



Volume I, No. 7

Journal

JUNE 2003



बीमा विनियामक और विकास प्राधिकरण

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Printed by P. Narendra and
published by N. Rangachary on behalf of
Insurance Regulatory and Development Authority.

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Printed at Pragati Offset Pvt. Ltd.
17, Red Hills, Hyderabad 500 004
and published from
Parisrama Bhavanam, III Floor
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From the Publisher

As I come near the end of my tenure with the Authority after a period of nearly seven years of close association with the industry, my mind goes back to the day I joined the interim Authority, namely August 1, 1996.

From a small room in a guest house belonging to New India, which otherwise has been sanctified by its occupation by Shri R. N. Malhotra and the members of his committee, we moved to Jeevan Bharati, and from there we have come to Parisrama Bhavanam in Hyderabad.

This long journey has not been without incidents, achievements and problems. The Authority in its infancy, and before its recognition as a statutory body, kept itself busy by learning the systems prevalent in various countries, becoming a member of the International Association of Insurance Supervisors (IAIS) and benefitted immensely from the exposure it had to such international bodies.

We laboured hard on the making of an IRDA Bill in 1997 and failed at the goal post only to keep our hopes going. Such hopes and aspirations we finally realised in October, 1999, when the Lok Sabha passed the Bill, and subsequently, the Rajya Sabha.

The Act was assented to on December 29, 1999, and the establishment of the Authority came about on April 19, 2000. We had, therefore, taken nearly 39 months since the establishment of the interim body to usher in a system of de-linking ownership from supervision.

We had promised the country that the first clutch of new registrations would be issued by December, 2000, and I must admire and appreciate the long hours of work which a small band of officers of this organisation had put in to do the ground work necessary to see to it that the promise made was delivered, and delivered well in advance of time.

We also felt that if regulation and a regulator had to be effective, there must be an openness and transparency in all our dealings. That is the reason why the IRDA has always been open to suggestions from the different interests that composed the insurance community.

It has always encouraged public debate on issues which concern regulation and administration of companies. These debates and discussions have brought to us a fund of knowledge and perceptions which we have used in the framing of regulations and, possibly, have set a role which has not been matched by any other supervisory body since then. All these have enabled us in the Authority to get closer and closer to the large number of insureds who ultimately depend on the success of regulation to keep their insurance savings safe.

We had introduced the concept of selling and distribution of insurance products. We had advocated the necessity for insurers to accept and realise the rights of the policyholders. We have also canvassed for the system of Appointed Actuaries for the first time in India to give that profession a foothold which it really deserves. All these have been achievements and there are encouraging signs to indicate that the insurance industry in this country is run on proper lines.

I had occasions when some of our great hopes have been dashed to the ground, some of our expectations have been belied, and where we have met some sort of reverses. Let me assure you that these have not been in the establishment and running of the insurers' businesses, but in the treatment meted out to the regulator's office.



To my mind the regulator, if he has to be effective and earn the respect of the industry which he supervises, must be professionally competent and fiercely independent. Independent not only as regards his functional areas, but independent financially to run this office. There have been some dark clouds with regard to these areas which, I am sure when I leave this office, will get settled and welcome rains will pour.

Seven years is a long time to spend at a desk. Possibly the longest tenure I have had over a job. Length of service and commitment to a single job over a long period has its advantages as well as disadvantages. Advantages are that you become familiar with the job, the players are known to you. Their behaviour and conduct grow familiar over the period of time and you have sufficient time to set standards for others to follow.

The disadvantages of the tenure come in the shape of a complacency which sets in and a problem of the same thing being repeated. Let me assure you my dear readers, that I have not been bored for even a single day in trying to carry out a task which was assigned to me on August 1, 1996.

When I will offer my position to my successor on June 9, 2003, I would only like to feel that I leave him a system which is worthy of the organisation and which has earned it a name, prosperity and encouragement, and also an industry which is populated by large players in the shape of the nationalised industry and by small players who have a role to play, a role which each of them should carry out with great distinction. I am sure that this industry, which is one of the best service industries in the world, will cover itself with glory, and that the Indian insurance industry will match its skills efficiently and care for the consumer as the industry outside India does.

I have learnt a lot in these seven years from a variety of people placed in different walks of life. From a consumer to a banker to an insurer to an actuary, and to my own officers who have guided me all along. To all of them I should say a big thank you.

N. RANGACHARY

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Mr. N. Rangachary

THE ROSE
IS
BEGINNING
TO
BLOOM!

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Changeover...

Change is upon us at the IRDA, as its first Chairman, Mr. N. Rangachary, prepares to lay down office on June 9, the day before he turns 65.

And a tremendous change it is, for he has been associated with the IRDA almost since inception when it was yet to be born and anointed with powers properly. Indeed part of his job was to win acceptance for the very concept of an independent regulator and a liberalised industry and then give life to it, which he did over seven and a half years.

Today as he prepares to leave the still fledgling Authority, it has earned a name as a fair and transparent body that means business and also understands it.

We present you an interview with him in which he looks at the past and the prospects of the industry and the regulator. Elsewhere in this issue we have fond and funny tributes to the outgoing Chairman, his tenure and effect on people!

To theirs I would like to add my own. It is rare that one gets to work with someone who expects independent thought and action, and subtly but powerfully encourages dissent in order to make the best ideas emerge. This has been his approach to the Journal as well, and thus it has been shaped. Ask him and he would enlighten patiently. Challenge him and he would argue his case thoroughly and even amusedly, conceding valid points promptly. And all this without being affronted or intolerant. By his focused attitude to work and his respect for professionalism, he challenged people to put forth their best, and they enjoyed it!

Corporate governance is this issue's focus. With the introduction of the Companies Bill in mid-May in Parliament, the proposed measures to ensure good corporate governance have been made public. We bring you Mr. Ashvin Parekh elaborating on the required corporate governance structure in the Indian insurance industry while Mr. G. V. Rao ponders questions of leadership and knowledge that should back corporate governance up and make it a reality in the public sector general insurance companies. These, he argues, are sick companies today, and should be looking seriously for ways out of their situation. Mr. R. Anand, our most regular column writer who occupies the Brass Tacks slot, has looked at the provisions of the relevant section of the Bill and identifies issues that will rear their heads before the insurance industry once this becomes law.

