulting in insurers losing to their competitors, and at the same time, policyholders paying higher premiums.

People risk – People represent a cause of operational risk that is as important as other causes such as failed systems, processes and information flows. This is clearly illustrated by the Basel Committee's definition of operational risk ("the risk of loss resulting from inadequate or failed internal processes, people and systems or external events"), which explicitly identifies people risk. People are the backbone and personality of a business—a showcase of an organization's talent, education, experience and success. But people are also a key source of risk. It is critically important that enterprises retain their top performing employees and discipline their poor performers. A firm that chooses not to manage this risk, and by so doing 'manage to the mean,' risks both losing their best people and retaining their worst, which is not in any way consistent with creating value. ***Gross incompetence*** in insurance is also a creeping issue as insurance is considered to be complicated business. Although some policies are relatively simple, some are much more difficult to understand clearly. Therefore there are high chances for companies to go wrong simply through sheer incompetence. For example one single risk, incorrectly understood and poorly priced, or a badly worded policy, gives a company a far higher exposure than it thought it had to a risk.

Compliance risk – The current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards. Insurers need to have a well-defined compliance framework that identifies these applicable regulation, risk and controls opportunities and mitigate these risks through redesigning the existing process.

'Australia's second largest non-life insurance company "HIH" failed suddenly due to mismanagement in 2001.[2]'

Legal risk is the potential for loss arising from the uncertainty of legal proceedings, such as fines, loss of license, and potential legal proceedings. Legal actions are inherent in insurance businesses and operations. Insurers are subject to litigation and other legal proceedings as part of the claims process, the outcomes of which are uncertain. In the event of an unfavourable outcome in one or more legal matters, the ultimate liability may be in excess of amounts that have been currently reserved for and such additional amounts may be material to insurer's results of operations and financial condition. Besides this, ***contingent liabilities*** could also adversely affect the financial condition and results of operations of the insurance company.

Event risk describes situations in which there is a link between a large unpredicted event and losses to the insurer from events outside companies' control that affect the frequency or severity of losses.

For example:

- A court finding favours a large group of policyholders (class action)
- An exposure that existed, unknown, for many years comes to light (asbestos)
- A new cause of loss emerges that was previously regarded as not covered (environmental losses, mould, construction defects)
- A regulatory or court bars an important exclusion in the policy wording

These risks can occasionally be so large that they dwarf others, as the continuing asbestos saga demonstrates. They are hard to predict, but the possibility of such events needs to be included in the range of potential scenarios.

Strategic risk is about choices – making the right or wrong strategic choices, refusing to choose or even failing to recognize that choices needed to be made.

Changes in financial services and taxation laws, economic environment, regulations and government policies could have an adverse effect on business environment. The insurer have to set up systems to ensure that they are in sync with business strategy, customer expectations, competition, reputation and compliance with all stated regulatory and legal requirements.

> Western Pacific Insurance Ltd. was placed into liquidation effective April 2011, because the cost of the multiple events exceeded its internal resources and reinsurance cover.[1]

Business strategy risk – The risk of not achieving a business objective as planned in terms of its top line generation and its combined ratio. Business risk is inherent in nature, it is a threat to the company by choosing a wrong plan, given the current and expected market conditions. The insurance industry is cyclical, which may impact the results against set budgets. Periods of intense price competition due to excessive underwriting capacity, periods when shortages of underwriting capacity permit more favourable rate levels, consequent fluctuations in underwriting results and the occurrence of other losses characterize the conditions of insurance markets. Historically, insurers have experienced significant fluctuations in operating results due to volatile and sometimes unpredictable developments, many of which are beyond the direct control of the insurer. The Major challenge insurers face is of developing cultural knowledge and effective distribution. The rapid growth in thinly regulated market might lead to financial instability, regulatory backlash, poor business practice and the threat that politicization of such issues hampers premium growth.

Rapid growth – An insurer that is expanding rapidly can be on dangerous ground. The easy way to grow quickly is to charge less than everyone else. The problem with this strategy is that charging less than everyone else probably means making a loss on the business. If a long tail class of business is written, then the size of the losses may not be apparent for a number of years. On the other hand, this may be a sound business strategy. It may be that the company has found a niche in the market and can charge less than others and still be profitable.

Or it may be a sound plan to take on a lot of business and bank on building a long term relationship with enough of the clients to be able to recoup the losses over time.

However, the market in India is so competitive that the scope for following either of these strategies is limited.

There are other problems with this strategy. For example, the infrastructure of the insurer may not be able to cope well with the rapid increase in the volume of business. The IT system might not be

> Insurers have defaulted or come under stress because of problems largely outside of their traditional insurance businesses (such as expansion into financial derivatives for American International Group Inc. [AIG]).[1]

designed for large volumes and there may not be enough staff to issue policies and handle the claims. These sorts of problems can hide the true scale of losses as delays in dealing with the claims mean that the claims data is not reflecting the true position.

A slower development pattern may not be picked up by those people doing the claims projections, further compounding the problem and leading to under-reserving.

Distribution risk – Technology has changed the way insurance products are sold, as traditional agent-based distribution models are under pressure from various venues of distribution and technological platforms that allow companies to reach clients directly via telephone and internet. Although there are many dimensions to the distribution of retail products, brokers and intermediaries are the key channels for selling commercial lines of complex insurance products. This creates a scenario where brokers are experiencing increased share of business as against insurer's direct sales forces.

The marketing of insurance with simple, low cost products and complex high cost products is diverging. Companies that do not have multi-channel access for sales and information may fall behind those that understand the important role of channel innovation and technology.

> The 2001 failure of Independent Insurance in the U.K. also reflected problems associated with rapid growth and inadequate governance, and ultimately fraud. Growth was achieved through underpricing, followed by under-reserving overseen by a dominant chief executive.[1]

Reputation risk – The potential that negative publicity, whether true or not, will result in loss of customers, severing of corporate affiliations, decrease in revenues and increase in costs.

The insurance and related businesses in which insurers operate may be subject to periodic negative publicity, which may negatively impact our financial results. Negative publicity may result in increased regulation and legislative scrutiny of industry practices as well as increased litigation, which may further increase the costs of doing business and adversely affect profitability by impeding the ability to market products and services, requiring a change of products or services or increasing the regulatory burdens under which they operate.

Regulatory risk is the risk insurance regulator will curtail or take control of insurance operations based on their perception about an insurance company or industry protecting its obligations to its policyholder. Insurance business in India is highly regulated with broad administrative powers to regulate many aspects which include premium rates, marketing practices, advertising, policy forms and capital adequacy. A regulator amending its current policy that leads to immediate provisioning of reserves and funds along with change in certain business practice leads to significant regulatory risk.

The Implementation of International Financial Reporting System (IFRS) in insurance sector will converge to IFRS once the revised standard on Insurance

Contracts are in place. New accounting pronouncements by the regulator may significantly affect insurer's financial statement for the current and future years, and may materially and adversely affect reported net profits and shareholders' equity, among other things.

Competition risk – Probability of loss from a decline in a firm's competitiveness.

Competition from foreign – invested insurance companies is likely to increase in the future, as restrictions on their operations in India are relaxed. Moreover, foreign-invested insurance companies may have access to greater financial, technological or other resources than the domestic players do. In addition to competition from insurance companies, insurers face competition from other companies that may offer products that compete, including mutual fund companies and other financial services providers.

Economic environment – The rate of growth of the Indian insurance market may not be as high or as sustainable as we anticipate. The entire business environment becomes less conducive to business in general or insurance business in particular due to economic environment, regulations, fiscal policy, country ratings etc. An economic slowdown in the country, such as the one experienced following the recent global financial crisis, may reduce the demand for insurance products and services and have a material adverse effect on results of operations, financial condition and profitability of the insurer. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for insurance products and services could be adversely affected. In addition, insurers may experience an elevated incidence level of claims.

> Singaporean Cosmic Insurance in 2002, was subjected to regulatory takeover following inadequate reserving. Its strategy of soft pricing and reserving initially helped the company grow rapidly in its key competitive markets.[1]

Conclusion

Insurers are in the business of generating value from risk. As value is typically estimated on an enterprise-wide basis, a logical argument can be made that the risks generated from the activities expected to create value should also be managed. Furthermore, the risks that have been identified above are not, of course, limited as it is inevitable that new risks will emerge. Insurers perform thousands of activities on a daily basis, each of which is expected to create value, each of which carries with it the risk of loss or failure; if not managed enterprise value can be destroyed. If allowed to (Michelle Brennan, June 2013) continue, such value destruction could threaten insurers' viability.

1. (Michelle Brennan, Rodney A Clark, Michale J Vine, What May Cause Insurance Companies To Fail – And How This Influences Our Criteria, Standard & Poor's Ratings Direct, June 2013).

2. Udaibir S Das, Nigel Davies, and Richard Podpiera, Insurance & Issues in Financial Soundness, International Monetary Fund, Abdessatar Ouanes, July 2003. TJ

References

- Strategic Business Risk, Ernst & Young and Oxford Analytica, Insurance 2009.
- Joseph Calandro, An Enterprise Approach To Insurance Risk Management, IBM Global Business Services, White Paper.
- Paul J Brehm, Spencer M Gluck, Rodney E Kreps, John A Major, Donald F Mango, Richard Shaw, Gary G Venter, Steven B White, Susan E Witcraft, 2007, Enterprise Risk Analysis for Property & Liability Insurance Companies, United States of America, Guy Carpenter & Company.
- Scott E Harrington, Gregory R Nichaus, 2004, Risk Management and Insurance, New York: Tatas McGraw Hill Edition
- Dickinson, G. M. 'The Economic Role of the Insurance Sector in the Risk Transfer-Capital Market Nexus' Geneva Papers on Risk and Insurance, No. 89, September 1998.
- Diebold, Doherty, and Herring. (2010). The Known, the Unknown, and the Unknowable in Financial Risk Management. Princeton University Press.
- J.H. Holsboer 'Repositioning of the insurance industry in the financial sector and its economic role' Geneva Papers on Risk and Insurance, Vol. 24, No. 3, July 1999.
- Parsons C .Theory of Insurance and Risk Management lecture note. Cass Business School, City University London
- R. Carter. (1973). University of Nottingham. Second Edition PH Press Ltd., Waterloo Road, Stockport. Economics and Insurance. An introduction to the Economic Aspects of Insurance.

Regulation and Market Development in Insurance

Ram Awadh
Research scholar
Swami VivekaNand University, Sagar
11B, India Moon City, AhinsaKhand- 2,
Indirapuram, Ghaziabad UP.
Ram.awadh66@gmail.com

Introduction

This paper contains the various regulatory approaches implemented by Insurance regulators in order to achieve the objective of inclusive market development. The basics questions this paper seek to address is: what are the optional regulatory approach to be followed by particular insurance companies to promote increased access to insurance in a particular product market or across multiple products and markets.

The experiences and their review and scrutinisation have led to identifying five distinctive regulatory approaches.

Public Provision Approach:- The state identifies the risk to be covered and either acts as a risk carrier itself or directly

and/or indirectly subsidizes insurance to the population, such as health and rural insurance.

Directive Approach:- The state requires insurers to meet certain targets in terms of access to coverage through the market mechanism.

Concessioning Approach:- This approach relies on creating market incentives rather than direct state intervention to achieve the desired objectives of access to insurance. It is done by creating propionate regulatory concession.

Nudge Approach:- Lowering the compliance state creates an enabling environment.

Long term Market Development:- This approach has no direct intervention. State infrastructure and capacity overtime can be pursued.

Note that all the above approaches are not exclusive for different product markets. Particular approaches are more appropriate when certain market conditions apply. Indentifying these conditions is intended to assist financial sector policy markers, regulators and supervisors to decide which regulatory approach is best suited to the circumstances.

2. Document its Structures

The discussion on a regulatory approach introduces and explains the observed regulatory approaches including specific implementation.

3. Regulatory Approaches

This section considers the various regulatory approaches to the promotion of access to insurance how they are defined and how they impact market development.

2.1 Defining a Regulatory Approach

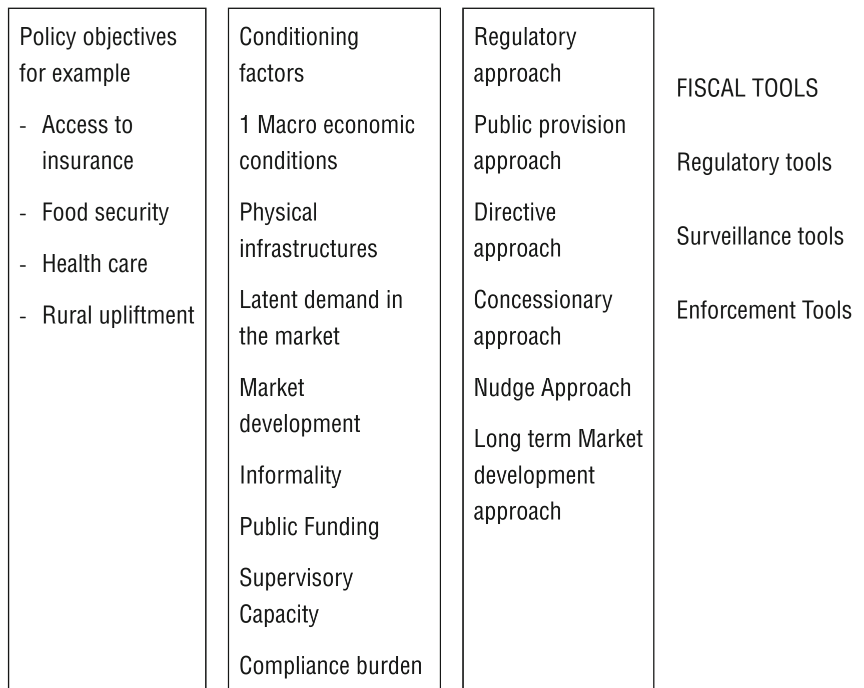
Governments set out to achieve particular policy objectives. Making laws and regulation and enforcing compliance through supervision are the most important tools at the disposal of government to achieve its objectives.

The basics objectives of the state is to maximize the welfare of the citizen. Increasing access to insurance may be one policy objective in itself that can be employed as a policy instrument to achieve social goals. Example-General Health of population and access to agriculture insurance as part of rural development programs.

State intervention includes not only direct assistance, but also subsidy for the provision of insurance. Specific incentives are given to private insurance providers to expand their provision of services into low income market segment.

Based on the above, and for the purpose of this paper, ***a regulatory approach is defined as a specific combination of regulatory tools designed to achieve a series of policy goals via specific levels of state intervention within a defined product market rate.***

FIGURE 1- below illustrates how the regulatory approach is a result of a number of policy objectives and conditioning factors implemented through a portfolio of regulatory and supervisory tools.



What Constitutes a Regulatory Approach?

2.1.1 Policy Objectives: - Policy objectives that are adapted serve as a key driver in defining a regulatory approach.

2.1.2 Conditioning Factors

These conditions determine the feasibility of rural health facilities, implementing comprehensive national health insurance in rural areas. Sound life insurance available for sale to low income households strengthens the overall market for life insurance.

Following Conditioning Factors were Identified

1. Macro economic conditions
2. Physical infrastructures
3. Latent demand
4. Supply side factors
5. Level of market development
6. Informality

Public Sector and Regulatory Frame Work Factors

1. Availability of public funding
2. Public infrastructure
3. Supervisory capacity
4. Compliance burden

2.1.3 Tools to Implement a Regulatory Approach

Fiscal Tools

Fiscal tools are utilized either to directly extend access to specific insurance products or to incentivize market players to extend access to insurance.

Expenditure Measures:- Spending by the government to stimulate access to insurance, like subsidies no premium contribution for those who are automatically enrolled in the insurance schemes or partial contributions, where the insured is required to contribute a proportion of premium.

Revenue Measures:- Tax concession for insurers supplying the low income market particularly on indirect taxes such as VAT on premium, but potentially on direct taxes such as income tax for insurers' income. - Life premium may be exempted from VAT, while non life premiums are not.

Regulatory Tools

Legislation, regulation and supervisory directives can be used by the state to structure its own participation in the insurance market and to set the frame work.

1. Pre Conditions

Licensing:- A license gives the given entity permission to provide insurance products to clients. In order to receive an insurance license, the supervisor sets certain conditions that the entity must meet.

Capital Requirements:- Minimum size requirement and variable capital adequacy - both instances may be tools to promote access to insurance.

2. On Going Conditions

Market Conduct Rules: - ensures that the market is sound, orderly and transparent the users of financial markets are treated fairly and the markets are free from misleading manipulative or abusive conduct. Market conduct regulation includes distribution and servicing of insurance products including a micro insurance specific category of intermediaries – MF Is, NGOs, retailer, mobile network vendors, client aggregators outside of the traditional brokers or agents or tailored commission structures to incentivize agent's sale.

Disclosure Requirments

Disclosure of information warrants separate attention as it is vital for the protection of consumer's. Lack of full disclosure creates a potential for market abuse.

Government and Feduciary Duties

Governance provisions regulate the internal structures, control and procedures of financial institutions in an effort to ensure prudence; underpinning of trust; minimizing of conflicts of interest and avoidance of consumer exploitation. Minimum governance requirements are laid on the new institutional forms allowed to underwrite micro insurance.

Liquidity Requirement

These are designed to ensure that a regulated institution has the funds available to ensure there is liquidity for meeting of contractual obligations to consumers. Investment requirements that are included as part of the regulatory approach to facilitate access to insurance could include provisions relating to duration and asset - liability matching requirements.

Survellance Tools

Industry compliance with the rules namely consumers complaints mechanism, offsite and onsite monitoring.

Complaints Mechanism

Supervisors rely on complaints by consumers to identify regulatory breaches, monitoring complaints is the least intrusive and least costly approach to surveillance. An ombudsman is the traditional recourse mechanism for insurance industry disputes. Low income clients may lack the skills and resources to submit a complaint to a distant ombudsman.

Offsite Monitoring:- Reporting requirements imposed on regulated institutions and the statistical and other reviews of such data by the supervisory authority.

On Site Inspection:- Either supervisory staff of outsourced professionals physically visiting insurance premises to review areas of regulatory compliance – on site inspection enables the supervisors to obtain information and detect problems that can be attained or detected through offsite monitoring.

Enforcement Tools

The IAIS Insurance core principles state that – the supervisors should have the power to issue restriction on business activities.

The Threat of Prosecution:- It is the main enforcement tool used by the regulators – the actions can be a restriction on business activities or withdrawal of insurers' operating license the threat of prosecution has been used to promote access to insurance in at least two instances – by placing penalties on insurers and imposing fines when micro insurance claims are not paid within a specific period.

Preemptive Problem Resolution:- Regular picking up and rectifying regulatory breaches before the insurer becomes unable to honor its promises.

Graduated Enforcement:- First enforcing nominal registration after which other elements of compliance are phased in such graduated enforcement can be accompanied by support programs to build capacity.

Overview of Regulatory Approaches

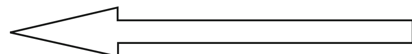
All the above sections show how regulation and surveillance and enforcement tools can be used to support insurance markets. Some of these tools are common across the five regulatory approaches identified in the paper.

Some tools however are distinct to or more prominent in certain approaches

Regulatory Approaches Continuum

Public Provision Approach	Directive Approach	Concessional	Nudge Regulation	Long Term Market Approach
1. State identifies risk to cover; may outsource underwriting or intermediation. 2. Substantial subsidies provided. 3. The states makes certain elements of insurance mandatory but included state subsidy. 4. The state is the primary driver increasing the insurance access through combination of direct subsidies, regulation and public decree.	1. The state does not identify which risk should be covered and does not make a financial contribution (No Fiscal expense). 2. State determined which target market should be covered and sets requirements to private sector to cover these groups as a condition for being allowed to operate.	1. A reduction compliance burden to enable lower risk products to be market to low income group at lower cost while maintaining the normal level of regulatory requirements of conventional insurance. 2. The concession provided to reduce the complaint burden and encourage existing insurers to move down market and facilities formulation.	1. Does not consider it necessary to reduce the regulatory requirements for stimulation of reach into the low income markets. It is considered sufficient to make policy declaration. 2. Supporting access to insurance and to create some environments enables lower cost more accessible payment.	1. Insurance market is so undeveloped that pursuing access to insurance as one of its goals is not worth while and hence the focus is on first developing underlying and supporting infrastructures. 2. Building capacity of supervisor improving soundness building skills all these will indirectly support to insurance.

INCREASING STATE INTERVENTION



INCREASING MARKET BASED

4.1 context factors

4.1.1 **Macro Economic Conditions:-** Macroeconomic conditions refer to the overarching state of economy.

4.1.2 **Physical Infrastructure:-** Relevant infrastructure required to efficiently administer, to distribute insurance including payment infrastructure, financial sector infrastructure, electricity, internet connectivity mobile network coverage.

4.1.3 **Latent Demand:-** Demand refers to actual underlying demand to purchase insurance product or pay for risk cover for a particular risk event.

4.1.4 Supply what approach will be feasible in a particular market namely.

1. Level of market development
2. Impact of market failures
3. Presence of infirmity

3.3.1 **Level of Market Development:-** The level of market development is comprised of three elements.

Breadth, Penetration and Financial Soundness.

Market Breadth

The breadth of infrastructure sector refers to the access of population to a wide range and choice of products and providers.

Implication for Regulatory Approach:- A concessionary or nudge approach is enabled by a market with existing breadth. As the market is already providing good choice it may just need to be nudged towards increasing access. Similarly concessionary approach is promised on the assumption that there insurers in the market are ready to roll out.

Products if a proportionate space is created at the same time the concessionary approach also aims to increase breadth by creating a space for more players, there by expanding the client's option for formal providers and products in the same vein, the nudge approach aims to increase breadth by triggering more products options for income market.

Market Penetration

The penetration of insurance sector is defined as the risk and state of development of the insurance sector as measured in assets or premium relative to GDP.

Implication of Regulatory Approach:- A reasonable level of market penetration is important for the nudge approach and to a lesser extent for the concessionary approach as these approaches rely on market forces to move insurers down the market, reasonable penetration would also be a better position to extend insurance to the un served when compelled by the state.

The public approach may be a response to low penetration along side other conditioning factors – Very low penetration may indicate that a long term market development approach is called for rather than a direct access emphasizes.

How could the supervisor influence market penetration? The supervisor increases market penetration with the same efforts as market breadth barring the specific product regulation. In addition penetration may enhance financial soundness.

In the insurance sphere financial soundness or health is an equivalent term for solvency it refers to the ability of the insurer to meet its obligation to policy holders when they fall due.

Solvency includes capital adequacy but also involves other aspects of solvency regime.

Implication for Regulatory Approach:- Financial soundness is important in all approaches where insurers can be supported by the state.

Supervisor's Role:- All prudential regulation is fundamentally aimed at ensuring soundness and stability regardless of which regulatory approach is adapted. Specific consideration include risk based regulation actuarial pricing and reinsurance.

3.3.2 Informality:- Informality is concerned with unlicensed schemes offering risk mitigation products either in the insurance legislation

area or the grey area outside the official definition of insurance. A market with concomitant consumer protection concerns can harm the perception of insurance in general among potential clients thereby reducing trust and demand for insurance. At the same time informal risk pooling at community level can provide solutions to risk management needs where the formal market fails to reach and can play an important social and financial role in the community.

Regulatory Approach:- A high level of informality in the market leads to consumer protection issues, an active regulatory and enforcement approach is required to formalize informal institutions regardless of the regulatory approach adapted.

Informal institutions may not have the capacity to comply with the full suit of regulatory requirements applicable to incumbent. They would opt to remain informal or if formalization is effectively enforced will cease to exist.

Insurers operate outside of the law because they find it beneficial to do so relative to the perceived cost of doing so A concessionary approach created livered regulatory requirements proportionate to the nature, scale and complexity of risk. It thus creates a dedicated space into which informal entities can formalize.

In an undeveloped market like India, the informal market may arise due to latent demand and fulfill an important risk mitigation and social support need not being addressed by the formal market – Long term market development approach would be most appropriate in achieving formalization overtime. All other approaches may also implicitly facilitate formalization by forcing enabling or encouraging formal players to compete in the market currently served by informal means.

Supervisors influence the role of coordinating supervisory agencies naturally develops to the insurance supervisor.

3.4 Public sector and Regulatory Frame Work

1. The availability of public funding
2. The state of public infrastructure
3. The overall compliance burden

Availability of Public Funding:- The availability of public funding simply refers to whether the state is able to afford the significant outlays required for state subsidized micro insurance.

If public funding is available the state is able to pay for premium or to provide public resources to support other aspects of the insurance value chain.

The availability of public funding is a prerequisite for the public provision approach which relies on state funded risk mitigation initiatives, however other approached also require funding to create a concessionary regime, to license informal players and to improve system and staff capacity.

The supervisor does not have influence over central government's budget. However one can highlight access to insurance and request for funding in a timely manner.

3.4.2 Public Infrastructure

Public infrastructure capacity to implement policies and programs. Public infrastructure involves national, regional, provisional and local administrations.

Relevance of Insurance:- The ability of the state to make good on its promises is relevant for all sectors where the state could play a direct role as provider or enabler including insurance. For example in insurance domain we have : the health services that are able both to distribute health insurance and also render health services; the national and regional agricultural and meteorological departments that can be utilized to implement risk mitigation programs for agricultural insurance programs and even to undertake damage assessment on behalf of commercial insurers or local authority structures that can collect and partly pay insurance premium on behalf of their citizens.

Regulatory Approach:- Different types of infrastructure will be necessary for different types of product. A network of health service providers is necessary to implement a national health insurance scheme; to implement agricultural index insurance, adequate whether tracking infrastructure is required.

Supervisor:- Developing public infrastructure is beyond the influence

of supervisor. Although effective coordination with relevant government department may support implementation of insurance specific programs.

3.4.3 Supervisory Capacity

The ability of the insurance supervisor to effectively implement regulation, monitor the insurance industry and enforce sections against misconduct funding is a key aspect of supervisory capacity to attract and develop the appropriate capacity. The human resource s with their technical skills and experience will determine the overall efficiency of supervisors to oversee the nation's insurance industry. A new supervisor will be less effective in its roles than one with experience.

Relevance of Insurance:- The principal objectives of supervision are to promote the maintenance of a fair, safe stable insurance sector for the benefit and protection of policy holders IAIS 2011. The supervisor's role in defining and enforcing regulation is also important to market players as a clear definition of the rules removes uncertainly, there by paving the way for investment and other strategic market decisions.

Implication of Regulatory Approach:- certain of regulatory approaches utilized to extend access to insurance require more supervisory capacity or are more supervision intensive than others. Particularly, the concessionary approach to a lesser extent the directive approach require sufficient supervisory capacity to render them effectively .Regulation which delegates certain aspects of insurance supervision to market players by making insurers ultimately liable for all distribution and intermediation partners action can help reduce the required supervisory capacity. Supervisory capacity demand differs as follows across the five approach.

1. Public Provision Implementation by State Limiting Supervisory Capacity

The public provision approach is heavily reliant on public infrastructure but does not necessarily place high demands on the insurance supervisor's capacity. The insurance is primarily implemented by the state and hence the role of supervisors to monitor and oversee the private market becomes less important. More capacity will be required if private insurers are utilized to perform underwriting and/ or distribution of physically provided programs.

Extent of Supervisory Capacity for Directive Approach Dependent on Number of Insurers:- The directive approach requires supervisory capacity as it falls within the ambit of supervisors to ensure that commercial insurer fulfill the state provided access directive. However in a market with a limited number of large commercial insurers, the degree of supervisory capacity required to implement the directive approach is lower than the scenario where a large number of smaller players need to be effectively monitored.

High supervisory capacity required for concessionary approach. The concessionary approach requires the highest level of supervisory capacity as the adaptation of the approach can result in a number of smaller players and or additional numbers and new types of intermediaries entering the market. The concessionary approach also requires the supervisors to monitor multiple tiers of regulation, making supervision more complex and requiring greater resources.

Market Focus of Nudge Approach:- Has limited supervisory capacity requirement without any inclusive market focus.

Supervisory constraints are a major conditioning factor for long terms market development approach. It requires the least supervisory capacity as it does not call for new regulation and does not seek directly to expand the number of insurers or intermediaries indeed.

How can a Supervisor Influence Capacity:- Supervisors continually strive to improve and expand their capacity including remaining up to date with global trends and research to inform their decision making.

3.4.4 Compliance Burden

Compliance burden refers to the overall level in terms of entry barriers and associated compliance costs of regulatory requirements imposed by the exciting body of insurance laws and regulation.

Relevance of Insurance

The nature of compliance burden impacts the cost structure of insurers, high compliances can increase the per transaction intermediation cost for all insurance products sold by insurance providers.

Implication for Regulatory Approach

The higher the regulatory requirements in the main stream insurance market the less likely it is that an insurer will naturally progress down the market. If the compliance burden is not proportionate to the nature, scale and complexity of the risk the state may be required to address access to insurance directly.

3.5 Determining the most Appropriate Response:- No approach will be the result of only one conditioning factor. It is the combination of and interplays between various conditioning factors observed across the country.

1. It can be proportionate to the given approach.
2. It can be a prerequisite to the implementation of a specific approach.
3. It can aid the adaptation of the approach.

Summary of the Set of Condition

1. **Public provision approach:-** Public provision approach can be applied in an environment where public funding for subsidies is available and where there is sufficient existing level of public infrastructure.
2. **Directive Approach:-** The directive approach can be followed in an environment with a relatively low level of market breadth but sufficient depth and financial soundness and some latent demand.
3. **Concessionary Approach:-** The concessionary approach works with existing latent demand and sufficient physical infrastructure. It may be desired where the insurance sector is already subject to a highly existing compliance burden that makes insurance provisions to the low income market too expensive for current players. A full concessionary approach furthermore requires relatively high supervisory capacity in order to successfully supervise multiple entities under tired regulation.
4. **Nudge Approach:-** Nudge approach is market base and so is reliant on existing latent development and physical and financial sector infrastructure, in contrast to the concessionary approach nudge approach will be most appropriate if there is low current compliance burden.
5. **Long Terms Market Development Approach:-** The long term market development approach is the default approach if other conditions are not favorable.

6. Conclusion

This paper identifies five observed regulatory approaches to promote access to insurance as observed across jurisdictions and across product markets. These approaches are along a continuum given by the level of state intervention, ranging from direct public provision on the one hand to gradually building market development on the other hand. Several interrelated factors determine which approach will be appropriate in each given market environment. This paper seeks to present a fuller understanding of the factors that drive the development of micro insurance models, considers the various evolving micro insurance business models and the regulatory approaches followed that impact on micro insurance market development, the papers aim to provide a greater understanding of the evolution and development of micro markets and to present supervisors with a set of consideration in determining which general approaches and specific responses to implement in their particular markets. TJ

References

Access to insurance infinitives 2012
Access to Insurance 2008
Access to insurance 2009
Access to insurance 2010
Access to insurance 2011
ADB -2013 – Assessment of micro insurance service for the poor
Cenfri 2010
Fin mark trust 2009
2011
2012
IAIS 2011
IAIS 2012
MCRILL 2008
Micro insurance agency holding 2007
RIMANSI 2008
World Bank 2013
Available at h++/// Data bank world bank
IAIS, CGAP, BMZ, UNCDF

Responsibility Reporting and Disclosure Practices in Indian Insurance Sector

"Whatever you do will be insignificant but it is very important that you do it" – Mahatma Gandhi

Alok Kumar
Research Scholar
Faculty of Commerce,
Banaras Hindu University,
Varanasi - 221005.
alokaryan2102@gmail.com

Abstract

Disclosure and reporting in insurance sector is still in its infancy stage. As it is mainly concerned with all stakeholders and potential and existing policyholders have access to all material and relevant information before the conclusion of an insurance contract, to receive advice in a correct and meaningful manner in assessing their insurance requirements, to be informed about their rights and obligations for the duration of the contract, to be confident that they will receive correct and timely compensation in the event of a legitimate claim and in case of doubt to be able to receive supplementary necessary advice. Regulations of reporting and disclosure

practices of insurance companies are under Companies Act 1956, Insurance Act 1938, Insurance Regulatory Development Authority (IRDA) Act 1999 and various regulations issued by SEBI. This article discusses in details about business reporting and disclosure practices in Indian insurance sector. Traditionally, the disclosure levels of Indian insurance companies have been poor compared to their western counterparts. One reason for slow pace of adoption of responsibility reporting has also been the lack of demand from its stakeholders regarding disclosure of non-financial performance, may be because they have been primarily focused on financial returns and have not laid so much emphasis on non-financial risk factors such as environmental, social and governance performance. This article also focus on reporting and disclosure by insurers in order to identify any gaps based on standards set by regulatory bodies and analyse it's role and importance to enhance disclosure of information.

Keywords

India Insurance sector, Business Reporting, Disclosure, IFRS, IRDA, SEBI and IIB.

1. Introduction

The insurance industry has great potential for growth which is highly dependent on the efficiency of the key players in terms mitigating any forms of market failure. For this to be realized, quality of information, market practice and quality of services offered remain key decisive factors. To enhance this efficiency and help address information asymmetry, insurance companies are required to disclose a certain minimum level of information to its stakeholders. Disclosures and reporting gives a snapshot of performance over time that can be used both internally to focus on the most material issues and drive improvements, and by external stakeholders to assess how an insurer manages sustainable development risks. The primary goal of reporting by insurer is to present information in a manner that enables consumers to make informed decisions. The need for insurance business transparency and accountability has never been as strongly felt as it is now. Insurance as an intangible good therefore consumer cannot easily determine the quality of the service before he spends the money. It operates on the *principle of utmost good faith* until one launches a claim. However, what constitutes 'relevant information' still remains a matter of conjecture. This is further complicated by a lack of comparability, reliability and consistency of the information disclosed in terms of products, ownership, financial performance etc. Various regulatory bodies have issued different regulations to improve the disclosure practices from time to time and to ensure transparency to gain stakeholder's trust. The emerging field of integrated reporting entails the effort to develop the corporate reporting practice to the point where insurers' plan, management and evaluate their impacts on the value of all forms of capital – financial, environmental, social, manufactured, intellectual and human. For Life Insurance Corporation of India (LIC) only statutory disclosure as per IRDA is considered mandatory as LIC is a statutory corporation and incorporated under a special Act of Parliament i.e. LIC Act 1956. A statutory corporation is not subject to the accounting, reporting and audit regulations applicable to other government companies.

Every insurance company prepares the annual financial statements and makes disclosures from 30th March 2002 onwards in accordance with the guidelines of IRDA 'The Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations 2002, As per these regulations every insurance company has to include in their annual reports some specific information which forms the contents of this head. The Ministry of Corporate Affairs, Government of India, in July 2011, had issued the *'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business'*. Further to these voluntary guidelines, Securities and Exchange Board of India (SEBI) has mandated a Business Responsibility Report (BRR) as part of the annual report for listed entities from an environmental, social and governance perspective (ESG). SEBI in line with the objective to enhance the quality of disclosures made by listed entities has inserted Clause 55 in the equity listing agreement. The requirement to include a BR Report is mandatory for the top 100 listed entities based on market capitalisation on the BSE Limited and the National Stock Exchange of India as on March 31, 2012, other listed companies have also been encouraged by SEBI to voluntarily disclose information. Provisions and formats have

also been made in the listing agreement to incorporate the submission of BRR by the relevant companies. Right to Information under RTI Act 2005 given by government to the entire citizen through which they may demand any information in writing from a public sector units, govt. offices or their regulatory bodies.

2. Background

The extent of information disclosure is increasingly becoming one of the most common sources of market failure in insurance (Kruno, 1998). Due to risks associated with competition and dynamism of the market, disclosure of information remains a useful instrument for self regulation and market conduct of regulated entities. It's a reflection of how incidents in the recent past have shaped increasing stakeholders' demand for responsible behaviour and transparent reporting. This judgment is critical to insurance company's ability to attract capital and customers. Without sufficient information to aid in decision making, the various players in insurance demand and supply chain may make in-optimal decisions. This can have negative individual, market and social implications. This problem is exacerbated when silos of information collected do not demonstrate their inter connectedness, and consistency further markets can then act efficiently by rewarding those companies that manage risks efficiently and penalizing those that do not. For this to be realized and market equilibrium attained, disclosure of information on risk is critical in operation of a sound, fair and efficient market. Legally, various provisions in the sections of Indian Contract Act, IRDA Act, Indian Insurance Act and others require disclosure of all relevant information by the insurance companies. These Acts envisages that this facilitates both parties in making informed decisions on the intended contractual relationship.

Although reliability and comparability can be contextually assessed a *priori* relevance depends on what users consider as beneficial and on what markets judge as significant in helping them shape their expectations about the industry or individual company performance. A plethora of information being provided may easily result in critical information being lost. It is envisaged that with the levels of disclosures being raised, the stakeholders would be in the position to use the information provided to meet their respective needs of stakeholders. Effectively, disclosure needs to provide more robust, more relevant, more reliable, and more readily available performance information, for an insurance company where some of the key ratios should compute like the claims adequacy ratio, the solvency ratio, the claims and expense ratios in order to ensure consistency of information published by insurance companies to the general public. However, reporting should be driven by the needs of stakeholders, who are increasingly asking for it concerned with the organization's strategy, governance and financial performance to the economic, social and environmental context within which it operates and not for mere conformance with regulations.

As per these regulations every insurance company has to include in their annual reports some specific information which forms the contents of this head. The Ministry of Corporate Affairs, Government of India, in July 2011, had issued the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business'.

3. Defining Reporting

Generally different terminologies are used for reports that disclose non-financial aspects of the business. As stakeholder's protection frameworks take shape, so is information disclosure evolving with focus now shifting to corporate reporting or what is called sustainability reporting. It is a more broadly focused accountability tool defined as *the practice of measuring, disclosing, and being accountable to internal and external stakeholder*. It is synonymous with others used to describe reporting on economic, environmental, and social impacts (e.g., triple bottom line, corporate responsibility reporting, integrated reporting etc). Almost all Indian companies' reporters' title their responsibility reports as 'sustainability' or 'sustainable development' reports while a

few refer to them as 'corporate social responsibility' reports. Essentially, a sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions. Its integrated reporting nature links n organization's strategy, its governance and financial performance with the social, environmental and economic context within which it operates. This connection does help companies to take more sustainable decisions and enable investors and other stakeholders to understand performance of an organization. 'Responsibility Reporting' is an evolving terminology which refers to reports prepared using the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of a Business (NVG-SEE).

