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CONTENTS

EDITORIAL 2

PRESIDENT'S ADDRESS 4
- **Shri R. Beri**

INSURANCE REGULATIONS IN INDIA AND FUTURE DIRECTIONS 8
- **Shri T. K. Banerjee**

HEALTH PROTECTION FOR ALL 14
- **Shri P.C. James**

BANCASSURANCE CONCEPT, FRAMEWORK & IMPLEMENTATION 34
- **Shri Vineet Aggarwal**

NEED OF THE HOUR "RISK MANAGEMENT VIS-A-VIS INSURANCE EDUCATION " (ROLE OF INSURANCE INSTITUTE OF INDIA IN LIBERALISED ENVIRONMENT) 52
- **Dr. A. K. Jain**

49TH ANNUAL CONFERENCE 62

BRAND IDENTITY- ITS INFLUENCE IN CUSTOMER DECISION MAKING 74
- **Ms. Suranjita Lahiri**

LAPSATION OF LIFE INSURANCE POLICIES - A CRITICAL STUDY 82
- **Shri N.V. Subramanyan**

PROMOTING INSURANCE THROUGH INFORMATION TECHNOLOGY 94
- **Shri SNSSB Srinivasa**

INSURANCE BROKING IN INDIA SCOPE, CHALLENGES AND PROSPECTS 106
- **Shri Vinay Verma**

ROAD SAFETY - ROLE OF INSURANCE COMPANIES 118
- **Shri G. Venkatesh**

TOWARDS A BETTER WORKING CULTURE IN THE PLACE OF EMPLOYMENT 120
- **Shri T. S. V. Subramanian**

CONCEPT SELLING IN LIFE INSURANCE 122
- **Shri Sekhar Chandra Sahoo**

AROUND THE INSTITUTES 124

EDITORIAL

The Institute has notable achievements to its credit in terms of, inter alia, a wide network of Associated Institutes, committed administrative staff, I.T. applications in the examination system, devoted support from insurance professionals in service or in retirement and, now its own physical infrastructure which is at an advanced planning phase.

On these solid foundations it should be easier to build a superstructure of quality education for the decades following the Golden Jubilee.

Professional education demands strong academic underpinnings in terms of appropriate syllabus reflecting the current realities and likely trends in the market and preparation of study material. There has been commendable contribution from insurance professionals in the past but it is time to induct younger professionals into the academic aspects of the Institute agenda. It may not be an exaggeration to say that there is abundant hidden talent in the insurance industry, as is evident, for example, from the number of entries to the S.K.Desai, D.Subrahmaniam and Technical Competitions. It is encouraging to observe that for the first time three entries have secured prizes in the competition and this augurs well for the Institute.

Retired professionals should not be allowed to fade away but may be entitled to guide the deliberations of various expert committees. There may be many available who believe in Bacon's dictum: "Every person is a debtor to his profession."

Another area which needs to be examined is the current Postal Tuition Service introduced decades ago with laudable objectives. But in recent years, there appears to be a large number of drop-outs amongst the candidates who enrol for this service. Why this is so needs to be examined. In any case, distance education is absolutely necessary in a large country like ours and specially so, because Oral tuition facilities may not be available in many centres and where available may not be availed of due to time constraints or other reasons.

The demand for distance education is pronounced in university, management and professional education. The Institute may address this issue to extend its reach to the large number of candidates whether in urban or rural areas, who may not have the confidence to study on their own but would welcome external aids. Distance learning is commonplace in the U. K, the U.S.A., Canada and Australia. In India, nearly 25 percent of Universities have in place distance learning systems. The All India Management Association has plans to extend management education even at the zila parishad level.

Advances In Information Technology have impacted all aspects of our lives and, In education we have open universities, online universities, etc. Online courses have become more accessible in many areas of education including professional education.

According to President A.P.J. Abdul Kalam, quality education in remote areas requires tele education. After visiting a number of laboratories last year and interacting with the scientific and technological community, he has identified education as one of the major areas where the influence of Science and Technology will be strongly felt. In this context, he has made a specific reference to the Indian Space Research Organisation's E D U S A T (Educational Satellite) which will be useful for Schools, Colleges, higher level of education and non-formal education and will provide both-way interactivity and collaboration between the students and the education provider.

This may be in a long term scenario but the possibilities are infinite. The Institute, which has I.T. applications in place in many of its activities, may explore the possibilities of e-learning in insurance.

Innovation and creativity should be the mantra of the educational policy and mobilisation of the hidden talent in the insurance industry its action plan. With this two-pronged effort, we may strive for academic excellence.

PRESIDENT'S ADDRESS

Speech of

Shri R. Beri

President

Insurance Institute of India

At the

49th Annual Conference

at Dharwad

on 11th September, 2004

Hon'ble Dr.M.Khajapeer, Vice Chancellor, Karnataka University, Dharwad; Hon'ble members of the Council of Insurance Institute of India; members of the Board of Education and Administration Committee; Hon. Secretaries of Associated Institutes; invitees, distinguished guests; members of Media and my dear colleagues from Insurance Industry.

I have great pleasure to welcome you all to the 49^{th} Annual Conference and the 96^{th} Council Meeting of the Insurance Institute of India. I am specially grateful to Dr.M.Khajapeer, the Hon'ble Vice Chancellor of Karnataka University for sparing his valuable time and to be present at this august gathering as the Chief Guest at this solemn function and to address the distinguished gathering at this annual function. Dr.Khajapeer, I am indebted to you for your presence here.

This event is being hosted by Dharwad Insurance Institute, one of the Associated Institutes of the Insurance Institute of India. The Dharwad Insurance Institute was established in the year 1967 and it has a membership strength of over 4000. I am thankful to the Chairman, Honorary Secretary and other Members of the Dharwad Insurance Institute for organizing this conference under their auspices. They have taken all efforts to place the members comfortably during the stay at Dharwad.

Dharwad is a small town in the state of Karnataka and it is known as an educational center. This is evident from the fact that Dharwad Insurance Institute has a membership strength of over 4000 despite being geographically a small place. This is the first time that the Dharwad Insurance Institute organizes the Annual Conference and the Council Meeting.

Achievements during the year

During the year 2003-04 the Insurance Institute of India has shown satisfactory progress both in terms of financial performance and examination activities. As members are aware, besides the professional certificate and diploma examinations, the institute also provides regulation related qualification both for agents and surveyors. The Institute in its objective of having its own building, made payment for the cost of land in the Bandra - Kurla complex in Mumbai. As per the decision of the Administration Committee of the Institute, the construction of the building will be entrusted to LIC of India.

The Institute also brought out new text books covering the subjects of insurance broking and insurance survey for the first time and these have been well received in the industry circle. The Institute also revised the text books for Pre-recruitment examination for life and general insurance agents. The examination based on revised syllabus for Pre-recruitment of agents however, will be starting in case of life insurance from July , 2004 and for general insurance from October, 2004.

On the international plane I am happy to report that the Regulatory Authority in Nepal and Sri Lanka now insist upon Associateship qualification of Insurance Institute of India for licensing of brokers. Besides, the number of candidates appearing for Sri Lanka has crossed 300 mark for the professional examination. Invitation also received from the Chairman, Insurance Association of Pakistan for discussions on, inter-alia, of extending Insurance Institute of India's services to Pakistan Insurance Industry.

The Chartered Insurance Institute, London continues to provide exemptions for the associates and fellows of the Insurance Institute of India (4 & 7 subjects respectively in their ACII) and it is under active consideration of the Chartered Insurance Institute to provide exemptions in some subjects for candidates having passed Licentiate examination under their revised system of qualifications. An agreement in this area is likely to be reached in a couple of months.

A proposal of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) to permit Licentiate qualified members of the Institute to be become Associate members of ANZIIF is under discussions. It is also expected that some progress will be made with the Canadian Insurance Institute for providing cross credit to persons having I.I.I. qualifications.

With the cross credit already existing between USA and India, it is expected that all the major markets of the world in insurance will have cross credits in their qualification for qualified professionals from Insurance Institute of India. The Institute will launch a global qualification of Institute of Global Insurance Education (IGIE) co-founded by the Insurance Institute of America, Canada and England in electronic form in a couple of months from now. Discussions with LOMA (Life Office Management Association, America) for incorporating Indian content of Insurance Institute of India in their international qualification FLMI are likely to begin this month.

The institute is also taking steps to position itself as provider of insurance education for specific needs of call centres and BPO organization and also planning to provide qualification frame work for regulatory compliance by these organizations as per regulatory requirements of Western Europe and America and the scheme of co-operation will be discussed with the Insurance Institutes in UK,USA, Canada, Australia and New Zealand.

The Institute will continue to build on information technology platform for wider reach and for improvement in services to members and members can now view the journal of Institute on its website regularly and very soon provision is expected to be made for issue of digital certificate for IRDA examination.

Golden Era – 1955-2005

I am very pleased to inform this august gathering that the Institute has entered 50th year of its operations and it is time to both celebrate as well as to acknowledge the contribution made by thousands of insurance professionals who worked without any reward for building this institution. In particular, I would like to thank the contribution of, besides the Council members and the members of the Board of Education and the Administration Committee, the various office bearers of Associated Institutes in India and affiliated Institutes abroad for helping in the development of this institution. My thanks to all of you for contributing so much to the present status of the Institute.

The Challenges Ahead

So far, I have outlined all the good things and good news, let me now share with you the future challenges. The growth in the operations of the Institute during the last 4 years has imposed serious burden on the administration of the Institute. While I compliment the Officers and the employees of the Institute for standing as a one man team to deliver the promises to the Insurance Industry, it is time to set up systems and procedures to consolidate the growth achieved so far. This does not mean that the Institute should not plan further growth. It is, however, important to have proper balances and checks before further growth is achieved otherwise in the absence of changes in the organizational structure, growth may be counter productive.

The Institute needs to expand both in terms of infrastructure facilities and human resources. Enormous financial resources will be needed in the next 5 years for completing the building project on time. To continue to enjoy the status of premier Institute in insurance education, the Institute is examining the possibility of converting itself into an insurance university as a private university.

In the context of changes in the insurance industry the role of Associated Institutes can no longer be limited to public sector companies who do not employ new manpower and has floated VRS schemes. The control over sale of study courses and the accounting needs to be redefined in the light of observations from the auditors.

I am sure with the expertise that Institute has acquired it can address these challenges given the support of the Associated Institutes and I hope that the details will be worked out during the current year.

Professionalism – Key to Industry Development

Insurance, being a knowledge subject, the need for insurance education can hardly be emphasized with an ever demanding customer on one hand and a vigilant regulator on the other, in the competitive environment with a large number of players having enormous financial resources, the key to success will lie with the quality of manpower with the individual organization.

While technical knowledge itself may not be very essential for some of the functions, possessing the same always means an additional advantage.

The blurring of boundaries between insurance and banking and new methods of risk financing and risk management are serious challenges for future managers in retaining the distinct identity and the role for insurance industry. Demographic changes of vast scale, difference in life styles and need for post retirement income besides the new type of risks that the community is facing can be addressed by application of knowledge acquired through professional qualification.

The insurance industry has opened a flood gate of new opportunities and challenges in other sectors of economy as well, particularly, for call centres and BPO companies. In order to satisfy their customers, the call centres and BPO companies need to train their employees in the domain knowledge of insurance. Theses companies will also have to satisfy regulatory requirements of overseas companies.

The opportunities of self employment in the field of insurance selling, marketing, survey and broking operation can provide self employment opportunities for career development to scores of qualified people in India. Insurance education and qualification, therefore, will be required in a greater measure and the Institute will have to reposition its courses to cater to the variety of demands emanating from the new face of insurance industry.

Acknowledgement

In the first year of my association with the Insurance Institute of India being its President, I am happy to note the progress made by the Institute during the year. I must extend my sincere thanks to IRDA for keeping the Institute in high esteem for examination related activities. This helps immensely for the progress and prosperity of the Institute. The members of Council, Administration Committee, Board of Education and other sub-committee deserve my appreciation for their contribution through their valuable suggestions and advices. My thanks to the Editor of the Journal and some Board Members who have provided expert opinion on administrative and accounts reforms. My thanks also to management of all insurance companies in private and public sector for their support and co-operation.

Before I conclude my address, let me once again thank the members and volunteers of Dharwad Insurance Institute for hosting this conference.

Thanking you.

Keynote Address delivered at the 49th Annual Conference of Insurance Institute of India at Dharwad, on 12th September, 2004

INSURANCE REGULATIONS IN INDIA AND FUTURE DIRECTIONS

By : Shri T. K. Banerjee,

Member - Life, Insurance Regulatory and Development Authority, Hyderabad.

HISTORICAL BACKGROUND

Insurance in India has progressed through several evolutionary phases in its more than one and half century history. The origins of the Indian insurance industry can be traced way back to the pre-independence era to 1818 when it was conceived as a means to provide for English widows. Interestingly in those days a higher premium was charged for Indian lives than the non-Indian lives as Indian lives were considered more risky for coverage. The first Indian Life Company, Bombay Mutual Life Insurance Society started its business in 1870. It was the first company to charge same premium for both Indian and non-Indian lives. The Oriental Assurance Company was established in 1880. The first general insurance company in India - Triton Insurance Company Limited was established in 1850. Till the end of nineteenth century insurance business was almost entirely in the hands of overseas companies.

Insurance regulation formally began in India with the passing of the Life Insurance Companies Act of 1912 and the Provident Fund Act of 1912. Several frauds during 1920's and 1930's sullied insurance business in India. By 1938 there were 176 insurance companies. The first comprehensive legislation was introduced with the Insurance Act of 1938 that provided strict State Control over insurance business.

The insurance business grew at a faster pace after independence. Indian companies strengthened their hold on this business. Life insurance industry was nationalised in 1956 with the merger of 245 private life insurance companies, and the Life Insurance Corporation (LIC) of India was formed. The (non-life) insurance business, however, continued to thrive with the private sector till 1972 before it was also nationalized, and General Insurance Corporation (GIC) was formed in 1972 by merging 106 private insurance companies. GIC in turn had four subsidiary companies.

It was expected that the nationalised insurance companies would enhance the spread of insurance to the hitherto neglected areas of the country besides improving security of assets and quality of service to customers and also aiding in mobilising savings for the economic growth of the country. It was also felt that the growth of the insurance business would be faster and consumers would have access to insurance coverage of world class standard. Although the nationalized insurers contributed to the development and spread of insurance, there continued to be a wide gap in terms of the market potential which the country offered.

OPENING UP OF INSURANCE

In 1991 there was a paradigm shift in government policy with the advent of economic liberalisation. Financial sector reforms in the mutual funds and banking sectors allowed foreign direct investment and foreign institutional investment. In the insurance sector a Committee on Reforms in the Insurance Sector, popularly known as Malhotra Committee in 1993, was appointed by the Government to review the working of the insurance industry.

The Committee in its report submitted in 1994 recommended opening up of the insurance industry. The key recommendations included permitting private companies with a minimum paid up capital of rupees one hundred crores to enter the industry, prohibition of composite insurers and permitting foreign companies to enter the industry in the joint venture mode with the domestic companies. Other recommendations were introduction of alternate distribution channels for improving the insurance penetration, the setting up of an insurance regulatory body and making the Controller of Insurance independent, and also amendments/changes to the Insurance Act, 1938.

The Government responded by establishing an interim Insurance Regulatory Authority in January, 1996. However, on the issue of opening up of the sector an intense debate followed for several years before a consensus emerged that this step was justified for increasing the penetration of insurance in the country. And it ultimately led to the passage of the Insurance Regulatory And Development Authority Act, 1999. It is pertinent to mention that the word 'Development' was inserted in the Bill at the last stage as the legislators were concerned that with competition both the regulator and the regulated would lose sight of the more important aspect of the development of the insurance market in India thereby defeating the very objective of the opening up of this sector. Today in terms of its mandate and the number of people to be served by way of increased penetration of insurance, the Indian insurance regulator is perhaps the largest developer of insurance business in the world.

Insurance liberalisation promises many advantages which include better risk management, product innovation, and wider customer choice. However, if implemented unwisely, it has the inherent potential to generate unprecedented inequalities with destabilising effects on domestic markets. In order to allay our fears after considering the present state of development of the Indian insurance industry that more will be lost than gained by a complete opening up of the market, reforms have been incremental in nature. As domestic policymakers, we are also responsible to ensure that government owned institutions have been given a fair chance to equip themselves to face competition.

The economic reform process is 'irreversible' and the new insurance companies are expected to hasten the process of producing a strong and efficient insurance market. The growth of the debt market is also expected to get a fillip as the funds from insurance companies start flowing into the coffers of the corporate sector. Similarly, stock market investments will further aid the growth of the capital market and equity cult. The multiplier effect will be enormous.

CHALLENGES

In India, our approach to reforms has been built on the belief that sustainable growth is only possible in an environment which values and promotes financial strength and stability, management capability and public accountability.

Reforms have included the setting up of a modern well resourced supervisor, the Insurance Regulatory and Development Authority (IRDA). IRDA's hallmark has been its belief in openness and transparency. It has followed the practice of prior consultation with various stakeholders before notification of regulations, and this has resulted in a broad acceptance of the regulations.

To operationalise various provisions of the IRDA Act and Insurance Act, so far 29 regulations have been notified covering all aspects of insurance business. Four broad areas of operation have been carved by regulations for the Authority to function and these are:-(i) admission of insurers including powers of on site and off site supervision; (ii) functioning of the intermediaries; (iii) control on rates of premium , terms and conditions, and (iv) policyholders protection. These are inter-related. The misunderstanding that may develop in the functioning of the various players are sought to be settled by the Authority - initially by persuasion, failing which, by issue of directions.

The Authority has also helped in establishing support mechanisms to sustain the Insurance Ombudsman system under the Settlement of Public Grievances Scheme, 1998. Twelve ombudsmen have been appointed in the country. This has created a very important grievance settlement machinery for customers. Complaints of non-settlement or delayed settlements of claims received from customers have been attended to. Many a time insurers have been penalized for breach of tariff terms and conditions.

Today, to the credit of combined efforts by both the regulators and industry players, the benefits of insurance are widely acknowledged, public confidence in the industry has been very much visible and the industry on the whole is far more relevant than it has ever been in this country. The industry is expected to significantly improve its public image in years to come.

A healthy insurance market is an important source of long-term capital in domestic currency, especially for infrastructure financing. Reforms in insurance is therefore expected to strengthen the capital market by giving it greater depth or liquidity.

We are already witness to some fundamental changes in the landscape. The insurance industry has been opened up, with a restriction of 26% on foreign ownership to Indian insurers. Foreign participation has enabled local players to form joint-ventures with foreign insurance partners, and benefit from transfer of technical know-how and increased financial strength. This has also enhanced the local insurers' ability to modernise, expand, and to become credible players. Insurers are being encouraged to form strategic alliances with other financial industry players, in order to flourish in a liberalised environment. Inspite of this, the sector still has many features characteristic of an infant industry.

REGISTRATION OF INSURERS

The Authority has fixed a strict criterion for awarding registration. The criteria for awarding direct insurance registrations have been: financial strength, track record and reputation of the promoters. Other aspects examined have been their compliance with law and regulations, the strength of internal control systems; and commitment to contribute to India's development. IRDA has been keen to see the industry develop in terms of product innovation and the use of alternative distribution channels. Applicants with a strong record in these areas, or in specialist and niche fields, and who have also undertaken upon themselves to underwrite health insurance business have received favourable consideration.

The experience so far in India is that the local partners are sound with an excellent track record in their respective fields, and their foreign collaborators are very well established insurance companies with vast experience in both developed and emerging insurance markets. We have, thus, sound companies presently operating in the Indian insurance scene. What should be ensured is that they remain healthy. Adherence to regulations and observance of sound principles of governance should ensure that.

FINANCIAL HEALTH AND SOLVENCY

To guard against excessive insolvency risk insurers are required to meet certain financial standards and act prudently in managing their affairs. The statutes require insurers to meet minimum capital and surplus standards and financial reporting requirements and authorise regulators to examine insurers. Solvency regulations involve various aspects of insurers operations including:

(i) capitalisation

(ii) pricing and products

(iii) investments

(iv) reinsurance

(v) reserving

(vi) asset liability matching

New companies have substantial capital adequacy thereby encouraging the market place to unleash the forces that are important to compete on the basis of solvency. A rigorous scrutiny of the companies at the entry level coupled with diligent monitoring of their activities with special reference to maintenance of solvency margins and prudent investment policy ensures that the management of the companies is not lax and that proper corporate governance practices are adopted by them.

FINANCIAL REPORTING

Our accounting standards are in alignment with international standards and regulations set out in detail the manner in which the information is to be furnished to the Regulator alongwith disclosure norms. IRDA is working with the professional accountants' institute in a bid to refine the responsibilities of auditors and the standards of audits, besides helping in building the capacity of the domestic actuarial profession, a crucial element of the regulatory framework.

INVESTMENT

Prudential investment norms have been notified to further enhance the financial flexibility and risk management ability of insurers, and for better management of investment portfolios. In addition guidelines on related-party transactions to ensure management integrity and public accountability in the conduct of insurance business are also in place. The guidelines reinforce the fiduciary duty owed by insurers to properly manage insurance funds in an independent and transparent manner for the interest of policyholders at all times.

REINSURANCE

The need to enhance local retention capacity and conserve foreign exchange reserves has been of strategic economic priority. The life reinsurance portfolio is very small. In non life insurance the Indian insurers, through carefully designed reinsurance programmes administered on a market wide basis, have managed to retain within the country as large a percentage of the gross direct premium as is desirable consistent with safety. As a National Reinsurer the General Insurance Corporation of India receives statutory cessions of 20 percent from all general insurance companies on all classes of business.

TERRORISM AND CATASTROPHE INSURANCE

The Terrorism Pool formed jointly by the public and private insurance companies and managed by GIC remains a singular example of how the market responded to the post 9/11 events. The contributing share of each company was directly related to its premium income. Terrorism Pool offers insurance cover against terrorism for a maximum of Rs 300 crores per location. Those who seek a terrorism cover for more than Rs 300 crores are free to go to foreign insurance companies, but the rates from the overseas players are much steeper.

Although the net account for catastrophic losses is protected by Excess of Loss covers, a series of such losses can erode an insurer's net account and its financial stability. Indian insurers have not yet set up specific reserve provisions for catastrophes. Expert opinion suggests that it shall be prudent for insurers to maintain a Catastrophe Reserve at 2% of net premium of individual companies with a cap, based on a stipulated percentage, to allow for accumulation to take place in this account for a specified number of years. However, in the absence of incentives to these funds in the form of tax exemptions very little of paid premiums shall become available to meet future catastrophe claims liabilities under the policies issued. This is an area of concern and requires to be addressed.

HEALTH INSURANCE

Though the Insurance Act 1938 and the IRDA Act, 1999, prescribe that the regulator would encourage the setting up of health insurance business on a stand-alone basis, no one has yet approached to set up an exclusive health insurance business. Due to lack of applications in this particular area, the Authority has encouraged both life and general insurance companies, old and new, to go in for rider policies offering health covers. It is gratifying to note that the new companies have seized this opportunity and many of them have gone in for riders offering a variety of health insurance products. Additionally, for balanced and rapid growth of the health insurance portfolio, with the introduction of Third Party Administrators in this area cashless hospitalization covers have been introduced for the first time in India. A Health Insurance Working Group has been formed to increase the penetration of health insurance and suggest ways and means to remove the structural bottle necks.

RURAL AND SOCIAL SECTOR INSURANCE

Though the Government has tried to promote insurance business in rural India through Public Sector Insurance Companies for nearly two decades there still remains a vast untapped potential considering that 74.3 per cent of the total population lives in rural India. At present in rural areas insurance cover is low, and there are few insurance covers, available on affordable terms, for rural producers and consumers. One of the priorities for fostering expansion of domestic insurance would be identification of productive potential and specific insurance needs in areas not yet reached by insurance and enhancing cooperation between insurance and rural credit schemes and institutions.

MICRO INSURANCE

The potential of insurance as a tool to reduce poor households' vulnerability to risk needs to be examined and advanced. Insurance can play a positive role in meeting the financial services needs of the poor, and one would need to examine the many challenges involved in offering insurance, through micro-insurance agents simpler forms of insurance such as property, personal accident health and life insurance.

INSURANCE INTERMEDIARIES

The Indian insurance industry relies heavily on the traditional agency distribution channel, with a large number of agents of varying levels of professionalism and productivity. There is thus scope for developing alternative distribution channels, which are often more efficient, and which can offer lower costs and better benefits for policyholders. We need to develop alternative distribution channels, which cost less, and can reach a wider target market.

Initially there was a demand from the life insurers to have higher commissions for first year's premium in line with the practices in developed market. However, over a period of time this demand has waned with the insurers having realized that such high level of commissions will result in the existing unhealthy practices getting manifested manifold. In many countries, the presence of professional insurance brokers and independent financial advisers who represent the interests of the client is a major motivating factor for insurers to raise efficiency and give better value to policyholders.

There has been some concern at certain quarters on the appropriate remuneration structure for insurance agents and brokers, and also on the practice of offering special discount in lieu of agency commission or brokerage in the area of General Insurance. Perhaps this has arisen as a result of introduction of the insurance brokers as an intermediary channel. The role of an insurance broker does not seem to have been properly understood and appreciated because of the primordial role of tariff in the non life insurance. In addition the brokers have also not been able to deliver the value added services expected of them.

Intermediaries and other practitioners are subject to professional conduct standards and a licensing procedure. This involves the professionals passing an examination, after completing a required course. The idea is to make sure the professional has basic knowledge to protect the public and to provide a mechanism to remove the dishonest from business.

THE ROAD AHEAD

Most of these developments have commenced only in the last few years. In the near future the industry is expected to grow both in stature and strength. It has to come a long way from the days when private insurance was seen in the public eye as something to be avoided as far as possible and misconduct in various forms was rife in the industry.

In the near future insurers, in particular, shall be less financially vulnerable to the vagaries of the market because of the adoption of a prudential regulatory regime, which has set very high solvency requirements and capital adequacy norms. Domestic institutions, be they insurers or intermediaries are expected to catch up with their international counterparts in terms of efficiency, innovation and customer service. Productivity levels are expected to be as per international best practices. The level of market penetration is also expected to substantially improve.

DYNAMIC REGULATORY STRUCTURE

With the rate at which businesses evolve, rules and regulations become obsolete almost as soon as they are formulated. Regulators have to keep up with the burst of product innovations, alternative distribution channels, electronically-linked payment systems, e-commerce, investment avenues and alternative risk transfers, just to mention a few. These developments create intricate links in a commercial chain which are potentially fragile in the sense that if one link snaps, the whole chain comes apart. No member of the chain will be spared from the domino effects of a crisis anywhere along the chain.

With such complex and unique interdependencies, it would be virtually impossible to prescribe regulations that deal with every possible contingency. In the first place, regulators may not even be aware of the potential risk factors emerging every day. Secondly, regulators may be faced with constraints of jurisdiction. The answer to this dilemma is not deregulation but finding the right regulatory structure.

In other aspects of regulatory reform convergence of financial products will also create the need for domestic regulators to re-examine financial sector regulation at a macro level. One option would be to create firewalls within financial group structures to contain the spread of intra-group exposures.

Instead of being watchdogs, regulators should act more like pacesetters, catalysts and navigators. This approach recognises that the industry is often best placed to make decisions concerning the rapid changes revolutionising insurance markets. In an environment where time is of the essence, greater reliance should be placed on the inherent knowledge and capabilities of the industry to adapt to these changes.

LEGAL REFORMS

Institutional and regulatory reforms are already well underway in India. The current statute was drafted in 1938 and has seen numerous amendments and changes. Many of its provisions have become outdated and some have lost their relevance. New developments have taken place in the insurance world, which do not find a reflection in the law. Therefore there is an urgent need to overhaul the Insurance Act, 1938 in order to reflect the new circumstances that exist today. The Law Commission has in the recent past submitted its recommendations on the proposed amendments to the Insurance Act, 1938. Even so, we must realise that changes do not take place overnight. The institutional and regulatory reforms take time to accomplish. For this purpose discussions have already taken place and the suggestions received from various quarters have been sent to the Government. We hope to see the new insurance legislation in times to come.

DE-TARIFFING

The general insurance market has been predominantly a tariff driven market. Fire, engineering, motor and marine hull insurance are under the tariff, regulated by a statutory Tariff Advisory Committee. The non tariff lines of general insurance and all life insurance products are subject to a "file and use" process wherein the insurers are required to file their product to the Authority thirty days prior to its launch. In case the Authority has no reservations they can go ahead with the marketing of the said product.

All over the world it is well recognized that deregulation and tariff cannot exist together. Competition is a process where no player achieves a dominant position. Transparency and information conditions are reinforced to allow for "informed" decisions both by buyers and sellers. Price fixing mechanisms are changed, away from coordinated systems; rates as well as product design, are determined by market forces. Price controls on insurance should not be justified with consumer protection. There has been a heavy cross subsidy from property classes to motor insurance and to motor third party insurance in particular. Market based pricing should lead to lower and more risk sensitive premium rates over time and ensure that databases become aligned with key rating factors.

However, in order to ensure that dismantling of tariffs does not result in rate wars and insurers are able to rate the risks they underwrite in a scientific manner based on historical data, the initial step in regard to detariffing of the motor own damage premium has been proposed with effect from 1st April, 2005. To consider the alternatives available, to have a free market availability of the products in this regard and to suggest to the Authority, the measures to be taken in this regard including adoption of differential rating, the Authority had formed an expert group to recommend the road map which has recently submitted its report. The detariffing of the other portfolios will be considered thereafter.

CORPORATE GOVERNANCE

Another area of reforms is the process of corporate governance. Today corporate governance is strictly applicable to listed companies and none of the insurance companies in India are so far listed. The IRDA recognizes that weak corporate governance and lax management within the companies undermine the credibility of the general public in the companies as well as the Regulator and cause severe setback to the growth of the industry. This problem has been addressed through a rigorous system of scrutiny of applications for setting up insurance companies coupled with stringent norms relating to solvency. They are further reinforced with appropriate regulations on investment of funds by the companies. Guidelines have been set that clearly enunciate the role and functions of directors and Appointed Actuaries of life insurance companies, so that they can provide greater professional stewardship to protect and enhance the interests of policyholders.

With greater competition in the marketplace, enhanced standards of corporate governance investment management and market conduct are necessary to protect policyholders' interests. Regulations need to be introduced to strengthen the corporate governance of insurance companies in line with international best practices.

INSURANCE AWARENESS & MARKET CONDUCT

Enhancing consumer information about insurers' prices, products and financial strength is a critical function given the heavy reliance on competition to ensure good market performance. IRDA would also move away from merit-based regulation to a disclosure-based regime. IRDA, for instance, will look to market institutions and intermediaries to ensure that prospectuses contain all the relevant information necessary to enable the potential policyholder to make an informed decision. Through regular checks and reviews of practices of the market institutions and through punitive action against the recalcitrant, the IRDA will ensure compliance with a prudential regime.

Market discipline will also become a more prominent feature in the regulatory infrastructure. However, the keys to effective market discipline lie in public disclosure and consumer education. These will become important aspects of the regulator's role in the years ahead. Informed and educated consumers are often the most effective means of commercial discipline as they can exert significant influence over an institution's business decisions and practices, as well as pricing policies.

SHIFT IN FOCUS: FROM REGULATION MAKING TO COMPLIANCE

With the insurance regulatory framework now in place the focus of the regulator is shifting towards the compliance aspects of the regulations. In this process the regulator will adopt a proactive and dynamic attitude and will be setting an example in terms of certainty of regulatory action. To enable this, there is need to develop suitable systems and procedures and devise analytical techniques based on key performance indicators. This will also help to develop a basis for the level of regulatory response for a given situation besides providing a consistent approach which responds to the seriousness of the problem. Action can be escalated or de-escalated as the severity of the situation increases or decreases. This will enhance the efficiency of supervision and provide both the supervisor and the regulated entities with enhanced certainty of law.

SELF REGULATORY ORGANISATIONS

Ineffective market discipline is one of the issues identified by the International Association of Insurance Supervisors as a threat to the emerging markets. This is an issue that has to be effectively tackled for the healthy growth of the insurance market. The Regulator has a role to play in ensuring market discipline, the role played by the insurance companies in bringing about discipline in the market place cannot be ignored. The key to effective market discipline lies in public disclosure and consumer education. Informed and educated consumers are often the most effective means of enforcing commercial discipline.

As our market develops, the role of the Self-Regulatory Organisations (SROs) will take on greater significance. The empowerment of the SRO essentially gives greater rights and responsibilities to market participants who, for their part, must be capable of ensuring effective regulation and must be able to meet these challenges. Failure to regulate effectively will lead to a deterioration of market integrity and stability and, ultimately, the intervention of the IRDA as supervisory regulator with oversight responsibilities. We also expect that, in time, much of the current developmental role currently played by the IRDA will be taken over by the SROs. In an environment of growth and expansion, it is the SRO who can best facilitate innovation and adaptation to seize competitive opportunities and meet challenges. The Life Insurance Council and the General Insurance Council are presently performing the role of an SRO in a limited manner by setting up market conduct standards for insurers. An exercise is already on to grant the Actuarial Society of India a statutory status on the lines of the Institute of Chartered Accountants of India. A similar exercise has also been initiated to set up a self regulatory body for insurance surveyors and loss assessors.

INSURANCE EDUCATION AND RESEARCH

One of the spin-offs of liberalisation of the insurance sector has been the demand for insurance education, training and research. The Insurance Institute of India's role appears to have been confined to the professional examinations conducted by it, and which has been recognized as acceptable qualification insofar as professional competence in the area of insurance is concerned. What has perhaps been ignored is the tapping of the vast potential by way of introduction of new subjects in tune with the demand and expectations of an evolving market after a thorough review of the existing courseware. Examples of such subjects are Health Insurance, Unit Linked Insurance, and Insurance Regulations. These areas today require to be dealt in much greater detail than what is being done at present.

Similarly research in insurance remains a neglected area in this country and there is need for a concerted effort to develop and define areas of focus for research in tune with the requirements of the industry. Without a research focus no institute can expect to make tangible contribution in terms of value addition and meeting the expectations of its members and the industry.

Although one is witness to a lot of institutions offering insurance courses there is need to develop an initiative to set up a nodal body for accrediting various courses to lend an element of credibility and standardisation in the arena of insurance education.

The Insurance Institute of India may consider seizing this initiative and lead from the front by creating a research wing and a standardization body with the involvement of other insurance education service providers.

CONCLUSION

The insurance industry will face greater competition from other financial service providers along all aspects of their value chain. Insurers, for instance, with their significant and growing asset base, shall have to develop asset management capabilities and expertise on par with professional fund managers, otherwise they will face pressure to farm out their funds for professional management.

IRDA will monitor the progress of the industry and make further changes where necessary. It will continue to consult industry representatives in developing a conducive regulatory environment, and formulating incentives to enhance the operational capabilities of insurers, for instance, in product development, distribution and asset management. Such partnership and dialogue will be vital for the growth of the industry, and for meeting the challenge of making India a regional insurance hub and an international financial center.

S. K. Desai Memorial Medal And Prize Winning Essay 2003-04

HEALTH PROTECTION FOR ALL

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1. CONCERN FOR HEALTH:

Health has always been a matter of critical concern for all. This is especially true for persons who earn solely from manual work, as their bodies are their prime assets. Even for others, health significantly affects both productivity as well as quality of life as good health gives a feeling of general wellness and vitality. Good health, thus, has a profound impact on the overall value and capability of human capital. Illness, disease, accident on the other hand not only creates pain and suffering, but also erodes financial security and reduces productivity and well being. It also increases costs for the society and the country in innumerable ways. Organised medical and health care systems, which began to evolve about 100 years ago, have become an effective boon to improve healthcare all over the world by its increasing reach and capability in combating diseases and disability. As a result, longevity has increased, prosperity and general well being have gone up, and people are experiencing new frontiers of wellness and freedom from disease.

In this scenario of improved health outcomes, the cost of healthcare is seen to be ballooning to become prohibitive and unaffordable. As health is a valuable asset and an essential part of the human capital, the large and unpredictable risks affecting it needs financial protection, from the point of view of all concerned, namely individuals, families, employers, the society and the country. Assured paying capacity is also a benefit that is looked forward to and gives stability to the health care providers who need the financing to sustain their capital spending, skill upgradation, and their rising research and service costs.

The physical integrity and dignity of the individual is now a well-recognised right in law and fact. Healthcare is thus an important right for all. Therefore, denial of access to healthcare owing to geographical, infrastructural, social or financial limitations is not appropriate and needs to be rectified by all concerned as a part of social engineering and a necessary component in upholding basic human rights. In fact, it is seen that such a denial perpetuates the vicious cycle of poverty, malnutrition, low productivity and early mortality. Thus lack of access to healthcare is not only a cause for individual trauma and tragedy, but it also stunts the progress of the society on both economic and social planes. Conversely the ability to have access to healthcare has proved to be a powerful weapon against poverty as also against social and economic inequality.

The health of a person is subject to wide variety of risks, which trigger both predictable and unpredictable costs. Risks to the health of any person seldom occur in isolation but are the result of both proximal and distal socio-economic causes. These risks affect health not only at the individual level but also at the society level. At the level of individuals, it was thought that they are mainly responsible for handling their own health risks because many risks, which become evident, appear to be rooted in their behavioural characteristics. This has led to the lifestyle approach in health promotion. However, there are also issues beyond the individual level which require regulatory intervention such as in food and drug quality, health and safety aspects at work or on the roads and so on. There is also the need for international safety standards in areas such as environmental and chemical risks, use of agro chemicals, food additives etc. Thus the concern for health has implications at individual, community, national and international levels.

In a different dimension, good health is not only a concern for the poor but also for the rich. Poor people are driven to disease and disability due to factors such as undernutrition, as well as their unhygienic surroundings, which affect the quality of water they use as also their general living conditions. These lead to poor health conditions, giving rise to many communicable diseases that often lead to higher morbidity and mortality rates. The rich in their turn are not spared from health hazards caused by problems related to overnutrition, obesity, sedentary and stressful lifestyles. These generate what are called lifestyle diseases. Thus while poor countries have to deal primarily with the consequences of communicable diseases, the rich countries have to grapple with the fallout of the more expensive lifestyle diseases. Countries in between are said to be compelled to carry a double burden of both the "old" communicable diseases as also of the "new" lifestyle diseases.

The concept of good health is also broadening from a traditional platform of merely treating disease or injury, to one where promotive, preventive and rehabilitative care is also given increasing attention, even though the curative treatment still dominates the mindset of healthcare stakeholders. The potential of preventive care is yet to be fully explored and the savings therefrom is yet to be completely understood.

Health risks thus affect all sections of the society. Statistics starkly reveal the deep dichotomy between the conditions of the rich and the poor. Undernutrition and related conditions affect no less than 170 million poor children worldwide and about 3.4 million of them die as a result of this each year. On the other hand among the well to do, there are one billion adults who are overweight and at least 300 million of them are clinically obese. There is also the phenomenon of risk transition due to changes in the pattern of living arising from migration from the rural to the urban, from underdevelopment to the development stage and from agricultural occupations to the industrial or the service sectors.

2. HEALTH CONCERNS OF THE POOR

For the poor their bodies are most often their only asset and therefore apart from issues of physical integrity and dignity, good health is directly related to their daily earnings. In sharp contrast to this, there is often an inevitable denial of access to healthcare to them, which is one of the reasons why their lives are fundamentally linked to poverty. At the same time it is seen that while lack of access to healthcare perpetuates poverty, access to healthcare is a powerful weapon in economic empowerment.

Developmental economics show that there is a health-wealth connection. A healthy workforce is the key to higher productivity, less absenteeism, less expenditure on curative care and so on. Worldwide, it has been seen that ill health disproportionately affect the poor, and they bear a higher burden of both morbidity and mortality. Ill health triggers a chain of adversities for the poor which may consist of loss of work, deprivation of earnings, expenditure for medical treatment, sale of essential assets to defray the costs and falling prey to loan sharks leading to unaffordable borrowings and indebtedness.

In the Indian context it has been established that the poorest 20% have more than double the mortality rates compared to that of the richest 20%. They suffer disproportionately more than others from pre-transitional diseases like Malaria or TB. To add to all as an NCAER (National Council for Applied Economic Research) study reveals, the richest 20% enjoy three times the share of public subsidy for health as compared to the poorest quintile.

In the area of health expenditure, figures show that while the rich need to spend around 2% of their income on healthcare, the burden on the poor is far higher at 12%. Hospitalisation often means the liquidation of their meagre assets and not infrequently permanent indebtedness. Thus, the threat of financial disaster prevents the poor from seeking treatment, and the percentage of people avoiding treatment due to potential financial ruin have increased in the decade of 1986-96 from 15 to 24% in the rural areas and from 10 to 20% in the urban areas.

A recent analysis of the World Bank is illustrative of the plight of the poor. It says that a hospitalised person in India spends more than half of his total expenditure on hospitalisation, and more than 40% of those hospitalised have to borrow money or sell assets to cover their expenses and 35% fall below the poverty line owing to this. The study also suggests that such out of pocket medical costs alone may push 2.2% of the population below the poverty line in one year.

3. THE INDIAN HEALTHCARE SCENE :

Healthcare has been recognised as an essential social sector investment since independence. In the initial days, therefore, it was envisaged that health services in government institutions, which were to play a major role in healthcare, would be provided free of cost to all. However, the increasing expectations regarding healthcare could not be matched owing to escalating costs and unaffordable expenditures.

The health spend in India, currently is around Rs.103, 000 crores or 5.2% of its GDP. Over the last five decades India has built up a vast health infrastructure and manpower in the primary, secondary and tertiary care areas, involving government, voluntary and private sectors. However, even now the extent of access as also utilisation rates varies between states and regions, between the urban and the rural, and between the rich and the poor.

The public infrastructure is fairly extensive both in the rural and urban areas. In the rural areas, the government has set up a vast network of sub-centres, primary health centres and community health centres. Despite this, it is seen that patients often turn to private providers for their needs, as doctors and medicines are more easily available there and the patients perceive a better quality of care. However, the utilisation of private care puts a serious strain on personal finances on the one hand, and on the other, often puts the patient to risk due to the large numbers of unqualified practitioners especially in the rural belt.

In the urban areas, the public sector infrastructure consists of urban health-posts, taluk hospitals, district hospitals and medical colleges having tertiary facilities. In the private healthcare area, there are private practitioners, for profit hospitals and nursing homes as also charitable institutions. However, even here, there are deficiencies in the delivery of healthcare as it is largely unregulated, leading to the mushrooming of sub-standard facilities and malpractices such as over diagnosis and over treatment. Thus there is a general perception of limited availability of facilities, combined with poor delivery.

4. PROFILE OF THE INDIAN HEALTHCARE EXPENDITURE:

It is estimated that 61% of the private healthcare spending is on outpatient care, and over 55% of the outpatient expenditure is on acute infection such as fevers, diarrhoea and gastrointestinal diseases. The inpatient expenses are mainly towards cure of acute infections, accidents and injuries, cancer, heart diseases and maternal care. The CII-Mckinsey report on healthcare in India estimate that healthcare spending will increase from the present Rs.86, 000 crores (2000-01) to over Rs.200,000 crores in real terms in 2012. Private healthcare will grow faster from today's Rs.69, 000 crores to Rs.1, 56,000 crores and this could rise by an additional Rs.39, 000 crores if health insurance cover becomes available to the rich and the middle class.

Given the gigantic needs of the country there is a crying need for a large amount of investment in health infrastructure, skills and capabilities. The indicative factors for these include:

a. The overall number of beds, physicians, and nurses is low compared with other developing countries and world averages.

b. The quality levels in most healthcare centres are poor, and many lack essential equipment and instruments.

c. The number of beds in hospitals is generally low. The majority of private hospitals have less than 30 beds.

d. There is overcrowding and over utilisation especially in public hospitals.

e. Private providers are allowed to function in an unregulated environment and reports indicate that many run practices and treatment without minimum standards. There is no all India regulation for provider standards and treatment protocols.

As per experts the future of healthcare in the country is expected to move in the following directions:

1. As the country progresses in the developmental index, the share of communicable and other "old" diseases will drop to be replaced by lifestyle diseases, of which cancer and heart diseases will be the most prominent.

2. Outpatient treatment care which now constitute the major part of the health spend will decrease and the inpatient treatments will increase, though through technological improvements day care treatment also will rise.

3. The healthcare market will show rapid growth due to higher levels of awareness and concern. It could even reach a level of Rs.2,70,000 crores by 2012 in view of the changing demographics, disease profiles and due to medical inflation.

4. All the above will necessitate the need for rapid spread of risk financing and risk transfers through insurance and alternative channels, as the increasing cost of medicare will not be affordable even to the well to do classes.

5. WHY HEALTH INSURANCE?

Insurance and development are critically linked, and wherever risks exist which gives rise to unforeseen financial losses, insurance has a place as indemnifier. Health insurance has become an essential requirement for everyone for the following reasons:

1) Health risks are pervasive among human beings across all ages, classes, social groups and economic categories. Morbidity conditions can affect anyone at any time in a sudden and unforeseen manner.

2) Medical costs are rising and can be very high. Research, technology, skills and capital are all costs associated with healthcare and their combined costs are ballooning, making medical costs vulnerable to rapid rise, and the term "mediflation" has come into vogue characterising the regular rise of medical costs.

3) Health risks have a frequency level that is high requiring continuous cash flow or cash availability. Such being the case risk transfer to a cash rich entity is logical and essential, to avoid falling into a debt trap and facing impoverishment.

4) While diseases per se may not be increasing newer and better cures and treatments are rapidly becoming commonplace in view of the increasing requirements of wellness and good health. The treatment value chain keeps expanding both vertically and horizontally to include not only curative, but also rehabilitative treatments and includes pain management, diet advice, physiotherapy, preventive care and so on.

5) Disease patterns are changing due to economic and social changes. The widespread prevalence of communicable diseases is being replaced by the

more insidious lifestyle diseases which brings on critical illnesses that raises expenses of catastrophic dimensions for the patient and the need for lifelong care. Lifestyle disease conditions such as diabetes is becoming pandemic in India. A survey done in six Indian cities show that 12% of the population could be diabetic and more worryingly another 14% could be pre-diabetic.

6) Development and economic well being is raising expectations of good health and fitness. It is seen that as people move up the income ladder, they begin to spend disproportionately larger sums on healthcare. A survey conducted by NSSO (National Sample Survey Organisation) in 1999-2000 found that out of the 12 types of households classified based on their monthly per capita expenditure (MPCE), the top class has an average per capita expenditure of about 12 times that of the bottom class, but in the case of healthcare expenditure the difference is about 28 times.

7) Human morbidity conditions not only affect everyone, but also tends to increase and accelerate with aging, needing lifelong protection, which should ideally start from the cradle.

8) Health and disability losses have great immediacy as it involves curative and rehabilitative expenses, trauma and pain and any delay in treatment owing to inability to pay can affect future health and destroy a person's income and wealth.

Risk transfer mechanisms thus need to come into the daily lives of everyone and into the mainstream of the economic landscape as quickly as possible.

6.HEALTH INSURANCE AND ITS CHARACTERISTICS:

Health Insurance is a method of risk transfer, by which an insurer assumes responsibility for costs that arise due to covered illness, disease and/or accident. Health Insurance is thus a method of financial protection in the form of a contract containing terms, conditions, warranties and exclusions by which in the event of a covered loss taking place, the insurer indemnifies the insured by paying the costs incurred, to the insured or the medical provider as the case may be, directly or through a Third Party Administrator.

The basic benefit of health insurance is that all those covered get protection, by paying a small price or premium for the protection and the few who incur unforseen but insured medical costs are paid for the same. Therefore, through the medium of insurance a known and affordable cost of protection is incurred every year to cover against the unknown, and often unaffordable costs of health, which may also include catastrophic losses. Thus by means of insurance, an insured person is given the necessary "deep pockets" to pay for unforseen health costs. Insurers bring to the public by this an assurance of "affordability", which is very critical in medical care, where the cost overhang, especially in the tertiary care is very forbidding, and requires risk transfer. In addition in medical insurance insurers can also add the service of "assistance" through Third Party Administrator (TPA) Service.

Broadly Insurance of persons can be through two types of indemnification:

a) Reimbursement of Expenses

b) Benefit Payments

Generally health covers are in the form of reimbursement of necessary and reasonable medical costs, and in order to avoid the burden of sourcing the money first and then the insurer reimbursing the costs, insurers provide "cashless" service through their TPAs in hospitals that have been networked by the TPAs. Benefit payments are on the other hand, amounts which are fixed at the time of taking the insurance, and on the happening of the contingency, paid in full or as agreed, to the beneficiary. Health insurance, though popularly is of the reimbursement of cost type, is seeing an increasing use of critical illness policies as also disability policies, which are in the form of benefit payments.

Unlike life insurance, which deals primarily with mortality, health insurance deals with the complex phenomena known as morbidity. Whereas in conventional life insurance there will generally be one claim, health insurance risk typically involves the possibility of multiple claims and hence the health underwriter's task is to gauge the morbidity level consisting of both frequency and severity. Human morbidity conditions cannot be measured or defined exactly and their manifestation depends on the combination of a variety of factors such as age, sex, heredity, environment, lifestyle, occupation, food habits, economic status and so on. Morbidity conditions are also not reported on a regular basis, and the data that may be gathered in this regard cannot be universalised. Furthermore, morbidity conditions also indicate an evolution as new disease strains and new cures are coming into vogue over the course of time.

Health Insurance is different from the insurance of all other assets, which are generally insured, in as much as health coverage deals with human beings and with the less understood and complex phenomena of human morbidity. The following features therefore, tend to stand out:

1. A market value cannot be placed against a human being and hence in health indemnity

policies it is difficult to place a ceiling on health coverages based on strict value or cost parameters.

2. Ageing brings on more risks. Rejection of coverage particularly at renewals due to age and/or aggravation of risk factors are often neither possible as in other asset insurances nor may be permitted by law or courts in the absence specific social security schemes and such other safety nets. Rejection of high risk coverage being difficult, there is an implicit cross subsidy in all health schemes whereby the young subsidises the old, the rich subsidises the poor and healthy persons those who are often ill.

3. Unlike many other insurance covers, health insurance is claim intensive, that is, the frequency of claiming is high. Empirical evidence shows that out of 100 persons covered an average of 4 to 5 persons claim. Statistical analysis also shows, as seen in the CII-Mckinsey study, that there is a link between development and hospitalisation, that if in 2001 when the per capita income was around US$ 2100 there were 31 hospital admissions per thousand people, this is expected to rise to 39 hospitalisations in 2012 when the per capita income is likely to be US$ 3600.

4. Cost-push factors are generally likely to be high and can be unaffordably pushed higher in medical insurance owing to the following two factors.

   a. Moral hazard. Moral hazard problems arise when the policyholder demands all kinds of medical facilities and services regardless of cost. This coupled with medical providers who do not have any incentive to lessen costs, recommend the costliest treatments, even if they are of little value to the patient. They are also found to be prone to charge more merely because the patient is insured.

   b. Adverse Selection. Adverse selection can take place when people with high risk are likely to buy health policies, rather than persons with medium or low risk. Another aspect of adverse selection manifests when individuals take the policy without family members or if they are included in the coverage the sum insured chosen for family members who are covered, is often skewed in favour of those with the highest risk.

5. Morbidity conditions as already stated before are difficult to comprehend and relevant authentic researched data is hard to come by. Its range, scope and extent have variations depending on age, sex, living conditions, lifestyles and so on. Hence, health insurance has traditionally followed a rating pattern based on experience basis.

6. Medical costs are continuously displaying inflationary tendencies and the beneficiaries of policies show increasing levels of utilisation. These two phenomena always combine to put pressure on premium levels. Hence, premium rates need frequent revisions, and the rates are generally perceived by the insuring public to be high. In view of the resistance from the insured in paying higher premiums and the various other characteristics of health coverage as 7explained elsewhere, health insurance business is normally characterised as a high volume, low margin business.