Our issue focus in the July issue of **IRDA Journal** will be information technology. As the cynics say, sadly but truly, this is another important area that the industry will ignore except in patches. And those patches will be islands of prosperity and profitability. The impact of a company's, specially an insurance company's, response to the call of technology will have more far reaching repercussions than any other single development.

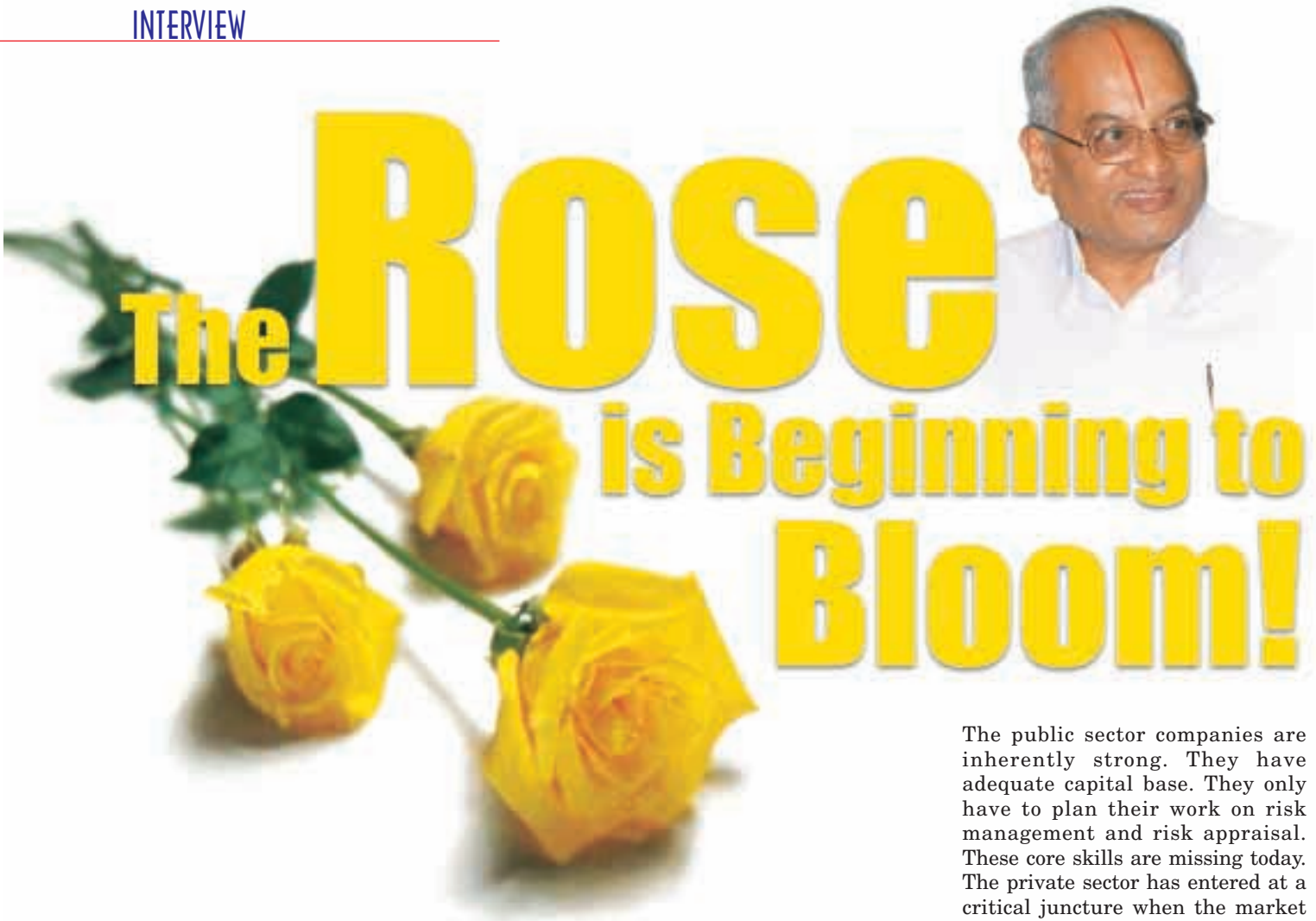
We begin a new series with this issue to demystify regulations. Regulations are as effective as their enforcement. And the more the target of the benefits of the regulations – in this case the consumer of insurance – knows about them, the better will be their enforcement and effectiveness through sheer general awareness.

It is with this in mind that we bring you the background and logic behind the IRDA (Protection of Policyholders' Interests) Regulations, 2002, along with details of the provisions. Other regulations will follow in due course. Please do write in with your doubts and questions on any of them, anytime.

Our Mindshare section deals with the current obsession of the general insurance industry – detariffing. We bring you an overview of what's happening in the industry following the discussion of the Justice Rangarajan Committee's report on detariffing of the Own Damage portion of the Motor business by the general insurance CEOs, and a proposed road map by Mr. K.N.Bhandari towards that goal.

K. Nitya Kalyani





Retiring from an organisation that one gave birth to and nurtured into a robust infancy is bound to make one reflective. Mr. N. Rangachary, Chairman, IRDA, who retires on June 9, did just that. He talked to **IRDA Journal** about how it all started and went, and where he sees the industry and the regulator going in the future. Excerpts:

Q: What is the state of the industry today as you are on the verge of leaving the IRDA?

The industry is on a growth path. When new companies entered the market in the year 2000, the expectation was that of tardy growth as they had to compete with the public sector units who were very strong, and whose reach, formidable.

Both life and non-life sectors have achieved a ten per cent market share in two to three years which was expected to happen in five years. But new companies have done excellently well using their parentage and connections and devoting organisational skills to this market.

Q: But profitability of operations is a question and investment incomes are dwindling...