A. Overview of Reporting: The debate takes place against the background of a world in which advances in information and communication technology (ICT) are opening up new ways of digital communication and participation never imagined before. This poses a challenge for established professions such as accounting and law, public relations (PR), Customer relationship management (CRM), media and communication which still show a preference for historical facts, established currencies and documentation with clear boundaries. Debate about reporting and its future is therefore not only a discussion about content and different ways of communicating with diverse stakeholders, but about re-examining convention in some established professional disciplines. It's however important to note that reporting cannot be a stand-alone exercise, but that the report and the process behind it need to be part and parcel of management planning, stakeholder engagement, performance management and strategic decision-making. The evolving debate about reporting also reflects objectivity and principles of corporate governance which are honesty, transparency and accountability are important requirements for effective and credible reporting. Many insurers report to comply with either a voluntary or mandatory standard, while the content of the report itself has to reflect the actual performance of insurers. Increasingly, the credibility of the report does not rely so much on the requirement for the measurement to be accurate, but, to start with, on the relevance of the chosen indicators. Reporting integration can play an important role in bringing these requirements – accuracy and relevance – closer to each other.

B. Insurance Core Principles (ICP): The International Association of Insurance Supervisors (IAIS), the association of insurance supervisors across jurisdictions, has also laid emphasis on supervisory bodies ensuring that the disclosures by incumbent regulated entities are relevant, timely, accessible, comprehensive and meaningful, reliable, comparable and consistent over time. The disclosures and reporting reacquires a framework or model which should be based on certain principles:

Principle 1: Businesses should conduct and govern themselves with ethics, transparency and accountability.

Principle 2: Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.

Principle 3: Businesses should promote the wellbeing of all employees.

Principle 4: Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized.

Principle 5: Businesses should respect and promote human rights.

Principle 6: Businesses should respect, protect, and make efforts to restore the environment.

Principle 7: Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner.

Principle 8: Businesses should support inclusive growth and equitable development.

Principle 9: Businesses should engage with and provide value to their customers and consumers in a responsible manner.

C. ICP 26: *Information, disclosure & transparency towards the market, one of the 28 core principles of standards and codes in place, provides*

1. Public disclosure of reliable and timely information facilitates the understanding by prospective and existing stakeholders of the financial position of insurers and the risks to which they are subject, regardless of whether they are publicly traded or not.

2. Supervisory authorities are concerned with maintaining efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders. When provided with appropriate information markets can act efficiently, rewarding those insurers that operate effectively and penalising those that do not. This aspect of market discipline serves as an adjunct to supervision.

3. Regular disclosure can facilitate the smooth functioning of the insurance markets. For example, when timely public disclosure exists participants are less likely to overreact to negative information about an insurer.

4. Greater disclosure entails increased costs, which may be direct or indirect. For example, companies may experience a competitive disadvantage from increased disclosure of proprietary information. These costs must be weighed against the potential benefit of increased disclosure required by any standards.

5. The authority may take action, if necessary in coordination with other relevant bodies, to ensure effective and relevant disclosure.

Ideally, reporting by an insurer should communicate the risks that the business is facing and the impact that such risks could have on its ability to continue operating – thus influencing an assessment of its sustainable value. Realistically, reporting could never have predicted a threat like the tsunami. Reporting and disclosure requires all the issues to be sufficiently addressed without loss of the intentions upon which the reporting was premised. The fact remains that if the field must be inclusive and rely on stakeholder engagement, and then there will be diverse views on the questions listed above. Following the recent financial crisis, a fair question has been: Why did reporting not bring to light the financial risks to which many companies were exposed? Why shouldn't reporting reveal failure of companies early enough? The weaknesses in reporting shown up by the financial crisis and company failures, as well as an increasing awareness of the impact of business on the society and natural environment and the long-term availability of resources, have created the right environment for the advent of integrated reporting and adequate disclosure and is gaining rapid acceptance as the way forward for reporting.

D. Regulation Drives Disclosures and Reporting: Regulatory developments over the past four years have set the momentum for higher reporting rates in India. Release of National Voluntary Guidelines on Social, Environmental and Economic responsibilities of business (NVG-SEE) by the Ministry of Corporate Affairs, India in 2011 was a key development to gain the attention of the larger industry audience on the need for adoption of practices by businesses and for transparent disclosure. This voluntary guidance was progressively adopted by SEBI in 2012 to mandate compulsory disclosure of adoption of NVG-SEE for the financial year ending on or after 31 December, 2012. The mandate, through Clause 55 of the listing agreement with stock exchanges in India, Similarly, the Department of Public Enterprise (DPE) has issued Guidelines on Social Responsibility and Sustainability for Central Public Sector Enterprises which sets the requirements for reporting to assess the overall performance of Public Sector Enterprises. At present, mandatory reporting guideline is only for listed 100 companies (by market capitalisation), distinction between listed insurers that have to comply with more detailed requirements as per guidelines and non-listed insurers that in many instances are only required to publish annual reports. However, in a number of countries there is a trend towards harmonising disclosure requirements of listed and non-listed insurers. At the same time, markets have also responded with positive developments such as the launch of S&P BSE Greenex and Carbonex market indices which separately track companies with better performance and disclosure frameworks. These domestic developments coupled with international developments like the release of GRI G4 Guidelines is expected to significantly alter the reporting scenario.

Periodic Disclosures: Disclosure to the various stakeholders is vital for regulations, may take on an added dimension in case of the insurance sector, since the insurer holds the investment of the stakeholders in 'trust'. In effect, disclosures pertaining to all aspects of operations gain relevance viewed from the perspective of whichever stakeholder. The Authority has mandated disclosures to be

made by the insurers in the public domain on quarterly, half yearly and annual basis w.e.f., 1st April, 2010. The disclosures are required to be made available on their respective websites in case of quarterly disclosures and in newspapers in case of half yearly and yearly disclosures. The periodic disclosures not only cover the financial information including solvency position, but also insured's grievance, geographical spread and key performance of the insurers.

Objectives of Disclosures: Broadly, the various objectives proposed to be achieved through disclosures, from the viewpoint of the stakeholders include (i) providing insurance to the public at fair and nondiscriminatory terms; (ii) providing efficient service to policyholders and claimants; (iii) transparency of operations resulting in building up market confidence in the insurance industry; (iv) disclosures are the cornerstones for achieving corporate governance and risk management; (v) ensuring proper and efficient management of insurance funds; and (vi) facilitate industry competition at an effective and healthy level. Availability of information is also critical to ensure that the needs of both analysts and researchers are met.

4. IRDA's Recent Initiatives at Enhancing Public Disclosures

Accountability, transparency, fairness, and disclosure are the four "pillars" of the modern regulatory system, and involve the provision of information by corporations to the "public" in a variety of ways (Bhasin, 2011). With a view to improving transparency in operations, the authority has been working towards enhancing disclosures to be made by insurance companies on periodic basis. Step in this direction has been the issuance of guidelines in January, 2010. The stipulations on disclosures to be made by insurance companies have been strengthened by the Authority to fill the gap in availability of information in the public domain. These disclosures are required to be made through newspapers publication in and hosting on the respective websites, effective from the period ended 31st March, 2010. This initiative has placed the insurer, which are presently not publicly listed entities, at par with the listed entities in the corporate world in terms of public disclosures. Listed insurers are governed by the terms of the listing agreement, which amongst other things provides for public disclosure of performance on a quarterly basis. These initiatives have followed deliberations at length both within the Authority and with the various stakeholders. Divergent views have at times been expressed – while some expressed concerns over possibility of the information provided being exploited to meet devious ends and competitors may get access to confidential information, while some went that extra mile to voluntarily initiate disclosures.

'Transparency' is an important component of a well-functioning system of governance and disclosure to stakeholders is the 'principal' means by which corporations can become transparent (Solomon and Solomon, 2004). The emphasis is not only on disclosure but also 'transparency', which envisages that the recipient of information is able to use it and has a fair degree of understanding of the information provided as an essential criteria for reporting and disclosure:

A. Reporting and Disclosures Need to Meet the Following Ends:

- Relevant to decisions taken by market participants
- Timely so as to be available and up-to-date at the time those decisions are made
- Accessible without undue expense or delay by the market participants
- Comprehensive and meaningful- to enable market participants to form a well rounded view
- Reliable as a basis upon which to make decisions
- Comparable between different insurers
- Consistent over time so as to enable relevant trends to be discerned.

B. Information Includes Quantitative and Qualitative Information on:

- Financial position, Financial performance and a description of:
- The basis, methods and assumptions upon which information is prepared (And comments on the impact of any changes)
- Risks exposures and how they are managed
- Management and corporate governance.

How Much Disclosure and the Cost of Regulatory Burden: Now the question arises is *'How much disclosure is sufficient?'* which would always be a dilemma to be addressed by the regulator? While on the one hand the insurer would prefer to restrict to quantum of public and regulatory disclosure, frequently on the plea of the attached costs and the regulatory burden, the regulator would want to ensure adequacy of disclosures and transparency. Insurers frequently also cite reasons of confidentiality due to the adverse impact of the information being accessed by their competitors. Fine balance needs to be maintained to ensure that while transparency of operations is achieved, the cost of such disclosures do not outweigh the benefits reaped. The contents must meet the objectives for which the disclosures are being made.

5. Financial Reporting Standards

Financial reporting is a system of communication between the management and the user-groups of the financial statements, in order to report the results of the business activities of a corporate enterprise. As the global economies move towards International Financial Reporting Standards (IFRS) to achieve one global language or an international benchmark of presenting the financial statements, the insurance sector is faced with the challenges of convergence. The Ministry of Corporate Affairs in its road map for convergence of Indian Accounting Standards to IFRS has specified that all insurance companies shall convert their opening balance sheet as at 1st April, 2012 in compliance with the standards. This specification was made by the Ministry of Corporate Affairs based on the commitment given by the Authority for convergence to IFRS by the said date. However, the recommendation of the Authority was based on the promise that various standards issued by *International Accounting Standards Board (IASB) particularly on Insurance Contracts and Valuation of Financial Assets* (IFRS-9) finalised by IASB. IFRS-4 is an interim standard, focused primarily on disclosures and classification of insurance contracts. It introduces a definition for an insurance contract based on the contract containing significant insurance risk. It requires only limited changes to existing accounting practices for insurance contracts and extensive disclosures. IFRS-4 does not affect the business fundamentals since there is no change in the underlying transactions and in real cash flow. However, IFRS 4 would require a fundamental change to the reporting of business that is not classified as insurance. Such business could include pension business also. The Authority set up a Committee to study the implications of IFRS-4. The Committee had submitted its report in June, 2009 and its recommendations cover various issues such as unbundling of the contract, valuation of liabilities and assets, etc. The IASB has finally issued Exposure Draft on Insurance Contracts and has sought the views of the public and other stakeholders. The Authority, in order to study the provisions of the Exposure Draft on Insurance Contracts, constituted a group *"Working group on convergence to IFRS"*, after detailed examination of the draft report has been submitted. On the basis of report of the group on exposure draft on insurance contracts to IASB, the authority is in view that in the absence of a proper understanding of implication of various issues, in the short and long run, it would be too premature to migrate to the IFRS Standards as committed earlier by IRDA. The Authority has written to Ministry of Corporate Affairs to revisit the time limit date of compliance for insurance sector with IFRS standards and defer it till IASB comes out with the revised standards on insurance contracts and valuation of financial assets. Meanwhile, Ministry of Corporate Affairs in consultation with the National Advisory Committee on Accounting Standards (NACAS) has notified Converged Standards (IND-AS) including IND-AS104, which is an adoption of IFRS-4 Insurance Contracts. However, the date for implementation of the same is yet to be notified.

In Indian context, financial reporting has two aspects: statutory and non-statutory reporting:

(a) Statutory Disclosures (Mandatory): In India, both the Company Act and Securities and Exchange Rules, laid down by the SEBI under the Clause 49 of Listing Rules. The Act requires all registered Indian companies to prepare financial statements in order to reflect a "true and fair" view of the state of affairs of the company. The Act has made it compulsory for all companies to maintain certain sets of books of account for recording the financial transactions and to publish its annual statements in the prescribed form from time to time. The SEBI requires

all listed companies to comply with accounting standards promulgated by the ICAI, in addition to its own disclosure provisions. Disclosure rules of SEBI are, in fact, restricted only to companies listed on the all the stock exchanges. It is often alleged, however, that company annual reports do not comply with the disclosure requirements stipulated by the regulatory agencies, resulting in poor disclosure compliance by the listed companies (Bhasin, 2011).

(b) Non-Statutory (Voluntary) Disclosures: Non-statutory disclosures are as importance as statutory disclosure to give the complete idea of insurer's business and future prospects where as non statutory disclosure make aware regarding insurer's future prospects, gives extra information to its stakeholders. These disclosure items may be classified into historical, current and predictive items, depending on the past, present or envisaged performance of the company. However, it's discretionary to provide non-statutory information, purely on a voluntary basis, in the annual reports. It depends on the company's policy to disclose it or not. Today many companies have been increasingly disclosing non-statutory information, which is not mandatory as per regulations.

6. Insurance Information Bureau (IIB)

IIB was formed in October 2009 with the objective of facilitating in the efficient functioning of the sector as well as for the protection of the interests of the policyholders by providing reliable, timely and accurate information. With aims to ensure that the data is available to stakeholders for real time decision making. IIB presently collects transaction-level data on Motor, Health, Fire and Marine segments from all the insurers in the online mode and publishes ad-hoc and periodical reports.

The IIB is involved in other initiatives such as, Claims History Search, Stolen Vehicle Search, Call center facility (namely Stolen Vehicles Recovery Information System SVRIS) to collect Recovery of Stolen Vehicles information from Police, Vehicle Insurance Status Search (for Accident Victims). IIB has provided a public search facility for the extensive use of accident victims in case of an emergency situation to get the insurance details of vehicle involved in the accident. The IIB has developed and introduced a Vehicle Insurance Status SMS System (VISSS), which provides an additional mechanism to look into the insurance status of the vehicle. The way forward for IIB is to standardize the data elements used, real time collection of data from insurers, single point of data source for the needs of all stakeholders including the following:

- Aggregate Reports
- Analytical Reports e.g. Trends, Time series, Geo/Macro-economic/ Demography correlations with insurance, Claims occurrence patterns;
- On demand bespoke reports

For example: An analysis based on the transaction level data on the Motor segment, as submitted by insurers to IIB, brought out many interesting facts as follows:

It was observed that new vehicles (which are less than one year old) account for 31 percent of total vehicles insured in India. On the claims front, the new vehicles contribute 38 percent in total Own Damage (OD) Claims and 27 percent in total Third Party (TP) claims. Only five states, viz. Maharashtra, Tamil Nadu, Gujarat, Karnataka and Uttar Pradesh account for 49 percent of all vehicle insured in India.

7. IRDA Steps Towards Reporting Standards

Reporting and disclosure is a fundamental theme of the regulatory system, which encompasses providing 'governance' information to the public in a variety of ways. Solomon (2004) pointed out that disclosures can be viewed from two perspectives: corporate disclosure and financial accounting disclosure. Information and its "true-and-fair" disclosure are the areas where corporation law and accounting regulations join hands together. It is a key objective of accounting rules to ensure that user's have sufficient, reliable and timely availability of information in order to participate in the market, on an informed basis (Dragomir et al., 2009). Authority in exercise of the powers conferred by section 114A read with section 10, 11 and 12 of the Insurance Act, 1938 has notified IRDA (Preparation of Financial Statements & Auditors report of Insurance companies) Regulations 2002. The regulations lays down the general instructions, content and formats for preparation of financial statement, formats of the statement,

disclosures forming part of the statements and the manner in which income and expenses are to be recognized etc which is applicable to all life, non life and reinsurance companies. The regulations provides application of accounting standards to all insurers and has issued directions requiring insurers to submit details of expenses of management, return under Section 31B for the payouts to various parties and public disclosures through websites newspapers. Whatever disclosures are made and whatever channels are used, a clear distinction should be made between 'audited' and 'unaudited' financial information and matters of validation of other non-financial information should be provided. Going further, IRDA constituted a committee to go into accounting and audit standards and regulations both in life & non life insurers. Authority set up a committee for Accounting and audit standards on IFRS Committee. In 2008, Authority constituted a standing committee (SCAI) and in 2010, it was re constituted with members drawn from industry practicing Chartered Accounts from insurance, an Actuary, the Vice President of ICAI and Secretary Generals of the councils of both life and non life insurers. Some of their reference on insurance reporting and disclosures are given here:

1. Insurance Industry Specific Standards and Disclosure Norms under Accounting Regulations.

2. The IFRS-4 on "Insurance Contracts", IFRS-7 on Financial Instruments and to suggest a roadmap to implement the recommendations of IFRS Committee of IRDA.

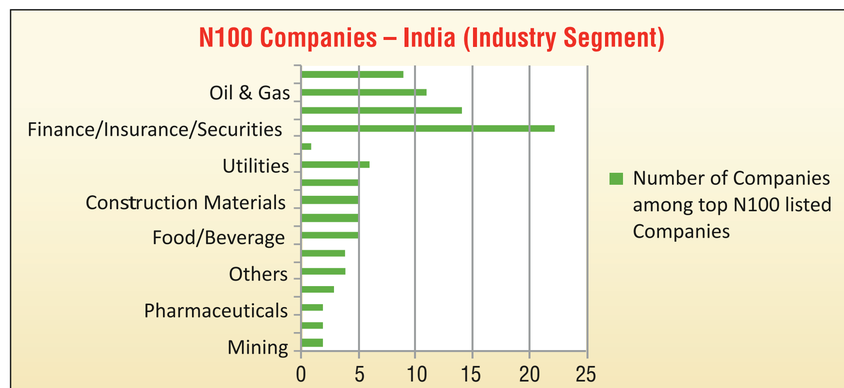
3. Periodical reporting with formats for such reporting under Accounting and investment regulations.

As per circular (IRDA/SDD/MISC/CIR/009/01/2013) issued to all the CEO of insurance and reinsurance companies in India, As part of the responsibility statement which forms part of the Management report filed with the authority under IRDA (Preparation of Financial Statements & Auditors report of Insurance companies) Regulations 2002, the insurer is required to disclose the adequacy of system in place to safeguard the assets for preventing and detecting fraud and other irregularities. Authority had undertaken an exercise to consolidate all the circulars issued for accounting and disclosures for non life insurers, after deliberations with the general insurance council and other stakeholders has come out with master circular for the life insurers is under consultation process. IRDA issues specific guidelines from time to time that insurer must adopt for the purpose of reporting, when published in the media would enable public to evaluate the performance of an insurer and thus help the public make an objective decision as to which insurer should provide them with the best possible service. The principles of responsible reporting are generic in nature and are applicable to all the companies. The holding company and the subsidiary company are required to prepare separate responsible reports. As stipulated in the Circular issued by SEBI {Paragraph 5(a), dated August 13, 2012}, the requirement of including a business responsibility report. For growing number of report information users, a key aspect of relevance therefore comes from relating disclosure to a set of performance information and reports. The intention of any regulator is to guide for concise, comparable integrated reports will inform investors including customers and governments on corporate performance and strategy for the short and long term. Annual reporting is a holistic high-level framework for this purpose, building on and galvanizing the ongoing development and integrated reporting. The assurance integrated reporting will therefore become a key area of development, requiring assurance providers to scale up their professional grasp of content and the process of reporting.

8. Emerging Trends in Reporting Standards in India:

Some of key findings of survey on Corporate Reporting done by KPMG of top 100 listed companies are:

- Share of finance, Insurance & securities market share in top N100 listed companies was 22 among 100.
- IT sector is among the leading sectors with all N100 IT companies producing separate reports, while Financial Services sector lags with no separate reports.
- There is higher rate (70%) of N100 companies disclosing information in annual reports but Integrated Reporting and disclosure will take a few years to gain prominence.
- Global Reporting Initiative (GRI) is the widely used reporting framework with 64 percent of N100 reporting companies (using standard reporting frameworks) referring to GRI.



Source: KPMG in India, India Corporate Responsibility Reporting Survey 2013

Insurance markets can only function effectively when well informed, and a sustainable market economy therefore needs relevant integrated information. In view of the current economic situation, disclosure about governance may become a more pressing issue for the listed corporations, particularly if it relates to going-concern reporting, risk management, internal controls, board balance, and directors remuneration (Nowland, 2008). Increasing number of insurers' stakeholders are now more informed and engaged about insurer's performance and impact. This makes important for insurers to proactively reach out to stakeholders with information that they want to know rather than the information that the insurer wants to share.

Conclusion

The Indian insurance sector has not been in the forefront of reporting phenomenon, while globally, this sector has been setting trends in reporting and accounts for the largest number of companies from an individual sector that report under responsibility reporting parameters given the influence that they exercise over their clients and investors, which in turn, have a chain of companies and distribution channels that are controlled or significantly dependent on them, a higher participation by this sector could revolutionised the reporting landscape. Despite these gaps, significant progress has been made towards enhancing levels of information disclosure by insurers through prudential guidelines and regulatory framework. Companies are also expected to assume greater responsibility and transparently disclose value chain reporting impacts, an aspect that needs immediate attention of insurance business leaders. The quality, consistency and reliability of information of insurer are key facets that a policyholder or investor will assess in their bid to invest or save. Reporting and disclosure of information by an insurer is like a double-edge 'sword' in the management hands. Disclosures about the insurer's human resources, risk, and the like, are likely to be effective in reducing information 'asymmetries' and mitigating their need for price protection. On the other hand, disclosures about the marketing strategies, R&D of insurer etc., may jeopardize the insurer's competitive advantage. Therefore, by and large, insurers are reluctant to disclose the relevant information which could tarnish their image. There were also perceptions that probing questions with regard to disclosure requirements bordered on invading the privacy of insurance business especially in strategic issues which in a competitive environment seen as exposing insurance players to rivals. Insurers should voluntarily exceed legal disclosure requirements and follow best practices on disclosure relevant to the general public and in interest of stakeholders. This would hopefully be the beginning of a trend with insurance companies realizing the importance of integrating sustainability into their core business philosophy and enhanced disclosure through reporting. TJ

References

- Anonymous (2002). The Gazette of India Extraordinary, Part III, Section 4, Insurance Regulatory and development Authority, New Delhi, Notification 30th March.
- Rao, C.S. (2004), The Role of Actuaries in the Indian Insurance Industry in Post-Liberalization Era. An address by chairman of IRDA, at 6th Global Conference of Actuaries. Feb.18, 2004, New Delhi.
- NVG, Ministry of Corporate Affairs, Govt. of India, 12 July 2011
- IFC and WRI, "Undisclosed Risk: Corporate Environmental and Social Reporting in Emerging Asia", April 2009, http://pdf.wri.org/undisclosed_risk_emerging_asia.pdf
- NVG on Social, Environmental & Economic Responsibilities of Business 2011, http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf
- Issue in context of SEBI mandating Business Responsibility reporting, ckinetics, Dec 2011
- KPMG International Survey of Corporate Responsibility Reporting 2013. (www.kpmg,com).
- Misra, N. and Agarwal, R.: Corporate Social Reporting: An analysis of Current Reporting. IPCSIT, Vol.20 (2011).
- IRDAs' Annual Reports. 2009-10, 2012-13
- Data Source: WWW.DirectorsDataBase.com

Regulations in the Indian Market: A Case for More Stringency

Anabil Bhattacharya
Chief Manager & CPIO, RTI Dept.
H. O. National Insurance Co. Ltd.
3 middleton Street,
Kolkata - 700071.
a.bhattacharya@nic.co.in

1. Introduction

The genesis of the recent reforms process in the insurance sector can be traced to the wide ranging recommendations made by the Malhotra Committee on insurance reforms, culminating in the enactment of the IRDA Act, 1999 and amendments to Insurance Act, 1938, LIC Act, 1956, General Insurance Business Nationalization Act, 1972 (GIBNA). Consequent upon the constitution of Insurance Regulatory and Development Authority (IRDA) the Regulatory Authority has notified a number of regulations for the Indian insurance industry.

These regulations have established the ground rules and standards for the entire gamut of insurance activities including the role, responsibilities and functions of the insurance companies, including the intermediaries, and the manner in which the interests of the policyholders are to be protected. These regulations have also undergone some modifications to reflect the requirements of the evolving operating and economic environment. The general insurance industry witnessed significant changes, which are likely to impact the growth of the industry in the years to come. The pace was set with

the public sector non-life insurers being de-linked from their holding company, the General Insurance Corporation of India (GIC). In addition, GIC – notified as the national re-insurer, has ceased to carry out underwriting of direct business. In consonance with its new found status as the national re-insurer, GIC has diversified into acceptance of life re-insurance business. Another area being explored by the Corporation is that of financial/credit re-insurance. GIC has also been aiming at making its presence felt in the international markets, through strategic and business tie-ups. However, there are also challenges, with the entry of the established multi-national brokers in the industry - these entities will put to use their contacts for international re-insurance placement With the opening up of the insurance industry and the entry of new players, awareness about their rights has steadily been increasing amongst the public at large, and they have aggressively come forward to demand for the same. This is a fact not only for the insurance customers but also for the public at large and the consumers' rights organizations have been slowly gaining in strength.

The existing mechanism for redressal of the grievances of the policyholders provides for three different forums viz., the in-house grievance redressal cells of the insurers; the Consumer Courts which provide for a three tier approach in resolving consumer disputes, the district forum, the state forum and the national forum, with different pecuniary jurisdictions; and the Civil Courts. In addition, there is the mechanism of Insurance Ombudsman to deal with personal lines of complaints, up to claims of ₹ 20 Lakhs. With a view to protecting the interests of the Policyholders, the IRDA too, at its own initiative, has constituted the in-house Consumer Grievance Cell (CGC), as a mechanism parallel to the regulations framed for protecting the interests of the policyholders. While the regulations lay down the benchmarks for processing the claims and mandate every insurer to have in place proper procedures and effective mechanism to address complaints and grievances of policyholders efficiently, the Consumer Grievance Cell has been established to bring to the fore the deficiencies noticed in the functioning of the registered insurers in providing services under the insurance contracts sold by them. The Cell has been set up to assess the problems faced by the policyholders and their level of expectation/satisfaction in the context of the opening up of the insurance sector. The insurers are expected to not only come up to the standards of servicing established.

> Appropriate data warehousing & its effective management will invariably lead to build the underwriters' acumen, real understanding of market exposures and obviously widening the reach in distance places to manage the connectivity with the insured and claimants, and effectively settlement of claim through appropriate technology.

2. Need for Sustaining the Growth Levels to Spread the Benefits of Insurance

One of the objectives of amending the Insurance Act in the year 2002 was to facilitate entry of cooperative societies in the insurance sector, and to recognize corporate agents and insurance brokers so as to stimulate the growth of the insurance market and to enhance the level of insurance penetration. Other initiatives in this regard include laying down the obligations of the insurers towards the rural and social sectors, and spreading the message of insurance. The Regulatory Authority, IRDA chalked out a program in consultation with Prasar Bharati - for creating awareness about insurance on the All India Radio and the Doordarshan on prime time. In addition, the publicity campaign was also launched through the vernacular newspapers. The initiative aimed at creating awareness about the importance of insurance in the daily lives of the millions in the country, and as to how it can lend security to their future. All these initiatives have been taken to task by the IRDA.

3. Issues Relating to Data Management

Strengthening the Statistical Database: The insurance industry functions under a typical scenario, viz., the insurance

company charges a premium for insuring a given life/asset against the happening of a given event. This premium is charged to cover for the claims, which may arise within a foreseeable/unforeseeable period. The peculiar circumstances under which the insurance industry operates entails matching the known with the unknown. The pricing of the products, thus, is based on the experience of the industry, both in the life and nonlife segments. In such a scenario, the importance of databases cannot be adequately emphasized. The availability of data bases, particularly, in the non life segment is dismal. India is the 23rd largest insurance market in the world and holds large potential, waiting to be tapped judiciously.

Requirements of Data Warehousing and Effective Data Management by Indian Insurers: For the exact efficiency, efficacy, effectiveness and ensuring governance of insurance market we need to admit that in today's business climate, we really need and expect right information at our fingertips, whenever needed. We therefore require a resilient, scalable warehousing of data solution that could recognize and consolidate our data and ensure that we could access and manage data easily. While insurers increasingly acknowledge the importance of data warehousing and the explicit role of data – both big and small, that plays havoc in insurance business – but as it appears insurers in India are less inclined to manage it effectively. Here a recent research showed 74% of insurance executives said that information will be a main source of competitive differentiation while 80% cited the ability to collect and analysis data fast enough as the biggest data challenge. In this world of sophistication where we can provide solutions around the globe instantaneously, we are guilty of perpetuating a world of reconciliation, spreadsheets & manual accounting and estimation. Since data sources come from multiple places – even if it's not strictly big or process data, Insurers hold almost immeasurable amounts of the stuff, a commodity that offers huge opportunity. The ability to unlock insights will be the key of essence. Searching for the right data is extremely time consuming and often hamper the productivity and problem solving. Skilled employees are wasting time navigating between systems, carrying out on-the-fly analysis. Fast excess to relevant high-quality data can make the difference between a well-informed decision and a catastrophic one. Since pragmatic and cost effective systems are available for effective increase in market share our target must be to get the right data and delivering it at the correct point of decision. Appropriate data warehousing & its effective management will invariably lead to build the underwriters' acumen, real understanding of market exposures and obviously widening the reach in distance places to manage the connectivity with the insured and claimants, and effectively settlement of claim through appropriate technology. IRDA should have definite control over the minimum requirement of data storage by all the insurers.

4. Risk-Based Supervision

As a step forward in the process of regulating, IRDA has sought information and on-site inspection of risk, making the actual process of risk based supervision. The first intent of supervision is to ensure compliance with the legislative intent and the basic framework of reporting is established to ensure review of compliance. The on-site inspections facilitate confirmation and address the areas of concern to the regulator. Any financial environment, particularly the ones existing in a liberalized environment, is ever evolving and throws up challenges on a regular basis, and the prudent players, including the intermediaries, are expected to lay down management strategies to adapt to these changes and take steps to mitigate the risks which are thrown up in the process. Insurance industry impacts the lives of the millions of its patrons in the most basic way, and thus casts an additional responsibility on the regulator, while protecting the interests of the policyholders. The process of supervision must thus be one of evolution adapting to the changes in the environment in which the insurers and the intermediaries are operating. It is in this direction that the Authority has been issuing cautionary directives from time to time. While the Authority is not in favour of managing the affairs of the registered entities, it would continue to draw their attention to the key risk factors the industry in particular and the financial sector in general is exposed to. Simultaneously, insurers are required to identify the various risks faced by them and lay down the strategies to mitigate them. These are required to be enumerated in the Management Report to be furnished by the insurers as part of the Annual Financial Statement.

5. Supervision of Health Insurance – Highest Growing Sector in Insurance

General Insurers earned gross premium in FY 2013-14, ₹ 77,541.5 crores (being up by 12.2% from previous year). Segment-wise the highest premium written in Motor Insurance but Health Sector is becoming the segment for highest growth in general insurance market. Now this Health Insurance is another area of concern for the non-life industry. The legislative intent of laying special emphasis on "health", while framing the regulations was to facilitate access of the health care facilities to the insurable population through the medium of insurance. However, three years down the line, there has been the impediment to growth need to be addressed. Although positive signals have emanated in this segment of insurance business, much more needs to be done. Health insurance segment is a matter of concern for all non-life as well as life insurance companies. Since cost of Health Services are ever growing beyond limit, it would be in order that all insurers should share single platform and set up hospitals on public partnership model to serve policyholders, employees, agents and other servicing agencies on the line of Employees State Hospitals and arrest the claims payment apart from providing better health service to the people which will not only prove the huge potential of Health Insurance Market but will also take care of health needs of our country.

6. Inspection of Registered Entities

Inspection is an extension of the process that any regulator utilizes to ensure oversight over the functioning of the entities registered by it. The process involves oversight or keeping an eye on the industry, collecting information, analyzing that information to identify trends and emerging risks, if any, carrying out on site inspections of companies, reverting back to the inspected entities on the areas of concern and identifying remedial action that needs to be taken, setting up time frames for completing the corrective actions, following up on the progress for implementation and comparing the results to the expected performance levels. Authority has been empowered by provisions of Insurance Act, Section 14 of the IRDA Act and the regulations notified by it to undertake inspections, conduct enquiries and investigations including audit of insurers/ intermediaries. The Authority initiated the process of on-site inspection of the insurers during the financial year 2002-03. The inspection processes carried on by the Authority can broadly be categorized into two, viz., overall inspection of the insurance companies, and targeted inspection, as to satisfy the specific concerns/objectives of concern to the Authority. The officers of the Authority carried out inspection of select insurers with a view to reviewing their operations. These audits were aimed at getting an overview of the operations of the insurers. In addition, special purpose audits were also carried out by a select group of statutory auditors empanelled with the Authority. The IRDA (Investment) Regulations lay down the requirements to be complied with by the insurers in respect of putting in place an investment committee as to ensure compliance with the exposure norms, systems to be in place to ensure prudent investment of funds, statutory requirements for investment in approved securities, and internal controls to be in place to ensure compliance.

7. Investment Audit Consolidation

The establishment of the Authority had paved the way for the country to fully realize the potential for growth in the insurance sector. The reforms introduced in the sector have resulted in introspection on the part of the existing insurers as to the steps which can be initiated to cut down costs, and introduce new products which are tailor made to meet the specific needs of the insured. While the growth recorded by the insurers is impressive, what is equally crucial is that the industry grows on healthy lines in the fast evolving highly competitive environment, in which the underwriting results are likely to come under tremendous pressure in the deregulated market. This would be particularly challenging as the industry moves towards a de-tariffed market. There is, however, a need to sound a word of caution. In trying to achieve impressive figures, the insurers ought not to lose sight of the larger picture. Capturing a larger share of the market is all very well, but the strategy needs to be that of sustainable and healthy growth. Simultaneously, the industry needs to abide by the motto of service and the players must ensure that the overall interests of the consumers are protected and served.

The challenges facing the industry also include the declining investment returns

and the lower interest rates, over the last few years which are influencing the profitability of the insurers. On the positive side, of course, the low inflation rates have helped to keep the claims and operating costs from running out of control. However, a cause for worry could be the state of finances of the state government undertakings, in which insurers, particularly the public sector ones, have holdings. Provisioning adequately for the assets which are non-performing is critical. A number of new products have been introduced in the industry.

However, there is need to ensure that pricing of products is based on statistical data. Be it life or the non life segments, availability of data, and that too accurate data is critical for the growth of the industry. The existing scenario where in the pricing of products is based on statistics way off the mark; there will continue to be customers who are subsidizing the costs of the others. This cross subsidization needs to end sooner rather than later. The phase of consolidation of the industry has to also encompass increase in the penetration of insurance.

The challenges facing the industry also include the declining investment returns and the lower interest rates, over the last few years which are influencing the profitability of the insurers. On the positive side, of course, the low inflation rates have helped to keep the claims and operating costs from running out of control.

A good-lot of favourable factor being in place for Indian insurance industry to bloom into one of the fastest growing financial services markets in the world. This still nascent insurance market is at an inflection point as – rising incomes driven by economic growth are deliberately boosting the demands, and also increasingly sophisticated consumers with differing needs are driving for the requirement of some differentiated acumen of the underwriters to play. So in this current era, if insurers' need to emerge as winners, they must re-examine their strategies and commit for some bold, breakthrough approaches. This will not only help branding the Insurance Company, putting the insurer in pole position in the race of insurance customers, but will also help them to build sustainable and profitable portfolio. After the introduction of liberalization & privatization of in Indian Insurance Industry, thus the last 12 years had been a decade of stabilization, with a new regulatory mechanism & with an absolutely new regime with a different look, now it is obvious that the insurers are about to conclude their process of settling down to this new environment at the same time the regulator has also been settled down. So it is a good time to look back, but an even better time to look ahead as we are now on the cusp. Insurance Bill lying in the Parliament has already being passed in 'Lok Sava' ensuring 49% Foreign Direct Investment participation in Indian Insurance Companies. Now with the passing of 49% FDI, the regulatory framework will be widely open to technology, compliance, corporate governance and invite global competition. The insurance penetration will invariably increase if the people of India can be made aware of the various risks associated with their living – i.e. threats of their life, business and various other external & internal environmental hazards. Now all the insurers are more or less familiar with the contours of business, market & policy. After the completion of thirteen years of privatization & eight years of de-tariffing there are three challenges from the customer side is still remaining –

1. There is the customer's ability to decode the product, demystify the coverage & exclusions and do so in a language which he/she understands and a terminology that he or she can relate to;

2. Whatever be the offer, it has to be comparable with the cost structure vis-à-vis other financial products.

3. The delivery mechanism should be truthful, honest and transparent.

If there has to be some kind of an opportunity available for the insurer to penetrate deeply in the market – then only

the overall cost will come down which will obviously bring down the premium. The developmental initiatives are at three different levels, one is at the government level where tax can be used as an instrument of state to bring the products closer to the market. The second is the regulatory aspects that need amendments considering this new age requirements and the third aspect is self-governance. We need to ensure that all these are done simultaneously for better experience.

The insurance industry has entered in this new age and on the consumer side there have been significant developments. First, in the life sector there were the concerns about ULIPs in terms of pricing & commission. In order to bring the insurance sector in line with the kinds of spreads which we have in other investment sector such as banking and mutual funds, IRDA had to impose a cap on charges between gross and net yields. In a process to micro manage the industry IRDA guidelines enabled the life insurance companies to manage their costs, including sales cost, policy administration cost and fund management cost that best suited to insurers' marketing strategy. The spread of three percent for products having a term less than 10 years and 2.5 % for those with longer tenures, compares very favourably with the banking sector, where the spread is in between 2.1% and 3.4%, but obviously less than the spread available in the mutual fund industry. Adding to the growth driven by sheer economics is the demand for long-term savings and investment products – a gap met by life insurance for the Indian consumer. Consumers rank life insurance higher than other investment options because of its ease, convenience in investing, inherent trust in operation, tax benefits, and protection. Amongst all financial products in India, life insurance enjoys the highest popularity and demand. Contrary to the conventional directly correlated risk - return relationship, Indian Life Assured perceives life insurance as a low-risk and high-return investment – basically a perception driven by high awareness of the Life Insurance Corporation of India (LIC) and its record of delivering stable returns over the decades.

8. Contribution to Education

The Authority, IRDA has jointly promoted the Institute of Insurance and Risk Management with the Government of Andhra Pradesh to carry out research on insurance and risk management to function as a research arm of the Authority.