7. Control on selection and control on costs are the two vital factors that can assure health insurance of long-term success and sustainability. Since health insurance coverage is for human beings, screening out persons from coverage would not be easy and there could be actual or potential regulations prohibiting discontinuance of insurance coverage. Therefore, the right method would be to expand the base by covering more of the population, through well-distributed groups so as to balance the portfolio. As the pooling concept in health implies a certain amount of subsidy from low risk to high-risk sections of the population, it is important to bring in balanced groups.

8. This ties in with the concept that health insurance is ideal from cradle to grave. A mix of covers are available to take care of lifecycle requirements and the habit of insuring everyone from young age helps to ensure not only protection for all but also long term sustainability of health schemes.

9. Control on costs is an area where the insurer needs to work with the providers and insureds, to ensure fairness and adequacy of treatment on the one side, but at the same time to prevent over utilisation of facilities and services, and limit the cost of treatment within agreed or reasonable cost bands. Historical evidence shows that medical costs tend to balloon over time and headlines will continue to be made such as: "Biggest car maker spends more on healthcare than steel for cars". (Business Standard, Kolkata

edition, 20.8.03) Therefore, the financing of healthcare involves certain amount of oversight and interference on the part of insurers and their facilitators through various methods of utilisation review, agreements with providers, case management methods and so on. This may be perceived as restricting of choices and freedom for insureds. However a trade off is required between premium paying capacity and the availability of choice levels.

10. To offset complaints against insurers regarding impeded access to care, the problems of "risk selection" by insurers to attract and retain only healthy persons, rejection of renewal of policy or increase of sum insured etc. courts, regulators and governments are often forced to step in. In the US a draft Patients' Bill of Rights contains the following rights for patients:

- Information disclosure
- Adequate choice of Providers and Plans
- Access to emergency services
- Participation in treatment decisions
- Respect and non-discrimination
- Confidentiality of health care information
- Complaints and appeals

Insurers are bound to take cognisance of customers voice and rights in the area of health care more than in any other category of insurance.

11. Health Insurance, as already indicated, can generate high emotional responses from customers. Not only is good health a matter of concern, the frequency of claims, the controls and the "gag" clauses supposedly or actually contained in the policy wording, the service and administrative failures in assisting the patient and settling the bills, easily touch a raw nerve in insureds. Medical care also involves pain and trauma, affect issues of human dignity, confidentiality of health information, adequacy and quality of treatment etc. Therefore, in health insurance, insurers and their related service providers need to be highly responsive and proactive and many assistance services will have to be offered to reassure and satisfy customers.

7. HEALTH INSURANCE PLANS:

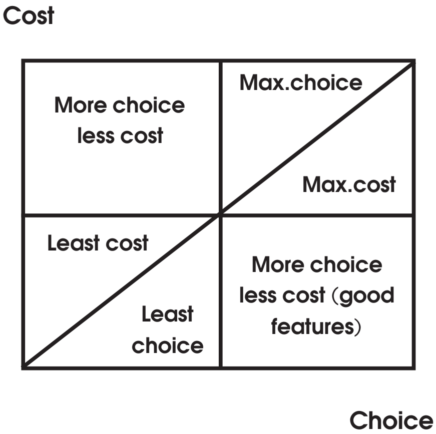
Health insurance customers have a variety of coverage needs and aspirations with regard to care and have varying capacity to pay. From the insurers viewpoint also covers need to be graded and fine-tuned to reduce insurer risks and ensure sustainability on the one side, and competitiveness on the other to attract and retain customers. It is, therefore, inevitable that there should be multiplicity and plurality in health insurance covers and that both general and life insurers should offer as many plans and schemes as possible to individuals, families and groups, whether annual or long term, reimbursement or benefit, for hospitalisation or for disability, or through combinations of various options and so on.

Every country or market has its own uniqueness and pattern of moving up the protection value chain. In the Indian context, the following types of plans already exist or are likely to be introduced in the near term:

Health Insurance Plans

Indemnity/Reimbursement	**Benefit**
Accident Hospitalisation only	Critical illness covers
Surgical only	Disability Income
Hospitalisation cover only	(Hospital Cash)
Hospitalisation with limits on benefits	Long Term disability
Group Policies with tailormade features	
Major diseases covers with or without basic cover	
Hospitalisation with outpatient covers	
Covers, which can be utilised for hospitalisation after retirement Long-term care.	

All over the world, healthcare plans are structured based on parameters of choice and cost, that is as choices widen and options increase, the premium cost goes up and vice versa.



7.1 Health Insurance Benefit Covers:

Benefit covers are policies where on the occurrence of covered losses, the agreed amounts are paid, irrespective of the costs incurred. Benefit policies are popular because the policies are simpler and the formalities and documentation required to settle the claims are fewer and evidences of expenses incurred are not required. However, the economic status of the beneficiary and the moral hazard of the proposer become important considerations, particularly as the sum insured or the benefit amount rises higher and higher.

7.2 Critical Illness Cover

Among the more popular benefit policies is the Critical Illness Cover, also known as Dreaded Disease Cover. In a world where lifestyle diseases are increasingly dominating, this cover becomes more and more essential. It can be sold both by general and life insurers. It is said that in today's world, the white collared, highly driven executive, working round the clock, with non-negotiable deadlines and erratic eating schedules is an accident waiting to happen. The worst hit segments in this regard are people in the productive 30 to 65 age group, according to experts. The consequences of a critical illness can be manifold:

- Possible loss of employment
- Physical disability
- High medical expenditure
- Need to change lifestyle
- Dependency on others in day-to-day life.

Expenditures that can arise from the above are difficult to quantify and reimburse, and therefore, it makes eminent sense to offer a benefit cover for a sufficiently high sum insured based on income levels. Since a critical illness can affect employment, companies can ideally take annual critical illness policies for their employees, especially executives.

The critical illnesses generally covered are the following: stroke, coronary artery surgery, cancer, kidney failure, surgery for a disease of the Aorta, heart valve replacement, organ transplant, paralysis, total blindness, multiple sclerosis, myocardial infraction.

7.3 Hospitalisation Covers :

The commonest form of health indemnity policy is the hospitalisation cover. Hospitalisation cover can be for illness, disease and/or accident, for all procedures or only named ones, for an all-encompassing care or only for named major illnesses. The charges payable are generally listed. The Mediclaim Policy, for instance, lists the following:

a. Room, boarding expenses

b. Nursing expenses

c. Surgeon, Anaesthetist, Medical Practitioner, Consultant, Specialist fees.

d. Anaesthesia, Blood, Oxygen, Operation Theatre Charges, Surgical Appliances, Medicines and Drugs, Diagnostic Materials, and X-Ray, Dialysis, Chemotherapy, Radiotherapy, Cost of Pacemaker, Artificial Limbs and cost of organs and similar expenses.

Any hospitalisation cover, and generally all health covers have certain exclusions, more in the line to define the cover more clearly, than to restrict the benefits, and the severity of such clauses wherever they are existing are diminishing and will diminish further in the future. The principal exclusions specifically relevant to health as exemplified in the largest selling health policy in the country, which is the Mediclaim Policy, are:

a) Pre-existing illness exclusion. This is considered an essential part of any health policy, unless it is forbidden by law, as is said to be the case in some countries where health covers would possibly be compulsory or commonly bought by everyone from a young age. This condition is now being increasingly mitigated by insurers and in certain types of group policies altogether removed by payment of additional premium. Pre-existing disease clauses are however very relevant in our country where the entry age could be up to 75 years of age because the insurer could be saddled with known claims, especially in cases when proposers can seek cover after clearly knowing that treatment involving major expenses are impending.

b) Along with generic exclusions of pre-existing conditions, certain illnesses may also be excluded in the first year or for an initial period as these diseases can be postponed for a period once the diagnosis is made. These diseases include cataract, hysterectomy, hernia, hydrocele, congenital internal diseases, fistula, piles, kidney and gall bladder stones etc.

c) Circumcision unless necessary for treatment of a covered disease or due to accident, vaccination or inoculation, change of life or cosmetic or aesthetic treatment of any description, plastic surgery other than necessitated due to accident or illness.

d) Dental treatment unless requiring hospitalisation, cost of spectacles, contact lenses, and hearing aids.

e) Convalescence, general debility, run-down condition, rest cure, congenital external disease or defects or anomalies, sterility, venereal disease, intentional self-injury or use of intoxicating drugs or alcohol, AIDS and related syndromes.

f) Charges primarily for diagnostic or laboratory examinations not related to a specific illness or injury. Expenses for vitamins or tonics unless part of treatment of disease or injury.

g) Pregnancy and childbirth (coverable under group policies)

h) Naturopathy treatment.

In line with the above exclusions there could be variations depending on the requirements of the policy.

In hospitalisation policy, the definition of hospital is given, and the minimum duration of stay in the hospital is specified. However, as a new line of surgeries called day care surgeries have emerged, the same are being increasingly covered. Along with hospitalisation pre- and post hospitalisation for a fixed number of days are also covered.

Outpatient or ambulatory care is not usually offered in hospitalisation policies, but in certain cases limited care is allowed to certain well-approved clients for additional premium. With the advent of managed care, preventive and promotive care will be increasingly covered and the market awaits the introduction of such benefits in India.

8. COST REDUCTION AS THE KEY TO SUCCESSFUL HEALTH INSURANCE:

Morbidity and heightened concern for health particularly when a cover is available brings in frequency of claims and the utilisation rates of covered treatments can go up. This coupled with the inflationary tendencies inbuilt in medical care, can make for run away costs, leading to unaffordable premium increase or unsustainability of an otherwise beneficial cover.

There are two very important aspects of cost control. The first is on the part of the insured. Ideally a good health insurance cover should be co-created with the insured, suited to the unique requirements of the customer, priced as per the affordability of the customer. At the same time the customer will have to accept the need for sustainability and agree to regulate the costs/utilisation in such a manner, that while the cover is beneficial and contributing to maintain good health, it should also be made sustainable over as long a period of time as possible. Such co-created covers, also called tailormade covers, are common in group policies, but even in such policies the cost reduction issues or limitation of benefits as is required, is seldom worked upon. The second is on the part of the insurer, who through understanding of the risks and careful underwriting brings in safety factors to keep the premium-claims ratio stable which is further aided by keeping a track of provider costs, through various managed care techniques.

8.1 Underwriting:

The beginning of fashioning a sustainable and affordable health cover begins with discerning and careful underwriting. Successful underwriting and rating creates a balance between adequacy and equity of rates and at the same time keeps the competitive requirements in perspective. Rates should be high enough to generate sufficient revenue to cover all expenses and yield an acceptable return on equity. At the same time the rate should be attractive enough to generate large volumes.

An insurer often faces the twin risks of adverse selection and moral hazard, and to counter this the insurer will try to balance the risk and to improve the risk by strict scrutiny and screening. In this endeavour the underwriter looks into the following aspects:

1) The chance of adverse selection decreases as the size of a normal group increases. Hence, apart from encouraging group insurances, the underwriter will try to increase the volume of family covers vis-a-vis individual covers, which are generally symptomatic of selection.

2) Balance the age profile of those covered. It is generally accepted that the younger population constitute a better risk than those old. Similarly based on age insurers can insist on pre-insurance health screening to avoid catastrophic pre-existing conditions or diseases from being claimed.

3) The cost index of health facilities that the insured population need to use can be an important consideration. Costs, in metros for instance, will be higher than non-metros, and therefore to contain costs limits can be placed on usage based on locations or the premium can be loaded as may be necessary or the level of sum insured could be fixed at a much higher level in case of locations with high costs.

4) Even more insidious can be the variations in utilisation rate of

healthcare facilities. It is seen that among those who are more aware and where health facilities are easily accessible, the usage rate generally rises. Therefore, there can be difference in the utilisation rates between the rich and the poor, the urban and the rural, and areas where health facilities are plentiful and areas where such facilities are not easily available. The underwriter will need to keep utilisation rates under control by relevant underwriting tools.

Keeping in mind the above broad parameters, the underwriters will examine individual cases based on the undernoted criteria.

a) The health status of each person to be covered. This can be determined by:

i. Physical examination of the person to be covered along with necessary tests and/or attending physician statement

ii. Individual medical questionnaire as can be seen in the individual mediclaim proposal forms.

iii. An employer disclosure listing major health conditions.

iv. Medical cost experience (large groups)

b) The type of coverage required. The extent of coverage that can be allowed will depend on the magnitude of risk that the underwriter perceives based on facts and experience. Normally risks are categorised into standard and sub-standard. Sub-standard risks can be dealt with by loading the premium, and/or by restricting the coverage or by declining the risk altogether.

c) Assurance of renewal. Underwriters will tend to view suspiciously covers in the first year, as the risk is highest from the point of pre-existing diseases and moral hazard. Therefore, in health insurance coverage particularly, consistent and timely renewals are considered essential both for the insurer and the insured. Health insurance policies in the first few years can have more "gag" clauses for the customer due to the chances of higher risks inherent in such proposals due to non-disclosure or incomplete disclosure. There is also considerable risk for the customer that can arise from a break in the policy or discontinuation of the policy in that if the insured takes a policy at a later date after a break, the earlier covered illnesses could face exclusions due to conditions or illnesses that were contracted before or during the break in policy. This is because such conditions or diseases could become a new pre-existing condition if the same are manifested as likely to generate further claims at the time of taking a fresh policy after a break. Therefore the right strategy for any health insurance customer is to have the cover from cradle to grave without any break.

Health Insurance as noted before is a most complex subject given that people continuously age and have a host of differentiating risk patterns based on their age, gender, heredity, lifestyle, lifecycle, environment and living condition, occupation, access to healthcare, especially preventive care and so on, apart from various subjective moral hazard factors. Therefore, in addition to individual profiles, the underwriter would also keep in mind the larger macro picture, which includes:

1) Demographic factors. Age and gender data can provide predictors of future claims.

2) Economic factors - inflation, the availability of health infrastructure, socio-economic background of the various segments of customers, which can affect utilisation rates.

3) Occupational details help in understanding claim ratio.

4) Provider practices are important in understanding cost patterns.

Ultimately the past data of claim experience, coupled with future projection of claims, factored by the medical inflation index will give a more realistic picture of costs and the underwriter would have to weigh all such information while underwriting.

The next step for the underwriter is to rationalise and limit expenses in such a way that the insured receives necessary and reasonable treatment but within expenses and sub-limits as capped. Examples of these can include:

a. Restriction on using more than 50% of the sum insured per hospitalisation except for named major diseases.

b. Sub-limits for bed charges limited to a percentage of the sum insured per day or a fixed amount per day.

c. Specific limits for each illness or item of expense or procedure as may be fixed in the policy.

d. Limiting the treatment to named (more economical) hospitals. Apart from putting a ceiling on expenses, the insurer can contain utilisation by restricting coverages through:

1) Exclusion of specific diseases, such as may be pre-existing or chronic

2) Naming only specific diseases or procedures to be covered

3) Using other specific limitations or exclusions as may be considered relevant.

Similarly in pricing, there could be loadings or discounts based on risk perceptions, which could be of various kinds such as:

- Standard rates and terms
- Extra Premium charged for higher risks
- Standard rates but with limited benefits
- Discounts based on better risk profile.

An important element for cost reduction is co-sharing of costs by the insured. This can be by means of deductibles or co-payments such as, say,@ 20% to be paid by the insured and the balance 80% to be payed by insurer. The main intent of cost participation by the insured through deductibles is the following:

1. To avoid unnecessary utilisation.
2. To eliminate small claims and the expense of handling them.
3. To reduce the total burden of costs.

Various kinds of deductibles are used in health insurance.

1. All cause deductible, which can also include a family deductible provision. In this kind of deductible, which is normally of a high level, the payment from the insurers start after the deductible level is reached.
2. Per cause deductible. Each and every claim has a deductible.
3. Corridor deductible. A deductible that is made after the basic plan is exhausted and before the supplementary medical benefits are payable.
4. Integrated deductible. Mainly used by supplemental plans by which before the plan benefit is available a high deductible has to be first incurred.

Co-payment or coinsurance, as it is sometimes called, is used to reduce health insurance payouts and even more to retain the insured's financial interest in the cost of services, so that the insured does not misutilise or over utilise healthcare services.

Finally, renewal of policies can also be utilised to review underwriting results and take corrective steps. There are a number of renewal methods that can be incorporated in policy conditions such as -

1) Non-cancellable renewals - renewals assured and without any changes.

2) Guaranteed renewals - changes not usually made in the terms of the policy but premium rates can vary based on underwriting results

3) Non-renewable for stated reasons such as on reaching a specified age.

4) Optionally renewable, that is, subject to re-evaluation of risk by the insurer which can include review of premium and modification of the terms and conditions.

Since health insurance is a matter of life and dignity for human beings, renewals are a very sensitive issue especially for persons who are in the higher risk categories, and even more for such persons who have been loyal customers for long. Therefore, courts have been harsh on insurers in the area of refused renewals without sufficiently weighty reasons, which are to be based on grounds of fraud or misrepresentation and not merely on the basis of random individualised claim experiences. Laws have also come into force in same countries where refusal of renewal is regulated.

8.2 Reduction of costs by agreements with providers :

Regulation of hospitals, the establishment and implementation of medical protocols, and the transparency and reasonableness in the billing of medical costs and the prevention of medical frauds etc. are important components of cost control. Worldwide there are reported cases of over-billing and mis/overutilisation by providers and drug manufacturers. It has been reported in UK that health insurers had to repudiate thousands of cases of caesarean operations, as they were not medically necessary. An anonymous book titled "Corruption In our Health System" published in Taiwan informs that doctors try to gain more money from the national health insurance programme. The practices described in the book include falsifying medical records, conducting unnecessary examinations or surgeries and inflating costs. The State of New York in USA has sued two major pharmaceutical companies, alleging that they engaged in illegal schemes to inflate the price of prescription drugs paid by consumers and health plans. Fraud, abuse and up-coding of Medicare charges has been a matter of concern in USA and the Department of Health and Human Services' Office of Inspector General concluded that the Medicare program overpaid health care providers an amount exceeding US $ 12 billion or 7.1% Medicare payments.

Control of costs at the provider end requires the following inputs in place:

- Laws and Rules to regulate healthcare providers.
- Standardisation of hospital charges and rating of hospitals.
- Standardisation of treatment protocols. Coding as per global practices including procedure codes, disease codes, drug codes etc.
- Transparency in billing and availability of data to cross check billing.

Apart from the above, limits on cost can be achieved by managing provider utilisation by methods such as:

- Long-term agreement to be entered into with networked providers, where costs could be frozen or increases allowed based on transparent criteria and/or predictable patterns.
- Contracting of a beneficial discount pattern based on volumes and long term contracting.
- Confining care for insureds to named hospitals in a particular service area
- Initiating gate keeping and referral practices through primary care physicians or through local primary or secondary level provider facilities.

Finally the introduction of regular and full scale utilisation review, which is part of managed care, and can contain the following components:

1. Pre-admission Certification by primary or other gate-keeping physicians.
2. Second surgical opinions to certify whether the surgery is medically necessary as advised.
3. Pre-admission testing and same day surgery provisions
4. Concurrent and continued stay review
5. Catastrophic case management
6. Discharge planning
7. Data management and reporting
8. Retrospective review including hospital bill audits.

9. MANAGED CARE:

Efforts at controlling the spiralling cost of health insurance has typically led to containing of its costs through managed care, which in the process also can offer many more beneficial and necessary services such as outpatient care, preventive care, dental services and so on. Managed care accordingly has three broad objectives, which are:

a) To ensure access to medical care in the most appropriate and cost effective manner.

b) To provide co-ordination and continuity of medically necessary health services to the patient

c) To assist the covered person in achieving full health.

Managed care involves the active management of the services and providers in healthcare. Utilisation management and review is the most significant element of managed care. It thus provides oversight, supervision and feedback of providers in regard to their treatment of patients and the aggregate expenditures incurred on behalf of the enrolled persons. This has come from the recognition that traditional fee for service indemnity plans do not provide mechanisms or necessary incentives for containing costs.

Managed care can embody a wide variety of techniques, which include various kinds of financial incentives for providers, promotion of good health, early identification of disease, patient education, self-care and all aspects of utilisation management. Again the focus of managed care has seen a shift from the curative to the preventive with focus on primary care. These techniques are also now adopted by conventional insurance plans especially the need for obtaining second opinions, before undergoing elective surgery and the adoption of case management techniques.

Types of Managed Care Organisations :

Managed care and traditional indemnity appears to have meshed into a continuum as shown below:

Managed Indemnity ➔ Service Plans ➔ PPOs ➔ POS HMOs ➔ Open Panel HMOs ➔ Closed Panel HMOs

1. Managed Care and Indemnity insurance. Traditional insurers have adopted a variety of managed care techniques.
2. Service Plans or self-insurance plans by large groups also have adopted managed care techniques.
3. PPOs or Preferred Provider Organisations are entities that

purchase healthcare services from a selected network of participating providers. These providers agree to utilisation management programmes and other procedures and accept the reimbursement structure mutually agreed upon. PPO programs allow beneficiaries to use non-PPO providers but at higher levels of coinsurance or deductibles.

4. EPOs or Exclusive Provider Organisations. They are similar to PPOs except that beneficiaries can utilise only from providers that participate in the EPO. These organizations are very similar to HMOs.

5. POS (Point of Service) Plans. A plan in which members do not have to choose how to receive services until they need them. Thus the plan may have a HMO-like system as well as an indemnity benefit cover. The plan also can offer different levels in the benefits paid, for example, 100% coverage of benefits if taken as per plan, but only 70% in case the member goes outside the plan for service.

6. HMO (Health Management Organisation) Models.

HMOs are organised healthcare systems that take responsibility for both the financing and the delivery of comprehensive health services to those covered. It can be viewed as a combination of health insurer and a healthcare delivery management system. HMOs are responsible for the quality and appropriateness of the health services they provide. An HMO can have different types of relationships with different groups of physicians, and these can be categorised as under:

a) Staff Model, where the HMO employs their own physicians. This model is also known as closed panel HMO.

b) Group Model HMOs because they contract with multi speciality physician group practice. Such group may be a captive group or an independent group.

c) Network Model, when the HMO contracts with more than one group to provide physician services, which may be broad based multispeciality groups or small groups of PCPs (Primary Care Physicians). This model could be closed or open panel. In the open panel plan any physician who meets HMO's criteria can be enrolled.

d) IPA (Independent Practice Association) Model. In this type, the HMO contracts with an association of physicians to provide physician services. The IPA physicians continue to see their non-HMO patients and therefore this is known as an open panel, and they can have contracts with more than one HMO.

e) Direct Contract Model. In this model the HMO contracts directly with individual physicians and utilise both PCPs and specialists and use a primary care management approach.

f) Mixed Model. HMOs use mixes of different models as may be necessary.

10. UTILISATION OF TPAS IN HEALTHCARE INSURANCE:

A good health plan consists of ready availability of healthcare as provided by hospitals and other providers, the affordability which can come through pooling as in insurance or other financing schemes and finally on assistance service which implies making available of all inputs necessary to assist a member in case of medical need. Thus a good healthcare plan will consist of the benefits of availability, affordability and assistance as shown in the figure below :

HEALTH CARE SERVICES FO PEOPLE

Health Care Industry	Insurance Industry
AVAILABILI TY PATIENT CARE High Tech High Touch	AFFORDABILITY Cost Free Speedy Responsive TPA ASSISTANCE

The concept of the Third Party Administrator (TPA) has been recently introduced in India by the IRDA through the TPA Regulations in 2001. The need for TPA in health insurance arises from the unique characteristics of health insurance itself. Health covers deal with morbidity conditions and is characterised by frequency of claims. The insured event involves a continuous treatment process till discharge or cure and is not a discrete event. The need for effective cost control is essential and requires management of provider networks. More importantly the health insurance service directly involves people who are ill and in need of proactive assistance and not objects as is generally insured in other covers. Hence, there are competencies, which are unique for healthcare insurance, which includes the following:

a) Transaction Processing - handling efficiently large number of mainly low severity claims.

b) Medical Case management - Serious illness/ injuries require long periods of treatment. Therefore prevention, early diagnosis, influencing the course of treatment, utilisation review techniques are important in such cases. The goal is to co-ordinate the care so as to improve continuity and quality of care as also to lower costs. Case management is defined as a collaborative process which asses, plans, implants, coordinates, monitors and evaluates the options and services required to meet an individual's health needs using communication and available resources to promote quality and cost-effective outcomes. Case management occurs across a continuum of care addressing ongoing individual needs. When focused solely on high cost inpatient cases it is also referred to as catastrophic case management.

c) High Level of Customer Responsiveness - Health insurance can be of high emotional content and therefore high touch service is required in matters dealing with healthcare. The ability to respond quickly is essential in healthcare for which the necessary infrastructure has to be built up and proactive and capable people are required for dealing with claims and other services efficiently.

d) Network management. Through network management, hospitals are accredited to the health insurance network by way of tie-up agreements owing to which various valued added services can be offered to the customer in the area of assistance. This is especially important in offering cashless service and in controlling costs and ensuring certain minimum levels of quality and care.

Therefore, the TPA concept adds considerable value to the health insurance value chain. TPAs' functions could include:

- Member enrolment and issue of identity cards and guidebooks. This helps to ensure proper identification of members and through the guidebooks the beneficiaries can avail services as required by following the guidelines.
- Customer Service and Contact Management, which includes:
  - 24 hour call centre
  - Cashless access service in network hospital
  - Customer grievance handling
  - Action taken report
  - Customer information and education through website and call centre
  - Benefit information and clarification
  - Claim status information
  - Eligibility review and pre-admission authorisation
  - Information regarding provider services.
- Provider and Network Management:
  - Provider profiling and categorisation
  - Accreditation and networking
  - Provider contracting
  - Negotiated provider charges
  - Provider relations
  - Provider Reviewing

Provider contracting

- Obtaining schedule of charges
- Guarantee of payment
- Access to medical records
- Credit period
- Cashless service
- Check on cost through long-term agreement
- Cooperation for review

Claims Management

- Claim process mapping and skill building
- Adhering to time frame agreed for settling claims.
- Pre-authorisation and cashless settlement
- Documentation management

Customer Satisfaction Surveys & Grievance Handling.

- To understand consumer concerns and priorities
- Identify areas for quality improvement
- Develop strategic plans
- To add to customer value and credibility
- To reinforce customer retention and loyalty

Data Management

- Compilation and analysis of data
- Utilisation of data in adding to customer care

Analysis of data to improve quality of care and

to reduce costs.

Data mining to develop new plans and coverages.

Data warehousing for research purposes.

11. THE FUTURE OF HEALTH INSURANCE IN INDIA:

Disease, accident and disability have expensive downsides in human existence, and managing these risks is essential not only for the financial security of individuals and families, but also for the community as well as the country. Health and disability insurance is therefore an integral part of social engineering.

Health care as a service industry is perhaps the largest in the world, and is rapidly expanding in its reach and capability. However in the progress of medical capability, medical costs are also seen to be rising rapidly, making healthcare unaffordable. The healthcare treatment delivery format not only spans primary, secondary and tertiary care, but is also moving forward to more care oriented formats such as integrated delivery network which can keep track of a patient so as to achieve high levels of clinical quality and customer satisfaction, telemedicine which involves use of telecommunication facilities to diagnose or treat patients in remote areas, mobile care, home care and so on.

A health insurance claim is an uncertain event, and the payout required is also uncertain. However, since the risk is a frequency risk, it mandates coverage on universal basis, where the rich and the poor, the young and the old are covered in one way or the other. There can be various types of health protection schemes through insurance for individuals, families, groups, or through self-funded schemes, and free or paid schemes for social and/or community groups. The way to fund such schemes is through voluntary contributions by way of premium or through government taxes.

Going by past experience insurance would appear to be a superior option in comparison with traditional risk transfer mechanisms involving the employer or the government, because insurers are more adept at risk management and fund management. It can therefore be seen that the health insurance potential in this country is of gigantic size and could run into many thousands of crores of rupees as premium. To enable the industry to face the challenge in insuring all, certain enabling factors are required from various authorities and agencies:

a) Government -

Regulations mandating registration of medical establishments and enforcement of minimum standards, which should include not only infrastructure and personnel but also information regarding patient data, transparency of charges etc.

The need for a regulator to enforce provider standards and encourage medical establishments to self-regulate themselves.

There should be governmental encouragement for the spread of universal health insurance through various incentives so that all could come under the protection umbrella at the earliest.

The Government can also enact various laws as maybe required to put into place the facilitating factors for the spread of this insurance to all and for the protection of health insurance customers.

b) IRDA

Emphasis on rapid development of health insurance. Centralised collection of data at a data bank under the supervision of the Regulator.

Actuarial studies and research on health insurance to be encouraged through the data

Regulatory vigil on all players in the healthcare market.

Encouraging multiplicity of players, plans, programmes relating to health coverage.

c) Providers:

Implementation of changes to introduce

Accreditation standards

Patient safety standards

Clinical protocols

Healthcare Management Guidelines

Standardised Charge Patterns

Proper Record keeping

d) TPAs :

Rapid scaling up in reach and quality

Professionalisation and skill building

Continuous improvement in assistance content and quality

Ability to subserve in full the interests of consumers, providers and insurers.

Data Management and its utilisation to develop new policies, plans, and services.

Ultimately the main burden of protection falls on insurers. To develop health insurance penetration insurers need to be open to new learnings in the following areas:

a) Health insurance is a separate category of business with unique features and needs its own research and data collection requirements. Its underwriting and claims management will need specialised skills. Separate business units or subsidiaries may be required to take advantage of the gigantic opportunities in health.

b) Health insurance is a high volume-low margin business, and it is also socially oriented. Therefore, it has to have its own paradigms of viability and success. This requires different strategies and capabilities, which need to be addressed.

c) There is a requirement for high level of integration with providers and TPAs so as to deal proactively with customers. Therefore, high levels of technology integration, transaction skills and service capabilities are required.

d) Health underwriting needs differentiated skills, large collection of data on a wide variety of aspects such as population characteristics, morbidity data based on age, sex, social or economic status, geographical areas including rural and urban and so on. Underwriting and claims data analysis along with various macro data analysis can help to calibrate rates accurately, measure benefits, make risk assessments to create new coverages based on usage experience and customer feedback where necessary so as to address the concerns of all categories of customers on premium and benefit packages.

e) Accent on product proliferation to suit all needs and pockets is required. In this standalone health insurance companies as also general and life insurers can offer a variety of products in all areas such as annual/ long term policies, general/speciality policies, reimbursement/benefit policies, illness/disability policies, individual/group plans, full hospitalisation, major disease or total health covers and so on.

f) Creating multiple channels to distribute and reach health cover to all. Insurance sells push oriented products and especially in India, where the insuring habit has not yet taken root and the penetration is very low, there is the need to proliferate health products through all channels. Tie-ups with banks, credit cards, NGOs and other organisations, and more targeted selling through traditional channels can also help to spread the message of health insurance and reach respectable penetration levels in the shortest time possible.

g) There is an increasing need to meet the complexities of healthcare costs by utilising actuarial services to build up cost models to reflect the important expense generating variables such as service utilisation and service costs, which are often tied to age, gender and other factors and the benefits offered. Actuaries can also do risk modelling, fee schedule analysis based on coding standards which need to be implemented, clinical efficiency benchmarking, claim probability distributions, creating incentive structures for providers and so on. These analyses help to set pricing levels and also can help to identify, quantify and prioritise insurance services in the healthcare area.

The success of health insurance thus depends on the active role of a number of stakeholders starting with the government, so that insurers who have to bear the burden of the risk are properly facilitated, assisted and given full support in arranging widespread coverage across all sections of the population.

12. HEALTH INSURANCE FOR THE POOR/ MIDDLE INCOME SEGMENTS:

The poor are entitled to health care and protection of their health through insurance as part of their basic rights. Health security for all is a national goal. As economists have noted a healthy population will give a "demographic dividend" by not only generating higher economic growth but also showing a decline in morbidity and mortality, which are known to weigh down the society with heavy costs. Good health is therefore, a key part of the developmental index. On the side of the insurer, the poor and the underprivileged do not necessarily constitute a poor risk, as they form the vast belly of the market and a sizable part of a very large consumer pyramid that exists in India. It is possible that what may not be available by way of margins could be available by the huge volume of business that can be generated by selling to mass customers.

The poor and the rural consumer segments are also characterised by their undergoing rapid transition. It is being increasingly recognised that our country is turning out to be a large consuming economy owing to their purchasing power. The consumer has become highly aware even in the remotest corners, as information channels, primarily TV are available to at least 500 million people, a 1 in 2 ratio. Research also shows that far from being passive viewers, people are eagerly viewing the world, transforming their lifestyle mode from self-denial to value based acquisitions, guided by their increased awareness about personal well being and vitality. The consumer is also earnest about grabbing economic opportunities and is increasingly foraying into the world of branded products, information and mobility tools like phones and two wheeler transports.

In this scenario, opportunity mapping will indicate that there is a vast coverage potential for health insurance as it is a compelling need for everyone. It also has a social orientation making it a necessary part of the basic protection basket. The low-income consumers and the newly emerging middle-income group are now well-accepted large mass markets. Current research shows that the consumers in these groups are now found to be shifting away from mere consumption of primary articles to higher order needs such as health and education. Therefore, it is becoming easier to look into their unmet insurance needs in healthcare, which are urgent and imperative, through meaningful health insurance covers.

Again, from a social and governmental point of view it is essential to bring social security benefits to all sections of the population. This is the next frontier in the goal of welfare for all. An important component of this will be health insurance. In offering health coverage to the poor there are two methods of contribution to the pooling of funds, namely taxes levied by the government for this purpose on the one side and voluntary contributions to be paid by the beneficiaries as insurance premium to pay for their unforseen health costs.

Thus in the scenario of health for all there can be three types of coverage using the premium/tax mix for promoting health coverage.

1. Commercial Insurance - where the full premium is paid by the insured, but tax benefits can be offered and service tax on health premium can be waived.

2. Community Insurance - where communities as may be sponsored by the state government, local government, NGOs and other groups can be insured by means of limited contributions by the participating members and subsidy from the government targeted to this end from tax earnings.

3. Command or compulsory insurance or social security schemes, whereby through employer contribution or taxes social security schemes can be offered to high risk groups such as the aged as also the poorest and unemployed sections of the population.

Commercial Coverage	Full contribution
Community Coverage	Contribution
Command Coverage	no contribution

Many initiatives are required at the various tiers of the government including local governments, to work with insurers to empower and facilitate coverage of the weaker and vulnerable sections through commercial, community or compulsory coverage. These initiatives will need not only money but also methodologies to cover effectively the many million beneficiaries, which will not only give them easy affordability coupled with access to healthcare, but also facilitate simplification of coverage, easy documentation and faster formalities.

In order to achieve these the following will need to be implemented:

a) Identify cards to be issued to all citizens/beneficiaries with photographs and basic data.

b) Large group or community insurance schemes, where on the basis of minimum data, group coverages can be offered.

c) Payment of premium through panchayats, cooperatives, NGOs and other group channels.

d) Networking with local community hospitals to enable the beneficiaries to obtain cashless benefits.

e) Cash inflows to such hospitals through utilisation of claim payments so that they are constantly upgraded to prevent beneficiaries from seeking expensive care elsewhere, and by doing so to keep the premium levels affordable.

f) Building in preventive and promotive care through capitation fees to primary care physicians, and utilising them as gatekeepers to regulate the utilisation of higher order care.

g) Networked hospitals to standardise their protocols and charges.

h) To encourage universal coverage to avoid selection against the insurer, create a large pool of funds as also to ensure protection for all.

i) To have as many product plans and options as may be required to encourage higher limits of coverage and obtain the same, at lower costs on the basis of group coverage.

From the insurer's point of view there are methods that can be implemented to reduce costs. These include -

a) Offering family floater cover instead of individual coverage.

b) Collecting the premium through instalments provided there is assurance or guarantee of payments within the stipulated time.

c) Restricting treatment to local community hospitals.

d) Offering all treatments or selected elective treatments payable only subject to coinsurance or co-payments by the beneficiary.

e) Offering preventive care through capitation fee to primary care physicians to reduce costs in the curative area and encourage total health.

f) Implementing various other managed care techniques to reduce costs.

Apart from hospitalisation covers there could be simplified disability covers, or critical illness covers either through life or general insurance streams to cover against disabilities due to accidents and/or major illnesses. Micro insurance schemes are also in the experimental stage and a number of pilot projects are on trial in various parts of the country to offer micro covers at very low premium.

Other than the poor, vulnerable sections of the population such as those already with pre-existing conditions such as BP, diabetes, as also senior citizens need coverage. These are higher risk sections, and some of them can be uninsurable under normal policies. Generally the population under vulnerability would be a smaller percentage and their requirements have to be handled appropriately by direct social security schemes or state supported insurance plans, as they cannot be left out from some form of organised protection methods.

13. TRENDS FOR THE FUTURE

Broadly the future of health insurance in the country shows the following trends:

CURRENT	FUTURE
1. Presently health policies are focused on curative care	Could include not only curative, but also preventive, promotive, rehabilitative i.e. total care over course of time.
2. At present the covers are mainly of reimbursement type, whereby the insured has to spend the money and obtain reimbursement after completing various formalities.	Most treatments will be of cashless kind where the Insured will be allowed to obtain treatment without payment from networked hospitals by means of pre-authorisation which can be obtained from the servicing TPA.
3. Most policies are hospitalisation policies	More varieties of policies will become common including critical illness and other disability policies.
4. Most of the policies are annual policies.	Longer-term policies will begin to be offered subject to actuarial evaluations, especially by life companies.
5. The common policies are individual policies	Most policies will be group and family policies.
6. Few players operate in the health insurance area	Many more health insurance players will operate in the market, as it will be of very large size. These will include general insurers, life insurers, TPAs, Health Management Organisations and others as may be permitted by IRDA.
7. Few Policies	Many more policies, plans, options will come into being. There will be branded policies, tailormade policies, and speciality policies such as dental policies, long term policies and so on.
8. Non-managed care	Managed care in its many forms and techniques will begin to enter the market to give more focused and comprehensive care at lower costs.
9. Unregulated market	More and more regulations, laws, rules can come into force to regulate healthcare market and health insurance practices to give better protection to the customer and prevent malpractices. Apart from insurers, providers and facilitators will

	get increasingly regulated. Standards, codes, and ratings will come into vogue.
10. Only few are covered	Increasingly the entire population, in all segments and socio-economic groups will begin to be covered and initiatives in this regard will come from insurers as also from the government, NGOs, employers, various associations and groups.

The size of the Indian market in terms of premium is going to be extremely large. If by covering around 10 million persons, the general insurance industry could book a premium of over Rs.1000 crores in 2002-03, then at current rates if 500 million persons i.e., half of the population is insured, then the premium could be in the region of Rs.50,000 crores. Viewing the size of the healthcare market the size of insurance premium in the health segment could be even higher. CII-Mckinsey Report on healthcare in India estimates that as against 5.2% of GDPI which was Rs.103,000 crores in 2001 the spending on health could be as high as 3,20,000 crores in 2012 which would be 8.5% of the then GDP. If this be the scenario the growth in health insurance whether life or general, commercial, community, social or self insurance through group schemes could be rapidly expanding as out of pocket payment would be virtually impossible for ordinary citizens as time goes on. Therefore strategies and plans are required to be put into place to seize the opportunities in the most advantageous ways to not only to widen and deepen the market but also to meet the social obligations that are inherent in health insurance coverages.

14. CUSTOMER CONCERNS AND SERVICE IN HEALTH CARE INSURANCE :

With the advent of Mediclaim Insurance in 1986, the Indian insurance market has seen a number of products entering the health insurance area with limited success, as the market has not expanded as was expected. These products range from policies offered to benefit an insured from time of birth namely Cradle Care, Unborn Child Insurance etc. to Mediclaim, Medishield, Hosptial Cash, Jan Arogya, Univeral Health Insurance, Critical Illness, Tertiary Care, Bhavishya Arogya, Long Term Hospitalisation cover and so on. On the life side there are policies, such as Asha Deep, Health First and Medicare Plan etc.

Consumers are no doubt evaluating the products and looking at the various costs, which may not only include the monetary price, but also more intangible costs such as time cost, energy cost and psychic cost to evaluate the cost-benefits before participating in the various health schemes that are entering the market.

At the macro level there are various serious consumer issues which will have to be considered by insurers, failing which the Government, the Regulator, the Courts, Ombudsmen etc. can intervene and impose laws and rulings that can bind insurers in more ways than they would have bargained for. Hence, self-regulation by insurers would always be a better option than external regulations where the insurer will have to comply whether willingly or unwillingly. By following a truly ethical customer approach many issues that trouble consumers could be handled with finesse. The concerns that drive consumers of healthcare and health insurance could include the following:

- Wide availability of consumer choice with inclusiveness and equity as the underlying characteristics.
- Customer / Patient protection measures.
- Ensuring privacy and confidentiality of healthcare information.
- Full information disclosure
- Access to emergency services.
- Participation in treatment decisions, choice of doctors etc.
- Respect and non-discrimination
- Reducing gag clauses and exclusions in policies
- Rights of renewal or continuation of policies.
- Measurement of patient satisfaction and clinical outcomes.
- Ensuring that consumer complaints are heard and redressed quickly.

Customers have expectations as to choice, responsiveness, convenience and trustworthiness. The concept of good health itself is expanding. It has moved from not being ill to an ongoing state of well being. This has translated from the side of customers into various behaviours such as:

a) More self-reliance and less subservience to the medical establishment owing to widespread availability of information and relevant knowledge.

b) There are more instances of self-diagnosis, self-monitoring and self-care.

c) Consumers are getting more and more empowered not only by their capability to assimilate knowledge and information, but also because they are receiving more proactive assistance from consumer groups, employers and others who will intervene for them.

Increasing consumerism is going to be a fact of life and therefore, insurers must align their actions with consumer aspirations. In main these include:

1. Consumer demand for meaningful information

Health and health coverage are matters of high personal priority for consumers and hence, assistance in choosing the right product, full disclosure about policy conditions, and other procedures would be necessary. Now that insurers and TPAs are entering into managed care techniques and procedures, which may include utilisation review and case management, the insured patient would have to be provided even more information.

2. Performance Measurement and Satisfaction in service rendered:

Insurers and TPAs will have to benchmark against not only what has been promised in their documents, but also meet increasing customer expectations both as to the time taken to render service, and as to the quality of service. Parameters of service excellence would have to be developed to ensure that customer satisfaction levels are kept high.

In due course significant investment will have to be made in information systems to understand better and ultimately help to change member behaviours that affect health status and costs. Thus, information systems will need to profile member needs and usage, help to select desired service and providers, assist the customer with information and decisions making tools in the choice of care options and so on. In the scenario of cradle to grave health insurance coverage, insurers will have to provide life long assistance and support, and obtain for the customer, the best access to care to maintain and optimise their health status.

3. Meet customer aspirations for innovative products and services

In the anxiety to enrol numbers and make a profit, insurers may overlook the real needs of beneficiaries, especially in group insurances where the concerns of the employer or the group managers may override the concerns of the beneficiaries. New products and services would have to be developed which could base their attributes on the age, gender, lifestyle and other relevant aspects of consumer's life so as to align the insurance product offerings with their particular health care needs.

4. Meet the challenges of customer empowerment

It is likely that over the course of time consumer coalitions, government organizations, industry associations, information websites, and the media may empower customers with a variety of health related information and services such as:

- Rating of hospitals, physicians, health plans, their quality and performance.
- Provider directories
- Guidelines for choosing hospitals, doctors, health plans.
- Health related news and articles.
- Links to health search engines
- Malpractice issues and other anti-customer activities
- General information about insurance policies and plans with comparative charts.
- Evaluation of insurers and TPAs and their services.
- Policy monitoring
- Assistance in shopping for health insurance products.

In the scenario of knowledge empowered customers insurers will have to expand their capabilities, widen their service offerings and deepen their product options to meet customer requirements. Consumer aspirations and activism coupled with competitive pressures will always threaten the status quo and create new avenues for improved quality of coverage, better care, greater efficiencies and at lesser overall costs and hassles.

Ultimately, healthcare issues will be

evaluated on a comprehensive set of criteria such as quality, cost, patient satisfaction and health promotion. Insurers and their TPAs would have to make efforts to deliver the same to their insureds at affordable costs and optimal outcomes. In the evolution of healthcare, disease management is likely to give way to care management, which will create an integrated system of managing care, and will move from a focus on the inpatient arena to models that offer a continuum of care. Insurers will need to move in tandem with this to move up in the health value chain.

15. SUMMARY AND CONCLUSIONS:

Healthcare is an integral part of human welfare as good health is a core component of the human capital. Good health enhances productivity and economic development and is essential for the well being and economic success of all, which has beneficial implications for individuals, the community and the country.

Morbidity conditions are widespread irrespective of age or socio-economic classifications, and the risks therefrom are not only frequent, but can at times be of catastrophic dimensions. Invariably it is seen that health costs are rising and becoming increasingly unaffordable unless such risks are passed on to an insurer or to other types of risk bearers. Insurance of health is a superior option because through insurance everyone gets protection and are able to afford the "deep pockets" that an insurance scheme can offer. Health insurance schemes make the affordability attractive through relevant and differentiated products, which can be offered by the many players who are active in both general and life insurance.

Health underwriting and cost control measures will form the backbone of the growth in health insurance, which is characteristically a high volume low margin business. The potential in health insurance is certainly a very large opportunity area running into thousands of crores. In order to control the run away costs of healthcare, insurers will have to utilise many underwriting and managed care techniques to sustain the affordability platform over the long term. In this, the role of Third Party Administrators will be considerable, and their service will not only involve management of costs, but also many value added services to assist customers.

Universalisation of health insurance is a matter of importance, and in this the Government, the Regulator, the providers, insurers, the TPAs etc. have a role to play. In offering healthcare to all, social security schemes, community and commercial insurance schemes can exist side by side, obtaining the necessary funds on the one side by taxation and on the other from voluntary premium charges. To make the premium affordable insurers can offer a variety of facilitations, so that the coverage is adequate and continuous.

Health insurance touches the emotions of consumers more than any other insurance as it deals with the core of their well being and dignity. Insurers, therefore, need to examine the various aspects of service excellence and customer equity so as to ensure customer satisfaction in an era where consumer empowerment is steadily rising. To achieve this health insurance needs to keep mind issues of customer choice, confidentiality of information, access to care, as full a coverage as possible and their rights to renewal of policies as important areas of consumer requirements.

The future of health insurance in India can only be bright as modern medical care will be virtually impossible without the affordability that can be possible only through risk transfer. Without insurance the vulnerability of persons to loss of health and wealth is inevitable as health costs are both frequent and at times severe. This not only creates problems for individuals but also for the society and the country. It is therefore imperative that proactive measures are taken at all levels including that of the government, regulators, insurers, medical providers, etc. to facilitate and propagate conditions favourable to the rapid growth of health insurance in as many ways as possible.

Finally the insurers on their part need to look at the future and open up the health insurance portfolio to a variety of products and services, where customers have wide choices and options. Rapid penetration in this sector will require the active participation of all insurers including both general and life, as also standalone health insurers. This coupled with widespread and active distribution should see the health insurance penetration rapidly moving into all socio-economic groups. Ultimately health protection is a universal requirement, and whether by voluntary premium payment or by taxation method, the necessary pooling as will be required will have to be set up to protect all citizens.

S. K. Desai Consolation Prize Winning Essay 2003-04

BANCASSURANCE CONCEPT, FRAMEWORK & IMPLEMENTATION

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EXECUTIVE SUMMARY

The emerging new opportunity for banks in India to sell insurance products is part of the global trend towards integration of the financial services industry. The financial sector is witnessing a rapid convergence of banking, securities dealing and insurance business worldwide. Banks are strongly feeling the need to provide a host of financial services as one- stop shopping to customers to retain their hold on them and bring new clients into their fold. Bank's entry into the insurance sector in India provides a great opportunity in this direction.

The new entrants to the insurance sector in India are also looking for cost effective channels of distribution that will provide large presence and long reach. Because of the extensive branch network and large client base, the banks are emerging as a major distribution channel. This will also facilitate the new insurance companies to reach rural area to tap the growing potential in that area.

This essay touches upon the concept of Bancassurance, the experiences across the globe and in India; benefits to banks, insurers and customers from this partnership; modes of entry into bancassurance and the various delivery routes available.

Bancassurance has been a success story in Europe, where banks account for 20 per cent of the market share in UK, Germany, Spain, Sweden, Denmark and France. International experience suggests that the sales forces of banks have a productivity that is three times that of the direct sales force and enhanced customer retention.

The insurance companies in India have also the opportunity to maximize insurance sales through banking distribution channels, and this will necessitate customize products, specialist resources, and efficient and flexible services. Such a model would rest mainly on the existing resources of the companies configured in a new way.

The business model proposed in this paper therefore describes how the insurance companies in India might address the business opportunities presented by the Banks in India: -

- A **Central Service Center** will provide quotation and sales support services, policy administration and claims.
- **Account Managers** will operate close to the bank, designing and creating insurance sales processes, which interlock with banking processes such as loans, mortgages, account opening and card processing.
- A **Product House** to source the required products. The systems to service these products will also be designed by the product house.

This model requires a number of new processes and skills, but will re-use existing products and systems wherever applicable, and depend on extending the capabilities of existing people rather than whole new job disciplines.

An agile and flexible **Implementation Model** that integrates the various distribution channels and derives synergies out of them would support this business model. Prominent among them are Agents, Internet, Direct marketing and Telemarketing. However this report mainly focuses on integrating the agency force with bancassurance strategy.

The procedure to **Identify Prospective Bank** for partnership consists of two stages. The first stage is primarily a filtering process wherein the banks are analyzed quantitatively with the help of parameters chosen keeping the CAMEL model as a basis. In the second stage the bank will be screened with the help of the proposed **Bank Compatibility Index** to assess the fit between the bank and the insurance company.

The Insurance Company proposition to banks will be that, in partnership, we can sell more products to more of their customers through maximizing sales opportunities. This will generate higher revenues, and will protect the bank's customer base from erosion through competitors establishing an insurance relationship.

TABLE OF CONTENTS

Executive Summary

Table of Contents

Section I- Introduction

- Insurance Industry in India
- Banking Industry in India

Section II- Bancassurance

- What is Bancassurance
- Models of Bancassurance/ Modes of Entry
- Delivery Approaches
- Benefits to Banks
- Benefits to Insurers
- Benefits to Insured
- Rationale for Bancassurance

Section III- Global Experiences & India

- Europe
- Various Entry Routes
- Level of Bancassurance Integration
- Bancassurance in India

Section IV- Bancassurance Partner Identification

- Procedure for Identification
- Bank Compatibility Index

Section V- Proposed Model

- Business Model
- Implementation Model

Section VI- Bottlenecks & KSFs

1.1 INSURANCE INDUSTRY IN INDIA:

Ensconced in a monopoly run from the nationalization days beginning in 1956, the insurance industry has indeed awakened to a deregulated environment in which several private players have partnered with multinational insurance giants. A successful passage of the IRA Bill have cleared the way of private sector operators in collaboration with their overseas partner. With about a dozen players in the General Insurance Industry in India, the industry is gearing up for a period of rapid expansion and change.

For a long time, the industry has been locked in an Ice Age when the basic industry structure has remained more or less fixed. The glacier is now melting, revealing new challenges as traditional distribution and customer management processes are not proving to be adequate for the new age.

The shape of the insurance industry is being changed by developments in distribution. The main driver is the lowering cost of increasingly sophisticated technology, enabling new economies of scale and scope, which extend beyond national boundaries.

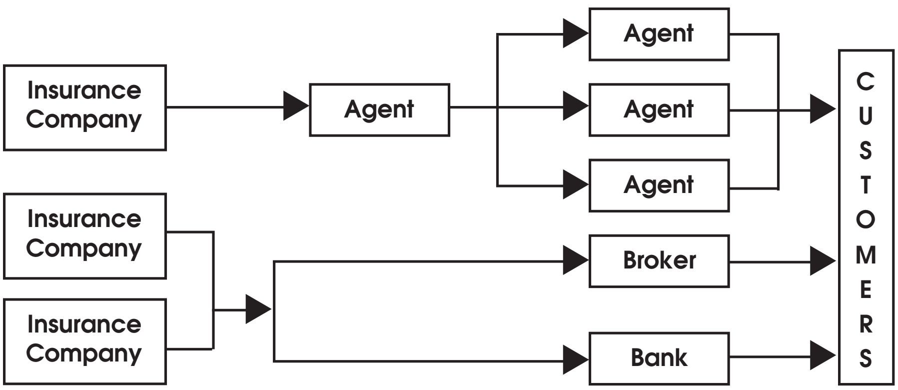
It is likely to bring in a more professional and focused approach. Moreover the foreign players would bring sophisticated actuarial techniques with them, which would facilitate the insurer to effectively price the product.