All over the world underwriting profits are under severe strain since rates are low. Profit from pure insurance business has always been a problem, but what has added to the situation now is the fall in investment returns. The market has now come to a serious situation. Coupled with this is the fact that leading insurers are facing problems outside India because of wrong policies of investment and short provisioning.

Q: What gameplan would you suggest to the industry today?

The public sector companies are inherently strong. They have adequate capital base. They only have to plan their work on risk management and risk appraisal. These core skills are missing today. The private sector has entered at a critical juncture when the market was hardening and profitability definitions were changing.

There has to be an identification of market conditions. The regulator has a significant role to play to see that the players don't come to grief.

Q: What can the regulator do?

These problems can somewhat be solved by freeing price controls.

Q: Companies themselves are not clear on that. Is the market ready, are the companies ready?

Somehow we have to prepare for it. Competition and tariff don't go together. The market should make a realistic appraisal to see where we stand on pricing and profitability and they should do this on a systematic basis.

In the life business also pricing is an issue. The guaranteed returns they were offering landed them in trouble and rates had to be reduced and products withdrawn. If returns are going down, they may have to increase

premium. They cannot destabilise themselves.

The other alternative is to cut down on management expenses. I see some kind of a duel between the thickly populated public sector units and the thinly populated private sector ones regarding management expenses problems.

Q: Public sector companies say nothing much can be done about management expenses. That 80 per cent of it is fixed costs?

I would only be happy if that 80 per cent was spent on people bringing in the business. But it is being spent mainly on administration. The earlier they look at it the better.

Q: What can the regulator do about this?

First the market will compel you to look at it. If expenses are fixed, productivity has to be increased.

There are also other issues, of solvency, market efficiency and market conduct. If things are not going the right way, the regulator steps in and sees how it can be corrected. Very soon the regulator will have to get involved.

Q: But aren't management expenses and such issues internal to a company?

Nothing is an internal matter of a company if it affects consumer interest and he is made to pay a price that is larger than necessary and warranted.

Q: Would a merger of the four general insurance PSUs cut costs and give them momentum in the market?

Mergers won't solve basic problems. More relevant than size is the ability to communicate within the organisation and carry out its purpose through every one of its units. The LIC was able to organise itself better. General companies were not that efficient. Each company brought together an amalgam of various cultures and practices. But that was

over 30 years ago and it has not become homogenous yet.

Q: How can the industry strengthen itself?

Better service standards. Companies can sustain themselves in the market in the medium term by the manner in which they respond to the market demand, introduce new products, make available services to larger numbers and finally the profile they have of investments. If they gain this acceptability it will bring a little more credibility.

Q: Where do you see the challenges for new companies?

They are smaller companies and started with Rs. 100 crores capital. Some of them have increased it to enlarge business and maintain solvency and they are busy growing. Six or seven years hence they will reach a growth plateau when there will be release of capital. That is when they have to be careful what kind of attitude they will adopt with regard to development of business. Will they work further in the market or will they use their funds to go into mergers and acquisitions...

Q: But there is a feeling that with the need for regular capital infusion and solvency margining requirements, there could be mergers and acquisitions or changes in control in the Indian market sooner?

Not very soon. All the people who came in were assessed. The new companies' promoters have tremendous experience of 100 plus years. The foreign partners came in with a low 26 per cent equity and are bringing in capital to grow. For many of them it's a kind of a homecoming, so no one is likely to exit the market.

All the Indian promoters were vetted too at the time of registration. They have substantial plans. We saw their five and 10 year investment profiles. And they were capable of staying

long and bringing in Rs. 500 to 600 crores capital over that time. Now with the quicker growth they will be further enthused to stay.

The rose is beginning to bloom!

Q: Why has there not been much interest among reinsurers to enter the country?

Premium rates within country are unrealistic in parts. There is a lot of cross subsidisation. This situation doesn't make reinsurers happy. It is they who are doing risk assessment themselves and laying down rates for direct business. If you want the market to grow, direct insurers have to go back to school.

Q: Insurers say that doing rural and social sector business is easy, but the price is high. How does one develop this market?

No company, old or new, has applied itself seriously to tackle this. If you sit in a city and do business it will cost money.

The e-choupal model of the ITC group, which has been licenced as a broker, seems to be working. They have appointed a local man or a farmer as agent. That sort of approach should cut down cost.

Insurance buying depends on capacity to pay premium. Rural areas are not poor. That there are rich pockets has been shown by FMCGs.

We want to advance awareness and education in those areas. We just finished our first campaign and are going to start the second one reaching out through the regional print media. The authority is willing to spend on it – it is our development function. We establish the credibility of the industry and the gap will close.

The business is there. The approach has to be created, and we have to find people to go and tap this business.

Companies are now planning to go into small towns and this will tackle the problem.



Co-operative societies coming into insurance will help spread rural and social sector business. There are two problems there. One is double regulation and the other is that the Insurance Act says that same regimen, of Rs. 100 crores capital and solvency norms, has to apply. That may not be cost effective. But some of these specialised areas may be best for co-operatives to handle. We can give leeway in their capital norms to develop the market, and the regulator has to consider easing the norms.

Q: The IRDA has been noted for its transparency. How was this achieved and how easy or difficult was the process?

It was not difficult at all. In the initial years on this job I was moving around interacting with various sections of the society. I had started with the idea of limiting the number of applicants. Then, in one of the meetings I sensed it would lead to some sort of monopoly and cornering of licenses by non-serious parties and selling them for a premium. So I decided that we should have stiff norms and easily understandable regulations and, provided they

qualified, anyone can apply for a license and expect reasonably to get it.

We decided to put them to the severest tests in terms of credibility,

past performance and financial soundness. That is how we started two things.

The first was to verify with the home regulator the credibility of the foreign partner. This has now become an accepted practice by the International Association of Insurance Supervisors (IAIS) and has become some sort of a norm. Before a regulator in any country grants a license they refer to the home regulator and regulators have agreed that they will not keep back information.

The second measure many people were unhappy with. And that was we asked for a clearance from the Income Tax department. It was important as it gave us an idea of the level of compliance of the applicants. Whether they were filing returns, how they were at discharging liabilities...