9. Regulation in Grievance Resolution and Customer Relationship Management (CRM) for Business Development

Grievance is basically an expression of customers' dissatisfaction about an action or lack of action or about the standard of service / deficiency of service of insurer and / or an intermediary representing to the insurer in the middle. Complainants at the time of lodging grievances always anticipate from the insurer an altogether different treatment within a least possible time. Here the main problem arises that most of the time complainants expect the action according to their own perception and at times to say do not possess requisite skill and thorough knowledge of the specific subject. As such grievance management of any successful organization always strive hard to take all the best out of their aims besides having high level of customer satisfaction graph, large number of satisfied customers, increased market share and profitability. Grievance management & resolution has definitely varying implications of efficiency enhancement, product improvement and acceptance of product among its policyholders, building customer relationship and trust building. Based on the expectation gathered from grievance handling, insurance products particularly personal line of business of general insurance as well as the life insurance may be upgraded so as to commensurate them with the needs of customers and thus ensuring their wider acceptability and having also the law of probability to ply more effectively.

Fair settlement has got wider meaning in the sense – if an insured is ignorant about any benefit available under the pol.icy, he should be made aware of the same and the same time spirit of policy contract is compulsorily to be maintained. Likewise the prevailing ground realities, mistakes committed by the insurer or their representatives, terms of complaints should always be discerned with while dealing with issues related to customer grievance. In this context, settlement of total loss claim of Motor Insurance policy issued purely on IDV basis, suomoto resolution to initiating action by payment of health check up expenses on completion of required claim free years and even to pay interest for delayed

payment of claim as per IRDA regulation may be few steps forward towards the fair treatment by the insurers.

Now in this liberalized market with the increase in competition something more is now-a-days - today customers are increasingly becoming more sophisticated in their buying behaviour – they are now highly aware of the existence of various life insurance companies in the market. Their demands are higher, in terms of service and quality. Therefore new methods and techniques are required to delight the customers -few of them are:

1. Customer Experience Management;
2. Customer Response Management;
3. Customer Integration Management.

Insurance companies in the developed global market have already adopted these techniques. But the Indian Insurance companies are still in the stage of Customer Relationship Management. Therefore the companies in India needs to make efforts to incorporate better and developed techniques to delight their customers.

Customer Relationship Management (CRM) is a tool through which the company records the data of all the customers and uses it to increase loyalty and retention of the customers. It is a customer centric philosophy which brings together information from all the data sources to give a holistic view of each customer. It helps to learn more about customer's needs and behaviors in order to develop stronger relationship with them, thus not only satisfying them but delighting them.

CRM was originally driven by an inside outside approach. It had three phases Technology, Integration, and Process. It started in early 90's when it was realized that the company's marketing efforts must focus on identifying and serving the organization's profitable customers. It was the work of Frederick Reichheld at Bain & Company where they suggested that customers become increasingly profitable over time because their income increases and so does their spending, satisfied customers may make referrals and loyal customers are price sensitive. The relationship marketing approach has gradually taken the shape of Customer Relationship Management. Over the time, with the change in technology the efforts of CRM were extended to the use of PCs and internet, with this customer's expectation rose significantly, with the development of internet and wireless technology - CRM can be extended to other outside parties as well such as partners, vendors, and other organization in order to speed up responsiveness and get a clearer picture of customer sales opportunities. Thus the CRM technology now makes it possible to systematically manage one to one customer services on an entirely new scale.

Mainly Customer Relationship Management is needed now as Indian dynamic insurance market is operating with the following:-

- Highly competitive marketplace at the backdrop of de-tariff introduced in India during 21st century: The emerging channels have transmitted the marketplace into a fierce battle field.
- The new empowered e-customer/ e-insurance recently introduced: The customer is now well aware of the market opportunities, taking insurance related advice, paying for insurance policy, making complains against insurers in various redressal forums like DPG, IRDA, Company-owned grievance department and receive the effect of immediate resolution all through IT driven Internet & other sources.
- Making business sense / immediate & direct communication/ retention: Companies that provide customers with what they want, take share of wallet from those who don't. The ever growing demand of CRM solutions find its foundation in the perpetual shift of the market circumstance, and escalating leap forward in strategy formulation towards the customers.

Many surveys conducted in India in recent times highlight the emergent base of CRM as:

- The cost to sell to a new customer is six times greater as compared to an existing customer.
- A disappointed customer will notify 8-10 people
- With an increase of 5% customer retention rate, profits could increase by 85%
- Probability of selling to fresh customers = 15%, as judged against for existing customers which amounts to 50%

- 70% of the complaining customers will remain faithful if problem is resolved

- 90% of companies do not have the sales and service integration to support e-commerce

These are enough reasons for any small or big organization to have a customer orientation and go in for solutions which help them achieve this objective.

Few broadly defined parameters where a CRM can help an organization are:

1. Intent- Creating the base upon which the customer relationship would be managed and turned to value proposition.

2. Tactic – Here to focus and work upon turning the customer base into an asset for the business entity, ensure image building, branding and ahead of the other competitors in market.

3. Value satisfaction – Ensuring that the customers are endowed with the value satisfaction they have visualized; it is to reduce the dissonance amongst the prospective long term customers.

4. Organizational change – In India with the changing business environment and multi cultural aspects, businesses require a distinct approach towards the customers as well as the employees. Undeniably a SMARTER pursuit would be the introduction of a comprehensive CRM suit in the organization. Change is constant – Indian insurers embraced so many changes introduced and simplified their processes to meet requirement of our policyholders at all times. Simplicity is now part of our progressive stance and that starts with converting the existing Customers Grievance Redressal Department into Customers Relationship Management Department to change their approach towards the customers. It is a small part of the many changes that insurers have put into action, to provide prompt and hassle free services in a very simple way.

5. Procedure – Merely streamlining the internal processes would do no wonders to an organization, a holistic approach would work towards creating and maintaining customers for life long. An insurance service provider strongly believes in a customer centric approach in our operations and an effective Grievance Redressal Mechanism as an instrument for rendering efficient customer service. In Public Sector insurers generally complaints / grievance are received in various offices of the Company through personal / telephonic contacts, e-mails, web, post etc. Besides, Insurers Corporate or Head Office also directly receives complaints from IRDA, Ministry and Directorate of Public Grievances (DPG), and Govt. of India, New Delhi. Name and contact details of officers assigned with the job of Customer Grievance Redressal at HO, ROs and Operating offices are available at in the company's website with a view to provide easy access to all concerned. Their main motto is fulfilling customers' need, in time and every time, to their full satisfaction and for building a long lasting relationship. And whereas for implementation of above and for effective, efficient and speedy disposal of customer's grievances, a new online system has been introduced by all insurers which is connected in tandem with IRDA's online grievance disposal system (IGMS – Integrated Grievance Management System) which automatically receives individuals customers complaint lodged in the insurers' on-line grievance software being efficiently adopted the insurers and it had already come in to force effectively for last one year for all insurers. IRDA had launched their IGMS being built by Wipro to ensure effective redressal of the customer's grievances, with the following objectives:

1. Customer centric and holistic approach in processes and procedures.

2. Time bound redressal procedure for resolving grievances.

3. Provision of penalty in case of non-satisfactory disposal of grievance by the insurer.

4. Emphasis on time bound resolution of grievances otherwise to face heavy penalty being imposed by IRDA.

5. Fair treatment to customers.

The insurers in turn, have used their company software - all had to implement the service of on-line effective grievance reporting/ resolving system on-line for their immediate effective grievance resolution which is effectively integrated with IGMS (that of IRDA's grievance redressal system software – as IRDA have the power to monitor each insurer's customer grievance redressal mechanism, efficiency, effectiveness and efficacy) and as such, first of all, all the complaints lodged in the individual insurer's system software go straight & immediately get recorded in IGMS at IRDA's end and simultaneously IRDA's token nos. are generated. Subsequently that particular complaint lodged in any insurer's Grievance Redressal Software with IRDA's token no. comes back to the original site of the specific insurer for their effective handing for resolution & recorded in the individual company's grievance software package - finally giving intimation to IRDA's IGMS software after being resolved finally or on expiry of 8 weeks if no reminder from either side of the insured or insurer.

IRDA off late has been levying penalties on the insurance companies ₹ 5 Lacs on each count of lapses - on one count or the other. Penalties are levied on insurers for various acts of omission & commission and that amount are debited only from the Shareholders' Account. The instruction is – if any insured had inadvertently booked any penalty to the Policyholders' Account, the entry should be reversed. It indicated that there are continuous violations in the insurance companies and IRDA is levying penalties only in cases that have come to their notice.

It is strongly felt that more stringent supervision is needed by the regulator and the slapping of penalty only may not be proved to be the sufficient measures taken by the Indian Regulator.

10. Present Scenario of Insurance Market Development

With the increase in number of players in the market and consumer becoming more and more aware of the different products, insurers have realized the importance of CRM. In the erstwhile monopoly market, before the appearance of private players, CRM concept was not given much importance. Customer was not educated regarding the benefits of insurance. But with the entry of the private players in the market the competition forced both the existing and new entrant to become more customers centric.

The impact in this new environment has been felt in eight areas namely:

i. Knowledge Dissemination:

With the advent of Liberalization an area that has undergone dramatic transformation is product knowledge. Prior to liberalization buying of insurance product was done through an agent known to the insured or referred to him/ her by a friend, relative or colleague. With no option at disposal one has to repose full trust in the agent and accepted on the face value all the information dished out. It was at the time of any calamity that one realized the implication of the various clauses and blamed the PSU insurers, rather than the agent for misleading them.

If any insured had inadvertently booked any penalty to the Policyholders' Account, the entry should be reversed. It indicated that there are continuous violations in the insurance companies and IRDA is levying penalties only in cases that have come to their notice.

With the entry of the private sector they have largely addressed this issue by appointing and adequately training executives who are well qualified to understand the nuances of the product and implication of various clauses. They make presentations of their product in a professional manner and explain the finer points and the implications of the various policy and rider provisions taking into consideration the need and demand of the customer.

Repeated exposures to various channel of information as well as highly competitive insurance market has changed the customer from a docile, uninformed individual into an aggressive and highly demanding species. This has lead to a change in thinking of customer, as a passive saver to one who understood insurance as a product which optimally combines risk coverage and savings.

ii. Product Development:

Another important differentiation is the variety of alternatives being offered to the customer by the private sector. For the customer used to the plain Vanilla type of product on offer by the public sector the availability of different options to package a solution to his needs was like icing on the cake from the private sectors.

Introduction of unit linked products was well received in the market and the booming stock market provided further push.

iii. Product Promotion:

One of the perceptible changes with the entry of the private players was the series of aggressive advertisement .Since most of the Indians are conservative in their outlook and are generally averse to risk, the private player projected themselves as the customer centric company willing to provide customized package and service in order to capture a share of customer's wallet.

With LIC using "TRUST and RELIABILTY" (their solagan –'Jeevan ke Saath Bhi Jeevan Ke Baad Bhi') as their advertisement tool, private sector companies like ICICI Prudential projected the "Sindoor" a sacred and auspicious symbol for the family to drive the message of offering 'protection at all stages of the Life'. Max New York Life tried appealing to patriotic sense and emotions in their advertisement showing goddess Durga and three teenagers with saffron, white and green painted across their face. This was done to create a niche in the minds of the potential clients. Some of the other time tested and popular strategies adopted by the private sector were acknowledging by sending greetings on the special occasion, data mining and cross selling to sponsoring mega event. Though experience has shown that each interaction at an event may not result in a sale but it helps in two ways, firstly it helps company to feel the pulse of the customer and channel their energies toward meeting customer expectation and secondly this strategy has resulted in greater return on marketing investment coupled with reduced marketing cost, lesser cost of communication for reaching out to a larger targeted audience and higher response rate.

iv. Service Standard - LIC Has Definitely Set the Service Standards:

One of the key factor which after liberalization marked a huge improvement is the service standards in the sense of introduction of the smart, computer savvy and competent professional to distribute the product and introduction of web portal as well as facility to pay premium by way of instruction to bank or alternatively to any branch of the service provider.

LIC relied on the huge network of agents who were pushing the product on a part-time basis or selling policies while awaiting big break in the job market, private sector hired well educated youngsters and providing them professionalizing them before sending them into the market. This has taken the concept of customer service to a new height. It will not be far away, considering the size and geographic distribution of the branches and the magnitude of the network for the PSU's to match the private sector but it need considerable effort from the management.

Another aspect which has seen a vast improvement in LIC is the fast redress of the grievances. In today's open and competitive life insurance market where consumer purchase insurance to cover unforeseen calamity based the cost and quality of service besides the track record of the company, there cannot be a greater calamity than the denial of claim by the insurance company especially when the insured had already suffered from adverse circumstances. These circumstances have led to increased importance of grievance redress in the form of easy and efficient settlement of claims.

v. Segmentation of Customers as Target Group:

One area where both life & non-life insurers are looking at facilitating ideal CRM is the customer segmentation. The insurers always need to divide the target population into segments and provide customized product to them. This had enabled both the life & non-life players to adopt right CRM solutions which would be expected to last for reasonably long time with constant review of these to keep up with the changes.

vi. Insurance Orientation of Customer:

Insurance players should be interested in identifying the insurance orientation of the prospect. Insurer should aim at increasing this by explaining the all possible coverage that can be obtained for his or her various

needs and also providing the discounts. This would not only ensure improvement in business but also go a long way in promoting the cause of insurance.

Since Life Insurance is mostly Long term Association with customers here the relationship should be build up by a rock solid commitment towards providing good service throughout the contract period. Here the need based marketing of product is essential. The insurer should be capable of firstly identifying the need of the client and be in such a position that he can suggest a suitable product which best suits his needs. This would help in building a long term relationship and also to increase the customer loyalty.

vii. Proper Training Input to the Distribution Channel People for Efficient Underwriting:

There are several perquisite laid by the regulator for being a agent but if high incidence of default is observed despite of all these condition what does it indicate about the company's brand image.

To avoid these conditions the insurance companies today are taking this matter very seriously by insuring that their agents/advisors have proper skills and knowledge about the product. This will help the insurance companies not only to identify the needs of the prospect and then sell the product but also providing them efficient service during the entire policy period.

viii. Claims Management:

One of the very vital parts of CRM in insurance is the way the insurance companies settle the claims. For the policy holder it is the early settlement of the claims that matters as an essential service. So it becomes utmost important for the life insurance companies that they settle the claim efficiently and effectively. Their acts set as a medium to increase customer retention and also to create a brand image for the company in the minds of the people. IRDA has proposed for insurer's website to post all the ending claims with them for over ₹ 1000/- to enable the customers to know the position of their claim. Let us see now how that can be implemented effectively.

11. Further Requirements of Regulations at the Back Drop of Insurance Operations

Now the Indian insurance industry is coming of age and in terms of the regulatory framework, so the regulator must focus on the next generation issues as far as insurance regulation is concerned. Most of the building blocks of the so called second generation range are more or less in places, so IRDA must now focus on these second generation issues – the entire architecture in terms of governance, the architecture in deciding the guidelines, specific instructions in terms of disclosures, the requirements IRDA had decided to keep in place in terms of calculation of economic capital – all these issues of current implementation & further requirements of regulatory norms are very much important now in the context of Indian insurance companies which facing the market & public after completing almost more than a decade's experience.

Now almost all insurance companies have put in place robust grievance redressal procedures and systems. IRDA had built architecture in such a way that all the individual systems can be accessed from synchronized one system from one place by IRDA, all grievance complaints being subject to scrutiny and management of effective redressal by IRDA to ensure that whatever is offered in terms of policyholder welfare is actually being delivered by the insurers. The insurers in turn, have effectively resorted their company's recently introduced software (all had to implement the service of on-line effective grievance reporting / resolving system on-line for their immediate effective grievance resolution which is effectively integrated with IGMS (that of IRDA's grievance redressal system software – as they have the power to monitor each insurer's customer grievance redressal mechanism, efficiency, effectiveness and efficacy) and as such, first of all, all the complaints lodged in the individual insurer's system software go straight & immediately get recorded in IGMS at IRDA's end and simultaneously IRDA's token nos. are generated. Subsequently that particular complaint

lodged in any insurer's Grievance Redressal Software with IRDA's token no. comes back to the original site of the specific insurer for their effective handing for resolution & recorded in the individual company's grievance software package - finally giving intimation to IRDA's IGMS software after being resolved finally or on expiry of 8 weeks if no reminder from either side of the insured or insurer.

Unanimously, data recording is a great aspect of every CRM suit which makes it perfect blend of information. Can any regulation is effectively implied by IRDA except imposing the penalties on insurers. Mainly very strong control over the Grievance Redressal Management by IRDA is needed now as Indian dynamic insurance market is operating with the following:-

- Highly competitive marketplace at the backdrop of de-tariff introduced in India during 21st century: The emerging channels have transmitted the marketplace into a fierce battle field.
- The new empowered e-customer/ e-insurance recently introduced: The customer is now well aware of the market opportunities, taking insurance related advice, on-line payment for their insurance coverage / policies, making complaints against the insurers in various redressal forum like DPG, IRDA, Company-owned grievance departments and receive the effect of immediate resolution all through IT driven Internet & other sources.

> Bank employees have high variance in selling skills and banks in the public-sector typically face low operating flexibility in creating a true sales culture. Low technological capability and lack of process integration may also lead to poor servicing by insurers in the related areas.

- Ever changing technology/ technique/ process: New technologies provide a way to provide personalized solution at individual level here the efficiency of the IT System Integrator of the respective insurer.
- Making business sense / immediate & direct communication/ retention: Companies that provide customers with what they want, take share of wallet from those who don't. The ever growing demand of CRM solutions find its foundation in the perpetual shift of the market circumstance, and escalating leap forward in strategy formulation towards the customers.

12. Effective Regulation Over the Operation in Rural & Social Sector

Development of rural markets is one of the avowed goals of Section 32 B & 32C of the Insurance Act, 1938. There is an element of mandated compulsion to develop an integrated system that includes the Rural Market Insurers need to keep this aspect in mind in making their annual marketing plans and long term strategies. The regulator, IRDA has also to pursue this aspect vividly with all the insurers. Development of rural markets is one of the avowed goals of Section 32 B & 32 C of the Insurance Act, 1938. The (IRDA) Insurance Regulatory and Development Authority Act, 1999 (Para 19; first schedule) has amended the Section 32B and 32C of the Insurance Act, 1938 as under:

Section 32B: *Every insurer shall, after the commencement of Insurance Regulatory and Development Authority Act, 1999, undertakes such percentages of life insurance business and general insurance business in the rural and social sector, as may be specified, in the Official Gazette by the authority, in this behalf.*

Section 32C: *Every insurer shall, after the commencement of Insurance Regulatory and Development Authority Act, 1999, discharge the obligations specified under Section 32B to provide life insurance or general insurance policies to those residing in the rural sector, and also to the social sectors consisting of the workers in the unorganized sector of informal sector or economically vulnerable or backward classes of the society and other categories of persons as specified by the regulations made by the authority, the IRDA.*

The IRDA Regulations 2000 makes it compulsory for the insurers, existing and new to promote the rural insurance. The

regulations prescribe for undertaking benchmark percentages for insurances in the rural insurance sector for the players. Now the main issue is whether it has been properly scrutinized that all the directives of IRDA have been actually complied by the insurers in reality. Prime minister Sri Narendra Modi declared on the 15TH August 2014 the scheme of 'Jan Dhan Yojna' for opening bank account for all the individuals' especially in rural areas all over the country to facilitate government subsidies and other transactional facility to all citizens individually. The scheme offers 1 lakh insurance cover to account holder. This scheme is a super hit with 1.5 Crores account opened on the first day of launch & will help spreading in rural insurance schemes organized by banks & N.G.O.s. So the need of Rural & Social Sector is now strongly felt.

13. Control Over the Management Expenses of the Insurers

We find that management expenses of all the insurers affect bottom lines more sharply, so IRDA intended to bring in various systems to enable and cajole insurance companies and absolutely ensure that the insurers comply by looking at extra solvency requirements. Moreover, as the Indian insurance industry has already made a strong enough base and going by the trend of the market – the days are very near when one of the biggest contributors to the Indian stock markets will be investment from the insurance sector. So the regulator has to tighten their control in manifolds. Broadly speaking investment by insurance companies is regulated by the provisions of the Insurance Act, with 50% of investments going into government securities, 35% into approved investment and 15% being in other than approved investments. There are other issues such as concentration and sector risks. From the regulatory point of view it has to be typically ensured that the insurers must have in place automated or efficient systems that can provide full range of information. IRDA already charted out what exactly should be the investment management architecture. Different companies are in different stages of compliance with these norms but it is needed beyond doubt that IRDA should vividly check these aspects b periodically auditing on quarterly basis to ensure the insurers to remain in shape.

14. Fulfilling the Disclosure Norms

As we enter a stage where there is a fair amount of maturity developing in Indian insurance market, there would be a necessity of greater amount of disclosure. Disclosures and greater emphasis on risk management systems will certainly be the focus area of the regulator. In the context of such risk management systems there will be a requirement of computing economic capital to adequately capitalize various Indian insurers. At the back drop stiff market competition the overall growth in the insurance sector is around 16%. This sector is likely to have fair amount of prosperity would be in relation to the rural population and the urban middle class.

Second feature would be that the volume of business coming from bancassurance will be higher. Given the high penetration of banking products, bancassurance could be the most important channel for General Insurers to rapidly acquire new customers. But the cross-sell rates of Indian Banks are definitely lower than those in developed markets (say, in Spain, Italy or in France, around 15 to 20% of a bank's customers would have bought insurance cover through the banks only). Bank employees have high variance in selling skills and banks in the public-sector typically face low operating flexibility in creating a true sales culture. Low technological capability and lack of process integration may also lead to poor servicing by insurers in the related areas.

Increasing income levels and dramatic demographic shifts will lead to the emergence of distinct consumer segments that need to be served in fundamentally different ways. Consumers in this current era are having three distinct features:

1. **Growing Middle Class:** The middle class, consisting of 'seekers' (having annual household income in between ₹ 2 to 5 lakh) and 'strivers' annual household income of ₹ 5 to 10 lakhs) will grow to 16.2% of the population or around 40 million households by 2015 and in those segments insurance is utilized mainly for tax planning, retirement planning and savings, as well as for risk protection for the higher income professional (so called 'Buddhijibi') class. Although very attractive, this market segment is under intensifying competition, as most life & general insurance players are focusing on it for building their business volume.

2. **Emerging More Bank User:** At the lower base of the population pyramid, the 'aspirers' (annual household income of ₹ 1 lakh to 2 lakh) will comprise 45.6 per cent of the population (around 120 million households by 2015 end), representing a formidable emerging bank-user class where insurance is used deliberately for long-term savings, promising & providing higher return at low risk, being considered as the sure security for covering uncertainty / contingencies, given the lack of alternative investment option. Key challenges in this segment are managing profitability due to low premium size and high underwriting risk.

3. **Growing High Income Earner in the Urban Areas:** With the various schemes being implemented in the urban areas and the better technical guidance being available therein, with the increase in the length of motor able roads - there are rising effluents in Indian urban areas. This segment may have relatively low need for risk protection, being self-insured with high investment balance – may invariably resort to avail various insurance covers as insurance is viewed by them mainly as an investment vehicle (consideration for using the products of life insurance sector) &/or an estate/ employee management tool (for using the insurance products in the non-life sector).

Here the product distribution excellence will determine success. Success for

non-life insurance players will hinge on achieving excellence in distribution by raising agency productivity while simultaneously exploring new models in non-agency product distribution – like direct on-line selling of products.

Third aspect is the movement towards newer areas of distribution and in the internet banking sphere and a fair-sized market will exist in health & pension area. There will be separate segment of micro-insurance which would be developing. For all these IRDA need to tie-up closely with the norms setting in distribution network, bancassurance / other channels of marketing that may come in. Some important features of bancassurance it has lowest expense and if worked with synergy – for example: coordination as existing between the State Bank branches & SBI Life may be cited. It is the need of the banking sector also to come effectively in the insurance marketing, selling & claim settlement, because sooner this banking sector shall reach a stage where any bank that is not in a position to convert itself into a financial super model – effecting all three functions i.e. lending money, provide insurance cover to the mortgaged assets / loan amounts, and all kinds of other banking facilities – otherwise it would be left behind in its competitive position. So bancassurance regulations or any other alternative distribution channel newly emerging may require regular updating of the existing regulation & imposition of more acute observance of various financial norms.

15. Dealing with Market Penetration

IRDA must intervene into the typical current concern of the insurance industry on market penetration. The non-life industry has not grown in terms of penetration in last 10/12 years in spite of so called privatization & liberalization. The penetration is just 0.6% of GDP and it has been static. How many new insurance policies have been added, except for the mandated insurance of the automobiles? General insurance growth will depend on how much penetration can take place – penetration level levels have been all along been very low. The growth really is coming from the same customer base. But if the lenient regulation are ensured by IRDA, especially on the micro insurance and micro health side, that may enable & help us to penetrate more in this sector. We need someone to cajole the prospective insured to take insurance policy being totally aware with the terms in comparison with his/her requirements. A little bit of remuneration is needed whichever medium / channel we use to sell insurance product. Proper regulation on the channel partners & re-refining the ethics & remunerations in this changed circumstance cannot be wished away by IRDA.

The main complaints made to IRDA that everybody is chasing the same customers – the high income, young people who are invariably to have less demands on the system. There is a tendency to ignoring senior citizens and low-income customers – so the regulator IRDA has definitely & drastically to deal with that. The health side there is lots of efforts that have come into play the safeguard the interests of senior citizens. The General Insurance council has been active on this issue. IRDA must find out ways and means to ensure that there is continuity of cover for senior citizens and insurers should not arbitrarily pick and choose as far as these risks are concerned. IRDA must bring uniform policy amongst all the Health Sector Insurers, so when one insurer changes to another insurer then the cover is not interrupted for these senior citizens insured.

Another aspect is language or demystification of the insurance products for that IRDA must take initiative to standardize the Basic Policies and allow the insurers to go for their individual extensions as in different main line of business allowable & affordable by them distinctly. At least in General Insurance sector a new business model needs to develop to increase penetration of insurance and to make it more reachable, more need-based, more useful & attractive. The industry must come up with products that absolutely easy to understand and easy to buy.

There is a total lack of penetration – as such we need a distribution revamp both on the life and the non-life sectors and even the basic rules for distribution, some of which were introduced during 1938 under the Insurance Act are still remains in existence. After the abolition of a principle agent and the emergence of “Brokers” dealing in the insurance requirements of the Indian ‘Corporate World’ and the commission structures have been drastically changed (keeping aside the new players - even in PSUs) for their tied-up clients & bancassurance products to allow various operating & procurement costs being reimbursed automatically along-with the specific policy’s normal commission for bringing the business in their books. So, these aspects must be considered and that part of regulation needs to catch up with all other advancement in insurance sector.

Although IRDA, the regulator has taken up the issue of consumer awareness, correctness in publicity or advertisement ‘contents’ for any insurance product, effective consumers’ grievance redressal. But considering the mindset of an average Indian, the mindset is that the government must secure my savings. So regulator must ensure whichever insurance company is licensed by the regulator is there to exist & last in the long-run. That will be high welcome by the Indian insured and the people will take more insurance policies if the regulator has established the assuring them of the longevity of the company.

Since in the Indian regulatory system, process & architecture, what different regulators will manage is specifically defined by law. Present system might not the best system and is not the only system in the world, but in India we have enacted ourselves a system where each sector is separate. The scope of regulatory overlap is invariably limited as each Act carefully specifies the limits and what exactly are the roles and functions of each of the regulators. There are differences in opinion between IRDA & SEBI about what the SEBI remit is and what SEBI believes its own merit is – may this turf war may go on but ultimately both are here to ensure consumer satisfaction, investor protection and financial stability. Finally things of this nature need definite clarity. Having multiple regulators doing the similar task would not be good for the consumers or the industry. So there must be sufficient initiative of IRDA to resolve all these disparities in insurance sector.

16. The Last Issue

To stop the general insurers’ practice of giving discount without any concern for base level threshold premium, in a recent meeting in General Insurance Council, it has been proposed that a minimum rate must be in place for all classes of business in order to prevent mindless competition in de-tariff non-life sector.

Let us expect that IRDA keeps a strong watch on the observance of these minimum rates by the industry so that the financial health of insurers, especially, in their core business area of insurance is not retarded. TJ

References

References have been taken from the contemporary text materials / various IRDA Reports / current discussions as read in hard & soft forms.

60 years of Insurance Education & Training

Diamond Jubilee
[1955 - 2015]

INSURANCE INSTITUTE OF INDIA
भारतीय बीमा संस्थान

G-Block, Plot No. C-46, Bandra Kurla Complex,
Mumbai – 400 051.
www.insuranceinstituteofindia.com

Request for 'The Journal'

Complete all the details in Capital letters and return to the address below.

Do you work in the Insurance Industry? If yes, please state the name of the Company

Yes ☐ No ☐ ____________________

Your Details

Email ____________________

Mr/Mrs./Ms./Miss/Other First Name ____________ Surname ____________

Designation ____________________

Correspondence Address

Address 1 ____________________

Address 2 ____________________

Address 3 ____________________

City ________ State ________ Country ________ Pin ________

Or

You can subscribe 'The Journal' through our website www.insuranceinstituteofindia.com or can send a mail to journal@iii.org.in.

Return the duly filled form at the below address.

Knowledge Management Center, Insurance Institute of India
G-Block, Plot No. C-46, Bandra-Kurla Complex, Mumbai – 400 051.

Turbomarketing Framework for Services Excellence in Insurance

Arun Kumar Sharma
House No. B 35, Kanta Khaturia Colony,
Bikaner, Rajasthan.
aks10000@rediffmail.com

Preface

In the insurance companies' offices, the agents and other officials of branch offices line up their man and machine to log in new business as soon as agents procure it. But customer needs services much more beyond issuing a policy, he needs policy loans, surrender quotes, status reports, acknowledgement of changes requested, maturity claims payments, Survival claim payments etc. More critically, the death claim and accidental claim payments are to be treated with same letter and spirit as it was logged in as new business. The new business log-in does not take more than few hours but death claims in life insurance and damage claims in auto insurance take days to

settle. Why such difference of treatment? though, customer is same. IRDA comes in as reference for settling such claims in stipulated number of days but why not claim settlement in few hours. Here comes, new avatar of marketing--- the TURBOMARKETING.

Turbomarketing: Time Crunching Marketing Concept

While reading word "TURBO", the automobile sort of things come in mind. These days, many vehicles are coming with "Turbo" charge facility which makes vehicle swiftly response in single ignition trigger. So basic proposition in Turbomarketing is Quick Response Time (QRT). QRT means service delivery in few hours or in other words, crushing the service delivery time from weeks, days to just couple of hours. The concept of Turbomarketing was propagated by Brian Domaine in 1989 for the first time.

Following conceptual framework of Turomarketing in services depicts it more clearly---

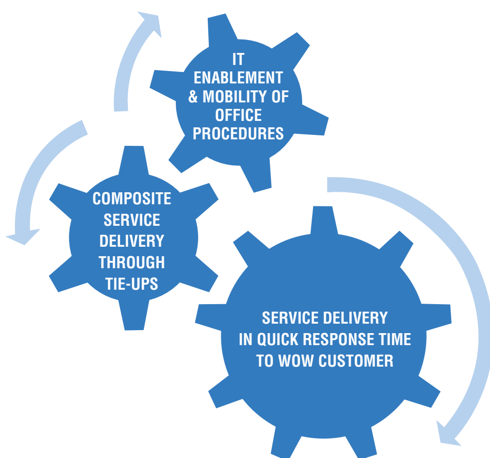


FIGURE 1: Conceptual Framework of Turbomarketing in Services

The figure 1 depicts the three gearing facets of turbomarketing in services namely—IT Enablement & Mobility of Office Procedures, Composite Service Delivery through Tie-ups and Service Delivery in Quick Response Time to "WOW" Customer. Let us understand each gearing facet briefly---

A. IT Enablement & Mobility of Office Procedures

Before offering services in quick response time, the required quantity and quality of hardware, software, connectivity and real time coordination among man, machine and office procedures of claims settlement must be conceptualized and modeled. The requirement of all such segments depends upon the definition of quick response time service provider wants to pursue. The lesser the time of service delivery, the more robust and real time coordination is needed. Cloud computing can be affordable and practical option to join the various role players for the claim settlement.

to the issue of cheque to the claimant can be done outside the office premises at the spot of incidence. The procedure should be robust enough to screen the fraudulent claims from genuine claims. Even if any fraudulent claim is paid in spite of all precautions and procedures, there should be compensatory indemnification from the loss adjustor or assessor. To prevent loss adjustor from involving into fraudulent claims, the loss adjustor can be asked to assign a bond in the name of insurance company and insurance company can give him rights to settle claims upto the limit of bond assigned. The 24X7 back-office can be setup to analyze the data and photographs of spot of incidence on real time basis sent by loss adjustor.

B. Composite Service Delivery Through Tie-Ups

When services are delivered in the office, the attitude of customer and office staff are centered towards the services

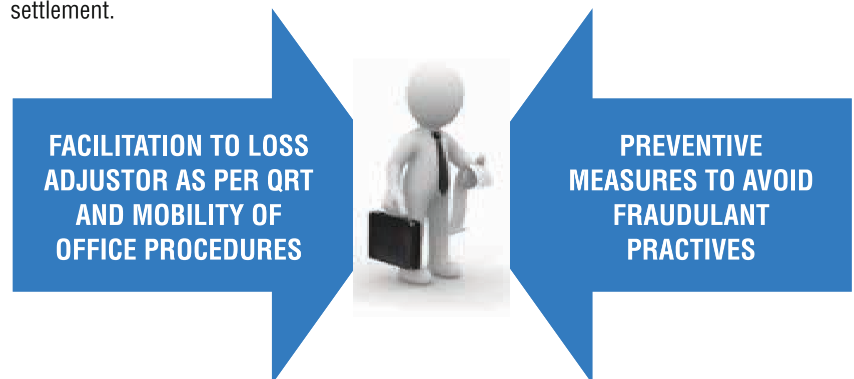


FIGURE 2: Controlling the Role of Loss Adjustor in Turbomarketing for Services

The mobility of office procedures for claim settlement means redesigning the claim settlement process in such a way that process of from claim registration

to be executed hence there is analogy in services expected by customer and services delivered over the table by the office of service provider.

The services expectations of customer are different in case of service delivery at the spot of claim incidence. He demands more variety of services and more non-core services. For instance, he might expect a all legal papers required for claims must be available with loss adjustor or he may expect a first-aid kit in case of accident or he may expect that he gets a rent-a-car service immediately after the claim procedures are over to reach his destination etc. In case of travel insurance, company can offer wallet services and important documents repository services to their policyholders so that in times of theft while traveling he can retrieve his important documents and apply for reissue of documents on the go. A home insurance company can offer immediate relocation, salvage valuation, arrangement of contractor to rebuild and home loan services apart from just paying claims for fire.

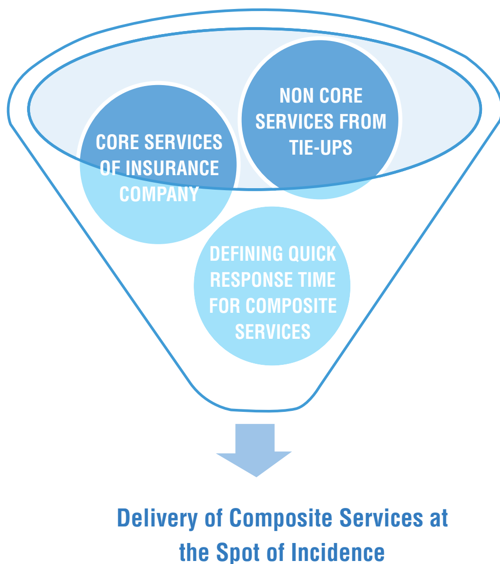


FIGURE 3: Conceptual Framework of Composite Services

All such services are non-core services for insurance companies but customer expect them from the man standing before him at the spot of incidence. Such expectations of services are named as Composite Services. If insurance company is able to offer such services through its own establishment and tie-ups, customer experience enriches and company achieves very robust competitive advantages.

C. Service Delivery in Quick Response Time to Wow Customer

The quick response time (QRT) for service delivery should be defined in such a way that it should not only exceed customer expectation, not only delight the customer but make customer “WOW”. Here, WOW can be expanded as “Win Over the Wishes”. The QRT of insurance company should be in such a way that it embarks on a benchmark where wishes of customer in terms of composite services and expected delivery time exceed dramatically. What customer wishes is mapped properly and services levels are drawn much above. The QRT levels must be supported with appropriate system of composite services and coordination among tie-up partners. WOW framework is presented pictorially in Figure 4.

The customer expectation for service delivery can be rephrased in three parts. The first and minimum level of QRT service delivery is his expectations of services. Secondly, the level of service delivery offered by competitors who are offering above the first part i.e. minimum level of customer expectations that satisfies customer. Thirdly, the level of composite and QRT service delivery achieved which is over and above the competitors’ benchmark. The above framework shoulde be designed in such away that it should offer QRT service delivery as well as prevention from fraudulent practices.

Conclusion

The turbomarketing is indeed a tool that can surpass the standards of services delivery. The rethinking and redesigning of claim settlement services are a must. The financial resources needed for installing such high charged delivery system can be offset easily by many advantages arising earning loyalty of customers, savings on physical process costs, earning from non core services tie-ups etc. A feasible model is possible to find optimal mix of installing such systems and gaining from such systems provided there is will to drive the customer experience to new heights. TJ

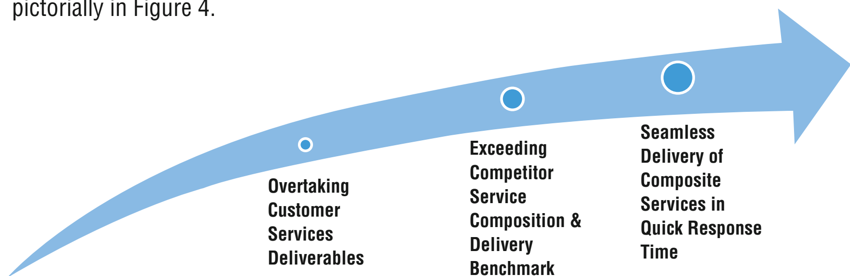


FIGURE 4: WOW framework of Quick Response Time in Turbomarketing

Brand Loyalty Model for Insurance Sector- Strategy Formulation for Brand Revitalisation of ULIPs through Service Recovery Initiatives

Ajay Jose
Development Officer
LIC of India
Allapuzha District,
Cherthala - 688524.
joseajay@gmail.com

Sonia Mathew
Corporate Relations Manager
Saintgits College of Engineering
Pathamuttom P.O,
Kottayam - 686532.
mathewsonia@rediffmail.com

Saraswathiamma K P
Professor
FISAT Business School
Hormis Nagar, Mookkannoor P.O,
Angamaly - 683577.
mcpanicker@gmail.com

Abstract

This study was developed in the backdrop of depletion in customer trust following the perceived under performance of Unit Linked Insurance Products (ULIP). The researcher aims to develop a conceptual framework for understanding the factors that led to this which impacted customer trust. The attempt to unearth the critical factors that led to the perceived failure of ULIP was done by developing a framework that contains relevant variables of interest in the study. The study further proceeded to formulate a brand revitalization strategy for all companies which sold these products through effective service recovery initiatives by examining the relationship among critical variables that significantly develop satisfaction, service recovery satisfaction and brand loyalty under the shadow of product failure of ULIPs.