The touch point with the ultimate customer is the distributor and the role played by them in insurance markets is critical. It is the distributor who makes the difference in terms of the quality of advice for choice of product, servicing of policy post sale and settlement of claims. In the Asian markets, with their distinct cultural and social ethos, these conditions will play a major role in shaping the distribution channels and their effectiveness.

The new companies have attempted appealing only to the middle, upper middle and elite classes in the major cities. Contrasted with Public sector insurance companies, with their offices across the country, the new companies have miles to go before they reach anywhere. They must overcome the mindset of the customer that life insurance is Life Insurance Corporation of India (LIC) and general insurance is General Insurance Corporation of India (GIC) if they hope to grow in the market. Meanwhile, the public sector companies are going to great lengths to revamp their image to look and feel more contemporary.

Both the public and new private sector companies are fighting their own battles from the perspective of customer perception management. In today's scenario, Insurance companies must move from selling insurance to marketing an essential financial product. The distributors have become trusted financial advisors for the clients and trusted business associates for the insurance companies so this calls for leveraging multiple distribution channels in a cost effective and customer friendly manner.

The distribution in the Indian market is as below:



The intermediaries in the insurance business and the distribution channels used by carriers will perhaps be the strongest drivers of growth in the sector. Multi-channel distribution and marketing of insurance products will be the smart strategy for the Indian market. While tied agents will continue to play an important role in distribution, alternative channels like corporate agents, brokers, and **bancassurance** will play a greater role in distribution. Firms will need to forge relationships with the partners for strategic advantage. They need to have strong partner relationship management. For example, local partners may have strong distribution channel in their line of business. That can be used to sell insurance also in a cost-effective manner.

The time has come for the industry to gradually move from traditional individual agents towards new distribution channels, with a paradigm shift in creating awareness and not just selling products.

Bancassurance - is one such distribution channel that offers huge source of untapped opportunities. Since bancassurance is in its infant stage as far as India is concerned, a thorough understanding of the concepts and practices of bancassurance world over is required in order to evolve the one that best suits the Indian scenario, which this paper is focusing on. The feasibility study of the proposed model would help the company in looking at the delivery approach of Bancassurance in a more lucrative manner.

Insurance Market: Key Indicators	
Particulars	**Key Indicator**
Size of Market, Life and Non-life	$8 Billion a year
Rate of Annual Growth	Average of 20% for Life and 12% for Non-Life (1990-99)
Geographical Restriction for new players	None. Players can operate all over the country
Equity Restriction in a new Indian Insurance Company	Foreign promoter can hold up to 26%
Registration Restriction	Composite Registration not available.
Market opening	August 2000 with invitation for application for registration.
Numbers of Registered Companies	
Type of Business	
Life Insurance Public Sector Private	 1 10
Total	**11**
General Insurance Public Sector Private	 4 8
Total	**12**
Reinsurance Public Sector Private	 1 0
Total	**1**
New Registration awarded (Sixteen New Registrations issued)	
Life Insurance	Allianz Bajaj Life Insurance Company Limited Birla Sun-Life Insurance Company Limited HDFC Standard Life Insurance Company Limited ICICI Prudential life Insurance Company Limited ING Vysya Life Insurance Company Limited Max New York Life Insurance Company Limited Metlife Insurance Company Limited Om Kotak Mahindra Life Insurance Company Limited SBI Life Insurance Company Limited TATA AIG Life Insurance Company Limited
General Insurance	Bajaj Allianz General Insurance Company Limited ICICI Lombard General Insurance Company Limited IFFCO-Tokio General Insurance Company Limited Reliance General Insurance Company Limited Royal Sundaram Alliance Insurance Company Limited TATA AIG General Insurance Company Limited HDFC Chubb General Insurance Cholamandalam General Insurance Company

FUTURE PROJECTIONS

(CII Estimates)

By 2005

- Life Insurance market shall treble to Rs. 60,000 crores (18% growth)
- Non-life Premium is likely to aggregate closer to Rs. 20,000 crores
- Pension business will cross Rs. 4000 crores

By 2010

- Life Insurance premium may cross Rs. 1,40,000 crores
- Non-life Premium is close to Rs, 40,000 crores
- Pension business will increase to over Rs. 14,000 crores

Mckinsey Report

- Customers of Life Insurance remain a passive lot
- Agent will be the driver of business as the main distribution channel-very much an Asian trend
- Bancassurance, on-line and direct selling will evolve only over a period of time
- Agents to continue to account for bulk of business, at least so long as increased competition and costs lead to alternative channels finding acceptance among customers
- Bancassurance (selling or third party insurance products through Banks) is forecast to become second most important channel

1.2 BANKING INDUSTRY:

Banking Regulation Act of India, 1949 defines **banking** as "accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawal by cheque, draft, over or otherwise". The Banking system is an integral sub-system of the financial system. It represents an important channel of collecting small savings from the households and lending it to the corporate sector. The Indian Banking system has The Reserve Bank of India (RBI) as the apex body for all matters relating to the banking system. It is the 'Central bank' of India. It is the banker to all other banks.

1.2.1 Thrust areas for banking sector in India

Technology up gradation helps banks in reducing costs, increasing volumes and facilitating customized financial products. Technology has also helped in accelerating the globalization process. The entire world has become a global village. It has opened up new vistas for the banking industry world over. Growing consumer acceptance of electronic channels is compelling banks to provide Internet banking facilities because customers have already started demanding fast, convenient and glitch-free banking services.

Banking on the Internet has become a reality in India too, as this will enhance the reach of banks to their customers and will make widespread availability of information about products to the customers. Information Technology and the Internet revolutions, in India, are poised to take the banking scenario by storm.

With a view to keeping the pace with the explosive speed of financial innovations, continuous improvement in the technological infrastructure has become the thrust area for banking sector in India. With the deep penetration of Internet, PCs and Mobile Phones, the face of Indian banking is going to be changed radically.

1.2.2 Key issues faced by banking sector today

The barriers of entry for private sector and foreign banks are being progressively eased out. This has enhanced the competition for the existing banks in India. There is, therefore, an urgent need for developing sophisticated financial products and innovations in market products. New breed of private sector banks has already jumped on to the bandwagon of developing new tech-savvy products, with a view to catering to the needs of their customers. Public Sector Banks, in particular have, therefore, to speed up their efforts in devising new tech-savvy products for attracting high net worth customers.

The level of non-performing assets in the Indian banking industry is a great concern. Though during the recent years, the ratio of net NPAs to net advances has been showing improving trend yet in absolute terms it is still at a very high level. Hence, cleaning up of balance sheet has become the crucial issue in tile Indian banking industry today. NPAs have to be reduced drastically and adequate provisioning for bad and doubtful debts has to be made.

1.2.3 Future of Indian banking sector

The future of Indian banking industry seems to be bright. Big giants, like State Bank of India, will have to prepare themselves for increasing their operations at the international level, as globalization and liberalization has opened up new vistas for them. Adoption of new technology has become crucial issue for the Indian banking industry. Those who don't adapt themselves to the changing technology environment may find themselves out of the existing banking system; Indian banking sector is poised to meet the changing global environment.

1.2.4 Why are banks entering into insurance?

With globalization and intense competition banks are seeing their spreads- the difference between their borrowing and lending rates- come down sharply.

Banks have responded by trying to use

their reach and customer base to increase their fee based income. Insurance is an ideal option as banks feel they fulfill the three major requirements for a successful insurance business viz asset management and investment skills, distribution and capital adequacy.

Banks would also like to fulfill all the financial needs of their customers.

1.2.5 The motives behind bancassurance also vary.

For **banks** it is a means of product diversification and a source of additional fee income.

Insurance companies see bancassurance as a tool for increasing their market penetration and premium turnover.

The **customer** sees bancassurance as bonanza in terms of reduced price, high quality product and delivery at doorsteps. *Actually everybody is a winner here.*

2. BANCASSURANCE

2.1 What is Bancassurance?

One of the most significant changes in the financial services sector over the past few years has been the appearance and development of Bancassurance. Bancassurance is a business model in which insurance and investment products are integrated into core retail banking business. Bancassurance:

- ❖ Provides insurance and banking products and services through a common distribution channel and for the same client base.
- ❖ Refers to the selling of insurance policies through a bank's established distribution channels.

2.2 REASONS FOR ENTERING INTO BANCASSURANCE

Wide network of branches:

Banks can prove to be a vital distribution channel due to their existing wide network of branches all over.

Corporate clients:

Banks can utilize their existing clientele, which includes corporate as well as retail clients to market insurance products. Depending on the relationship with its clients it would become easier to influence the insurance purchase decisions of its clients. Customers too, having banked with a particular bank for a long period repose a sense of trust and faith in the bank.

Customer database:

Customer database - raw information on the customers spending habits, investment purchase can prove to be a goldmine. Such information channelised in the right manner can help work out marketing strategies and arrive at result-oriented decisions targeting prospects.

Personalized Service:

Since banks have direct contacts with customers, the service area can be tackled easily. Customers, other than their day-to-day financial requirements can also get assistance for premium payment, surrender, transfer of policies and many more.

Rural penetration:

The existing wide network of banks in rural areas can be utilized for selling insurance products. Having been accustomed to the customers' choices banks are in a better position to understand the needs of the customers and sell tailor made policies. Customers too, considering their long-standing relationship with banks, find them trustworthy. Servicing of policies would also become easier.

Cross-selling products:

Banks in their normal course of functions lend finance in the form of loans for cars, or for buying a house to clients. They can combine insurance products and sell as a package. In the current scenario banks can cross sell their products along with the insurance products.

Fee based service:

Insurance products can be sold as a fee based service. In an age where banks are trying to venture into selling mutual funds and other financial products besides stock Broking etc, selling insurance products could also give an additional boost to the banks bottom line.

2.3 Benefits of Bancassurance

a) To Banks:

1. Increased Return On Assets
2. Fee income which is risk free
3. To reduce operating costs
4. Customer retention
5. To prepare to eventually diversify into insurance business

Banks those effectively cross-sell financial products can leverage their distribution and processing capabilities for profitable operating expense ratios. In addition, a bank's branch network allows the face-to-face contact that is so important in the sale of personal insurance. Banks also enjoy significant brand awareness within their geographic regions, again providing for a lower per-lead cost when advertising through print, radio and/or television. Banks have extensive experience in marketing to both existing customers (for retention and cross selling) and non-customers (for acquisition and awareness). They also have access to multiple communications channels, such as statement inserts, direct mail, ATMs, telemarketing, etc. Banks' proficiency in using technology has resulted in improvements in transaction processing and customer service.

b) To Insurers:

1. Lesser procurement costs

2. Known customer and therefore risk assessment is easier

3. Increase in market penetration

4. Personal insurance - sky is the limit

Banks offer an untapped and successful mode of distribution. Banks with their brand image and existing customer relationship offer a natural market for selling of insurance products. Bancassurance also offers lower distribution costs and higher productivity. Traditionally, insurance products have been sold through full-time sales agents. The commissions paid to the sales agents and the international productivity standard of 4-6 sales per month made this distribution channel an expensive one. The reason the productivity is low in the traditional sales agent distribution system is the amount of time the agent has to spend on prospecting or trying to find the right customer. Almost 80% of a sales agent's time goes towards prospecting. Banks on the other hand provide a cheaper and highly productive distribution system to insurance companies. Insurance companies also expect a greater quality of sale through bancassurance.

c) To Customers:

1. Lower cost

2. Refined, high quality product

3. Double assurance/ Credibility

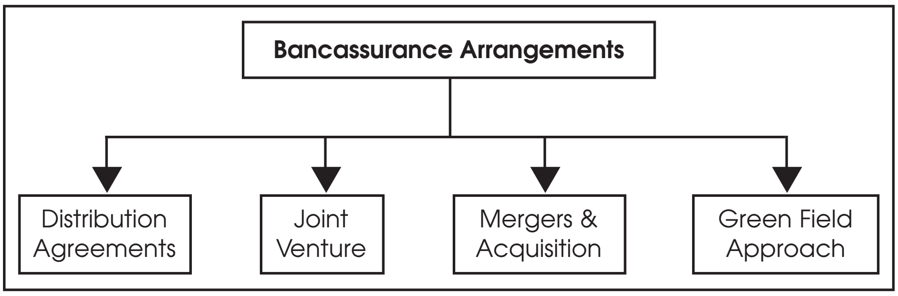
4. Delivery at doorsteps

5. Convenience in payment

6. Easy & automatic renewals

For customers, bancassurance offers convenience and a one-stop financial super market. The customer has the satisfaction of the brand strength of the bank, his/her existing relationship and trust on the bank. The products sold through bancassurance can give better value and offer cheaper premiums due to lower distribution costs.

2.4 Bancassurance Arrangement



1. Distribution Agreements:

a) Separate sales force: One party's distribution channels gain access to the client base of the other party. This is the simplest form of bancassurance. Once a bank and the insurance company enter into a distribution agreement, according to which the bank automatically passes on to a friendly insurance company all warm leads emanating from the bank's client base, this can generate very profitable income for both partners. For the bank the costs involved-besides those for basic training of branch employees are relatively low.

b) Hand In Glove: A bank signs a distribution agreement with an insurance company, under which the bank will act as their appointed representative. The financial investment required by the bank is relatively low. The products offered by the bank can be branded.

2. Joint Venture: This is the creation of a new company by an existing bank and an existing insurance company.

3. Mergers And Acquisition:

a) A bank wholly or partially acquires an insurance company.

b) The acquisition of a bank that is wholly or partially owned by an insurance company is also possible. In this case the main objective is usually to open the way for the insurance company to use the bank's retail banking branches and gain access to valuable client information as well as to corporate clients, allowing the insurance company to tap into the lucrative market for company pension plans. Finally it offers the insurance company's sales force bank product diversification (and vice versa).

4. Start Ups/Green Field Approach:

a) A bank starts from scratch by establishing a new insurance company wholly owned by the bank.

b) A group owns a bank and an insurance company, which agree to cooperate in a bancassurance venture.

c) A bank and an insurance company agree to have cross shareholdings between them. A member from each company might join the board of directors of the other company.

2.5 Delivery Approaches of Bancassurance

Delivery Approach	Product Sold	Salary / Commn	Face-to-face	Part / Full Time	Single/ Multiple Insurer
Career Agents	Complex	Commn.	Yes	Full/Part time	Single
Special Advisors	Complex	Salary	Yes	Full time	Single
Salaried agents	Complex	Salary	Yes	Full time	Single
Bank employees	Simple	Incentives	Yes	Part Time	Single
Set up / acquisition of agencies or brokerage terms	Complex	Owned	Yes	Full time	Multiple
Direct response	Simple	Owned	No	Full time	Single
Internet	Simple	Owned	No	Full time	Single
E-Brokerage	Simple	Commn.	No	Full time	Multiple

- **Career Agents:** Career Agents are full time commissioned sales personnel holding an agency contract. An insurance company can exercise control only over the activities of the agent, which are specified in this contract.

- **Special Advisors:** Special Advisors are highly trained employees usually belonging to the insurance partner, who distributes insurance products to the bank's corporate clients. Usually they are paid on a salary basis and they receive incentive compensation based on their sales.

- **Salaried agents:** Salaried Agents have the same characteristics of career agents. The only difference is in terms of their remuneration being paid on a salary basis and they receive incentive compensation based on their sales.

- **Bank employees:** Bank employees can usually sell simple products. However the time, which they can devote to insurance sales, is limited.

- **Set up / acquisition of agencies or brokerage terms:** Banks cooperate with independent agencies or brokerage or have founded corporate agencies. The advantage of such sub arrangements is the availability of specialist needed for complex insurance matters and in case of brokerage firms- the opportunity for the bank's clients to receive offers not only from one insurance company but from a variety of companies.

- **Direct response:** The consumer purchases products directly from bancassurer by responding to the company's advertisement, mailing or telephonic offers. This channel can be used for simple products, which can be easily understood by the consumer without explanation.

- **Internet:** Internet banking will also prove an efficient vehicle for cross selling of insurance savings and protection products. There is now the Internet, which looms large as an effective source of information for financial product sales.

- **E-Brokerage:** Banks can open or acquire an e-Brokerage arm and sell insurance products from multiple insurers. The advantage of this medium is scale of operation, strong brands, easy distribution and excellent synergy with the Internet capabilities.

- **Outside Lead Generating Techniques:** One last method for developing bancassurance eyes involves "outside" lead generating techniques, such as seminars, direct mail and statement inserts. Seminars in particular can be very effective because in a non-threatening atmosphere the insurance counsellor can make a presentation to a small group of business people (such as the local chamber of commerce), field questions on the topic, then collect business cards. Adding this technique to his/her lead generation repertoire, an insurance counsellor often cannot help but be successful.

2.6 Rationale For A Bancassurance Agreement

The bank and the insurance partners both offer complementary and necessary skills

Skills needed to develop a strong presence in the insurance market	Banking partner	Insurance partner	Combination
Product (manufacturing capabilities)	○	●	●
Underwriting capabilities	○	●	●
Distribution	●	○	●
Customer Management	●	○	●
Brand name	●	●	●
Management capabilities	●	●	●

3. BANCASSURANCE- GLOBAL EXPERIENCE

3.1 Bancassurance in Europe

The development of bancassurance in various European countries, including France, Germany, Italy, Netherlands and Spain are examined according to the three dimensions mentioned below:

- The importance of country specific factors in promoting the bancassurance phenomenon
- The entry structures dominating in different countries
- The level of bancassurance integration

Country specific factors in the bancassurance trend

The structure of the insurance and banking industries in various European countries contributes to explain the varying developments of bancassurance. The **French** insurance market's inherent uncompetitiveness played a significant role in promoting Bancassurance by allowing banks to capture unprotected market shares. The ease of entry into the life insurance convinced banks that insurance distribution could be an effective way to utilize expensive branch networks to cross-sell a variety of products. The high degree of rivalry among banks themselves also meant that French banks would be reluctant to be left out of a market where other competitors flourished. In Germany, conservative marketing rules in the insurance industry had an opposite effect. It made it difficult for German banks to profitably distribute insurance products. Moreover, a tradition of cross-shareholdings in the financial industry has meant that banks have chosen to collaborate with insurance companies rather than develop in-house Bancassurance.

Italy's Bancassurance development has been hindered by a weak-banking industry. However, the potential for high growth rates in life insurance fares well for bancassurers but further consolidation in the industry is needed for Italian banks to compete with the large tied financial sales forces that characterize the industry.

Dutch Bancassurance developments are associated very closely with the financial industry concentrated structure. The concentration of the industry in the hands of a few powerful players led to Bancassurance giants who market their products through multi-distribution channels.

An underdeveloped insurance market, similarly to Italy, characterized **Spanish** Bancassurance. This left plenty of scope for banks to exploit their long-standing ties with insurance companies with a view to cross-sell insurance products. **Spanish** insurance-banking links are old although the full cross-selling potential of Bancassurance has been exploited only recently. One of the features of recent years is the entry of foreign companies, which have promoted such links.

A major factor in promoting **UK** Bancassurance was the high costs associated with traditional insurance distribution channels. While there are highly competitive insurance companies in the United Kingdom, the long-standing reliance on expensive independent financial intermediaries gave banks the opportunity to develop cheap alternative channels of distribution.

Other factors contributed to the differing levels of Bancassurance integration in various European countries. One such factor relates to the existence of tax-advantageous life insurance products, which bear a strong resemblance to banks' traditional savings products. The main advantage of such products is the ease with which banks have been able to train their sales staff. French Bancassurance was undoubtedly boosted by 'bons de captilisation', single premium long-term policies that entitled holders to tax relief on the income generated over an accumulation period. Spanish Bancassurance was initially boosted by single premium policies free of withholding tax. In Italy, some bancassurers based their success on similar savings-like products. The growth of endowment products in the United Kingdom also facilitated Bancassurance development. Such products had probably most impact in France and Spain. However, the tax advantages associated with the products have gradually eroded and banks have introduced a wider range of more complex insurance products over time in order to increase their market shares.

Another major factor for Bancassurance development is regulatory changes. In the **Netherlands,** Bancassurance became predominant in 1990, after the relaxation of ownership limitations between the banking and insurance sector. In the United Kingdom, the polarization principle laid down in the Financial Services Act led banks and eventually building societies to tie to a single insurer, and thus made equity links between the two sectors more attractive. In Italy, the 1991 reform that relaxed equity constraints between the two sectors prompted a flurry of links in the financial sector. One of the reasons why Bancassurance has been slow to develop relates to the remaining constraint that banks' investment in insurance companies cannot exceed 20% of bank capital, this in a country where banks are small by international standards. The reform of life insurance marketing in Spain also played a significant role in boosting Bancassurance sales. In France, the governments' implicit encouragement of Bancassurance links probably had an impact on the generalization of this strategy.

Clearly, national differences in Bancassurance stem from the varying characteristics of the financial industry in each country. The degree of competitiveness in domestic financial sectors made Bancassurance initiatives more or less successful. Similarly, the design of life insurance products made it more or less successful. Similarly, the design of life insurance products made it more or less easy for banks to train their staff in selling insurance products; moreover, tax advantages made some products highly attractive to consumers and hence encouraged banks to enter the market. Finally, domestic regulatory changes by and large relaxed constraints on cross-shareholdings between the banking and insurance sectors, and thus acted as a facilitator to the bancassurance strategy. Bancassurance growth is undoubtedly linked to regulatory reforms in some countries such as in the Netherlands and Italy.

3.2 Entry Routes in Different European Countries

The table below shows the preferred entry routes in various European countries. It shows that bancassurers in different countries adopted different entry routes into the insurance market. In France, banks mainly selected the go-alone route by starting up their own insurance operations whereas in many other countries, banks have been eager to associate with insurance companies to start up operations. This is true of Italy, Spain and the United Kingdom. In contrast, Dutch Bancassurance is as yet limited mostly to marketing agreements that exclude equity links. It is interesting to note that French banks, who predominantly chose to start up their own operations, achieved the greatest Bancassurance market shares.

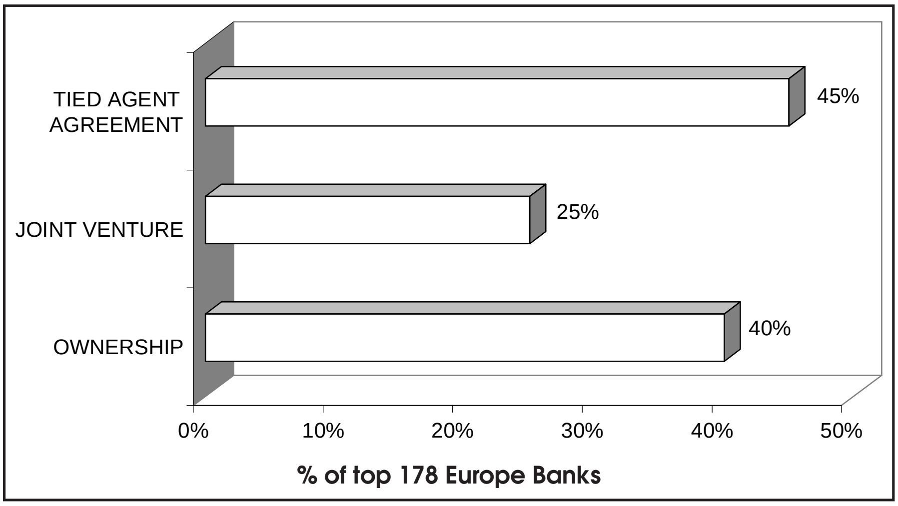
3.3 Level of Bancassurance Integration in Europe

The degree of Bancassurance is compared between two dimensions: the market shares achieved by bancassurers in selected countries and the type of link between the two activities from distribution agreements to full ownership. The following figure shows the position of several countries in terms of their level of Bancassurance integration. The figure shows that France is well ahead of its counterparts in the Bancassurance trend. The greater level of integration of French Bancassurance operations where insurance subsidiaries mainly serve the needs of their banking parents might explain why French

Entry routes in various European countries

Country	Start-ups	Joint ventures	Mergers & Acquisitions	Distribution agreements	Total
France	6	3	3	-	12
Germany	2	-	3	3	8
Italy	2	3	1	1	7
Netherlands	1	-	3	-	4
Spain	3	3	-	-	6
United Kingdom	5	6	6	-	17

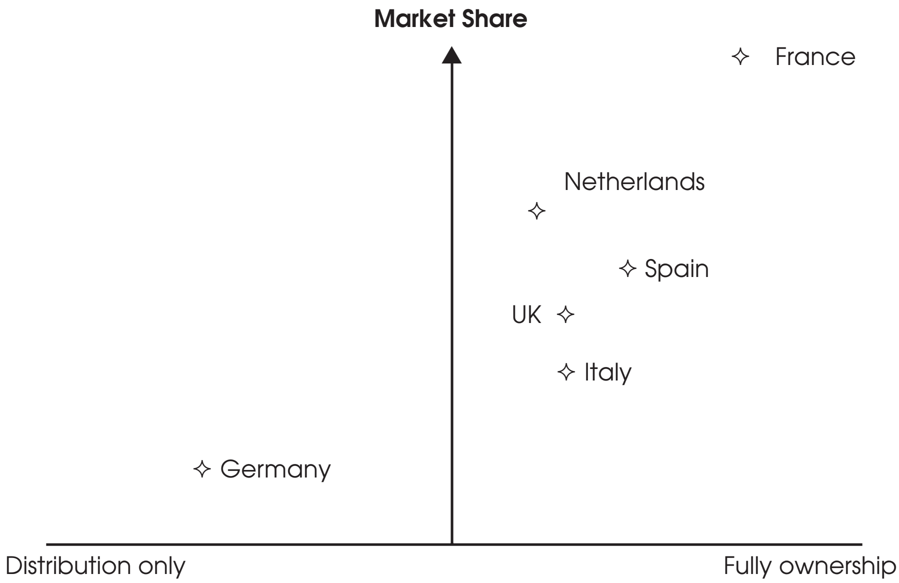
Most popular bancassurance configurations in Europe



Source: Datamonitor, estimation of the Cologne Re banks were successful in achieving high market shares. Other countries achieved significant market shares by integrating their operations in a similar way. The exception among the countries reviewed is Germany. The German model of co-operation with the insurance industry appears to have prevented German banks achieving significant market shares in insurance.

Currently, many foreign insurers are partnering banks and non-bank financial corporations to leverage their local branch network and experience. Solid brand name, strong customer affinity, customized product and service delivery and flexibility to change are some key success factors in this country with its cultural and linguistic diversity and huge economic capability.

Bancassurance integration in Europe



3.4 Bancassurance in India

India - a land of promise for bancassurance - with a democratic government and a population of one billion has a savings rate of 23% of which savings with the bank constitute more than 50% of the domestic households' savings. This presents an enviable opportunity for insurers to take advantage of the strong banking platform. The banking network consists of 65,000 bank branches, of which 33,000 branches are in the rural areas and 14,000 branches in the semi urban areas, with each branch serving an average of 15,000 people. The challenges and opportunities that Indian market presents are immense.

With expertise in financial needs, saving patterns of the customers they serve, banks provide something that insurance companies would find it nearly impossible to achieve on their own.

3.4.1 *Status of Bancassurance in India*

RBI had permitted Banks to enter the Insurance Sector, as the Insurance business takes a longer time to break even.

Banks do not have the archival and technical expertise, they should be strong to withstand the initial losses, it was therefore suggested by RBI the following norms/eligibility criteria for the banks which may be permitted to enter the insurance sector having

1. A minimum net worth of Rs. 500 crores.
2. CRAR not less than 10%.
3. NPAs within the reasonable level.
4. Made profits continuous during the last 3 years.
5. Satisfactory track record of the subsidiaries, if any.

   The banks fulfilling the above norms would be permitted to take up the insurance business, individually or jointly with domestic or foreign partner. The maximum stake a bank can hold in a JV is 50 % and subsidiaries or associates can pick up additional stakes.

6. Any scheduled commercial bank will be permitted to undertake the insurance business as agent of an insurance company on a fee basis without risk participation and have to obtain a case-by-case clearance.

Until now only individuals could act as insurance agents. After the opening of insurance sector to private players, RBI has selectively allowed banks to promote insurance companies. The ostensible reason was to allow them make use of their surplus staff and branch network and increase earnings.

Now, the IRDA has also come up with guidelines pertaining to Referral Arrangement with the banks. The same is reproduced below: -

IRDA/CIR/003/2003

30th January 2003

RE: Referral Arrangement

To : All the CEOs of Insurance Companies

Arising out of the notification of the Monetary and Credit Policy by Reserve Bank of India on October, 2002 permitting banks to undertake referral business through their network of branches for selling insurance products with prior permission of IRDA and RBI the Authority has been receiving enquiries from insurance companies about IRDA's guidelines on the subject.

All insurers entering into agreements/ arrangements with banks under the referral fee model or renewing such agreements/ arrangements may take note that the following points form part of any agreement / arrangement:-

1. The referral fee shall be for access to bank's customer database and it should not exceed the ceilings on agency commission prescribed under the Insurance Act, 1938 and the IRDA Regulations and shall form part of acquisition cost of business and shall not form part of management expense. This will include arrangements where bank branches operating outside India are sharing customers' base of NRI account holders.
2. The participation by bank's customers shall be purely on voluntary basis and this should be stated prominently in all publicity materials distributed by the bank and the insurance company. It should also be clearly mentioned that the contract of insurance is between insurance company and the insured and not between bank and insured.
3. There should be no linkage either direct or indirect between the provision of banking services by the bank to its customers and use of the insurance products.
4. There should be no interest surcharge, concession dependent upon non use/ use of the insurance service by the customer.
5. Any administrative/ management expenses to be incurred for distributing literature and other information on insurance should be brought out in the agreement. Information exchange should be exclusively for the promotion of the business and not for any other purposes during the validity of the agreement.
6. The bank will not be paid any referral fee for promotional campaigns.
7. The insurance company shall not provide any details of its customers to the bank on account of confidential obligations.
8. The insurance company and the bank shall enter into a referral fee arrangement based on a Memorandum of understanding or an Agreement which needs to be filed with the Authority.
9. The bank which enters into referral fee arrangements should not be permitted to enter into any similar arrangements with more than one life insurance company or more than one general insurance company. This is important to ensure that a bank does not act defacto as an insurance agent or as an insurance broker without any license.
10. The insurance company should enter into a separate agreement with the bank for allowing the use of premises and the use of existing infrastructure of the bank and a copy of the same should be filed with the Authority. In no case the fee for such services rendered/ offered by the bank should be linked to premium and it should be on a flat basis. Such fee shall not form part of acquisition cost of business.
11. All agreements should be for fixed period and should be with prior approval of the boards of both the insurance company and the bank.
12. The bank should comply with IRDA Regulations for acting under the referral fee arrangement and IRDA shall have the discretion to apply its own criteria to reject or discontinue such arrangements.

If insurers have already entered into such agreements/ arrangements they must ensure that copies of the same stand filed with the Authority.

3.4.2 Market Intelligence :

LIFE INSURANCE COMPANY	BANK
Tata AIG Life	HSBC, Bank of Rajasthan
Allianz Bajaj Life Insurance	Standard Chartered
Aviva Life	ABN Amro, Laxmi Vilas Bank, Canara Bank
Birla Sun Life	Citibank
LIC	Central Bank
HDFC Standard Life	Indian Bank, Union Bank, HDFC Bank
ICICI Prudential Life Insurance	Bank Of India
SBI Life	SBI
LIC	Corporation Bank
ICICI Prudential	Federal Bank, South Indian Bank, ICICI Bank
ING Vysya Life	ING Vysya Bank
Metlife	Jammu & Kashmir Bank
NON-LIFE INSURANCE Co.	**BANK**
Bajaj Allianz General	Bank of Rajasthan, Punjab & Sind Bank, Jammu & Kashmir Bank, Lord Krishna Bank, Karur Vysya Bank
Tata AIG General Insurance	HSBC, IDBI Bank
New India Assurance	Union Bank, Corp Bank
Royal Sundaram	Repco Bank, Stanchart, ABN Amro, Citibank, Amex, SBI- GE, ING Vysya Bank, Lakshmi Vilas Bank
United India	Andhra Bank, South Indian Bank, Indian Bank
National Insurance	Indian Overseas Bank, Allahabad Bank, City Union Bank

4. BANCASSURANCE PARTNER IDENTIFICATION

4.1 Procedure for Identifying A Prospective Bancassurance Partner :

The suggested procedure to identify prospective banks for partnership consists of two stages. The first stage is primarily a filtering process wherein the banks are analyzed quantitatively with the help of parameters chosen keeping the CAMEL model as a basis. In the second stage the bank will be screened with the help of the proposed Bank Compatibility Index to assess the fit between the bank and the insurance company.

To judge the financial viability of banks, the Reserve Bank of India has introduced a rating methodology known as CAMEL (Capital adequacy, Asset quality, Management, Earnings and Liquidity) model. The CAMEL model can be implemented by making use of the publicly available accounting data. In general, CAMEL ratings are designed to reflect a bank's financial condition, its compliance with regulatory policies and quality of its management.

4.1.1 *Methodology of CAMEL Model:*

The CAMEL rating model is evaluated in 5 modules.

- Capital Adequacy and Solvency - The Capital Adequacy and Solvency module is rated in relation to
  - a) The volume of risks assets
  - b) The volume of marginal and inferior quality assets
  - c) The volume of net worth as compared to total liabilities

  The lesser the risk assets and larger the net worth, the larger its cushion against insolvency.
- Asset Quality - The Asset Quality is rated with reference to
  - a) The level, distribution and health of the classified assets
  - b) The recovery performance
- Management Performance - The Management Performance is evaluated against the factors of ability to
  - a) Improve the productivity
  - b) Reduce the operating expenses
  - c) Improve the profitability
- Earning Performance - Earning Performance is related to
  - a) The ability to cover losses and provide capital
  - b) Quality and composition of net income
  - c) The ability to improve spread and reduce burden
- Liquidity Assessment - Liquidity rating is based on
  - a) The bank's capacity to promptly meet the demand payment i.e., short term stability of the funds
  - b) To readily satisfy the reasonable credit demand
  - c) The stability of deposit base.

The following table presents the selected financial indicators for each of these modules and its expected effects on the likelihood of the improvements of bank's performance.

Financial Indicators		Expected effect on the likelihood of improvement in the bank's performance
1)	**Capital Adequacy and Solvency**	
i)	Capital Adequacy ratio	Increase
ii)	Gearing Ratio i.e., Average Equity (Average Capital & Reserve less accumulated loss)/Average assets	Increase
2)	**Asset Quality**	
i)	Return on Assets (ROA)	Increase
ii)	Net non-performing assets (NPA) as % to net advances	Decrease
3)	**Management Performance**	
i)	Staff Cost as % to Net Income (Interest Spread + Other Income)	Decrease
ii)	Staff Cost as % to operating Expenses	Decrease
iii)	Business per Employee	Increase
iv)	Staff Cost per Employee	Decrease
v)	Profit per Employee	Increase

vi)	Non-fund Income as % to Total Income	Increase
vii)	Operating Cost as % to Net Income	Decrease
4)	**Earning Performance**	
i)	Earning per Share of Rs. 10/-(EPS)	Increase
ii)	Spread as % to total Income	Increase
iii)	Burden as % to Total Income	Decrease
iv)	Net profit as % to Total Income	Increase
v)	Spread as % to Average Working Funds	Increase
vi)	Burden as % to Average Working Funds	Decrease
vii)	Net profit as % to Average Working Funds	Increase
5)	**Liquidity Assessment**	
i)	Credit Deposit Ratio (%)	Increase
ii)	Time Deposits as % to Total Deposits	Decrease
iii)	Liquid assets as % to Short term Liabilities	Increase

The financial parameters are rated on a continuous scale of 0 to 5. The module rating can be derived on rating of aggregate rating of the each financial parameter or by factor Analysis technique using financial parameters in that module. The description of the rating is as below:

Rating Level	Description of the Institution
Upto 1	Strong performance
Above 1 and upto 2	Satisfactory performance
Above 2 and upto 3	Fair performance that is flawed to some degree
Above 3 and upto 4	Marginal performance that is significantly below average
Above 4 and upto 5	Unsatisfactory performance that is critically deficient and in need of immediate remedial action

Once the rating of each module has been determined, a composite or overall rating is derived by Factor Analysis technique again, on a continuous scale of 0 to 5 as described below:

Rating Level	Description of the Institution
Up to 1	Basically sound in every aspect
Above 1 and up to 2	Fundamentally sound, but with moderate weakness
Above 2 and upto 3	Financial, Operational or Compliance weakness that gives cause for supervisory concern
Above 3 and upto 4	Serious or immoderate financial, operational and managerial weakness that could impair future viability
Above 4 and upto 5	Critical financial weakness with high probability of failure in the near term

After analyzing the Prospective Banks through CAMEL Approach, the short listed ones would be filtered through **Bank's Compatibility Index** in order to zero in on the most suitable partner(s).

Bank's Compatibility Index (BCI)

		Weightage Score
Size	Deposits	3
	Advances	3
Management	Promoter Group	3
	Professionalism	3
Network	Regional Penetration	10
Product Portfolio	Corporate Banking	
	SME	
	Retail Banking	
	Liability Products	
Technology	Communication	7
	Processes	6
Customer Service		7
Customer Base	Occupation	5
	Paying capacity	5
	Age group	5
	Loyalty	5
Culture		8
Staff	Knowledge/ Skills	5
	Age group	5
Brand Image		10
TOTAL		**100**

GUIDELINES : For allocating scores

Deposits	< 500 crores - 1 500- 1500 crores - 2 > 1500 crores - 3
Advances	< 500 crores - 1 500- 1500 crores - 2 > 1500 crore - 3
Promoter Group	Based on market reputation (3 pt. scale)
Professionalism Regional Penetration	Based on market intelligence (3 pt. scale) Bank branches in insurance company's strongholds/ branches in the regions which the insurance company can service
Product Portfolio	The match between the bank's product portfolio and the insurance company focus areas
Communication	Availability of inter branch connectivity, intranet/ internet/e-mail
Processes	Speed, efficiency, effectiveness, computerisation, software packages used for processing
Customer Profile	Early adopters with disposable income who are highly loyal
Staff Profile	Attitude, Qualified, Knowledgeable, computer proficiency, young to middle age group branch staff
Customer Service	Service orientation, philosophy, Reliability, Responsiveness, Assurance, Empathy, Tangibles
Brand Image	Market Intelligence & Feedback
Culture	Fit between Bank's & the insurance company culture as reflected in Vision & Mission statements, corporate philosophy, Human Resource policies and employees behaviour

5. PROPOSED MODEL

5.1 Business Model

Client Proposition

The proposition to banks would be that the Insurance Company could help them generate greater revenues from insurance sales through a business model that maximizes their sales opportunities and gives them greater customer penetration & retention.

The Insurance Company will require a differentiated and highly focused business model to deliver this. However most of the assets required would be already in place, but simply not structured to seize the opportunity. The unique proposition, which the Insurance Company will offer clients, requires

1. Resources dedicated to working inside the bank to engineer the best sales processes
2. Customized personal insurance products, preferably under the Bank's brand name.
3. Partner insurers who will accept risk profiles that the Insurance Company will not write
4. A dedicated Banking Support Center for quotation, administration and claims settlement.

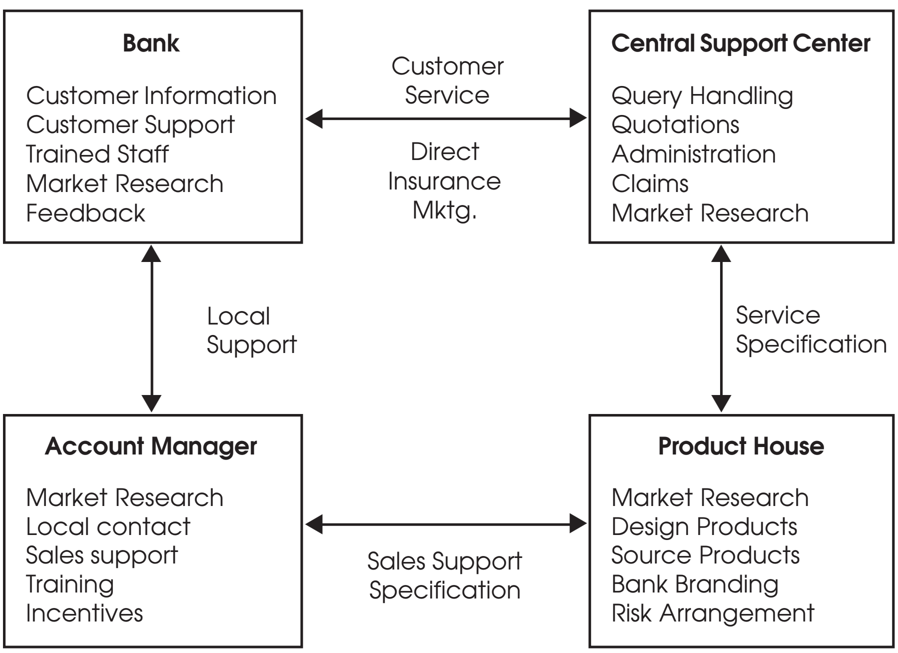
The Customer Proposition that the Insurance Company enables banks to offer to their customers is:

1. Your bank have a good range of core insurance products you need, supported by reputable Indian Insurer
2. These products offer good value and will meet the needs of the majority of our customers
3. We will present these products in the most convenient way for you.
4. Your bank will ensure good service.

Target Clients

1. Multinational banks
2. Top Indian Private Banks
3. Regional & Co operative banks
4. Nationalized banks

BUSINESS MODEL



A new business model is proposed

- The Insurance Company must have the capability to deliver innovative insurance products from any source, either through existing capability or through global network. A **Product House** is proposed to meet this need.
- An **Account Management team** will maintain day-to-day contact with appropriate banking staff. This will ensure creation of good insurance sales opportunities.
- The cost of processing and servicing of insurance sales must be a competitive advantage. A **Central Support Center** is proposed.

The major thrust of this model is to synchronize all the processes involved in an insurance sale through a bank. This is achieved by dedicated local support through Account Management who will operate closely with the bank, simultaneously feeding business through a more efficient centralized support capability.

PRODUCT HOUSE

A Product House team will identify the required products, and their specifications, and find the best source either from within the Insurance Company, or externally. The product house therefore operates as a virtual manufacturer for the Corporate Partnership business.

The Product House will

1. Hold details on all personal insurance products worldwide.
2. Identify required products to cater Indian Market in conjunction with the Account Management Team.
3. Liaise with the Product Managers to determine pricing.
4. Assist in determining the systems support required, and source this in conjunction with the Central Support Center.

ACCOUNT MANAGEMENT

Account managers will work with bank management to determine the sales route and processes that will apply for each product.

The role will involve

1. Working closely with the bank, having very strong relationships with identified key banking personnel.
2. Build a business plan with the bank, detailing the products pilots, roll outs, administrative support mechanisms and sales processes, both at point of sales and direct.
3. Assist in the sales processes and manage implementation.
4. Imparting training to identified bank staff
5. Establish targets and feedback results.

A **Process Analyst** will support Account Managers. This role will be to:

1. Determine how products will be supported (within the bank & the insurance company)
2. Design a customer sales process, through developing a detailed understanding of banking processes
3. Produce and implement sales process specifications, together with a training and development plan.
4. Sets sales targets, agency information management processes and reporting methods
5. Monitor and report on sales, underwriting, penetration and retention performance.

CENTRAL SUPPORT CENTER

A Call Center will be utilized to deliver the following services to the bank.

1. PC based Quotation and Management system
2. Query Handling and Claims Support
3. Collate and report client activity to the Account Management team

The business processes supported by the Central Support Center will be designed to support the sales opportunities presented by the banks.

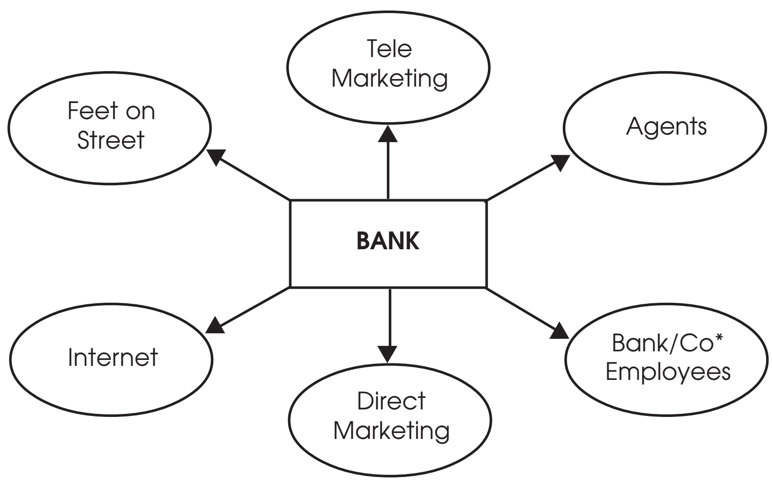
Competitive Advantage of the Proposed Model

This business model is specifically designed to support insurance sales through banks. An effort has been made to leverage and to derive synergies from the available resources. An effort has also been made to integrate the different distribution channels as explained later.

5.2 IMPLEMENTATION MODEL

An agile and flexible **Implementation Model** that integrates the various

CHANNELS OF DISTRIBUTION

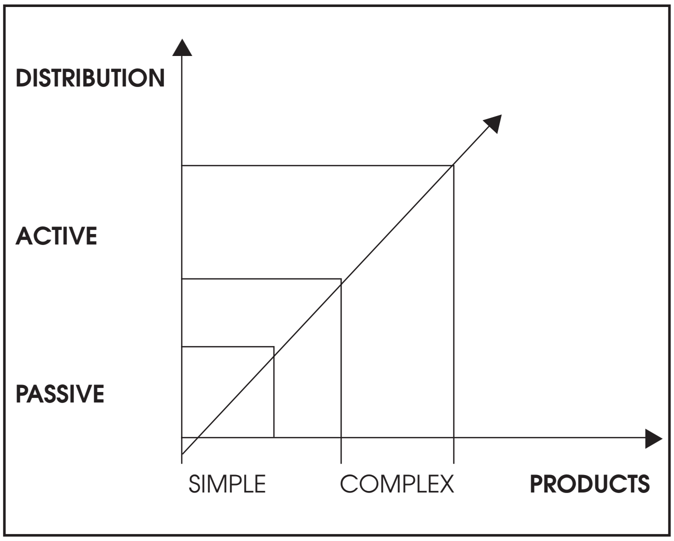


Co*- Insurance Company

distribution channels and derives synergies out of them would support the business model. Prominent among them are Agents, Internet, Direct marketing and Telemarketing.

For a bancassurance operation decision on the types of insurance products that it wants to sell, is very closely bound up with the methods of distribution, which it plans to use. This is because the effort and expertise needed to sell a given product must be appropriate to the skills and cost of the chosen distribution method. A product that is very hard for the available distribution channels to sell is not going to be successful for the operation, whether in terms of sales volumes or profits.

The diagram shows the relationship between product complexity and required sales effort and expertise



Therefore, Direct Mailers/ Telemarketing can be used for simple products like Personal Accident, Health. Similarly Bank staff should also be utilized only for marketing simple products. The more complex products like package polices (for e.g. Office, SME) should be marketing either through Agent or Insurance Company resource.

The following figure illustrates the relationships between product complexity, profitability, distribution channels, the degree of training required and the acquisition costs.

MARGINS FOR PRODUCT, LEVELS OF SALES EXPENSE, TRAINING AND PROFIT

HIGH	COMPLEX PRODUCTS	SPECIAL ADVISORS	HIGH
	DEMANDING PRODUCTS	SALARIED AGENTS	
	ORDINARY PRODUCTS	BANK STAFF	
	SIMPLE PRODUCTS	BANK STAFF	
LOW	VERY SIMPLE PRODUCTS	DIRECT RESPONSE	LOW

The various product delivery approaches that are being utilized by Insurance Companies in India are outlined below

1. **Campaigns (Direct Mailers/ Tele Marketing)-** Majority of the campaigns are for Personal Accident and Health Insurance. Simple campaigns for Home Contents and Hospital Cash can also be launched.

2. **Bundled Products-** Simple insurance products like Personal Accident, Health are bundled along with banking products like Savings Bank Account, Current Account, and Personal Loan etc.

3. **Direct Sales Agent (DSA)-** Used for Motor and Mortgage insurances.

4. **Tele marketing-** It is used in a very focused way. For e.g. Tele marketing campaign for Personal Accident Insurance on credit card base of a bank. Usually it is used to supplement a Direct Mailer Campaign.

5. **No Actual Cost (NAC)-** This is for Personal Accident, Purchase Protection, Travel, Lost Card Liability etc.

6. **Branch Level Campaigns-** These are specific campaigns/ activities carried out in select branches of Insurance Company's Corporate Partners in select cities.

7. **Face-to- Face Campaigns-** This utilizes the outbound sales team of the bank. The sales team sells insurance as an add-on to the core banking products.

8. **Call Center of Banks-** Both the Inbound and Outbound Call Centers are utilized to sell the insurance products to the prospective customers.

Therefore, in India, we are utilizing all the distribution methods as outlined in the **implementation model except agents.** It is proposed that the Insurance Companies may look into the possibility of integrating Agency force with Bancassurance. The benefits of such an arrangement would be:

1. Insurance products especially complex ones require face- to - face interaction. This would ensure the same.

2. This would provide source of business to agents that in turn would increase their commitment to the Insurance Company.

3. The Insurance Company may not have enough resources to deploy at bank's branches. This model will provide for the same.

4. The cost involved would be mainly variable in nature.

The **challenges** involved in implementation of this model would be

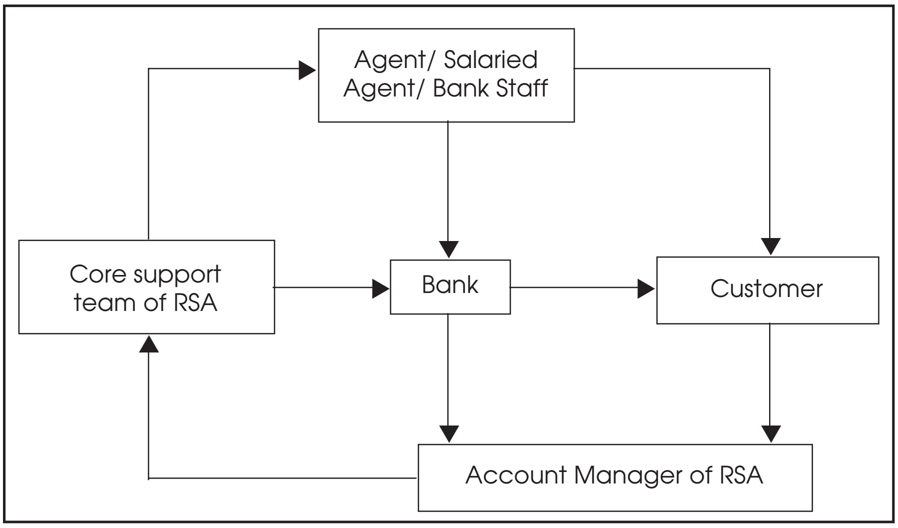
1. Bank might not feel comfortable in allowing the Insurance Company's agent to sit at branches. Therefore, the Insurance Company would have to assure bank that the confidentiality of data would be maintained.

   If the bank is still not comfortable, than another way out would be to utilize the services of agents for the entire sales process except closing of deal. This would ensure that the customer data would remain with the bank only. The Insurance Company can also look for salaried agents for this.

2. Another challenge would be that of Remuneration. The remuneration payable to bank & agent should be commensurate with the value that each adds to the entire process. However the total remuneration payable to both of them should not exceed the stipulated IRDA norms.