Some of our regulations have been looked into with interest and found to be comparable with the best in the world. We set out to create a situation where no question arises of the credibility of the authority.

Q: You have said that there are interesting challenges ahead for

the regulator. What are they?

Now there are teething problems like ethical standards and market conduct in a growing market which has a fair number of players. These problems will be faced both by the old and the new companies. The regulator does not like some of these practices. But they are endemic. We have to penalise people who breach rules.

To set this in motion we have revived the life and general insurance councils and given them powers to oversee market conduct and create a code of conduct for self regulation. Some improvements are seen.

The second challenge is that the regulator has to assimilate public and private sector companies who have different standards of performance. This can also be seen as large domestic companies Vs a clutch of small new companies. Another matter to resolve is that we are moving from a regimented system to a market system. Here the public sector units feel restricted by their internal systems and say that they cannot complete.

There has to be an interchange between the regulator, the public sector companies and their owner, to bring about a release of the public sector companies from constraints so that they can develop and grow.

Then, with the growth of underwriting skills in the market we will very soon not have much difference between practices in the public and private sectors and each company will be judged on the basis of service.

The third challenge in front of the regulator is that we are moving from a tariffed market to a fully market responsive system. This will create some upset in the market in the initial stages, which has to be managed.

K. Nitya Kalyani

Ranga-The Phenomenon

Vinod Sahgal

How do you describe a phenomenon? In several words – most of them very flattering and, in substance, complimentary.

Prodigy, Extraordinary, Wonder, Genius, Marvel, Miracle, Exemplar, Sensation ... all these describe him perfectly considering that insurance was Greek to him when he took on the role of the 'Insurance Regulator-to-be.'

He was 'Ranga' to those who knew him well, 'Mr. Rangachary' to those who knew him somewhat and 'Sir' to all the other legions - don't ask me which category I fell into since he normally called me by many different names too (some not printable)!!

I first met him when, as part of the CII insurance committee, we had him as our chief-guest for the 1st Insurance Summit in 1997, when he was all of seven days old as the regulator.

The theme of the conference was 'Vision 2000' and Mr. Rangachary was put on the block when he was asked when, in his opinion, the insurance industry would be privatised.

Like a true blooded magician he rolled his eyes skywards (we were convinced that he had a 'hotline' to the Almighty) and came out with a short 'in 2000.' At that time we were rather looking forward to his saying nice-to-hear-things like 'soon,' 'next budget' or some such, but he came out of his 'samadhi' and just repeated, '2000.'

Since then I have had the good fortune of spending much quality time with him and was the first to remind him of his prediction some years later when the IRA/IRDA Bill that was certain to happen in 1999 actually waited for his predicted year 2000 to materialise.

'Ranga' (I can now dare to call him that since I found out that he is a few weeks younger to me!!) has also defied the mathematics of the 24/7/365 ration that all of us mortals have been doled out by the same Almighty who is the rationing officer for all of us.

How he has managed to pack in so much in the same allotted 24 hours per day I can never fathom, but pack it in he has done most admirably and that too with a tiny army of IRDA members and staff – all of whom have been galvanised into being supermen and superwomen.

What a track record!

- 27 regulations
- 27 insurance licences

- 9 lakh+ agents
- Over 13,000 categorised surveyors
- 23 TPAs
- 60+ Brokers

On top of that a relocation of the IRDA to Hyderabad – something that seemed impractical to many and mission impossible to some – but here again this was done in the most orderly fashion with no disruption of work. The Insurance (Amendment) Act, 2002, which set in motion the licensing of brokers, corporate agents and the co-operatives was actually announced on the last working day of the IRDA in Delhi!

At first to many of us it seemed like Mr. Chandra Babu Naidu was taking home a reluctant debutante. But in no time at all the IRDA became a landmark no different from the Charminar!

What then has been the secret of his fantastic success story? We can only guess. But, if I can have a go – it is his ability to make the people around him believe in themselves and to rediscover their hidden talents and abilities which they themselves may not have known that they possessed.

Equally relevant is his logical focussing on the objective, the tracking and sequencing of the flight path to the goal, having a consultative approach of involving the affected parties and then secluding himself for the final decision-making process.

How many examples of the 'open door' policy there are – licensing of insurance companies – many, many months spent with chambers of commerce, insurers, trade unions, 'old fogeys' and 'young turks', actuaries, agents, brokers, surveyors, TPAs etc., etc., etc. No wonder then that Mr. 'R' is also known as 'Mr. Transparency.'

To all of us whom he consulted, he gave the facility to disagree – something that he got in plentiful doses – but all this without ever spoiling the friendships created over so many months.

This process is not unlike the first moon landing mission when Apollo was consulting Houston till the last 10,000 feet, but when it became apparent that the original calculations would have crashed the vehicle, Apollo 'switched off' Houston and landed manually.

It is this secret ingredient that endears him to all those around him since there comes a time when he switches off and then takes the responsibility for the final

decision on himself. What a wonderful team leader – gifts all the bouquets to his colleagues but reserves all the brickbats for himself.

Lest he get a swollen head with all the nice things that will be written and spoken by so many of us, let me add that he is human and has a few frailties too.

■ **Food, what's that?** To start with, he has made life difficult for all those who had hoped to use his presence as an excuse to lay out a fancy meal. Till date no one has seen him eat – we are convinced that he lives on love and fresh air!!!

■ **Power of concentration:** His ability to give an impression that he is dozing off in the middle of a serious presentation – when actually he is absorbing everything that is uttered and is even able to replay the proceedings almost verbatim.

■ **Wisden, Who needs it?** Cricket is his passion and, with him around, we do not need the Harsh Bhogles, Ravi Shastris or the Gavaskars. Mandira Bedi is an exception that even Mr. 'R' has allowed!

Most of us who prepare for formal discussions with him have an unwritten code to bone up on the latest cricket scores before entering the hallowed portals of the IRDA!

■ **Stone Walling Tactics:** When he was too polite to say no, a stalling weapon even more potent than a discussion on cricket scores, was his 'kind' offer of a cup of coffee – that took ages to materialise!!