Three different models are developed to understand the significant linkages that would help in a strategy formulation. In the first model, the nomological framework that explains the linkage among the constructs such as Perceived customer benefits, Perceived customer understanding, Perceived value, Perceived customer trust and Customer satisfaction were theorised. In the second model, Service recovery satisfaction is proposed to be analyzed against critical antecedents such as Interactional fairness, Operational fairness and Problem solving orientation of the Insurance Company. Finally, the role of Service recovery effectiveness in developing Brand loyalty mediated through Trust in the company and its representative were examined. It is expected that the linkages identified as part of the study will help the sector in developing a strategy for recouping trust among customers. This study may be considered, as a step in the direction of revitalising the brand loyalty of Life Insurance companies, in the Indian context against the backdrop of a (perceived) product failure. It contributes to the theory and practice by identifying the critical variables which establish a relationship between Service failure, Service recovery quality, Customer post recovery satisfaction and Brand loyalty.

Keywords

Product failure, Service failure, Service recovery, Brand loyalty, Customer satisfaction, Recovery satisfaction

1. Introduction

The Life insurance industry in India saw a surge in premium income with the opening up of the industry for private players in 2001. The growth in premium was mainly fuelled by a new class of product to the Indian Insurance industry, called the Unit Linked Insurance (ULIP). With rapid growth in the stock markets, the ULIPs started delivering above market returns. ULIPs became the poster boy of the Insurance industry with short tenure, liquidity, transparency, flexibility early surrenders and dream returns. The products soon became the favourite of Insurance advisors and were increasingly sold to customers, who did not understand the risk return profile of the product. As share markets surged further to all-time highs, the ULIPs were missold by promising untenable returns. With major stock market crashes in the years 2008 & 2009, the products could not deliver the perceived returns of the customers. Customer expectations on product performance, formed due to lack of sufficient knowledge of the product features, begun to shatter.

Some ULIP funds offered negative returns eroding the capital of the investors. Money lost as a result of ULIPs perceived failure, led to a relationship loss which consequently resulted in the loss of an established relationship between the provider and the user (Shuchi Singhal, Anupam Krishna & Davis Lazarus 2013).

Analysis of an IRDA report shows that there was a surge in sale of ULIPs from 2004 to 2008 and from then on there has been a drastic decline till date. Consequently premiums fell at an annual rate of around 19% during FY11 and FY12 (Shashwat Sharma, P Roy 2013) and a further 29.89% in FY13. The IRDA (Insurance regulatory and Development Authority) came up with several stringent measures and imposed a strict regulatory framework for ULIP policies, with as withdrawal of all existing ULIP plans on 1st September 2010. Fresh regulations and restrictive clauses for new plan design were imposed. During FY11 and FY12, the industry witnessed a shift in the product mix from linked products to non-linked traditional products. Accordingly the share of unit-linked products in total premium declined to17% in 2012-13 as against 56.92% in 2006-07 (IRDA Annual Report).

Bell and Zemke (1987) define service failures as situations in which customers are dissatisfied because their perception of the service they have received is below their expectation.

2. Problem Statement

Life insurance has always been a savings cum protection tool for the common man, being the second largest contributor to household savings, amounting to almost 3.17 % of the GDP. [Report of the Working Group on Savings during the Twelfth Five-Year Plan (2012-13 to 2016-17)]. The Insurance industry is a major contributor to the Indian economy, having won customer trust and a considerable portion of his savings. The life insurance sector saw a paradigm shift after September 2010 with new regulations resulting in de-growth of the industry in India (IRDA Annual Report 2011).

On the other hand, globally, the sector has witnessed a growth in premium income. These observations have necessitated a rethink of strategies for winning back customer confidence and guaranteeing growth of Insurance sector and revitalizing brand loyalty towards Insurance companies. Identification of a correct recovery strategy can be done effectively by identifying the critical factors that caused the failure. The study aims to fill the gap in research, related to insurance industry in India under the limelight of a product failure for effective recovery strategies and aims to revitalise brand loyalty in the wake of a perceived product and service failure.

> There is anecdotal evidence that rumours of problems at insurance or reinsurance company can be a first sign of the impending demise of the company. It is, however, important to recognise that, in an industry that relies on its reputation and its ability to make payments at some future date, the rumour itself can be a factor in the impairment of the company's viability.

Literature Review

The insurance industry can experience an image problem due to the possibility of ethical lapses (Hoffman et al. 1991). Opening up of the Insurance industry and the entry of new players have intensified competition among the players resulting in higher competitive intensity among insurance sales advisors to increase their new contract growth. Insurance sales advisors are likely to have resorted to unethical sales and service behavior to close a deal (Wotruba 1990). Unethical behavior could easily lead to disputes between buyers and sellers, affecting a company's reputation and customer loyalty. There is anecdotal evidence that rumours of problems at insurance or reinsurance company can be a first sign of the impending demise of the company. It is, however, important to recognise that, in an industry that relies on its reputation and its ability to make payments at some future date, the rumour itself can be a factor in the impairment of the company's viability. Policyholders or prospective policyholders who are aware of the rumours would be unlikely to buy from the company.

The construct satisfaction is defined in literature by the by the expectancy disconfirmation paradigm (Oliver 1980), attribution theory (Weiner 1986) or by the equity theory (Oliver& Swan 1989). In the model suggested by Oliver (1996), satisfaction results from expectation and from disconfirmation. If expectations are met or exceeded, positive disconfirmation leads to satisfaction and if expectations are not met, negative disconfirmation leads to dissatisfaction. Tsoukatos and Rand (2006) described life insurance services are highly intangible. Crosby et al. (1990) pointed that life insurance is primarily sold by insurance agents, who are the only touch point for the customers in most cases. According to Lombardi (2005), keeping the customers is crucial for life insurers as a long-lasting association with the customers results in greater instances of cross-selling and positive recommendation intentions. Zeithaml et al. (1996) pointed that the insurance provider gets to recover the selling cost of an insurance policy only when the policy is renewed for three to four years. Diaconet al. (2002) posited that high retention rates are correlated to better financial performance.

According to Fogli (2006) service quality is a cognitive judgement or attitude relating to a particular service; the customer's overall impression of the relative inferiority or superiority of the organization and its services. Toran (1993) argued that quality should be an essential element of insurance services. Stafford et al. (1998) have shown that insurance providers are putting increasingly more emphasis on service quality and customer satisfaction. They further noted that service quality in insurance industry is measured through the complaint ratio which, as put by Wells and Stafford (1995), is the number of received complaints divided by a measure of insurance business in force.

Oliver (1980) explained that customer satisfaction arises when customers weigh their perceptions of actual service performance against their expectations

and any discrepancy between the two generates disconfirmation which can be of three types: Positive disconfirmation: high satisfaction. Negative disconfirmation: high dissatisfaction. Zero disconfirmation: zero satisfaction.

Oliver (1997) stated that "satisfaction is the consumer fulfilment response. It is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfilment, including levels of under-or over-fulfilment".

Anderson and Narus (1990) perceived communication as an interactive dialogue between company and its customers during the pre-selling, selling, consuming and post-consuming stages.

In service relationships, customers can identify a particular person as their service provider. Strong interpersonal relationships may help companies to weather short-term fluctuations in service quality and thereby prevent customer defection (Jones et al., 2000).

The characteristics of the contact person (relevant similarity and expertise) and relationship quality (trust and overall satisfaction) can be seen as a proxy for reputation. There are reasons to expect that good and poor advice might have a differential impact on the evolution of reputation (Yaniv and Kleinberger, 2000).

Studies have shown that the inability to effectively identify the causes of customer loss and to take appropriate measures is the main reason for failure in customer win-back (Smith, Bolton and Wagner, 1999). The precedents of factors causing customer dissatisfaction is critical in analyzing the factors that lead to perceived service failure. An analysis of specific service failures factors would help in designing the right service recovery strategy and increase its effectiveness. In the case of ULIPs it was a process-related failure, where the failure occurred in the manner in which the service was delivered. Service recovery is a failure mitigation tool which infuses a sense of assurance and confidence in the consumer. It pervades customers' immediate and long-term satisfaction, building relationships, and it also infuses confidence in consumers (Michel and Bharadwaj, 1992). Hart et al. (1990) found that appropriate service recovery might change irritated and disappointed customers into loyal customers, and might even receive better evaluation than mistake-free service.

Appropriate recovery strategies can bring dissatisfied customers back to high satisfaction and enhance their purchase intention in the future (Goodwin and Ross, 1992), and poor recovery may result in stronger dissatisfaction than service failure per se (Maxham III, 2001). Chang and Hsiao (2008) confirmed that appropriate service recovery is critical to correct service failure and diminish the number of customers lost. Gregoire et al. (2009) and Bonifield and Cole (2007) found that customers experiencing strong feelings of betrayal could be mollified with apologies and only modest forms of economic recompense. In the case of ULIPs since the return on the product is linked to the net asset value of the units monetary compensations cannot be provided. So the only form of recovery possible is psychological recovery which can be attributed to the perceptual dimension in social transaction, with its primary forms of communication, apology and solution of issues, etc. (Hart et al., 1990).

Anderson (1973) has noted that, if a customer's recovery is higher than expectation, then under the magnified effect, this could eliminate his displeasure caused by previous service failure, resulting in the service recovery paradox. Service recovery satisfaction can lead to Purchase intention, which refers to degree of intention of customers to purchase products or service from a company in the future (Maxham III and Netemeyer, 2002). The right recovery strategy (Lovelock, 2008) may create brand equity in which customers themselves become the advertiser and conduct self-motivated campaigns promoting the service provider (Dorsch, Swanson, & Kelley, 1998).

3. Theoretical Framework

The research question for the study has been framed as ***"Factors that led to service failure post sale of unit linked insurance products and how to regain brand loyalty through service recovery?"***

The equity theory (Adams, 1965), justice theory (Smith & Bolton, 2002; Smith et al., 1999) helped identify the variables for the study. Boshoff et al (1998) put forward the three factors including attribution, apology and empowerment, as critical for service recovery. Perceived

justice (Hoffman and Kelley, 2000) and the three dimensional concept of justice: Distributive justice (dealing with decision outcomes), procedural justice (dealing with decision-making procedures) and interactional justice (dealing with interpersonal behavior in the enactment of procedure and delivery of outcomes) provided insights in developing the indicators to the variables. Apology for social/ psychological recovery (Tax, Brown, & Chandrashekaran, 1998), response speed, and response initiation (Tax et al., 1998) are critical for service recovery. Of the two types of recovery proposed by Miller, Craighead, and Karwan (2000), Psychological recovery and Tangible recovery, in the present study only the former can be used as the latter is impacted by product and service constraints. Bitner et al (1990) found that successful service recovery should include four key factors such as admitting failure, explanation, apology and compensation.

The appropriate constructs and the dimensions were identified by review of literature, consultation with experts and a pilot study of a few customers. Semi-structured interviews were utilised in this research, because they are deemed as one of the best methods to explore an individual's behaviour and attitudes (Tull and Hawkins, 1990). The relations between the main constructs and also the relations between each main construct and its dimensions were found.

In this research, Perceived customer benefits (i.e., quality of policy benefits consumers expect to receive), Perceived customer understanding (quality of the information the consumer perceives to have understood about the policy), Perceived value (the consumer's overall assessment of the utility based on the perceptions of what is received and what is given), and Perceived quality (Core service quality & Relationship quality) are considered as the constructs of Perceived level of satisfaction. Perceived customer trust (trust in intermediary and trust in firm) act as intervening variables on all the constructs affecting Perceived level of satisfaction.

Interactional fairness (i.e., the perception of fairness of behavior and empathetic outlook of staff and intermediary), Operational fairness (i.e., the advisory effectiveness and perception of usefulness of solution), Problem solving orientation (i.e., the ability of the organization in assuring the consumer) are considered as the constructs of Service recovery satisfaction.

The relationship between service recovery satisfaction, customer satisfaction and brand loyalty are also proposed to be studied. The above constructs and their dimensions have been reviewed and modified by four experienced academics and researchers in the field. The researcher tries to explore the causes of the perceived service failure with regards to ULIPs and design an appropriate model of service recovery to recapture lost brand loyalty.

EXHIBIT 1

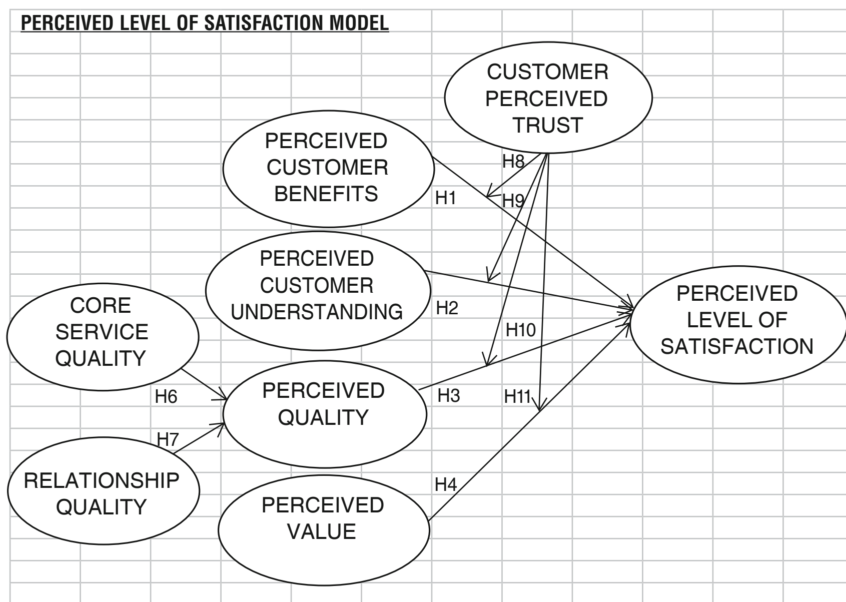


EXHIBIT 2

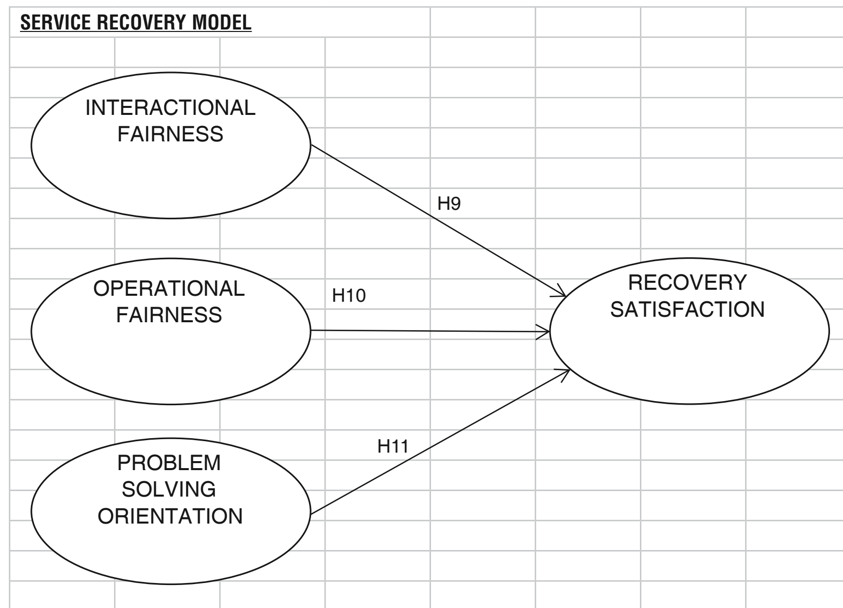
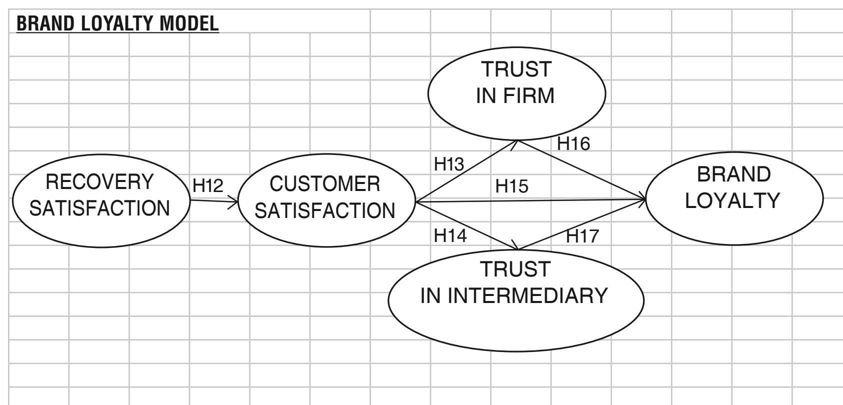


EXHIBIT 3



4. Conclusion

Brand revitalization strategies are considered as having paramount importance to all firms passing through tough phases in their lifecycle. The study was an attempt to develop a turnaround strategy for the Indian life insurance companies, against serious setbacks suffered by them due to the underperformance of one of their financial products. The framework developed as narrated above, on basis of literature support and from views of selected stakeholders could be effectively translated into theoretical models to explore the reasons for failure and to describe initiatives for recovery and revitalization. Empirical validations of the above models are expected to offer sufficient insights to explore the opportunities for reconfirming brand loyalty through service recovery. The constructs identified in the first model are critical in analysing the perceived level of customer satisfaction in the ULIP policy and also in identifying relative importance of the variables that would result in customer satisfaction. The validation of the model would provide insurance companies with precise information on how to design appropriate products in future, that can withstand the turmoil in the economic environment and will successfully retain customer satisfaction. The second model may be considered as capable of revealing the role of antecedents of service recovery in the wake of a product failure and will offer insights about perceived recovery satisfaction of customers. By the validation of the third model, a check on whether recovery satisfaction would lead to customer satisfaction and its impact on brand loyalty mediated through trust in firm and trust in intermediary would be proved. Identification of the constructs and their indicators help in initiating customer re-patronage decisions. The appropriate sample for this study would involve customers of ULIPs who have perceived a product failure and have met the customer service staff of Insurance companies with a complaint. A survey instrument using the five point Likert scale would be used in capturing respondent perceptions. Research is in progress and we propose to use Structural Equation Modelling to assess the construct validity, using the empirical data gathered from consumers in Kerala. TJ

References

1. Adams, J.S. (1965). Inequity in social exchange, in Berkowitz, L. (Ed.), Advances in Experimental Social Psychology, Vol. 2, (pp. 267-299) Academic Press, New York, NY.
2. Anderson, J. A. (1973). 'A theory for the recognition of items from short memorized lists'. Psychological Review, 80, 417–438.
3. Anderson, J. C., & Narus, J. A. (1990). A model of distributor firm and manufacturer firm working partnerships. The Journal of Marketing Management, 42-58.
4. Anderson, J.C., & Narus, J.A. (1990). A model of distributor firm and manufacturer firm working relationships. Journal of Marketing, 54(1), 42-58
5. Bell, C.R., & Zemke, R.E. (1987). 'Service breakdown: The road to recovery'. Management Review, 76(10), 32–35.
6. Bitner, M.J., Booms, B.H., & Tetreault, M.S. (1990). 'The Service Encounter: Diagnosing Favorable and Unfavorable Incidents'. Journal of Marketing, 54, 71-84.
7. Bonifield, C., & Cole, C. (2007). 'Affective responses to service failure: anger, regret, and retaliatory versus conciliatory responses'. Marketing Letters, 18, 85.
8. Boshoff, C., & Leong, J. (1998). 'Empowerment, Attribution and Apologizing as Dimensions of Service Recovery: an Experimental Study'. International Journal of Service Industry Management, 9(1), 24-47.
9. Chang, H.S., Hsiao H.L. (2008). 'Examining the casual relationship among service recovery, perceived justice, perceived risk, and customer value in the hotel industry', The Service Industries Journal, 28(4), 513-528.
10. Crosby, L. A., Evans, K. R., & Cowles, D. (1990). 'Relationship quality in services selling: an interpersonal influence perspective'. The journal of marketing, 68-81.
11. Diacon, S. R., Starkey, K., & O'Brien, C. (2002). Size and efficiency in European long-term insurance companies: an international comparison. Geneva Papers on Risk and Insurance. Issues and Practice, 444-466.
12. Dorsch, M. J., Swanson, S. R., & Kelley, S. W. (1998). 'The role of relationship quality in the stratification of vendors as perceived by the customers'. Journal of the Academy of Marketing Science, 26(2), 128–142.
13. Fogli, L. (2006). Customer Service Delivery. San Francisco: Jossey-Bass
14. Goodwin C, Ross. I. (1992). 'Consumer responses to service failures: Influence of procedural and international fairness perceptions'. Journal of Business Research, 25, 149–163.
15. Gregoire, Y., Tripp, T. M., & Legoux, R. (2009). 'When customer love turns into lasting hate: the effects of relationship strength and time on customer revenge and avoidance'. Journal of Marketing. 73(6), 18-32.
16. Hart, C., Heskett, J., and W. Earl Sasser.(1990) 'The profitable Art of Service Recovery'. Harvard Business Review 68(4), 148–156.
17. Hoffman, D., & Kelley.S. (2000). 'Perceived justice needs a recovery evaluation: A contingency approach'. European Journal of Marketing, 34(3/4), 418–429
18. Hoffman, D., Howe, V., Hardigree, D.W. (1991). 'Ethical dilemmas faced in the selling of complex services: significant others and competitive pressures'. Journal of Personal Selling & Sales Management. 11(4), 13–25
19. Homburg, C., Koschate. N., Hoyer .W .D. (2005). 'Do satisfied customers really pay more? A study of the relationship between customer satisfaction and willingness to pay'. Journal of Marketing, 69, 84–96
20. IRDA Annual Reports
21. Janis, L. Miller., Christopher, W. Craighead., Kirk, R. Karwan.(2000). 'Service recovery: a framework and empirical investigation. Journal of Operations Management', 18, 387–400
22. Lovelock, C. (2008). 'Services marketing: People, technology, strategy (5th ed.). Noida, India: Pearson Education.
23. Maxham III, J, G. (2001). 'Service recovery's influence on consumer satisfaction, positive word-of-mouth, and purchase intentions'. Journal of Business Research, 54(1), 11–24
24. Maxham III, J.G, Netemeyer R. G. (2002). 'A longitudinal study of complaining customers' evaluations on multiple service failures and recovery efforts'. Journal of Marketing, 66, 57–71
25. Michel, S., & Bharadwaj, S. G. (1992). 'The recovery paradox: An examination of consumer satisfaction in relation to disconfirmation, service quality, and attribution based theories'. In C. T. Allen et al. (Eds.), Marketing theory and applications, 1–19. Chicago, IL: American Marketing Association.
26. Oliver, R. L. Satisfaction: A Behavioral Perspective on the Consumer. 1997. McGraw-Hill, New York.
27. Oliver, R.L., & Swan, J.E., (1989) 'Equity and disconfirmation perceptions as influences on merchant and product satisfaction'. Journal of Consumer Research,16 , 372-383
28. Oliver, R.L., (1980) 'A congitive model of the antecedents and consequences of satisfaction decisions'. Journal of Marketing Research (pre-1986); 17, 460-469
29. Report of the Working Group on Savings during the Twelfth Five-Year Plan (2012-13 to 2016-17)
30. Shashwat Sharma., Roy P. (2013).' Insurance industry road ahead, Path for sustainable growth momentum and increasing profitability'. kpmg.com/in
31. ShuchiSinghal., Anupam Krishna & Davis Lazarus. (2013) 'Service Failure Magnitude and Paradox: A Banking Perspective', Journal of Relationship Marketing, 12(3), 191-203.
32. Smith, A. K., Bolton, R. N., & Wagner. J. (1999). 'A model of customer satisfaction with service encounters involving failure and recovery'. Journal of Marketing Research, 36(3), 356–372
33. Tax, S. S., Brown, S, W, Chandrashekar. M. (1998). 'Customer evaluations of service complaint experiences: Implications for relationship marketing'. Journal of Marketing, 62, 60–76
34. Toran, D. (1993). Quality service (quality everything!). LIMRA'S Market Facts, 12(2),10-11.
35. Tsoukatos, E., & Rand, G. K. (2006). 'Path analysis of perceived service quality, satisfaction and loyalty in Greek insurance'. Managing Service Quality, 16(5), 501-519.
36. Tull, D. & Hawkins, D. (1990) Marketing research: Measurement & method, Macmillan, New York.
37. Wells, B. P., & Stafford, M. R. (1995). 'Service Quality in the Insurance Industry'. Journal of Insurance Regulation, 13(4).
38. Wotruba, T.R. (1990) 'A comprehensive framework for the analysis of ethical behavior, with a focus on sales organizations'. Journal of Personal Selling & Sales Management 10(2), 29-42
39. www.ibef.org
40. Zeithaml, V. A., Berry, L. L., & Parasuraman, A. (1996). 'The behavioral consequences of service quality'. The Journal of Marketing, 31-46.

India's National Pension Scheme: An Actuarial Overview

Kumar Sudheer Raj
Asst. Professor
Amity School of Insurance
Banking and Actuarial Science (ASIBAS)
Amity University, I Block, Noida,
UP - 201301.
ksraj@amity.edu

Nabajit Saikia
Actuarial Professional (Senior Reviewer)
Mercer Consulting (India), Building 14A,
DLF Cyber city, Gurgaon,
Haryana - 122002.
nabajitsaikia@gmail.com

Abstract

India is considered to be one of the fastest growing economies of the world. But sadly it faces a huge challenge in its social security system. Bulk of India's working population is employed in unorganized sectors and don't have a well-defined pension mechanism. The last decade witnessed a significant increase in life expectancy due to advancement in medical practice and improvement in living style; which warrants the need for prolonged and sufficient post-retirement income and subsequently increased the cost on employers. In this paper, we talk about National Pension Scheme (NPS) and problems pertaining to it in its present form. Here we also discuss an actuarial calculation to determine– 'How much one needs for retirement?' and analyze the performance/accumulation of NPS with respect to employees of Government of India. It also includes cross country experience of successful Defined Contribution (DC) model in Chile and possible adoption of similar model without disturbing the fiscal situation present in India.

Keywords

NPS, Ageing, Expense ratio, Pension annuity, DC Pension

Introduction

India is a developing country now and has the world's second largest population. Keeping this in view, retirement benefits are a matter of concern. In the Year 2004, the Government of India launched the National Pension Scheme (NPS) – a defined contributory pension plan. The idea was to develop a new pension model so as to reduce the fiscal burden on the employer side. Prior to 2004, the pension structure was of Defined Benefit (DB) in nature wherein the employer promises to pay the pension amount to employees according to a pre-arranged formula which is set at the time of entry into the pension plan. The last decade saw a substantial decline in investment returns across the globe which compelled a large number of employers to switch from DB to Defined Contribution (DC) pension plans. India is no exception to this phenomenon. India has other retirement savings or employment benefit schemes such as Employee Provident Fund (EPF) and gratuity; but their penetration and coverage are insignificant. In this paper, we have tried to analyze India's pension requirement, NPS and any potential enhancement that can be incorporated into it. The paper is organized in three sections; with the first section focusing primarily on demographic as well as economic scenarios of India, need for pension and NPS. Section two includes an analysis on post-retirement expenses, longevity and expected return/accumulation under NPS. In section three, the paper lays down cross-country experience from the Latin American country Chile, which has a successful DC pension system to understand if a similar model can be developed and implemented in India.

1.1 Need for Pension

Pension constitutes a welfare schemes which provide some amount of financial resources to residents after a stipulated age or service *(Sanyal and Charan Singh)*. The need for pension arises to fund our post-retirement income, provide insurance against longevity risk and to reduce the old age poverty. India in this context does not have a sound pension system. According to data released by Census of India 2011, India has a massive unemployed population and social security benefits are virtually nonexistent. The bulk of India's working population is in unorganized sectors which do not have a structured pension scheme. Even today the majority of pension schemes are confined to Central and State Government employees. There is a huge mismatch between the percentage of the working class and percentage of persons entitled for pensions. India needs a strong pension system for the future which requires long term strategic planning. The distribution of working population data in Table – 1 reveals the deep and pervasive unemployment that has gripped India since the past decade and thus depicts a picture of pension coverage.

NPS was an important milestone in the development of a sustainable and efficient defined contribution pension system in India. NPS was launched with the following broad objectives:

- To provide old age income
- Safe and reasonable market based returns over long term
- To Extend old age security coverage to all citizens

NPS is a defined contributory based retirement investment product. It offers two types of accounts to its subscribers, namely Tier I and Tier II. Tier I is a long-term non-withdrawal retirement account and subscribers can claim tax benefits against the contributions made subject to the Income Tax rules in force. NPS Tier II account is an additional open ended voluntary investment cum saving facility. No tax benefit can be claimed against contributions made into this account.

1.2 How Successful is NPS?

In addition to reduce the fiscal burden another important objectives to introduce

Age Groups	2001 Census		2011 Census	
	Population (in millions)	Working Population	Population (in millions)	Working Population
20-34	247.4	51%	301.4	44%
35-49	173.8	36%	219.9	41%
50-59	64.2	13%	88.2	15%

Table 1: Age-wise distribution of working population *(Source: Socio-economic Tables, Census of India 2001 and author's calculation based on Census of India 2011).*

* *The authors would like to gratefully acknowledge the support of Anupal Borah, Rajiv Sharma and Harilal Kuttappan for providing their review comments.*

a DC pension scheme (NPS) was primarily to broaden the coverage of old age security so that the whole population comes under it in the future. Data in Table-2 tells us the story about the journey of NPS so far. Here we analyze the extent of current coverage of NPS since its inception by looking at it in four different schemes/sectors.

Schemes/ Sectors	Number of Subscribers			Corpus under NPS (INR in Millions)		
	March 2013	March 2014	% Change	March 2013	March 2014	% Change
Central Govt.	1,125,871	1,346,862	19.63%	170,160	237,450	25.80%
State Govt.	1,585,349	1,958,378	23.53%	97,630	189,120	93.71%
Private Sector[1]	202,679	332,693	64.15%	12,520	28,110	124.52%
NPS-Lite[2]	1,579,690	2,614,611	65.52%	7,720	8,100	4.92%
Total	**4,493,579**	**6,252,544**	**39.14%**	**5,334**	**7,725**	**60.67%**

Table 2: Number of participants and corpus under NPS -Tier I *(Source: Pensions Fund Regulatory and Development Authority (PFRDA)).*

It is evident from the data that Central and State Government employees have large number of subscribers where contribution towards NPS is mandatory and hence there is a larger pension corpus. The number of states complying NPS as on March 2014 is 24 while 4 states yet to notify about it (barring the newly formed state *Telangana*). Looking at the pension corpus data for State Government employees one can understand the high percentage change of 93.71 because of the acceptance and increased participation of states employee workforce in recent times. It is imperative to understand that NPS- Lite which began its operation in May 2009 has gathered momentum in recent times. An important point to note here in case of NPS-Lite there has been a subscriber upsurge of 65.52 %; whereas the change in corpus is only around 5%. This clearly tells us about the employment scenario and saving capacity for lower income groups in India. On the other hand NPS-Private Sector has witnessed tremendous rise in the number of subscribers and the pension corpus across the year. The data reveals that, this segment of NPS has gained popularity among the population working in the private sector. Till March 2014 the total pension corpus has shown a gradual increase but it needs careful investment attention. Despite the significant rise in subscribers over the last one year, the percentage of the working and non-working population that are not covered under NPS still remains the real point of concern. NPS is still in the early days and increase in awareness towards long term-saving needs to be addressed step-wise.

The data relating to the total no. of NPS participant may reveal an early indication of where exactly the NPS is headed towards as the total no. of subscribers is less than 1% of India's population. Even now there is a general tendency of the working youth in India looking towards short- term savings which may provide better returns. Further financial literacy required for the diffusion NPS is also inadequate. NPS has seen a lukewarm response so far.

1.3 Ageing Issue on Pension

A demographic transition is well underway in India. Fertility rates have declined considerably and longevity has increased in the recent past. Ageing has serious implications on savings, investment, economic growth, health care expenses, consumption, labour market, public finance, taxation and financial markets. The developed countries of the world have already undergone massive demographic transitions in the recent past and India is no exception to this theory. The projection shown in Figure 1 indicates that Indian demography will be gradually moving to a greyer one in the next few decades. The old age dependency ratio (number of people aged 60 and above to the number of people between 15 and 59) will go up from 13.0% in 2000 to 32.8% in 2050. It is expected that this projected demographic ageing will also be accompanied by:

- A large proportion of the elderly population is likely to remain in poverty, or at the subsistence level, and will also remain illiterate, and
- The increase in the number of elderly women is likely to be more than men.

A World Bank publication 'Old-Age Income Support in the 21st Century: An International Perspective on Pension

[1] *In pursuance to PFRDA's commitment to make available an avenue for saving for old age to all sections of society, PFRDA launched a separate model to provide NPS to employees of corporate entities, including PSUs since December, 2011. This model is titled as 'NPS-Corporate Sector Model'.*

[2] *To facilitate the economically disadvantaged sections of society with limited investment potential also to take advantage of NPS, PFRDA makes available a unique platform at ultra low cost with optimized features. This model is titled as 'NPS-Lite Model'.*

Systems and Reforms' (May, 2005) points out that while the developed world got rich before its people started living longer, in developing countries people are getting older before the countries have got rich. In the Indian context this is amply true and makes the issue of ageing very critical. There are two main challenges associated with an ageing population:

a) Raising the retirement age and employment policy in order to obtain a favorable worker-retiree ratio.
b) Increase contribution rates and taxes to fund the costs of pension/social security.

There is an urgent need to address the issue of population ageing which has a very serious impact on the social security system of any country. In India the elderly population is expected to rise from 8% in 2011 to 20% by 2050 (refer Figure 1). Among the aged who were once employed either as wage/salaried employees or as casual labour, about 79% in the rural areas and 35% in urban areas do not receive any benefit on their retirement. With increased longevity comes lot of challenges and questions to the country's policymakers such as providing old age pension (how to fund them- shall it be from taxpayers money or from the individuals?), providing old age insurance and medical coverage (particularly those living in rural areas). Sadly all these issues pertaining to old age security are only discussed at the initial level in India.

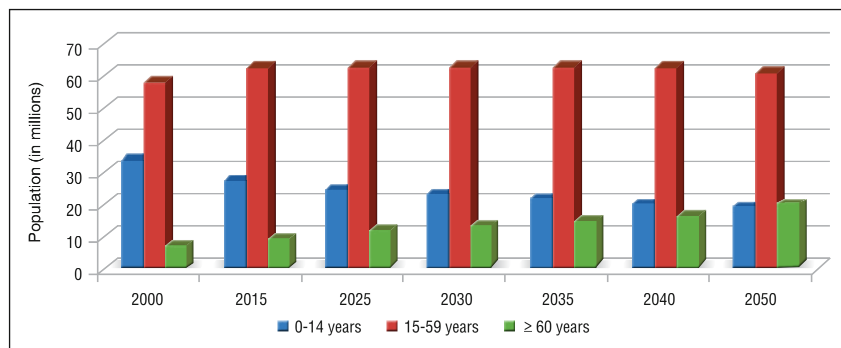


Figure 1: Shows demographic projection of India till year 2050 *(Source: Population Division, Department of Economic and Social Affairs, United Nations Secretariat).*

According to the survey conducted by United Nations Population Fund (UNFPA) India 2011 *(Charan Singh; Ageing Population in India: Select Economic Issues)*, it was observed that in India almost three quarters of all elderly were fully or partially dependent on others to meet their economic needs. Over half of the elderly who receive personal income contributed towards the household budget with the majority of it is consumed in daily expenditure. A substantial portion of elderly receives income from agriculture/ farm or from salary and wages.

2.1 How Much Does One Need for Retirement?

'How much do I need for retirement' is not only one of the most searched phrases on the web but has also been a highly worrisome subject across the globe. Unfortunately it is a difficult question to answer and it is nearly impossible to quote an exact amount that is sufficient to meet post-retirement needs. Many articles available online including one published by The Wall Street Journal in February, 2014 address this question partially by analyzing post-retirement expenditures. In this paper, to get an idea if a fund value is expected to be sufficient to meet post-retirement expenses, we have analyzed and derived two factors, namely:

(a) Ratio of pre-retirement income to post-retirement expenses (Expense Ratio).
(b) Expected annuity factor for participant as well as spouse.