A suggestive framework for the above-mentioned process is shown below

FLOWCHART FOR OVER THE COUNTER APPROACH



<u>*Core Support Team of the Insurance Company*</u>

- Administration
- Query handling
- Claims settlement

<u>*Bank*</u>

- Advertise
- Provide information to customers
- Provide access to database

<u>*Agent/Salaried Agent/ Bank Staff*</u>

- Canvas
- Help the customer
- Collect premiums
- Query handling

<u>*Insurance Company's Account Managers*</u>

- Regular visits
- Local support
- Find out requirements
- Training
- Incentives

PROCESS BEING PROPOSED

❖ The insurance agent provided by the Insurance Company will meet the insurance requirements of the customers at the bank.

❖ The forms (brochures, proposal form, nominee form, claims form) will be displayed at the bank counter and also at their website.

❖ The agent will explain the features and benefits of the products to customers.

❖ The agent will help the customers in filling up of the forms.

❖ The agent would collect the premiums and forward them to the core support team of the Insurance Company.

❖ At the time of claims the agent would forward the required information to the core support team of the Insurance Company.

❖ The account managers of Insurance Company would communicate between the Bank and the Company to lend local support by their regular visits to the banks and will find out the requirements of the customers with respect to the product and that of the agent with respect to the incentives.

6. THE BOTTLENECKS & KSFs

The Deal gets signed at higher levels but the communication doesn't flow downwards properly. The customer intention and interest is there but it doesn't get converted into actual sales at the branch level due to lack of focused approach and commitment of the staff.

Cultural Integration- Before entering into a partnership the cultural issues needs to be addressed. It has to be thought in the beginning itself that how the cultural issues would be tackled. The two partners may have different organizational culture and philosophies. The way they work depend on this and thus the cultural integration between the two is required for effective progress.

Communication- Proper communication should follow the partnership. It is very important to get the involvement of the front sales/ branch level people so that they feel a part of the entire process. They should have a feeling of ownership. Similarly it is very essential to fix the responsibility and accountability.

The benefits of the partnership also need to be properly communicated to the entire staff. Sometimes it does happen that the bank employees consider it to be an extra burden over and above their routine work and thus don't pay enough attention to it.

Technological compatibility- The level of technological infrastructure should be more or less the same between the two partners. Incompatibility in technology may lead to non-delivery of the promised service standards.

DSA Management- Even after entering into an agreement with a bank, the DSAs of the Bank don't pass the required business to the insurance company. Their preferences might vary due to different reasons and it is absolutely essential to align the DSAs towards the agreed insurer. For this to happen the bank has to take the lead and should use its influence over DSA.

MIS reporting- The process needs to be properly tracked. MIS reporting should be simple and easy to understand. The flow of MIS reports between the bank and the insurer should be strictly as per Service Level Agreement. Otherwise this in turn leads to delayed commission payment and other issues like reconciliation.

Training of the Bank staff- The concerned bank staff needs to be appropriately trained on the insurance product so as to enable him to sell the product to the customers. The insurance company should give due emphasis to this aspect and should ensure that the bank staff is properly equipped.

Target Customer Segment- The Insurance Companies is targeting specific customer segments and it is essential that the customers of the bank should fall in the intended target segment. Otherwise later on the insurer will find that it is underwriting a risk, which it doesn't intend to.

Right product- The selection of the product is very important. The product should offer a solution to the target customer base needs and therefore the first step in product development is to identify customers and their needs. The features of the products should translate into the benefits for customers.

Supply Chain management- The entire process of Bancassurance can be viewed from a supply chain perspective where each stakeholder is adding value to the process. The entire chain needs to be monitored and controlled effectively.

Effective Cross Selling - The maximum benefits of a bancassurance relationship will be reaped only when the bank and the insurance company are able to cross sell the products between their customers. Many a time it happens that they get stuck to few products and a narrow customer base reducing the benefits of the relationship.

Simple easy to understand products- The bank staff doesn't have the insurance technical knowledge and therefore it is essential that initially very simple products should be offered through Bancassurance. The bank staff should feel comfortable with the entire process.

Cost Control- It should be also kept in mind that in order to get business, the financial logic is not thrown out of the window for procuring business. The cost of the relationship should justify the benefits accrued out of it.

In nutshell, the **Key Success Factors** for Bancassurance Partnerships are: -

- Understanding yourself- SWOT Analysis
- The right product matrix- product, place, price, promotion
- Additional 3 P's of Services- People, Process, Physical Evidence
- Technological infrastructure
- Integration into the organisation culture and philosophy
- Commitment from all the stakeholders
- Efficient monitoring and tracking of the entire process
- Clearly defined roles and responsibilities
- Accountability & Ownership

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S. K. Desai Consolation Prize Winning Essay 2003-04

NEED OF THE HOUR "RISK MANAGEMENT VIS-A-VIS INSURANCE EDUCATION" (ROLE OF INSURANCE INSTITUTE OF INDIA IN LIBERALISED ENVIRONMENT)

By : Dr. A. K. Jain,
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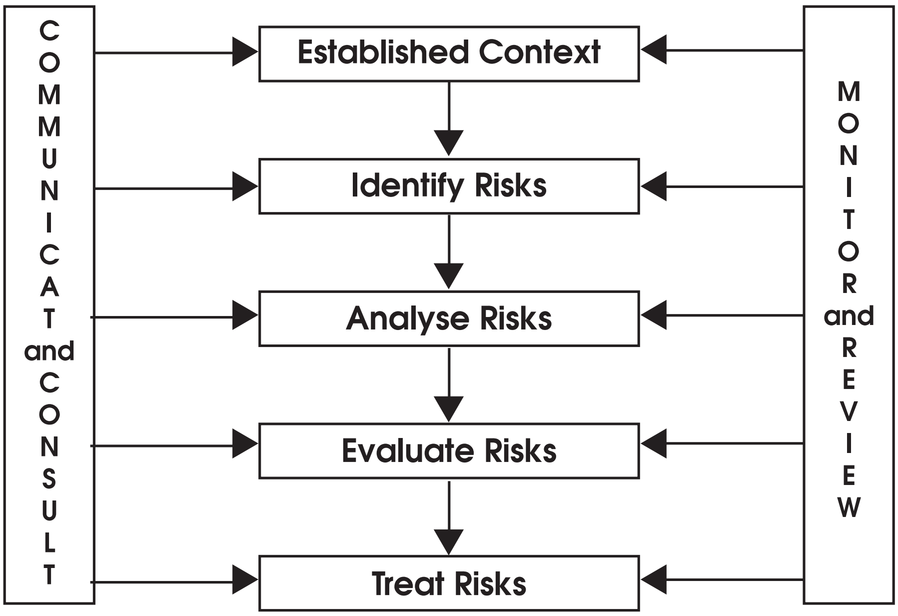
Risk is uncertainty arising out of unforeseen and unexpected situation in all walks of life as well as business. Management of the risk is the need of hour in the highly technological world, which can be minimised if not arrested totally. Risk Management is coming of age in India. The decision of GIC to offer credit guarantee cover underscores the currently accepted fact that insurance business need not restrict itself to the traditionally established spheres. On the other hand the lack of insurance education is mother of various problems prevailing in insurance industry and it has prevented the growth of insurance potential in the country. The risk management can be defined as "The identification, analysis and economic control of those risks which can threaten the assets or earning capacity of an enterprise" The risk management exercise can be carried out either by firm's own risk manager, an independent risk management organisation or risk management division of an insurance company. The risk management exercise includes:

- Risk Identification
- Risk Quantification or Evaluation
- Risk Elimination or Reduction

FIGURE-I



- Risk Transfer including Insurance
- Risk Acceptance/Retention

The doctrine on insurance stipulates that insurance can operate only in area of "pure" risks. In a broad sense, risks are classified as either pure or speculative risks. The outcome of a speculative risk may either be seen in profit or loss, whereas, the occurrence of pure risk produces only loss.

Risk is, unquestionably, ever present in business activity. A business manager's challenge lies in how efficiently he tackles the risks to the advantage of the firm, the shareholders and community at large. Therefore it can be argued that the role of business manager encompasses the functions of risk manager too. Nevertheless, there has been a gradual understanding that the handling of risks of different genre require distinct approaches and practices.

The process of managing risks involves a series of steps. At each step, one should consult with others to get their point of view. Each situation is different and requires its own risk management strategy.

The Risk Management process can be understood in the following diagram:

RISK MANAGEMENT PROCESS

Risk management deals not only with the physical aspects concerning the nature of the identified risk in question but also with 'psychology' of risk. By using this expression we intend to focus on how others perceive risk and how they would behave in the face of risk either as individuals or in a group.

Risk management is primarily concerned with the happening of unlikely future events whose outcomes could be unknown and catastrophic creating uncertainty and financial instability in an enterprise. Risk management as currently practiced in most organizations focuses on efforts made to minimise the chances of loss occurrence that could cause potential losses of huge magnitude to the point of their zero probability. Adequate attention is still not paid to the aspects of minimising and reducing loss potential by influencing human behaviour and adoption of contingent measures to respond to loss situation to reduce elements of surprise in the chain of events.

GLOBALISATION OF RISK MANAGEMENT:

The inexorable tide of globalisation sweeping across nations in trade and commerce, the freeing of capital flow transfers and the liberalisation of domestic markets permitting entry of foreign investors are also changing the complexities of risk management making it a truly global phenomenon. The rapid spread of equity culture in the public has thrust more statutorily and other responsibilities on corporations. It has given the public a voice in how corporations manage their risk exposures in the interests of all stakeholders and not merely of those shareholders.

Corporate governance norms are significantly changing due to stakeholder pressures bringing risk management of corporations to the public gaze. The print media, TV, availability of global information through internet have also made the rest of the of the global citizenry more aware of how lapses in risk management are tackled elsewhere and are demanding international risk standards in risk exposure management in their own countries by change of local laws and their enforcement.

The recent outcry in India in respect of coca–cola, Pepsi and manufacturer of bottled mineral water for lack of adequate safety standards is an offshoot of what is happening elsewhere of the public wanting more stringent standards enforced.

Insurance education has assumed great importance in the light of the liberalisation, globalisation and various regulations issued by IRDA. Further demand for new skills from MNC's is turning more and more aspirants towards this new spot. As the market place for insurance and financial services will become more global, it is imperative to educate insurance workers as well as young aspirants. Emerging economy will require a work force that has knowledge and skills in risk management and insurance applications. A vital fallout of the opening up of the insurance sector is the rapid rise in the value of professional and vocational education in insurance in search of a stable career. Waves of liberalisation have done wonders to propel this occupation to the status of a career with a bright future. The average mindset, particularly of younger generation in India is very amenable to these changes in Insurance sector and they look at insurance as an avenue where exhilarating opportunities are opened up in changed environment. These young aspirants now look for a privileged qualification provider that will help them in future profession. *In this situation the relevance of Insurance education in improved risk management and the role of Insurance Institute of India as a leading provider of insurance aptitude will be most important because educational institutes act as encouraging in managing the RISK.*

In recent years life has become a lot more complicated, and so has insurance buying. Today, big corporate houses are confronted with business risks that are greater and more varied than ever before. Insurance education has radically improved our ways to manage the risk more professionally.

Insurance Institute of India is the only national Institute, catering to insurance education for the entire insurance industry offering a truly high quality professional qualification to ensure academic excellence in insurance business but nowadays with the pace of change in insurance sector, many new commercial learning providers are also emerging on the scene.

Many Institutes will shape out a niche for themselves in this area. Under these circumstances the Institute may face a very testing future as new prospects are opening up before it. **This study** has been conducted to analyse the **relevance of insurance education in improved risk management as the need of the hour** and role of *Insurance Institute of India in liberalised environment to create new era in insurance education.* This Institute has developed dramatically in recent years to take care of the need for entrepreneurial flair and strong management skills in insurance sector and it needs to broaden further the skills of new prospective young professionals to provide them with appropriate skills and perspectives needed to give a strategic role to the insurance business in competitive environment.

The study focuses on the **following areas** to address the relevance of insurance education in improved risk management and the role of Insurance Institute of India in changed scenario.

- ❖ Profile and locale of leading educational Institute of insurance education and research
- ❖ Critical analysis and Position appraisal of Insurance Institute of India
- ❖ Environment analysis in altered scenario
- ❖ SWOT analysis
- ❖ `Pilot Vision'- in changing scenario
- ❖ Creating new epoch in insurance education

PROFILE & LOCALE OF INSURANCE INSTITUTE OF INDIA

Educational legacy of I.I.I. can be traced back to 1955 when this Institute was established with a vision of promoting insurance education and training as Federation of Insurance Institutes (J.C. Setalvad Memorial-forerunner of present Institute). This centre of distinction in insurance is recognized today for its pioneering, forward thinking approach to insurance education, research and learning. Since its formation, the Institute has progressively advanced the standards and scope of insurance learning & research. This academic institution is backed with over 1,37,369 total membership out of which life membership stood at 1,11,336 of whom 8,989 are Fellow members and 27,210 are Associate members. It offers education, certification and research reports to insurance business. Diplomas of the Institute have an international reputation of distinction.

The main objectives of the Institute are:

- ❖ To encourage research activity in the field of insurance and risk management.
- ❖ To impart education and training and to conduct examinations, in insurance theory and practice and related subjects for awarding certificates, diplomas and degrees to those interested in insurance.
- ❖ To arrange oral and postal tuitions through various regional chapters and prepare and support reading materials and similar other educative methods for encouraging and assisting the study of any subject bearing on any branch of insurance.
- ❖ To offer scholarships, grants and prizes for various research activities and any other educational work bearing on insurance.
- ❖ To ascertain the law and practice relating to all matters connected with insurance and to disseminate such knowledge among those interested in insurance.
- ❖ To facilitate IRDA in implementation of various regulations.

The Institute conducts qualifying examinations at following levels:

TABLE-I

EXAMINATIONS CONDUCTED BY INSTITUTE

BASIC	PROFESSIONAL	INTRODUCTORY	REGULATORY	COMPANY SPECIFIC
Licentiate	• Associate • Fellow	• Inspectors • Certificate in insurance salesmanship	Qualifying examination for various Intermediaries. like agents/ surveyors	Competitive examination for entry cadre to GIC and LIC

This premier professional Institute of insurance education has wide network in India. It has 91 local Institutes across the country that not only provides oral tuition service assistance for basic examinations but also conducts study circle and also offer difficulty-solving service to student members. The Institute also runs a College of Insurance, situated at Mumbai to cater to the training needs of insurance personnel at different levels. This College has earned a reputation as ***'center of excellence'*** and attracted participation from abroad in its various training programmes.

CRITICAL ANALYSIS AND POSITION APPRAISAL OF INSURANCE INSTITUTE OF INDIA

To analyse the role of I.I.I in future it is significant to look at the current state of the Institute in respect of:

- ❖ Relevance of insurance education in improved risk management.
- ❖ Role in improvement of proficiency in insurance sector.
- ❖ Research excellence in insurance field.
- ❖ Training and technical education.
- ❖ Proficient standing of the Institute.

RELEVANCE OF INSURANCE EDUCATION IN IMPROVED RISK MANAGEMENT

Risk management is a new perception of an old idea. The concept of risk management is not new. In the ancient Indian scriptures, it was said that man being the ultimate maker of his destiny, he was supposed to conquer the **'niyati'** (Fate/Chance) by **'Mati' or intellect.**

We also come across a pithy saying (Deuteronomy22:8 Holy Bible) as follows "when you build a new house, you shall make a parapet for your roof so that you may not bring the guilt of blood upon your house, if anyone falls from it".

Thus, from the distant past, mankind has recognised the need for safeguarding against the adverse consequences of risk and chances, which are inevitable in the environment. Here is the relevance of insurance education, which enables an insured and insurer to take the vital decision.

For selecting and putting into practice those risk management techniques which are most cost-effective for a particular organisation after identifying and analysing probable loss exposures, the feasibility of alternative risk management may be studied. The rest of decision process involves the selection of best possible techniques and implementation of the chosen techniques and this is only possible when someone is well educated about the logical steps of risk management viz. Risk Identification, Risk Measurement and Evaluation, Treatment of Risk in the form of Risk Elimination or Reduction and finally the risk retention or Risk Transfer.

ROLE IN IMPROVEMENT OF PROFICIENCY IN INSURANCE SECTOR:

This position review analysis is to study the skills that this Institute has developed through its various programmes and whether it can ensure a fit between the changing environment and the Institute's capability to deliver professional education to insurance industry professionals.

In India, till date, insurance subjects are not forming part of the academic syllabus of established and reputed institutions and universities and the Insurance Institute of India is the only professional body to provide the skills and expertise in insurance culture. The Institute, however, has concentrated to develop mainly the employed manpower in insurance sector. This can be evidenced from the subsequent studies conducted on assorted groups of members of Institute as well as the young aspirants who may switch to this vocation, as expressed in Table -II.

TABLE-II

Qualification seekers in Insurance	
Public sector Insurance Company employees	85%
People engaged in Insurance profession e.g. Agents, Surveyors	7%
People employed in commercial organisations and dealing in Insurance.	02%
Government employees & others already in some job	01%
Aspirants not in any job and looking for insurance as a job or profession	05%

(Based on the respondent sheet analysis obtained from 200 questionnaires supplied to the various segments of society)

The above sample study was further reinforced on scrutiny of Fellows and Associates elected in 2002-2003 as shown in Table III.

- Why the young generation and fresh graduates are not attracted to this qualification?
- Why people other than in insurance job seek this qualification.

TABLE-III

Fellows and Associates elected in 2002-2003 by Insurance Institute of India

Category of qualified persons	Fellows	%	Associates	%
Employees of GIC & Other Public Sector Insurers	446	42.32%	776	34.17%
Employees of LIC	561	53.23%	1356	59.71%
Surveyors	09	0. 85%	19	0.84%
Government employees	2	0.19%	4	0.18%
Others Including the employees of private sector	36	3.41%	116	5.12%
Total	**1054**	**100%**	**2271**	**100%**

(Based on the annual report of the Insurance Institute of India 2002-2003)

The analysis of above data led to second research effort to find out

The findings of the second research effort were as per Table-IV :

TABLE -IV

Category**	A	B	C	D	E
Job advancement & career opportunities	65%	25%	20%	-	90%
Financial betterment	25%	-	-	-	-
To gain knowledge and technical expertise	10%	75%	80%	100%	10%
Other reasons	-	-	-	-	-

**

Category A	Employees in Public sector Insurance Company
Category B	Engaged in insurance profession; agents & surveyors
Category C	Employees in commercial organisations dealing in insurance
Category D	Government employees
Category E	Aspirants seeking Insurance qualification as a profession or otherwise

- Why already employed persons seek insurance qualification provided by the Insurance Institute of India?

It was further noticed that apart from middle management level, the employees of public sector insurance companies are also not motivated to

TABLE-V

Level of employees	Clerical & supervisory	Marketing staff	Lower manage-ment Cadre	Middle manage-ment Cadre	Senior manage-ment Cadre
Sample no	100	50	50	25	12
Attempted Institute's examination	75	15	40	03	01
Percentage	75%	30%	80%	12%	8%

acquire the qualification of Insurance Institute of India.

From interpretation of above results following findings were gained :

- ❖ The major hold for Institute's qualification is up to middle management level because of promotional advantages linked with this qualification and financial advantages is available only to the clerical & supervisory cadre.
- ❖ Institutes qualification is of enormous assistance in ensuring career development with insurance companies.
- ❖ Importance of insurance education for others has not gained because of too little promotion and publicity of this qualification. There is need to market its benefits and to promote its use.
- ❖ Training and other programmes have also not picked any motivating force in executive class.
- ❖ Integrating insurance education with management, finance and I.T. can make it a very attractive combination for young professionals.

A study was also made on non-graduates and young graduates of some of the prominent schools and colleges of Rajasthan to make out the aspirations of these students and how they distinguish insurance as a career.

TABLE-VI-A

Options of insurance education viz a viz other education as a career

Perceived future educational goals	% of students
Traditional degrees	50%
Conventional career goals- engineering, medicine	40%
Short term vocational courses either along with degree course or after degree course	10%

TABLE-VI-B

Particulars	Yes	No	Not sure
Whether you find insurance as lucrative career	35%	30%	35%
Have you heard about FIII /AIII diplomas provided by Insurance Institute of India	25%	75%	—

TABLE-VI-C

Source of information of insurance qualification (FIII/AIII)

Placement pages of leading Dailies & Employment News	Publicity by the Insurance Institute	Other sources
75%	5%	20%

From the foregoing, the following patterns are discernable in development of skill in insurance sector.

- ❖ Most of the aspirants, were not conscious about the details of the provider of this qualification i.e., Insurance Institute of India.
- ❖ Training scenario needs to be re-anchored. Endeavour should be to augment employability.
- ❖ The key appeal for insurance education was generated among the young generation by front-page news reporting by a National daily believing 150000 money-spinning jobs in insurance sector in next few years.
- ❖ Pre-entry education in insurance is more or less unknown. There are hardly any full time academic tracks that spotlight on insurance.
- ❖ The placement pages of most of the leading dailies have made the young aspirants aware about insurance qualification named as FIII / AIII .
- ❖ Distinction flanked by 'being-employed' and 'becoming employable' desires proper address.

- Interviewees were of the opinion that the Insurance Institute of India should also make public its educational programme through career fairs or by other means so that the bright graduates may look at this prospective career opportunity.

- A group of the young graduates expressed that this insurance education may be linked with management and IT degree to make it attractive for qualification seekers.

- Under-graduates wish to take insurance as short-term course either along with their traditional degree route or as a separate part time qualification.

RESEARCH EXCELLENCE IN INSURANCE FIELD:

Insurance Institute of India is a vibrant research and development institute. It delivers practical knowledge to insurance and **risk management professional**. The institute works in close association with its sponsoring insurance companies as an integrated constituent for carrying out insurance learning. At present most of the academic work on insurance related papers comes from people engaged in insurance industry. I.I.I. supports research through its annual essay writing competitions in both life and non-life sector. Nominations are invited from Institute's members as well as from the members of the insurance institutes in Afro-Asian regions. At present, Institute runs three competitions viz. S.K.Desai Memorial Gold medal essay writing competition for work of research in any area of insurance. D.Subrahmaniam Award is an essay writing competition for research conducted by young members below the age of 45 years and Technical paper competition award is for original papers of high standard on pre-approved insurance topics. These research papers are also circulated to insurance professionals through Institute's publications. Institute also push higher studies and research through healthy competition among its Associated Institutes. Associated institutes that achieve outstanding performance receive Best Institute Rolling Trophies. To persuade the Associated Institutes to undertake research projects the I.I.I. also grant financial assistance.

Education of the populace for a specific business must develop in the direction the market leads. **Education** improves the quality of the people available to work in the market but only if the leaders of the education system make the right predictions as to market demands for skills and understanding. Currently the two apex Institutes of education and research in Insurance are leaders in research excellence in insurance area. It has been observed that Insurance Institute of India and **National Insurance Academy** do not get enough encouragement from the Industry to bring these Institutes at par with the other Institutes else where in the world. This is the reason that the research activities in insurance are the bare minimum in India as compared to other countries. Indian research papers on risk and insurance constitute less than 2% of the output of research in Asia alone.

Table VII shows the research papers in insurance and risk management published in 2003.

TABLE-VII

Research papers in Insurance & Risk Management

World	26572
Asia	2682
India	61

(Source: WORKING PAPER SERIES OF THE GENEVA ASSOCIATION)

National Insurance Academy and Insurance Institute of India are in forefront to endorse and perform research on problems of insurance management, training and development of insurance personnel, insurance policy etc and if a synergy is fashioned between these two apex Institutes through alliance or otherwise, it will bring distinction in insurance research development.

NIA which received the prestigious award of 'Educational Service Provider' of the year 1998 for its outstanding service in the field of insurance training in Asia and Insurance Institute of India whose diplomas are widely recognized as most effective insurance qualification in this part of the world have common goals to provide and promote facilities for research and education in operations of insurance business. Synergy between these two can provide world-class research efforts in this sector.

A successful research based Institute provides a strong learning environment for all students and is ideally positioned to build links with other Institutes or organisations. I. I. I. that is at leading edge is ideally placed to deal with challenges of a rapidly changing and competitive world.

TRAINING AND TECHNICAL EDUCATION:

The Insurance Institute of India identify, develop and organise insurance training programmes through its training wing 'College of Insurance' which is situated at Mumbai. Training by this College is planned to cover the focused skills and methodologies and to offer additional learning experiences to satisfy the requirements of insurance entities. Prominence is placed on strategic management and insurance issues, gaining a competitive frame in domestic and worldwide markets and in building standards. These training programmes are also an important opportunity to share experiences with others. This College has been recognised by Government of India as one of the Institutions approved for imparting training under Government of India's financial aid schemes such as "Colombo-Plan", "SCAAP" & "ITEC". This training college has also been included in 'United Nations' directory on technical education for award of financial aid under ESCAAP. The aim of College is not only to train the insurance officials from India and other developing countries of Asia and Africa in a variety of aspects of insurance but also to carry them together for perceptive understanding and appreciation of each other's problems and to help grow by pooling of awareness and new techniques in insurance development. Since its creation in 1966 the College of Insurance has trained about 10000 officials of which about 29% were deputed by overseas insurance organisations from different developing countries. The College also assumes special responsibility for carrying out training courses on insurance procedures and risk management to prop up employees of insurers at their offices. It also conducts special skill programmes for the advantage of employees of bank and industrial houses in both public and private sector who handle the insurance portfolio for their respective organisations.

PROFICIENT STANDING OF THE INSTITUTE:

Examination for the award of following insurance certificate and diploma are conducted twice in calendar year by the Insurance Institute of India: **TABLE-VIII**

The certificate and diplomas awarded by the Institute are recognised by insurers, State governments and Government of India as also by Governments of many developing countries. Insurers in this part of world consider these qualifications, gained by their employees, for their elevation up to middle management cadre. On acquiring this qualification, employees in subordinate cadres receive qualification allowance from their employers. Enormous number of subject entries (150000-200000) every year demonstrates the prestige of the Institute.

I.I.I is a charter member of *Global Insurance Education, New York.* Qualification of I.I.I. has cross recognition by *Chartered Insurance Institute, London* and the *American Institute for Chartered Property Casualty Underwriters, USA.* The C.I.I. London grants 4 exemptions to the associates and 7 exemptions to the fellows of I.I.I. in their ACII programme consisting of 10 subjects. The A.I.C.P.U. USA also award 4 exemptions in their prestigious CPCU designations to the fellows (non-life) of I. I. I. The cross recognition of professional qualification stress on the availability of finest insurance education and training stuff for Indian market.

The Institute of Pension Management of Great Britain has also authorised I.I.I. to adopt their text to suit Indian market, which will of course be supportive in developing new courses relating to fast emerging pension business in India. Professional standing of this Institute has been further strengthened by playing a leading role in establishment of Federation of State Insurance Organisation of SAARC countries (FSIO). The qualifications of the Institute are recognised by the MNC's that have just come into the insurance sector in India. These companies are making an allowance for fellow and associate members of the Institute for key positions in their organisation.

ENVIRONMENT SCANNING IN ALTERED SCENARIO

With the opening up of the sector of insurance, more challenges in the field of risk management are obvious in the area of insurance education. These challenges do not have written

TABLE-VIII

Programme Element	Course description	Assessment of skills
CIS & Inspectors examinations	Courses to up-grade professional skills of development staff.	The basics of principles and practices of life and non life insurance and salesmanship are mastered.
Licentiate Examination	This is an introductory course to insurance including basic understanding of accountancy.	Only the fundamentals of principles and practices of insurance (life and non life) and elements of modern commerce are to be grasped.
Associateship	Specialisation course comprising six technical subjects in any chosen branch of insurance.	Comprehensive and in-depth knowledge of technical subjects and related problems in each branch. Successful candidate eligible to display *post-nominal A.I.I.I.*
Fellowship	Advanced study course including Re-insurance, Management, Marketing and financial accountancy.	Integration of insurance skills with managerial and marketing skill. F.I.I.I. designation is visible recognition of professionalism, knowledge and commitment to insurance excellence.
Entrance examination for agents.	Qualification test for license. Object is to promote efficiency in conduct of insurance business.	As per regulators prescribed syllabus.

answers for managing changes; instead they represent paradoxes or dilemma for institutions that have to make resolution about how they are going to deal with them all. The structure and features of insurance industry are fast changing at a swift pace and the changed set-up will have its impact on entire insurance industry and those linked with it. The I.I.I. will also have to analyse this changing situation to agree on its role in the liberalised milieu.

Environment constitutes a major variable within which an institute or organisation has to operate. It refers to the totality of all factors, which are external to and beyond the control of enterprises. The environment of an educational institute can be assessed to its intricacy and vigor considering general environmental factors in political (including legal and regulatory), economic, social and technological areas. Strategic planners must take into account environmental influences in order to produce plans that are pragmatic and feasible.

The competitive environment influences also have great impact in the format of insurance education, its delivery and its providers. Insurance education by this leading Institute is provided in co-operation with **GIC, LIC & OTHER NATIONALISED AND PRIVATE INSURANCE COMPANIES** in the market and the Institute has its genesis & assignment, syllabi & courseware particularly for the needs of these organisations. The pace of current change will soon witness new, more commercial providers targeting this worthwhile educational market. IRDA in its quest to bring professionalism in insurance market has also made it mandatory for the agents, who are vital link between the insurers and the insured, to qualify the pre-licensing examination and also for the surveyor and loss assessor and brokers to pass through these regulations.

The Insurance Institute of India has been designated by the IRDA to conduct this pre-recruitment test but accreditation has been given to many of the organisations that have shown their interest to impart educational training in the field of insurance. This kind of professionalism is also practiced in European countries and in many parts of the world with the object of promoting efficiency in the conduct of insurance business. To fulfill this object, the role of educational provider is become challenging and promising. The new status granted by the regulator to I.I.I. will require Institute to fully exploit its ability, proficiency and know-how in learning and teaching the insurance subject in the wide spectrum.

In changed scenario, one thing is definite that insurance education may be meaning ensuring the future of younger age band aspiring for decision-making positions, as this recently opened sector has huge potential to attract young talent. These new opportunities will pose further challenges to providers of insurance learning. I.I.I will also require conducting a proper position appraisal, SWOT analysis, GAP analysis and creating a vision. This vision may be close to the vision expressed by the CEO of the soft drink giant Coca-Cola. When he was asked who were the competitors of his company he did not point out Pepsi, Thumps up or any other soft drink and not even tea or coffee. He acknowledged that " the main competitor is tap-water and any other definition is too narrow." I.I.I may also re-define its role in such extensive terms in order to provide quality learning in insurance.

Analysis of opportunities and threats under external environmental and recognition of strengths and weaknesses from position analysis may be used by this national institute to work out appropriate strategies suitable to the new scenario. GAP analysis may also help the Institute to find out the scale of tasks to be achieved to achieve its mission and to bridge the gap between knowledge and application in today's insurance market.

This century will perhaps differ from the past, in the scope of newer fields that will emerge in terms of professional opportunities. As India gets more liberalised, there will be broad variety of jobs in service sector which will turn out to be a key provider of employment. This will change job seekers' attitude and they will look for Institutes, which will sharpen their skills in education and career. In these circumstances, further opportunities where the Institute's strengths can be utilised for benefit should be sought. At the same time prospective threats and weaknesses must be identified and dealt with. In these conditions, the following challenges need a proper address:

Alternative strategies will emerge from identification of strengths, weaknesses, opportunities and threats and by dealing extensively with the serious gaps in insurance training and education.

Major strengths and profitable opportunities can be exploited especially if strengths and opportunities are co-ordinated with each other.

FIGURE-II

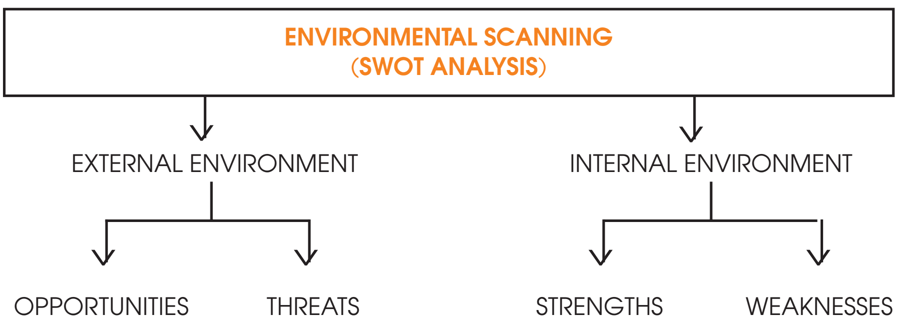


TABLE-IX

OPPORTUNITIES	THREATS
• What opportunities exist in business environment ? • What is the capable profile of competitors? Are they better placed to exploit these opportunities ? • What is the Institute's comparative performance potential in this field of opportunity ?	• What threats might arise to institute or its business environment from new players ? • How market players will react to this environment ? • Whether the leading position will be retained ? • New value propositions developed and delivered by competitors.

(Source : Web site of IRDA - the Regulor)

Major weaknesses and threats should be countered or a contingency strategy or corrective strategy should be developed.

The SWOT appraisal should address the following issues to draw alternative strategies:

❖ A learning of past education and research activities and its relevance in current scenario.

❖ Present strength and position of members of Institute.

❖ Economic structure and support.

❖ Managerial aptitude.

CURRENT EDUCATION SYSTEM AND ITS RELEVANCE IN PROMISING SCENARIO

Insurance Institute of India enjoys an outstanding and stunning reputation for its qualifications. Major strength of the Institute is that corporate houses also recognise its diploma courses, which can prove a meaningful and rewarding mid-career experience. Strength of I.I.I. education system includes its:

❖ **Standing and Reputation.**

❖ **Research brilliance.**

❖ **Pioneering approach to insurance education.**

❖ **Facilities through network of allied Institutes.**

❖ **Scholar support from all disciplines to have membership.**

❖ **Recognition of its qualification is relentlessly linked to career development.**

In addition to its teaching programme, I.I.I. has also developed a strong research standing with commendable achievements. Much effort has been put into developing courses that provide students with the required theoretical and practical inputs in insurance education. Importantly, I.I.I. has developed a strong set of learning materials to ensure that students have access to top quality learning experience. The Institute has its own publication division that produces study courses for about 45 subjects both on life and general insurance.

PRESENT SCENARIO

Substance of insurance education has already grown and will grow further because of regulation and liberalisation. Elite privilege of LIC & GIC has become the history with the passage of IRDA Act, 1999 and opening up of the sector to the private players. Insurance sector is all set to make available maximum opportunities and careers in marketing, actuarial, underwriting operations and investment fields. MNC's in this sector are offering excellent pay packages. No wonder then, more and more aspirants will train their sights on the 'golden gates' of professional Institutes, which will impart insurance education. In fact, insurance education is worthwhile avenue open to students from all streams, even after they have graduated from College, whether it is medicine, engineering, accountancy IT, history, English, law, or even philosophy. Many well-recognised academic institutions have started looking for insurance as a core subject to derive benefit from the challenges and opportunities thrown by current scenario.

The Institute of Certified Risk & Insurance Managers (an ICFAI affiliate) has launched a distant learning insurance programme unifying its insurance courseware with I.T. and management. ICRIM has launched this insurance education programme to attract the best minds at the right time differentiating it from Insurance Institute of India's company specific diploma qualifications. The status and respect attached to the corporate life style will drive young aspirants in large numbers to opt for this integrated course, which boost placement assistance.

Forty-seven educational Institutes have applied and got accreditation of IRDA as approved providers of agents pre-licensing education. It is satisfying to note the growing number of candidates appearing for the Pre-recruitment examination. Since it was introduced in October 2000 and until February 2003, over 713000 candidates which means average of over 25000 per month have appeared. The regulator has given due importance to the insurance educational programmes and those who will engage in education and training particularly in area of insurance sales service and marketing will mandatorily require approval of IRDA.

The Institutes and Universities that have jumped into the fray to address the

TABLE-X

Approved agents training institutions in different Zones.

North India	South India	West India	East India	India
12	19	10	06	47

(Source: Web site of IRDA – the Regulator)

demand of career-linked educational programme in insurance includes Kurukshetra University, Anna Malai University, Pondicherry University, ICRIM, Insurance Training Centre, Ritu Nanda Insurance Services (P) Limited, NIS Spata, Amity School of Insurance & Actuarial Science, Birla Capital Business school, India Insurance Business School & Institute of Management Development & Research.

Corporate staff training colleges of the public sector insurance companies, National Insurance Academy, Actuarial Society of India also impart job related insurance education to the practitioners of insurance. **National Insurance Academy** promotes, develops and nurtures research, training and consultation activities on institutional and individual area of insurance and management. The academy encourages research associates to undertake commercially feasible stand alone or institutional action research projects. Sensing the prospects of growth with opening of insurance sector N.I.A. is launching C.D. Deshmukh Diploma Programme that will be eventually converted into a value added **MBA** programme and C.D. Deshmukh Fellowship programme which will be of the standard of **Ph.D.** Programme in insurance. N.I.A's training programmes with specific focus on insurance executive needs are well recognised in insurance industry. In last 12 years the Academy has trained more than 20000 executives of industry. The academy has its own academic campus on 32-acre land in Pune with integrated provision to run three educational programmes simultaneously. Its industry supported faculty, I.T. park & computer lab with more than 100 computers, net-based learning interface, teleconferencing capabilities make it a real state-of-art learning centre. In its pursuit to globalise its learning software, Academy is negotiating with internationally renowned organizations like *LOMA of USA, Mohawa College of Canada, Manchester Business School of U.K. and Zee Interactive Learning Systems Limited of India.*

Insurance Institute of India may enter into strategic alliance with this Academy to provide a wide range of courses to gear to the insurance education, training and research needs of the market. These two industry supported apex Institutes can offer *impossible-to beat* educational programmes on insurance as a mega-group.

STRATEGIC CHALLENGE TO INSURANCE INSTITUTE OF INDIA

Insurance Institute of India the premier Institute in insurance education never really marketed themselves mainly because of the industry support. The Institute has achieved one of the highest rates of employment and career advancement for its diploma holders confirming strong linkage with the industry. Today, however, the scenario has changed. It is the time to identify strategic challenges and will have to draw aggressive strategy so that the diplomas and qualification of the Institute remain a passport to successful career in insurance. I.I.I. will have to amend its educational and research programmes to support and strengthen its mission to ensure academic brilliance in insurance teaching and a world-class research centre.

The Institute has already started to enhance `quality of insurance education and training' and as an initial step, curriculum of study courses has been revised to make it universal qualification in insurance relevant with industry to address current trends, regulations and needs of today's insurance professionals. The new courseware has also been kept in electric form to enable quick revision whenever situation necessitates.

Institute has appointed an `Envisioning Committee' to visualise the future role of I.I.I and insurance education in India in changed and liberalised scenario in order to develop, provide and promote the highest quality professional education to meet growing education needs in insurance, risk-management, affiliated product and services.

PRESENT STRENGTH AND POSITION OF MEMBERS OF THE INSTITUTE:

The life membership has been increasing steadily year after year. During 2002-2003, 3086 life members were added and with this the total life membership stood at 111336 as on 31.03.2003.One of the most important benefits of membership (FIII/AIII) of this premier Institute is the opportunity to exhibit the industrial acquaintance and commitment through display of its membership post-nominal. These titles demonstrate an industry recognised stand. Acknowledgement of these qualifications by new players is a proof of proficiency and professionalism attached with Institute's membership.

Members of I.I.I. are from all ages and background. At present, Institute does not organise proficiency and professional development programmes like ICAI, ICWAI and ICSI to develop members and to equip them fully to discharge their functions and fulfill the objectives of the Institute.

Institute can organise skill development programmes with the help its wide network.

Institute has strong information services. Its library represents a well-off

(continued on page 67)

49TH ANNUAL CONFERENCE

The 49th Annual Conference of the Insurance Institute of India was held on 11th & 12th September, 2004 at Hotel Hubli Navin, under the auspices of the Dharwad Insurance Institute. The Conference was inaugurated by Dr. M. Khajapeer, Vice-Chancellor, Karnatak University. Shri A. K. Kamble, Chairman, Dharwad Insurance Institute welcomed the Chief Guest and other dignitaries to the Conference. In his brief speech, he mentioned about the various activities undertaken by the Dharwad Insurance Institute and conveyed his happiness for an opportunity to Dharwad Insurance Institute for hosting the Annual Conference under their auspices.

The President of the Insurance Institute of India, Shri Rajendra Beri could not attend the Conference due to unforeseen circumstances. His speech was read out by Shri M. Raghavendra, General Manager (Retd.), GIC and a member on the Council of the Insurance Institute of India.

The President in his speech welcomed the Chief Guest and other members from various places to the Annual Conference of the Institute. He also thanked the host Institute for taking the responsibility of conducting the Conference. The President's speech included the achievements made by the Insurance Institute of India during the year 2003-04 and the future developments which are in the agenda for promotion of Insurance/ examination related activities, both in India and abroad. The Institute in its Golden Jubilee year, has challenges in hand, particularly, the Building project. He hoped that the challenges can be met with confidence in the wake of opportunities made available due to globalization of insurance education.

The Chief Guest in his speech thanked the Dharwad Insurance Institute for inviting him to be the Chief Guest. He was happy to be associated with this event being an educationist. He hoped that the deliberations in this Conference will bring in new dimensions in insurance education.

TECHNICAL SESSION

Despite his heavy schedule, Shri T.K. Banerjee, member, IRDA took time to deliver the Keynote address on the topic, "INSURANCE REGULATIONS IN INDIA AND FUTURE DIRECTIONS". Shri S.J. Gidwani, Secretary-General thanked Shri Banerjee for accepting to present the Keynote address on the topic which is of much relevance in the current context. The Keynote address contained very important issues relating to regulations on Insurance business as well as Insurance education. Shri Banerjee was kind enough to answer some of the questions raised by the members present in the meeting.

The Conference concluded with a vote of thanks by Shri M. Jagannath, Marketing Manager, L.I.C. of India, Dharwad.

FORM IV (RULE 8)

Statement about Ownership and other Particulars about the Journal of Insurance Institute of India as required by Form IV (Rule 8) of the Registration of Newspaper (Central) Rules 1956.

1.	Place of Publicaiton	Mumbai
2.	Periodicity of the Publication	Bi-Annual
3.	Printer's Name Nationality Address	Shri S. J. Gidwani Indian Insurance Institute of India (Regd.) Universal Insurance Building, Sir P. M. Rd., Mumbai - 400 001.
4.	Publisher's and Editor's Name and Address Nationality Address	Shri S. J. Gidwani Shri V.H.P. Pinto, Editor Indian Insurance Institute of India (Regd.) Universal Insurance Building, Sir P. M. Rd., Mumbai - 400 001.
5.	Name and address of individuals who own the newspaper and partners or shareholders holding more than one percent of the total capital	The Insurance Institute of India is a professional educational Institution in the field of insurance education and training, registered under the Societies Registration Act XXI of 1860 vide Registration No. Bom. 128/74 G.B.B.B.S.D.
President		Shri Rajendra Beri

I, Shri S. J. Gidwani hereby declare that the particulars given above are true to the best of my knowledge and belief.

Date : 31st December, 2004.

Sd/-
S. J. GIDWANI
Signature of Publisher

PHOTO FLASHES

of 49th Annual Conference on 11th & 12th September, 2004 at Dharwad.

The Chief Guest, Dr. M. Khajapeer lights the traditional lamp.

The Chief Guest delivers his address.

Shri A.K. Kamble, Chairman, Dharwad Insurance Institute addresses.

Shri M. Raghavendra, General Manager (Retd), GIC of India reads out the President's address.

The Chairman, Dharwad Insurance Institute welcomes the Chief Guest with a bouquet.

Dignitaries on the dais.

A view of the audience.

A view of the audience.

Shri T.K. Banerjee, Member, IRDA delivers Keynote address.

Chairman, Dharwad Insurance Institute presenting a memento to the Chief Guest.

A scene from the cultural programme.

A scene from the cultural programme.

A view of audience at the cultural programme.

(continued from page 61)

and widespread collection of insurance and management literature. It's collection of national and international journals and periodicals are also unmatched. Institute provides financial support to its Associated Institutes for general educational library activities so that more and more members may attain benefit. The Institute may extend the borrowing rights so that they may take more and more reference facilities. Institute also brings out its own globally commended bi-annual Journal to enrich the skills of the members providing rich technical contribution and latest information. This Journal is provided to the members free of charge. Institute may benefit its members by providing discounted registration fees to its seminars and conferences. It can also negotiate with banks to facilitate discounted access to credit cards. American Express Bank provides such facilities to almost all professional Institutes.

ECONOMIC STRUCTURE AND SUPPORT

Industry-academic alliance has given I.I.I. continued financial support and Institute has provided industry-specific courses on specific lines of insurance education and training. The fees structure of the Institute against its educational programmes is also very nominal as the Institute's philosophy is to educate more with less expenditure. Its educational programme is self or industry funded. GIC of India, LIC of India and other Insurers in the market support I.I.I. with an annual membership to promote insurance education but this quantum of funding is much less as compared to industry funding to academic institutes elsewhere in the world. The British insurance industry spend million of pounds through various incentive schemes to Chartered Insurance Institute and its members.

In a competitive environment I.I.I. will require additional resources. The institute may generate additional funds by:

- Organising international seminars and conventions on issues facing insurance industry. In 2001 institute earned an income of Rs. 2526905 and Rs.1, 07000 from ASTIN seminar. (Source: Annual reports of I.I.I.2001-2002).

- Arranging company-specific training programmes and induction-programmes for the recruits of new players in insurance sector.

- MARKETING AND SALE OF STUDY MATERIAL AND RESEARCH PAPERS. Institute may develop study texts, insurance subject books, Practice and revision kits, success tapes (videos & CD's). These products will not only help in advancing professional competence in insurance but will also help in generation of funds.

- **Organising member skill development programme.** This will benefit members to upgrade their skills and will contribute to funds of institute.

- Developing profitable training programmes through its training wing 'College of Insurance'.

MANAGERIAL APPTITUDE

Insurance Institute of India is managed by governing body that function through its administrative committee and the board of education. The managerial ability of the Institute is unmatched as the captains of the industry are at the helm of the affairs of this Institute who have the sound knowledge of each of the major insurance functions and of strategic management.

The strategic thinking to act globally and to manage effectively in a vibrant and pro-active manner has already given a lead to this Institute.

PILOT VISION IN EMERGING SCENARIO

Mounting competition has meant that pace and timing have become strong aggressive weapons to add ideas and champion changes. Pro-active management of the Institute seems to be more powerful than it used to be to ensure that they are not perceived as inferior in a competitive era.

To lead with vision in the changing scenario, the Institute is well aware that differentiation is the key and the same can be understood with the help of following diagram under **Figure- IV.**

FIGURE-III

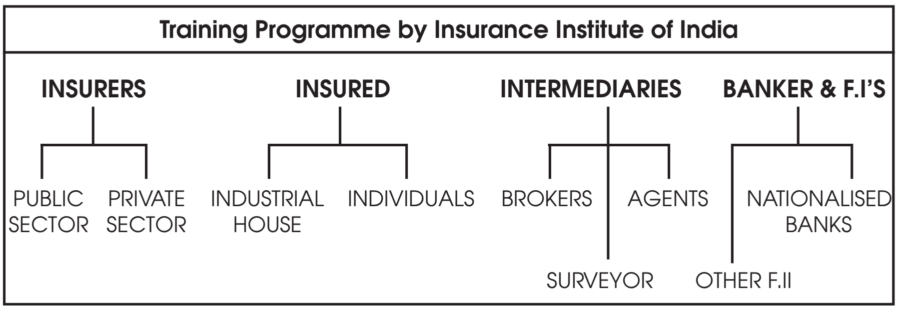
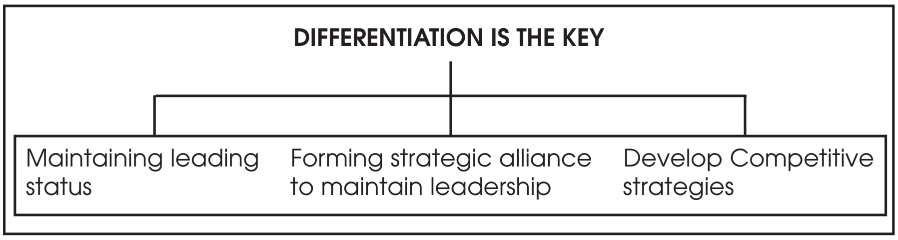


FIGURE-IV



To facilitate new competitive strengths and to differentiate itself with other new players Institute has already taken following steps:

❖ Formed linkage with other academic institutions in the world to grab the opportunity to play lead role in providing insurance education not only in our country but also in the SAARC region.

❖ Created synergies by linking I.I.I. with other Institutes of international repute to gain mutual benefits and improvements.

❖ Constituted an eleven-member committee known as Envisioning Committee of Insurance Academics to study the role of the Insurance Institute of India and highlight all relevant factors of competition. This committee will study the role of the Institute viz a viz new players.

❖ Visualised the need to develop new programs based on projections of insurance industry particularly in new areas like Health care management, Pension Management and Risk management.

❖ Superior examination system and curriculum by revising the syllabus and a strong set of learning material and study courses to ensure access to top quality learning experience and to ensure that these courses meet the current requirements of changing insurance market. Expert panel drawn from academia, industry and government has developed this courseware integrating it with practices of other global repute global institutes. **Institute's motto is ' think globally, act locally'.**

❖ Felt the need for developing Pension qualifications and promotion of actuarial education and expertise in non life insurance. Institute is also working upon new courses to develop actuarial expertise in non-life insurance.

❖ Extra emphasis with change in orientation on research, training and continuous development has been given to generate high level skills suited to careers in insurance business.

CREATING NEW ERA IN INSURANCE EDUCATION:

I.I.I has built an unshakable foundation in the field of insurance education and research. Technical curriculum is reasonably in good shape but we live in an era whose hallmark is change. The winds of change are sweeping across insurance sector and these changes will affect the functions of this renowned Institute. In order to create tomorrow's business leaders in insurance education, risk management and research activities developing this research paper recommends following steps that this premier institute may take to remain progressive and modern.

01. INNOVATIVE EDUCATION SOLUTIONS: Institute may take initiatives to run several programmes to make its education market oriented. These programmes may include full time pre-entry degree programme in addition to institute's company specific post-entry learning programmes. These full time programmes may target young graduates from all streams. These programmes may be integrated with information technology and management skills. Institute may negotiate with Universities to develop full time degree courses. Linkage between universities, recognition by Association of Indian Universities or University Grants Commission can promote further academic excellence in insurance. Insurance education and research has become a part of many leading universities and business schools worldwide. The College of Insurance, New York has already merged with St. John's University to provide three undergraduate and two graduate degree programmes. Australian Insurance Institute also provides Bachelor of Business (Insurance) in collaboration with a University. The oldest general insurance company in Japan, Tokyo, Marine and Fire Insurance Co, which has JV in Indonesia, has launched a short-term course "Business Management Risk" at University of Indonesia for undergraduates. NIA and few other Universities as discussed earlier are also trying to have pre-entry degree courses for insurance. The Insurance Institute of India has also decided to support the efforts of Pondicherry University in beginning a PG diploma in Insurance Management as a distant learning programme. Institute has authorised the university to make use of its texts and supply reading material to its students. The full year degree programme and advanced fellow diploma includes a research thesis on insurance. The assessment of all major taught-subjects and completion of a dissertation will promote research activities and will produce the blend of human, technical and conceptual skills demanded of the modern managers. Students will have all reasons to perceive this prestigious degree as the best launching pad of their career.

02. RESEARCH DEGREES: I.I.I. is ideally placed to deal with challenge. It has shaped synergies with other global insurance institutes. With this worldwide exposure, it may develop 'Research degrees' on PhD form. This degree must form a distinct contribution to the knowledge of the subject and afford evidence of originality shown by the discovery of new facts and/or by the exercise of independent critical power to insurance research. I.I.I has already some dialogue with the Institute for Global Insurance Education to introduce P.G. diploma or international designation.