However that was not a problem since regulars like me knew that it was superb cuppa well worth waiting for. The worry was that if you were parked in the 'VIP' lounge you were never sure whether he had forgotten about you!



WORKING WITH A VISIONARY

K. Subrahmanyam

- **Multi Lingual Talent:** The ability to speak fluent Tamil in 15 languages – sorry I meant to say, to speak 15 languages in fluent Tamil! Many of us didn't have the heart to tell him that over the period of time spent in his presence we had little option but to pick up Tamil on the trot!!

That's how we got 'advance' notice of most regulations before they hit the press!

- **Designer Wardrobe Collection:** Mr. 'R' is reputed to have the largest collection of white safari suits that would confound the likes of Sidhu of the cricketing 'Sidhuism' fame who has all colour combinations but never could manage a white on white.

It is rumoured that some of us have seen him in a dark suit (borrowed perhaps) and a necktie which we wonder whether he knows to knot or not!

- **Sparkling Sense of Humour:** Beneath the starched white safari suit there lies a sparkling sense of humour (I am depending on this being true!) and he uses this talent amicably to convey the most tedious topics to the most unwilling audiences.

- **Retirement Blues:** I understand (but cannot believe) that the young Mr. 'R' is to retire shortly. I wonder how this can be as I doubt whether he can even spell the word!! Surely he must know that cowboys never hang up their boots – they just ride into the sunset to be remembered as the Hero # 1.

The old order must give way to new and so too with the IRDA. With the close of the month of June, 2003, we will see a total whitewash of the 'seniors' as even Mr. R.C.Sharma will become a 'gentleman of leisure.'

All said and done, retire we all must, but do we have to make it so difficult for successors by leaving behind a gigantic pair of boots for them to fill? The grapevine is full of gossip as to who will succeed Mr. Rangachary (we all have a 'khushboo' as to who it is), but one thing is amply clear, he will have to have size 12, or larger, feet!!

The author is Managing Director, Jardine Lloyd Thompson Insurance Consultants Ltd.

Great men are born, not made. I first met Mr. Rangachary almost immediately after he joined the Insurance Regulatory Authority (IRA) on August 1, 1996. I was submitting my paper on Pension Business as a member of the Working Group constituted in May, 1996, by the IRA (which was without a Chairman from inception in January 1996, but was headed by Mr. K. C. Mittal and Mr. N. M. Govardhan, who subsequently became chairmen of GIC and LIC respectively).

He was looking through my paper and speaking on the telephone, doing more than two jobs at a time. For a person like me doing even one job at a time is difficult! Added to this, we were a little afraid of him for sometime anyway because he had just retired as Chairman, Central Board of Direct Taxes (CBDT). A Taxman!

Subsequently, the Government of India appointed him Chairman, Insurance Regulatory and Development Authority (IRDA) in 2000.

The man has tremendous patience to listen to others – which is a great ability. But finally, he would have his last word and that would have a tremendous effect on those concerned. And of course, he wins hearts with ease because of this habit. Quite unassuming and accessible to everyone, he gives great respect to the smallest man who steps into his office.

His weakness in life was and is cricket, a game which he loves the most. When we went to Melbourne, he really enjoyed the visit to the Melbourne cricket stadium, visiting the pitch, and even purchasing cufflinks and cricket memorabilia! Sometimes his discussions with CEOs and others centred around cricket. He used to discuss cricket at length with the High Commissioners of Australia and England. His knowledge of cricket is superb. The Regulator was a great cricketer too!

He is a different bureaucrat and civil servant. He is a professional – a Chartered Accountant (a gold medalist!), a Cost Accountant, a Company Secretary and an honorary Fellow of the Actuarial Society of India – and his professionalism is his big asset. He still works as paper setter and examiner for the Institute of Chartered Accountants of India (ICAI) and for the UK institute too.

His knowledge of accounts is excellent. This could be the reason, I think, he picked up knowledge of insurance very fast. His understanding of insurance terms was clearer than that of insurance professionals.

I have heard him explaining insurance to many people in a simple and vivid manner and even eminent people like Mr. Harold Skipper, Professor of Insurance at the University of Atlanta, Georgia, and one of the greatest living experts on insurance, were taken aback at his knowledge of insurance, which is (usually) not the domain of insurance regulators.

Mr. Rangachary strongly feels that a professional should behave like a professional and not like a businessman. He was also (rightly) awarded as Insurance Man of the year (in 1999/2000) in the US for his contributions to the insurance world.

He is a man with vision. He is a great worker for the interests of the public institution – the IRDA. His concern is for the common people and, for their benefit, he even bends the rules. He does not believe in formal meetings or discussions, but makes decisions after informal talks. Decisions were fast, and in the interest of the insurance market.

I still remember he took just 30 minutes to grant a licence to an agents' training institution to the utter surprise of the applicant. In cases of complaints of individual policyholders, he took keen interest to redress them by calling the officials concerned on the telephone.

It would be difficult to find any negative aspect of his character. His words (not so easy to understand) and deeds are far reaching. And so is his memory! He would surprise us all the time by recalling any section of the Income Tax Act or the Insurance Act!

His fantastic memory was at its best with names. He would remember people's first names and use them spontaneously – even foreigners' names which are not so easy to pronounce. Anyone would be pleased to hear his first name used with such affection.

He is also highly resourceful and humorous. Many a time he would quip wittily and make us laugh heartily.

A man who could not be forgotten by anyone so easily is still remembered in his past organisations – the Indian Space Research Organisation (ISRO), the shipping industry, the CBDT, and of course, North Block.

I wish him a very happy life (I won't say retired life, as his knowledge is still required to be made use of).

Vazhga Valamudan!

The author is an Actuary and Executive Director, IRDA.

Rules for the Road

Motor insurance is the fatal attraction of the Indian insurance industry. In spite of the bad pun, this is the portfolio that brings in the cashflow, and causes the worst outflows too.

It probably should be the first priority of the non-life industry to tackle this loss making business. And it has been the concern of the IRDA as well.

The Ansari Committee, which had vetted the revised Motor tariff that later came into effect from July 2002, underlined the need for better risk profiling for equitable rating of Motor insurance.