Expense Ratio

A consumer expenditure survey by the

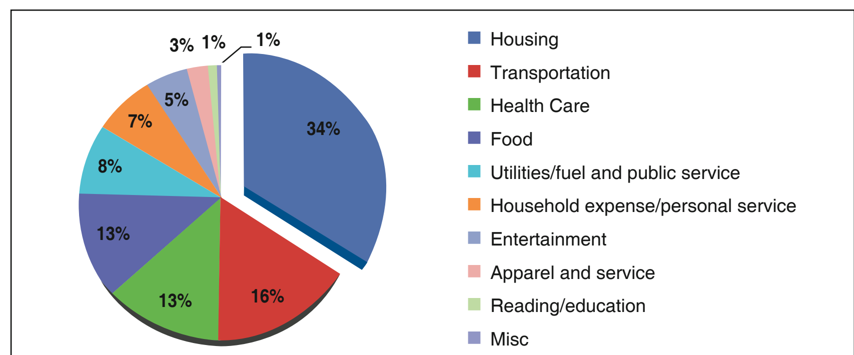
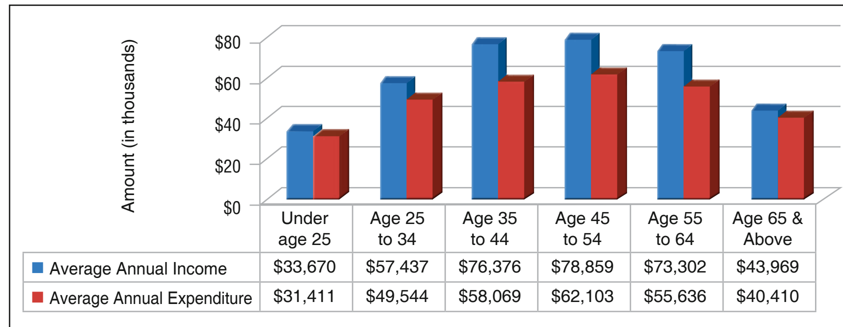


Figure 2: Shows allocation of post-retirement expenditures in United States *(Source: Consumer Expenditure Survey by U.S. Bureau of Labor Statistics, September 2013).*

U.S. Bureau of Labor Statistics, September 2013 shows that major post-retirement expenditures in United States goes for housing followed by transportation, food and health care.



	Under age 25	Age 25 to 34	Age 35 to 44	Age 45 to 54	Age 55 to 64	Age 65 & Above
Average Annual Income	$33,670	$57,437	$76,376	$78,859	$73,302	$43,969
Average Annual Expenditure	$31,411	$49,544	$58,069	$62,103	$55,636	$40,410

Figure 3: Average annual income and expenditure for different age groups in United States *(Source: Consumer Expenditure Survey by U.S. Bureau of Labor Statistics, September, 2013).*

These results will not completely imitate the scenario for India as lifestyle and socio-economic conditions differ considerably between these two countries. However, these results give an idea of the relative comparison in income and expenditures for different age groups. Similar data for India is not available, so we used this data as a base to study major post-retirement spending. As per the latest trend seen among the working people in India (at least the new generation that we are analyzing in this paper) major liabilities like housing are settled before retirement. So unlike United States, the expenses under housing and transportation will reduce considerably in India whereas other additional expenses get included with post-retirement expenses like children's higher education and children's marriage. It may not be entirely wrong to infer that the ratio of income to expenses in India will remain more or less the same as United States.

Further analyzing this data for net income vs. expenditure in different age groups we found that there is a significant drop in post-retirement expense compared to pre-retirement age expenses. We calculated a ratio of post-retirement expense to income just before retirement and it came out to be around 55% ($40,410 / $73,302 = 55.12%). Moreover, the Government pension in the old Indian DB structure was around 52% of the final salary and was presumed sufficient to maintain a well-balanced life post retirement. This supports the 55% Expense Ratio to be appropriate in the Indian context.

Expected Annuity Factor

Next we analyzed the impact of mortality and thus the annuity factor to get an idea of the combined annuity payment term for pensioners as well as the spouse. Mortality has undergone substantial improvement in recent times in developed as well as developing countries. When we compared unisex annuitant mortality Life Insurance Corporation of India (LIC)(a) (1996-98) with 2014 annuitant mortality published by Internal Revenue Standard (IRS), US for valuing pension plans under Pension Protection Act (PPA) of 2008 (blended for 70% male and 30% female), we found a noteworthy difference in the decrement rates, primarily in the later ages (refer Figure 4).

In the past few years different actuarial regulatory bodies have come up with different recommendations for mortality projection such as scale BB and MP-2014 by the Societies of Actuaries (SOA). In this paper we are focused on the population covered under the NPS, which is young and will experience considerable mortality improvement until commencement

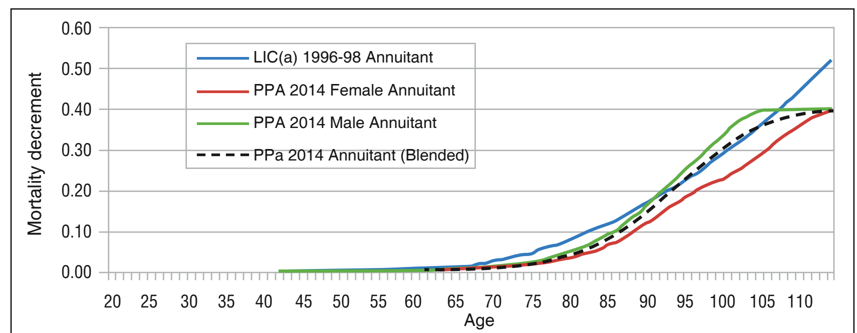


Figure 4: Comparison of annuitant mortality rates at different ages between LIC(a) 1996-98 and PPA 2014 tables *(Source: LIC(a)(1996-98) table from Annual Report (2012-2013) of Insurance Regulatory and Development Authority (IRDA), India and PPA 2014 table from IRS website)* [refer Appendix 1 for different mortality decrement tables used].

of the retirement benefit. Therefore to reflect better mortality improvement, we have used PPA 2014 healthy annuitant mortality rates in our calculation of post commencement annuity factors. With the following assumptions we calculated annuity factors for a range of interest rates (investment returns).

Mortality: *PPA 2014 annuitant mortality (blended for 70% male and 30% female)* [refer Appendix 1]

Interest rate: Series of investment returns ranging from 4% to 10%

Annuity payment form: *50% Joint and Survivor (J&S) for married and single life annuity for unmarried participants at age 60*

Spouse age difference: *3 years younger for Male and 3 years older for female*

Percentage married: *90%*

Proportion of male vs. female working population: *70% male and 30% female*[3]

From calculations in Table 3, we find that with 6% investment return in the market it is expected that an accumulated fund at the end of age 60 will serve an average annuity period of around 13 years. Thus, if an accumulated fund at the end of service period is more than final annual salary times of the product of this annuity factor and the expense ratio, we can say that the accumulated fund will be sufficient for retirement. For example-

Final annual salary just before retirement = INR 10,000 * 12 = INR 120,000

Annual expenses post-retirement =INR 5,500 * 12 = INR 66,000

Expense Ratio = INR 66,000 / INR 120,000 = 55%

Expected annuity payment term (at 6% pa interest rate from calculation in Table 3) = 12.9818

Expected present value of post-retirement expenses = INR 66,000 * 12.9818 = INR 856,799

Inference

If accumulated pension fund of INR 856,799 at the end of service period is invested to earn an annual return of 6%, the pensioner in the example will be able to meet post-retirement expenses. Thus we can say that, **accumulated pension fund at the end of service period is sufficient if it is greater than 0.55 * 12.9818 times final annual salary just before retirement (or 7.14 times of final annual salary) and earns an average investment return of 6% per year.**

Interest Rates (Investment Return) [a]	Single Life Annuity (Unmarried Participants) [b]	50% J&S Annuity (Married Male Participants) [c]	50% J&S Annuity (Married Female Participants) [d]	50% J&S Annuity (Blended for Male and Female) [e] = [c]*0.7+[d]*0.3	Combined Annuity Factor (Blended for Married and Unmarried) [f] = [b]*0.1 + [e]*0.9
4%	14.8435	16.2068	15.7488	16.0694	15.9468
5%	13.4304	14.5420	14.1902	14.4365	14.3359
6%	**12.2324**	**13.1467**	**12.8746**	**13.0651**	**12.9818**
7%	11.2089	11.9675	11.7556	11.9039	11.8344
8%	10.3284	10.9630	10.7968	10.9132	10.8547
9%	9.5657	10.1009	9.9697	10.0615	10.0120
10%	8.9008	9.3557	9.2514	9.3244	9.2820

Table 3: Development of annuity factors under different demographic and economic assumptions

[3] *According to Census of India data 2011, India's total working population consist of 89 million female and 273 million male; which is approximately 25% female vs. 75% male. To allow for the current trend of increasing women workforce, the authors have set this assumption at 70% male vs 30% female working population.*

2.2 Return on NPS

NPS is a long-term product that has been around for three years, so there're not enough data to analyze and forecast something firm. In the last three years, NPS has delivered around 5-12 per cent of annual returns.

Schemes under NPS	Weighted average return
Central Government	12.39%
State Government	13.00%
NPS Lite	13.40%
Private: Equity (Class E)	8.38%
Private: Corporate Debt (Class C)	14.19%
Private: Government Debt (Class G)	13.52%

Table 4: shows the weighted average returns for FY 2012-2013 for different schemes of NPS *(Source- PFRDA Press release dated 15 May, 2013).*

Due to the market downturn, the return from the equity portfolio has been the lowest (around 5 per cent), while Asset Class C has returned up to 12 per cent a year. NPS provides an auto-choice investment option structured on age-based risk taking behavior where funds are allocated in different asset categories changes with age (refer Figure 5). It has been observed from other countries' experience that once an auto-choice option is available, maximum number of subscribers opts for it *(Sandhak 2009 and Sanyal et.al. 2011)*. It is always expected that in the long run equity class will give more return than any other asset class (there is higher risk as well associated with equity). Decreased fund allocation in equity class on one hand is a safe approach in order --to give some level of security to a participant's hard earned money; however on the other hand this will reduce the long term investment return on the funds.

Assumptions:

- Annual salary increase: Basic pay by 3% and DA by around 8% (long-term average).
- Long-term expected rate of return on funds under NPS: 8% per year.

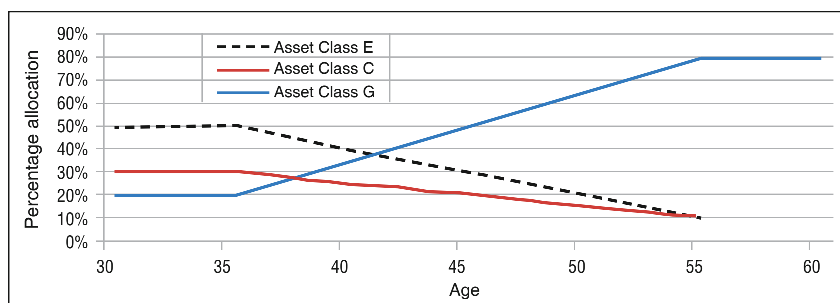


Figure 5: Shows allocation of funds in different assets class with age *(auto-choice investment option)*.

2.3 Expected Accumulation of Funds Under NPS

Government Employees:

As of March 2014 (refer Table 2), 51% of the total NPS corpus was from Central Government employees, followed by State Government (41%), Private Sector (6%) and NPS Lite (2%). On the other hand over 91% of the Central Government employees consist of group C and D employees followed by around 6% of group B and 3% of group A employees *(Source: Open Government Data (OGD) Platform, India (www.data.gov.in))*. So for our analysis of expected accumulation of funds under NPS we considered Central Government employee from group C and B.

Salary data: 6th pay commission report, Ministry of Finance, Government of India

Dearness Allowance (DA): As of May 1, 2014 DA is 100% of basic pay

- Mortality: Indian Assured Lives Mortality (2006-08) Ultimate *(Source: Institute of Actuaries of India)*.
- Other decrements (termination, early retirement and disability) are ignored
- Promotional and pay structure change impact is ignored

> Accumulated pension fund at the end of service period is sufficient if it is greater than 0.55 * 12.9818 times final annual salary just before retirement (or 7.14 times of final annual salary) and earns an average investment return of 6% per year.

Group C Employee:

Pay band: PB I - 5,200 to 20,200

Grade pay: 1,900 to 2,800 (assuming a constant grade pay of INR 2,500)

Annual basic pay for first year: (INR 5,200 + INR 2,500) * 12 = INR 7,700 * 12 = INR 92,400

Age (x)	Basic Pay	DA	Total Contribution	Mortality (Qx)	Survival Probability (tPx)	Expected Contribution	Beginning of Year Fund	End of Year Fund
			2*[10% of Basic pay+DA]			[tPx * Total contribution]		[with 8% return]
30	INR 92,400	INR 92,400	INR 36,960	0.001056	1.00000	INR 36,960	INR 36,960	INR 39,917
31	94,272	101,814	39,217	0.001084	0.99894	39,176	79,093	85,420
32	96,200	112,208	41,682	0.001119	0.99786	41,592	127,012	137,173
33	98,186	123,686	44,374	0.001164	0.99674	44,230	181,403	195,916
34	100,232	136,364	47,319	0.001218	0.99558	47,110	243,026	262,468
35	102,339	150,369	50,542	0.001282	0.99437	50,257	312,725	337,743
36	104,509	165,842	54,070	0.001358	0.99310	53,697	391,440	422,755
37	106,744	182,941	57,937	0.001447	0.99175	57,459	480,214	518,631
38	109,046	201,837	62,177	0.001549	0.99031	61,574	580,206	626,622
39	111,418	222,725	66,829	0.001667	0.98878	66,079	692,701	748,117
40	113,860	245,816	71,935	0.001803	0.98713	71,010	819,127	884,657
41	116,376	271,347	77,545	0.001959	0.98535	76,409	961,065	1,037,951
42	118,967	299,580	83,710	0.002140	0.98342	82,322	1,120,272	1,209,894
43	121,637	330,806	90,488	0.002350	0.98132	88,798	1,298,692	1,402,587
44	124,386	365,345	97,946	0.002593	0.97901	95,890	1,498,478	1,618,356
45	127,217	403,554	106,154	0.002874	0.97647	103,657	1,722,012	1,859,773
46	130,134	445,831	115,193	0.003197	0.97367	112,159	1,971,933	2,129,687
47	133,138	492,612	125,150	0.003567	0.97055	121,465	2,251,152	2,431,244
48	136,232	544,385	136,123	0.003983	0.96709	131,644	2,562,888	2,767,919
49	139,419	601,690	148,222	0.004444	0.96324	142,773	2,910,691	3,143,547
50	142,701	665,125	161,565	0.004946	0.95896	154,934	3,298,481	3,562,360
51	146,082	735,354	176,287	0.005483	0.95421	168,216	3,730,576	4,029,022
52	149,565	813,115	192,536	0.006051	0.94898	182,713	4,211,735	4,548,674
53	153,152	899,225	210,475	0.006643	0.94324	198,529	4,747,203	5,126,979
54	156,846	994,591	230,287	0.007256	0.93697	215,774	5,342,753	5,770,173
55	160,652	1,100,219	252,174	0.007888	0.93018	234,566	6,004,739	6,485,118
56	164,571	1,217,227	276,360	0.008543	0.92284	255,036	6,740,154	7,279,366
57	168,608	1,346,855	303,093	0.009225	0.91496	277,316	7,556,682	8,161,217
58	172,767	1,490,477	332,649	0.009944	0.90651	301,551	8,462,768	9,139,789
59	177,050	1,649,621	365,334	0.010709	0.89750	327,887	9,467,676	10,225,091
60	181,461	1,825,982	401,489	0.011534	0.88789	356,477	10,581,568	**11,428,093**

Table 5: Expected accumulation of funds under NPS from age 30 to 60 for a Central Government Group C employee

Group B Employee:

Pay band: PB II – 9,300 to 34,800

Grade pay: 4200 to 4800 (assuming a constant grade pay of INR 4,500)

Annual basic pay for first year: (INR 9,300 + INR 4,500) * 12 = INR 13,800 * 12 = INR 165,600

Age (x)	Basic pay	DA	Total contribution	Mortality (Qx)	Survival probability (tPx)	Expected contribution	Beginning of year fund	End of year fund
			2*[10% of Basic pay+DA]			[tPx * Total contribution]		[with 8% return]
30	INR 165,600	INR 165,600	INR 66,240	0.001056	1.00000	INR 66,240	INR 66,240	INR 71,539
31	168,948	182,464	70,282	0.001084	0.99894	70,208	141,747	153,087
32	172,396	201,083	74,696	0.001119	0.99786	74,536	227,623	245,833
33	175,948	221,644	79,519	0.001164	0.99674	79,260	325,093	351,100
34	179,607	244,353	84,792	0.001218	0.99558	84,418	435,518	470,359
35	183,375	269,438	90,563	0.001282	0.99437	90,053	560,412	605,245
36	187,256	297,152	96,882	0.001358	0.99310	96,213	701,458	757,575
37	191,254	327,776	103,806	0.001447	0.99175	102,949	860,524	929,366
38	195,372	361,619	111,398	0.001549	0.99031	110,319	1,039,685	1,122,860
39	199,613	399,027	119,728	0.001667	0.98878	118,384	1,241,244	1,340,544
40	203,981	440,380	128,872	0.001803	0.98713	127,214	1,467,757	1,585,178
41	208,480	486,101	138,916	0.001959	0.98535	136,881	1,722,059	1,859,824
42	213,115	536,660	149,955	0.002140	0.98342	147,469	2,007,293	2,167,876
43	217,888	592,574	162,093	0.002350	0.98132	159,064	2,326,940	2,513,096
44	222,805	654,421	175,445	0.002593	0.97901	171,763	2,684,858	2,899,647
45	227,869	722,840	190,142	0.002874	0.97647	185,668	3,085,315	3,332,140
46	233,085	798,537	206,324	0.003197	0.97367	200,891	3,533,031	3,815,674
47	238,458	882,298	224,151	0.003567	0.97055	217,550	4,033,224	4,355,882
48	243,992	974,995	243,797	0.003983	0.96709	235,774	4,591,656	4,958,988
49	249,691	1,077,593	265,457	0.004444	0.96324	255,698	5,214,687	5,631,862
50	2,55,562	1,191,164	289,345	0.004946	0.95896	277,470	5,909,332	6,382,078
51	261,609	1,316,896	315,701	0.005483	0.95421	301,247	6,683,325	7,217,990
52	267,837	1,456,107	344,789	0.006051	0.94898	327,199	7,545,189	8,148,804
53	274,252	1,610,262	376,903	0.006643	0.94324	355,510	8,504,315	9,184,660
54	280,860	1,780,983	412,369	0.007256	0.93697	386,379	9,571,039	10,336,722
55	287,666	1,970,071	451,547	0.007888	0.93018	420,018	10,756,740	11,617,279
56	294,676	2,179,525	494,840	0.008543	0.92284	456,658	12,073,937	13,039,852
57	301,896	2,411,563	542,692	0.009225	0.91496	496,538	13,536,391	14,619,302
58	309,333	2,668,646	595,596	0.009944	0.90651	539,916	15,159,218	16,371,955
59	316,993	2,953,508	654,100	0.010709	0.89750	587,055	16,959,011	18,315,731
60	324,882	3,269,181	718,813	0.011534	0.88789	638,226	18,953,957	**20,470,274**

Table 6: Expected accumulation of funds under NPS from age 30 to 60 for a Central Government Group B employee

The expected accumulations shown above are rough estimates only. A further detailed study can be taken up to derive expected accumulation under NPS considering various economic and demographic scenarios/ assumptions. These accumulations can then be tested for their sufficiency to meet post retirement expenses in different categories of the population of India.

Corporate Employees (NPS vs. Other Long Term Investments)

Corporate employees in India do not have an employer supported pension system. Opening up of NPS for corporate employees was no doubt a welcome step in terms of extending social security coverage outside the reach of Government employees. However, with no support from employers NPS becomes just another long term investment instrument for corporate employees. The market risks associated with investment returns make NPS comparable with mutual funds whereas long lock-in period makes it comparable with Public Provident Funds (PPF). Very low cost of fund management keeps NPS in an advantageous position over mutual funds in terms of retirement savings. PPF and NPS both enjoy tax exemptions on contributions towards them. However, in PPF, the maturity amount is also tax exempted whereas maturity amount in NPS is liable to deduction according to tax laws of India currently in force. With a majority of the population in India being risk averse, risk free return in PPF and tax exemption still makes PPF a go to instrument in terms of long term investment. Thus, NPS needs strong and careful consideration of these factors to live up to its promise of social security coverage for all.

3.1 Cross Country Experience

In 1980, Chile became the first country in the world to replace its pay-as-you-go public pension system with a system of individual accounts. The “Chilean model” has been widely studied and acknowledged all over the world by various policymakers and stakeholders as one possible model for public pension restructuring. Chile’s public pension system consists of three tiers: a poverty prevention tier, an individual account tier, and a voluntary savings tier. The poverty prevention tier provides a minimum benefit to aged persons who did not participate in the public pension system and to retired workers whose monthly pensions financed by individual account assets (the second tier) do not reach certain thresholds. Workers contribute 10% of wage or salary income to an individual account in the second tier and choose a private-sector *Administradora de Fondos de Pensiones* (AFP) with which to invest their pension contributions. Employers are not required to contribute to the employees’ AFPs, although since 2008 employers have been required to pay the premiums for workers’ survivor and disability insurance, which are provided by private insurance companies. Upon retirement, the worker may withdraw assets that have accumulated in the individual account as an immediate or deferred annuity or through programmed withdrawals. The third tier allows workers to supplement retirement income with voluntary, tax-favored savings. In 2008, Chile approved major reforms intended, among other goals, to increase participation in the public pension system, improve competition among the private-sector individual account managers, and bolster the poverty prevention tier. There has been concern that, as a result of low participation rates and underreporting, many workers could reach retirement with individual account balances that are too small to provide an adequate pension annuity. The 2008 reforms helped address these concerns by expanding the poverty prevention tier, phasing in coverage for most self-employed workers, and providing incentives for additional voluntary saving through the system’s third tier. Other provisions

Key Indicators		Chile	India	OECD
Average worker earnings	(USD)	13,000	4,400	42,700
Public pension spending	(% of GDP)	3.6	Not available	7.8
Life expectancy	(At birth)	79.8	66.4	79.9
	(At age 65)	19.5	13.7	19.1
Population over age 65	(% of working-age population)	16.0	9.3	25.5

Table 7: Shows some key indicators of pension scenarios in Chile and India
(Source: Organization for Economic Cooperation and Development (OECD), Pension at a Glance 2013).

approved in 2008 are intended to reduce high investment management fees (administrative costs) by increasing competition among AFPs (Alison M. Shelton). From Table 7, it is evident that India lacks a well-developed pension model in comparison to its counterpart Chile which has evolved gradually into one of the best DC pension models in recent times. The figures of average worker earnings display India's low wages level. There is no contribution of public pension spending towards GDP. This can be due to the fact that NPS came into existence only in 2009 and has to make its global presence felt in terms of making a contribution towards the country's GDP.

As we stated earlier the fertility rate has reduced and longevity has increased. From the data, it is apparent to note that both countries have experienced better life expectancies as reported by OECD, but Chile enjoys a larger percentage of working-age population even after age 65. This is because of the awareness of future savings, improved health care, less unemployment, higher standard of living, and insurance coverage in old age among many others.

3.2 Lessons from Chile

One of the similarities that the Indian pension system has with its counterpart Chile is its defined contributory pension plan. But there are dissimilarities in its operation as Chile has a 3- tier pension mechanism. India on the other hand has a 2- tier pension system. The following are the few listed points which can be incorporated or discussed in the NPS.

- **Minimum Pension Requirement:** Chile has a minimum pension of $160 per month which is guaranteed by Chile's Pension Fund Administrators (AFPs). Women are also eligible for a state-subsidized pension, known as the *bono porhijo* that is awarded based on how many children they have had. The 2008 reform has also introduced a subsidy to match pension contributions of low-income workers. India can think of a similar model. The NPS must provide a minimum pension to those who contribute regularly so that they do not lose their accumulated wealth if the market performs poorly. But then minimum pension is not meant for those who stop contributing. An NPS participant must contribute for at least 10-15 years to be eligible for a minimum pension guarantee at age 65. There is an urgent need to tackle this issue as market- based returns are flexible and sometimes very low (even negative).

- **Increase Mandatory Contribution Rates:** The 2008 Chilean Pension Fund reform seeks to increase mandatory contribution rates from 10% to 14%-16% in order to get a decent pension. The NPS could also develop this scenario in the future for the Tier I scheme, thus providing a better tax incentive to its subscribers. This rise in increase rate may not be applicable to the low income group. There is however a deep concern over the potential impact on the labour market. By raising the rate, the net earnings of workers will be reduced and the cost of labour will also increase. So for NPS the mandatory rates can be increased depending upon types of occupation and income.

- **Pension Compulsion:** Even in Chile pension contributions are confined to salaried employees and not for the self-employed or those working in unorganized sectors. But in 2015, contributions will become compulsory for all workers. The Indian young working population needs to consider retirement planning and future savings. NPS thus has a larger role to play in order to adopt compulsory pension for all by creating more ways to make people aware about the needs of savings and how it is better than other investment options.

- **Poverty Pension:** Chile has taken a significant step in reducing poverty from the country after major pension reforms took place in 2008. The Tier-I structure is a poverty prevention tier funded by the general revenue. According to this, all citizens whose ages are greater than 65 and have lived in Chile for at least 20 years and have also contributed in at least 3 of the past 5 years in an individual account (Tier II) are eligible to receive basic solidarity pension. The Chilean Government pays a basic solidarity pension of $154 to all the persons who are old and poor. India too can take a few measures to improve the condition of old aged people who are living below the poverty line. The policymakers of Government of India can incorporate a minimum pension amount of the poor elderly in order to

fulfil their basic needs. This may not be an easy task as it will increase the fiscal burden on the Government side, but certainly can be looked upon in future.

In addition to these, education and encouragement plays a vital role in spreading awareness on retirement savings. Government or authorities like the PFRDA have to take up initiatives and action plans to educate the people on various schemes of the NPS and increase financial literacy across the country.

Concluding Remarks

India is a developing economy with the majority of its population still struggling to meet daily basic needs. On the other hand, in the recent years it has experienced considerable demographic transition thereby increasing the liability of social security benefits. Moreover, the majority of its population working in unorganized sectors was deprived of a structured pension system. Looking at these scenarios, switching over to the DC from the DB pension plans and introduction of NPS was a smart move by the policymakers. The NPS came up with the promise of providing sustainable social security coverage for all its citizens. Opening up of the NPS beyond the confinement of Government employees was a welcome step and a need of the hour. However, a majority of the population being risk averse and in the low income category, less savings and financial illiteracy still stand as a major hindrance for NPS to be successful in India. The NPS is a purely market linked product that does not guarantee a floor for investment returns nor does it promise any minimum pension amount in case of a market slump. Moreover, it does not provide any tax benefits on the maturity amount with current income tax rules in force. These flaws make NPS a less popular investment instrument compared to other long term investment options like PPF. With a view to providing social security coverage to all citizens, NPS was opened for the reach of the population working in unorganized sectors, but unlike Government employees there is no support from the employer. NPS is still in its early days and it will not be fair to make predictions based on the data available till date. However, the NPS needs some serious consideration and enhancement in the days to come so that it lives up to its promise of providing the basic essentials of living (Food, clothing and shelter) to old aged citizens of India. TJ

References

1. Annual Report (2012-2013): Insurance Regulatory and Development Authority, India.
2. Bhattacharya N. S. (2004). 'Defined Benefit Pension Scheme –Can it survive?' 6th Global Conference of Actuaries, New Delhi.
3. Bodie Z., Shoven B. J., and Wise A. D. (1988). 'Pensions in the U.S. Economy' Volume ISBN: 0-226-06285-6, Volume URL: http://www.nber.org/books/bodi88-1
4. Consumer Expenditure Survey, U.S. Bureau of Labor Statistics, September 2013.
5. Dave S. (2006). 'India's pension reform: A case study in complex institutional change', http://www.mayin.org/ajayshah/A/Dave2006_saga.pdf [accessed June 2014].
6. Dumora R. and Kannan R.(2003). 'ALM issues in the management of pension funds International Experience and relevance for India' 5th Global Conference of Actuaries, New Delhi.
7. Goswami R. (2002). 'Indian Pension System: Problems and Prognosis, International Social Security Review' Volume 55, Issue 2, pages 95–121.
8. Institute of Actuaries of India, (http://www.actuariesindia.org) [accessed in May, 2014]
9. Kritzer E. B. (1996). 'Privatizing Social Security: The Chilean Experience' Social Security Bulletin Vol. 59, No. 3.
10. https://www.npscra.nsdl.co.in [accessed in May, 2014]
11. OECD (2013), Pensions at a Glance 2013: OECD and G20 Indicators, http://dx.doi.org/10.1787/pension_glance-2013-enISSN 1999-1363 (online).
12. PFRDA website (http://pfrda.org.in) [accessed June, 2014].
13. Ramakrishnan H. (2011). 'Ageing Population: Policy Responses and Challenges', The Actuary India Magazine, September Issue.
14. Samwick A. A. and Skinner J. (2001). 'How Will Defined Contribution Pension Plans Affect Retirement Income?' Dartmouth College and NBER.
15. Sanyal A., Gayithri K. and Erappa S. (2011). 'National Pension Scheme: For Whose Benefit?'Economic and Political Weekly, Vol. XLVI No. 8.
16. Sanyal A. and Singh C. (2013). 'Universal Pension Scheme in India' Indian Institute of Management Bangalore, Working Paper No: 420.
17. Shelton M. A. (2012). 'Chile's Pension System: Background in Brief', Congressional Research Service, Chile.
18. Simone S. (2011). 'Extending Coverage of the New Pension Scheme in India, Analysis of Market Forces and Policy Options', Hertie School of Governance, Working Papers No.–62, Berlin.
19. Singh C. (2013). 'Ageing Population in India: Select Economic Issues', Indian Institute of Management Bangalore, Working Paper No: 442.
20. Sixth Pay Commission Report (March 2008), Ministry of Finance, Government of India.

Appendix 1

Different mortality decrement tables used for various analysis throughout this paper.

Age	LIC(a) 1996-98 Annuitant	PPA 2014 Female Annuitant	PPA 2014 Male Annuitant	PPA 2014 Blended Annuitant (30% Female and 70% male)
20	0.000919	0.000120	0.000198	0.000175
21	0.000961	0.000117	0.000211	0.000183
22	0.000999	0.000118	0.000223	0.000192
23	0.001033	0.000123	0.000241	0.000206
24	0.001063	0.000130	0.000257	0.000219
25	0.001090	0.000138	0.000281	0.000238
26	0.001113	0.000151	0.000317	0.000267
27	0.001132	0.000157	0.000330	0.000278
28	0.001147	0.000166	0.000340	0.000288
29	0.001159	0.000175	0.000356	0.000302
30	0.001166	0.000197	0.000384	0.000328
31	0.001170	0.000243	0.000431	0.000375
32	0.001170	0.000277	0.000486	0.000423
33	0.001171	0.000303	0.000546	0.000473
34	0.001201	0.000325	0.000607	0.000522
35	0.001246	0.000345	0.000668	0.000571
36	0.001308	0.000362	0.000727	0.000618
37	0.001387	0.000379	0.000782	0.000661
38	0.001482	0.000397	0.000810	0.000686
39	0.001593	0.000418	0.000833	0.000709
40	0.001721	0.000455	0.000855	0.000735
41	0.001865	0.000499	0.000906	0.000784
42	0.002053	0.000550	0.001008	0.000871
43	0.002247	0.000604	0.001161	0.000994
44	0.002418	0.000664	0.001364	0.001154
45	0.002602	0.000710	0.001618	0.001346
46	0.002832	0.000802	0.001923	0.001587
47	0.003110	0.000941	0.002279	0.001878
48	0.003438	0.001126	0.002686	0.002218
49	0.003816	0.001357	0.003144	0.002608
50	0.004243	0.001635	0.003651	0.003046
51	0.004719	0.001752	0.003695	0.003112
52	0.005386	0.001969	0.003693	0.003176
53	0.006058	0.002247	0.003744	0.003295
54	0.006730	0.002583	0.003793	0.003430
55	0.007401	0.002983	0.003947	0.003658
56	0.008069	0.003459	0.004182	0.003965
57	0.008710	0.003947	0.004496	0.004331
58	0.009397	0.004429	0.004914	0.004769
59	0.010130	0.004978	0.005334	0.005227
60	0.010907	0.005581	0.005841	0.005763
61	0.011721	0.006228	0.006553	0.006456
62	0.011750	0.006921	0.007219	0.007130
63	0.012120	0.007659	0.008145	0.007999
64	0.012833	0.008456	0.009012	0.008845
65	0.013889	0.009329	0.009980	0.009785
66	0.015286	0.010273	0.011296	0.010989
67	0.017026	0.011287	0.012505	0.012140
68	0.019109	0.012395	0.013536	0.013194
69	0.021534	0.013639	0.014953	0.014559
70	0.024301	0.015069	0.016167	0.015838
71	0.027410	0.016373	0.017888	0.017434
72	0.030862	0.018212	0.019862	0.019367
73	0.034656	0.019820	0.022123	0.021432
74	0.038793	0.021966	0.024681	0.023867
75	0.043272	0.023743	0.028138	0.026820
76	0.048093	0.026160	0.031362	0.029801
77	0.053257	0.029427	0.035636	0.033773
78	0.058763	0.032439	0.040451	0.038047
79	0.064611	0.035813	0.045920	0.042888
80	0.070802	0.039587	0.052121	0.048361
81	0.077335	0.043815	0.059584	0.054853
82	0.084210	0.048573	0.067993	0.062167
83	0.091428	0.053933	0.075792	0.069234
84	0.098988	0.059983	0.086094	0.078261
85	0.106891	0.068252	0.095566	0.087372
86	0.115136	0.077746	0.105955	0.097492
87	0.123723	0.088560	0.119892	0.110492
88	0.132652	0.098641	0.135544	0.124473
89	0.141924	0.111868	0.149793	0.138416
90	0.151539	0.123630	0.168603	0.155111
91	0.161495	0.135762	0.183643	0.169279
92	0.171794	0.147980	0.203361	0.186747
93	0.182436	0.163416	0.219375	0.202587
94	0.193419	0.175273	0.235364	0.217337
95	0.204746	0.186501	0.256478	0.235485
96	0.216414	0.196923	0.272216	0.249628
97	0.228425	0.210765	0.287507	0.264484
98	0.240778	0.219291	0.308741	0.281906
99	0.253473	0.226576	0.323342	0.294312
100	0.266511	0.232530	0.337392	0.305933
101	0.279892	0.244834	0.358628	0.324490
102	0.293614	0.254498	0.371685	0.336529
103	0.307679	0.266044	0.383040	0.347941
104	0.322087	0.279055	0.392003	0.358119
105	0.336836	0.293116	0.397886	0.366455
106	0.351928	0.307811	0.400000	0.372343
107	0.367363	0.322725	0.400000	0.376818
108	0.383139	0.337441	0.400000	0.381232
109	0.399258	0.351544	0.400000	0.385463
110	0.415720	0.364617	0.400000	0.389385
111	0.432524	0.376246	0.400000	0.392874
112	0.449670	0.386015	0.400000	0.395805
113	0.467159	0.393507	0.400000	0.398052
114	0.484989	0.398308	0.400000	0.399492
115	0.503163	0.400000	0.400000	0.400000
116	0.521678	0.400000	0.400000	0.400000

Motor Insurance – Tariff, Detariff and Beyond...

Peeyush Agarwal
Head – Operations and Business Project Lead (Legacy System Transformation)
Tata AIG General Insurance Company Limited, 225, Vasundhara,
Thakur Village, Kandivali East,
Mumbai - 400101.
peeyagarwal@gmail.com

Abstract

India Motor Tariff was abolished in 2007, but its provisions and wordings were kept in force. Unfortunately broader market still functions under tariff mindset. Rates are quoted as Tariff-x% and interpretation of tariff is used for own benefit.

With the new age marketing channels, insured is often trapped in mis-selling. Unfriendly and complex legal languages of policy add to insured's nuisance.

Author observes number of anomalies in provisions of the tariff. Besides critically analyzing such provisions, research paper suggests alternate options in detail. For internal control of the industry, post taking the tariff off, suggestive guide regulations and insured friendly policy wording is annexed. Paper suggests simple provisions, merging of similar endorsements, transparent quoting and use of simple warranties than complex endorsements.

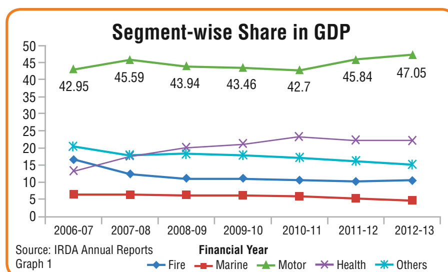
Simplification is the need of the hour. Residual tariff should be taken off and industry should develop on demand & supply and insurer's perception of risk.

Keywords

Motor Insurance, India Motor Tariff, Simplifying Insurance, Beyond Tariff, Customer Friendly Policy Wording

Motor Insurance is risky, long tailed, loss prone etc. are various phrases commonly used in non-life insurance parlance. Yet it remains the largest contributor making it difficult for any general insurer to survive without underwriting motor business. In India as well, motor historically constitute around 45% of gross premium (Graph 1).

Graph 1: Segment-wise share in Gross Direct Premium in India (2007 – 2013)



Motor Vehicles are highly regulated including liabilities arising out of use of the vehicle. So is its insurance. Motor insurance was put under tariff in 1970 after TAC came into existence. Tariff saw various revisions with changing times. Finally effective 1st January 2007, Tariff was abolished keeping the policy terms intact and rates regulated under File and Use Guidelines. Third party premiums were kept under control. Since then industry has come a long way yet not able to come out of tariff mindset. Tariff rates somehow became a benchmark akin to MRP and discounts offered on these as if a sale is going on. Add-on products allowed effective 1st January 2009 and lot of value added for the insured.

Few complexities are noted in tariff leaving options for companies to interpret differently. The judiciary also would give benefit of doubt to insured that might arise because of ambiguity, complexity or fine print in regulations / wordings. Difficult to understand legal kind of language tend the client not to read the document and rely on verbal information thus falling under the trap of misselling. Time has come, when Market should step further with more reforms and simpler products and wordings. Legal language should be replaced with common man friendly language. Tariff should be completely removed and market should be left free to the extent feasible.

Similar are the recommendations of recent working group on revision of File and Use Guidelines.

Complexities of Tariff

1. There are 3 broad categories – Private Car, Two Wheeler and Commercial Vehicles. Commercial Vehicles are sub-divided on their class and usage. This classification doesn't run neck to neck with definitions of law and leaves subjectivity. E.g. a private car type vehicle (Omni bus), running as private service vehicle (transport vehicle but not for hire or reward), leaves scope to be covered under private car or commercial vehicle. The ambiguity about classification of dumper / tipper / semi-trailer as miscellaneous or goods carrying has been a matter of debate for long. There are no differences according to actual usage within the categories e.g. stage carriage / contact carriage / educational institution bus etc., where usage and risk exposures are clearly different.