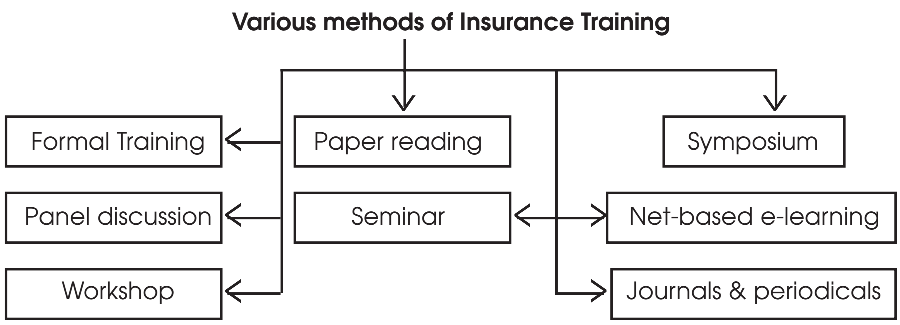
03. DISTANT LEARNING: The above degree programme may also be conducted on distant learning basis. Distant learning is likely to be the preferred route for those wanting to study whilst working full time. Market of distant learning has developed significantly and this is one of the reasons why 60% American Universities now offer some distant courses. Institute may take up new delivery methods rather than carrying on simply defined traditional methods.

04. DEVELOPMENT OF IDEAL CYBER VENUE: Information technology is going to be the key component. Any functional area would require IT to improve its performance. Therefore focus should be on appropriate IT integrated into Insurance Institute of India's activities & programmes. While focusing on insurance as the major driving force, Institute may bundle I.T. with other skills and vocations to increase the career prospects. Institute may also use wide range of alternatives that include interactive CD-Rom and Web based delivery and learning support solutions. Institute may build an effective and creative portal containing all of its learning resources that the insurance had in the service of profession. This will establish worldwide communication and global interaction. This portal should be 'customer center data ware house' to manage Institute's educational products on site. Institute's ideal cyber venue should provide all basic information on education and efforts to make it more interactive. It should also offer latest news and analysis of information related with insurance world and should contain loads of advice, tips, links, career avenues, educational information, tariff solutions through a neatly designed home page that provides easy navigation for even novice web surfers. The content provided at I.I.I 's portal should be exhaustive and fresh by frequent updating. The Insurance times has already introduced its insurance learning portal 'prginsurance.com' to take a lead in this direction.

05. e- LEARNING: Insurance Institute of India may turn out to be the epicenter for e-learning of insurance in India. Vision of e-learning is clear- it is accessible on hand, anytime, anywhere. In extension of its pioneering pursuits and foresight the Institute may launch on-line courses and learning tools through the net to meet a growing demand in this respect. The instructor-led mode of delivery may also continue along with this internet-led mode of delivery. On-line programmes provide an effective medium of learning for people who are unable to go to a center regularly and for those who would like to take on course/exam at their own pace and place of convenience. These kinds of on-line courses have already been launched by National Alliance for Insurance Education & AICPCU, USA. The global scenario is changing at the speed of light. The industry is also recognising e-insurance. ebix.com and catex.com have already emerged as virtual business models. The education providers should also match with the industry.

strategy based training to cater to exclusive specialised skills suited to the job profiles of the trainees. To bring value to the training, a strong industry-institution interface may be maintained to catch the advantage of each other. The training programmes may be conceived, designed and developed after close assessment of company and industry needs through extensive feed back either from market surveys or from continuous interaction with captains of industry. Training improves the quality of people available to work in the market; but only if providers of education make right prediction as to market demand for skills and understanding. Institute should have its own premises to take care of continuous training requirements of insurance industry. Institutes dialogues with NIA, Pune about collaboration between these two apex educational and training institute is very encouraging and this synergy could produce mutual benefits and improvements. The following methods of training may be utilised to cover different needs of insurance learning:

FIGURE-V



06. RE-ANCHORING TRAINING & CHANGE IN ORIENTATION: Emerging changes in insurance market dynamics need focused change in insurance training and learning. To meet the shifting demand of career growth and focusing on the new trend for diverse training needs of external funding bodies institute may provide

07. TRAIN THE TUTOR : For imparting standardised training techniques and to nurture and develop those involved in insurance teaching, institute should run a innovative training programme that should aim to give members (FIII/AIII'S) the necessary skills, experience and confidence to teach and to develop the quality of teaching and to provide transferable communication skills that can form a basis of future academic or other career. On completion a "Certificate in teaching skills" may be awarded. The services of these trained members should only be utilised for imparting oral coaching at Associated Institutes. Institute can take the advantage of its network of associated institutes for expert counseling for all its educational programmes. It should develop these associated institutes as teaching centers. Institute should also develop system for orientation and training of examiners to ensure validity, reliability and consistency in assessments.

08. EXECUTIVE DEVELOPMENT PROGRAMME: To encourage insurance education at the top level Institute may conduct 'weekend top-executive learning programmes' and 'short-term expertise programmes' linked with I.T. that may be the key to the future of executive development. These courses will be helpful in fine-tuning the skills of the senior executives in order to facilitate them to understand the market in better way. I.B.M run such an executive style MBA programme that requires just 4 week ends at Henley Management College. AICPCU also runs an insurance executive programme in collaboration with Wharton School at the University of Pennsylvania using Wharton's world-class faculty, industry experts and fellow members of the institute.

09. TELE-LEARNING SEMINARS: Institute may think to start ' Tele-learning seminars' which attract no travel or parking cost and are convenient as learners can participate in these tele-learning seminars from home or office. Insurers Education Association, San Francisco already runs such seminars. Participants call the 'phone-bridge number' linking them to the presenter and participants of the seminar. Learners receive hand out materials, phone bridge number via e-mail. At the appointed time on simple dialing the phone bridge number he is in the seminar. It is just simple and completely interactive.

10. CREATING BRAND AWARENESS: To create awareness about this Institute, that provide global education for a career in insurance sector, proper publicity should be made. It should provide courses under the brand name of Institute. Institute may conduct education fairs, which can provide interesting insight into the trend the future professionals might take. Institute may also promote sponsored programme to attract younger generation to its educational programmes. Hon'ble Union Minister of State for Finance Shri Balasaheb Vikhe Patil rightly expressed in his inaugural address at International Conference of Insurance Institute of India that "the average mindset of younger generation in India is very receptive to new ideas and concepts". Insurance Institute of India could contribute to customer education through school and college curricula to make an average Indian conscious of insurance right from very young age.

11. FUND RAISING ACTIVITIES: To strengthen its futuristic outlook, Institute may also conduct seminars for surveyors, employees of industrial houses, etc. and provide them marketable experience from the pool of expertise available with them. This will not only generate funds but will also give an extra edge to the Institute. It is like having another arrow in your armory. To make it self sufficient, Institute should conduct fund-raising activities like international seminars, conferences and skill development programmes on subjects of professional interest. This will also contribute in cross fertilisation of ideas for professional growth.

12. NEW OPTIONS OF MULTIFACETED EDUCATION: Introducing new courses as per the requirements of industry could enhance insurance education. Insurance Institute of India may introduce different education programmes for brokers, agents and surveyors. It may develop programme on investment management, actuarial science for non-life insurers, risk management, pension management, underwriting and claims management on different assessment options. Australian and New Zealand Institute of Insurance and Finance provide 'Examination on Demand' (students have the option to elect examination time) and ' A Challenge Test' that enables student to demonstrate their skills and knowledge through an exam that does not require formal study. Institute may target the young graduates, employees of corporate world, and intermediaries in insurance sector besides the employees of insurance industry for these new projects.

13. CERTIFICATION OF EXCELLENCE: Institute may move toward ISO-9001/9002 certification for education support service in insurance. As its courseware design, examination systems are of international quality level. This certificate will provide a brand name to its qualifications.

14. CONSULTANCY AND SPONSORED RESEARCH ACTIVITIES: With the opening up of insurance sector, the prospects of growth are enormous. The Insurance Institute of India must set up resources to embark on consultancy and sponsored research services across the globe relating to insurance market, product development, distribution, pricing and market research.

15. BETTER INFORMED MEMBERS: We are in the midst of an information explosion. In order to update the skills of members and to keep them better informed with all round information in insurance world, the Journal of Institute could be published on monthly basis. Its access may be widened to commercial world so that Institute receives enough publicity. This Journal can be a great source of information on educational and career options and can play an important role in analytical and critical thinking.

16. LITERATURE FOR CUSTOMER EDUCATION: I.I.I has developed strong set of learning materials for students. It can also play a useful matching role in preparation of customer-education material. To equip learners fully Institute may develop latest student hand books, study guides, periodicals, films, videos and audio tapes, CD-ROM's providing easy-to-understand information.

17. ON-LINE SHOPPING: I.I.I may also offer its textbooks, course guides, supplementary materials and insurance essentials like CD-ROMs via on-line shopping. AICPCU is already practicing this concept in US.

18. GOVERNANCE: Institute may consider inducting in its governing body members from private players to broaden institution-industry relationship and to gain total industry support in its pursuit to provide quality insurance-education. Institute has already inducted the members of IRDA on its board of education to associate itself with the regulator.

19. PROFESSIONAL ETHICS: To maintain highest standards of professional conduct, thus upholding the reputation of the Institute the I.I.I. may also address ethical issues that deal with questions of absolute values and their application in the real world. Ethics can be made operational in this premier insurance educational institute by application systems, culture and code of practice. In order to get AICPCU designation, members are required to abide by Institute's professional ethics. The Australian Insurance Institute also publishes in every issue of its Journal the code of conduct.

20. CREATING POSITIVE ENVIRONMENT ON CROSS-BORDER EDUCATIONAL ISSUES: To share its proficiency in insurance education with neighbouring countries the Institute may offer curriculum, curriculum design support, course delivery and testing services to developing Institutes of South Asian Countries to support them in pursuit of own missions.

While no one has a crystal ball with all the answers, one thing is clear: if we wish to succeed in competitive era, either we embrace change as an ally, or run the risk of being strangled by events. Successful institutions sustain their success by changing proactively at appropriate times; they do not wait until they are forced on to the defensive. The institute is aware of this underlying mantra for survival. It has already developed a global outlook and has earned a reputation as a centre of excellence in insurance education. It has largest pools of expertise in insurance business in any part of the world. Its proactive approach, strong linkage with industry and synergies with global institutes ensures that it is ideally positioned to deal with challenges of rapidly changing and competitive insurance world. In its long journey it has crossed many milestones. Its commitment to insurance learning and research is sure to set new pathways for itself and others to follow. Educational institutes play a supportive role to industry and it is expected that I.I.I. will readily adapt to new conditions of the emerging market. This institute has a glorious future and purposeful existence.

CONCLUSION

In terms of C.D. DESHMUKH "potential, education and knowledge are the tests of strategic talent." Turning strategic talent in to real action requires that every employee understands the exact way in which his or her contribution is crucial to improved risk management.

Risk management is a very vast and dynamic field, which touches upon all human activities. Due to this, the subject becomes very interesting and challenging with considerable scope for super specialisation. As the risk manager assumes a more dynamic role in corporate decisions, his range of knowledge and expertise must advance accordingly. The Risk Managers today must be versatile- a Renaissance man, a man for all seasons. He must hold a reservoir of knowledge of insurance. Insurance education performs an absolutely vital administrative and economic function and is good indicator of the managed economic development of the country. Insurance education in India has a very bright future which will offer a lot of opportunities in times to come. The central theme for managing the industry would be risk identification, risk assessment, risk monitoring on control and the process would have to begin from understanding of risk and it's reporting, risk adjusted performance evaluation and management of the risk and the very purpose of risk management can be achieved with the changed perception towards insurance education.

QUESTIONNAIRE

Dear colleague /friend,

Please provide me the following information in connection with my research work on "NEED OF THE HOUR RISK MANAGEMENT VIS-A-VIS INSURANCE EDUCATION "(ROLE OF INSURANCE INSTITUTE OF INDIA IN LIBERALISED ENVIRONMENT) for the S.K.Desai Memorial Award Essay Writing Competition 2003-04 and oblige.

NAME & SIGNATURE

Sr. No.	Particulars (Queries)	Choose the Answer
1.	**Name** :	
2.	**Address** :	
3.	**Age (in years)** :	
	(a) Upto 30	
	(b) 31 to 60	
4.	**Educational Qualification :**	
	(a) Higher Secondary	( )
	(b) Graduate	( )
	(c) Post Graduate	( )
	(d) C.A. / ICWA	( )
	(e) C. S.	( )
	(f) M .B. A.	( )
	(g) Others	( )
5.	**Status:**	
	(a) Employee in Insurance sector	( )
	(b) Employee in Banking / financial Institution	( )
	(c) Professional	( )
	(d) Student	( )
6.	**Which business / financial magazines and Newspapers do you read regularly or occasionally?**	
	(a) Insurance Times	( )
	(b) Business India	( )
	(c) Management Accountant	( )
	(d) Money Opportunities	( )
	(e) Financial Wizard	( )

(f) The Economic Times ( )

(g) ASIA Insurance Post ( )

(h) Financial Express ( )

(i) Others ( )

7. **Have you heard about insurance Qualification known as AIII, FIII.** Yes / No

8. **Which study course you plan for your career or better prospects ?**

   Traditional degree course/engineering or medicine/short term vocational course degree / Not applicable

9. **Source of Information of Insurance Qualification**

   Leading Newspaper / Publicity by Institute / Others

10. **Which course you plan for your career or better prospects ?**

    Traditional Degree Course/Engineering or Medicine/Short Term Vocational Course/Not Applicable

11. **If they are already undergoing for some insurance then what is their specific purpose**

    Job Advancement & Career Opportunities /Financial Betterment/

    To gain Knowledge & Technical Expertise /Other Reason

Response Analysis

Respondents of the above questions were amongst the following category:

- CA's, MBA, CS, ICWA's, PG's, Graduates and Non-Graduates.
- Employees of Insurance Companies
- Insurance Executives of Big Industrial House
- Intermediaries namely Agent/Surveyor/Loss Assessor
- Associate /Fellow - Member of Insurance Institute

REFERENCES:

✓ Journal of Insurance Institute of India of 1996, 1997, 1998, 1999, 2001, 2002 & 2003

✓ 46th Annual Report & Accounts 2000-2001

✓ 46th Annual Report & Accounts 2001-2002

✓ 47th Annual Report & Accounts 2002—2003

✓ Economic Times

✓ Daily Newspaper "Hindu"

✓ Bureau Report, Insurance Bill Past hurdle, Businessline

✓ National Insurance Academy News Bulletin

✓ Asia Insurance Post "A Monthly Magazine from Mumbai"

✓ Research Report (various) from NIA

✓ Dhyanjyoti "Half-yearly Magazine from NIA"

✓ Working Paper Series of the Geneva Association

✓ WEBSITE OF IRDA "www.irdaindia.org

✓ WEBSITE OF NIA www.niapune.com

Consolation Prize Winning Technical Paper 2003-04

BRAND IDENTITY- ITS INFLUENCE IN CUSTOMER DECISION MAKING

By: Ms. Suranjita Lahiri,
L.I.C. of India, Kolkata.

Branding is a process of creating a separate and distinct identity to the product in the market place. The word "**Brand**" owes it's origin simply to the practice of making some business marks on some domestic animals like cows by the farm folks to identify their livestocks. In Latin the word "**Brandir**" means to burn. On the contrary "Maverick" would not have come in the English dictionary but for Samuel Maverick, who refused to brand his letter, just to be different from others. The word is now used to describe some one who is eccentric.

The traditional definition of a brand by Philips Kotler reads, "**A brand is a name, sign, term, symbol or design or a combination of these, which is intended to identify the goods or services of one group of sellers and differentiate them from those of the competitors.**" Thus the brand identifies the seller or maker. A brand is essentially a seller's promise to consistently deliver a specific set of features, benefits and services to the customers. The best brands convey a warranty of quality. But a brand is even a more complex symbol. A brand can convey up to six levels of meaning...

Attributes- Brand brings to mind certain attributes eg. Mercedes suggests an expertise, well built, prestigious and so on.

Benefits- Customers are not buying attributes , they are buying benefits- functional or emotional benefits, eg while in a good well built car like Tata Sumo he thinks " I am safe in case of an accident."

Values- Brand also says something about the product's values eg Mercedes stands for high performance, safety and prestige and so on.

Culture- Brand additionally represents a certain culture eg Mercedes represents a German culture, organised, efficient and high quality.

Personality- Sometimes brand speaks of the personality of an actual, well known person or spokesman.

User- Brand suggests the kind of customer who buys or uses the product. The users will be those who respect the values, culture and personality of the product.

Legally a brand implies a symbol which distinguishes a company's product and certifies its origin and thus only obtains it's value through conformity.

Brand image is of great importance for an intangible service like insurance. More than the advertising gimmicks the utility of the brand to the customers is appreciated. In the present scenario of competitive market, it has given rise from a comfortable monopolistic state to a struggle state, which has led the insurers to rethink their strategies, else survival would become impossible especially for the public insurance companies.

The focus on growth for a long term survival in a huge untapped market like India, has necessitated the companies to design efficient and effective branding strategies.

BRAND STRATEGY DECISIONS

A company has four choices when it comes to brand strategy.

It can introduce **line extensions** (existing brand name extended to new sizes, flavours and so on, in the existing product category), **brand extensions** (brand names extended to new product categories), **Multibrands** (New brand names introduced in the same product category) and **new brands** (new brand names for a new category product). According to German's new product News, of the 6125 new products accepted by groceries in the first five months of 1991, 89% were line extensions, 6% were brand extensions and only 5% have new brand names (both multibrands and new brands).

- **Brand Names**

	Existing	New
Existing	Line Extensions	Brand Extensions
New	Multibrands	New Brands

Product category

Branding of services is much more difficult than tangibles and when it comes to insurance it is a function of variety of factors known and unknown. However, the key factors accounting for the success of any insurance player are continuous product innovations, efficient pricing and effective claim management. A branding strategy should cater to and must demonstrate these factor effects, particularly, in times of competition where we have 17 life and 13 non-life players and some more in the pipeline.

A good brand serves the following purposes:

- Helps building a life line value(LTV)
- Gives a specific identity to the product among the competitive brands.
- Goes a long way in positioning.

The brand managers take a lot of pain to position the brands, for well positioned brands do occupy not only a niche in the minds of the consumer but also find parity traits with the competing products. A niche brand means the products that are meant for the use and consumption of certain specified and exclusive target groups. Marketing of goods and services to such specialised groups is called niche marketing.

A very popular example is the way visa cards competed with the American Express card to carve out a unique position for itself. It is thus of utmost importance, since it creates an intangible sense of superiority. According to Tom Blackett, there is an extricable link between a brand and its value and brand is the key driver of value for a company. It is not just that is kept in the supermarket shelves or that appears in an advertising clip.

According to Chris Styles and Tim Amber- " A brand is any proprietary good or service a firm sells, and as such is the primary revenue and profit generator of the firm, whatever the case, the assets created by these brands, the brand equity, are among a firm's most important and valuable assets".

Function of Brand for the Customer

Identify- To be clearly seen, to quickly identify the sought after product.

eg: While purchasing Greetings for any occasions, the brand identified would be Archies" or "Hallmark" cards.

Practicality: To allow saving of time and energy through identical repurchasing and loyalty.

ie. "**Branding makes shopping easier**"- while going for a wrist watch, if the brand is Titan, or HMT, the same becomes easier for the consumer, to identify for total trust and loyalty.

Guarantee- To be sure of finding the same quality no matter when or where we buy the product or service.

eg- Amul Butter will be of the same quality no matter we buy it in Kolkata or Mumbai.

Optimisation- To be sure of buying the best product in their category, the best performer for a particular purpose.

eg: LG or Godrej brand rules out any headache or hesitation when we go for Life Long Consumer goods like refrigerators.

Characteristics: To have self confirmation of one's self image or the image that you present to others.

Continuity- Satisfaction bought about through familiarity and intimacy with the brand that we are consuming for years.

eg: While buying biscuits, the first name that comes to our mind for years is "Britannia".

Hedonistic- Satisfaction linked to the attractiveness of the brand, to its logo, to its communication.

eg Arrow shirt, apart from the branding identity is also attractive and comfortable.

Ethical: Satisfaction linked to the responsible behaviour of the brand in its relationship with the society.

BRANDING AND PRICING

Branding is considered less expensive way of ensuring quality than administrative controls, since a company stakes its reputation on the brand. Among the branded products nationally advertised brands have more prestige with the buyers. If the product is made by a well known firm, it is considered as a guarantee of quality. Buyers feel that a well known firm have a reputation to maintain and the resources to do so. In course of time, consumers tend to become more or less attached to a particular brand name.

As a result, firms with reputed brands are in a position to charge higher prices for their products. This has been found to be so in footwear, paints and varnishes and plastic industry. A plastic company of Denmark reported- " A 10% increase in price would have no reaction, a 20% increase would cause some decrease in sales, with 100% increase we would lose practically the whole market." Also it has been found that an unknown brand must be effected at a price somewhat lower than that of the leading brand in order to sell a substantial quality. Brands, however, may be subject to a price control as in the case of drugs in India.

The differences in the prices of different brands can be illustrated by the following table giving the prices of various brands of baby food in Kolkata.

Brand	Rs/Kg
Amul	122.00
Lactogen	122.00 to 125.00
Cerelac	84.00 to 88.00

Alternatively when prices are formally or informally controlled, list prices may be uniform yet open market prices differ and thus reflect the consumer preference brand upon their perception of the quality of the various brands. eg. The Delhi Market prices of the nylon truck tyres varied from Rs 1920 to Rs. 2180. The price spread between several brands of the same drug in New York city was found to be between 2 dollars to 10 dollars. Hefty discounts are offered to sell televisions.

An experimental study on the impact of price on consumer's choice showed that.

(a) the name of a well known brand does induce the consumer to be favourably disposed towards the brand in terms of quality.

(b) The consumers also seem to be willing to buy for a higher price for a well known brand.

(c) a marketer does have considerable flexibility in pricing his product, provided, he can create a psychological image about quality.

This perhaps explains why many foreign controlled companies have been buying out the output of Indian Companies in products like car batteries, tonics, razor blades etc. and making them as their own products making huge profits thereby..

Many large houses are purchasing products manufactured by small scale industries and are marketing their products under their brand names. This gives a boost to many small industries eg. Nelco, a Tata company, purchases its calculators from small units and then advertises, markets and distributes them under its own brand name. (Courtesy Business India). Thus branding and advertising may lead the consumers to prefer a product over competing articles even though no real difference exists among them. It may not be out of place to mention that a number of devices have been developed over a period of time to make the buyers decision less rational rather than more rational.

Empirical evidences in other countries shows that there is not much scientific and strong brand loyalty. More often there is marginal preference for one brand within a range of acceptable brands. In India, however, brand loyalty has been found to be high. The Indian consumer legitimately expects that his favourite brand will keep the pace with the latest developments.

However, there is no doubt in the fact that as between well known brands, price elasticity may be very high and choices can fluctuate by a slight reduction in price. Brand loyalty depends upon the nature of products as well. While there is strong brand loyalty in products like pressure cookers and headache pills, there is less brand loyalty in the products like washing powders, light bulbs and toothpastes. In textiles, brand image is more effective in urban areas than in rural areas. In such cases, price cutting may give one manufacturer an edge over the other.

However, brand image has lost its importance for consumers of Vanaspati. Consumers have become so price conscious that even household brand names are ignored. During these days of shortages, consumers learned that differences between competing brands is only notional.

The exit of Coca Cola in 1978 presented an unforeseen opportunity to the competing companies to grab for themselves a sizeable chunk of the market vacated thereby. Coca Cola controlled about 80% of the market in 1972. The various companies spent large sums of money on advertising.

BRANDING AND IT'S NEEDS

Brand image is something an organisation cannot afford to ignore, if it wants to carve a niche for itself in the long run. In order to successfully hold the brand image, a company must ensure to preserve the values of legitimacy, distinctiveness, relevancy and consistency. A strong brand has its long term gain. **Hence branding is an art of making a product marketable.** To grow into a sky identity, a brand should incorporate the following fundamental blocks like **Legitimacy, Relevancy, Distinctiveness and Consistency.**

A good image is an asset as a good will. In an interview on his success in movies and also publishing- S.S. Vasan the founder editor of "Ananda Viketan" and the well known movie maker of yesteryears aptly stated that he owes his success to marketing and according to him marketing is a six word miracle that demands finding the need and filling it. It was his marketing savvy that carved a niche for his corporate brand "Gemini" in the minds of the Indian movie goers of yesteryears.

When the insurance industry in India was opened up for foreign partners, some of the well known Indian Companies and corporates like Kotak Mahindra, Bajaj allianz, SBI, etc received very high premium from their overseas partners for using their brand names. The Coca Cola has such a global brand presence the word "Coca Cola" has become the second widely recognised English word in the world.

A striking example of how much importance the corporate houses attach for the image of their brand is cited below- A new York couple Jason Black and Francis Schroeder have announced in the Internet that any company that pays them $500,000 will get the sponsorship for naming their baby son with their brand eg. If Cadbury chocolates choose to sponsor the baby then the baby will be branded Cadbury.

Once the brand is developed, it is necessary to establish it and firmly position it. The process of establishing the brand is called brand building which includes-

1. Market segmentation 2. Identification of the customers3. Understanding the strength and weakness of the competitors 4. Development of authentic communication packages 5. Strengthening the channels of distribution 6. Identification of the right advertising agency that can adopt and nurture the brand.

Brand building has many dimensions that depend on the nature of the brand- Eurobrand is a coverage that has come into vogue after the formation of the European countries. An Eurobrand refers to brand with standards that are specified and acceptable in all the member European countries and at the same time provide for variations due to the cultural differences among the members. When an Indian corporate wants to promote its service or production in an European Union member country, the branding and brand building exercise has to be within the EU frameworks eg. Rug Marking.

The Rug Mark is a label affixed to the carpets exported from India to indicate that no child labour is involved in the making of the carpets. Rug Market foundation, which was established in India in 1994 has a list of looms and factories, which are periodically inspected to ensure that there is no child labour in the manufacture of carpets.

Similarly, the "Lifebuoy" soap is a brand that extends an image that is more than a century old. The concept of brand building took roots in India, only after our independence and the growth of Indian Brands. Till the fag end of 1920s, only imported brands were known-that too in metros. The most popular brands of those times were the the Pears Soap, Lux, the soap of the film stars, Sunlight soaps- promoted by the British, Colgate toothpaste- launched as far back as 1806 etc. With the growth of Indian Business many brands like Rexona, Dabur, Vicco, Godrej, Amul, Bajaj, etc. came into vogue. Among the MNCs were ITC, Hindustan Lever, Johnson and Johnson, etc.

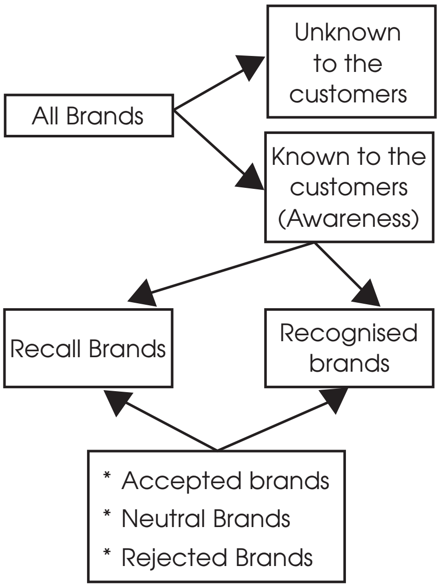
Till mid 1980s, the LIC was promoting Life Insurance as a generic product. The brand that lays stress on the quality of product itself instead of highlighting the name of the manufacturing company or the company that distributes the product is known as the Generic Brand. The most successful branding of a service was the one by the LIC's "Jeevan" prefix for the different plans of Life Insurance Corporation of India was one of the best branding exercises in Indian Market. While launching Jeevan Mitra and Jeevan Saathi in 1985, the Corporation toyed with the idea of branding these products for better recognition in the minds of consuming publics.

BRAND POSITIONING

Brand Positioning is concerned how well the product performs relative to the competitive offering and the needs (benefits sought) of one or more target market segments.

There are 2 types of positioning - one based on physical products and the other on the market perception of the product. The former depends primarily on the interface between marketing and R& D, which help in identifying the key competition and important product gaps.

The latter consists of common strategies such as those concerned with mono segment, multiple segments, standby position and imitative position, an anticipatory position, an adaptive position and a defensive position. The decision about the position chosen should match the preference of a particular market segment.



Formulating a positioning strategy consists of selecting and defining a market position, the firm plans to occupy in reaching its marketing objectives, which requires estimates of the economic potential of the alternative position, which are based largely on sales potential of each position, and the investment required to occupy the target position.

Mono segment Positioning- Involves developing a product and marketing programme tailored to the preference of a single market segment.

Multisegment Positioning- This involves the process of attracting customers from different segments, which provides higher economics of scale, smaller investments and avoids dispersion of managerial attention.

Standby Positioning: The firms prepare a standby plan specifying the products and their attributes as well as details of the marketing programmes that would be used to position the new product.

Imitative positioning- It is same as a head on strategy, where a new brand targets a position similar to that of an existing successful brand.

Anticipatory Positioning: A firm positions the new product in anticipation of the segment's need.

Adaptive Positioning- Consists of periodically repositioning a brand to follow the evolution of the segment's needs.

Defensive Positioning- When a firm occupies a long-term position in the market segment with a single brand, it is vulnerable to imitative position segments.

BRANDING DECISION

In the past, many products went unbranded, and they were sold without any supplier identification. The earliest signs of branding were seen in the efforts of medieval guilds to require crafts people to put trademark on their products to protect themselves and the consumers against inferior quality. However, in the present scenario, it may be said that every product needs a trading to bag a better position in the market. Even fruits like oranges, apples are stamped with the grocery's name to be noted in the market. Chicken like "Arambagh's Chicken" is a popular brand, for consumption. Artists sign their works, as a sign of brand. Even though the manufacturers know that branding makes the product costlier, why do sellers prefer to brand their products?

Firstly, the brand name makes it easier to process the order and trace down problem. The seller also finds it easier to track down the order.

Secondly, the brand name provides for an exclusive copyright to the manufacturer and gives a legal protection of unique brand features.

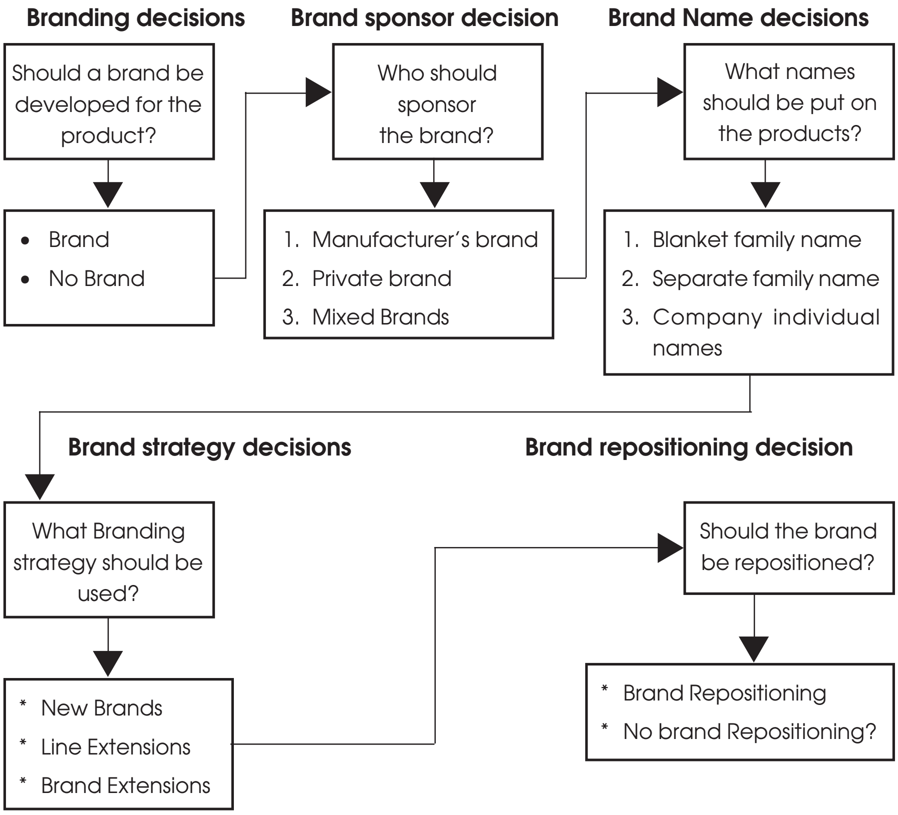
Thirdly, branding helps to attract a loyal and profitable set of customers.

Fourthly, branding helps the seller to segment the markets by launching a variety of products for different segments of the society, but with a single brand name.

Fifth, good brand helps build a corporate image, because it helps advertise the quality and size of the company.

At present, the consumers are more brand conscious, to ensure certain quality standards and identify the quality differences, and shop more efficiently. Hence as can be seen, branding decision is a must, for the manufacturers.

AN OVERVIEW OF BRANDING DECISIONS



Sales Potential of market position

Evolution of sales potential of alternative position should also be considered. The more pertinent market dynamics, include -

1. Growth of market segments 2. Evolution of segments ideal points 3. Changes in positioning intensity 4. Evolution of existing brand positions 5. Emerging attributes 6. Development of new segments 7. Introduction of new brand.

In these days companies realised importance of a brand and have started investing amounts in promotional activities in the attempt to get their brand noticed by the customers. It is evident that brand has got a value in finding new customers.

But, in the era of increased competition and customer choice and greater expectations, the medium of channel distribution cannot be overlooked. With the Internet redefining the way business is done, the brand proposition needs to be convincing in a new dimension.

In India, LIC is successful in creating a strong brand. In rural India, LIC is almost synonymous with life insurance. However, things are fast changing in the times of competition. On the other hand, general insurers have a lot to do, as regards the brand identity and loyalty, lest they be knocked off their feet, by the strong foreign brands.

All brands need to be built around well differentiated and credible positioning that springs from the organisation's history. The brand must not only be believed but also liked by the management and the employees.

Moreover, the same principles apply whether it is branding a cigarette or an insurance company. Customers want good service, be it a tangible or an intangible good, which should be presented with credible and attractive propositions, at the time of delivery.

BRAND POSITIONING OF A FEW PRIVATE INSURANCE PLAYERS

ICICI PRU LIFE:- The emotional slogan given by them is "**We cover you at every step of life**".

TATA AIG says it as- "**With you always**". This is a good marketing strategy since the TATA brand already instills so much trust and confidence in the minds of Indian customers.

"Making Life easier for you" as is launched by HDFC standard life has been able to create a great impact on the minds of the people.

MAX NEW YORK LIFE- Wants to spread it as "**Your partner for life**", appreciates the service demanded by the customer. This is a unique way of addressing the customers which in fact has got a high degree of strength converting an ordinary person into a brand loyal customer of MAX.

Product or service gets total recognition when there is a synchronization with the corporate brand. Corporate branding is a concept where the corporates try to influence the target group in such a manner that the customers invariably associate the brand with the company and not with the product purchase. Some of the well known examples of corporate branding successes are Xerox, Godrej (almairah), Minnesota mining and manufacturing(Popular as 3M).In India the examples are SBI and LICI.

Till the time the industry was opened up, the LIC and the GIC had no need to worry about either the brands or about the corporate branding. Though the newborn private players may appear weak for the present, it may not be so in the future and may prove a match for the giants. Hence in the challenging environ apart from initiating the various messages to gain and retain customer loyalty, necessary steps need also to be taken to build the brand image of the service office. Developing and nurturing a service brand is more difficult than promoting and positioning a product. It is here the brand steps in, to inspire certain amount of confidence by providing an element of tangibility to a purchase, which the buyers can neither touch nor feel or examine the attributes.

A major hurdle for insurance companies in India is the task for convincing people about the need for insurance policy, as most of them are of the opinion that that they do not need the insurance cover. The brand building for specific products are still far off. The building up of a good brand image in an information age is like achieving the crown of the Magi. Once a service or product builds up a good brand image, it is difficult to erase it from the public memory particularly when mascots get well positioned in the customer minds. **Air India** for instance was most popular with the "**Maharaja of Air India**" conceived by Umesh Rao of J.Walter Thompson and initially sketched by Gopalan, a well known artist of Ananda Viketan Magazine. The Mascot was withdrawn by Air India but had to be rethrown on public demand. Recently, the example is that of Asian Paints mascot- "**Gattu**" conceived by R.K.Lakshman and christened by the public through a 'name the mascot' contest on a sabbath.

Using mascots is one of the well conceived brand building exercises both for the parent brand and the flankers. When a company introduces a new brand in the market with its own existing brand, the newly introduced brand is called the Flanker Brand, as it flanks the mother brand. For example, Centaur is the emblem of Air India, whereas the Maharaja is its mascot.

In India, new entrants are banking on their innovative products, with better service and loyalty to capture the untapped market. Most of them are trying to emphasize the Indian Cultural values.

Branding helps the companies to rise above their mere names, and on the other hand helps the customer to choose their product easily.

NEED FOR ADVERTISING IN BRANDING

Advertising plays a leading role in imbibing a brand picture in the minds of the customers. The advertisement should be in such a way as to create an awareness of the company in a holistic sense and not on specific products. Here is an estimated advertisement and expenditure of different companies for 2002-2003.

(From articles and financial statements of the insurance companies)

Companies	*Expenditure Outlay*
LIC	**100 crores**
ICICI PRU	**15 crores**
HDFC Std Life	**10-11 crores**
MAX New York Life	**8 crores**
METLIFE	**10 crores**
NATIONAL INSURANCE	**12 crores**

A study made amongst people across various cities in India, shows LIC is in the top of the mind followed by ICICI Pru and Max New York Life and others---

BRAND RECALL - LIFE

Insurance Company	*Top of the mind*	*1st recall*	*2nd recall*
Allianz Bajaj	2%	4	4
Birla Sun Life	3.33%	6	4.67
HDFC Std Life	1.33%	2	4
ICICI Pru Life	5.33%	1.33	6
ING Vysya Life	2.00%	4	2
LICI	50%	4	6
Max New York Life	5.33%	8	5.33
Met Life	0%	5.33	1.33
Om Kotak Mahindra	1.33%	4.67	2
SBI Life	2%	7.33	4.67
TATA AIG Life	1.33%	4.67	4.67
AMP Sanmar	0%	1.33	0
Aviva Life	2.67%	4.67	3.33

The study also reveals that GIC along with companies like National Insurance Company, Oriental Insurance Company, and United India Insurance, enjoy the highest brand awareness in General Insurance sector. However, the private players like Bajaj Allianz, etc. are coming up fast because of aggressive policy selling.

Another study made on two different times about the change in level of brand awareness shows the following:-

Insurance Companies	*April 2002*	*September 2001*
LICI	98	100
ICICI Pru	92	70
HDFC Std Life	65	52
Om Kotak Mahindra	60	25
Birla Sun Life	40	23
TATA AIG	31	17
Allianz Bajaj	27	12
SBI Life	25	25
ING Vysya	18	5
New York Max Life	17	6
Dabur IGU	11	4
Met Life	03	0

CUSTOMER EXPECTATIONS

It is to be borne in mind that customers being the focal point in the servicing industry, the branding strategy should also be made, keeping the same in mind. As is observed, the claim settlement operation is the most important factor in the minds of the customer, followed by the service quality. The well known fact that the private players are better service providers, will surely be an added bonus to their brand identity. The public companies, however, know the market better, being in the field for a considerably long time.

An overview of the customer expectations is given below:-

Others:- 11.00%

Networking of branches- 6%

Low premium:- 5%

Better services:- 19%

Security of Investment:-10%

Claim settlement:- 49%

Thus quick and hassle free claim settlement, should be of prime concern, for any company, to acquire the needed trust, along with brand image. The other positions like premia, service, investment, should also be taken care of.

LICI has not yet developed any mascot that could penetrate the minds of the customers. On the other hand, other companies eg. Allianz Bajaj, has imaginatively conceived "Care" as the brand message. Research study by "Future Brands" a UK based research agency reveals that the traditional ideas that marketers have about brands is fast changing, particularly amongst the younger generation that has unlimited access to information. The younger generation, relies more on advertisement gimmicks, than the utility of the brands. In short, the brand should have consistency i.e. ability to stay in the market and adapt to the changes.

RISKS ASSOCIATED WITH INSURANCE BRANDING

The challenge lies in the ways how the companies have positioned themselves as regards their brand image. The biggest advantage in case of LIC and GIC is that they have travelled through the bad times of people, in the times of crisis of the society and even protecting them in those times of crisis. But a branding challenge arises when they extend into products and services that are by their very nature risky. If, for any reason, the company fails to perform its duties towards the customers, be it a core property or a casualty insurance customers, the brand image acts like a backfire.

Inspite of the same, those who are aware, will surely realise how critical the brand strategy is, and no doubt play a critical role in establishing and extending a helping hand both to the insurers and to the insuring public as well.

As we enter an era of a derelugated environ, and a new era of Information Technology , can we still rely on brand image alone? No doubt big players like LIC, being an established player, has a very big advantage. Another advantage of a well known brand is that it comes in handy, if and when the organisation wants to diversify. In such a case, care should be exercised by the organisation to see that the reverse does not happen. A badly performing subsidiary can well have repercussion on the image of the parent organisation.

However a good brand image also cannot pull an organisation too long. It has to be supplemented by other positive images like continued improvements in product quality, servicing standard and marketing methods, value additions and fulfillment of the needs of the customer. The brand today is towards a shrinking global market a "Borderless world". This is especially in Europe where customs duties, border delay and other impediments to deter the European trade are rapidly diminishing. Companies operating in Europe are eager to launch new brands initially as Eurobrands, eg. Procter and Gamble successfully launched its detergent Ariel as an Eurobrand. Clearly some brand names have gained worldwide acceptance. Such companies as Kodak, Mcdonalds, IBM, Sony and Coca Cola would not think of any different brand names as they enter additional countries. Many believe that the world population is growing more homogeneous in their tastes, thanks to fast communication and travel and will thus increasingly respond to global brands. Global brand thus helps in economy of standard practicing, label promotions and advertising. Even when a company has promoted its global brand name worldwide, it is difficult to standardize the brand associations in all countries. Heineken beer for example is viewed as a high quality beer in the USA and France, a grocery beer in the UK and a cheap beer in Belgium. Cheez Wheez, a Kraft company cheese spread, is viewed as a "fine food" in the USA, a toast spread in Canada and a coffee flavour in Puerto Rico. Still branding is a must in the modern scenario and companies need to develop brand policies for the individual product chains in their lines.

Finally, it should be remembered that a good brand image has little meaning to a dissatisfied customer. It takes a few seconds to leave a customer displeased, and make him leave the fold, while years of sustained efforts, can only create a loyal customer and make the organisation trustworthy, and retain an old customer.

D. Subrahmaniam Award Consolation Prize Winning Essay 2003-04

LAPSATION OF LIFE INSURANCE POLICIES - A CRITICAL STUDY

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Preamble

As is evident Life Insurance is a business depending to a very large extent on the theory of probability, law of large numbers, factors of mortality and morbidity and their trends, level of economy etc. In this context it becomes very obvious that new business is the blood line of any Insurance Company to survive and also to prosper since existing policies keep maturing and also result into other modes of terminations such as death claims, surrender for cash values, result in accident or disability benefit etc. For example, it is said that Life Insurance Corporation of India settles 3 claims in the span of a man's single breath. The resultant reduction in the number of policies is therefore naturally very large and new policies should also be added up to keep up the requirement of large numbers wherein alone the theories of probability and actuarial assumptions work best. Thus the number of Insurance policies in the portfolio of every Life Insurance Company is subject to erosion due to natural factors. To keep the numbers at the large level which is needed for conducting Insurance business on sound and scientific lines, constant addition of new policies is needed.

While the erosion of numbers due to natural reasons and for reasons contracted against is inevitable, it becomes very much imperative for the companies to see that the reduction in number of policies on account of lapsation of existing policies should be minimised if not altogether removed. Lapsation of policies has been recognised as a great source of loss to the parties concerned - the individual policy holder, the Life Insurance Company and also the employees and field force.

The present paper is an attempt to delineate the complex phenomenon of lapsation of Life Insurance policies and to suggest possible ways of controlling the menace. The core idea of the paper was thought and worked out during the period 1997 to 2000 further to which some changes have obviously taken place in the country at large and in the Life Insurance industry in particular. However the highly critical nature of the subject of lapsation of Life Insurance policies and its effect on the Life Insurance Company remains perhaps much more significant today than ever - what with the entry of several private Life Insurance Companies in the field, a new regulator in the shape of the Insurance Regulatory and Development Authority etc., several path breaking changes in the field of economic reforms such as fall in interest rates etc. Therefore, it is imperative that the aspect of lapsation of Life Insurance policies is recognised with the due seriousness that it deserves and remedial/ corrective action taken for the well being of the Life Insurance Company as well as the policy holders.

IMPORTANCE OF RETENTION

Retention of existing business in the Insurers books is as important, if not more important, as procuring new business. Further income from an existing policy that has run for some years is much more stable and therefore more certain to be realised for a long time in the future whereas a new policy may be more prone to lapsation due to various reasons such as buyers' resistance prior to taking the policy etc. So, special attention needs to be focussed by the Life Insurance Company to not only procure new business but also to prevent lapsation or surrender of old policies, improve conservation of existing business and thereby improve productivity and profitability. In this area it need not be mentioned that the key for improved retention or conservation of old policies is customer service and this aspect assumes a lot of importance.

Lower levels of lapsation rates are also indicative of better quality of Life Insurance business underwritten in the books of the company and also the well oiled functioning of the marketing wing of the Life Insurance Company. Hence, the Life Insurance Company should contemplate and initiate all possible steps to ensure that lapsation is kept at the minimum if not totally negated - perhaps any cost paid for this is worth it.

EFFECTS OF LAPSATION

1. **Erodes bottom lines -** It is known fact that the insurer has to spend very heavily in the initial years to procure a policy by way of payments to intermediaries (in the shape of commissions, incentive bonus to development officers, salaries to administrative employees engaged in processing New Business, establishment expenses etc.), stamp duty, postage, fixed costs, administration costs etc. and it takes quite a while for the insurer to fully recover these initial expenses. If the policies lapse, especially soon after they are issued, the insurer has no way to recover those expenses. Such losses lead to fall in the profitability for the insurer - this leads to a fall in the bonus rates for all policy holders. This again leads to further lapsation as some people would be again dissatisfied with the fall in profits and this vicious cycle continues. Therefore, it is very imperative that the insurer controls lapsation from the very beginning.

2. Leads to **loss of goodwill** among the policy holders as they perceive the premiums paid as lost to or forfeited by the Company - while this may be perfectly justified by the legal. Contractual and actuarial principles it remains a cause for the policy holders to view it as money swindled by the Company.

3. Lapsation **hits the income** of several agents by way of loss of commission on the policies that are lapsed. Now, even Development Officers pay a price as first year lapsation hits their incentive bonus calculation also.

4. Lapsation of policies **hampers the ability of the companies to do proper manpower planning** as the companies cannot accurately evaluate the administrative staff needed to process the proposals and also for their further processing or policy servicing. The Company needs to have a clear idea of the number of proposals that would be processed so as to estimate the people needed to complete them into policies. The incidence of lapsation would render such efforts put in by the employees useless.

5. Such lapsation would lead to the feeling that the Company is **over staffed** since the total cost by way of salaries would be high (including the employees needed to process the lapsable policies also) while the premiums would not be collected on these. Lapsation thus is an **anti-employee phenomenon.**

The present study is an effort to study the genesis of the problem of lapsation, which has a contemporary hue, in view of the highly competitive scenario and attempts to give suggestions to correct the scenario. The feedback given was collected to a major extent during the stint at Warangal in 2000. The methodology used for the study is to have a survey over telephone over premium defaulters over a period of time to get to know the reasons for defaulting on payment of the policy premiums.

Further, for the recent trends a study of data of premium defaults is done and the data given in separate graphs attached as annexure to this essay. The area covered here is mainly the Twin Cities of Hyderabad and Secunderabad and to some extent the State of Andhra Pradesh and a few cases outside of the State also. The efficacy of the study may be taken to be high since the data is from the entire country and therefore it may be valid for the entire country. However, the data for the entire country is taken for the comparison at a state wise level.

REASONS FOR LAPSATION

To have a good grasp as to the phenomenon of lapsation, it would be helpful to look into the main reasons for lapsation. Some of the main points that came to light during the course of the study are as under:

WRONG SELLING

Most of the participants responded that they were not satisfied with the product that they were sold. The most common refrain was that they were not explained of the salient features of the policy at the time of canvassing the product. They informed that the focus of the agent was only to finish the sale at the time of canvassing the policy - most of the persons also informed that they could not fully comprehend what was sought to be explained by the agent at the time of selling the policy also. Therefore, most of the policy holders were of the feeling that the policy they were left with was not fulfilling their needs, since they did not have the full idea of what it covered and its total benefits. Therefore, they let the policy to lapse. But it is pertinent to note that when they were informed of the various benefits arising out of holding the various policies, they were quite willing to continue the same.

NATURAL MARKET

Many parties covered in the study and contacted during the survey were of the natural market of the agent or development officer. They had bought the policy as an obligation to the concerned agent or development officer who was their relative or close friend or neighbour with an idea to help them. Some of the agents or development officers were now in a terminated condition and hence did not contact the policy holder to pay the premiums and to keep the policies in force. Further, some of them being the very close friend or relative of the agent or Development Officer did not deem it necessary to pay the premiums since the agent or Development Officer did not stand to gain or lose anything in the process. Some of them were even mildly against the Company for having removed the Development Officer or agent from its rolls and hence were against paying the premiums. Some of them felt it to be very difficult for them to pay the premiums from their incomes after meeting all their expenses.

FORCED SELLING

From the statements of the parties, in many cases it appeared that the policies were sold by way of forced selling rather than by convincing the parties about the benefits of insurance and creating a responsible feeling in their minds so as to keep paying the premiums during the contract period. Worse still, some parties were comparing the returns projected by the policies with the returns receivable/projected by banks and post offices in their recurring deposit schemes and arguing/feeling that the returns in the insurance policies were very unattractive. This goes to give a feeling that the agents had not been successful or had not attempted to explain the concept of Life Insurance in its detail to the parties since Life Insurance basically is to be viewed as a risk sharing device and the aspect of returns/other benefits (such as income tax rebates) must ideally only be incidental to the aspect of sharing of risks. So when the party took the policy, he was in two minds as to its uses and when he compared the options with other investment avenues, he gave more importance to projected returns rather than the excellent risk coverage it offered. The new philosophy of the regulator Insurance Regulatory and Development Authority in giving more leverage to the policy holder by way of free look period etc. only made his job easier to ask for refund. People who did not initially respond to the offer of free look ended up lapsing their policies.

OVER SELLING

In many cases of premium defaults i.e. lapsation, it was found that there was an element of over selling involved - the parties were not fully informed of the matter of financial commitment involved in taking up a Life Insurance policy and the need to have a lot of financial discipline to keep self and family members covered from financial risks and other such uncertainties. If the matter and the benefits of the policy was perhaps fully intimated to the party, the aspect of lapsation would not have arisen or remained at the level currently experienced. In some cases, it leaves one with the doubt as to whether the policy was canvassed with the policy holders' interest and his insurance needs in mind or so as to meet the business targets or commission needs of the agents or Development Officers. Had there been need based selling of Life Insurance, the aspect of lapsation would have been far more controlled and minimal.

BOGUS SELLING

In some cases, a doubt as to whether bogus selling has played a part in the policy being lapsed raises its head. Usually, in such cases, where doubts of bogus selling existed, the parties were not traceable in the phone numbers given for contact. Further, another interesting thing that was noticed was that many such policies had earlier been returned undelivered at the time of policy completion. Another thought provoking observation was that, a major proportion of such undelivered policies were later collected by the agents' or Development Officers' for onward delivery to the policy holders. So, it appears that the practice of handing over the undelivered policy bonds to the agents and Development Officers needs a thorough rethink.