The market saw some turmoil in the following months when insurance companies sought to manage their portfolios by refusing Third Party (TP) liability cover and loading premiums in excess of what was allowed.

While maintaining that the Tariff was statutory and had to be followed, a decision that was reflected in many court rulings where consumers had filed petitions, the IRDA set in motion the process of detariffing the Own Damage (OD) portion of Motor insurance.

In December, 2002, it appointed a committee under the chairmanship of Justice T. N. C. Rangarajan, a retired judge of the Andhra Pradesh High Court, to go into the issue and suggest ways and means to detariff OD business and also look into the feasibility of isolating the Third Party liability (TP) business into a pool common to all insurers.

The Committee submitted its report in April, 2003, and this was placed for discussion by the CEOs of all general insurance companies at a meeting in Hyderabad on May 6, 2003.

Detariffing – of all businesses – is something that the industry has to work towards within a definite timeframe. The timeline, road map and sequencing were debated by the insurers. Detariffing and a target date were acceptable to all CEOs and various points of view emerged on the schedule and sequence.

Some felt that the earlier it is done the better, and were agreeable to detariffing OD first and then other classes of business. Others felt that even if a later date is set, all classes of business should be detariffed in one go to avoid cross subsidy and underquoting. Others felt that the Fire and Engineering business should not be detariffed for a while now as they were the only profitable lines of business.

Mr. N. Rangachary, Chairman, IRDA, after hearing all the views announced that the Motor OD business would be detariffed from April 1, 2005, and said that the Tariff Advisory Committee (TAC) would be entrusted with the job of detailing what needs to be done for achieving this.

A few of the observations and recommendations of the Justice Rangarajan Committee follow on the next page.

RECOMMENDATIONS

The Justice Rangarajan Committee has recommended that the IRDA:

- Quarantine the Third Party (TP) liability insurance business.
- Request the Government of India to review the statutory liability for Third Party liability for motor vehicle accidents.
- Set up an independent data bank and compel the companies to supply the data to the bank, and draw on the bank data to justify proposed tariffs.
- De-tariff the Own Damage (OD) business of Motor portfolio under a competitive premium setting model.



DISSENT NOTES

Three members of the Justice Rangarajan Committee have dissented with its report. The main points they make are:

The Ministry of Surface Transport (MoST) does not favour quarantining of TP liability or of detariffing of OD portfolio of Motor insurance because:

- Adequate data does not exist for proving that TP insurance is a losing proposition and even if it were, setting the tariff on actuarial data would not be able to rectify the problem.
- Restructuring the TP business as a separate business is unworkable and would lead to a monopolistic situation.
- MoST is reviewing the provisions of the

Motor Vehicles Act, 1988, dealing with third party insurance and it is not possible to put a time frame on finishing this or to be certain of its outcome.

- Separate insurance company for TP insurance may not find any takers.
- The present system of setting a floor tariff and capping the loading is better than setting only a floor tariff as it would lead to the exploitation of motor vehicle owners.

Mr. Ajit Narain, CEO, IFFCO-Tokio General Insurance Company has said that the work of building up the required database has to be taken up immediately and a minimum data size has to be created for it to be meaningful. It is only after this that a competitive premium setting model can be

built up which will be fair to insurers and insureds and so detariffing should be deferred until then. He also advocates a structured compensation for TP liability rather than unlimited liability.

Mr. Manubhai Shah, Chairman Emeritus, Consumer Education and Research Centre (CERC), Ahmedabad, has said that there is no reason to limit the TP liability on the ground that the premium income does not justify the volume of claims.

As for OD detariffing, he says that a benchmark premium can be evolved with companies being allowed to charge 15 to 25 per cent lower or higher premium depending upon the facts of individual cases.

Justice Rangarajan Committee Report Extracts

On shoring up Motor premia

...The maximum possible premia is not collected. The risk has to be spread over the owners of all the motor vehicles. If we make a rough estimate of all the vehicles on road and multiply it by even the minimum tariff for third party insurance, the total inflow comes to more than Rs. 7,000 crores.

Even if we take half that figure, it is more than the General Insurance Public Sector Association (GIPSA) figure of only Rs. 1,108 crores premium collected by the four nationalised companies in 2001.... There could be a pilot study at petrol bunks to verify the extent of such vehicles plying without insurance. It could also be a point for marketing enterprise of the companies.

On pricing TP liability

The question of increasing the premia for TP is ruled out not only because there is no statistical justification for it but also because freedom of pricing is inconsistent with a mandatory insurance system. But the tariff has to be based on reliable data, as otherwise it would be driving companies into insolvency.

Where money leaks away

A study "Illegalities in Automobile Insurance" by Project Large of the National Law School of India University has shown how the system could be manipulated to make false and untenable claims. Insurance companies have to tackle the issue of leakage on their own. Perhaps the IRDA or all the companies together could set up special investigating units or even out-source fraud investigation.

A TP pool?

Since insurance of third party liability is compulsory with an administered tariff, and the perception of the industry that it is a loss making venture, there is another suggestion that a pool may be formed to administer it. But the idea of a pool is no solution to the problem of losses. It would serve no purpose other than to create a further tier in the bureaucratic machinery.

On the other hand a single line of business, meaning establishing a separate insurer for the TP liability business, would be a more practical proposition.

On the lack of data

Unless clear data is available as to the number of vehicles insured and the premia collected and a fair assessment of the liability incurred, there cannot be a proper actuarial

assessment of the risk involved. The lack of data also affects the rating of the TP premium. Commercial vehicles have the benefit of lesser income tax liability as the premia paid is a deductible expense for income tax purposes. This actually means that the Central Government is subsidising the premia by the relevant rate of income tax applicable to their income.

It is the owners of cars and two-wheelers who maintain them for personal but essential use that have to bear the burden themselves. They cannot also have any income tax rebate. With sufficient data it may be possible to ascertain the kinds of vehicles which are accident prone and the economic profile of the victims to find out if the liability is really as unlimited as projected. Rating decisions can then be made with conviction.