2. There is one special provision related to trailers, which is really difficult to adhere to. Tractor and Trailer can be covered in a single policy or separately. But trailer tariff stipulates that proposer need to specify the count of trailer he wish to attach with the tractor. How would he decide upfront? Depending upon need number of trailers are attached. If both are covered in same policy, can he not attach the same trailer with any other tractor?

3. There are 4 types of policy formats – Liability Only and Package Policies for Private Car, Two Wheeler and Commercial Vehicle. Referring Table 1, we see, there is hardly any difference that necessitates three different formats. For third party risks, mandatory legal risk is to be covered. For damage to vehicle, any vehicle is exposed to same risks and perils. There may be difference in scale of hazard, probability of occurrence of peril and resultant loss severities.

4. There are 49 General Regulations and many of these are related to rating. Rates are deregulated and almost all insurers have inbuilt most of them in their base pricing. Other important aspect is with regard to abolition of tariff. Would any of its regulation that is not part of proposal or policy be legally binding on the insured?

Existing Deductible limits were set long ago. There are upward changes effected recently but for private car and two wheelers only. Main purpose of excess is to avoid high frequency of low severity claims. Insured gains through reduced premium and also hassle of claiming, whatever minimal it may be. Insurer saves huge cost of servicing claims, which at times may be more than claim amount. It should be left open for insured and insurer as a pricing parameter. Innovations like franchise and differentiated deductible for different perils should be explored. E.g. theft prone vehicles may have higher deductible for peril 'theft' to force insured taking better security measures. Special endorsements or warranties may have higher deductibles, instead of repudiating full claim, if insured is unable to fulfill requirement. This would not only enrich the data base for further in depth actuarial analysis but also improve the obligations from insured side.

5. Good driving history is primarily a rating consideration. No reasons that person claiming once or thrice enjoy same benefit in rates. No Claim Bonus provisions of the tariff are complex and raise lot of confusions. Some provisions follows the insured e.g. substitution, and others the vehicle e.g. fleet. Sometimes we may get benefit without being eligible like conversion from restricted to package without ascertaining any loss by accidental external means. Sometimes we may lose the NCB for technical reasons only like transfer of vehicle from employee to employer with user remaining same. NCB on declaration basis is another provision, which is abused like anything.

   No doubt NCB is one of the strongest features, however in post de-tariff era, this should follow more logical and broader relation between insured and vehicle. Ideally this should be left for insurers as one of the important rating factors. Many countries follow it differently. Instead of fixed NCB, a claim history certificate is issued by the insurer. This certificate is submitted to the insurer and evaluated for rating by underwriters.

   For leakage on declaration basis, Insurance Information Bureau of India has taken number of steps. But lag in upload of data on IIB site has impacted the desired results. Insurers must come together and leverage IT platforms for real time confirmations of claim status through Web-service.

6. There should not be any justification for difference in cover offered like occupants under standalone Liability Policy and Package Policy without having difference in premium. Regulating rates for mandatory Third Party Cover are understandable but not extra covers like personal accident, wider legal liability etc. For sure, we can argue that it is only the mandatory base liability cover, which affects mass and not extra benefits. It would be of interest to discuss few such extra benefits.

   Under **Personal Accident (PA)**, all occupants, whether it is insured self or paid driver, family / friend, employee or any other human being, have same exposure of accidental death / injury, yet there are different clauses / endorsements in the tariff with similar cover. Result is insured end up paying for more persons than the number of occupants that can be present in the vehicle at any point of time. Example – one has to pay for owner driver, paid driver and 5 (seating capacity) unnamed passengers i.e. for total 7 if he wishes to cover all eventualities. Secondly, if person has more than one vehicle he ends up paying for self on all vehicles, where he can be present in maximum one vehicle at a time.

   Under **Wider Legal Liability**, there is different coverage under different sections for various types of classes / occupants. Most of these are available at ₹ 50/- per capita and covers liability under Workmen's Compensation Act, Fatal Accidents Act & Common Law. Major difference is availability of liability under WC Act to persons employed in relation to vehicle. Cover is available with first obligation of payment under WC policy, which means premium remain same irrespective of one has a WC policy or not. Like PA, one has to pay for more than seating capacity e.g. paid driver and employees are covered under endorsement 28 & 29. Under 28, payment for 1 (driver) and under 29, for 5 (including driver) thus paying for 6. Another complex provision under

two wheeler tariff is that premium rate is ₹ 50/- per employee under endorsement 28 but ₹ 60/- under endorsement 29, whereas risk is wider under endorsement 28. Same situation is with endorsement 37 / 38 & 39. There is no noticeable difference in endorsement 28 & 40.

It would be pertinent to free at least extra covers. Let proposer pay for the cost of actual risk. Similar endorsements should be clubbed to form single endorsement. On par with own damage section, value added add-on covers should be allowed under Liability section as well. Few examples may be PA for higher amounts, unlimited third party property damage, easy re-imbursement of medical expenses, re-imbursement of counsel's fee and other legal charges for defending criminal case / bail associated with covered accident etc. Even process should be decided, obviously with legal standing, to support easy and hassle free out of court settlements for liability.

7. Tariff carried wordings for 54 different endorsements (excluding ones related to Motor Trade Tariff). These require restructuring and including only few in guide. Rating related to be removed and similar ones to be clubbed. Even financiers' interest related IMT # 5, 6 and 7 can also be combined, at least 5 and 7. The declaration / representations by insured in proposal form would remain important under basic insurance principle of utmost good faith.

8. There are at least 17 different limitation clauses in the tariff. Mostly they are similar with only minor differences. Even these are not proved sufficient to curb wrong classification of vehicles like dumper.

   With only policy format, as suggested above, there should be only one limitation and or driver clause. This should restrict usage as per registration class and permit of the vehicle and may cover other specialized usage like racing etc.

9. A clause inserted as warranty is easier to understand and follow than a full fledged endorsement. As such some endorsements can be converted into a warranty. These may further be tagged with specific clauses of higher deductible, if not fulfilled.

Old saying is 'The Only Thing That Is Constant Is Change.' Similarly

Table 1 – Differences in Policy Wordings (other than Cosmetic Differences)

Parameter	Liability Only	Private Car	Two Wheeler	Commercial Vehicle
Towing Charges	NA	1500/-	300/-	750/-, 1500/- or 2500/- depending upon class
Insured's Authority for Repair	NA	500/-	150/-	500/-
Deductible	NA	1000/- or 2000/-	100/-	500/- to 2000/- or above depending upon class
Exclusions (only additional or differences)			- Theft of Accessories	- Theft of Accessories - Overloading
IDV			- Mention of Side Car	
Sections				- One more Section covering Towing Disabled Vehicle - Rule 129, 131, 132, 133 are reproduced from Central MV Rules
Conditions				One extra condition about relinquishing of company after paying to the insured
Section II – Liabilities to Third Parties	Differences are observed, whereas this intend to cover liability as enumerated in MV Act			
Note – Limits under 1st three items were set way back in 2002 (minor revision in deductible for private car and two wheeler recently). Cost since then has risen multifold. All these items should be left to insurers and should be driven by rating for better control.				

achieving a perfect state is only theory. Innovations are there because scope of improvement and betterment is there. Industry should come out of tariff mentality and should differentiate on products and servicing instead of unhealthy rates. They should adopt customer centricity by increasing transparency and easy to understand forms / communications including policy and endorsements.

Suggestive Draft of India Motor Insurance Guide

In exercise of the powers vested under Section … of the … Act, …, the authority stipulates the Guide for motor insurance in India as detailed in further sections.

This guide supersedes erstwhile India Motor tariff and related circulars issued from time to time.

SECTION 1: General Regulations

1. Applicability

This guide is binding on all general insurers for insuring any motor vehicle and issuing a motor policy in India.

This guide will be effective from…

2. Classification of Vehicles

Classification of vehicle for insurance purpose is defined in accordance with the provisions of the Motor Vehicles Act, 1988 and Central Motor Vehicle Rules, 1989 to avoid any ambiguity on interpretation.

2.1 Private Vehicles

Private vehicles are, which are primarily used by the owner for his personal, professional and business use, but excluding use for hire or reward or carrying business goods (other than samples or for presentation).

2.1.1 Motor Cycle i.e. Two Wheelers with or without side car (Non Transport Vehicle)

2.1.2 Three Wheeler (For Personal Use)

2.1.3 Motor Car (Non Transport Vehicle)

2.1.4 Omni Bus (Non Transport Vehicle)

2.1.5 Invalid Carriage

2.2 Commercial

Any vehicle other than private vehicle is classified as a commercial vehicle. Few of these may not be in use for hire or reward or carrying business goods but the primary purpose of use is profession or business.

2.2.1 Goods Carriage

2.2.1.1 Motor Cycle with / without side car

2.2.1.2 Light Motor Vehicle – 3 Wheeler (GVW <=7500 Kg)

2.2.1.3 Light Motor Vehicle – Other than 3 Wheeler (GVW <=7500 Kg)

2.2.1.4 Medium Goods Vehicle (GVW >7500 Kg and <=12000 Kg)

2.2.1.5 Heavy Goods Vehicle – Non Articulated (GVW >12000 Kg)

2.2.1.6 Heavy Goods Vehicle – Articulated (GVW >12000 Kg)

2.2.1.7 Tractors – Non Agricultural and Non Articulated

2.2.1.8 Trailers – Goods carrying and non Agricultural

2.2.2 Passenger Carrying Vehicle

2.2.2.1 Private Service Vehicle

2.2.2.1.1 Omni Bus (Transport Vehicle)

2.2.2.1.2 Medium Passenger Motor Vehicle

2.2.2.1.3 Heavy Passenger Motor Vehicle – Non Articulated

2.2.2.1.4 Heavy Passenger Motor Vehicle – Articulated

2.2.2.2 Public Service Vehicle

2.2.2.2.1 Motor Cycle (Transport Vehicle)

2.2.2.2.2 Motor Cab

2.2.2.2.3 Maxi Cab – Contact Carriage

2.2.2.2.4 Maxi Cab – Stage Carriage

2.2.2.2.5 Medium Passenger Motor Vehicle

2.2.2.2.6 Heavy Passenger Motor Vehicle – Non Articulated

2.2.2.2.7 Heavy Passenger Motor Vehicle – Articulated

2.2.2.3 Educational Institution Bus

2.3 Specialized Vehicles, Which are Generally Neither for Goods Carrying Nor Passenger Carrying and Registration of the Vehicle is for Specific Purpose

2.3.1 Agricultural Tractor

2.3.2 Agricultural Trailer (including agricultural implants built to be drawn by tractor for use in agricultural field)

2.3.3 Power Tiller

2.3.4 Road Roller

2.3.5 Construction Equipment Vehicle

2.3.6 Fire Brigade Vehicle

2.3.7 Ambulance or Hearse

2.3.8 Vehicle fitted with specialized equipment e.g. Rig, Generator, Compressor, Tower Wagons, Tree trimmer etc. or similar

2.3.9 Vehicle used for specialized mobile purpose e.g. canteen, shop, workshop, clinic, dispensary, blood collection / donation, library, cinema recording, media communication etc. or similar

2.4 Trade Vehicle Used and Driven Under a Trade Certificate *(out of scope of this research paper)*

Notes:

1. IME 1 must be included in the policy
2. Class of Vehicle under which a proposal is accepted must be shown on the schedule
3. Insurer may use suitable warranty for restricting the use for specific purpose e.g. own goods

3. Proposal Form

All insurers must ensure that proposal form is kept easy and questions are as clear as possible. A copy of the proposal form and / or transcript of any information taken otherwise must be attached with the policy.

4. Policy Form

All insurers shall use the guide policy wordings (Annexure A) for insuring any motor vehicle. Insurers are free to include additional text / information, wherever allowed to do so. Benefits, which are not applicable, can be deleted and respective endorsements and warranties can be included. Company specific add-on covers and associated endorsements and warranties can be included at appropriate places. Limiting / restricting any benefit / clause are not permitted.

5. Territorial Limits

A motor policy issued within these guidelines is valid throughout India. Insurers can extend the territorial limits to following countries, as per their underwriting philosophy with or without charging any extra premium –

a. Bangladesh
b. Bhutan
c. Nepal
d. Pakistan
e. Sri Lanka
f. Maldives

IME 2 should be used for extension.

6. Sum-Insured

Sum-insured for the vehicle, accessories and / or bi-fuel kit under the policy shall be mutually decided by the insurer and insured. It must be informed to the client as part of the quotation or computation of premium and recorded under the policy. Once recorded, insured or insurer cannot change this value during currency of the policy. However, same would be revised as mutually agreed on every renewal of the policy.

7. Period of Insurance

Normally policy shall be issued for one year term, unless otherwise proposed by the insured. In no case, a policy would be issued for a period greater than one year except as provided under extension and lay-up provisions of this guide or circular #... allowing Long Term Motor Two Wheeler Insurance Policy. If the period is less than one year, no refund of premium would be made on cancellation of policy.

8. Insurance without Mandatory Legal Liabilities Benefit

Benefit: Mandatory Legal Liabilities must be part of a motor policy issued in India for fulfilling the provisions of The Motor Vehicles Act, 1988. A policy can be issued on a vehicle without this mandatory benefit, provided it is complying with below provisions –

- Vehicle is not required to be registered under provisions of The Motor Vehicle, 1988 or the vehicle is not permitted by the concerned authorities for general road use.
- Insured gives a declaration that vehicle shall be used only within the stated project site / factory (or otherwise) premises, where general public has no general right to access.
- In this case, legal liability of the insured can be covered as a separate benefit.
- No 'Covernote' and / or 'Certificate of Insurance' as per 'Form-52' and 'Form-51' respectively of Central Motor Vehicle Rules, 1989 shall be issued by the insurer.

IME 10 should be used.

9. Excess (Deductible)

Insurer may include an Excess / Franchise in the policy as part of underwriting of the vehicle and depending upon the loss experience and / or moral hazard. However, it would be obligatory for insurer to prove that such excess was

informed to the insured as part of quote or prior to sourcing the insurance and is clearly mentioned on the Policy Schedule. This can be made applicable to any or all groups / perils of the Benefit: Own Damage. This must be a primary rating criterion for the policy.

10. Risks Associated with the Hired Vehicles

Where a passenger carrying vehicle is given for hire under an agreement of hire and same is driven by hirer, insurer should use following endorsements –

IME 15 should be used to include the indemnity to hirer

IME 16 should be used to restrict coverage / extend exclusions or excess.

11. Personal Accident Cover for Occupants

Cover for personal accident is mandatory for at least one person, which would be treated for insured. Alternatively cover can be provided either for named occupants or unnamed occupants. If for unnamed occupants, the cover must be equal to the seating capacity of the vehicle and the mandatory cover for insured would not be required.

IME 7 should be used.

12. Extended Legal Liability

Standard Policy covers the mandatory legal liability as provided for in the Motor Vehicles Act, 1988. Additionally insured can opt for extended legal liability under the Workmen's Compensation Act, 1923, The Fatal Accident's Act, 1855 or at Common Law for the occupants including employees, non-fare paying passengers or otherwise.

IME 8 should be used.

13. Third Party Property Damage

Standard Policy covers the mandatory cover as provided for in the Motor Vehicles Act, 1988. Additionally insured can opt for extended cover (including unlimited).

IME 9 should be used.

14. Towing Charges

Insurer may allow towing charges as per agreement with the insured and must clearly mention the same in the quote and schedule of policy.

15. Other Endorsements as may be Required –

- **For Liability to Soldier / Sailor / Airmen –** IME 11 should be used.
- **For Trailer/s –** IME 12 should be used.
- **For Reliability Trials and Rallies –** IME 13 should be used.
- **For Commercial Vehicle used for Private Purpose –** IME 14 should be used.
- **For Overturning risk of Construction Equipment –** IME 17 should be used.

16. Warranties –

Insurer must use suitable warranties as and when required. Few standard warranties are included in the guide. Insurers are free to use others depending upon their own underwriting perception. However, such warranties must not restrict coverage as provided for in this guide and guided policy wordings.

- **Membership of Automobile Association –** IMW 1 should be used.
- **Installation of Anti Theft Device –** IMW 2 should be used.
- **Restricted use of the vehicle to own premises / project site –** IMW 3 should be used.
- **Goods Carrying: Private Carriers –** IMW 4 should be used.
- **Good Driving / Accident / Claim History –** IMW 5 should be used.

17. Interpretation Issues

Any doubt / clarification / query / ambiguity / difference of opinion etc. on any provision of the guide including annexure must be reported to The Authority, who possess the only and absolute rights for interpreting the issue.

SECTION 2: Endorsements

IME 1: Registration Classification of the Vehicle

This policy has been issued considering vehicle is registered as … In case you get any change in its registration class and type, coverage under the policy would be suspended for all the benefits with immediate effect unless same is informed to us and we have agreed to effect the changes in the policy. This change may require you to pay additional premium.

IME 2: Extension of Territorial Limts

The territorial limit under the policy is extended to include … <Name of

Countries> with effect from … <insert date> till…<insert date>.

However, cover under peril 'Whilst in transit by road, rail, air, inland-waterway, lift, elevator' under Group: Accident or Transit of Benefit: Own Damage is not applicable for such extension.

IME 3: Transfer of Vehicle

Based on the Fresh proposal form from you and consent letter from seller (original insured), the name of the insured in the policy is changed and should be read as … with effect from…

Other particulars / terms / conditions / warranties of the policy remain unchanged.

IME 4: Substitution of Vehicle

Based on your request, the vehicle in the policy is changed and substituted by the vehicle as mentioned below –

Registration No.	Engine & Chassis No.	Make, Model and Variant	Year of Manufacture	Type of Body	CC / GVW	Seating Capacity Including driver	Sum Insured

Other particulars / terms / conditions / warranties of the policy remain unchanged.

IME 5: Vehicle under Hypothecation, Hire Purchase or Lease Agreement

The vehicle insured is purchased under a hypothecation, hire purchase or lease agreement with the person / firm / company as described in the schedule, who would deem to be the owner of the vehicle for this endorsement. For any claim made under the Benefit: Own Damage, where settlement is being made on total loss basis, monies would be paid to the owner, as described above and owner's receipt would be a full and final discharge in respect of such claim.

Other particulars / terms / conditions / warranties of the policy remain unchanged.

IME 6: Vehicle Lay-Up

As per your request, cover under the … *<insert applicable Benefit / Group / Peril>* is hereby suspended with effect from … *<insert date> till … <insert>*. During this period you would not be entitled to any claim under subjective benefit / group / peril.

In case, end of suspended period is not informed by you upfront, you shall inform the same before revoking the suspension of registration certificate or lay-up period, whichever is earlier. If you fail to do so, no extension of period or refund would accrue under this endorsement.

In result of this, based on your option *<select applicable option>* –

- ❖ Period of the Policy is extended till… *<insert end date of extended period>*
- ❖ A refund of premium of ₹ … *<insert amount of refund including service tax>* is credited to your account, which you can use by adjusting against the premium for subsequent renewal with us.

Other particulars / terms / conditions / warranties of the policy remain unchanged.

IME 7: Occupant's Personal Accident

In case of an occupant suffering death or disabilities as a result of an accident of the vehicle, whilst he was travelling in the insured vehicle (including mounting on or dismounting from the vehicle), we will pay such occupant a sum as specified in the schedule read in conjunction of the scale mentioned below –

1. Death / Permanent Total Disablement / Loss of Two limbs / Loss of sight of two eyes / loss of one limb and sight of one eye – 100%.
2. Loss of one limb / Loss of sight of one eye – 50%.

Provide that:

1. Such death / disablement are a direct result of such accident and occur within 6 months of the date of such accident.
2. Number of occupants in the vehicle at the time of accident does not exceed the registered seating capacity.
3. There is no reason to believe that such accident is a result of intentional self injury, suicide or attempted suicide, any physical defect / infirmity of the person concerned, such person was under the influence of intoxicating liquor or drug.

Conditions:

- ❖ In case the cover opted for number of occupants is lower than the seating capacity of the vehicle as mentioned in the registration certificate, our liability shall arise in following manner –
    - ♦ If coverage is for only one occupant – Cover would be treated for you only.
    - ♦ If coverage is for named occupants – Cover would be treated only for named persons.
    - ♦ If coverage is for unnamed occupants – This must equal to the seating capacity and would apply for occupants.
- ❖ Occupant shall be eligible for one compensation only under above.
- ❖ Receipt given by such occupant or occupant's legal heir (upon death of the occupant) would be a full and final discharge in respect of such claim.

Other particulars / terms / conditions / warranties of the policy remain unchanged.

IME 8: Extended Legal Liabilities – Occupant of the Vehicle

We will indemnify you against your legal liabilities, not being a liability under the Motor Vehicles Act, 1988, towards injury / death to any person being carried in the vehicle (including mounting on or dismounting from the vehicle) at the time of accident.

Liability available under this endorsement is limited to the Workmen's Compensation Act, 1923, The Fatal Accident's Act, 1855 or at Common Law (as amended as on the date of this endorsement), as applicable in relation to the occupant person's status and relationship with you.

We will pay for any cost or expense incurred by you with our prior and written consent.

Provided that –

1. We will have first right of refusal if there is another policy in effect covering the same liability.
2. Number of persons in the vehicle is not exceeding the registered seating capacity.
3. Such person is being carried in the vehicle in connection of the journey only e.g. charterer of the goods.
4. If the occupant is your employee, you have kept proper records for such person employed including wages / salaries paid

Other particulars / terms / conditions / warranties of the policy remain unchanged.

IME 9: Extended Third Party Property Damage

Cover for damage to property of any third party is extended to the sum of ₹ … <insured extended sum-insured>.

IME 10: Legal Liability of Insured Other than Mandatory Legal Liability

We will indemnify you against your legal common general liabilities towards injury / death to or damage to property of any third party, who is not your employee, in connection with the use of insured vehicle within the stated project site / factory (or otherwise) premises, where general public has no general right to access.

This endorsement does not cover any liability arising under the provisions of the Motor Vehicles Act, 1988, the Workmen's Compensation Act, 1923 or the Fatal Accident's Act, 1855.

This will include any cost or expense incurred by you with our prior and written consent.

Provided that –

1. We will have first right of refusal if there is another policy in effect covering the same liability.

Other particulars / terms / conditions / warranties of the policy remain unchanged.

IME 11: Accident to Soldiers / Sailors / Airmen Employed as Driver

The coverage under the policy is extended to relieve you for your liability to indemnify the Ministry of Defence under their respective regulations, if the driver of the vehicle was a Soldier / Sailor / Airmen and was under your employment at the time of accident.

Other particulars / terms / conditions / warranties of the policy remain unchanged.

IME 12: Trailer

We will indemnify you for any loss or damage to a trailer treating it a part of the vehicle and with the limits of sum-insured, as described hereunder, as long as the same was attached to and being drawn by the insured vehicle at the time of such

loss or damage. Coverage / Peril in scope would apply to the trailer as applicable for the vehicle including mandatory legal liabilities.

Description of the Trailer / Agricultural Implant	Registration Number / Chassis Number or other identification mark	Sum-Insured

Other particulars / terms / conditions / warranties of the policy remain unchanged.

IME 13: Reliability Trials or Rallies

The words 'Reliability Trials or Rallies' are hereby stands deleted from the 'Limitations of use of Vehicle', as described under 'Your Duties' for the period and event as described below –

Period: From…*<Insert date> till <insert date>*

Event: …*<insert name of the event>* to be held at …*<insert place or route>* and organized by *<insert organizer's name>*.

During the course / period of the described event any liability (including personal accident) towards the occupant is not covered.

This endorsement will not cover any liability of organizers.

Other particulars / terms / conditions / warranties of the policy remain unchanged.

IME 14: Use of Commercial Vehicle for Private Purpose

The policy shall remain operative for following benefits, if covered otherwise and shown on your policy, whilst the vehicle insured is being used for private and social purpose

- ❖ Benefit: Own Damage and Group
- ❖ Group: Occupant's Personal Accident (Refer IME 7 attached)
- ❖ Group: Extended Legal Liabilities – Occupant of the Vehicle (Refer IME 8 attached)

We will also indemnify you for your legal liabilities, not being a liability under the Motor Vehicles Act, 1988, towards injury / death to any person being carried in the vehicle (including mounting on or dismounting from the vehicle) at the time of accident under The Fatal Accident's Act, 1855 or at Common Law (as amended as on the date of this endorsement) provided that such person is neither your employee nor carried for a fare.

Other particulars / terms / conditions / warranties of the policy remain unchanged.

IME 15: Indemnity to Hirer

The coverage of the policy is extended to indemnify any hirer against loss / damage or liability in connection with the vehicle arising from negligence of you or any of your employee, while the vehicle is given on hire under an agreement provided hirer complies with and fulfills the requirements mentioned in the policy under clause 'Your Duties'.

IME 16: Hired Vehicle and Driven by Hirer

If you enter into an agreement of hire with a person (hereinafter called the Hirer), where you give the vehicle to the hirer and the same be driven by the hirer or any other person of hirer's choice, this policy shall remain operative only if you fulfill following requirements –

- ❖ Hirer has provided the requisite information in the prescribed format with his signature.
- ❖ Hirer undertakes to comply with the requirements mentioned in the policy under clause 'Your Duties'.
- ❖ Both of the above are provided to us prior to start of such agreement.

In addition –

- ❖ We will not be responsible for any loss or damage from theft or conversion of the vehicle in <whole or>* part thereof by hirer.
- ❖ Policy would be subject to an Imposed Excess of ₹ … for any claim under Benefit: Own Damage
- ❖ Policy would be suspended if the hirer uses the vehicle for carriage of passengers for fare.

Other particulars / terms / conditions / warranties of the policy remain unchanged.

- May be deleted by insurer.

IME 17: Overturning Risk for Construction Equipment Vehicle

We will not be responsible for –

- ❖ Any loss or damage caused by overturning of the vehicle, while the vehicle is in operation and such overturning is arisen due to use of any

tool, plant or fixture whether forming part of the vehicle or attached thereto. This clause is limited to the peril 'Accident while driven or parked' and / or 'Landslide or Rockslide'.*

- Any liability of whatsoever nature beyond 'Benefit: Mandatory Legal Liability'.

** Insurer should delete if 'Benefit: Own Damage' is not covered.*

SECTION 3: Warranties

IMW 1: Membership of Recognized Automobile Associations
Warranted that you will inform us if you cease to be a member of declared Automobile Association and pay us required additional premium. If you fail to do so; any claim would be subject to additional Imposed Excess of ₹.

IMW 2: Anti Theft Device
Warranted that you will take all steps to keep the anti theft device in working condition at all times. If it is found that at the time of theft of the vehicle, such device was not in working condition; such claim would be subject to additional Imposed Excess of ₹.

IMW 3: Limited Use
Warranted that vehicle would be used only within the informed insured's own premises / site. We will not be liable for any claim arising beyond the limits of such premises / site.

IMW 4: Private Carrier
Warranted that vehicle would only be used to transport goods belonging to you and your business. If it is found that the time of loss / damage, the vehicle being used for transport of goods other than yours and your business, policy would be subject to an additional Imposed Excess of …% of the claim amount.

IMW 5: Good Driving / Accident / Claim History

Premium for the policy has been calculated basis your declaration –

a. That the vehicle has no accident or claim for last … years and not more than … accident or claim since you purchased the same.

b. That the main driver has no accident for last … years and not more than … accident/s or claim/s since he/she obtained the driving license.

Warranted that if the above information is found to be incorrect, your claim would be reduced by 25% of the assessed amount.

Guide Policy Wording for Motor Insurance in India

Welcome Clause

We welcome you for choosing us for insuring your vehicle and related liabilities…

<Company specific information>

Please note that this is a legal contract between you and us. It is important that you go through this document carefully and –

- check the correctness of the details mentioned in the schedule about you and your vehicle
- check the coverage and exclusions offered according to what were solicited by you and committed by us or our authorized agent at the time of solicitation of insurance
- check the premium for its completeness as paid by you
- check the copy of the proposal that you submitted or transcript of information you provided over phone / verbal at the time of soliciting this insurance

Having Any Query? You May Reach Us

You can reach us through any of below modes, if you require any clarity / help

- Contact your agent / broker *<Agent / Broker Name, Code and Contact Number>*
- Contact our branch office at *<Policy Issuance Office>*
- Call us at *<Call Centre Number>*
- Email us at *<Customer Support Email ID>*
- Write to us at *<Customer Support Address>*
- Visit us at *<Website>*

What Comprises Your Legal Motor Insurance Policy

- Information given by you, in proposal form, telephonic call, verbal or through any other means, at the time of soliciting this insurance.
- Covernote, if any, issued by our authorized agent / employee, that is mentioned in the schedule of policy.

- Schedule of policy
- Certificate of insurance issued in accordance of the Motor Vehicles Act, 1988
- Clauses, conditions, endorsements, warranties as given in subsequent pages under sub headings –
    - Rights and Duties
    - Coverage / Perils in scope
    - Coverage / Perils out of scope
    - Conditions Applicable
    - Claim Procedures and Governance
    - Endorsements & Warranties
- Any further endorsement on the policy as per your request effective ab-initio or a later date.

Rights and Duties

Your Rights –

You have the rights

- To be provided with premium charged benefit-wise
- To choose for an electronic, soft copy or hard copy of your policy
- To be explained the computation of compensation on happening of a claim
- To be explained the reasons in detail, if company declines a claim
- To approach us if you feel cheated at any time or are not satisfied with the product or services of the company or find us not fulfilling our duties to your satisfaction. Please refer the Grievance Redressal Section for the information.

Your Duties –

You shall fulfill these duties at all times. Non fulfillment of any or all may lead to this contract being void or voidable on our part resulting in to repudiation of your claims under the policy.

- **Disclosures**
    - All information provided at the time of soliciting this insurance or later must be complete, true and correct to the best of your knowledge.
    - Any change in the subject matter or any other related information must be provided to us as early as possible and within reasonable time.
- **Reasonable Care**
    - You shall take all reasonable steps to safeguard the vehicle from loss or damage of any kind as if it is uninsured.
    - You shall use (or allow the use of) the vehicle on public place only if the vehicle is in efficient and roadworthy condition and comply with provisions of the Motor Vehicles Act, 1988.
    - In the event of any accident or breakdown:
        - You shall not left the Insured Vehicle unattended without proper precaution being taken to prevent any further loss or damage.
        - You shall not allow use of the vehicle prior to necessary repairs are carried out to bring it in roadworthy condition.
- **Limitations of Use of Vehicle –**
    - You shall not drive or allow anybody to drive the vehicle unless the person driving is allowed to drive the class of vehicle by the respective authorities by way of a valid driving license.
    - You shall not use the vehicle in contravention of its registration class, permit and fitness as explained in Motor Vehicles Act, 1988.
    - You shall not use the vehicle in connection with any of the following activities unless you have given us a prior notice and we have allowed you in writing –
        - Organized Racing
        - Pace Making
        - Speed Testing
        - Reliability Trials or Rallies
        - Motor Trade
- **Our Rights –**

We have the rights

- To examine the vehicle or driver at any time with prior notice.
- To ask for all reasonable information and assistance, which to our knowledge, may impact our decision on a claim or its quantum payable.
- To arrange for a representation at any Inquest or Fatal Injury, which may be subject to indemnity under the policy.
- To undertake the defense of proceedings in court of law for any alleged offence that may be subject to indemnity under the policy.

- **Our Duties –**

- We will provide you all clarifications and support on policy related matters for pressing any endorsement and / or claim as and when required.
- We will provide you clear reasoning, if we decline your claim at any point of time.
- We will provide you full calculation of compensation payable under a claim

Coverage / Perils in Scope

Benefit: Mandatory Legal Liabilities –

We will indemnify you for –

- Your legal liabilities in respect of death or bodily injury to a person or damage to property of a third party caused by or arising out of the use of insured vehicle in a public place as may be established under and subject to provisions of Motor Vehicles Act, 1988 as amended on the date of inception date of the policy
- Legal liabilities as provided for under above provision, would include liabilities of driver of the vehicle within the provision of the policy and / or Motor Vehicles Act, 1988
- Your costs and expenses incurred with our prior consent

Special Provisions to this Benefit

- Any occupant carried in the vehicle, who is not a dependent upon you, shall be eligible for indemnity under above provisions, provided vehicle is registered and used as a Non-Transport vehicle and such occupant is not an employee of you under the provisions of Workmen's Compensation Act, 1923.
- No provision of this policy shall affect the rights of any person, who has the rights to be indemnified or recover any amount under the provisions of the Motor Vehicles Act, 1988. However, you shall pay us all such sums, which we would have not liable to pay otherwise.
- If there is more than one person, having rights for indemnity, any limit as mentioned in the policy shall apply to aggregate amount of indemnity of all such persons according to priority set by you.

Benefit: Own Damage –

If the insured vehicle (including any accessories and bi-fuel kit as long as the same is found fitted on the vehicle at the time of accident and is shown on the schedule) suffers any loss or damage by any of the following, we will pay you for such loss and damages, subjects to exclusions mentioned –

Group: Fire & Allied Perils –

- Fire
- Explosion
- Self Ignition
- Lightening

Group: Accident or Transit

- Accident while driven or parked
- Whilst in transit by road, rail, air, inland-waterway, lift, elevator. This cover is not available if such transit is for ferrying the vehicle outside India.

Group: Theft or Housebreaking

Group: Act of God Covers –

- Earthquake (Includes damage by Fire and / or shock)
- Landslide or Rockslide
- Flood, Inundation, Strom, Hailstorm, Frost, Tsunami or related perils

Group: Damages by any Person or Activity –

- Malicious Activity
- Riots or Strike
- Terrorism

Group: Towing charges, if necessitated and incurred subject to limits mentioned in the schedule of policy

Group: Additional Add-On Covers –

- …
- …

<Include company specific add-on cover that is applicable for damage to the vehicle>

(Mention only those groups, which are covered)

Benefit: Extended Liabilities or Personal Accident –

- Group: Occupant's Personal Accident (Refer IME 7 attached)
- Group: Extended Legal Liabilities – Occupant of the Vehicle (Refer IME 8 attached)
- Group: Extended Third Party Property Damage Cover (Refer IME 9 attached)

- Group: Legal Liability of the Insured (Applicable for a policy issued without Mandatory Legal Liabilities Cover as per Rule 8.0 of the guide) (Refer IME 10 attached).
- Group: Additional Add-On Cover

<Include company specific add-on cover that is applicable for any kind of liability>

(Mention only those groups, which are covered)

Coverage / Perils out of Scope

- If we observe that you fail to fulfill your duties at the time of occurrence of loss or damage and / or arisen of liability
- Any Consequential loss, depreciation, wear and tear, mechanical and / or electrical breakdown, failures or breakages
- Loss of or damage to tyres and tubes unless the Insured Vehicle is damaged at the same time
- Any accidental loss or damage and / or liability suffered whilst driver of the vehicle is under the influence of intoxicating liquor or drugs
- Loss or Damage and / or liability caused, sustained or incurred outside the territorial limits as mentioned or endorsed

- Any kind of contractual liability
- Any loss or damage and / or liability directly or indirectly caused by or contributed to by or arising from ionizing, radiations or contamination by radioactivity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel. For the purpose of this exception combustion shall include any self sustaining process of nuclear fission
- Any loss or damage or liability directly or indirectly caused by or contributed to by or arising from nuclear weapons material
- Any loss or damage and / or liability directly or indirectly or proximately or remotely occasioned by, contributed to by or traceable to or arising out of or in connection with war, invasion, the act of foreign enemies, hostilities or warlike operations (whether before or after declaration of war), civil war, mutiny, rebellion, military or usurped power or by any direct or indirect consequence of any of the said occurrences and in the event of any claim hereunder the insured shall prove that the accidental loss or damage and / or liability arose independently of and was in no way connected with or occasioned by or contributed to by or traceable to any of the said occurrences or any consequences thereof and in default of such proof, We shall not be liable to make any payment in respect of such a claim.

Conditions Applicable

Territorial Limits

Policy is valid throughout India and shall include countries, if any, included by way of endorsement attached.

Vehicle Requisitioned by Government

In a situation of vehicle being requisitioned by the Indian Government (including State or Local Government) under any legal provisions, you would enjoy continue cover under this policy. However, in case of any loss / damage / arisen of any liability during the period of such requisition, we will settle the claim under normal circumstances and you would require to pay us back any amount recovered from the Government or subrogate your rights to us for any known or future amounts recoverable from the Government.

Cancellation of Policy

- You may cancel this policy any time before expiry by giving written notice and there has been no claim on the policy, you would be eligible for a refund of premium (No refund, if policy was taken for a term of less than one year) as under –
  - If you have another policy for same vehicle and same sum-insured with us – Full Premium Paid (if other policy is incepting earlier and is in force) less administrative charges of ₹ 100/-
  - If you have another policy for same vehicle and same sum-insured with other insurer – Pr-rata premium refund for unexpired period less administrative charges of ₹ 100/-

❖ If you do not have any other policy – We will retain full premium for mandatory legal liability cover. For rest of the premium, refund of premium for unexpired period would be made at below rates (of annual premium)

Less than 4 months	0%	Less than 8 months	40%
Less than 5 months	10%	Less than 9 months	50%
Less than 6 months	20%	Less than 10 months	60%
Less than 7 months	30%	Less than 11 months	70%
Less than 12 months			80%

❖ If you sell the vehicle before expiry and submit the other insurance proof of the vehicle – Pro-rata Premium Refund for the remaining period.

❖ If you sell the vehicle before expiry but do not submit the other insurance proof of the vehicle (and do not provide NOC to new owner) – Pro-rata Premium Refund (after retaining premium for mandatory legal liability cover) for the remaining period.

➢ We may cancel this policy any time before expiry by giving 15 days notice to you and you would be eligible for a refund of premium as under –

❖ If we cancel on grounds of any fraudulent act, mis-representation, mis-declaration, non-cooperation by or from you – NIL.

❖ For any other reason – Pro-rata Premium Refund for the remaining period calculated from 16th day of the notice.

Transfer of Policy

➢ If you sell the insured vehicle before expiry of the policy, whether recorded on RC or not, following provisions would apply with immediate effect –

❖ Policy would stand suspended except for mandatory legal liability cover.

❖ If you do not want to pass on the insurance to new owner, you may apply for refund of premium as per condition 'Cancellation of Policy'.

❖ If you pass on the insurance to new owner, please provide NOC (your consent letter) to new owner and the new owner can apply for transfer of this insurance in his name by submitting following documents / information and required premium –

- Your consent letter
- Original Certificate of Insurance
- Fresh proposal form duly filled in and signed by the new owner
- Inspection of the vehicle, if required by us
- Deposit of additional premium, if any required by us plus ₹ 50/- towards administrative charges.