EFFECT OF COMPETITION

In many cases, the effect of competition has been felt in leading to lapsation of policies. The parties are sometimes attracted by the various features exhibited by the policies of the competing companies and with a view of availing of such benefits lapse their existing policies. It is a debatable question as to whether such policy holders keep their new policies in force by paying regular premiums. It is also doubtful as to whether such parties inform the new insurer whom they approach for their new policy about their earlier policies being lapsed. Therefore, it is imperative that a way/procedure of cross examining the previous policy particulars with all insurers for a particular prospective policy holder be devised - a la clearing house or IIB (Indian Institute of Bankers) that exists among all the bankers in India. Such a tie-up would also be very much necessary to investigate into early death claims etc. so that the aspect of the same person having held life insurance from different insurers could be investigated and moral hazard can be ruled out - all the more in view of the recent entry of several private insurers in Indian market since it is likely that unscrupulous elements or parties would like to take undue advantage of the changed situation. Thus, the aspect of lapsation has several other connotations and several other important angles involved that need to be looked into so that no undesirable developments strike roots in the Indian insurance market. In this connection, it must be understood that the role of the regulator i.e. Insurance Regulatory and Development Authority and also the individual insurers is very high, complex and not capable of being over emphasised.

INTRODUCTION OF NEW PLANS

One of the common reasons observed for lapsation of policies that are mentioned by the parties is the introduction of new insurance plans that are perceived to be better by the policy holders. In such cases, perhaps aided by the ideas given by the agent or Development Officers, they prefer to take a new policy and let their existing policies to lapse. Mostly, the policies are allowed to lapse as they may not be able to afford the financial commitment of paying the premium of both the new and old set of policies or the continuation of both sets of policies may be beyond the financial underwriting standards of the insurers. Thus, it is to be accepted that competition which brought in several new policies with excellent features and factors has also led to almost a spike up in the lapsation of policies.

BAD SERVICE

Bad service, some times only as perceived by the policy holders as such, has also been stated by the parties as a reason for letting the policy to lapse. Bad service in the eyes of the policy holder has usually involved some of the following matters, almost in all cases, where bad service was quoted as the reason for lapsation:

(i) Delay in completion of the proposal into policy though this may sometimes be due to non-compliance of further requirements called for by the insurer;

(ii) Policy given is not meeting his/her expectations;

(iii) agent has convinced the party for one policy while the insurer has offered the party another policy due to underwriting considerations by way of a counter offer;

(iv) lack of follow-up by the agent or Development Officer in collecting the premium. Almost all the policy holders expected their agents or Development Officers to remind them of the renewal premium on the due dates, collect the renewal premiums from their end when the parties had the money and at their convenient time, remit the same at the office and give them their renewal premium receipts. When this was not done, perhaps, since the agents and Development Officers are not authorised to collect the moneys from the parties, it was perceived as lack of good service, perhaps unfairly so;

(v) some of the parties mentioned a discernible perceived change in the services offered by the agents and Development Officers after the sale is completed.

IGNORANCE

Ignorance on the part of the parties as to the benefits of the insurance cover provided by the insurance policy, the need for paying premiums regularly so as to keep it in force, the various facilities provided by the insurers to pay the premiums (at collecting banks, via Bank ATMs (automated teller machines), Money Orders etc.), the many varied types of revival facilities provided etc. also has led to a large number of policies to be lapsed. Therefore, it is felt that a sustained effort may be needed to keep the knowledge and awareness levels of the customers i.e. policy holders at a high level so that the incidence of policy lapsation is minimised or better still wiped out. Many simple gestures such as sending an SMS on the cell phone (short messaging service), sending an e-mail to remind the party of the premium due dates, perhaps a periodical news letter to remind the new developments and matters where their special attention is needed as regards their policies (this may be tried initially for high profile policy holders if the cost involved is thought to be on the higher side), a reminder on their special days say increment days etc. to consider revival of their lapsed policies, if any, go a long way in removing the ignorance from the policy holders and also educating them as to the benefits of Life Insurance - better still it can also be viewed by the policy holder as good service and can be used as a very potent marketing tool by the Insurers to canvass new business.

NON-RECEIPT OF NOTICES

Non-receipt or late receipt of reminders to pay the policy premium from the Insurance companies by way of premium notices, phones from call centres etc. were also mentioned by the parties as reasons for allowing their policies to be lapsed. The main refrain was that they could not remember the due dates to pay the policy premium in the absence of policy premium reminders. Therefore, efforts may be made to ensure that the policy premium reminders are sent in time to the policy holders without fail. Different channels of transmission or despatch may also be adopted to ensure that the policy premium reminders do reach the policy holders so that they serve the intended purpose. It is often seen that many policy premium reminders are simply returned to the Life Insurance Company's office with cursory remarks by the postal department leading the officials to doubt whether any efforts have been made at all to deliver them. Therefore, adoption of alternative means of despatching the policy premium notices such as through courier, informing through telephone etc. may be considered to ensure prompt delivery. This will, to a major extent, eliminate the aspect of lapsation due to non-receipt of premium notices.

NO FOLLOW-UP BY AGENTS

It is usually mentioned by the policy holders that there are no reminders or any other follow-up measure from the agents or Development Officers to see that the premiums are paid to keep the policy in force. Traditionally in India, as is perhaps the case across the world, by the very nature of Life Insurance business, much more importance is placed on procurement of new business as we mentioned in the preamble and sometimes the agents and Development Officers may not be able to devote enough attention to remind the customers of their premium payment dues, which may lead the policy to be lapsed. However, it has to be admitted that the importance placed by the Life Insurance Corporation of India as well as many other Insurers - for example by linking other benefits such as club membership, reimbursement of certain expenses such as telephone bills, club expenses, sanction of advances etc. to the aspect of retention of existing policies - has played a major role in seeing that the maximum possible attention is given by the agents towards policy holders' service needs.

GENUINE PROBLEMS

In quite a few cases, the policies were allowed to be lapsed by the parties for genuine reasons - such as family disturbances, loss of job, reduction of income, sickness in family depriving the party of much needed funds etc. These aspects usually are beyond the control of the individual parties and unfortunately the first casualty in such financial emergencies is usually the Life Insurance premiums. It is therefore very much imperative on the part of the insurer, the intermediaries such as Agents and Development Officers to educate the parties that Life Insurance is essentially to counter or take care of such emergencies only - perhaps they can arrange for a policy loan etc. to tide over the crisis and also to ensure that the policy stays in force. This will earn the goodwill of the party, help the party to tide over a crisis and also open the doors for New Business also from the same party either through himself or through his / her references.

MEDICALS

Strangely in some cases the reason for the policy continuing to be in lapsed condition happened to be the need of undergoing medical examinations. The chief reasons behind this phenomenon were as under:

- Reluctance on the part of the party to undergo medical examinations due to some vague feeling of insecurity. Most of the times the vague feeling of insecurity is unfounded and baseless and not indicative of any serious problems. Usually it is thought that people rush to revive their policies or take new Life Insurance policies when their health concerns rise - but this is also a reason for polices not being revived when medical examinations are needed.

- General & casual indifference on the part of the insured parties to undergo medical check up - this was basically due to procrastinating nature. Some persistent follow-up by the agents or Development Officers, perhaps by talking to the family (spouse, parents, children etc.) of such customers, would have been very effective in such cases in ensuring submission of medical requirements as well as revival of the policies.

- Unfavourable medical reports.

A more pragmatic and liberal approach on the part of the insurers, however, without sacrificing sound underwriting principles, would be needed to see that maximum policies can be revived. For example, when there is a special campaign for revival etc. going on, it would be very much useful if one or two medical examiners are made to be present in the office itself - this will, to the maximum possible extent ensure prompt medical examinations in all deserving cases and also take care of the reluctance of the parties to go to the medical examiners.

CHANGE OF ADDRESS etc.

In quite a few cases, the reason for the policy being lapsed was the change of address of the party. In such cases, the parties or the agents and Development Officers usually had not informed the office of the change in their mailing address. Therefore, the policy premium notices, the final lapse intimation letters, revival campaign letters etc. did not reach the concerned customers. No wonder, neither the address was changed or transfer of policies effected and naturally the policies were lapsed. A proactive approach on the part of all i.e. the insurer, the agents and the Development Officers would be needed to see that such instances do not occur and to ensure that maximum number of policies are kept in force or revived if already lapsed.

SSS POLICY PROBLEMS

Another area of concern leading to lapsation of policies was servicing problems in policies taken under salary savings scheme. Theoretically under salary savings scheme the possibility of lapsation is minimal, if not exactly nil because here-in the policy premiums are deducted straight away from the salaries of the policy holders. However, in many cases confusion was present in servicing of policies under salary savings scheme - such as servicing branch identification and the subsequent transfer of policy records, sending monthly demand invoices to the paying authorities, non-deduction from salaries by the paying authorities, non-remittance of premiums deducted by the paying authorities, frequent transfers of employees whose policies are under salary savings scheme which are not promptly intimated to the insurer, other miscellaneous problems such as lack of rapport between the insurer and the establishment department of the paying authority etc.. It is not uncommon to come across policy holders who had got their policies converted from salary savings scheme to ordinary mode and whose policies had later lapsed.

A proper and planned effort from the insurer would go a long way in reducing the problems and streamlining the servicing aspects of salary savings scheme policy servicing and this as a corollary would greatly limit the probability of salary savings scheme policies lapsing.

INADEQUATE EXPLANATION OF THE PRODUCT - RIDERS ETC.

It was a peculiar experience to hear people saying that they find the policies to be uneconomical and unattractive! After all how can a person take a policy first and later realise that it is not economical since buying a policy is even today a major decision in India - people express a lot of reservation and try to postpone the decision to buy a Life Insurance policy - otherwise there would not have been the need for a vast agency force and Life Insurance policies like all other commodities would be **'bought'** and not **'sold'** as is the case now. Many people complain that the premium they pay, say in a money back policy, is actually more than the Sum Assured they would be getting and hence the policy is thought to be uneconomical and is allowed to be lapsed.

This only proves that all the various features of a policy (such as which kind of parties it is intended to, what further actions would make the policy proceeds economical etc.) are not explained in totality to the parties. Perhaps, the initial effort to sell a policy does not include (at least not in all cases) the complete explanation of the policy to the satisfaction of the policy holders.

Proper care at this stage and reassurance/follow up at regular intervals would be very helpful in retaining the confidence and goodwill of the policy holders and ensure maximum policies to be in force and also lead to generation of more business.

HOUSING FINANCE LTD. CASES

Another major area where lapsation (perhaps programmed lapsation) was observed was in the case of policies assigned to LIC Housing Finance Ltd. or other financial institutions as collateral security for loans taken or as legal requirements. The policies were allowed to be lapsed once the total loan was disbursed or the party's loan / legal requirement was fulfilled. This was especially so in cases where the policy premium payment was de-linked from the loan instalment payment. Perhaps, a stricter control to see that the financial institutions ensure that the policies are kept in force may be very helpful and effective. After all seeing that the policy given as collateral security is kept in force is in the interest of the concerned financial institutions also. It may be prudent and helpful to send the policy premium notices, lapse intimations and all other correspondence to the concerned financial institutions in addition to the policy holder since they can then ensure that the payment is indeed made. A special fee or penalty may also be helpful in all such cases where policies had been allowed to be lapsed. Perhaps easy revival options may also be given in these groups to ensure that policies are kept in force and incidence of lapsation is kept minimum if not altogether nil.

MALPRACTICES BY AGENTS AND FIELD FORCE

There were some instances where field force such as the agents or Development Officers had already collected the money well in advance from the party but not remitted to the office for a long time. However, such cases were quite rare - though this aspect also needs to be checked to ensure that lapsation is kept to a minimum and the Insurer's goodwill remains intact.

POSSIBLE SUGGESTIONS

FREE LOOK

Introduction of free look has been a very helpful feature that has been introduced by the Regulator i.e. Insurance Regulatory and Development Authority. It has provided the policy holders with an option to evaluate the policy taken by them i.e. to see whether it meets their needs, requirements, outlook, financial commitments, financial outlook etc.. If the policy does not meet any of their needs and aspirations, they can return the policy to the insurer during the free look period for a refund of their premium after deduction of some nominal charge. This has put a greater responsibility on the insurer, the agents and the Development Officers alike to do need based selling alone. This also has two positive effects on life insurance business namely -

(i) Since the policy holders are sold only need based policies they should be fully (at-least theoretically) satisfied with the financial ability to pay the premiums in the future and therefore lapsation for financial reasons must be low - this aspect effectively weeds out potentially unhealthy practices in marketing of Life Insurance policies and also reduces lapsation in future.

(ii) The Life Insurer can also have a check by way of the free look period - the Life Insurer can effectively analyse the free look cancellations that take place in his organisation and take remedial measures vis-à-vis marketing activities, policy design, policy servicing aspects, market segmentation, product segmentation etc. This should be a major solution as far as lapsation for other reasons are concerned.

EDUCATE FIELD FORCE

Thorough education to the agents and Development Officers as well as the other field force of the Life Insurer should be taken up in a big way as to the adverse effects of lapsation. This alone can hope to weed out this malaise in the long run and ensure healthy growth of the insurance industry. Lapsation of policies is a major drag on the profitability of the Life Insurance Company - lapsed policies affect all the parties involved in the business adversely. The Life Insurance Company incurs a huge amount of expenditure to initially effect a policy which goes waste and this is a drag on the Life Insurance Company's income and life fund; The party ends up with his cover being lost and in a majority of the cases also loses the premiums paid by him which may be forfeited by the Life Insurance Company - this adversely effects the Life Insurance Company's goodwill also; The efforts of the agent, the Development Officer and other field force go waste and they may also stand to lose their commissions, incentives, club membership etc. on account of lapsation and finally such lapsed policies also render the Life Insurance Company liable to unscrupulous activities by exposing it to vigilance aspects. Thus without exception lapsation benefits no one. Further, the manhours and effort lost in the process can never be totally estimated and the fact remains that the same time could have been directed profitably elsewhere.

Therefore, it is imperative on the part of the Life Insurance Company to fully educate its field force as to the adverse effects of lapsation and to advise them to avoid such business at any cost which is likely to end up as lapsed policies. Since, it is felt that the agents are the primary underwriters, it should be the policy of the Life Insurance Company to see that the agents are fully aware of the consequences of lapsation - their attitude and approach such be so tuned to the seriousness of the issue of lapsation that they do not end up adding to the problem - instead they must be the practical antidote to the problem. Indeed, it would be no exaggeration to state that if the agents are adequately trained, they would be the first and best filter as far as lapsation is concerned and the problem can be nipped at the bud i.e. before a proposal ends up being a policy itself.

TAKE ACTION ON ERRING FIELD FORCE

As a supplement to the point mentioned above regarding educating field force, it would be helpful if certain punitive or corrective action is taken in cases where it can be said that the action of the field force is leading to the aspect of lapsation. This would put the field force in check and make them ensure that they take all precautions to weed out proposals that may lead to lapsed policies in the future.

CDAs

It is usually observed that the policies which had ended up as CDAs (cheque dishonoured cases) at the proposal stage itself and later were completed by repayment in cash etc. usually tend to be lapsed policies in future. Adequate care at this stage itself would be helpful in controlling the incidence of lapsation.

IMPROVE SERVICE STANDARDS

It would be very much necessary, crucial and also helpful for the Life Insurance Company to have a look at the pulse of the customer expectations and the level of service standards in the market vis-à-vis its own service levels. It would then be possible for the Life Insurance Company to ensure that its service levels is at the top bracket in the market and take steps to continuously monitor and improve its service standards so as to ensure customer satisfaction and customer delight. This would go a long way in keeping the customers loyal to the Life Insurance Company and also to minimise the possibility and incidence of policy lapsation. Present day customers have not only become more knowledgeable but also more demanding in their expectations, price savvy in their outlook, more discerning in the choice of products and as a consequence demand full value for their money. As a result, the customer has become the real 'King' of the market - one who can make or mar the prospects of a business entity as well as punish or reward any organisation. In the competitive set-up, when the various products offered by the various players are more or less similar with very little distinction, if any, it is very much imperative for the Life Insurance Company to ensure that customer service offered is top class.

Mainly, the steps that may be taken in improving customer service may be in the following areas:

(i) Make use of the latest in information technology to serve large numbers of customers (which most Insurers, especially life Insurers have) promptly, efficiently and proactively. This may finally bring down their overheads as well as variable expenses. Technology must complement as well as supplement distribution channels at a low cost so as to improve customer service, improve profitability as well as the image of the institution.

(ii) Ensure sufficient and up-to-date training and development for its employees, agents and other distribution intermediaries. The established companies would have to provide staff training for improving customer service and also to put the employees at ease as regards new technology, new demands from customers, and the latest developments in the insurance industry etc.

(iii) Design good contact and feedback forums with customers so as to understand their changing needs and demands and to further develop new products, improve existing products and thereby improve profitability.

EASE REVIVAL NORMS

Easing revival norms may be very helpful in reducing the incidence of lapsation - it would be useful to control further lapsation and also actually help in controlling the dues on the lapsed policies from piling up. It may be said here that the major Indian insurer i.e. Life Insurance Corporation of India offers a wide variety of choices by which lapsed policies can be revived such as:

(i) Ordinary revival;

(ii) Special revival;

(iii) Loan cum revival;

(iv) Instalment revival;

(v) Survival benefit cum revival in case of money back policies etc.

It also floats on an annual basis the special campaign for revival of lapsed policies wherein some concession is given on late fees and also for medical requirements subject to certain restrictions. It is usually observed that the campaigns are fairly effective. It may be very useful for the Life Insurance Company as well as the policy holder if more effective and innovative measures are taken to reduce lapsation. Some of the innovative schemes that may be considered are:

(a) The Life Insurance Company may arrange for finance arrangements from banks or financial institutions for persons to revive their policies especially where the lapsed dues are heavy. This may prompt many persons to revive their policies. It is found that many people lapse their policies since they face certain temporary financial troubles and not because they find the policy to be uneconomical. In such instances by the time their financial difficulties are eased they find that the premium dues have mounted up and then they find it difficult to find avenues to make good the dues. Thus they are forced to keep their policies lapsed rather than get them revived. If bank loans etc. can be provided, it would be very effective for such cases. For example, we find that Life Insurance Corporation of India has tie-up with Corporation Bank and some other banks and these banks may be willing to lend money also for elite or deserving policy holders at their own terms much like automobile manufacturers have tie-ups with banks for providing loans to persons to buy cars or two wheelers such as scooters, motorcycles etc.

This would also lead to synergy between the Life Insurance Company and the banks and each can grow to each other's mutual benefit. However, critical aspects to Life Insurance such as moral hazard, approval from the regulator that is Insurance Regulatory and Development Authority may need to be looked into in this area.

(b) Other means of arranging finance etc. may be explored. Now the interest rates have fallen drastically in the financial market. Therefore, it may be beneficial for the insurer to provide policy loans at discounted or lower rates for those policies that have acquired paid up value and which are in lapsed condition, if the loan is meant to pay the future premiums,. This would greatly encourage a lot many policy holders whose policies are lapsed to get their policies revived.

GIVE INCENTIVES FOR REVIVAL

Subject to the approval from the

regulator i.e. Insurance Regulatory and Development Authority and after looking into other important matters such as moral hazard, financial viability and other underwriting aspects, the Life Insurance Company may perhaps consider giving incentives (monetary or otherwise) to the policy holders for revival of their policies. This may not be very much a strain for the Life Insurance Company, since the company is receiving the total arrears of premium including risk premium also from the date of first unpaid premium though it is / has not covered risk for that period. It may perhaps divert a small portion of that risk premium as incentive for policy holders to revive their lapsed policies.

Such revival would actually increase the total income of the Life Insurance Company and the profitability of the company as well as the policy holders also is likely to improve.

INCREASE MINIMUM PREMIUMS

It would be helpful for the Life Insurance Company to consider increase of minimum instalment premium since policies with higher instalment premiums are unlikely to be lapsed by the policy holders. Increase in minimum premiums actually is a good check also on the quality of New Business introduced by ensuring that persons of a certain minimum financial standing are only made as policy holders - naturally as a corollary such policy holders are not usually likely allow their policies to be lapsed. They also are likely to enjoy a better standard of living, comforts and also medical facilities. Therefore, not only lapsation - even early death claims etc. can be finely controlled and in the process all the parties namely, the policy holder, Life Insurance Company, agents and Development Officers benefit.

SELL MORE YEARLY POLICIES

As a corollary to the above, it would be better for the Life Insurance Company to sell more policies with yearly mode of premium payment. In the yearly mode, the premium paid at the outset by the policy holder is naturally higher than in any other mode, except the single premium mode. In such a situation, the policy holder would be most reticent and unwilling to allow a policy with yearly mode of premium payment to lapse, except perhaps for really genuine reasons and for reasons beyond their control. Thus, it would be a good control to put a cap on the incidence of lapsation.

ENCOURAGE ALTERNATIVE PREMIUM PAYMENT CHANNELS SUCH AS AUTO DEBIT FROM CREDIT CARDS ETC.

As a corollary to the above two points mentioned regarding increasing minimum premiums and increasing share of policies with yearly mode of premium payment, it would also need to be added that the Life Insurance Company should perhaps also increase the modern and alternate modes of premium payment such as by ECS (Electronic Clearing System), direct or auto debit from policy holders bank accounts, auto debit from the policy holders credit card accounts, payment through internet etc.. Such measures would be very useful in decreasing the incidence of lapsation in the policies of persons who are elite and very busy and who do not find the time to effect regular payment of policy premiums. For example, credit card as a means to pay the policy premiums has been introduced by many private insurers who accept it for both the New Business proposals to pay proposal deposit as well as to pay renewal premiums. This would not only save the policy holder the trouble of making regular payments of his own but also the Life Insurance Company form worrying about and following lapsed policies. Further, this would act as a natural selection in favour of the Life Insurance Company as persons with credit cards, access to internet etc. are likely to belong to a better strata of the society as well as being more knowledgeable of many aspects such as health, financial markets as well as the importance of Life Insurance.

In fact, such modern modes should not only be introduced - they should also be propagated and popularised in a big way among the agents, Development Officers and also the new and existing policy holders. This would also decrease the incidence of lapsation of Life Insurance policies.

INCREASE SALE OF LIMITED PREMIUM POLICIES

In the same philosophy of the points mentioned above, it would be beneficial for both the Life Insurance Company as well as the policy holders if more number of policies with limited premium payment is sold. In such policies, the premium liability for the policy holders is limited to a shorter period than otherwise and therefore more people are likely to go for such policies, perhaps mainly due to the psychological factor. So they are less likely to allow the policies to lapse. Further, naturally the instalment premium payable in such policies would be higher - this would also prevent the policy holders from allowing their policies to lapse owing to the large possible financial loss involved. Finally, even the agents and Development Officers are likely to follow up such policies more regularly since the parties would usually be high end customers. Thus, it is capable of capping incidence of lapsation of policies to a good extent.

SELL POLICIES WITH MORE INVESTMENT ASPECTS

At the time of thinking and penning the ideas, there were no Life Insurance policies with much focus at an investment oriented level such as today's Life Insurance Corporation of India's Bima Plus etc.. The only product that had some element of Life Insurance while being mainly investment and returns oriented was perhaps Unit Trust of India's U.L.I.P (Unit Linked Insurance Plan) and its counterpart with other mutual funds also. It was often felt and heard (especially among the employees at the time of the year end when tax planning etc. used to assume a lot of attention and importance) that every employee should have one PPF (Public Provident Fund) account and should take the maximum amount of cover available under Unit Linked Insurance Plan (the maximum limit for target amount was then Rs. 60000.00 per person). The common feeling also was that why Life Insurance Corporation of India (the only Life Insurance Company then) cannot introduce such a plan on its own when it has immense investment expertise at its command. Introduction of such plans ensures that the policy holders therein are mainly with a long term focus and are also likely to be investment savvy and would not allow their policies to lapse. It is perhaps a very good scheme to minimise incidence of lapsation.

INCREASE RENEWAL COMMISSION AND REDUCE FC & FYC

It is commonly felt that the agents interest in a particular policy does not extend to more than probably the first two or three years of the date of issue of the policies, except in cases, where the policies belong to the very high sum assured or where the policies pertain to influential policy holders who may give further New Business from their own side or from their references. Therefore, it would be helpful if the commission structure of the agents is reformed - presently the commission structure is very top heavy with very high payments to the field force by way of first and first year's commission, bonus commission, prizes of various competitions floated to promote New Business etc. to the agents and by way of incentive bonus, additional conveyance allowance, prizes of various competitions floated to promote New Business etc. to the Development Officers also. So naturally the focus of the agents, Development Officers and to some extent the administrative officials also is much more on procuring larger volumes of New Business than on following up policies already made. Therefore, staggering the high amounts (by way of competition prizes given, bonus commission etc.) paid in the first year to perhaps the second or third year after commencement of the policies can be very helpful in containing lapsation of policies since the field force would then have a stake and interest in keeping a tab and track on the New Business policies procured by them. The recent incentive by way of higher club allowance to club member agents introduced by the Life Insurance Corporation of India is a step in the right direction.

It is also commonly felt that the interest of the Development Officers in a particular policy is limited to the first year that is the year in which it is given as New Business only. Now, with the changes in the incentive bonus commission structure, they have a stake and interest in seeing that the policy is kept in force in the second year also. Perhaps, it would be helpful if adequate incentives linked to containing lapsation are introduced for Development Officers also as it has been introduced for club member agents.

IMPROVE COMMUNICATION AND PREMIUM NOTICES

In many instances, the main cause given for non-payment of policy premiums on time is stated as due to non-receipt of renewal premium notices. It is often said that sending the renewal premium notices by the Life Insurance Company is only a good gesture on the part of the company and non-receipt of the same should not be taken as an excuse for the payment of renewal premiums. But it is to be added that India predominantly is a developing country and the rate or level of literacy is still low which necessitates timely reminders from the Life Insurance Company to see that the policy is kept in force. Further, a maximum share of the Life Insurance policies sold in India even today belong to the rural sector where the level of literacy is average at best even today. Therefore, sending timely reminders for payment of policy premium without exception and without any fail is imperative to the Life Insurance Company to see that incidence of lapsation is kept at the minimum.

IMPROVE NEW BUSINESS PROCURATION CONTROLS

It would be pertinent and useful to have good controls at the time of introduction of New Business itself to check the incidence of lapsation. In this connection, the help of planning department can perhaps be taken to have analysis of lapsed cases data on state wise, area wise, mode wise, sum assured wise, premium amount wise, plan wise, sex wise, occupation wise, agent wise, Development Officer wise basis etc. to be able to ascertain with a reasonable level of accuracy as to whether a particular proposal is likely to be able to end up as a lapsed policy or not. This analysis would be very helpful in many ways - one it arrests the introduction of potentially lapsable policies, it keeps the agents and Development Officers alert as to the quality of New Business they introduce and finally it reduces to a large extent the wasteful expenditure and efforts of the Life Insurance Company.

CALL CENTRES

It may be better to have call centres to follow up the Life Insurance policies introduced at various stages as under to have high levels of service standards:

(i) at the time of issue of Life Insurance policies to confirm the terms of policy opted, any special features that he may need etc.

(ii) to remind the payment of renewal premiums etc.

(iii) for various policy servicing aspects such as change of address, etc.

These aspects may be by way of a toll free line so that improved service can be provided to the policy holders - this would to a great extent reduce the possibility of a policy going into default, except, in very genuine cases.

COLLECTION BOXES

It would be prudent and perhaps necessary also to have the concept of installing drop boxes or collection boxes in all major towns and cities wherein the policy holders can deposit their cheques for payment of renewal premiums. The locations may be in banks, super markets, major post offices, etc. This aspect is found to be very useful in the case of credit cards, phone bills, etc. It would go a long way in helping customers for timely payment of renewal premiums and reduce the incidence of defaults. Further, the cost element involved here is also less.

ATMs

At the time of conceiving the idea for this essay the only major banks having ATM (Automated Teller Machine) setup in Hyderabad were perhaps ANZ Grindlays Bank (with 1 ATM) and Global Trust Bank with about 3 ATMs. It was felt that the convenience offered to the bank customers by the ATM card was phenomenal and the basic idea was that the same can be extended to the bank customers (who usually belong to a better strata of society and are therefore usually high end customers for the Life Insurance company) to pay their Life Insurance premiums also. Now, for example, with the tie up of Life Insurance Corporation of India with Corporation Bank with such a facility is perhaps a step in the right direction.

PROMOTE ALTERNATE CHANNELS

It is usually observed that policies sold through alternate channels say by Bancassurance seldom end up as defaults. The probable reasons behind this phenomenon may be that the customers are high end, the premiums involved are usually high, the after sales service is good, etc. Therefore, it would be useful to promote the use of alternate channels to sell Life Insurance policies. They have the advantages of being cost effective, provide better service, increase average premium income, etc. all of which allow the Life Insurance Company to cut its costs and also to reduce the incidence of lapsation.

OTHER FACTORS

It is to be acknowledged that lapsation of Life Insurance policies is a very complex phenomenon, in that the causes can be varied and further the principal causes affecting lapsation may change from time to time. Some of the miscellaneous factors that lead to spurts in lapsation and in some cases surrender of Life Insurance policies also are as under:

(i) Change in Government policies - for example when the Government of India changed the tax treatment for Jeevan Dhara policies of Life Insurance Corporation of India there was a spurt in the lapsation of such policies and subsequently the surrender of Life Insurance policies also.

(ii) At the time of introduction of the first Asha Deep policy some policy holders had bought policies without properly understanding the diseases covered. Such policies were later lapsed.

Such factors are beyond the full control of the policy holder as well as the Life Insurance Company also.

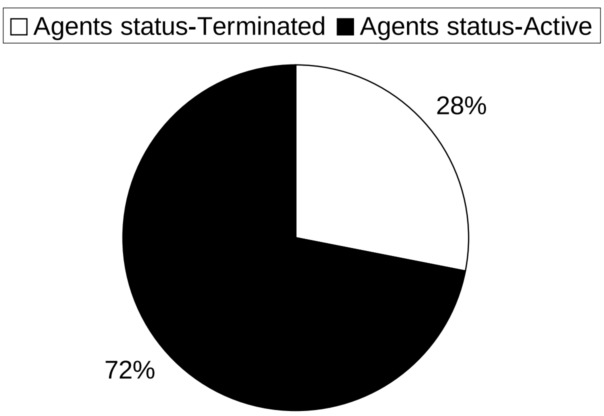
SUMMARY AND CONCLUSIONS

It may be concluded that the aspect of lapsation of Life Insurance policies is a very complex one and its effect on the profitability as well as the very survival of a Life Insurance Company can hardly be over emphasised. The adverse effect on account of lapsation and the subsequent decline in bonus rates has very serious consequences such as selection against the insurer by surrender of existing policies, etc. Taking these aspects into account, it becomes imperative for any Life Insurance Company to take all possible steps to control lapsation right from the very beginning.

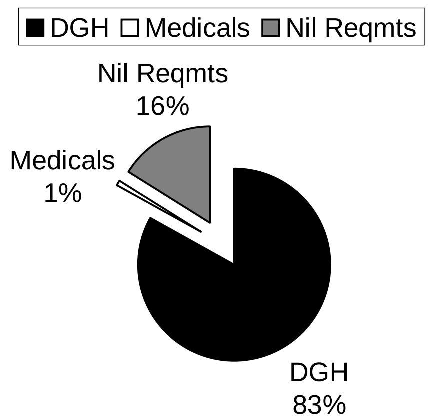
While, it is to be acknowledged that not one of the above suggestions may be totally effective in isolation to counter the situation, the combined effect of all the aspects taken together may promise to be significant and yield results.

ANNEXURE

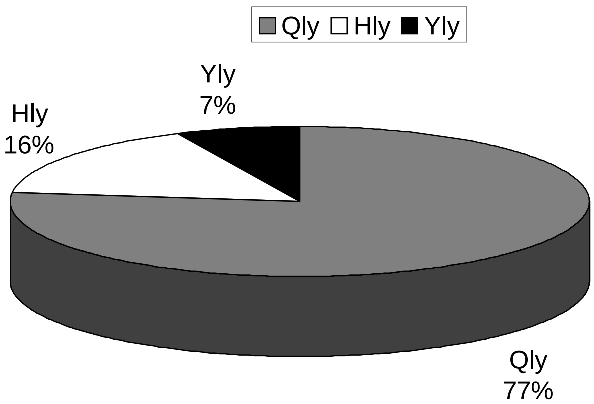
Lapses based on Agency Status



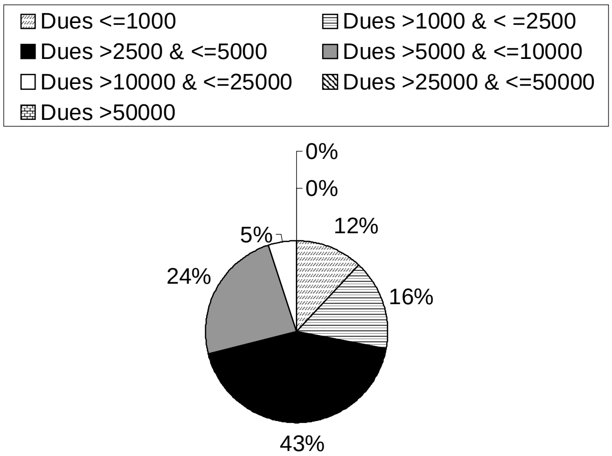
Reqmt.-wise lapses breakup



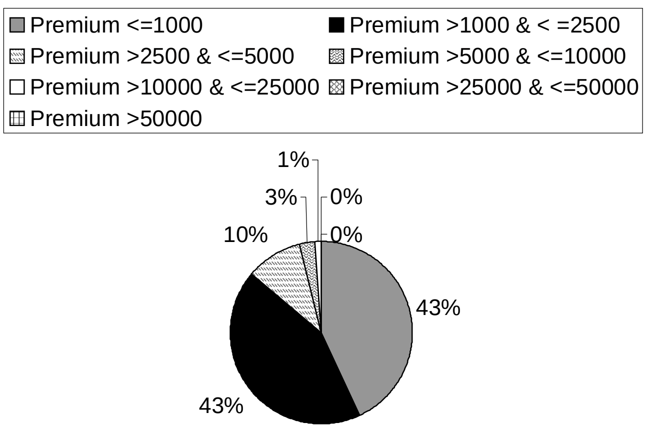
Mode-wise breakup



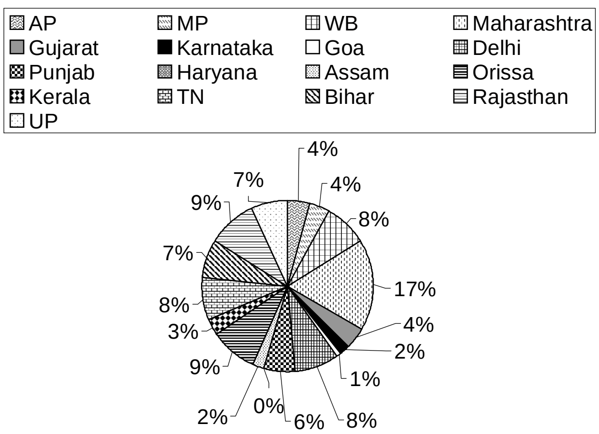
Lapses breakup based on total dues



Inst. Premium-wise breakup of Lapses



State-wise breakup of Lapses



D. Subrahmaniam Award Consolation Prize Winning Essay 2003-04

PROMOTING INSURANCE THROUGH INFORMATION TECHNOLOGY

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OBJECTIVE OF THE PAPER:

This paper attempts to highlight the use of Information Technology, its utilities, tools, systems and techniques that help improve the spread of the concept of insurance to the general public. A prior knowledge of I.T. concepts would facilitate the reading of the paper, as the concepts are discussed at length in some of the sections. The internet tools, utilities and technologies have been paid special attention as most of them are free softwares and easy to download/ operate and use.

Though the insurance industry was covered in general, specific attention has been paid to the life insurance wing. The I.T. solutions discussed in the following pages can be of practical use for readers. It is essential that necessary data security measures/ firewall protection is ensured while using the I.T. tools discussed in the paper.

India is a predominantly rural country with low levels of literacy and still lower levels of computer literacy. The concepts of I.T. are known/used by a small section of the population. A doubt may arise as to how a country with such low levels of literacy can make use of I.T. and internet technologies for promoting life insurance. It is suggested that common devices like TV and Telephone may be interfaced with the internet technology. The Microsoft corporation has recently released MS-OFFICE in Indian languages. Likewise, Rediffmail has introduced the email facility in 11 Indian languages. It is THIS type of interventions and utilities that are anticipated for bridging the gap between NETIZENS AND CITIZENS of India. Thus, we may say that the world is **A MOUSE CLICK AWAY.**

India is a country of agrarian origin and still most of its population depend on agriculture and agro related activities. The literacy levels of the people are low in rural pockets and remote areas. India is slowly growing into a hub of services sector including information technology related services. A country of over 100 crore population like India needs MASS DELIVERY SYSTEMS and this laborious and tedious task is taken care of by the information technology devices flooding the market with the emergence of new technologies like NANO TECHNOLOGY and 3G (THIRD GENERATION COMPUTING)

A doubt may arise at the outset of this paper that how can Information Technology, which is very technical in nature, come to the rescue of a vast population of illiterates . The answer lies in the question itself ! The vast population of illiterates can understand the audio-visual media and can understand well in vernacular language. Taking a clue from this angle, the Indian Insurance Industry, (that has recently been opened up for private participation) can plan its **VISION** for the next decade to promote and market both the Life and General Insurance coverage for the second most populous nation of the world.

In order to drive a car, one need not know the details of automobile technology. It is enough, if one is able to handle the steering, the gears, accelerator and the brakes. Infact, even an illiterate can drive a car, given a basic training into the mechanics of driving. Drawing an analogy to the same situation, we can apply the finest aspects of I.T. , especially the Internet technology for promotion of the Indian Insurance Industry. India is one of the biggest consumer conglomerates which offers innumerable opportunities on the marketing front.

THE CITIZEN-NETIZEN GAP (THE GREAT DIGITAL DIVIDE):

Of the total population, our country has only 2 to 3 percent of NETIZENS (persons browsing internet). The tele-density (number of persons having telephone connection) and PC density are also low, though the tele-density has seen an upward trend in the last couple of years. The information technology has been viewed as a technical jargon and even amongst the literates, only a small percentage of people are exposed to the I.T devices. Thanks to the cable networks, today, most of the Indian homes have cable connections. Even within the same organization, awareness levels/ expertise vary as regards I.T. devices/ systems. For example, the programmers and I.T. department staff of Insurance companies have more exposure to the subject than others. With the help of selected I.T.

technologies, Insurers can bridge the citizen-netizen gap and apply the same for furtherance of the concept of insurance.

Today, the world has shrunk into a global village due to the influence of I.T. and we are witnessing the effect on every segment of our home and office work. Even the differences between HOME and OFFICE are getting blurred. Pressing the fast forward button of the of the BUSINESS PROCESS OUTSOURCING (BPO), the concept of EXTENDED OFFICE has come into vogue. With this, one need not go anywhere and just by sitting at home, one can work on line/off line by rendering services over the computer. Medical Transcription is the example for such services. Gone are the barriers of communication and barriers of time. With online computing technology, real-time processing is possible in almost all service areas.

India has a clear edge over other countries with regard to BPO. Low cost of labour and easy acquaintance with English are the two assets possessed by Indians, which is giving an ample opportunity for foreign companies. With the help of I.T. and particularly internet technologies, India can aspire to specialize into the area of promoting insurance not only in the country, but also throughout the world, with the help of BPO operations.

Hands-on training sessions for the line and staff of Insurance organizations in the latest I.T. devices/techniques will be of immense help for the employer (Insurer) to improve the levels of servicing. The problem of the DIGITAL DIVIDE has to be addressed at home first. All employees and Agents/ Insurance Advisors must be trained appropriately to know the intricacies of I.T. related devices.

KNOWLEDGE MANAGEMENT INITIATIVES (KMI):

Knowledge Management is the fast developing science of I.T. which has a great bearing for a service industry like insurance. It is said that the General Motors in the U.S. could come out of its crisis with the help of Knowledge Management. At a time when G.E. was dismissed by many as a messy conglomerate, its CEO Mr. Jack Welch embarked on KMI and created a learning culture where knowledge sharing among its human assets helped the company to tide over the crisis. Thus, the company could turn a threat into an opportunity. "SOMEONE SOMEWHERE HAS A BETTER IDEA - says Mr. Jack Welch. Harnessing the knowledge assets of the people of an organization and by systematic sharing and learning of knowledge through resourceful persons of the organization is known as Knowledge Management. Whenever employees leave/retire, the knowledge leaves with them, unless properly shared by others in the organization. The internet, intranet, datawarehousing, data mining are some of the KM tools. KMI is a dynamic concept and it promotes innovation. It reduces the response time to challenges and problems. It also reduces redundancy and repetition of processes/jobs.

For any industry, there are 3 factors of production; they are, MEN MACHINES AND MATERIALS. Fortunately or unfortunately we, in the insurance industry, have only one factor of production and that is ITS PEOPLE. Since the internal and external customers are human beings, we need to apply innovative and humane techniques to motivate them. Thus, ours is a people oriented industry, where the knowledge inputs of the staff, agents/insurance advisors play a vital role in the success or otherwise of the organization. Like an individual, every industry faces competition from other industries in the economy. Unless the returns in the form of Bonus and Dividends for the shareholders is made attractive, the insurance industry cannot think of securing its due share in the nation's economy. This value addition can be achieved through KMI.

KMI is not a theoretical one nor it is the work of an armchair philosopher. It is, as said earlier, a developing science of I.T which enables content development through collaboration by knowledgeable persons. With the explosion of information technology, the awareness levels of the customers are ever growing, and in order to meet these expectations, the deployment of IT is essential.

Apart from KMI, we need to take up three studies propounded by one famous management scientist. They are the TIME STUDY, MOTION STUDY AND FATIGUE STUDY of the operations of the office. The time taken for each step in the process of a document and the motions involved and the degree of fatigue that could be encountered would give us immense help in scientifically analyzing the operations and minimization of CUSTOMER RESPONSE TIME. With over 5 decades of experience in the industry, the state owned insurers like LIC AND GIC can benefit from the KMI and even start consultancy services for others, including overseas insurance companies. Infact, the mortality investigations of LIC can be treated as a treasure trove for guiding the industry in future.

Reengineering the mindsets of the staff and agents, achieving attitudinal and perceptional changes is the need of the hour in the industry. Some extent of unlearning of hitherto learnt processes of the pre-I.T. era is also essential for the growth and survival of the industry.

At times, we may have the capability to face the challenges in the form of collective wisdom and experience of our leaders & staff. But, many a times, it is observed that some of us fail to harness the knowledge assets of our people due to the inability to identify the sources of knowledge existing within the organization. The source of knowledge is none but the staff and agents of the organization only. Inadequate methods/practices of knowledge sharing and lack of timely availability and use of knowledge base is also observed at times. KMI helps us overcome such difficulties.

Insurance industry needs MASS DELIVERY SYSTEMS and I.T. can address these problems with more ease and effectiveness.

THE EMERGING TRENDS IN I.T.:

Convergence of IT devices is the latest trend. Today, at a cost of Rs.5000/- one can get a device that scans, prints, faxes and works as a copier - an all in one PRINTING SOLUTION DEVICE. R&D LABS around the world are agog with finding an integrated device for TV & PC. With the advent of NANO TECHNOLOGY (ie., the science of smallest things) computer chip and device manufacturing is set to create an all time small appliances for the use of even illiterates, with user-friendly features. Application of NANO technology in garment manufacturing (Grasim's UNCRUSHABLE clothes, for instance), its application in robotics, genetics, nuclear medicine, bio-informatics, drug discovery and delivery systems is yielding amazing results. The 64 bit computing and 3G (ie., third generation technologies) are going to make the way we live, more simple and comfortable. Creation of new disciplines of technology is the order of the day. Gone are the days of inserting the bank card in the ATM; the latest in thing is that if one waves the card in front of the roadside kiosk, the system will take cognizance of the transaction based on iris pattern. Bio-informatics is the fast growing discipline that has applications touching our daily life and office. Smart homes, interactive computers, the list is never ending. Apart from this, I.T. has contributed 1500 words to the dictionary.

IDEA EXCHANGE SERVICES THROUGH INTERNET:

The utility of KMI concept has been discussed in the previous sections. The IDEA EXCHANGE SERVICES on the Net (IDEAS FOR BUSINESS.COM; IDEAEXCHANGE .COM; BRIGHT IDEA.COM etc., sites) can fill the thoughts of insurance marketing teams with lot of innovation. It also helps in sharing the ideas with others in the marketing field, thus acting as knowledge management INTRA ORGANISATIONALLY.

SUBJECT SPECIFIC SEARCH TOOLS ON THE NET:

Locating and accessing the right information from the web is always a laborious job, notwithstanding the thousands of sites filtered and displayed even by the best search engines like google, yahoo or askjeeves.com. In order to overcome this, there are certain search tools like ZAPPER at ZAPPER.COM , which act as context sensitive tools. The Zapper client program can be downloaded from the above site to provide help in locating the desired information with fastness. Other tools such as THIRDVOICE.COM & GURUNET. COM are also helpful in this regard. Such special sites are useful in handling piquant situations while dealing with customers/prospects.

Due to lack of awareness, sometimes, several opportunities are lost. The NRI proposals for life insurance pose a problem at the stage of financial underwriting. The reason is that most of the employment contracts overseas are executed in foreign language (other than English). In such situations, online dictionaries and translation software tools can be of immense use for the insurer. They are also helpful in claims processing and speeding up the process of underwriting.

PEER TO PEER BASED CONTENT DISTRIBUTION MODEL:

At present, the data, audio and video files are stored at a Central Server (called centralized content distribution model). When the number of users increases, the load will be more and more on the central server and at times it may fail to deliver the desired data too. To address this problem, which is common in peak time, the P2P BASED CONTENT DISTRIBUTION MODEL can be adopted. It enables the computers to exchange the content directly with one another over the net, skipping the central server. In otherwords, whoever downloads a file would become a download source for others. It is a technique for load sharing and multiprocessing. Call centers for insurers can adopt this technique for addressing the grievances of their customers. It also leads to a reduction in response time at the enquiry desks.

INTERNET TELEPHONY OR NETPHONE:

At present, the quality of voice through net phone is less than that of land phones (called PSTN PHONES). The reason is that the LATENCY RATE, (i.e, the amount of time taken for digitizing, packetising and making the voice ready for transport from one place to another through net.) Given its low cost of operation, net phone can be an excellent communication medium for marketing and service teams of insurers. With the growing highway internet cafes and growing PC density in India, net phone can accelerate the growth of insurance marketing capabilities. It also leads to a reduction in customer complaints.

Digital technology can reach the masses in indirect form too. For example, the auto prompter service by BSNL reminds the residents of a house about the pending phone bills in vernacular language. By having a tie up with telecom service providers, insurers can think of sending the premium/claim alerts in the same fashion.

I.T. can be used for design, processing and dispatch of messages even in vernacular language. Recently, MS-OFFICE HINDI VERSION was released by the Microsoft corporation. Text to voice and voice to text conversion softwares are on the rise now. They would enable even the illiterate to use IT. Devices with greater ease. The convergence of INFORMATION AND ENTERTAINMENT, namely INFOTAINMENT is in the offing.

OPEN SOURCE SOFTWARES:

Open source software (OSS) refers to the software developed by a team of programmers by collective wisdom and the proprietorship of which is not claimed by any individual / organization. It is mostly free of cost and is highly flexible. Its SOURCE CODE (original programs) is open for all on the net. The exact inverse of this is PROPRIETORY SOFTWARE.

LIC has already switched over to LINUX operating system, which is an open source software.

GEOGRAPHICAL INFORMATION SYSTEMS AND GEOGRAPHICAL POSITIONING SYSTEMS:

Short names of GIS AND GPS, they have enabled the crystal clear capturing of the physical and aerial details with video images of a selected area. The Andhra Pradesh state government has, with the help Of GIS AND GPS, created a vast data base of the geographical spread of the state of Andhra Pradesh. This data bank enables one to locate even a remote house in a street of a town/ village with precision. It may be a new trend for us, but it has been in vogue for the western world, where the house hold surveys with the help of these systems enabled the marketing teams to know about the complete data on such homes.

These systems can help the insurers understand the insurance density of a particular area and design suitable plans for penetration of that market segment. It would also help in assessing the financial position of the prospects and offering the right product for them.

Another application of I.T. is that GEO-ENCRYPTION technology enables us in sending a file to the desired location on the globe with a secure password. The practical application can be felt when a movie, which is geo-encrypted, opens up only in the designated theatres and can be played there only. Encryption is the process of coding the message/data and Decryption is the process of decoding the same by some standard mode.

NATIONAL HEALTH INFORMATIC SYSTEM:

It is an integrated system which is in place in developed countries like US, UK and Japan. Even countries like Malaysia, Indonesia have established the same system for maintaining the health of the citizens of their countries. Under this system, the data related to health records of all citizens of a country is compiled and consolidated by a monitoring authority at national level. The Ministry of Information Technology of the Indian Government has proposed to set up the same system in India under the name " Health UnITe" which is a joint venture by the I.R.D.A., and Union Ministry of Health. It will also fix standards for compiling and capturing and exchange of information and the legal framework to protect the privacy of individuals. There is a proposal to setup a National Health Informatics Council to be setup by an act of parliament. The collection and standardization of health data of the country is vital for the control and assessment of epidemics and for community health schemes by the government. It is also essential for the healthy growth of the Insurance Industry.

It is said that one big apprehension in the minds of foreign institutional investors is that there is no health insurance system in India. Thus, the unorganized health record system has been proving a hurdle in the path of foreign direct investment. Once established, the Indian system can be harmonized with that of the US system, to which all countries are trying to harmonize with. The US system of health insurance portability and acceptability act 1996 is taken as the base system for this.

The first step in this direction involves setting up standards for capturing data; deciding healthcare indices. The transaction formats for health insurance sector have already been identified and created in India. The data capture will be from Hospitals, Nursing homes, clinics, laboratories, pathological labs, pharmacies, third party administrators and rehabilitation centers in a standardized format. There will be unique health identifiers for patients, insurance companies and providers.

This system would help prevent outbreak of epidemics and is proposed to be administered by state drug authorities in India. This system would help insurance companies decide as to what premium is to be charged for a proposer with family history of a specific disease and with personal history of some other condition and residing at a particular place. The Department of Information Technology of Government of India recommended to adopt World Health Organization defined ICD-10 system of Standardization of Health Care.

National Health Informatics Council will identify Universal health identifier for patient, provider, insurers, and health plans. It will also have uniform codes for diagnosis, procedures, Drugs, nursing, medical supplies and equipment. The council would evolve Common standards (electronic transactions) for eligibility for health plans, their premium, claims procedures etc.,

SUGGESTED REFINEMENTS TO THE ABOVE SCHEME:

The National Health Informatics System is proposed to be administered by the State Drug authorities, which is handicapped by understaffing, inadequate infrastructure and skills for handling such an important project covering the health records of all citizens. Moreover, they are reportedly overburdened with drug administration job. By a sheer comparison of our system with that of any developed nation, we can come to the conclusion. For instance, any medicine is available over the counter (OTC) in our country, whereas unless prescription of the physician is produced, scheduled drugs will not be sold by any pharmacy in the developed countries. The medical standards and ethics are of very high precision in these countries.

In the light of the shortcomings enumerated above, it is suggested that the proposed informatics system may be regulated by an independent body to be setup under the control of Union Ministry of Health. The said Board should have members from Life Insurance companies, Indian Medical Council, Pharmacy Council, Actuaries and Legal Experts. Government can think of collecting user charges (for the services availed) from the insurance companies. It needs a conscientious and planned effort to put in place and run such a massive system of collecting and compiling the data of over 100 million citizens of the country.

THE NEXUS BETWEEN "GERIATRICS" AND "LIFE INSURANCE":

Geriatrics is the emerging medical science dealing with old age diseases, problems. It is estimated that India will have a large pool of about 25 crore population in the old age group by 2020. The problems of the old age segment of the population needs to be addressed with special care, as their health, income and social profiles change with the passage of time.