Dealing with TP losses better

On the material which was available to the committee it appears that there is no convincing proof that these three factors (unlimited TP liability, not all vehicles being insured and maladministration of claim settlement leading to a drain on resources) make the TP cover unviable. It is possible for the insurance companies to extend cover to more vehicles and augment the resources, estimate the liability more accurately with proper assessment based on regularly recorded claim experience and also contain frauds. Therefore the projected unviability of the TP cover cannot be taken as justification for detariffing the own damage cover as a means of cross subsidy.

The way forward for TP cover

(It is)..clearly demonstrated that the present working of the system of TP cover as a safety net is unsatisfactory and inadequate, both in funding and settlement of claims. There has to be a system overhaul. The Ministry of Surface Transport has undertaken a review of the system. There are very good models of successful mechanisms, such as the European Commission's directives and the green card system, to emulate. Possibly the following areas of concern may be addressed.

- As a matter of social security, should indemnification and guarantee for compensation be provided even for those who could take care of themselves?
- Is it possible to limit the indemnification of compensation under TP liability to those incapable of insuring themselves?
- Should TP insurance be given separately without combining it with OD policies?

- Could there be a card or sticker fixed on the windshield giving the particulars of the company which is responsible for TP liability?
- Should fuel be restricted to vehicles with the sticker so that all vehicles are certain to be insured?
- Could there be a nodal point for claims to be processed efficiently without ambulance chasers and litigation?
- Could there be a TP claims administrator as mooted for Mediclaim policies?
- There should also be a meaningful collection of data and ongoing studies to evaluate the risk properly.
- A re-look at the administration of the system is every much required.

OD subsidising TP?

The question of detariffing OD appears to have been projected as an answer to the problem of TP liability. It is inequitable as it would load the cost of the compulsory insurance on to owners who want to have their own damage insured. It is opposed to the general principle of insurance of spreading the risk equitably. It may even be against the provisions of 4(2)(e) of the Competition Act, 2002. Private owners may have to pay more for the greater risk of other vehicles while commercial vehicles may pass on the extra cost to the consumers leading to inflation.

The committee on Reforms on the Insurance Sector, 1994, was of the view that "There is no case for non-motor business to cross subsidise the motor sector. In fact, it is necessary to examine whether in the light of claims experience there is scope for rate reduction in other classes of business." This view should equally apply to TP and OD business. Therefore, TP has to be quarantined in the accounts of the insurance companies even if the compulsory TP is not to be taken over by a separate single line business. Any suggestion for detariffing must therefore be considered independent of the TP liability.

Regulation

Detariffing requires safeguards for uninsurable vehicle owners. There should be a mechanism for an appeal to an insurance pool which would consider proposals rejected by the companies and grant insurance on premium loaded according to the risk perception. Such a mechanism exists in Malaysia and can be usefully copied.

Detariffing-the Way Ahead

K.N. Bhandari

Section 64 UC (1) of the Insurance Act states as under about tariffs and the Tariff Advisory Committee (TAC) :

"The Advisory Committee may, from time to time and to the extent it deems expedient, control and regulate the rates, advantages, terms and conditions that may be offered by insurers in respect of any risk or of any class or category of risks, the rates, advantages, terms and conditions of which, in its opinion, it is proper to control and regulate, and any such rates, advantages, terms and conditions shall be binding on all insurers."

In terms of the aforesaid provision, both rates as well as terms and conditions of non-life insurance business are governed by tariffs prescribed by the TAC. The entire segment of Fire, Engineering and Motor businesses which account for approximately 75 per cent of the total portfolio of all non-life insurance companies is covered by tariffs at present.

This is a unique feature of the Indian non-life insurance market as no other market of significance worldwide prescribes tariffs at all. Some markets do have a system of minimum guide rates. The terms and conditions of insurance contracts are also generally free

from tariffs or regulatory control.

Following the liberalisation of the Indian market, there is a growing demand to abolish the tariff system. The proponents of free markets have been arguing that liberalisation and the tariff system do not go hand in hand, and that both rates and terms/ conditions should be left to be driven by market forces.

It is true that benefits of liberalisation will not accrue to the consumers unless there is competition in the pricing of non-life insurance products. A free but competitive market may generate wider options at more competitive rates. Moreover, the integration of the Indian market with global insurance and reinsurance markets can get accelerated if pricing, rates and terms of the policies are left to the best judgement of the insurance companies.

It is conceded that migration from a tariff regime to a non-tariff one is indeed inevitable. This will happen sooner or later. If so, then we need to draw the road map and prepare the action plan for a smooth transition to a detariffed market. The sequence and speed of change must be carefully worked out to avoid confusion and chaos. The Indian market has been a fairly stable one for decades and every effort should be made to ensure that it continues to remain stable and healthy.

The existing tariff prescriptions suffer from various deficiencies, inadequacies and distortions, such as:

- There is no scientific basis for the tariff rates as prescribed. The rates were fixed many years ago on the basis of rates prevalent in the UK market and were largely influenced by the re-insurers who were willing to support the Indian market only at those rates.
- No database has been created which can form the basis of scientific rating and, in absence of required data, it is not possible to determine the risk exposure for actuarial calculation of warranted premium rates. Rates have been revised a few times in the past

on the basis of overall experience of insurance companies on the entire portfolio or to respond to international rate changes.

- On considerations of assumed social commitment of the public sector companies to promote products for the rural market and economically backward sections of the society, several new products were introduced at uneconomic and non-viable rates. As a result the surplus from the other portfolios was invariably utilised to subsidise rural and social products.
- The rating methodology in the Motor department did not allow automatic adjustment in the pricing from time to time. The Motor premium remained stagnant for a long period despite increased burden of claims. All attempts by the four nationalised insurance companies for upward revision of motor rates were thwarted by the powerful and influential lobby of transporters. The huge deficit in the Motor portfolio for long has been subsidised by equally huge surplus in fire portfolio. This cross subsidisation amongst various products continues unabated even now.