Notes –

❖ If this application is not submitted within 14 days from date of purchase, policy would stand suspended except for mandatory legal liability cover

❖ If this transfer of policy is required because of death of the owner and such transfer is to be effected in the name of your legal heir / next kin, subject to following provisions –

- Legal heir / next kin must apply for transfer in his / her name with following documents / information within 90 days, but before expiry of the policy, of death of owner –
- Owner's death certificate
- Legal Heir Certificate or Transferred RC with relationship proof

Else policy would stand suspended except mandatory legal liability cover from the 91st day (if policy not expired earlier) till expiry of policy.

- Insured / new owner would not be eligible for any extension of policy period for the number of days policy is kept under suspension.

Substitution of Vehicle

➢ If you purchase a new vehicle and wish to substitute the new vehicle under the policy , you may request for the same with following document / information and by depositing the required premium –

❖ Proof of insurance for the Insured Vehicle

- Fresh proposal form in respect of new vehicle
- Premium, as may be required by us. This would be the difference of premium required for new vehicle less premium paid calculated on pro-rata basis for the remaining period of insurance.

Extension of Policy Period

- Policy Period can be extended by us upon your written request to arrive at a common expiry date convenient to you provided you pay us pro-rata premium for such extended period and your consent that you shall renew the insurance with us for full 12 months upon expiry of such extended period, failing which you shall pay us the difference between the Short Period Rates and the pro-rata premium then paid.

Vehicle Laid-Up

- If you wish to stop usage of the vehicle for certain period and lay-up the vehicle in garage with or without surrendering the Registration Certificate to respective authorities, you shall be eligible for following benefits –
  - If such lay-up is with surrender of Registration Certificate –
    - You may get the policy period extended by the lay-up period.
    - You may opt for pro-rata credit of premium for the lay-up period.
  - If such lay-up is without surrender of Registration Certificate –
    - You may opt for surrendering the coverage (one or more groups) under the 'Benefit: Own Damage' and / or 'Benefit: Extended Liabilities or Personal Accidents' and shall be entitle for pro-rata credit of premium for respective benefits for the lay-up period.

Notes:

- Lay-up must not be as a result of any event giving rise to a claim under the policy and lay-up period must not be less than 60 consecutive days.
- This can be opted only once during the currency of the policy including any extended period.
- The credit of premium can be utilized against the renewal premium of the policy. This cannot be availed in cash in any circumstances except where vehicle is sold during the currency of such lay-up period.

Claims Procedures and Governance

- **Notification of Claim**

  Upon occurrence of any incidence that may give rise to a claim under the policy:

- You shall report to us at the earliest and within reasonable time through any recorded means of communication like phone call, email, letter, online etc.
- You shall report the matter to police, if there is a cognizable offence like third party death / injury / damage, theft or malicious damage etc. A copy of the report must be provided to us. Report to police is not mandatory for collision with other motor vehicle without any third party death / injury.
- You shall provide all such information and assistance as may be required by us or by our authorized surveyor, which may affect our decision on claim or quantum of claim.
- You shall take due care and preserve the damaged property for our inspection as also to avoid any further damage or loss.
- In case the incidence involves any form of legal process:
  - You shall immediately send us every written notice or information of any verbal notice of a claim.
  - You shall immediately send us any letter, claim, writ, summons, or other legal process received by you.
  - You shall permit us to take over the control and conduct of the defence, pursuit or settlement of any claim and provide us or our representatives with such cooperation and assistance as may be required for that purpose.
  - You shall not, without our prior written consent, incur any costs, admit liability for or attempt to settle, make any admission, offer any payment or otherwise assume any contractual obligation with respect to any legal action or threat of legal action.

- **Documents Required**

  Usually following documents are required for a claim. However, depending on the situation and merits, we may ask for more information / documents –

- Claim under Benefit: Own Damage
  - Claim Form duly filled in
  - Self attested copy of Vehicle Registration Certificate and original for verification
  - Self attested copy of driver's Driving License and original for verification
  - Self attested copy of Vehicle Permit and Fitness and original for verification
  - Copy of Police First Information Report, if any
- Claim under Benefit: Third Party

  In addition to above documents
  - Copy of the plaint received
  - Copy of Police First Information Report.
  - Detailed explanation about the situation in which accident / loss happened.

- **Basis of Settlement for a Claim**
  - All claims would be settled only in India Rupees.
  - It would be our right to decide on whether a claim is to be settled as a total loss or partial loss.
  - In case of a total loss (including theft), you would be eligible for payment of Sum-Insured as mentioned in the schedule –
    - In full after deducting excess. In which case the wreck of the vehicle including its registration rights would be subrogated to us.
    - After deducting excess and salvage value of the wreck. In which case you would retain the wreck, however, this policy will be deemed to be cancelled from next day of the loss occurring event.
  - In case of a partial loss (including theft of part of the vehicle) –
    - We would have rights to decide on reinstate, replace, repair or refurbish a particular part or accessory.
    - If any part is replaced with new, depreciation at below rates would be deducted.
    - Claim would be settled only after all allowed repairs or replacements are carried out unless we decide to settle the claim for cash in which case you would be eligible to retain salvage but policy will be deemed to be cancelled from next day of the loss occurring event.
  - In case there is more than one insurance on the vehicle covering the peril occurred, we will pay only a rateable proportion of the admissible claim.

- **Deductions from the Claim Amount**
  - **Depreciation**

  We will deduct the depreciation at following rates in respect of parts replaced

Main material, the respective part is made of	Rates
Rubber / Nylon / Plastic, Tyres, Tubes, Batteries, Airbags	50%
Fibre Glass	30%
Glass	0%
Painting: Material Cost of the Painting Charges (In case Material Cost is not separately mentioned in Painting Bill, 25% of total Painting Charges would be considered as material)	50%
All other, including wooden), as per the following schedule based on age of the vehicle as computed from the date of purchase or date of registration, whichever is earlier:	
Not exceeding 6 months	0%
Exceeding 6 months but not exceeding 1 year	5%
Exceeding 1 year but not exceeding 2 years	10%
Exceeding 2 years but not exceeding 3 years	15%
Exceeding 3 years but not exceeding 4 years	25%
Exceeding 4 years but not exceeding 5 years	35%
Exceeding 5 years but not exceeding 10 years	40%
Exceeding 10 years	50%

❖ **Excess / Franchise –**

A Sum of amounts as mentioned in the schedule of policy under heading excess. Excess may be applicable to all benefits, any particular benefit or any particular peril, as mentioned in the schedule of policy.

Excess may additionally be applicable as mentioned in any warranty

Franchise, if any mentioned on the schedule, is the amount up to which no claim is payable. Claim, greater than this amount, are paid in full.

❖ **Special Deductions for Commercial or Transport Vehicles –**

A vehicle covered under any sub classification of section 2.2.2 (excluding classes 2.2.2.1.1, 2.2.2.2.1, 2.2.2.2.2, 2.2.2.2.3 & 2.2.2.2.4) shall be subject to special exclusion of loss of or damage to lights, tyres, tubes, mudguards, bonnet side parts, bumpers and paints. In case of settlement of claim as partial loss, no amount would be paid towards repair / replacement / refurbishment of these parts.

<This special deduction clause is not compulsory and may be omitted by the insurer>

Grievance Redressal Arrangements

If you feel that you are cheated at any time or are not satisfied with the product or services of the company or find us not fulfilling our duties to your satisfaction, please approach any of the below authorities for redressal –

➢ Your agent whom you solicit this insurance or who has been assigned by the company for serving you

➢ Company's Branch or Customer Service Officer through phone call, email, online, letter or in person as given under Reach Us on Welcome Clause

➢ Company's Grievance Redressal / Escalation System

➢ Regulator, IRDA, through IGMS

➢ Insurance Ombudsman of your Area

➢ Consumer Grievance Redressal Forums, set up under the Consumer Protection Act, 1986

- Any other means as provided by various Ministries of Indian / State Government for lodging a complaint or any other empowered judiciary

Endorsements & Warranties

<Insert as required>

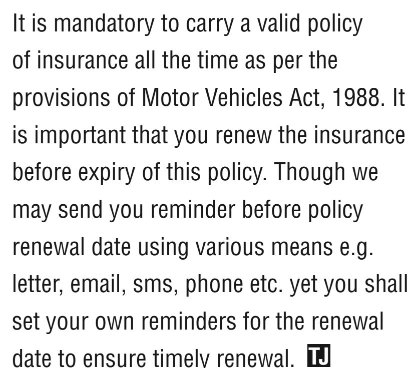
General Information

Your Premium

Premium computation for your vehicle is dependent upon various factors. These may vary insurer to insurer. You may ask for details of these factors and various components of the premium benefit-wise. It is important that you provide complete and true information against questions / points / columns in the proposal form or otherwise. Any incorrect information provided by you before or after obtaining

this insurance may lead to this contract being voidable on our option.

Your premium is calculated on a particular excess. You may reduce your premium by opting for an extra excess. The higher the excess you choose, the lower the premium you pay.



Renewal of Your Policy

It is mandatory to carry a valid policy of insurance all the time as per the provisions of Motor Vehicles Act, 1988. It is important that you renew the insurance before expiry of this policy. Though we may send you reminder before policy renewal date using various means e.g. letter, email, sms, phone etc. yet you shall set your own reminders for the renewal date to ensure timely renewal. TJ

References

Tariff Advisory Committee (2002) India Motor Tariff.

Insurance Regulatory and Development Authority (various dates) Circulars related to Motor Insurance / India Motor Tariff from www.irda.gov.in.

Peeyush Agarwal (2013). Motor Insurance in India – New Vistas. Asia Insurance Review. January 2013 P.58-59. http://www.asiainsurancereview.com/Magazine/ReadMagazineArticle?aid=33226.

Indhiramma Old Age Social Security Scheme Changing the Lives of Elders

T. V. Ramana
Faculty member, Dept of Economics
Andhra University Campus,
Timmapuram (post), Kakinada,
Andhra Pradesh - 533005.
drtvramana@yahoo.co.in

Abstract

As per the direct principles of the Indian constitution, the central and state governments have designed various welfare schemes for the vulnerable sections. Among them, elders are susceptible. Keeping this in mind, the present study is conducted to evaluate the level of old age dependents, implementation of old age pension and its impact on the old age disabled. In this case study, as per the perceptions of the beneficiaries, it is found that the IOAPS by direct cash payment changed their life style. They were facing food, clothing and health problems etc. At present, they are not helpless but are happier people. However, this scheme has also some managerial problems. The study has presented some policy implications to strengthen the scheme.

Keywords

Indhiramma Direct Cash Payment, Vulnerable, Better life, Pitru Devobhava, Matru Devobhava, Anthyodaya, Annapurna

1. Introduction

Social protection deals with both absolute deprivation and risk vulnerabilities. It deals not only with social risks like sickness, old age, unemployment and social exclusion but also with programs that secure income for the poor. Elders are vulnerable in Indian society. Many of the old people like father or mother or other abandoned persons (dependents) are suffering from lack of minimum bread to maintain their physique while living on this earth. In the recent past, we have been watching and reading news papers regarding this vulnerable group. With the rapid decline in the total fertility rate (TFR), the problem is soon going to worsen. The TFR is defined as the average number of children born per woman during her lifetime. In the Indian context, falling TFR means fewer people in the family to provide financial support for the elderly. Government has been providing financial security to the aged as directed by Article 41 of the Indian constitution under direct principles to the State. In 2007, the Government of India (GoI) passed an Act for sustenance of old parents by their children and gave direction to the States to establish old age homes etc.

2. Objectives and Methodology

Keeping the above social and economic phenomenon of the old people in mind, the present study is conducted with an aim to evaluate the level of dependents in the country and implementation of old age pension in the state of Andhra Pradesh and to find out the impact of the scheme in poverty alleviation and on the life style of the beneficiaries. To justify the study objectives, a few success stories have been taken.

A case study was conducted to find out the impact of the IOAP Scheme in 5 villages namely, Kottam, Kotturu, Timmaraju peta and Sangavaka (tribal village) of Kotanandduru mandal, East Godavari District, Andhra Pradesh. About 100 respondents whose age was above 65 years and exclusively disabled persons were selected and discussions were held to get information. The concerned secondary data has also been presented up to 2006-2010.

Table 1: Elderly Without Financial Support in India (Percentages)

State	Rural Male	Rural Female	Urban Male	Urban Female
Andhra Pradesh	49.24	15.82	57.00	26.16
Assam	47.95	13.58	56.28	29.81
Bihar	59.64	18.66	49.79	19.86
Chhattisgarh	57.02	28.55	58.74	23.32
Gujarat	49.93	12.98	52.47	12.54
Haryana	37.70	12.67	49.34	20.58
Himachal Pradesh	59.76	21.49	72.35	31.13
Jammu & Kashmir	67.64	11.38	63.12	11.74
Jharkhand	56.26	18.66	50.29	15.20
Karnataka	54.19	15.74	55.41	14.28
Kerala	36.39	11.72	47.26	20.52
Madhya Pradesh	59.83	17.58	65.44	21.33
Maharashtra	49.29	18.97	50.49	19.21
Orissa	46.96	10.21	51.4	10.22
Punjab	46.85	10.26	52.08	13.17
Rajasthan	47.63	9.47	55.38	12.87
Tamil Nadu	48.66	19.30	54.3	19.30
Uttar Pradesh	61.82	15.03	61.41	15.26
Uttaranchal	67.42	36.03	82.69	21.87
West Bengal	48.71	9.81	67.21	19.30
All India	52.66	15.49	56.51	18.34

Source: Prasad, S. 2011.

3. Elderly Dependent Population

Table 1 illustrates the problem through data from the NSS. It is observed that about 52.66 percent of the elders are not having financial support in the country. Across the states, the highest were located in Jammu & Kashmir which recorded 67.64 percent and lowest by kerala with 36.39 percent. The segment accounted for 49.24 percent in Andhra Pradesh. It shows that a majority of elderly males have no financial support, although the proportion varies between urban and rural areas.

4. Direct Cash Payment Scheme for the Elders

Social insurance in India has been and continues to be a piecemeal affair. Dependence on one's sons and daughters during old age has been the norm in India for millennia. However, the Indian Government, at both the national and the state levels, has long been concerned with financial support for the elderly. Item No. 9 of the State List and item 20,23 and 24 of Concurrent List relates to old age pension, social security and social insurance and economic and social planning and Article 41 of Indian Constitution deals with the State's role in providing social security to the aged. One external strong voice with considerable power in policy-making has been the World Bank.

The most important government direct cash payment scheme introduced for elderly low-income people is the non-contributory and means-tested National Old Age Pension Scheme (NOAPS), a centrally sponsored scheme launched by the Government in 1995. There are two components to the programme. Originally, assistance under the NOAPS was available to those (a) whose age was at least 65 years or higher; and (b) whose income was below the poverty line. At present, the Government of India has been sanctioning ₹ 200 per month.

5. Mohinigiri Committee

Government of India had appointed a committee under the chairmanship of Dr.V. Mohinigiri to submit a report on the conditions of the old and to give suggestions for providing welfare to them. The committee has recommended to provide social pension at ₹ 1000 per month against the existing ₹ 200. However, many states are giving more that ₹ 200. For example, Delhi is giving ₹ 1200, Tamilnadu and Goa have been providing ₹ 1000 and so on (table 2).

Table 2: Pension Rates in Selected States

S.No.	Name of the state	Pension (₹)
1.	Delhi	1200
2.	Tamilnadu	1000
3.	Goa	1000
4.	Haryana	800
5.	Rajasthan	750
6.	Jharkhand	400
7.	Andha Pradesh	200
8.	Centre contribution	200

Source: Eenadu Daily News paper, 23rd April, 2013

6. Indhiramma - Old Age Pension Scheme in Andhra Pradesh

Andhra Pradesh is India's fifth largest state, spread over an area of 2,76,754 sq. kms. The state is a major link between the north and south of India. For administrative purposes the state has been divided into 23 districts. On the basis of geographical position, Andhra Pradesh can be divided into three distinct regions like Coastal Andhra, Telangana and Rayalaseema. The Government of AP has implemented a number of programmes (including GoI) to eradicate poverty since 1970. Some of the poverty alleviation programmes in rural areas are SGSY, MGNREGS, IGNOAPS, free mid-day meals to primary-school children, supplementary nutrition programmes for pregnant mothers and pre-school children from poor households.

The Government of Andhra Pradesh implements four pension schemes (Widow Pension, Disabled Pension, Weavers Pension and old age pension) for the poor people. Before 2006 these pension schemes were implemented by the different departments. In 2006 the Government of Andhra Pradesh decided to bring the disbursement of all pensions under one umbrella by transferring the widow pensions from Social Welfare Department and disabled pensions from Disabled Welfare Department to the Rural Development Department. The amount of pension was ₹ 75/- per month till 2005-06. From the year 2005-06, it was increased to ₹ 100/- per month and from 2006-07, the amount of pension has been increased from ₹ 100/- to ₹ 200/- per month for all the pensions under old age, weavers, widows and disabled.

NOAPS is re-named as Indhiramma Old Age Pension Scheme (IOAPS). The scheme has been implemented as a part of National Social Assistance Programme.

The scheme provides pensions only to destitutes belonging to Below Poverty Line (BPL) households and the age pensioners, both male and female, who are 65 years of age or above.

In Andhra Pradesh, only the Centre's share is released to the beneficiaries and there is no state share. The beneficiaries got only ₹200/- as old age pension every month.

7. Beneficiaries of Indhiramma in Andhra Pradesh

In Andhra Pradesh as per the census 2001, the total population is 76.21 million out of this, 38.53 million people are male and 37.68 million people are female, which means that out of the total population 50.56 percent are male and 49.44 percent are female. The sex ratio of the state is 978. Regarding the beneficiaries of the IOAPS, out of the total 919230 beneficiaries 47.18 percent (433727) of beneficiaries are male and 52.82 percent (485503) are female. It is observed that more than fifty two percent of the beneficiaries of IOAPS in Andhra Pradesh are female (table-3).

At present, as on 1st Mar 2013, the total Pensions is estimated at 76,08,808 whereas 42,89,616 are Old Age Pensions.

Table 3: District Level Physical Achievement under IOAPS Scheme (in nos.)

Sl.No.	Name of the District	Beneficiaries 2009-10	
		Male	Female
1.	Srikakulam	23230	18232
2.	Vizianagaram	22154	19604
3.	Visakapatnam	19287	22583
4.	East Godavari	28467	25931
5.	West Godavari	20349	26267
6.	Krishna	18368	21473
7.	Guntur	19618	29764
8.	Prakasam	24035	26077
9.	Nellore	20801	20657
10.	Chittoor	19760	19021
11.	Cudapah	19568	26013
12.	Ananthapur	24786	29494
13.	Kurnool	13323	20444
14.	Mahaboob Nagar	21519	25748
15.	Ranga Reddy	19514	20062
16.	Hyderabad	3856	8842
17.	Medak	16029	19129
18.	Nizamabad	11977	18322
19.	Adilabad	12301	17529
20.	Karimnagar	16637	24042
21.	Warangal	20529	16583
22.	Khammam	20524	17437
23.	Nalgonda	17095	12249
	Total	**433727**	**485503**

Source: Office of the Chief Executive Officer, SREP-SHG Wing, Govt. of AP

An unwavering level of financial Sanctions and disbursement in this regard has taken place among the districts of the state. The total sanction and utilization of funds was ₹ 11184.00 lakhs in 2006-07 and 2007-08. Meanwhile it was ₹ 22061.521 lakhs in 2008-09 and 2009-10 (table 4). In 2013, Budget Released to the Districts was ₹ 213778.919 Lakhs and on 1st Mar 2013 Amount Disbursed was ₹ 17769.69 Lakhs

8. Earning Status of the Members

It is reported that, out of the 100 members, only 6 percent of the members are earning members and 2 percent are in the category of not earning member. About 92 percent of the members have not responded

Longevity of Beneficiaries

Around 50 percent of beneficiaries reported that they have received the pension for more than three years and more than 92 percent received the pension amount by cash. Some of the beneficiaries under the scheme have received the pension amount by travelling a distance of below 3 km and all of them reported that they themselves have received the payment. The pension disbursement to some extent is irregular. More than 99 percent of the beneficiaries reported that the pension was being received every month.

9. Utilization of Last Pension Amount

Out of the 100 surveyed beneficiaries, 40 per cent of the beneficiaries have utilized 31-40 of their amount from pension for purchasing food items. Out of them, 11-20 percent was utilized for

Table 4: District Level Financial Targets & Achievement under IOAP Scheme

(Amount in lakhs)

Sl. No.	Name of the District	2006-07		2007-08		2008-09		2009-10	
		Sanctioned	Utilized	Sanctioned	Utilized	Sanctioned	Utilized	Sanctioned	Utilized
1.	Srikakulam	504.456	504.456	708.886	708.886	995.088	995.088	995.088	995.088
2.	Vizianagaram	508.056	508.056	713.945	713.945	1002.190	1002.190	1002.190	1002.190
3.	Visakapatnam	509.424	509.424	715.867	715.867	1004.888	1004.888	1004.888	1004.888
4.	East Godavari	661.848	661.848	930.061	930.061	1305.559	1305.559	1305.559	1305.559
5.	West Godavari	567.168	567.168	797.012	797.012	1118.794	1118.794	1118.794	1118.794
6.	Krishna	484.728	484.728	681.163	681.163	956.173	956.173	956.173	956.173
7.	Guntur	600.816	600.816	844.296	844.296	1185.168	1185.168	1185.168	1185.168
8.	Prakasam	609.696	609.696	856.774	856.774	1202.684	1202.684	1202.684	1202.684
9.	Nellore	504.408	504.408	708.819	708.819	994.993	994.993	994.993	994.993
10.	Chittoor	471.840	471.840	663.052	663.052	930.750	930.750	930.750	930.750
11.	Cudapah	554.568	554.568	779.306	779.306	1093.939	1093.939	1093.939	1093.939
12.	Ananthapur	660.408	660.408	928.037	928.037	1302.719	1302.719	1302.719	1302.719
13.	Kurnool	410.832	410.832	577.321	577.321	810.406	810.406	810.406	810.406
14.	Mahaboob Nagar	575.088	575.088	808.142	808.142	1134.417	1134.417	1134.417	1134.417
15.	Ranga Reddy	481.512	481.512	676.644	676.644	949.829	949.829	949.829	949.829
16.	Hyderabad	154.488	154.488	217.094	217.094	304.742	304.742	304.742	304.742
17.	Medak	427.752	427.752	601.098	601.098	843.782	843.782	843.782	843.782
18.	Nizamabad	368.640	368.640	518.031	518.031	727.178	727.178	727.178	727.178
19.	Adilabad	362.928	362.928	510.004	510.004	715.911	715.911	715.911	715.911
20.	Karimnagar	494.928	494.928	695.497	695.497	976.293	976.293	976.293	976.293
21.	Warangal	451.536	451.536	634.520	634.520	890.698	890.698	890.698	890.698
22.	Khammam	461.856	461.856	649.022	649.022	911.056	911.056	911.056	911.056
23.	Nalgonda	357.024	357.024	501.707	501.707	704.264	704.264	704.264	704.264
	Total	**11184.00**	**11184.00**	**15716.300**	**15716.300**	**22061.521**	**22061.521**	**22061.521**	**22061.521**

Source: Office of the Chief Executive Officer, SREP-SHG Wing, Govt. of AP

the purchase of cloths by 40 percent. 35 percent of them spent about 11 to 20 per cent of the income on Medicine. All hundred percent of respondents spent up to 10 per cent for their Relatives. Meanwhile, 90 per cent have given an amount of about 11 to 20 percent to their grand son/daughter. Upto about 10 percent of the amount was used by 90 percent of the respondents to clear their borrowings (Table 5).

Table 5: Utilization of Last Pension Amount

S.No.	Pension Utilization Level (Percent)	Percentage of Respondents					
		Food	Cloth	Medicine	For Relatives	Given to Grand Children	Cleared Borrow-ings
1.	Upto 10	0.0	24.0	20.0	100.0	10.0	90.0
2.	11 to 20	20.0	40.0	35.0	0.0	90.0	10.0
3.	21 to 30	20.0	16.0	30.0	0.0	0.0	0.0
4.	31 to 40	40.0	20.0	5.0	0.0	0.0	0.0
5.	Above 40	10.0	0.0	10.0	0.0	0.0	0.0
6.	**Total**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

10. Success Stories - Impact of the Scheme

i. Indhiramma Scheme Changed Life

Appayamma, a 68 year old widow lives in Kottam village along with her son's family. She is unable to do any work. But, her in-law forced her to feed the cattle in the grazing land. She suffered from lack of food for a number of days and later, even came to a point of contemplating to commit suicide. Fortunately, the village president (Tolem Rajulu) enrolled her name for old age pension and Anthyodaya (Annapurna scheme providing 30 kilos of rice at ₹ 1 rupee per kilo) Scheme. Currently she has been getting 30 Kilos of Rice and ₹ 200 of old age pension per month. The researcher observed a pleasant expression of joy in her face. She said that she had never ever expected this to happen even in her dreams.

ii. IOAP Scheme Gift' for People Under Poverty Line

Kanakamma, Papaya, Pandavulu and many more people of the old aged group belonging to Kottam pachayat, who have been suffering with food problems, are now availing of food every month under IOAP Scheme. They are also enjoying the fruits of the scheme through getting food security. All are feeling happier because they could not have afforded otherwise to have such conditions. Interestingly, some are selling rice which they are getting under Annapoorna Scheme and spending the money for various purposes.

iii. Satisfactory Level of the Scheme

A variety of response has been found concerning Satisfaction with the Scheme. Out of the total beneficiaries, 84 percent of them are satisfied with the scheme, 14 percent of the beneficiaries are not satisfied and 2 percent did not respond to the issue due to some administrative ambiguities like improper wordings.

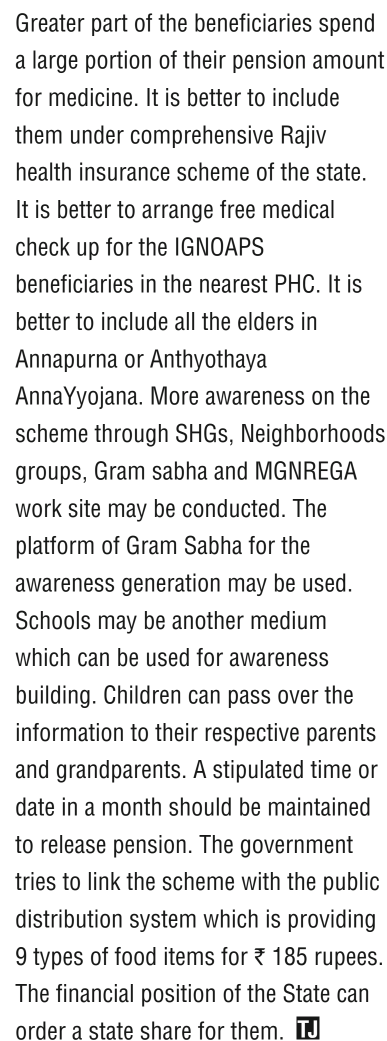
Meanwhile, out of the total beneficiaries 84 per cent reported that the scheme has had a positive impact on their life, 14 per cent perceived a moderate impact and 2 per cent were not able to assess the impact on their life.

11. Conclusions

The Indian constitution rightly directed the state to provide social security to all the disabled. As such, old age pension scheme is prominent among them. The state of Andhra Pradesh has followed the NOAPS, renamed as Indhiramma old age pension scheme. All the beneficiaries felt that the scheme had changed their lives and they are enjoying a better life. They have been meeting minimum needs like food, cloth, medicine etc. Majority of the beneficiaries stay with their son or daughter, so one portion of the amount is also used for the educational purpose of the grand children. Majority is more than 70 years of age and they need urgent medical support. Hence major portion of the amount is used for medicine. One of the major advantages of the scheme is that the beneficiaries can purchase the medicine without depending on others. They are not helpless people but are happy people.

12. Suggestions

The following suggestions can improve the life style of the elders.


Greater part of the beneficiaries spend a large portion of their pension amount for medicine. It is better to include them under comprehensive Rajiv health insurance scheme of the state. It is better to arrange free medical check up for the IGNOAPS beneficiaries in the nearest PHC. It is better to include all the elders in Annapurna or Anthyothaya AnnaYyojana. More awareness on the scheme through SHGs, Neighborhoods groups, Gram sabha and MGNREGA work site may be conducted. The platform of Gram Sabha for the awareness generation may be used. Schools may be another medium which can be used for awareness building. Children can pass over the information to their respective parents and grandparents. A stipulated time or date in a month should be maintained to release pension. The government tries to link the scheme with the public distribution system which is providing 9 types of food items for ₹ 185 rupees. The financial position of the State can order a state share for them. TJ

References

Asher, M. (2008). "Pension Reform in India", in R. Jha (ed.), The Indian economy sixty years after independence. London, Palgrave MacMillan.p.121-122

Prasad, S. (2011). Deprivation and vulnerability among elderly in India. Mumbai, Indira Gandhi Institute of Development Research.

Government of india(2012); Indhira Gandhi national old age pension Scheme (ignoaps) in Andhra Pradesh, Ministry of Rural Development. New Delhi

Going Global 2014

GLOBAL INSURANCE PROGRAM (GIP)
(Known as INTERNATIONAL INSURANCE PROGRAMS)

"It is impossible for a man to learn what he thinks he already knows" – Epictetus

Ramakrishna Laksman
Senior Vice President
Suprasesh General Insurance Brokers Pvt. Ltd.
318, Shah & Nahgar Estate,
Lower Parel west,
Mumbai 400013.
rk_laksman@yahoo.com

Introduction

Why Global and what is Global Insurance Program?

Globalization is spreading one's operational wings from local economies to world market economy. It cuts across the national borders in pursuit of new business opportunities, and assumes risks associated with the business through a holistic, centrally managed insurance program that meets with varying insurance needs in each country.

Global programs deliver a stable and consistent coverage, control over risk and losses, and are costs effective. GIP, also known as International Insurance

Program (IIP's), is not a new concept. It has evolved considerably over the past few decades to meet the increasingly sophisticated demands of the business.

In the year 1991 Indian economy underwent a sea change. It was the dawn of globalization. The market was thrown open to foreign companies. Many global companies like Microsoft, Google, CISCO, IBM, Nokia, Siemens, Adidas, Nike, Pepsi, Kellogg started operations in India. Indian companies like Jindal, Adani, Airtel, Aditya Birla, Ushas Shriram, L&T, Shapoorji Pallonjee, Infosys, TCS, Wipro, GMR, Reliance Industries, Reliance Communication, have moved globally.

Globalization gave impetus to the importance of risk management. The concept of all inclusive cover to protect the liability that may arise from overseas exposure became popular amongst the business leaders. Industries like energy, petroleum, chemicals, mining and manufacturing companies, with a homogenous and standardized globally accepted process look forward to a common insurance program. In the earlier years, the economics of globalization was the biggest factor driving the development of GIP. Today, the outlook and attitude towards risk awareness and the emerging need for corporate governance, corporate social responsibility are increasingly pushing the corporations to resort to international insurance coverage.

Scope & Coverage of Global Program

GIP's are not simple off-the-shelf insurance products like any other insurance package programs. Their structures differ considerably, so they are tailor-made to accommodate and reflect the corporate risk culture & risk attitude specific to each business. The key feature of GIP is the ability to have a worldwide view of business risks, top down approach to understand the risk and the keenness to monitor the risk through a centralized insurance programs from a macro level so that risks do not spring as surprises.

Major corporates buy bespoke GIP's, known as a Master policy or Seamless Cover with an aim to plug in any gaps in the coverage provided by local policies. To ensure complete and uniform coverage to the entire business operations business many companies opt for a combination of policies, providing worldwide coverage and local policies, known as a Controlled Master Program (CMP). Under CMP, local admitted policies are supplemented by a Difference in Conditions" (DIC) & Difference in Limits (DIL) policies purchased by the corporate risk group.

DIC/DIL policy is designed as a top up cover above the local policy by providing additional limits of liability, if coverage under the local policy is not adequate. It will also fill coverage gaps when a combination of local policies fails to fully address an exposure. Where no local policies exist, the DIC/DIL policy provides primary coverage. Mostly local polices trigger first for any loss. DIC/DIL policy comes into play only if gaps occur. DIC/DIL endorsement has the following options like:

Drop Down Cover: When the local policy coverage is not as broad as the master policy or its limit of liability has been exhausted then if coverage and limits are available under the master policy, the parent company's master policy is designed to respond.

Follow form Excess Cover: When the limits under local policies are exhausted, the CMP follows the terms and conditions of the local controlled admitted policy where the loss is covered.

Loss to Parent Organization if local company suffers a loss and is not able to get that loss from the local insurer because of some local regulations, it will pay the loss to the parent organization.

For EU countries, **Freedom of Services** (FOS) policies (known as "Euro policies") are popular. An FOS policy is issued in one EU country but covers all operations throughout the EU.

Globalization has compelled multinational companies to deliberate how best they can protect their revenues, assets and employees worldwide. Stakeholders want to ensure that all their group entities are adequately covered for their activities. GIP allows a company to set a SOP, communicate with their group entities, and leverage on the best insurance price and adequate coverage.

GIP reflects corporate risk management philosophy and helps to perceive, pervade, permeate, percolate and penetrate into overall operations. GIP provide numerous benefits for insurance buyers, including

significant cost savings, greater control of the risk management process, and enhanced support from insurance service providers. With GIP in place, the business could do away with many repetitive and overlapping covers to ensure that insurance is a conscious choice and is not taken due to compulsion.

From the forgoing discussions, it should not be construed that GIP is meant only for companies having global operations. The GIP could be extended in similar lines, within the country to any business having multifarious activities, to cover all its operations under a seamless umbrella cover to reap the benefit in premium as well to monitor the claims. It would be easier to wrap up the insurance programs within country under a master program.

Many multinational companies prefer this approach by consolidating the program country wise, and then bring them under a global program.

Global Insurance Program - Simple Case Study

We give below a case study to explain how the global insurance programs could help in consolidation of risks under a single liability policy. Here there are hypothetically seven manufacturing entities with similar operations, spread across the US, UK, & Asia. The US laws are so stringent, so, business is over sensitive to the liability claim that falls on them. One normally would see companies operating in US / Europe go in for a variety of Liability programs like General Liability, Commercial Liability, Pollution Liability, Environment Liability, Commercial & General Liability. Similar is the case of Directors & Officers Liability insurance as the directors are always keen to see that they are not asked to pay from their private assets for their negligence or misstatement in their official capacity.

Since the liability insurance is not easily available locally, for a bigger sum insured, local companies prefer to go in for a layered cover. Premium rates for liability is different for each entity depending on its business size, capacity and volume, spread of risk and its proximity to city, risk control measures, safety policy, regulatory requirements, claims experience, & moral hazard of insureds. The business overall liability program looks like this:

Liability Program	COVER	Cover in USD	Premium Paid by Each Entity Operating							Premium $
			IN USA		IN EUROPE		IN ASIA			
			Facilty A	Facilty B	Facilty A	Facilty B	Facilty A	Facilty B	Facilty C	TOTAL
Commercial & General	BASE	10mn	125,000	110,000	125,000	140,000	100,000	120,000	100,000	820,000
Liability	Top up 1	10mn XS 10mn	112,500	90,000	135,000	168,750	NA	NA	NA	506,250
	Top up 2	30mn XS 20mn	90,000	72,000	108,000	135,000	NA	NA	NA	405,000
Commercial Umbrella	BASE	10mn	125,000	120,000	110,000	130,000	90,000	75,000	80,000	730,000
Liability	Top up 1	10mn XS 10mn	140,400	129,600	151,200	140,400	NA	NA	NA	561,600
	Top up 2	30mn XS 20mn	117,000	108,000	126,000	117,000	NA	NA	NA	468,000
Pollution	BASE	10mn	125,000	110,000	120,000	125,000	90,000	110,000	100,000	780,000
Liability	Top up 1	10mn XS 10mn	127,000	105,000	117,000	120,000	NA	NA	NA	469,000
	Top up 2	30mn XS 20mn	135,000	90,000	135,000	120,000	NA	NA	NA	480,000
Environment	BASE	10mn	90,000	75,000	97,500	90,000	82,500	82,500	82,500	600,000
Liability	Top up 1	10mn XS 10mn	63,000	52,500	68,250	63,000	NA	NA	NA	246,750
	Top up 2	30mn XS 20mn	50,000	45,000	55,000	50,000	NA	NA	NA	200,000
Directors & Officers	BASE	10mn	55,000	45,000	40,000	42,000	37,500	37,500	37,500	294,500
Liability	Top up 1	10mn XS 10mn	22,500	33,750	25,875	34,875	NA	NA	NA	117,000
	Top up 2	30mn XS 20mn	15,000	22,500	17,250	23,250	NA	NA	NA	78,000
										6,756,100

The singularity of any liability policy is that it rarely triggers a claim, if triggered it would be a major claim for example Bhopal Gas. The reinsurers normally rate the risk known as "rating[1] by layer". Since there is every chance of a claim hitting the first layer, it is also known as the burning layer or working layer. The reinsurers are fussy about assuming the primary layers of liability. The reinsurer rate would be high for the burning layer and it goes as high as 30-40% of the premium like in petrochemical, & Oil, Energy risks. When the layers go up, there is less chance of a claim so reinsurers charge lower premium, and the premium is always less. A single reinsurer cannot give full cover for a liability program so there would be cluster of reinsurers, and polices are taken in layer by layer to get premium advantage, for e.g. First layer for USD 5MN Second layer for USD 10 MN 5th layer USD 100MN so on.