India is perhaps, the biggest market for an Insurer to tap the potential of annuity/pension business (next only to China). Under the joint family system, we had a blanket of comfortable social security. Now, with the break up of this system, there is a need to devise suitable plans for this segment, as ours is a welfare state. The Bioinformatics, Nuclear Medicine, and Generic Engineering sciences are based on the pillars of I.T. The current trend is that mortality rates are falling and morbidity rates are rising. Most of the above modern sciences are influenced by information technology. With the help of the same I.T., the Indian Insurance Industry can draft a vision document for tapping the immense potential offered by the tomorrow's old age segment. This is also helpful for health insurance penetration, which is very low in our country. A lot of promotional effort can be taken up in the print and electronic media by educating the general public about the cost of medical treatment in old age, other needs and problems associated from the geriatric angle.

THE ADVANTAGES OF SATELLITE TECHNOLOGY:

The Indian Space Research Organisation (ISRO) is planning to launch thematic satellites called EDUSAT (FOR EDUCATION) HEALTHSAT (FOR HEALTH), CARTOSAT (FOR MAP MAKING) RESOURCESAT (FOR MAPPING RESOURCES) AND OCEANSAT (FOR OCEAN RESEARCH). ISRO is planning to establish integrated village info kiosks to help improve the quality of life of rural people. These kiosks provide telemedicine, teleeducation, expert advice on agriculture, local governance information, and other people centric services. The AP state Government has collected about 50 GB of data pertaining to the geographical details of Andhra Pradesh state with clockwork precision. With the help of this information, even a remote hut in a lane in a far off village/hamlet can be spotted on the computer monitor.

The insurance industry can make use of the above info kiosks for propagating the concept of life insurance and for servicing of existing policies.

CONVERGENCE OF INFORMATION :

"As we have already seen, the most significant change to impact our lives over the past century has been the computing revolution. As a generation, we have been witness to and benefited from technology the most. What lies ahead promises to be more exciting, changing the way we work, play, communicate, and live. Once the information is digitized, it can be shared, duplicated, transferred and edited with ease and this is being facilitated by convergence of IT devices.

Handwriting, speech recognition, biometric devices and touch screen functionality are all aimed at humanizing the technology. The phone and TV are the two devices, through which PC can be interconnected/interfaced with low cost of operation. We are moving towards a time when information will not be PC centric or device centric but will be USER-CENTRIC and this is the most significant change the digital age has heralded."

______________Mr. BILL GATES of Microsoft Inc.

The above para summarizes the shape of things to come. The day is not far off, when we will be speaking into our PCs, reading off our screens (instead of paper) and even taking notes by writing directly on to your PCs! Thus, the convergence of information would lead to a fall in costs and technology would come to us, instead of our going to the technology.

In order to reap best returns from the I.T. it is suggested that the Industry may form a CONSORTIUM on the same lines as FICCI or ASSOCHAM and set up a mechanism to study the environment and suggest ways to use the technology in the furtherance of the concept of life insurance. I.T. is not a one time or one day affair; hence, instead of appointing a committee a CORE TEAM represented by all member companies shall monitor the progress of this project and administer mid course corrections. The National Health Informatics Council, as discussed above, would help in Claims settlement operations, expedition of claims settlement, and minimization of the element of selection against insurer. Thus, both Underwriting and Claims functions would be benefited.

BPO- A BOON FOR THE INSURANCE INDUSTRY:

Business Process Outsourcing (BPO) is the handling of service operations/ back office operations of an organization (located at a different place) by another organization through I.T. devices.

At present, India is in the eye of a storm in the U.S., for the alleged fears of loss of jobs of their nationals. The Medical Transcription (MT) and other service operations of foreign countries are handled by Indian IT firms, as the cost of labour and operations is less here.

The concept of BPO can be extended to the servicing of policies of life insurance and dissemination of information about life insurance products. Some of the companies like CSC have already begun the work of writing software for foreign life insurers at its Indian facility. The fluency of Indians in English proved to be a boon for the BPO sector.

We can even help the third world countries, which are poor and can't afford a full- fledged insurance system. Apart from earning foreign currency, this would help in employment generation for our citizens.

THE BROADBAND ANGLE:

The data transfer speed through cable or satellite is measured in kilo bytes per second (kbps) or mbps. A data transfer speed of 1.5 mbps or more is called broadband and it can offer transfer of video, text, data and voice through sane cable. Though nearly 60,000 kms of optic fiber cable is laid across the country, it takes some more months to reach Indian homes. The broadband, once operational, would revolutionise the customer contact programs.

There are four types of technologies for broadband:

Under the Integrated Services Digital Network (ISDN) connection system, the data transfer speed is slightly more than that of the dial-up modems (with 64 kbps speed as against 56kbps of dial-up modems).

Under the Digital Subscriber Line (DSL) technology, the ordinary telephone lines are used. However, companies like DISHNETDSL have laid dedicated lines, as the conventional system could not gear up for the speed.

Under the Direct to Home (DTH) technology, the communication is through a satellite through a broadcast station located on earth. This is a costly alternative, apt for corporate clients only.

Under the Cable Modem technology, the communication is through cable network. India has an estimated 8 crore TV sets and about 4 crore cable connections. This technology involves an initial investment of about 10000/- (one time) for special modems and monthly rentals of about Rs. 900-1200. This is suitable for upmarket segment only.

Broadband offers internet telephony, exchange of music and movie files, high speed data transfer. The Insurance industry can make use of this opportunity to promote life insurance. It is going to be the mass communication medium to reach the masses in split seconds. Breaking news is that Reliance Infocom joined the elite club of WIMAX forum (broadband based on wireless-fidelity (wifi) technology), which is capable of delivering connectivity upto 70 mbps.

THE SPEAKING PCs:

The free software revolution has endowed us with yet another utility in the form of "WILLOWTALK" software. It allows us to listen to the MS-OFFICE word or excel documents/ spreadsheets. It is more useful for proofreading for the content keyed in.

THE PAPERLESS OFFICE:

This was the concept propounded by Mr. Bill Gates in his book BUSINESS @ THE SPEED OF THOUGHT. It deals with minimization of manual processes and digitization of manual processes, cutting costs and improving the quality of service. Scanning of proposal and other documents is on the cards of state insurer LIC. After the CRM MODULE -II, even the customer complaints will be handled online.

There is an immediate need for rewriting the operating manuals in view of computerized environment. Similarly, the process of BUSINESS PROCESS REENGINEERING is to be speeded up to eliminate duplication of work and overlapping/ redundancies. Computerised Auditing routines may be introduced. A single M.I.S. report for each branch office, covering all departments by running an MIS package and sending through online communication is desirable. (efforts are on in this direction).

All operational routines in the organization shall be CUSTOMER CENTRIC and the RESPONSE TIME has to be drastically reduced. Likewise, the transfer of policies from one office to another may be dispensed with, leading to considerable reduction in response time (suggesting a TRANSFERLESS OFFICE.) While drafting software of operational departments, the subject experts help may be solicited to render the best IT. Solutions.

THE DIRECT TO HOME (DTH) SATELLITE TV:

In the broadband section above, we discussed the DTH technology, which needs a special mention. It is a wireless solution which communicates with the satellite. Every communications satellite placed in the orbit will have several transponders. Each transponder can transmit 10 to 12 TV channels (called the KU band).

The DTH service provider hires desired number of transponders on the satellite and uplinks the TV channels from a broadcast stations to the satellite and there on to the homes of the viewers.

With a 15 to 30 cm. Diameter dish antenna and a smartcard plus a decoder, this facility is installed. Currently, Zee TV and Star TV are offering the service. Quality wise, it is the best alternative and pays rich dividends for marketing of insurance services.

PURITY OF EXISTING DATA:

Data purity is the qualitative and quantitative accuracy and consistency of information relating to a business activity. Reliability, adequacy, accuracy and consistency are the four pillars on which the edifice of data purity is built upon. Data purity, if properly planned and achieved, could prove to be a goldmine for the state insurers of LIC and GIC. During the past five decades, the state insurers had seen manual computing, back end processing and now front end operations. Thus, transition from one to another technology poses problems to be coped up in the due course of time. Data purity enables sound decision making.

Data purity may affect mortality investigations, actuarial valuations and assessment of life fund. Data purity instills confidence in employees and spurs the trustworthiness of the organization.

Data impurities result from omission of periodic maintenance functions, software bugs, incompatibility between two systems, last minute pressure of work/chasing deadlines, missing links of information, failure of consistency checks and change in file size/structures.

Through online/hands-on training programmes, the significance of data purity can be communicated to the employees. It is reported that the area of age/DOB and premium and accident premium fields need special attention. With the CRM module, the aspect of DOB errors is almost eliminated.

PROMOTING SSS THROUGH I.T.:

The salaried class forms the biggest most reliable market segment for the life insurer. IT. Modules can be of immense help in administering/managing the SSS portfolio effectively. An IT based module can establish direct contact with employer's salary office records and result in online, realtime updation of premium payment status. These modules also help in launching new products, publicizing the service campaigns and other service alerts to the employees and employer too.

In the absence of an IT based system, the SSS segment would have been plagued, as the operations involve repetitive and laborious processes. With the help of internet, individual employees can be sent email alerts about premium updations, bonus intimations, lapse intimations, claims information and other service details by employing AUTO PROMPTER EMAIL SOFTWARE.

At this juncture, a utility offered by a freeware site "COPERNIC.COM", which enables us to employ all popular search engines on the internet for the desired information is of much use. The results from all popular search engines are displayed on screen.

THE H.R. FACTOR :

For any manufacturing process, three factors of production are required. They are men, machines and materials. Insurance being in the service sector, has only two factors of production, namely men and machines. The performance of machines is influenced by the men designing software/engineering and maintaining them. Thus, the HR factor plays a vital role in the success of a service industry like insurance. Boosting the morale and motivating the employees towards CUSTOMER CENTRIC operations is the need of the moment. The attitudes, perceptions and mindset play a key role in the success of enthusiastic programs of insurance companies. Human resource is the asset that is not shown on any balance sheet, but is a hidden asset. A mindset reengineering initiative is required to achieve the teamwork in realizing the organizational goals in the competitive environment. It is the employee who can convert a routine service operation into a DELIGHT for the customer.

Unless the internal customer is happy, no organization can expect to keep the external customers delighted. The knowledge and skill set of employees vary even within the same cadre/group. Soft skills, especially the word and spreadsheet processing, internet, email and related subjects are the minimum requirement in the current day customer service operations. The IT people are found to be lacking in subject expertise while the subject experts are lacking in IT skills. A blend of both the faculties could dramatically improve the performance of teams and render world class service. For imparting soft skills, on line and hands-on sessions are essential. Knowledge of fundamentals of office suites like MS OFFICE, STAR SUITE coupled with basics of linux/unix operating system would enhance the comprehension levels of employees.

Integration of all IT modules of an insurance organization is another area where emphasis needs to be laid. There is abundant talent within every insurance company and the same has to be tapped and utilized. It has been discussed in the above paras that if KNOWLEDGE MANAGEMENT INITIATIVES are taken, it is possible to optimally utilize the capabilities of employees. All these measures INSTIL A SENSE OF CONFIDENCE AND BELONGINGNESS FOR THE ORGANISATION.

Video conferencing can be an effective tool to trouble shoot and for planting new ideas in the minds of workforce.

ROLE OF INSURANCE INSTITUTE OF INDIA:

As suggested hereinabove, all the insurance companies may form a CONSORTIUM (on the lines of FICCI or ASSOCHAM) and draft a vision document for the industry for the next ten years. A pioneer institution like the Insurance Institute of India can be entrusted with the R&D projects in following disciplines:

- PRODUCT DESIGN
- ADVERTISING & SALES PROMOTION
- CRM INITIATIVES
- HEALTH INSURANCE
- PENSION AND GROUP INSURANCE

The member companies may contribute the financial and other resources for the projects. Having got about five decades of rich experience in making insurance specialists, the Insurance Institute of India can be the guiding lamp for the smooth sail of Insurance Industry. The fruits of the research can be shared among the member companies.

CLAIMS MANAGEMENT THROUGH I.T.:

For any insurer to be successful, the quality of claims and their settlement is essential. It is the quality of the claims that affects the solvency and life fund/ mortality investigations. Owing to the low literacy levels prevalent in India and poor medical facilities coupled with private and registered medical practitioners, the situation of claims investigation is complicated for want of records. Most of the rural citizens depend on local unqualified doctors and over the counter (OTC) medicines. Added to this is the aspect of DESI MEDICINAL SYSTEMS like ayurveda, yunani and other herbal treatments. The National Health Informatics Council, once established, could be immense help in settlement of death claims. Establishment of the existence of a disease prior to the date of proposal or revival is very difficult with the poor health record system. Only personal enquiries are the basis/ source of information for the claims investigators. Even the existence of hereditarily acquired diseases cannot be established in such scenario. The cause of death in some cases remains a mystery in the absence of a systematic record of health of the life deceased.

Moreover, the language and terminology used in plan brochures and policy documents is very technical in nature and not comprehensible even to the educated people. Thus, there is a long felt need to prepare the brochures/ policy documents in a reader-friendly manner. Information Technology devices could be of much help in this direction to translate the matter with the help of translation software.

THE CONCEPT OF "PREFERRED LIVES" IN UNDERWRITING:

One of the private life insurers in India is offering a policy under the above concept. The concept of PREFERRED LIVES is in vogue in European countries like U.K., GERMANY etc., A preferred life is one which is free of diseases like Hypertension, Diabetes Mellitus, Cancer or other life style diseases and without a family history of these diseases with Non-smoker & Non-alcoholic attributes. Since the life is free from known causes of lower longevity, it is a preferred life for the underwriters. The National Health Informatics System could be of help for selection of preferred lives with accuracy. In the absence of such system, we have to rely on personal statements and medical/lab tests, the reliability levels of which may vary.

Having been a preferred life, the longevity will be high and the incidence of claims could be expected to be lower than that of an average life. With the help of I.T., most of the cumbersome calculations of mortality and other actuarial/ mathematic issues could be solved. Today's customer wants CUSTOMISED LIFE INSURANCE SOLUTIONS. I.T. utilities and suites help insurers in devising customer specific customized solutions, which is in vogue in developed countries. "When you can customize your home, clothes, and jewellery, why not your life insurance be customized" questions the billboard of a life insurer. We are living in an era of customization and customer-centric environment.

In the absence of preferred life concept, most of the Indians falling under this group have been paying more premiums than what they ought to pay. This concept would create a low risk pool of lives, the mortality experience/trends of which can be studied in due course.

BETTER CHANNEL MANAGEMENT THROUGH I.T.:

The field of I.T. has a bearing on the management of channel partners (agents). Even the state insurers LIC & GIC have supplied the policyholders' data in the form of soft media (CDs) to their top performing agents, who can generate desired outputs with the help of their own systems at home/ agent's service centers. Top performers have also been granted loans/advances for purchase of computers. Innovative softwares spell magic on the users (agents) by generating 3D graphics, animations and projection of costs and benefits of life insurance policies even for longer terms of 30 or 35 years. The outputs and their quality is visually appealing and quite useful for tracking the premium position, loan, claims and other benefits. Interpolation and Extrapolation, comparison and evaluation of Return of Investment is now at the click of a mouse.

Projections made with the help of software made for agents show the immense potential unleashed by information technology. The projections and presentations can be done on a laptop or even a notebook. Both sales and service aspects are covered in these packages and there is room for improvement. Through the auto-prompter emails, auto-responder emails, premium alerts, claim/benefit alerts can be sent to the mailboxes of the clients. Today, we have softwares that confirm whether the client read the email. Training of channel partners can be now done through video conferencing, or online training programs. Comparison of different avenues of investment is made easy and the ideas are DRAMATISED WITH MULTIMEDIA. Even within the same plan of assurance, the effect of different add-ons such as TERM RIDER, CRITICAL ILLNESS RIDER, PREM. WAIVER BENEFIT can be shown in all permutations and combinations.

A freeware available on internet updates/auto-prompts by way of an email, whenever the pages of a web site are changed with latest information. This way, the agents can update their knowledge/awareness levels, without physically surfing the sites.

DISTRIBUTED COMPUTING MODEL:

It is a wonderful I.T utility, through which load sharing and optimal utilization of computing resources can be made. The modus operandi of the system is like this:

Under the present scenario, mail servers will have to bear the brunt of maximum load during the peak hours, where internet traffic/data traffic will be high. Sometimes, system hang ups/ slowdown in the data transfer speeds has been observed. The distributed computing model ensures that the EVERY P.C. SEEKING A FILE FROM THE MAIL SERVER ACTS AS A SERVER FOR THE NEXT P.C. (ANYWHERE ON THE GLOBE) SEEKING THE SAME FILE. By way of this, the load on the mail server is shared and data transfer speeds are accelerated. This is one way of optimal utilization of computing power. For a country like India with dial up modems of 56 kbps maximum data transfer speeds, this model comes to the rescue of the users.

The above model can be employed for call center operations and info center operations. Channel partners can also use the model for better functioning of the systems.

DATA MINING:

This concept is an ingredient of Knowledge Management and is a process of compiling the desired information from a heap of data using certain criteria (filters/conditions). A simple application of data mining is given hereunder:

Every day, we will be receiving several mails to the office mail box from policyholders, agents, suppliers and others. Compiling the email addresses of all from the above mails generally needs a program to be written. A program called "textpipe" can accommodate up to 60 filters (criteria) and compile the desired email ids. Freewares available on internet are the cost effective & quick solutions for most of everyday problems faced with processing of information.

Five decades of rich experience in insurance industry for the state insurers of LIC & GIC is an invaluable asset that can be fully utilized with the help of data mining techniques. Infact, they can render consultancy services for the newcomers and foreign companies too. A small book published by LIC in late 90s containing an extract from its balance sheets since 1956 (since formation of LIC) gives a historic profile of every aspect of balance sheet and is a thesaurus for economists, actuaries and everyone associated with insurance studies. When a small book of extracted information could spell such a big magic, one can imagine the results generated by DATA MINING technique, based on I.T. applications.

PROMOTION OF PENSION BUSINESS:

Life insurance deals with the fear of dying too soon, while pension business deals with the fear of living too long.

Indian Life expectancy has risen from 45.6 years in 1971 to 62 years (as per 2002 estimates). The average life expectancy of the pensioner will be definitely greater than that of this.

Normally, the working employees pay for the pensions of the pensioners in the form of contribution towards pension fund. (on PAY AS YOU GO basis). But, with the number of pensioners outnumbering the new employees in the organization (in view of ban on recruitment and other cost cutting measures), there will be a strain on the pension fund.

This is a worrisome picture for a social security scheme called pensions. Today, insurers are unable to offer defined benefit pension scheme (where the pension amount is defined at the time of entry of employee into the scheme). Instead, they are harping on DEFINED CONTRIBUTION SCHEME (i.e., the contribution to pension fund is defined but the benefits would depend on the net asset value of the fund prevailing on the date of retirement/vesting). Under the defined contribution scheme, the onus of investment risk is on the employee. Unable to withstand the strain on the pension funds, even the government has notified a date after which employees joining will have the option of DEFINED CONTRIBUTION SCHEME ONLY.

Given the fact that about 20 crore citizens in the country are going to reach the old age in another 15 years, the market potential for pensions can be estimated. I.T. plays a vital role in spotting, addressing this important market segment and promoting the pension business of an insurer. Administration of pension business is made easy with IT. Modules, as the record maintenance will be cumbersome under manual processing of information. Moreover, the generation of advance monthly cheques, their tracking, mailing and other operations can be facilitated with the help of I.T. modules, as can be seen in case of LIC's administration of pension business.

Index linked pension schemes require I.T. support for administration of the scheme. The proper growth of pension business is essential from political, social and economic perspectives.

THE GRID COMPUTING MODEL:

Today, even the entry level PCs have enormous computing power in terms of CPU., Memory, storage slots, and ports. Many a time, this abundant computing power gets unused owing to under utilization of PC to optimal use.

The National Thermal Power Corporation (NTPC) employs the grid system for management of distribution of power to various parts of the country. An insurer too, can pool the computing resources spread over a particular city/region and created a super-computing power for better use. It is a process of interconnecting the PCs and servers in specific areas and is useful for projects requiring vast time and resources. Normally, life offices located near bus stations and railway stations experience heavy rush of customers during peak hours. In such case, the grid computing model can facilitate the transaction processing and quick disposal of customer calls/ requests.

DISASTER RECOVERY SYSTEMS (BUSINESS CONTINUITY PLAN):

Most of us may not be knowing that the Mumbai Stock Exchange, the financial heart of Indian economy, has got a Business continuity plan, (an I.T. based backup system) and the operations of the exchange can be resumed within minutes of a disaster of any magnitude. Post 9/11 attack on twin towers in the U.S., no body in the world wants to take chances with data security. Any business continuity plan comprises of local backups and remote backups with a minimum of 3 layers of protection to data. Installation of a reliable disaster recovery system is essential for the smooth conduct of life insurance business.

ONLINE DATA STORAGE SERVICES:

Today, technological obsolescence is at its peak and data stored on one medium cannot be expected to be safely transferred to the server or another storage media. An online backup service allows us to transfer our files to a backup server connected to the internet that can be accessed from anywhere in the world from any machine at any point of time. Some of these online storage services are offered at free of cost.

Online storage services can be utilized for data that is not sensitive or confidential. Moreover, it acts as a safe backup at offsite location. Once the broadband services are fully operational in the country, insurers can make use of online data storage services. It mitigates the storage media problems and costs attached thereto.

DISTRIBUTED FILE STORAGE:

Under this model, the soft files of an organization can be encrypted and stored at several locations across the globe, in servers that have idle storage capacity. Thus, the chance of our not being able to retrieve the data from any one location is almost NIL. This is not only a security measure, but also a measure of storage of data.

HEALTH INSURANCE:

It was an alien concept for Indians until the introduction of Ashadeep plan by Life Insurance Corporation of India. Though almost all insurance companies are offering life insurance plans, the market penetration is in the single digit range of the total market potential.

The vagaries of nature, and people depending on the nature/weather, the uncertainties of income, low literacy levels have all been the causes for not according due priority to the concept of health insurance. Even today, most of these policies are sold in urban and suburban centers. One more reason is that the terminology used in these plans is incomprehensible for the layman, or even to the educated, as the terms are of technical in nature.

Thus, there is a need for change in perception of the general public towards health plans in view of the growing morbidity rates. India has been a traditional bank of heart ailments and the hereditary factor also contributes to it, apart from life styles. The urbanization, changing social profile and eating habits of the people, has led to an upwardly mobile life style related diseases. Hypertension, Diabetes, Cancer and renal problems have been the causes of death in most of the cases.

With the help of Indian census data and by conducting an appropriate survey into the health and habits of the citizens, the insurers can map the health profile of an average Indian and devise a suitable marketing plan for a PERCEPTION REENGINEERING.

With the corporatiisation of health services, the cost of treatment has gone up drastically. In developed countries, every citizen shall have medical insurance and even the visitors are allowed only with medical insurance proof. In absence of such a health insurance system, the government will have to tackle problems that are directly linked to this aspect.

GROUP INSURANCE:

Perhaps, India is the world's largest market for group insurance (leaving China). The services sector (called the tertiary sector in economics) has been growing at a faster pace in India, with the I.T. and I.T. enabled services. Technology has created several new avenues of services like, STD, Internet cafes, Xerox centers, etc., Consequent upon the migration of workforce from agriculture, the services sector has been showing an upward trend. Services fall mostly in the unorganized sector and it is this sector that offers great market potential for group insurers. The services are homogenous but the units are not. Since the persons working in services with small incomes cannot afford to have a regular individual assurance policy, the umbrella of life insurance can be offered under the group portfolio. Hitherto, the group insurance was viewed with an eye of suspicion by the insurance fraternity, fearing erosion in the market share on account of individual assurance.

With the opening up of the insurance sector and globalization trends, every one and every product faces competition from others in one or other form. The banking companies, which entered the insurance sector could show results in the group insurance wing, owing to the depository groups with whom they could market the group insurance services too.

Just on the lines of health insurance, a survey can be conducted for mapping the profile of the group insurance market and suitable marketing plan can be devised with the help of I.T. utilities and modules. Administration of group insurance portfolio without I.T. support is almost impossible, as the number of beneficiaries sometimes runs into lakhs. With the help of I.T. based modules, the beneficiaries can know at any point of time, the contribution made by him/his group and the benefits that can be expected there from. Group Insurance would act as a social security measure for the government, and it can contribute/ subsidize the premium for the selected groups on pre-fixed norms.

Add-ons to group insurance in the form of health insurance coverage or other riders can be provided for the group members. Administration of group accounts, periodical reports, costs, benefits, experience rating adjustments (ERAs), revision in premium, review of benefits and study of mortality investigations, group wise contribution/deficit accounts will be facilitated with I.T. based modules.

Commitment on the part of government and developmental agencies could spread an umbrella of group coverage for the entire nation with the collaboration of insurers.

CHILDREN INSURANCE:

Like the group insurance wing, the children insurance wing in India is also a yet to be tapped market segment. The breaking of joint family system and alarming rise in the cost of education (especially higher education) has forced the common man to think of avenues of investment on a monthly basis, so that the maturity benefits can be applied at appropriate moment. This is a market segment that is generated on the date of birth of the child itself. For sentimental or attachment reasons, every parent wants his son/daughter to be more successful than that of him/her. This desire needs to be ignited by the insurers for marketing the children insurance products. Most of the children studying in Urban areas are exposed to the fundamentals of I.T. They are the budding netizens of tomorrow. Educating the parents with computer animated projections, 3D graphics and presentations of the costs and benefits of the plan would have an impact on their decision making.

FEMALE INSURANCE SEGMENT:

Though the female population in India represents almost half of the total population, their share in the life insurance is far from satisfactory. The recent trends show that their contribution to family income is growing and the female literacy levels are also up in the country. Medically speaking, women are stronger than men and their longevity is more than that of men. They are found to be low on heart ailments, owing to the hormonal factor. With most of the Indian population dropping into the old age group by 2020, there is an immediate need to support the female segment so that they can support their spouses and other family members.

"If you educate a woman, she would educate the entire family" was the famous quotation by Pandit Jawaharlal Nehru. Drawing an analogy to the same theme, we may say that if we insure a woman, she would ensure the future of the family.

Suitable plans may be designed for women working in unorganized sectors and cooperative sector. The field of IT and IT ENABLED SERVICES is well represented by women. Hence, appropriate marketing strategies can be devised for tapping this viable segment.

THE MACRO LEVEL ISSUES OF THE INDUSTRY:

So far, we have seen the MICRO LEVEL ISSUES OF THE INSURANCE INDUSTRY. Now, a discussion on MACRO LEVEL ISSUES and their solution through I.T. enabled devices/utilities follows:

Whenever the print or electronic media reports of the financial sector, the only name that gets prominence is the Banking, Share brokers and other financial services. Insurance lacks identity in the financial sector, inspite of being the best service provider for longest term contracts of life insurance and contributing major share to the Gross Domestic Product (GDP). The role of insurance sector in the economy or infrastructure or capital market development finds a mention in the columns of the press, but the prominence is missing.

In other words, Insurance industry needs recognition in the form of an Industry on par with Banking. Even at the governmental level, the role of the Industry needs to be improved. All these signs indicate the necessity of a PLANNED PR EFFORT. The proposed PR effort would have a long lasting impact on the strengths of the Industry. A vision document will have to be prepared for the PR efforts, in consultation with the member companies.

The way the banking sector establishes contact with general public shall be the guiding post for the insurance industry. A good PR effort on the part of manufacturing industries like Cement, Plastics, Textiles can be taken as the example. When there was a lot of hue and cry against plastics polluting the environment by the environmentalists, the Plastics Manufacturers Association has done a good PR job by inserting ads in the newspapers and issuing TV ads, depicting the way of condemnation of plastics. The Insurance Institute of India and the National Insurance Academy could be approached for devising a PR plan and implementing it. Having contributed about 250000 crores to the National Income, the Industry needs better coverage and prominence in the Economy. Moreover, the investments made by the industry in infrastructure and capital market too need due recognition. This PR effort would help in maintaining better relations with the regulator (IRDA), the other Industries, the Government and last but not the least, general public.

The inter industry cooperation and coordination is essential for proper functioning of New Business and Claims departments of the respective companies. Sharing of information among the members through an I.T. based network would improve the quality of underwriting and claims investigations. It would act as a hedge against the malpractices and fraudulent preference of claims.

CONCLUSION:

It is true that the number of netizens and computer literacy levels in the country compared to the total population is quite low. Most of the villages and even urban centers experience frequent power failures. Data transfer speeds with the dial-up modems is low and frequent hang ups are a common phenomenon. In spite of so many hurdles, the I.T. HAS BEEN ADVOCATED AS THE PANACEA FOR ALL AILMENTS. Information technology makes the difference in such situation, by offering user-friendly utilities/devices that interface with gadgets of daily use like TV and Telephone. For the illiterates, the voice recognition software could be a boon. Handwriting recognition software, biometric devices further simplify the technical aspects of the process and make the life of a common man comfortable.

For a country with over 100 crore population, manual processes cannot meet the requirements. If digital processes, with user-friendly features, are put in place, India could become the I.T. leader in the world and render services for the rest of the world. The immense untapped potential for the life insurance market demands innovative thinking and execution of the plan in a creative manner.

Gone are the days of customer loyalty. These are the days of customer hopping from shop to shop, swapping the channels and surfing the internet. Price is no bar, provided the quality of service is good. Expectations of customers rise exponentially with the refinements to the IT. Based devices/utilities. THUS, IT IS UPTO US TO ACT NOW.

Life insurance is a capital intensive industry, where the breakeven period has been estimated to be around 7 years. Cooperation and coordination amongst the member companies would help improve the image of the Industry in the economy.

Nobody thought a decade ago that India would excel in the field of Information Technology. Today, we have shown to the world that India, once described as a land of snake charmers and taboos, is the abode for writing software for the fortune 500 companies and other coveted I.T. operations. TO BE SUCCESSFUL IN ITS EFFORT, THE INSURANCE INDUSTRY SHALL BELIEVE IN ITSELF AND **JUST DO IT.**

SOURCES/REFERENCES:

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Prize Winning Technical Paper 2003-04

INSURANCE BROKING IN INDIA SCOPE, CHALLENGES AND PROSPECTS

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In the post liberalisation period, Indian Insurance market has witnessed a series of remarkable and impressive developments. A few amongst these are, the entry of large number of Indian and Foreign private players, transparent and efficient legislative instruments, emergence of IRDA as strong regulator and introduction of new distribution channels.

Having set a broad architecture for efficient and effective functioning for carriers of risk the regulator focused its attention on raising professional standards in insurance selling interface. Licensing regulations for agents and corporate agents have created an atmosphere to foster new breed of intermediaries. The recent spate of alliances between banks, post office and insurance companies has rewritten the way of distribution of insurance products.

In its quest to expand the horizons of the insurance business and to give flexibility to respond to changing market environment and to build multi-channel distribution capability, at par with international standards, the regulator introduced new institution of brokers by bringing in place Brokers Regulations of October 2002. Traditionally, insurance has not been the forte of brokers and only agents were allowed to operate in the direct insurance business. The role of brokers was limited only to re-insurance. Direct broking has now gained official recognition with IRDA issuing licenses to the first batch of brokers in the month of January 2003 permitting this new fangled line of vocation to take its position in insurance market place. There is ample evidence that broker-driven insurance market is attractive to customers. Brokers dominate the developed insurance market. In USA 70% of non-life business is transacted through brokers. Their activities have already kicked-off in Indian market and they are ready to play a more professional role to create risk awareness, widening customer base and in development of insurance market in India. Their presence will equip the market with a more motivated and more focused marketing force that would hasten the business development.

Broker model has been introduced to give a 'feel-good' to the customers. It has unveiled immense opportunities to this new breed of intermediaries. The road ahead is challenging. The broker-model is a tested model in other parts of the world and it will stay in India for long in operational transformation of Insurance Industry in a dynamic environment.

BROKER- A DISTINCT INTERMEDIARY IN DISTRIBUTION SYSTEM

Contrary to agents and corporate agents brokers are supposed to be directly looking to the interest of the customer and not the insurance company. The client appoints a broker. He conducts a fact finding on customer's need and his financial position to properly represent his client to the insurers. He understands the commercial priorities of a client and develops an appropriate risk management strategy to formulate apt insurance coverage at optimum premium. The brokers are specialists and are unlike agents. They facilitate insurance activity on the most basic level, by getting clients the protection they need at the price they can afford and at the time they need it. For this they may interact with insurers and reinsurers to conclude a better rated and best available risk protection cover suitable to the needs of the client. They provide vital link between the insured and the insurer. General law of agency governs them and they bargain and get covers on behalf of their principal. Brokers owe their principal a fiduciary duty and they are in an important position of match making to carry both their client and insurer together.

Where agents deal with standardized risk solutions of personal class, the brokers have the strength and sophistication of handling extremely complex risks and that too with contractual certainty and supporting fast and accurate business deal.

Agents may not be able to strike best

deal, as they do not have access to the entire insurance market but brokers can do wonders for their clients. World over insurance brokerage houses are large, sometimes even larger than carriers of the risk. They provide even reinsurance to the underwriters. In countries like Japan, the broker is not empowered to conclude the contracts or accept representation or the premium. In such cases minimum capital requirement and solvency margin are not required. In Indian market, however, the broker model has been introduced with more professional touch and it is expected that it will provide more flexibility and better risk solutions for the clients.

To a layman both broker and agent are nothing but insurance intermediaries irrespective of fact that they are legally & professionally distinct in their status and responsibility. To his principal, the agent owes the duties such as:

- The duty of carrying out transaction for which he is employed.
- To obey his instructions and to act strictly in terms of his authority.
- To act with reasonable and proper skill.
- To account to the principal for the money received.
- To deal honestly with the principal.

The broker, in addition, has the duties of:

- Ascertaining the needs of his client by instruction or otherwise.
- Using reasonable skill and care to procure the cover his client has asked for and
- If he cannot obtain what is required he is expected to report in what respect he has failed, and seek his client's alternative instructions.

Table: 1

	Broker- Model	Agents- Model
01	Represents the customer/ organisation. Obtains detailed knowledge of clients business and philosophy.	Represent the insurance company. Insurers decide how they should function.
02	Minimum investment before getting license is Rs. 50 lacs. For re-insurance brokers minimum capital requirement is Rs.200 lacs and for composite brokers Rs.250 lacs.	No substantial investment required.
03	Required to take professional indemnity cover of minimum Rs 50 lacs to assure security of the client's funds.	No professional indemnity cover is required. No implied term to exercise reasonable skill & care.
04	Responsibility to provide services such as insurance consultancy, risk management and uninsured loss recoveries throughout the year	No commitment to provide risk management services.
05	Assistance in payment of premium, lodging, negotiating and settlement of the claims.	This is the discretion of agent to help at the time of distress.
06	Maintain data bank for the client and chart out risk management programme on scientific basis. Also maintain detailed knowledge of available market.	Maintains his own personal renewal data chart of various clients.
07	Carry the insurance business in such a manner that not more than 50% business in first year of business, 40% in 2nd year and 30% from 3rd year onwards shall emanate from one client.	No restriction for agents. However no corporate agent can have a portfolio of insurance from one person/ one organisation under which the premium is in excess of 50% of total premium procured in any year.
08	Keep a deposit for a sum equivalent to 20% of initial capital in fixed deposit, which shall not be released without prior permission of regulator.	No deposits are required.

Brokers, in our country, are required to have certain qualification, undergo training and pass an examination to be eligible to apply for a license. In addition they are required to have capital norms, insurance cover for professional liabilities, observe codes of conduct, implement accounting regulations and other compliance norms with regulations as befits a professional body.

This model has been compared with the existing model of the insurance distribution in following table.

Brokers are better placed to serve customers' interests. Brokers

Regulations 2002 specifies three categories of brokers:

1. Direct Broker
2. Re-insurance Broker
3. Composite Broker

Apart from an individual, a company, firm or co-operative societies are entities that can apply for a broker license.

Direct Broker: A direct broker can intermediate between the client and insurer for life or non-life business to negotiate best deal. He carries out the following functions:

- Obtains detailed information of the clients' business and risk management philosophy.
- Familiarise himself with the client's business and underwriting information so that this can be explained to an insurer and others.
- Renders advice on appropriate insurance cover and terms.
- Identifies adequate levels of limits.
- Maintains detailed knowledge of available insurance markets.
- Negotiates competitive terms and reasonable rates.
- Submits quotation received from insurers for consideration of client.
- Provides requisite underwriting information as required by an insurer in assessing the risk to decide pricing terms and conditions for cover.
- Acts promptly on instructions from a client and providing him written acknowledgements and progress reports.
- Assists clients in paying premium under section 64 VB of Insurance Act, 1938.
- Provides services related to insurance consultancy and risk management.
- Eliminates under-insurance and incomplete coverage of perils in insurance contracts.
- Provides reliable report on surveys and valuation and assisting in the negotiation of the claims, and
- Maintains proper records of claims and ensuring prompt recoveries from insurers within the time frame set by the regulator.

Direct broking encourage professional expertise and insurance awareness is bound to increase but for carriers the cost of acquisition will also go up. The insurers will however appreciate the risk improvement and loss reduction measures initiated by the brokers to make the risks better.

Re-Insurance Broker: Reinsurance broker is an insurance broker that arranges re-insurance for direct insurers with insurance and re-insurance companies. He helps in evolving relationship between re-insured and re-insurer. He deals with national and international professional underwriters and therefore needs an expert to manage expert underwriters. Re-insurance by treaty method is for future risks and is based on blind faith of one specialist into another experts underwriting. Broker's role is to strengthen this belief for a long-term relationship. He carries following functions:

- Familiarise himself with the client's business and risk retention philosophy.
- Designing re-insurance programme.
- Maintains clear records of the insurer's business to assist the reinsurers' or others.
- Renders advice based on technical data on the re-insurance covers available in the international insurance and the reinsurance markets.
- Maintains a database of available reinsurance markets, including solvency ratings of individual reinsurers.
- Renders consultancy and risk management services for reinsurance.
- Selects and recommends a reinsurer / group of reinsurers.
- Negotiates with a reinsurer on the client's behalf and completes placement of orders well within time limits.
- Assists in case of commutation of reinsurance contracts placed with them.
- Acts promptly on instructions from a client and providing it written acknowledgements and progress reports.
- Collects and remits premiums and claims within such time as agreed upon.
- Assist in negotiation as well as settlement of claims.
- Maintains proper records of claims, and
- Exercise due care and diligence at the time of selection of reinsurers and international insurance brokers having regard to their respective security rating and establishing respective responsibilities at the time of engaging their services.

Composite Broker: A composite broker represents the insured as a direct broker, and at the same time represents the insurer as its reinsurance broker. He can be a producing broker as well as placing broker. He gets paid twice for his service and advices to two risk carriers on the same risk. It is not unusual for composite brokers to deal with customers, particularly of mega risks, as direct brokers and gather underwriting information and present it straight to reinsurers, circumventing or marginalizing the direct insurer. This occurred in Indian market when mega risk concept came to light. Composite broking is an area of hypersensitivity but regulation now recognises it. It has the inherent disability of conflict of loyalty and interests as the broker simultaneously represents the risk producer and the risk carrier. Such an arrangement could in addition lead to explosion of fronting arrangements. Further the duties responsibilities and functions of two roles are in disagreement. The benefit of composite broking has attracted big players. HSBC Insurance Brokers (India) Limited is the first bank that has received the licence to operate as corporate broker. Preferably there should be no licence for composite broking; because of their enormous reinsurance clout, they will render the direct brokers redundant. Moreover, there is also a danger of insurance companies surrendering their basic underwriting functions to the composite brokers who will arrange everything from cradle to grave. This could even lead to extravagant cessions to foreign reinsurance at the cost of Indian market. This issue also came before the expert committee on remuneration of intermediaries and the committee has recommended to the regulator that the licencing of composite broking should be discontinued immediately. Those that have been licenced should be informed that such licences would not be renewed.

SCOPE OF BROKERS IN INDIA

Positioning brokers as pre-eminent distributor in Insurance Products:

The precise scope of new regime of intermediation of insurance products has already been set in stone. The market has to witness how strong this delivery structure is built. Insurer's primary front line channel of distribution is increasingly expensive and not providing them the return needed. Insurers are now seeking more efficient and effective ways to earn premium and develop customers while at the same time they are trying to drive cost out of their balance sheets. They can dramatically reduce the internal staff costs associated with originating and servicing policies while relying upon broker-model. This model of delivery drives cost down and revenues up and it has a definite future in insurance market.

Brokers need to manage distribution as their core business and to make business-partnering their core skill. The model has its own advantage and threats. How this new engine of distribution will drive the insurance market will depend not only how it takes the challenge from other intermediaries of the field but also how it turns their threats into strategic advantage to take a lead in delivery business.

Threats:

The following issues are confronting the broking-model.

Regulated Rates and Products:

The insurance sector that is liberated is yet under substantial price control that governs product features and distribution. In competitive business model presence of tariff structure, which governs the product feature and pricing in significant number of portfolios, inhibits the customer and provider to exercise their full choice. In such a restrictive state of market brokers find no innovative and competitive edge to promote the interest of consumers. Brokers perform their best in a market where there is no price or product feature control, also where the broker has knowledge and expertise of insurance and underwriting at a level equal to if not superior to that of an underwriter with whom he deals.

The present partial liberalisation has enabled the creation of a competitive environment but with prices and product features controlled it is difficult for brokers to provide value addition in their services. This state of market encourages unhealthy practices to flourish. This is the reason that the brokers were put on the firing line in the very first year of their appearance in the market. Established carriers of the risk mainly the public sector insurers complained that brokerage model impose the increased cost without any corresponding benefit. In regulated market brokers are not in a position either to improve the features of coverage or reduce its pricing. They also complained about the engagement of brokers in unethical practices like premium rebating and other allurements to tap the market especially the creamy layer of insurance business i.e. fire and engineering portfolio that still is under tariff regulations. Unfortunately even before picking up the pace they got embroiled in controversies over alleged rebating. The regulator has now reduced the margin of difference between agency commission and brokerage but this constraint will keep confronting the brokers till the price and product features are brought out of tariff. Unlike India, non-life insurance in most developed countries is not bound by tariff regime and premium is negotiable for all contracts. To dismantle the tariff system is as such the foremost demand of the brokers. True benefit of liberalisation may not accrue to the consumers unless there is competition in pricing of non-life products. Moving away from tariff regime to fully market responsive system will definitely increase the scope of broker-model in this sector.

The sheer variety and nuances of de-tariffed market make the skill of broker much more effective and relevant. However, until the market breaks free from the tariff system and brokers develop the skill to negotiate the best possible premium rates and covers for their clients, their function will be limited to selling available products at predetermined rates.

5% Special Discount:

The practice of doing business directly with public sector companies and government bodies without any intermediation cost was introduced in August 1969 and this practice continues till today. The 5% special discount for corporate sector was good with a view to discourage benami agency system that continued to operate even after the nationalization of the sector. This feature of 5% discount is peculiar to Indian market and not encountered in other developed and developing markets.

Government organisations and PSU's also have the directives from CVC to discourage usage of middlemen and when present tariff condition do not bring any value addition but only add cost of insurance to these organisations there is no point for this sector to take the services of intermediaries. ***The quality of professional advice offered alone cannot be justified to increase the 5% cost of the insurance.***

The share of private sector corporate bodies entitled to 5% special discount for fire and engineering business is estimated about 15% of Rs.14000 crore general insurance business. It is this segment for which there will be severe competition. May be because of this huge worth, in the very first year of their operations this segment was targeted by brokers, as there are reports, by offering kickbacks and rebates as the differential (between 12.5% brokerage and 5% special discount) was as large as 7.5% to attract this sector where profits or reduction in cost is a key objective of business. Luring clients with overriding commissions became rampant and various kinds of practices were followed to grab business. The regulator was forced to examine this issue and an expert committee was formed. The special discount has been allowed to continue and the margins in brokerage and standard discount have also been reduced substantially. Now to acquire the business of big clients, having paid up capital more than Rs.25 crore, the brokers will get only 6.25% brokerage for tariff products. For tariff business of fire, petrochemical, engineering, loss of profit and IAR insurances for corporate having paid up capital between Rs 3crores to Rs. 25 crore, the brokerage admissible is 7.5%.

Broker should not use his 'countervailing power' to squeeze deals that are patently unfair to the insurers, lest he should lose the goodwill of insurer community. A broker has to manage his relationship successfully with the insurer, even while managing his customers' expectations with reasons. *The only 'feel-good' factor for the brokers is that the regulator has indicated that the market will be free from the tariff by 2006.* Once the market is left open for pricing and product features these constraints will remain of no importance, as the brokers will use their skill and expertise to get best product in optimum price.

Legal Complications:

It is trite law that a broker is the agent of the insured and therefore owes duties to the insured rather than insurer. In practice, this commercial reality may complicate matters. They may be held liable for breach of an express term of contract or implied term to exercise reasonable skill and care. **He will be liable to insured for defaults of not placing right insurance or may be blamed for not checking the policy wording, particularly an exclusion clause in accordance with clients' instructions. In developed market there are ample of examples for such litigations.** Though the professional indemnity cover is there to protect them and it is compulsory too but still the threat of legal complications may turn the thing very unpredictable.

The composite brokers are not only responsible to their customers but it is also expected of them to act properly on technical issues as well as on matters relating to due diligence and truthful conduct of business towards insurers. Recently regulator has exercised its penal power to suspend a composite broker for improper conduct in relation to placement of reinsurance liability risk of Ranbaxy Laboratories Limited. Oriental Insurance, as lead insurer, underwrote this broker-driven business and when a claim was reported the insurer called for reimbursement of pro-rata share of the reinsurer based on whose quotes the policy was placed. But this was to come from no-where. Regulation has begun to bite in insurance sector and the broker community must carefully observe the case of Corporate Risks India Private Limited, whose license has been suspended as regulator observed breach of diligence and reasonable skill and care in the above deal, else the results may be shocking.

Dummy Insurance Brokerage Firms:

Another threat looming large is that corporates may be tempted to set up benami brokerage firms to get back a share of premiums paid to underwriters through brokerage. While IRDA has warned against allowing such a possibility but there is little the regulator can do to enforce the rule should corporates enter into cartelisation. This may hamper the scope and prospects of genuine brokers who already have set up their shops here to tap mega risks and large commercial businesses to their kitty.

Smart Customers:

Indian customers are in habit of seeking rates from different insurers. They can give underwriting information and mandate letters to several brokers to obtain quotes from several insurers. This may also create a situation when more than one broker approach same insurer for the risk and get different rate. This will not only make the market more and more competitive but will also create confusion in the market and will surely affect in the relationship building.

There will be customers who will get the risk inspections and professional guidance from many brokers without paying any one of them. They should realize that nationalised insurance companies are providing risk inspections and risk consultancy without passing any cost to the clients. These kinds of expenses have been treated as a part of marketing effort and now clients will not like to pay for that. Brokers will have to see whether their brokerage income is sufficient enough to meet this kind of expenditure.

Opportunities:

The industry is currently run at unacceptable cost. Brokers can reduce the pre-sale and post-sale cost of the carriers of risk and in such a situation insurers can concentrate on their core business that is underwriting and development of the product leaving the distribution to their business partners. This should encourage professional brokers as their sales harbingers. The industry has not optimized its professional expertise even in tariff covers and as such lapses are brought to light by consultants engaged by the insured. The number of claims outstanding and /or disputed claims is another piece of evidence to show that independent intermediaries like brokers could better serve the insured. The following opportunities provide better scope to capture major portion of distribution business of insurance products.

Private Insurers:

Nationalised insurers have a wide reach and presence, which cannot be duplicated easily. Building a distribution network from scratch is expensive and time consuming. Private insurers, on the other side, have limited capital and resources and they have no other viable option than to use the most vibrant and useful middlemen to handle their line of products. In quest for market share they are in a look out to reach the masses through these new intermediaries, as it will not put any fixed burden on their cost structure. They surely like to take advantage of India's large population and reach a profitable mass of customers by alliances with brokers, corporate agents including banks and traders. Recently, Tata AIG has signed a MOU with JLI Insurance Broking Company. JLI, an associate company of Frontier Trading, was earlier known as Japan Life India. The core business of the entity was selling magnetic mattresses. Insurance companies have of late been signing a series of corporate agents. Now MOU with a broking firm is an indication of many such tie-ups in near future. The private sector is fast catching up in insurance field and the brokers can foresee an impressive future to develop along with the private players. The most important factor is that they have no bar to place business with public sector companies also when they get a competitive deal even when they have tie-ups with private insurers. Introduction of brokers in delivery system has met with resistance from public sector companies but customers and the private sector insurance companies have welcomed it. The global practice of using brokers as the principal distributing arm of insurance company is evolving in fits and starts.

Voluntary Retirement Scheme in Public Sector Companies:

Traditionally, the insurers re lied on officers and development officers to widen and create insurance markets. They were not able to fulfill the expectation of the insurers. The present insurance market is mainly lenders-driven market or where the requirement to have an insurance cover is because of some statutory compulsion. The public sector insurers have realized this hard reality even before the start of the game **that their own marketing force cannot be the movers and shakers of future market.** This seems the reason of offering VRS to slim their fat size. VRS for development officers and other officers and employees have created the scenario altogether different in insurance market. As the direct marketing force has been reduced substantially in the public sector, the brokers now have an equal chance to develop themselves as their distribution partner. The direct marketing will take a back seat in coming days and now the main competitor for brokers will only be the direct agents and corporate agents. The market situation is ripe for making an onslaught on existing accounts of the public sector companies.

Competitive edge in Commercial Line:

Brokers have critical advantage in market that is now crowded with competition. MNC's with bigger balance sheets will no longer tolerate expensive insurance. Right cover, premium for coverage strictly on need base and demand for difficult-to-insure will make these clients sophisticated one. Exclusion clauses will be challenged resulting in lack of available cover. This kind of need-driven risks has been handled world over by the brokers and with their skill and expertise they will be the captains of the game, here in India too.

Agents and corporate agents can rely only on their principal. They have limitations to redesign their approach to risk or to provide any innovative cover and in this scenario the brokers can prove themselves as drivers of change in insurance distribution especially in corporate segment. ***In developed markets they have proved themselves capable to slash costs and create values.*** They can make available better service in packaged niche products. Consumers, be they commercial or personal, have much higher expectation levels today than a decade or two ago. Competitive pressures have already forced insurers to seek product and delivery improvements both within their own set up and out of their distribution channels. They will now recognise the channel that suits them most in changed environment. Another niche area of operation, which brokers may target, is mega risk segment comprising risks like infrastructure, power projects, highway projects, aviation, space, marine hull, energy and oil sector to name a few. Underwriting of these huge risks require special skill and expertise and brokers have competitive edge to deal in these areas. They can also provide facultative placements in addition to traditional treaty against these kinds of risks. Large broking houses have offices in all parts of the world and have extensive access to global insurance market. Their global reach allows them to utilize expertise worldwide.

Competition has thrown immense opportunity to brokers to target and hit the tied portfolio developed by nationalised sector. Disturbed with VRS and other administrative slackness this profitable portfolio is not in a fortified state. This portfolio has well developed in Indian market with optimum utilization of technical and administrative abilities of competent insurance professionals but in a scenario when PSU's are facing problems to manage their strong network and have moved towards consolidation of their huge portfolio base, brokers have an opportunity to jump into the panorama to influence this sector and grew to unprecedented multinational stature. They can interlink the expertise of their global partners to grab this opportunity. This is the area where the corporate agents and agents also do not present any aggressive challenge.

ROLE OF BROKERS

The primary role of insurance broker is to facilitate the transfer of risk through placement of insurance cover on behalf of an insured. They have to inspire in underwriters, on case-by-case basis, the confidence to accept the risk presented. There can be no universal solution that will transform every risk into an attractive proposition to insurers and for some clients this may well be impossible. Each case is considered on its merits and individual problems addressed. Brokers have skill and expertise to understand the risk and have access to the multiple insurers to find a right carrier of risk to place that risk. They are in the distribution business not only to extend the market by spreading risk awareness but also to make wider the shopper support for all insurance products. They have a bright future and role as the value added intermediary that can provide perfect services to match insured's need in various segments. Brokers work together with client companies to construct proactive programme of risk protection that are geared to support that organisation's strategic business objectives. Effective risk management typically involves the application of pre and post loss mitigation techniques combined with various levels of insurance in well structured programmes drawn purely on the need of the client. They are the only intermediaries in the distribution channel that analyse the needs of the customer and negotiate a deal suitable to the risk exposure of the insured instead of buying a standard insurance product. There are many areas where broker's input will be of great value. They are vital links between the contracting parties and can play a influential role in intermediation business.

As Match Maker:

Brokers play an important role of matchmaker bringing the insurers and the clients together in the spirit of goodwill, mutual trust and long lasting relationship. They make business mutually desirable for both the insurer and the insured. They tailor risk-financing programmes to match the uniqueness of client firms using analytical tools and technical expertise to determine what is best for their clients. As substantial amount is invested in technology and professional development they are better placed to negotiate price, terms and conditions or even get clients the products that precisely fit their need. Brokers have a know how in risk management and risk evaluation and they can understand the risk profiles of clients and can act as their voice in getting most appropriate and best rated product through consultation with insurers and where desired with re-insurers too. *It is right time that insurance contracts are written by involving both the parties of the contract.* Brokers not only look into pricing factors but also see the bend of safety mechanism that exists and so forth. The insurance broking virtually eliminate the need for consumers to keep track of their insurance programme. They offer complete solution right from risk profiling to claims administration, which makes it easier for clients to concentrate on their core business. As pricing of risk is based on the principle of risk management, insurers are also encouraged and they appreciate better risk management procedure practiced by insuring community in guidance of skillful brokers. They are real matchmakers.

As Consultant:

These professionals, like in developed market, may also provide insurance consultancy services, risk management services and services for uninsured loss recoveries. Their role is to provide technical expertise and to explain fully various aspects of risk coverage. Brokers deploy their understanding of workings of the insurance market and the strength of their relationships with insurers to secure cover for their clients at affordable cost. Carriers need the confidence to underwrite and belief in the broker is a pre-requisite of this. Risk consultancy to corporate clients is greater need of changing times. Risk consultancy is for risk management, loss prevention and risk improvement technology required by both insured and insurer. The insured is generally a layman and the insurer is a technical expert. Broker has to nourish relationship between them by his expertise to satisfy both. It is important aspect of risk presentation that it proves to be a true picture to maintain long-term relationship. Brokers provide technical consultancy services for all type of non-life insurance, risk management and claims settlement. This includes handling of the special rating and formalities of TAC as well as acting as lender's adviser on privately financed projects. *In insurance it is practice to fix price before the cost is known. Hence there are good and bad rates and not good and bad risks. Broking strategy should stop ridiculous rate reduction. As consultants brokers are expected to balance both the rates and terms so that loss of one when shared by any, all survive and leave none to break.* **This model will flourish for long if brokers act as 'priest of marriage' and not as 'advocate of divorce'**

As innovator:

The most important aspect of broking in insurance is that brokers function not only as intermediary, as the term broker applies, but also as innovator. *If the insurance product does not exist that meets the need of the client, then they try to invent it and sell that idea to insurers. In this way instead of simply acting as the buyers' agent in purchasing the best available product from the insurance market they often develop the most excellent products and try to sell it to insurers.* This sort of creativity and promotion is now expected to put further challenges to Indian Insurers who have remained under the sheltered environment where the insurance product are simply sold on 'what is available basis' and they will take on new marketing strategies to offer products which clients need as per their suitability.

Like in developing insurance markets brokers will make many large companies to recognise the benefits from a greater degree of risk retention. As premium rates rise and insurers turn more selective, the option of insuring risk from the 'ground up' will be less attractive and may not be profitable in larger cases. Brokers, in such a situation, have a specific role to design insurance programme maintaining the optimum balance between retained and transferred risk for each client. The 'one-rate-one-industry' theory of tariff being followed in India does not recognise the industrial risk profile hence good risk and bad risk are treated equally. This is likely to change soon because of broking model.

Role to lessen 'gap of expectation':

General insurance is an intangible product, contingent to the happening of an event that may or may not happen and tested for its utility or otherwise at a future date. Insurance promises future performance. There is 'informal gap' between the providers and the served throughout the contract period and this 'information gap' is converted into 'gap of expectation'. Traditionally, the insured has little to say in drafting of contract, which is often technical. **Insurance contracts are unique; their price depends on insurer. Two parties of contract do not draft contract. Contradictory expectations, no adherence to commitments, different interpretation of basic agreement results in 'gap in expectation' between the parties of contract.** Genuine conditions apart, in present insurance industry, human greed, system failures, bureaucratic approach etc have made things very erratic. There is no question that 'it takes two hands to clap' and inadequacies lay both with insuring public and insurance companies. It is here that brokers can play a key role to lessen this 'gap of expectation'. They can offer badly needed depth to this service industry and perhaps more transparent and well-regulated system than other entities in distribution of insurance products. Brokers can take the job of educating potential customer for which insurers have to spent chunk of their hard-earned premium income. Broking in insurance can direct the movement of services in this industry towards professional management supported by research and use of technology taking due care that may best fulfill client's wish-list. These kind of services will surely narrow down the gaps. The clients will also become more levelheaded in their outlook.

Brokers also have a role to correct distortion in non-payment of claims. They serve to fill gaps in insurer's service and ensure seamless and efficient service to clients. *They understand insurer's procedure better and respond as required to emerging demands from clients.* The Regulator has stipulated time frames to settle claims. These need to be adhered if not bettered and the broker can ensure that insurers regard these rules in the interest of the clients. Keeping the above in hindsight and the role that the insurance brokerage industry has been playing on a global level, the Indian market also needs the broker-model here to mature with time and needs to have a clear standing for the industry. Developing this way will enable brokers to service the consumers to its optimum level of efficiency.

PROSPECTS OF BROKING MODEL IN INDIA

Broker model has a distinctive feature that ensures the patronage of particular consumer segment that values the choice presented by brokers. Need based covers built upon and negotiated by brokers increase their business to meaningful propositions. Inherent limitations of the individual agent have contributed to leave huge gaps in the spread of insurance, which are potential area for brokers. They can aim to combine high-end sales with mass marketing approach by segregating insurance business in terms of corporate and retail customers.

Retail Segment:

The effective way to reach to masses is to grab the retail segment. This segment includes motor, health, personal accident and package policies like householders and shopkeepers package covers. Motor is key segment of general insurance business. Excluding motor the retail segment constitutes around 15% of Indian general insurance business. This poor performance is largely due to lack of adequate distribution channel rather than lack of products. In fact, the insurance industry has developed a wide array of products over last few decades. However, it is anybody's knowledge that not more than 40% of the products are in regular use. This means either the products do not meet the requirements of the target group or the traditional marketing force is not fully aware of the availability of these products. By tapping such under-served niches, brokers can expand the retail market substantially. The individual is not on the whole very insurance conscious. He is aware of a few of common forms of insurance but will probably have no conception of the enormous variety of covers, which the insurance market provides. He may also be prepared to concede that the idea of insurance is a good one, but he still tends to be reluctant purchaser. His reluctance is mainly because of payout in return of which he receives no immediate tangible benefit and to some extent because of his perception that it is very difficult to get a claim from insurers. The brokers' prospect may be bright if they take the lead to improve the situation from this place. They can play the role of educator to develop this line. Brokers need to do more than what insurers and traditional intermediaries have done so far. Clients need far more than simple introduction to available covers. Broker's task will largely be to select most appropriate cover from a range of standardized policies and wherever required he can negotiate additional endorsement on standard packages or can work on tailor made covers in consultation with insurers to suit particular group or inhabitants of particular zone. It is the influence of brokers that one can find floater in family package health cover, critical illness cover as supplement to basic medi-claim policy on nominal premium and inclusion of pre-existing disease after four claim free years in succession. Personal line of business is mostly non-regulated business and brokers have huge scope to negotiate both pricing and product features. To put their finger on right pulse brokers must assure post sales service and doing so they can be seen far ahead on road leaving their competitors miles to the rear.

Motor business is the major portfolio for general insurers. It constitutes 40% of general insurance market. To maintain growth in profitable private car insurance segment insurers have signed a series of MOU's to have tie-ups with lead manufacturers, distributors and financers. Insurers have preferred Corporate-Agency-Model to promote and distribute this major product. It is difficult for brokers to grab this portfolio without any value addition. They have to develop business relationships and post sale service is the key area that can give some mileage to them, as the traditional agency force has remained deficient in this area and the dissonance is common experience of customers once they meet with an accident. *Brokers can help their clients by completing formalities of making claim upon his insurers, and possibly for assistance in making an uninsured loss claim against the other motorist.* Motor insurance is a mandatory insurance cover. Given the total vehicles and the annual growth it is obviously a huge market that broker must try to grip in order to stay alive and to take their due share in most prominent portfolio, in brutal competition surrounded by other intermediaries and direct marketing force of the insurers.

Health insurance is another area in retail segment that has huge potential to grow as standalone business. Brokers can play a lead role to develop it. Health needs of the people are increasing day-by-day and more so the cost of treatment is also escalating with parallel pace. Current health care expenditure in India is Rs. 1,03,000 crore, which includes Rs. 86,000 crore, spent on health care delivery and Rs. 17,000 crore on pharmaceuticals representing 5.2% of GDP. This is comparable to the expenditure most developing countries incur on health. However, the coverage of population under private, social and other types of health insurance is limited to the extent of 15%. Following table shows the form of healthcare coverage in India.

Table:2

S. No	Type of healthcare coverage	Number of lives
01	Private Medi-Claim cover	80 lacs
02	E S I beneficiaries	3.4 crore
03	Central Govern-ment Health Scheme	40 lacs
04	Railway health scheme	12 lacs

Over the years private health expenditure has grown at the rate of 12.84% p.a. Insurance awareness is very poor in our country. This presents an opportunity to brokers to take lead to educate people and to develop and negotiate need based insurance covers in health sector where only one cover 'medi-claim' is largely marketed. This policy currently covers only 5% of the population.

One in every 333 Indians suffer from a heart-stroke. Four million stroke victims continue to survive. 20% of the population can develop cancer. Today, the average age of a person who can experience a heart attack has come down from 40 years to 35 years on account of changing lifestyle. Diabetes is also more prevalent today. All this means additional medical expenditure that may not be adequately covered under general medi-claim policy. Expenses could be incurred even after discharge from hospital. Add to this fact one may even lose his/her job as a result of falling prey to any illness. Even after taking a cover customers are unsure about whether they can fall back on their medi-claim policy should they be affected with ill health. At the heart of most disputes is the issue of pre-existing ailment.

Floodgates of competition have thrown a challenge to the brokers to develop more innovative covers to deal with the health care issue at large and to make an impressive hold on the market. This is an area where there is ample scope to redesign the cover and negotiate the rates. *Health insurance products are Giffen Good- a term used by economist for products where sales rise despite an increase in prices.* For a long-term relationship brokers should finalise deals that remain effective for years. A close look to current profile of business shows that those that are likely to use it purchase this product. It is individuals over 45 years of age. Brokers can negotiate covers with possible discounts for those who join the health cover early and diligently pay their premium all their life. They can also work for products where pre-existing disease condition gets deleted after operation of the cover continuously for 4-5 years. Globally this model has successfully handled this segment with professionalism and it is expected that Indian market will also witness innovative covers by intermediation of brokers. Other intermediaries have limited skills to explore the possibility of best product that suits the need of the clients and professionally they can only rely and market the products of their principal but the entry of brokers in health segment means better products with variety of riders and choices for customers.

Corporate Segment:

India is shining and showing strong growth in both life and general business. It is expected that insurance business in India, which is pegged at $ 6.6 billion, would increase to $ 40 billion within next 4-5 years. Insurance premium in our country accounts for a mere 2% of GDP compared to the world average of 7.8% and G-7 average of 9.2%. **With increasing sign from manufacturing activities and increasing signs of consumption recovery there are all chances that 'feel-good' factor in newly born broker intermediation will turn into 'feel-better' as there is vast scope in corporate sector.** The share of gross fire insurance business in Rs.14000 crore general insurance market is 20%. This business is growing at about 12%.

Indian corporate has become more risk aware with development of economy. Due to fall out of September 11 corporates look for better, newer and wider covers like Director and Officers liability insurance, product liability and product recall covers besides the traditional operational covers. Corporate sector requires unique tailor made covers and risk consultancy services. Risk profile of marine hull, aviation, energy, oil, power, food and beverage, entertainment, broadcasting, multi-media and other jumbo projects are different not only from industry to industry basis but also from industrialist to industrialist basis. Brokers subdivide a market by introducing more characteristics. They believe to move into niches beyond segments to make their presence felt by the market. Brokers, world over have designed, negotiated and finalized many innovative covers. The first tailor made cover for a Hollywood film covering the risk of death or injury to stars or damage to negatives or tapes causing costly re-shoots and risks from pre-production until release of the film was broker-driven and it was altogether different from standard accidental damage and fire covers available in the market at that time. Big corporates will welcome the intermediation of capable and accomplished experts who will make the deals possible on tailor made products best suitable to their organisation. They are not happy even with 'one industry one rate' they want specific rates for their organisation. Mega risk concept is one such concept that made it possible to analyse risks of every customer as separate segment. Separating the risk of Reliance group from the standard petrochemical tariff and offering a tailor made product driven on reinsurance quotes made it possible for Reliance to have a need based specific cover by paying Rs 30 crore instead of Rs 100 crore for purchasing standard cover.

The broker-model as such is very encouraging way of intermediation but its success will depend how it keeps it operations in the delivery world of insurance products. World over brokers have made a strong place in corporate segment. The broker's USP is financial planning and need analysis for clientele. It is difficult for client to approach number of insurers to get the best deal. Brokers have specialized knowledge and access to multiple insurers and reinsurers and they can provide greater choice to corporate clients after analyzing their risk pattern and capability to retain risks.

With 5% discount for corporate and with tariff and structured policies in place it will be difficult initially to get established in the market but for sure the corporate segment is the major segment that will decide the future of the broker-model in India.

Mass Marketing:

India is fast catching up with direct broking. Intermediation through brokers has already changed the way of insurance marketing with mass. Brokers are better placed to sell group insurance covers to a set of people who share a similar need. They could transform urban and semi urban markets in the non-tariff business. Indian consumers have also started looking for real value for their money. Brokers with competitive insurers are already hitting upon innovative and novel ways to reach both the uninsured and underinsured. Some are packaging the goodies of the traders with insurance facility as extra incentive for wooing the cost conscious consumer; some are targeting the same with low served health and accident segment. Market report confirms that new companies are almost targeting 50% of premium income from these nation wide alternate channels.

Brokers emphasise need-based selling of risk products. They provide client expert advice on relevant issues. They are not in the market just to earn commission by pursuing one company's available products but this model believes to generate awareness and to guide the client, the cover that protects the risk they produce and perceive. They negotiate add-ons or modifications, if they are relevant to make sense to the need of the mass. They have a powerful role in insurance penetration of the country.

CHALLENGE FROM OTHER INTERMEDIARIES

Understanding one's customer is not enough to remain successful in today's competitive environment. It is equally important to understand the objectives, strategies as well as strengths and weaknesses of one's competitors. Brokers are new in the intermediation business of insurance and the competition is stiff from the other intermediaries, which have recognition and a firm standing in the distribution business. To become strongest driver of growth brokers will have to perform better than these competitors to win the clients as well as the insurers to their side and more important is that they become competitor oriented too. **Their competitive strategies will only decide whether they are going to be market leaders, challengers, followers or nichers.**

Agents:

The traditional agency system of distribution of insurance products is perhaps a century old. The agents are linked to one insurer. They get a commission on the policies sold, which is usually a fixed percentage on the premium. Agents generally have limited knowledge of business they get and canvass business through their personal contacts. Agents generally service by one-on-one discussions and have a very special way for calling on each individual based on their liking and personal details known to him. They have ability to handle routine matters but they lack competence to tackle complicated issues.

Traditionally, insurers in a top-down product development approach create products with features attractive to agents (high commission) and then let the agents find appropriate target markets. Broker channel, in contrast, requires an analysis of the market that starts at bottom, with the customers and works up. There is challenge without doubt from agents in personal line of business including motor segment that carry major share of non-life premium. Agents, though recruited according to licensing regulations, are not nurtured enough through proper mentoring by the insurers. There is lack of clarity on how to harness the agency potential. Retail segment (excluding motor) is not easy to sell. A demand for it has to be created by insurer through well thought out strategy and agent has a role only in its operational implementation but brokers are placed in better position. They can create this demand at their own by playing the role of educator and can perform as planner and executor to grip the distribution of the retail products. They can enhance the degree of professionalism and product innovation in the market. It is interesting to see how potentially they create retail market. Right strategies can drive them to target.

Corporate Agents & Bancassurance:

Corporate agency or Bancassurance is a 'hot word' in Indian Insurance Panorama to-day. Corporate agents have stepped in the intermediation business all together with brokers to deliver insurance products. They have been recognised immediately by the carriers looking to the potential, network and grip they have with their customers. *General insurance business has developed to a large extent as a lender-driven market. Banks and Financial Institutions have been the major drivers of wealth creation and insurance as necessary collateral has grown alongside. Banks can use their inherent strengths in leveraging their familiarity with their customers to develop insurance business and corporate agency is the best way to earn non-fund income and to improve their bottom lines.*

Banks have a vested interest in promoting insurance products. They have shown their keen interest in Bancassurance tie-ups in order to increase the proportion of their income, which come from commission rather than from interest margins, especially given the current low interest environment. This is consistent with global trend towards convergence of banking and insurance, which are two crucial business activities in the financial world. In Europe it is the main form of distribution for financial products and it is estimated that Bancassurance generate about 30% of European bank profits. The business logic underlying Bancassurance is the exploitation of business synergies and economies of scale between banking and insurance products and services. Climate is very friendly to Bancassurance and at present the Bancassurance is practiced only as a distribution-model of the pure insurance products. The bank products have not yet tied-up with insurance products. This model is the real challenge for any other player in the distribution field. But this model has certain inherent weaknesses that other competitors would like to watch.

Bancassurance-model imposes preconceived product-driven strategy. Product design is an important issue in open market and brokers are capable to present a serious threat to this way of intermediation by creating product that may be attractive to the bank consumers. **Authentic marketing is not the art of selling what you make but knowing what to make.** Brokers can find clever ways to pursue these clients and to deal with them directly.

Another problem is that banks in most of the cases are joint beneficiaries in the event of a claim, even while they perform the duties of agent to place that business to the carriers of the risk. In the event of any error or mistake committed by them as an agent to prejudice the interest of bank customer may complicate the matter, and it can be challenged legally. *Bankers definitely will not like to have obligations or liabilities brought on to their balance sheet as a result of their taking up corporate agency. They are in this business to generate non-fund income and to improve their bottom lines and not to enhance liabilities.* This threat of Bancassurance-model is one more opportunity to brokers.

The corporate agency model is not only restricted to the banks and financial institution but the insurers have found their partners in other fields also. They have given corporate agency to travel agents, manufacturers, traders and one of the public sector company, Oriental, has tied up with Indian Postal Department to distribute its products. The lender-driven and producer-driven markets will be grabbed by corporate agency model and the reason is the non-fund income to the lenders and producers that can contribute to improve their bottom line and impress the shareholders.

Direct Marketing Force:

The present structure of PSU's relies on branch managers, divisional managers, officers in development side and development officers as main marketing force. They enjoy access to preferred source of supply and high respect in industry. This structure has been built in years and insurers are not going to change this zero-level channel easily. With the opening of the sector insurers have realized that intermediation is the need of the hour and they have shown their initial confidence on Bancassurance-model and have signed many tie-ups with motor manufacturers, dealers and other trade giants to capture lender-driven and producer-driven market. For consumer-driven market they still rely on their primary marketing channel. The broking-model has not gained their confidence and recognition to their expectation and this is the biggest challenge for the brokers.

Development officers, who were relied upon by insurers to create new markets in retail segment have largely failed to promote and develop personal line of insurance. Their selling effort has remained less intense in personal line and rural sector where the market is not lender driven. In this context the role of brokers assume significance and if they work hard and do not allow agency intermediation to take lead in retail segment they can change the delivery system of insurance products comprehensively in their favour. Insurers sales force concentrate entirely on company's products. They follow the product-oriented strategy to sell standardized products. On the other hand brokers could convincingly sell more than a company's sale force because they are customer-driven.

Consolidation process in the PSU's has diminished the role of direct marketing force in Commercial segment and this is the best time when brokers can prove their competitive edge. The insurers will have to accept the channel that performs better as a part of inevitable growth process of the market.

CONCLUSION

Brokers, as intermediaries, have huge scope and prospects in the distribution and servicing of insurance products. With market-oriented thinking they can generate risk consciousness, expand shopper pattern and develop insurance market. Broking-model is new to the Indian scene as such there are many apprehensions on all sides. Neither the brokers nor the insurers nor have the clients tested each other enough to build mutual goodwill as necessary to become supporters of each other rather than as adversaries who are bent upon to outsmart each other.

Broking in insurance will increase range, mobility, integration and above all utmost good faith among parties in insurance contract. Insurance business for decades had been insulated from international competition. With dismantling of regulations not only new players will enter into the market but also there will be professionals to select most excellent among them in order to bring value for the money to the customer. Brokers will need their mind set and expertise to become accustomed to changing requirements and will have to get ready themselves to participate in a new ball game altogether where for almost all major business they will have to interact with likewise expert and conversant rank of mediators.

The market will witness the onslaught of multiple distribution channels that will revolutionise the geometry of insurance products. In the end, the intermediaries who best satisfy their customers will be the winners. The job of brokers is to "think customer" and to guide insurers to develop products that are meaningful and attractive to the target customers. The future promises to hold out a highly competitive environment where only the fittest will survive.

ROAD SAFETY - ROLE OF INSURANCE COMPANIES

By: Shri G. Venkatesh,
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7th April 2004 was World Health Day and for the first time in the history of the World Health Organisation, it has dedicated the day to 'Road Safety'. By taking this step, WHO hopes to raise awareness about the health impact and societal costs of road traffic injuries and issue a call for action to increase efforts to prevent road accidents.

In 2000, an estimated 1.26 million people died worldwide as a result of road accidents. Around 90% of the fatal road traffic accidents occur in developing countries like ours. The majority of victims are pedestrians, motorcyclists, cyclists and passengers of public transport. WHO predictions are that by 2020, traffic crashes will rank third in the order of causes contributing to ill health; only after heart disease and depression.

India accounts for the second largest number of road accidents in the world. The time to act is now.

Road Safety has thus become one of the greatest social problems of our time.

MULTI-PRONGED ROLE

Several bodies like Police, Public Works Department, Transport Registration authorities, Road Research Laboratories, Developers of Road Infrastructure, automobile owners have to come together to create more and more awareness about road safety. Human life is precious and it is really sad to see many lives lost as a result of road accidents.

The General Insurance Industry has played an indirect role in the promotion of Road Safety so far. The indirect role is limited to insurance cover, premiums charged etc. But with times changing this is not enough.

LOSS PREVENTION ASSOCIATION OF INDIA

Established by the General Insurance industry, the LPAI is doing a great job - but there is need for more professionalism. There is scope for improvement. One is not sure how many vehicle owners even know about the training programmes conducted by LPAI. It would be worthwhile to give more teeth to LPAI so that it becomes more professional in its outlook. Now that the insurance sector has been opened up, it will be advisable to involve the private general insurance companies in the functioning of LPAI. IRDA could play an important role in ensuring that LPAI is not cash strapped for initaiting such measures. The role of LPAI has to be expanded. At present it is concerned with creating awareness, training, collaboration with other institutions like Central Road Research Institute, Traffic police etc. Going forward, LPAI should get involved in RTO as well. LPAI can set the standards for driving test. For example - LPAI should be given the authority to insist that no license be issued without the drivers undergoing a Defensive Driving Training program.

FACTORS RESPONSIBLE FOR ROAD ACCIDENTS

These are classified as :

- ❖ Driver
- ❖ Vehicle
- ❖ Pedestrian
- ❖ Road

The largest number of accidents is attributable to driver's fault.

The crux of the problem is the attitude of the persons sitting behind the wheels. With every person firmly believing that he is right, the problem only gets compounded further.

An attitudinal change can be brought about only by sustained public awareness campaigns.

ROLE OF GENERAL INSURANCE COMPANIES

The insurance companies should not limit themselves to providing insurance cover and settling claims. All the general insurance companies should come together to strengthen the LPAI and at the same time, they should bear in mind that they too have a role to play in creating awareness and highlighting road safety issues.

- Awareness has to be created through media - television, radio, print, banners.
- Celebration of National Road Safety Day.
- Advertising campaigns targetted at reckless drivers.
- Banners can be set up in Garages, Railway stations and Petrol stations.
- Celebrity endorsement of Road Safety.

Even though these are cost incurring activities, there are two indirect benefits that will flow out of such measures :

1. Reduction in cost of insurance claims.
2. Insurance essentially has an element of social responsibility. So, there will be lot of goodwill generated for the insurers.

Often, the moral hazard is at play as far as insurance is concerned. Insurance is mainly aimed at mitigating the adverse effects of risk and as per the Law of Uberrima Fides (Utmost Good Faith), the insured has to take reasonable precautions to minimise the risk. Due to the moral hazard, a sense of recklessness seeps in because the insured feels that he has insurance to fall back upon if there is a loss. It is important for the insuring public to remember that the insurance contracts are contracts for indemnity - the insured cannot make a profit out of his loss.

Going forward, insurers also need to network with Manufacturers of automobiles . Thus, when a person buys a new car, he would get an insurance cover along with the new vehicle. Safety standards for vehicles are being tightened.Accessories like Seat belts, child seats, air bags etc. are becoming life-saving accessories. Thus, IRDA could stipulate the vehicle standard norms for covering vehicles under Motor Insurance.

There are two ways in which insurance companies can play an active role. The first is tighter underwriting controls and stricter claims processing. This is something that the insurance companies have already been doing. The second way is to reduce the claims cost in the indirect fashion as has been described in this article. In any case, insurers have an important role in fulfilling their social responsibility.

CONCLUSION

The number of road accidents has been steadily increasing over the years. The situation is alarming. A developing country like India cannot sit back and watch such accidents occurring with alarming alacrity. It is time to wake up and smell the coffee....! Accidents lead to loss of precious lives, thereby affecting the families who were dependent on the deceased. The insurance companies have to put pressure on State Governments and Central Government in their quest for promoting road safety.So far, insurers have been adopting stricter underwriting controls like No Claim discount, higher premium rating on Sports cars, higher premiums for older vehicles etc. But this is not enough. Insurers need to fulfil their social obligation by giving more teeth to the Loss Prevention Association of India, by networking with several bodies and by maintaining regular communication with the insuring public at large.All the insurers need to share a common platform for highlighting such issues of public concern.

TOWARDS A BETTER WORKING CULTURE IN THE PLACE OF EMPLOYMENT

By : Shri T. S. V. Subramanian,
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IMPORTANCE OF EMPLOYEES' ETHICS

An organization's image is projected well when its performance, both in terms of its financial position as well as Human Resource policies are sound. For achieving better results by an organization on its financial front, work contribution from the employees plays a key role. Therefore it is often said in the Management Principles, that a satisfied employee will bring in tremendous benefits to his/her employer. We all hear and read from Newspapers that organizations like Infosys, give priority to its Human Resources policies appealing to the deep senses of its employees, both mentally and physically, which alone ultimately bring good results to the Organisation.

When an ideal situation is created in the organization, behaviour of the employees also takes a right direction. A sense of oneness also develops. Once this kind of atmosphere is built, organizations tend to grow.

Image of any Organisation depends on the behaviour of the people who work for it. It goes without saying that, good image is essential for long term survival of the business. In organizations where Human Resource Management Policies are positive, it becomes an obligation on the part of its employees to behave in an ethical way at their work place.

Behaving in an ethical manner by the employees in their workplace adds to their own reputation too with the image of organization. This results in development of good work culture, whereby progress, growth, glow and success of the organization is ensured. Having good work ethics helps in building good image both of the employer and the employee.

Employees need to understand their ethical responsibilities in -relation to their job and follow them strictly.

The word 'Ethics' is derived from Greek word 'ethos' meaning character. It is also defined as- "science of moral duty or the science of ideal human character". Synonymous terms in common usage are righteousess, justness and honesty.

In the workplace, employees play different job roles and are expected to follow certain ethics in performing their role, with the ultimate goal of achieving and bringing success to the organization to which they work for. This is called as 'Employee Ethics' which in other words can mean as moral law binding the working community in the work place.

ESSENCE OF EMPLOYEES' ETHICS

Duty consciousness, diligence, punctuality, work excellence and frugality are some of the work related ethics. Observing work ethics by the employees results in better and conducive environment which is important for an organization to excel in its performance. Even in this present world of 'Computer era', contribution of human factor is essential, as machines can work only with the aid of data fed into the machines.

It is important to treat work as a duty and it is one of the essences of the work ethics. Every organization expects employees to do his/her duty. To quote from from Bhagawat Gita "Performance of duty is superior to inaction and man attains the highest perfection when he is devoted to his duty. Each individual is obliged to perform those duties which have been allotted to him and complete them as best as he can" No personal consideration should stand in the way of performing a duty. In the words of the great Swami Vivekananda "Every duty is holy and devotion to the duty is the highest form of worship of God".

Thus, it is a universal truth that duty is devotion and work is worship. In the workplace duty conscious employees perceive their duties as more important than their rights, and put the interest of the organization ahead of their own.

Doing the job diligently is another important element of work related ethics. No matter how menial the job, an employee is expected to demonstrate care and effort while performing duties in order to produce the best results to the organization. Consequences or ill effects that are likely to take place by doing the work without diligence should be understood well by the employees. Today's customers are having more awareness and their expectations are increasing day by day. To fulfill increasing expectations of customers, organizations are compelled to give special attention to quality of products and services. In such conditions employees are required to be diligent in all aspects of their jobs.

Adhering to time schedule without bothering for personal difficulties is a virtue. Punctuality of employees ensures orderly flow of work and operations and thus the efficiency levels of the organization are improved. Keeping punctuality shows effective time management.

BENEFITS OF QUALITITATIVE ETHICS

Today's organizations, to face the competition effectively, are trying constantly to offer better quality products at lower prices. So employees are required to demonstrate the qualities of commitment to work, excellence and frugality in the workplace. The present young generation is striving hard for excellence with a view to achieving something great in life. Organisation can use that spirit effectively and can offer quality products/services with lower price to the consumers.

Work excellence also benefits the employees. It enhances the reputation of individuals and also helps them to secure a bright future. Excellence gives identity to the individuals and pride to the product. Achieving excellence can lead to unprecedented growth and contribution to the organization. There is a lot of ethics involved in commitment to work excellence.

Frugality is 'using resources as much as necessary'. Within the limited resources, there must be optimal utilization. When the resources are utilized frugally, there is great possibility of control over cost, which in turn benefits the organization- better products at lesser prices.

Commitment to the organization, conflict resolution through negotiation and accepting organizational changes are the important organization related ethics. Relevance of these ethics are:

Commitment to the organization: Combining the personal objectives with the objectives of the organization is a commitment to the organization. Committed employees are always ready to work hard by using their energies and time. During difficult times of the organization, they are ready to give up a lot for the betterment of organization. Commitment cost the employees in some ways. They have to sacrifice something in the larger interest of the organization. As the sense of commitment cannot be imposed upon people, it should come voluntarily, therefore, it is a virtue. Commitment to the organization creates a sense of belongingness in the minds of employees.

Conflict resolution through negotiation is another important organization related ethics. Conflict is inevitable in the workplace. It must be resolved through negotiation. Accepting negotiation as a means for resolution of conflict is ethics. When conflict is resolved through negotiation, it benefits all the parties to the conflict and the organization can carry its activities smoothly.

Accepting organisational change is another important organization related ethics. In the present fast changing world, the organization and the people who change according to the changes prevailing in the business world are surviving and thriving. Therefore employees have to accept the changes introduced by the Organisation. Resisting changes without considering their necessity and benefits is not acceptable. As commonly said and believed, change is a sign of growth and without change there cannot be growth. Change is what keeps us fresh and innovative; change is what keeps us from getting stale. An organization without adopting changes cannot survive. Employees have to acquire new knowledge and skills in order to cope with changes.

DIFFICULTIES

It is most unfortunate that today a large number of employees consider that ethics has little practical relevance in the workplace. They fail to understand the consequences of unethical behaviour. Selfishness is the basis of all unethical activities. One need not to forego one's self interest but one should not attempt to fulfill self interest by sacrificing common interest of all. Employees have to be loyal to the organization, which gives them bread and butter.

There are reasons for growing number of unethical activities being adopted by the employees in the present times. A few of them, like- Law makers themselves become law breakers, religion is mixed with work ethics, people with muscle and money power dictate terms and so on. So, people are losing their confidence and beliefs in the ethical values.

Ethics in workplace can be ensured by framing a code of conduct, well defined policies and procedures and by conducting ethics training periodically. In any case it is an accepted fact that employees' ethics plays a crucial role for the well being of the organization.

CONCEPT SELLING IN LIFE INSURANCE

By: Shri Sekhar Chandra Sahoo,
LIC of India, Mumbai.

Life insurance is a simple concept - you buy a policy that pays to your beneficiary or beneficiaries when you die. The Reader's Digest's Great Dictionary of the English language defines "Concept" as an idea to help sell or publicise a commodity. The Random House Dictionary of the English Language describes "Concept" as a general notion or an idea of something formed by mentally combining all its characteristics or particulars. Life Insurance is universally acknowledged as an institution which eliminates risk, substitutes certainty for uncertainty and comes to the timely aid of the family in the unfortunate event of the death of the breadwinner.

Thousands of agents all across the country are transforming their agencies by capitalising on a new opportunity - selling the concept of life insurance. In the process, they are being rewarded with significant sales commissions. While the boost in income potential alone offers great motivation to sell the concept of life insurance, these agents have learned there are many other benefits as well.

In every market place, there is always a core group of people who are willing to try something new. They are called "early adapters". The concept selling in life insurance has passed this early adapter stage and now has hit the mainstream, where most insurance companies give importance to the concept selling over product selling. Because, companies want to capitalise on the close relationship we have with our customers. Yet inspite of the lure of higher income, many agents have not embraced this opportunity.

Objections of agents not to market the "concept" of life insurance:-

1. I don't feel qualified or knowledgeable enough to sell the concept.

   Knowledge is power. You can learn anything new if you make the commitment of time and energy to do so.

2. I don't want to disrupt my agency by learning how to sell something new.

   Yes, selling something new is a step out of the comfort zone. However, once that step has been taken, your comfort zone is enlarged forever. It is a fact of life.

3. It would be like selling a variety of attractive products and I don't feel comfortable selling that either.

   Actually, concept selling is more like selling life insurance products, but more on that in a minute.

4. Selling the concept is too much responsibility.

The fact is that as an agent you have already accepted the awesome responsibility for handling your customer's most valuable possession, i.e. their life and family members. Adding the concept to the mix is not different. Accepting responsibility can be liked by your customers.

Many Purposes of Life Insurance :

Life insurance is far more than just a decision of how much to buy. Cash value life insurance can strengthen your financial foundation and protect your goals. Depending on your financial situation, life insurance can be used for a variety of purposes, such as :

- Death Benefit - ensures that those who are most important to you will be taken care of in the event of your death.
- Disability protection - ensures that your premiums will be paid and your insurance will remain inforce if you are disabled and unable to work.
- Retirement planning - funds accumulate on a highly effective tax - sheltered basis to provide for future retirement needs.
- Cash Accumulation features - money for future emergencies or opportunities can accumulate in your policy.

For each of us, a stable financial future depends upon

a) Providing a good standard of living.

b) Saving money for future needs and

c) Retiring without money worries.

Unfortunately, your financial foundation can be destroyed by certain events like:

a) dying prematurely

b) becoming disabled

c) failing to plan

d) saving too little.

You can build a stable financial foundation with life insurance and enjoy the safety and strength it provides. Keep in mind, though, that the younger and healthier you are, the less you will pay for coverage. Life insurers really, really like to have their policyholders around for a long, long time. Whatever kind of policy you buy, you should make sure it provides enough of a death benefit to meet your family's needs if you are not there.

Types of Life Insurance Policies :

There are four basic types:

i) **Whole Life Products :** This is a permanent coverage, where the cost is literally stretched out over your entire life, or what the insurance company expects your entire life period to be. The assurance in this case is payable on the death of life assured whenever that may happen.

ii) **Pure Endowment Products :** When the benefit is payable only at the end of the selected period provided the life assured is alive then, it is called a Pure Endowment assurance.

iii) **Term insurance products :** Term insurance products offer death risk cover for a limited term and are good for only a certain period of time.

iv) **Endowment Products :** Endowment Assurance Plan is a combination of "pure endowment assurance" and "term insurance" for a fixed period. It also includes a buildup of value in cash in addition to your death benefit. You can borrow against your cash value, but your death benefit will be reduced.

Making life insurance a way of life by knowing the concept :

Contingent insurance is defined in economic behavioural terms as "an exchange of money now for money payable contingent on the occurrence of certain events." Life insurance is operated under the assumption that the loss of human life or parts of human body such as the leg, arm, brain and eye etc. can be compensated to a certain degree, by pecuniary means. Risk and trust are the main thrust of the life insurance industry. The impetus to insure against unexpected contingencies is based on a requisite awareness of certain forms of risk. The willingness to pay now in exchange for future protection requires a sense of trust that protection will be given when needed. The practice of life insurance is linked to a statistical form of rationality. It inevitably defines and re-defines risk, security, control, responsibility, trust and the meaning of death and good life.

We have been raised to believe that life insurance is not for the person who dies ; it's for the people who live on afterwards. Well, with a concept, life insurance is for the person who is going to die, to make that death - and life - a little easier.

The concept sounds simple enough. Let us take other examples of concept selling in life insurance :

- "retire from work, not life".
- "pay Rs. 7.94/day and enjoy a risk cover of 10 lacs".
- "Buy term and invest the difference".
- "replacing an existing life insurance policy with a new one".
- "insurance is for security, not investment".

Concept Learning :

For learning any new concept there is a certain set procedure, by which the learning becomes faster and easier. One gets to know the underlying concept with clarity.

Let us take an example from our day to day commonplace experience given by Shri M.S. Ranade in his article "Concept Mapping".

- A few random words like grass, horse, plants, cow, living-things, animals are given to you to remember and derive some pattern out of them. It may really mean nothing at the first glance. But do take a minute and reflect on the words, with a view to understanding a pattern out of these.
- If one has to understand them properly, rearrange them as a concept map, as follows :

  1. Living things, (super-ordinate concept), at the top.
  2. Animals and plants at the next higher level (co-ordinates)
  3. Horse and cow under animals : grass under plants (subordinates of the respective co-ordinates) cow and horse eating grass (a sequential relation)
  4. Here we have learnt the hierarchical relationship

too, i.e. super-ordinate, co-ordinate and sub-ordinates which helps understanding and memory.

At base level it is like photographs or snapshots of the place seen by you.

The next higher level could be the symbols, lines etc. i.e. not yet the words.

Example could be the lines and symbols in the drawing or a sketch, which is a representation of the reality. The earlier one was the actual representation of the scene, reality.

The next higher level will be the abstract levels i.e. the words; these are concept - labels or words. What do you mean by say: acid? Anyone with elementary chemistry background will at once understand it? He has the concept label fixed in his mind for ACID.

Here to explain we have followed the following sequence for easier comprehension and storage.

- Define the structure of the concepts.
- Go to know the sub-concepts.
- Understand the inter-relationships between the same.
- Understand the general attributes.
- Then the critical attributes.
- Then the spatial, hierarchical, cyclic etc relationships
- If this process is followed the new knowledge acquisition will be easier.

Finale : Everything in our world - from marketing to technology to distribution to capital markets - is changing faster than ever. But entrepreneurs who love change, get a chance to gain market share and profits. And since there are always more competitors than market leaders, there's a huge demand for change. More innovation ! More competition ! More change!

When the global and domestic life insurers battle for a "right" conception of insurance for their economic interests, they simultaneously define and re-define the concept of risk, security, control, responsibility, death and good life.

Approximately 75% of the insurable population are waiting for investing money. The only question is where to invest and with whom ! You already have an established relationship with your customers who trust you with their most valuable asset i.e. their lives and family members. "All you have to do is ask and sell the concept of life insurance". You are merely enlarging the role that you already play in your customers' lives as a trusted advisor.

AROUND THE INSTITUTES

Indian Insurance Society, Kolkata

The Society conducted a seminar on 28th September, 2004 on, "The Future & Potential of Health Insurance in India", for the benefit of members of the Society. Nearly 75 members attended the seminar. It was inaugurated by Shri H. S. Wadhwa, Chairman-cum-Managing Director, National Insurance Co. Ltd., Kolkata. The seminar was designed by Shri P. C. James, AGM, National Insurance Co. and the programme co-ordinator was Shri S. Dev Roy, AGM (Retd.) TAC. The seminar had a wide coverage in the local newspaper.

Shri H. S. Wadhwa, CMD, National Insurance Co. lighting the lamp to inaugurate the seminar.

A view of the audience.

Pondicherry Insurance Institute

i) The Institute conducted a programme on "Selling Skills" on 11th July, 2004 at L.I.C. Branch Office, Cuddalore, for the benefit of agents. 35 agents participated in the programme. The faculty for the above topic was Shri S. Krishnamurthy, a leading Consultant.

ii) The Institute also conducted an educational programme on "Personality Developments, Effective Conversational Skills, Happy Living and Motivating Self and Others" on 29th August, 2004 at the premises of Pondicherry Insurance Institute, for the benefit of members. 35 members participated in the above programme. The faculties were Shri N. Alagappan, Divl. Manager, United India Insurance Co., Pondicherry and Shri B.S.T. Shah, Divl. Manager, United India Insurance Co., Chennai.

Shri G. Ramesh, Chairman, Pondicherry Insurance Institute delivering his address.

Indian Insurance Institute, Kolkata

The Institute continued to undertake many useful activities for the benefit of the members in spreading insurance education. It organized many training programmes. Details of various activities undertaken by the Indian Insurance Institute during the period July-December, 2004 are:

1. An information desk was set up by the Institute at Hotel Hyatt Regency, Kolkata on 18th July with the active support of Life Insurance Study circle. Able and relevant information were provided by the members of the Institute who managed the 'Information Desk'. During the programme, information tools like Agents Desktop, Plans at a Glance and C.Ds containing publicity matters were sold.

2. As a part of 48th Insurance week celebration, a service counter was set up by the Institute in the ground floor of the Eastern Zonal Office of L.I.C. of India, Kolkata from 1st to 7th September. Members and staff of the Institute provided information on the different insurance products of L.I.C of India to the needed general public. A quiz programme was also conducted by the Institute on 3rd September during the Insurance week celebration which received good response.

3. The Institute dedicated the year 2004-05 as 'Year of Agents'. Towards that, the Institute conducted many programmes for the benefit of the agents. Following are the details of the same:

    a) On 14th August, a training programme was conducted for the agents which was inaugurated by the Marketing Manager, L.I.C of India, KMDO I. Speeches on interesting topics were given by some of the members of the Institute on subjects like 'Individual Pension Plans', 'How to sell high end sum assured policies'. A powerpoint presentation was made during the programme by an officer of L.I.C of India highlighting the features of 'Bima Plus' policy. 38 agents from different branches of L.I.C of India took part in this programme.

b) Another training programme for the agents was organized by the Institute on 18th December and was held in the premises of the Indian Insurance Institute. About 30 participants attended the programme in which different insurance plans and its features were explained.

4. Institute conducted for the benefit of the aspirants of AAO promotion, a programme on 24th July on 'How to face interview?' in the Conference hall of the Zonal office of L.I.C of India. Regional Manager-PR&CC, L.I.C of India and Secretary- Insp. Eastern Zone, L.I.C of India spoke on various aspects of interview and gave some tips on getting through successfully in the interview. About 70 participants attended the programme. A set of practice questionnaire named ' Model questions for AAO interview' compiled by the Indian Insurance Institute was distributed to the participants.

5. Annual debate competition organized by the Institute was held on 21st August on the motion 'Proposal for imposing service tax on insurance premium is unhealthy'. Equal number of participants spoke in favour and against the motion. The programme was well received and enjoyable to about 30 members who attended.

6. The second Liaison Person's meet organized by the Institute was held on 27th November. Suggestions like providing solution to papers no.24,81,82 and 89 of Institute's examination, declaring the result of May examination in time to enable the successful candidates sit for the immediate AAO examination were made by the participants. One of the member suggested that a mock examination be conducted on subjects like 81,82,89 etc., 15 days prior to I.I.I's examination. Secretary of the Institute mentioned on the future plans of the Institute like launching of its own Web site, organizing oral tuition class and publishing guides for some subjects of the I.I.I's examination. Suggestions also came to make the periodical of the Institute 'Beema Beekshan' more informative and to include in it the market position of the private insurers.

7. Annual Convocation of the Institute was held on 4th December which was attended by impressive number of members. Dr. H.Sadhak, Director, MDC, L.I.C of India was the chief guest. In his address he appreciated the role played by the Indian Insurance Institute in bringing out more professionally qualified insurance persons. He urged the need for bringing out original insurance products for which the professionally qualified persons can contribute well. Successful candidates in the Fellowship examination of I.I.I. received their certificates from the chief guest. Shri S.J.Gidwani, Secretary General, I.I.I was the guest of honour of the function. Successful candidates in the Associateship examination received their certificates from the hands of Shri Gidwani. The function also included distribution of prizes on various competitions. Function concluded with vote of thanks by the Vice-President of Indian Insurance Institute.

Dr. H. S. Sadhak, Director, MDC delivers at the annual convocation.

Sri. R. Kandwal, RM-P&IR, EZO, LIC of India giving away certificate to a member.

S. K. Desai Memorial Essay Writing Competition and D. Subrahmaniam Award Essay Writing Competition 2004-05 of the Insurance Institute of India

For the year 2004-2005 the Insurance Institute of India, Mumbai invites original contributions for the above Essay Competitions from the members of the Associated Institutes in the form of either an essay, work of research or a paper of most outstanding merit on any insurance subject of current or historic importance whether Life or General Insurance or allied subjects. The details of the competition are :

S. K. Desai Memorial Essay Writing Competition

This competition is designed to motivate large number of diplomaholders and other members of the Associated Institutes to involve and contribute original articles or research oriented papers of very high standard. The award comprises a Gold Medal, Cash Prize of Rs. 15,000/- and a merit certificate.

The competition is also open to the members of the Insurance Institutes in the Afro-Asian regions.

D. Subrahmaniam Award Essay Writing Competition

This Essay competition specially designed to motivate the younger members who are resident in India, in involving themselves in the educational and research activities of the Institute in promoting Insurance Education and Training in the country. The Award known as “D. Subrahmaniam Award”, consists of a cash prize of Rs. 10,000/- and a merit certificate. The members who are residents in India and upto the age of 45 only are eligible to participate in this competition.

The papers must be forwarded in a floppy with 3 hard copies before 31st March, 2005.

Topics for the Technical Paper Competition 2004-2005.

The Insurance Institute of India, organises annually a Technical Paper Competition for the benefit of its members both on Life and General Insurance subjects. The topics for the paper are decided by the Institute. Participants may submit the paper on any one of the subject defined by the Institute. The Authors of the selected papers are awarded a cash prize of Rs.5000/- and Merit Certificate separately for Life and General Insurance subjects. Accordingly, following topics are decided for Life & Non-life branches for the year 2004-05 Technical Paper Competition:

TOPICS FOR LIFE BRANCH

(i) Impact of Solvency Margin and Taxation on Life Insurance including Service Tax in India and the World over.

(ii) E-business opportunities in Life Insurance Market

(iii) Opening of the Life Insurance Industry - A critical analysis of last four years.

TOPICS FOR NON-LIFE BRANCH

(i) Scope and Opportunities for Insurance outsourcing in India.

(ii) Catastrophic Risk Management in Insurance

(iii) Expanding Health Insurance Coverage - Ways and Means

The members of the Institute may submit the paper for this competition in triplicate, without indicating name and address in the body of the paper so as to reach i.i.i. Mumbai on or before 15th April, 2005.

Contribution of Articles

The Institute invites original and quality oriented articles from the members on insurance and allied subjects for publication in the Journal. The articles may be sent in a 3½” floppy with a hard copy and a brief bio-data of the author. A suitable honorarium will be paid for the articles which have been approved for publication in the Journal.

EXAMINATION TIME-TABLE MAY 2005

MORNING SESSION 9.30 A.M. TO 12.30 P.M.
AFTERNOON SESSION 2.00 P.M. TO 5.00 P.M.

Sub No.	Subject Title	Examination & Branch
	Sunday, 8th May 2005 MORNING SESSION	
01	Principles of Insurance	Licentiate - Life & Non-Life
21	Information Technology	Associateship - Life & Non-Life
30	Principles and Practice of Life Insurance	CIS - Life
32	Principles and Practice of General Insurance	CIS - Non-Life
81	Mathematical Basis of Life Assurance	Fellowship - Life
85	Reinsurance	Fellowship - Non-Life
Section-I	Principles & Practice of Insurance & Survey and Loss Assessment	Surveyors Examination
	AFTERNOON SESSION	
02	Practice of Life Assurance	Licentiate - Life
11	Practice of General Insurance	Licentiate - Non-Life
26	Life Assurance Finance	Associateship - Life
31	Insurance Salesmanship	CIS - Life & Non-Life
56	Fire Insurance Claims	Associateship - Fire
66	Marine Insurance Claims	Associateship - Marine
77	Engineering Insurance	Associateship - Miscellaneous
79	Liability & Engineering Insurance	Associateship - General
89	Management Accounting	Fellowship - Life & Non-Life
97	Legal Aspects of Industrial Relations	Fellowship - Life & Non-Life
98	Data Processing	Fellowship - Non-Life
S - 06	Motor Insurance	Surveyors Examination
	Sunday, 15th May 2005 MORNING SESSION	
12	Insurance Business Environment	Licentiate - Life & Non-Life
23	Application of Life Assurance	Associateship - Life
52	General Fire Hazards	Associateship - Fire
62	Commercial Geography	Associateship - Marine
72	Motor Insurance	Associateship - Miscellaneous & General
82	Statistics	Fellowship - Life
86	Risk Management	Fellowship - Non-Life
S - 05	Engineering Insurance	Surveyors Examination
	AFTERNOON SESSION	
25	Life Assurance Management	Associateship - Life
54	Fire Insurnace Underwriting	Associateship - Fire
63	Marine Clauses	Associateship - Marine
73	Personal Accident, Sickness & Misc. Insurance	Associateship - Miscellaneous
78	Miscellaneous Insurance	Associateship - General
90	Human Resource Management	Fellowship - Life & Non-Life
S - 07	Miscellaneous Insurance	Surveyors Examination
	Sunday, 22nd May, 2005 MORNING SESSION	
22	Life Assurance Underwriting	Associateship - Life
51	Fire Hazards of Specific Industries	Associateship - Fire
61	Cargo Loss Prevention	Associateship - Marine
67	Marine Insurance	Associateship - General
71	Agricultural Insurance	Associateship - Miscellaneous
83	Group Insurance & Retirement Benefit Schemes	Fellowship - Life
87	Law & Economics of Insurance	Fellowship - Non-Life
S - 02	Fire Insurance	Surveyors Examination
	AFTERNOON SESSION	
24	Legal Aspects of Life Assurance	Associateship - Life
55	Consequential Loss (Fire) Insurance	Associateship - Fire
57	Fire & Consequential Loss Insurance	Associateship - General
65	Marine Underwriting	Associateship - Marine
74	Liability Insurance	Associateship - Miscellaneous
88	Marketing & Public Relations	Fellowship - Life & Non-Life
S - 03	Marine Cargo Insurance	Surveyors Examination
	Sunday, 29th May 2005 MORNING SESSION	
S - 08	Loss of Profit Insurance	Surveyors Examination*
	AFTERNOON SESSION	
S - 04	Marine Hull Insurance	Surveyors Examination*

** Only Delhi, Mumbai, Kolkata & Chennai Centre.*

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**We wish All Our Members
A Very Happy, Prosperous & Peaceful 2005**