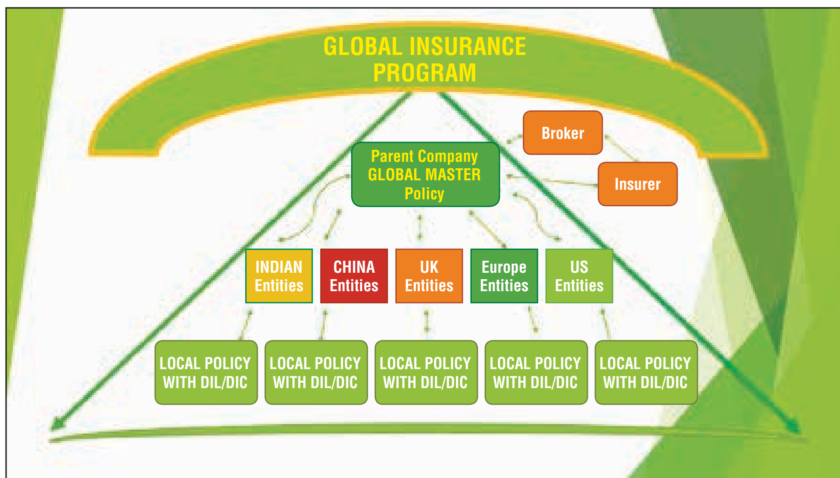
Since each unit is a stand alone, it goes for a separate insurance from different insurers. Hence each one has to contribute to the high cost of premium for the burning layer of the reinsurer's. Units in Asia are contended with base cover and have not gone for top ups. After all insurance cost is a charge against their profit. Since all the entities have a similar insurance requirement in terms of liability insurance like Public / Product /Directors liability it would make sense if we consolidate them into a single umbrella policy. If we consolidate the all Liability requirements under GIP, the premium structure could be like this:

There is also a possibility of clubbing some of the covers to wrap up Commercial General Liability with Commercial Umbrella and Pollution and Environment Liability. The above mentioned limits will float across all the entities, sufficient at any point of time unless there is a major catastrophe event like Tsunami or Hurricanes like Katrina, Sande, Andrew, Camille, ILA, Wilma. That could be covered with a CATS XOL cover for another say $250 -500 MN at the top layer for US /ASIAN operations, and more to cover global operations. A GIP could be bought with local exceptions to cover all the entities across the Globe, the limits could be for few million dollars, it would bring down the premium cost by 40-50%, with a wide cover and better insurance.

Global Liability Program for 2014-15 Covering the Operations in US, Europe & Asia

Liability Program	LAYER	Cover in USD	Premium $	Policy Endorsements due to			
				DIC	DII	CONTINGENCY	REMARKS
Commercial & General Liability	PRIMARY	20 MN	600,000				
	LAYER 2	30mn XS 30mn	425,000				
	Top up 2	50mn XS 50mn	300,000				
Commercial Umbrella Liability	Primary	20 MN	500,000				
	Top up 1	30mn XS 30mn	400,000				
	Top up 2	50mn XS 50mn	350,000				
Pollution Liability	Primary	20 MN	550,000				
	Top up 1	30mn XS 30mn	400,000				
	Top up 2	50mn XS 50mn	200,000				
Environment Liability	Primary	20 MN	300,000				
	Top up 1	30mn XS 30mn	200,000				
	Top up 2	50mn XS 50mn	150,000				
Directors & Officers Liability	Primary	20 MN	150,000				
	Top up 1	30mn XS 30mn	75,000				
	Top up 2	50mn XS 50mn	50,000				
			4,650,000				

The above program could be modified and extended to cover all the plants under a single global program country wise, such a way that the requirements of each entity is taken care of and at the same time there would be a drastic reduction in the overall premium by eliminating the redundancies in cover. This also helps the top management to have helicopter a view of what they are up to and how they are protected in each country.



How to Build[2] a Multinational Global Program?

Global Program requires Corporate risk group, Brokers and underwriters visiting each and every plant along with the liability insurers, meeting the plant heads / legal department, understanding their insurance specifics, local exceptions and the legal obligations to be complied and getting into the granularity, finally arriving at a consensus on the cover to be included in GIP. The following steps are involved in developing the GIP

- Detailed risk study, recording of cover requirements, location wise - covers required in common and specific to a particular unit, local regulation and statutory law
- Mapping the common risks of all units and delineation of specific risks, termed as local risks or exceptions
- Drafting Global policy to cover all operations covering the common risks & supplementing it with Local policies dependent on risk and regulatory requirement as a spillover cover
- Consensus and Signing off from all operation Heads / CFO's / CRO's to ensure that there are no gaps in the insurance programs
- Simulation model of last 5 years claims to preview whether those claims fit well within the purview proposed Global program
- Getting the best quotes / deductibles / terms for the Global program and SLA's
- Premium is allocated on the basis of revenue for the common programs and individually for the specific program.

Key[3] Considerations in Global Program

A. Planning Global Master Program

- Gathering initial information operations across, client specific requirements including local requirements.
- Screening of countries involved based on legal and regulatory requirements, for example, European FOS
- Identifying risk group plant wise / country wise
- Preparing a risk Matrix table showing the severity of each risk
- Identifying risks as common programs and specific programs

B. Designing the Global Master Program

- Carrying our risk survey of each unit based on the risk matrix received from insured
- Study of local policy requirements / legal and regulatory
- Client insurance requirements mapped to a common Global program
- Scope of global program agreed mutually and approved by CRO
- Program set up and service level agreement signed off and in place

C. Implementing Global Program

- Issuance of Master Umbrella policy
- Implementation of local policies in consultation with local insurer, and premium payment
- Processing of facultative reinsurance for fronted policies and policy placements
- Providing Insurance Manual on Global insurance across the operating units
- Monitor the policy operations and hand holding training

D. Measuring Progress and Performance

- Regular review of policy operations vis a vis claims
- Getting the feedback from units on the working of policy, specifically any gaps in insurance
- Implementing mid-term adjustments of policy to fill in the gaps
- Ensuring an effective delivery through regular dialogue, and identifying any issues at early stage.
- Preparing a whitepaper on the working of Global program for the ERM Committee

Claims under Global Insurance Programs

The ultimate aim of any insurance program is to get the loss recovery from the insurer. GIP is chosen by multi-national companies to achieve a stable level of insurance across the company and comfortable claims management. A number of local policies along with master policy are also placed simultaneously to fill the gaps in insurance and each local policy is governed by the local laws.

Specific laws relating to the insurance activities in each jurisdiction at times can upset the payment of claims under global programmers. The failure to follow local laws and regulations could result in additional taxes, fines, confiscation of the claims payment, so it is imperative that GIP takes into consideration[4] of local laws.

The best example to elucidate this point is the India example case of Adidas India, the sportswear manufacturer, which suffered a fire at its warehouse in India in 2010.

- GIP taken out by Adidas AG
- Fire at a warehouse in India
- Adidas AG received USD $20m towards claims
- Adidas India received $10m towards claim
- Income Tax taxed Adidas India USD 20MN paid to Adidas AG.
- Adidas argued that the premium for the global insurance policy was paid by the ADIDAS AG outside India, so, the claim payment received by them was not taxable.
- The investigation by the Indian tax authorities found that various email exchanges between executives of Adidas India and the head office showed that the claims payment to the head office belonged to Adidas India and was made to the head office to avoid taxes in India.
- The entire scheme of things appears to be arranged by the Adidas group in such a way so as to evade paying taxes on this amount in India," the tax department said in its internal report. As a result, a tax was levied against Adidas India.

Another example is that Sep'11 flood of Thailand. Please refer to Thailand 2011 Flood Event Recap Report from Aon Benfield Chronology of Events, week by week report[5] on the Thai flood.

"Quote"

The hardest-hit industries were electrical appliances and equipment, medical equipment, automobiles and food and beverage manufacturers. The Department of Industrial Works reported that more than 7,510 industrial and manufacturing plants were damaged by floods in 40 separate provinces. For a further look at preliminary information regarding the timing of the flood inundation in addition to an estimated aggregate total sum insured (TSI) in selected industrial estates.

Ayutthaya Province was one of the most heavily impacted areas, where at least 900 out of 2,150 factories were heavily damaged. In Ayutthaya Province, all five industrial estates (Rojana, Saha Rattana Nakorn, Hi-Tech, Bang Pa-in and Factoryland) were inundated. Two additional industrial parks near Bangkok (Bang Chan and Lat Krabang) were also forced to temporarily suspend production due to inundation. Some of the notable companies who were forced to halt production in the industrial estates included: Toyota, Honda, Mazda, Nissan, Mitsubishi, Sony, Nikon,

Sanyo Semiconductor, Canon, Western Digital, Hitachi, Hutchinson, ON Semiconductor and Matsushita. According to the chairman of the Japan Automobile Manufacturers Association, nine separate Japanese motor companies

were forced to halt production at the height of the flooding and the production of approximately 6,000 vehicles were lost per day. The extended shutdown of the industrial estates led to a substantial loss of production, with the supply of automobiles and electronics particularly seeing a sharp decrease in availability all around the world. The loss of production led to negative impacts to each company's bottom line.

According to the Department of Industrial Works, damage costs to the industrial parks and estates were estimated at THB230.0 billion (USD7.4 billion) — including THB86.5 billion (USD2.8 billion) in damage to machinery and THB143.5 billion (USD4.6 billion) in damage to on-site raw materials, products that were currently in production and finished goods. The World Bank noted that the overall economic cost to manufacturing nationwide (including business interruption) was THB1.0 trillion (USD32.5 billion).

"Unquote"

When reinsurers learnt that they would have shell out a huge claims towards Thai flood, initial estimates touched a figure of USD $15.8 Bn (TBHT 489 BN), they started scouting for escape routes to avoid the claims or at least to reduce the claim impact . Reinsurers went to the extent of applying Wide Area Damage, Denial of Access (DOA), Prevention of Access ("POA") and loss of attraction ("LOA") to deny the BI claim as the cause is out of uninsured peril, referring to the famous English case held in Orient-Express_Hotels Ltd_v_Assicurazioni Generali_SpA[6]. We give below a week by week report[7] to show how the reinsurers have interpreted the above law vis a vis claim admissibility:

Chronology of Events

- First week - Some of the Insured's suppliers were flooded as well as various Customers.
- Second week - Flood waters prevent the Insured from accessing its premises, utilities were cut off.
- Third week - Undamaged suppliers cannot supply due to its own suppliers being flooded
- Eighth week - Flood water receded and Insured not able to access its plant and begin repairs.
- Weeks 9 to 14 – Insured working on clean-up and repairs but supplier / customer problems continued
- Week 15 - All damaged suppliers are restored.
- Week 16 - Normal operation resumed.

Reinsurers View - Coverage as per English Law

- First week – although no damage, supplier's extension provide cover to damage at supplier premises.
- Second week – concurrent causes operate failure of utilities (not insured) – therefore arguably no cover
- Even though access to the plant available from eight week, theoretically loss is assessed at nil until week 15 because supplier not able to supply due to uninsured peril (failure of tier-2 supplier).

Thai Regulator OIC (Office of Insurance Commission)[8] Took the Following Stand:

- ✓ No prior legal decision in Thailand on the above WAD / POA
- ✓ No binding precedent in Thai Courts – therefore each decision on own merits.
- ✓ Thai courts do not regularly rely on or cite English Court judgements, especially OEH decision**

  (** Author's comment: **Historically Thailand is the only country in Southeast Asia never colonized by any European power nor ruled by the British**)
- ✓ This is particularly where the Court can see that application of Orient Hotels would result in a substantially lower award of compensation for a claimant than if the case was not applied.
- ✓ Thai courts are generally reluctant to adopt a strict or technical approach to contract interpretation and tend to avoid deciding cases based largely or solely on technical grounds.
- ✓ The courts may then apply a "fair and reasonable" attitude to the cover, is conscious that a large flow of monies from claims payments will be made into the country over the next year as a result of the floods in October 2011.
- ✓ **Finally the OCS prevailed on insurers / reinsurers to honour the claims.**

Challenges in Global Program[9]

GIPs' are not that simple as one thinks. Building a program that is local law compliant threatens to eat away some of its benefits. Every country has its own regulatory requirements, as to what coverage is compulsory, and where and from whom insurance can be purchased. Many countries do not permit non-admitted insurance in all lines of business, and these include some major markets like Japan, India, Argentina, Switzerland, Brazil, China, the United States, the Netherlands, Italy and Germany. If non-admitted is not permitted, then DIC and DIL coverage will be viewed as non-admitted and therefore not allowed. Providing a global insurance program that complies with local regulations is a major challenge for insurance buyers[10], for example in India, the regulatory norms laid down by FEMA, RBI, SEBI, & IRDA have to be complied with.

> Local brokers may not welcome the Global program as they not only lose their importance but also their major pound of flesh. It is not so easy to bring all the risk under a single program and to draft a program requires a lot of information and output to do the validation, so there are few takers for the GIP.

Finally, Let Us Go Global! Way Forward

We have seen the pros and cons of GIP in the above discussion. Nowadays corporates are moving towards better risk management and ERM. Risk is no more the prerogative of a few at the top as each stakeholder is looking for a holistic approach to risk management. Now many multinational companies need to report on risk governance, and a well implemented GIP could help them to have a robust risk management.

The major obstacle is within the organization itself as each risk owner perceives its risk to be the highest and complex, and would not like to participate with others. Where there is Bank hypothecation, the Lenders will have a say in the insurance and they may not accept that the assets pledged with them are adequately covered in the GIP. Local brokers may not welcome the Global program as they not only lose their importance but also their major pound of flesh. It is not so easy to bring all the risk under a single program and to draft a program requires a lot of information and output to do the validation, so there are few takers for the GIP. This requires a lot of home work and companies are not equipped with that type of infrastructure capabilities.

Corporate risk managers need to know the relevant regulatory regimes for each jurisdiction as the regulators look for additional taxing sources, for example, Indian Service Tax. While this is a challenging situation, it should not necessitate the dropping very idea of GIP, but rather monitoring, fine tuning and tweaking of the program periodically. Brokers handling such multinational insurance programs should proactively respond to this changing situation by providing a detailed review and analysis of these programs before adverse effects come into play.

If the insurance fraternity could overcome the challenges inherent in global insurance programs, the programs are likely to play even a better role in multinational insurance strategies. Most of the problems could be tackled by constant monitoring. It may be noted that GIP results in overall premium reduction, simple policy administration, unified corporate risk policy, and effective claims management.

A well-structured and administered GIP in any multinational, headed by the Chief Risk Officer, assisted by a versatile insurance broker and a top-tier global underwriter can minimize the friction caused by the plethora of insurance policies, with varying tax and insurance regulations around the world. It helps the management to stay focused on its core business, growth and profitability.

So let us GO GLOBAL !!

Some insurance terms used in this explained:

Admitted Insurance Companies

An admitted insurance company is one that is "admitted" by a particular state to do business as an insurance company. To be an admitted carrier, an insurance

company must conform to the regulations of a particular state's Department of Insurance. In addition to meeting minimum regulations for admission, admitted carriers must also file their rates with the state, which the state must approve. One of the benefits of working with an admitted carrier is that the state has the responsibility to pay an insurer's claims, up to state-specified limits, in the event of the company's insolvency.

Non-Admitted Insurance Companies

A non-admitted insurance company is one that doesn't operate under an individual state's insurance laws. As a result, a non-admitted insurance company doesn't enjoy the benefit of having its claims resolved in the event of a bankruptcy. However, non-admitted companies also have much more pricing flexibility, as they don't have to submit their rates to the individual states for review. Consequently, non-admitted carriers can insure higher-risk events, such as earthquakes, or specialty risks, such as professional liability insurance, that admitted carriers often can't afford to cover.

Countries that permit non-admitted insurance
– UK, Sweden, USA, Canada

Countries that do not permit non-admitted insurance;
– China, Brazil, India, Russia, Mexico, Argentina, Switzerland

Difference-in-Conditions Insurance (DIC) - Clauses in property insurance which 'wrap around' basic perils provided by local primary policies so as to include, as an example, the perils of earthquake, flood, collapse.

Difference-in-Limits Insurance (DIL) - This wording is mostly found in the Master Policy and provides excess limits over locally admitted underlying policies bringing them to a predetermined uniform level within.

Excess of Loss Reinsurance - Refers to a method whereby an Insurer pays the amount of each claim for each risk up to a predetermined limit and the Reinsurer pays the amount of claim in excess to a specific amount.

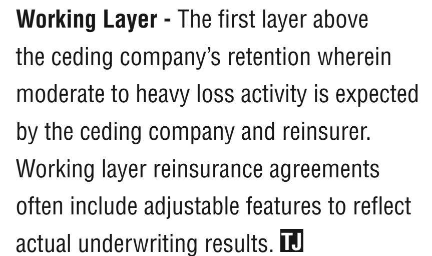
Global Program - Refers to a worldwide insurance program which includes the parent company's domicile.

Layer - The total amount of excess of loss reinsurance protection which a company needs to protect a given set of exposures is usually not written in one contract. Instead, the total amount is split into pieces or layers and separate contracts are written which fit on top of each other and have similar or identical terms but separate limits which sum to the total amount required. Each of the separate contract in the series is called a layer or level in the total program.

Public Liability Insurance - Intended for companies and generally covers all exposures for property damage and bodily injury except aviation and automobile exposures.

Self Insurance - Protecting one's self or company by putting aside money to pay for otherwise insurable and predictable losses.

Umbrella Liability - This is a form of excess insurance (over primary liability policies) but it also serves to fill gaps in coverage under the basic primary policies.



Working Layer - The first layer above the ceding company's retention wherein moderate to heavy loss activity is expected by the ceding company and reinsurer. Working layer reinsurance agreements often include adjustable features to reflect actual underwriting results. TJ

Cross References

1. Rating by Layer -http://www.casact.org/pubs/proceed/proceed63/63015.pdf
2. How to build GIP - http://www.aig.com/Chartis/internet/US/en/GM%20RIMS%20White%20Paper_tcm3171-422802.pdf
3. GIP Key Considerations -- http://www.acegroup.com/eu-en/assets/sr_global-programmes.pdf
4. Global Insurance Compliance - http://www.airmic.com/sites/default/files/global_insurance_compliance_helen_hayden.pdf
5. Thai Flood Event Recap AON Benfield Report - http://thoughtleadership.aonbenfield.com/Documents/20120314_impact_forecasting_thailand_flood_event_recap.pdf
6. Oriental Express Hotel Case - http://www.cila.co.uk/files/BI/OEHpdf.pdf
7. Thai flood claim - ttp://webfiles.crawco.com/Documents/SharedWeb/CrawfordResponds/2011-Thailand/Thailand-All-May-2012.pdf)
8. Legal Perspective of Thai flood claim - ttp://www.aicla.org/Gallery/Asian%20Claims%20Convention%202013/PPT/content/11_A%20Legal%20Perspective%20on%20BI%20outcomes%20from%20the%20Thailand%20Floods.pdf
9. Challenges in Global Program Structure - http://www.zurich.com/NR/rdonlyres/B7E2664D-77E9-4AB3-959C-6572AB963528/0/Guide_to_Global_Programs.pdf
10. International Insurance Programs Challenges - http://www.slideee.com/slide/forum-2013-international-insurance-programs-challenges-in-managing-the-regulatory-and-tax-regimes.

CALL FOR PAPERS

We invite articles/papers for following issues.

April – June 2015
Any topic on insurance or allied areas.
Last Date of submission of papers/articles will be **28th February, 2015**.

July – September 2015
Theme for **July-September 2015** issue of **'The Journal'** is **'Old Age Securiy'**.
Last Date of submission of papers/articles will be **31st May, 2015**.

We request you to send your articles/papers to journal@iii.org.in on or before the due dates.

Knowledge Management Center
Insurance Institute of India
Plot No. C-46, G Block,
Bandra-Kurla Complex,
Bandra (East),
Mumbai - 400051.
www.insuranceinstituteofindia.com

Guidelines for contributors of the Journal

Note to the Contributors:

"The Journal" is quarterly publication of Insurance Institute of India, Mumbai. It is published in the month of Jan/April/July/Oct every year. "The Journal" covers wide range of issues related to insurance and allied areas. The Journal welcomes original contributions from both academicians and practitioners in the form of articles, research papers, case studies, special commentary and book reviews. Authors whose papers are published will be given honorarium and two copies of the Journal.

Guidelines to the Contributors:

1. Manuscript submitted to the Editor must be typed in MS-Word. The Length of the articles and case studies should not exceed 5000 words. Research papers length can be upto 10,000 words. For book reviews and commentaries the word limit may be upto 1500-2000 words.

2. General rules for formatting text:
   i. Page size : A4 (8.27" X 11.69")
   ii. Font: Times New Roman – Normal, black
   iii. Line spacing: Double
   iv. Font size: Title-14, Sub-titles– 12, Body- 11 Normal, Diagrams/ Tables/Charts– 11 or 10.

3. The first page of the Manuscript should contain the following information: (i) Title of the paper; (ii) The name(s) and institutional affiliation(s) of the Author(s); (iii) email address for correspondence. Other details for correspondence such as full postal address, telephone and fax number of the corresponding author must be clearly indicated. The category of submission should be specified either as a research paper, article, review, case study etc.

Point no. 4, 5, 6 and 7 are applicable only for articles, case studies and research papers.

4. **Abstract:** A concise abstract of maximum 150 words is required. The abstract should adequately highlight the key aspects or state the objectives, methodology and the results/major conclusions of analysis. The abstract should include only text.

5. **Keywords:** Immediately after the abstract, provide around 3-6 keywords or phrases.

6. **Tables and Figures:** Diagrams, Tables and Charts cited in the text must be serially numbered and source of the same should be mentioned clearly wherever necessary. All such tables and figures should be titled accurately and all titles should be placed on the top after the number. Example: Table 1: Growth Rate of Insurance Premium in India (1997-2010).

7. **References:** all the referred material (including those from authors own publication) in the text must be appropriately cited. All references must be listed in alphabetical order and sorted chronologically and must be placed at the end of the manuscript. The authors are advised to follow American Psychological Association (APA) style in referencing.

   Reference to a Book: Author. (Year). *Title of book*. Location: Publisher. Example: Rogers, C. R. (1961). *On becoming a person*. Boston: Houghton Mifflin.

   Reference to a Journal Publication: Author(s). (Year). Title of the article/paper. *Journal name*, volume (issue), page number(s). Example: Smith, L. V. (2000). Referencing articles in *APA format*. *APA Format Weekly, 34(1)*, 4-10.

   Reference to a Web Source: Author. (Date published if available; n.d.--no date-- if not). Title of article. *Title of web site*. Retrieved date. From URL. Example: Landsberger, J. (n.d.). Citing Websites. In *Study Guides and Strategies*. Retrieved May 13, 2005, from http://www.studygs.net/citation.htm.

8. Usage of abbreviations in the text should be avoided as far as possible and if used should be appropriately expanded.

9. The papers and articles submitted must be original work and it should not have been published or submitted for publication elsewhere. The author(s) are required to submit a declaration to this extent in the format specified in Appendix 1, while submitting their articles.

10. All the submissions would be first evaluated by the editor and then by the editorial Committee. Editorial committee may require the author to revise the manuscript as per the

guidelines and policy of the Journal. The final draft is subject to editorial changes to suit the journals requirements. Editorial Committee also reserves its right to refer the article for review/ delete objectionable content/ edit without changing the main idea/ make language corrections/ not to publish/ publish with caveats as per its discretion. The Author would be duly communicated with such decisions.

11. Contribution(s) should reach the designated email address at III on or before 30th November (January issue), 28th February (April issue), 31st May (July issue) and 31st August (October issue).

12. Please send your manuscripts to
    The Editor,
    The Journal of Insurance Institute of India, Insurance Institute of India
    Plot no. C-46, G-Block, Near Dhirubhai Ambani International school,
    Bandra-Kurla Complex, Bandra (East), Mumbai-400051.

    Or

    Electronically Mail to <journal@iii.org.in> with subject line as "Contribution for "The Journal" – January/April/July/October (Mention Year) issue.

13. In case the author has submitted only the hard copy, an electronic version of the manuscript would be required once the paper is accepted for publication.

14. All enquiries related to the submissions should be addressed only to the Editor.

15. Copyright of the published articles and papers would rest with "The Journal of Insurance Institute of India" and any further reproduction would require prior and written permission of the Editor.

Specific Guidelines for Book Reviews:

1. The book review should be of a book published in recent years (current year or previous year).

2. The review should not be more than 2000 words; word limit can be more/ less depending on the scope of the book.

3. The reviewer should clearly mention the details of the book reviewed such as Title, Author(s) name, publishers detail, year of publication, place of publication, number of pages and listed price as mentioned on the cover page of the book. If the ISBN number is provided, it should be specified. Beside the above, the components of the book review should be brief summary of the intended objective/ purpose, description of the approach, logical and objective evaluation.

4. The references should be kept to the minimum or completely avoided in a book review.

5. Avoid replicating tables and figures from the book, or directly quoting from the book.

6. The review should not be just a summary of the book, but it should bring out the essence of the book and focus on the objective, theme, scope of coverage, etc. The book review should put forward an objective and fair opinion about the significance, strengths and weaknesses. The review should be about the books contribution to the subject rather than what the reviewer feels about the book.

7. The reviewer should try to make the review insightful and informative.

Specific Guidelines for Case Studies:

1. Cases usually describe complex issues and readers are forced to take optimum decisions/action in a dilemmatic situation. Cases are meant to create challenges of decision making in the mind of readers regarding conflicting situations, insufficient information, dynamic environment and the like.

2. The authors of the case studies can take organization specific or industry specific issues and present the facts of the case in a logical way.

3. The case study should be well documented and well researched and must be realistic in its context and relevance.

4. Sufficient data (primary or secondary) should be incorporated within a case study for discussion and generating alternative solutions and identifying the best possible alternative. Prior approval for disclosure of information (company specific) must be taken by the author wherever applicable.

5. The issues that are raised in the case should be focused and must be effectively presented without any ambiguity or contradictions.

6. All the referenced material should be adequately and accurately cited at the end of the case.

7. Discussion questions can be provided at the end of case (optional).

Appendix I

Declaration by the Authors

I/We(Full Name of the Author(s))..

.., declare that I/We are the author(s) of the paper titled

"..."

(Title of the paper), I/We further declare that this is an original work and is submitted only to the Journal of Insurance Institute of India and it has not been previously published elsewhere and is not the intellectual property of any other author/s. I/we further authorize the editor to make changes in this paper to make it suitable for publication.

I undertake to accept full responsibility for any misstatement regarding ownership of this article.

....	**..............................**
(Signature Author I)	**(Signature Author II)**
Name:	**Name:**

Date:

Place:

PROGRAM CALENDAR FOR THE PERIOD APRIL 2015 - MARCH 2016

TRAINING PROGRAMMES

Sr. No.	PROGRAMME	DATE FROM-TO	DESIGN FOR
April 2015			
1	C.I.E. Workshop	6-8 Apr 2015	Certified Insurance Executives of Corporate Agents as per IRDA Guideline
2	25 hrs. Renewal Programme	6-9 Apr 2015	Broking Companies as per IRDA Guideline
3	Certified Insurance Trainers	13-15 Apr 2015	Insurance Trainers in companies & ATIs
4	Takaful Insurance	13-16 Apr 2015	Middle Level Executives from Insurance companies (dealing with takaful)
5	Claims Management of Property Insurance	20-21 Apr 2015	Middle Level Executives of General Insurance Companies
6	Mega Risk Insurance	20-21 Apr 2015	Middle Level Executives in General Insurance Companies
7	Motor Insurance Liability Workshop	27-28 Apr 2015	Middle Level Executives of General Insurance Companies Companies
8	Rural and Micro Insurance	27-29 Apr 2015	Insurance Executives looking after Rural and Micro Insurance both in General Insurance & Life Insurance companies
May 2015			
9	Handling of Marine Cargo Claims	5-6 May 2015	Middle Level Executives of General Insurance Companies, Broker, Surveyors
10	Information Security (Life Insurance)	5-6 May 2015	Insurance professionals working in IT department, CRM, Claims, Underwriting, Operations etc.
11	Challenges in Management of Project Insurance	5-7 May 2015	Middle Level Executives in General Insurance Companies
12	Bancassurance	11-12 May 2015	Middle Level Executives dealing with bancassurance & Executives in banks deals with Selling Insurance
13	Health Medical Management including Frauds Control	11-13 May 2015	Middle Level Executives dealing with Health Insurance Claims & in TPA
14	Reinsurance Management- International GICRe	11-16 May 2015	International Executives working in General Insurance Companies & looking after Re-insurance (Sponsorship only through GICRE)

Sr.No.	PROGRAMME	DATE FROM-TO	DESIGN FOR
15	CRM in Life Insurance	18-19 May 2015	Middle Level Executives from Life Insuranec Companies
16	Management of Property Insurance - Fire (Underwriting)	18-20 May 2015	Middle Level Executives in General Insurance Companies
17	New Vistas in Online Insurance Marketing	25-26 May 2015	Managars in Marketing department & direct Marketing Executives
18	Specialised Programme on Liability Insurance	25-26 May 2015	Middle Level Executive of General Insurance company dealing with Liability Line Business
June 2015			
19	25 hrs. Renewal Programme	8-11 June 2015	Broking Companies as per IRDA Guideline
20	International Reinsurance Management Programme	8-12 June 2015	International Executives working in General Insurance Companies & looking after Re-insurance
21	Crop and Wealth Insurance	15-16 June 2015	Middle Level Executives in insurance companies, broking companies, NGO's and similar areas.
22	Agency Management (General Insurance)	15-17 June 2015	Middle Level Executives in General Insurance Companies
23	Appreciation Course- Actuarial Science for Non-Life Insurance	22-24 June 2015	Managers of Non-life Insurance Companies
24	Marketing Strategy for Life Insurance	22-24 June 2015	Middle Level Executives from Life Insuranec Companies
July 2015			
25	Mega Risk Insurance (Non-Project)	1-3 July 2015	Middle Level Executives in General Insurance Companies
26	Marine Cargo Insurance	1-4 July 2015	Middle Level Executives dealing Marine Cargo Companies
27	Cyber Crime and Liability	6-7 July 2015	Middle Level practitioners in insurance, information technology and related areas
28	Marine Hull Insurance	6-9 July 2015	Middle Level Executives in General Insurance Companies
29	C.I.E. Workshop	13-15 July 2015	Certified Insurance Executives of Corporate Agents as per IRDA Guideline
30	Risk Management and PML - Significance	13-15 July 2015	Middle Level Executives in General Insurance Companies
31	Information Security (General Insurance)	21-21 July 2015	Insurance professionals working in IT department, CRM, Claims, Underwriting, Operations etc.
32	Motor Insurance (Own Damage) Workshop	20-23 July 2015	Middle Level Executives of General Insurance Companies
August 2015			
33	International Programme on Life Insurance (Focus -Reinsurance)	27 July - 1 Aug 2015	International Executives working in Life Insurance Companies & looking after Re-insurance
34	Handling of Consumer Courts and Ombudsman - Legal Scenario (Life Insurance)	3-4 Aug 2015	Middle Level Executives dealing with Ombudsman and Consumer Courts
35	25 Hours Renewal Programme	3-6 Aug 2015	Broking Companies as per IRDA Guideline

Sr.No.	PROGRAMME	DATE FROM-TO	DESIGN FOR
36	Engineering Project Claims	10-11 Aug 2015	Middle Level Executives in General Insurance Companies
37	Cattle Insurance	10-11 Aug 2015	Middle Level Executives in General Insurance Companies
38	Internatinal Life Insurance Programme	17-29 Aug 2015	International Participants dealing in Life Insurance
39	Clinical Trial Policy (Focus: Liability Insurance)	24-25 Aug 2015	Middle Level practitioners from insurance, broking companies and from clinical trial industry
September 2015			
40	International General Insurance - Fire , Project, Mega Lines	2-5 Sept 2015	International Participants dealing in General Insurance
41	Motor Insurance Fraud	7-8 Sept 2015	Middle Level Executives working in General Insurance Companies dealing with Motor Insurance Claims
42	International General Insurance Programme	7-19 Sept 2015	International Participants dealing in General Insurance
43	Special Contingency Risk Policy (Focus: Kdnapping and Ransom Liability Insurance)	14-15 Sept 2015	Middle Level Executives working in Insurance, Broking companies, from HR and Finance Department
44	Management of Property Insurance - Engineering (Underwriting)	14-16 Sept 2015	Middle Level Executives in General Insurance Companies
45	Engineering Claims (Non-Project)	21-22 Sept 2015	Middle Level Executives in General Insurance Companies
October 2015			
46	C.I.E. Workshop	5-7 Oct 2015	Certified Insurance Executives of Corporate Agents as per IRDA Guideline
47	25 Hours Renewal Programme	5-8 Oct 2015	Broking Companies as per IRDA Guideline
48	Livestock Insurance	12-13 Oct 2015	Middle Level Executives in General Insurance Companies
49	Certified Insurance Trainers	12-14 Oct 2015	Insurance Trainers in companies & ATIs
50	Advanced Health Insurance	12-14 Oct 2015	Middle Level Executives in General Insurance & Health Insurance Companies
51	Workshop on Oil and Energy	31 Oct 2015	Insurance Buyers, risk managers,agents, broker, Underwriters, adjusters etc.
November 2015			
52	Mega Risk Insurance	2-3 Nov 2015	Middle Level Executives in General Insurance Companies
53	Bancassurance	2-3 Nov 2015	Middle Level Executives dealing with bancassurance & Executives in banks deals with Selling Insurance
54	Marine Cargo Insurance	2-5 Nov 2015	Middle Level Executives dealing Marine Cargo Companies
55	International Programme on Liability Lines GIC Re	2-6 Nov 2015	International Executives working in General Insurance Companies (Sponsorship only through GICRE)
56	Engineering Project Claims	23-24 Nov 2015	Middle Level Executives in General Insurance Companies

Sr.No.	PROGRAMME	DATE FROM-TO	DESIGN FOR
December 2015			
57	Management of Property Insurance - Fire (Underwriting)	30 Nov - 2 Dec 2015	Middle Level Executives in General Insurance Companies
58	Motor Insurance Liability Workshop	7-8 Dec 2015	Middle Level Executives in General Insurance Companies
59	25 Hours Renewal Programme	07-10 Dec 2015	Broking Companies as per IRDA Guideline
60	Claims Management of Property Insurance	14-15 Dec 2015	Middle Level Executives of General Insurance Companies
61	Handling of Consumer Courts and Ombudsman - Legal Scenario (General Insurance)	14-15 Dec 2015	Middle Level Executives dealing with Ombudsman and Consumer Courts
62	Handling of Marine Cargo Claims	21-22 Dec 2015	Middle Level Executives of General Insurance Companies, Broker, Surveyors
January 2016			
63	Reinsurance Treaty issues and hallenges (Focus - Reinsurance treaty designing)	30 Dec 2015 - 2 Jan 2016	Middle Level Executives dealing with reinsurance
64	C.I.E. Workshop	4-6 Jan 2016	Certified Insurance Executives of Corporate Agents as per IRDA Guideline
65	Certified Insurance Trainers	4-6 Jan 2016	Insurance Trainers in companies & ATIs
66	Aviation Insurance	11-13 Jan 2016	Executives working in Aviation department of General Insurance Companies
67	Health Insurance (for employees of TPA)	18-20 Jan 2016	Employees of TPA
68	Motor Insurance (Own Damage) Workshop	18-21 Jan 2016	Middle Level Executives of General Insurance Companies
69	International Programme on Reinsurance - GIC Re	11-16 Jan 2016	International Executives working in General Insurance Companies & looking after Re-insurance (Sponsorship only through GICRE)
February 2016			
70	25 Hours Renewal Programme	8-11 Feb 2016	Broking Companies as per IRDA Guideline
71	Marine Hull Insurance	8-11 Feb 2016	Middle Level Executives in General Insurance Companies
72	Challenges In Management of Project Insurance	15-17 Feb 2016	Middle Level Executives in General Insurance Companies
March 2016			
73	CRM in Life Insurance	7-8 March 2016	Middle Level Executives in Life Insurance Companies
74	Health Medical Management including Frauds Control	7-9 March 2016	Middle Level Executives dealing with Health Insurance Claims & in TPA
75	International Programme (Oil and energy) GIC Re	7-12 March 2016	International Participants dealing in Insurance Buyers, risk managers, agents, broker, Underwriters, adjusters etc.

60 years of Insurance Education & Training

Diamond Jubilee
[1955 - 2015]

Online Lending Library

INSURANCE INSTITUTE OF INDIA

GROUP CORPORATE MEMBERSHIP

Insurance Institute of India has introduced a new segment in Online Lending Library named Group Corporate Membership (GCM) especially for corporates. In GCM, various branches/depts. of a Company can enjoy library facility. Corporates can enjoy a rich collection of books on Insurance, Risk, Reinsurance, Liability insurance, Finance, Tax, Law, Management & many more.

GCM MEMBERSHIP

PARTICULARS	PLAN 1	PLAN 2	PLAN 3
NO. OF BRANCHES/DEPT.	5	10	15
REFUNDABLE SECURITY DEPOSIT	100000	200000	300000
ANNUAL FEE	75000	125000	175000
SERVICE TAX	12.36% ON ANNUAL FEE	12.36% ON ANNUAL FEE	12.36% ON ANNUAL FEE
NO. OF LOGIN	5	10	15
NO. OF BOOKS PER LOGIN	5	5	5
ISSUE PERIOD	1 MONTH	1 MONTH	1 MONTH
RENEW PERIOD	1 MONTH	1 MONTH	1 MONTH

GCM SERVICES

- More than 5000 books to choose from
- Free office delivery & pick up of books
- Delivery within 48 hours from order
- Multiple logins for each Company
- Back issues of last 6 months of National/International Journals on Insurance/Finance/Management will be issued
- Maximum 20 books in total will be issued to Cos. against GCM

CONTACT DETAILS

Library, Knowledge Management Center, Insurance Institute of India, Plot No. C-46, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051. Phone: 022-26544290
Email: library@iii.org.in I Website: www.insuranceinstituteofindia.com

RNI No.MAHENG/2013/50733

ISSN 2278 – 6759

60 years of Insurance Education & Training

Diamond Jubilee
[1955 - 2015]

INSURANCE INSTITUTE OF INDIA
भारतीय बीमा संस्थान

ESTABLISHED IN 1955

InsuNews
Weekly e-Newsletter

Subscribe to InsuNews of Insurance Institute of India, which gives news about Indian Insurance Industry, Insurance Regulations, Reinsurance, Life & General Insurance & Global Insurance Industry.

i-Think
Monthly e-Magazine

Subscribe to i-Think which gives a variety of reading along with the happenings at Insurance Institute of India.

Subscribe e-Newsletters and e-Magazine through our website www.insuranceinstituteofindia.com or can send a mail to newsletter@iii.org.in.

Feedback

We will be happy to receive feedback, suggestions, opinions, views and queries at newsletter@iii.org.in.

60 years of Insurance Education & Training

Diamond Jubilee
[1955 - 2015]

INSURANCE INSTITUTE OF INDIA
भारतीय बीमा संस्थान

G-Block, Plot No. C-46, Bandra Kurla Complex, Mumbai – 400 051.