For better appreciation of the issues, we also need to be clear whether the existing tariff structure is binding or it only provides guide rates. This is important because the tariffs provide that the rates prescribed therein are minimum. The implication of such a provision is obvious that while insurers are precluded from charging rates lower than those prescribed in the tariff, they do have the freedom to charge higher rates. The chaos in the recent past created by the insistence of public sector companies to charge higher than the tariff rates and the persistent refusal by the IRDA to permit them to do so is a case in point. If the TAC feels that the rates prescribed in the tariffs are final and non-negotiable, it must amend the tariff provisions to make its intentions explicit.

It must be recognised that detariffing does not mean that insurers have unfettered freedom to charge any



rate they like. It only means that the insurance company will, in a detariffed market, charge the rates on merits for each risk separately. Moreover, detariffing has two dimensions, firstly abolition of tariff rates and, secondly, abolition of tariff terms and conditions. These need not be clubbed together.

Merit rating of each risk may be a desirable goal but tinkering with or freeing altogether the terms and conditions may create more problems than solving any, given the present state and maturity of the Indian market. The terms and conditions, clauses and warranties, being currently prescribed by the tariff are largely borrowed from the UK market. These have been subjected to judicial scrutiny and interpretation for many years and each term therein carries a definite meaning.

If each contract of insurance is different from the other, in the event of any dispute, it has to be interpreted afresh by a court of law. This may lead to the possibility of consumers being taken for a ride by the insurers. It is therefore felt that the terms and conditions of the contracts and the wording of clauses and warranties should continue to be governed by the tariff as the market is not yet mature enough. The Indian market does not have sufficiently qualified and experienced underwriters to design separate covers for each risk and rate it entirely on its merit.

In order to ensure that there is a smooth transition from a tariff regime to a non-tariff one, considerable preparatory ground work is required to be done to condition the market. The important prerequisites are:

- Risk-wise data must be available to enable underwriters in insurance companies to decide the rate of each risk on its merit. In the absence of such data, detariffing can degenerate into unscientific and uneconomic rating of risks, jeopardising the financial viability of insurance companies.

For creating a databank, the foremost thing to do is to standardise the data

required so that insurance companies can modify their software to comply with the requirements. Unless the industry produces uniform data, it will not be possible to collate and compare the same for any meaningful conclusions. Such standardised data formats must be frozen for a minimum period of three years. The TAC in its present form is best suited to undertake this task.

- Data must be collected and analysed by an institution or body independent of insurance companies and the findings must be made public. Insurers must be convinced that the data provided by them will remain confidential from the competitors and



Migration from a tariff regime to a non-tariff one is indeed inevitable. We need to draw the road map and prepare the action plan for a smooth transition to a detariffed market.



the consumer must be convinced about the integrity of the published data so that they can judge the fairness and transparency of the rating system. The general insurance industry should promote and fund such an institution.

- The provisioning system for outstanding claims must be tightened to remove any doubts about the true liabilities of the insurers and eliminate any possibility of under or over-provisioning of the liability by the insurance companies.
- The compulsory cession of 20 per cent of all non-life business underwritten in India by the General Insurance Corporation of India (GIC) must be done away with before withdrawing the tariff regime. There cannot be any justification to saddle GIC with business which does not carry rates

acceptable to it.

- The intermediaries market has just been opened up. It is yet to find its feet. In the absence of knowledgeable, skilled and professional intermediaries, detariffing can be an unmitigated disaster. We need time to build up broking institutions as also an informed agency force. Even a three year time frame may not be adequate for the purpose.
- The existing 'file and use' system must be modified to provide that each product of the insurer is supported by the appointed actuary's certificate stating whether the rate proposed to be charged is fair and reasonable or not and the extent of subsidy being provided for.

It is also essential to build up a consensus amongst insurers about the sequence and the speed of transition from a tariff to a non-tariff regime. A clear road map and action plan should be prepared for gradual phasing out of tariffs over a period of three years. The market or the consumer should not be taken by surprise by the new regime.

The insurance companies should be put on notice so that they do their homework and put their house in order. Underwriting skills cannot be developed overnight and we must allow sufficient time to the insurance companies, particularly in the public sector, to prepare their officers so that the stability of the market is not endangered.

'Gradualism' is recommended also for the reason that following the withdrawal of the tariff regime, prices would decline, at least in the short term. In the long run, the market will perhaps stabilise at much higher rates than those prevailing at present. The IRDA must make sure that it has the necessary resources and expertise to monitor the pricing of products and solvency margins of the companies to safeguard the interests of the policyholders. Building up early warning systems also needs time. We, therefore, need not act in haste.

The author is retired CMD, The New India Assurance Company Limited.

At Our Own Pace . . .

K. Nitya Kalyani

Anecdotes are the most interesting part of belonging to an organisation. War stories, don't-attribute-it-to-me stories, too funny not to share stories... all abound in the workplace and are an important bond between generations of colleagues. They sketch an unforgiving picture of the organisation.

In the mid-eighties when I joined New India, which strode the general insurance industry like a colossus – and still does for all practical purposes – I was delighted to find a set of senior officers who could laugh at themselves. And very well too.

New India was the first of the companies to embark on automation a few years earlier, and had by that time graduated to its more sophisticated version – computerisation. Which meant that PCs were being bought for the accounts departments in regional offices and divisional offices.

The computerisation story is interesting, but the automation anecdote more so.

This happened before my time – when an automated salary roll system had just been installed. The story goes that a union delegation turned up one fine October day. In the heydays of public sector union activism and ascendancy, this usually spelt trouble and quite some discomfort for the object of their visit, in this case the Regional Manager (RM). Once summoned in, seated and small talk attempted with growing dread, the demand came. When are you going to release the bonus?

Exemplary performances and promises of the other three companies were cited belligerently, and the pressure was on the RM!

He summoned the accounts chief and posed the same question praying for The Right Answer. Pat it came – we need extra time to do it Sir, since we have to use the new automated system to calculate the bonuses!

Amusing as it may be, the anecdote underlines the tragedy of the public sector insurance industry. It resisted

computerisation for a long time, only to find that avoiding it did not bring it the benefits it sought – more recruitment and hence more union membership – and that it did create many disadvantages that it could have done without and which is killing it now. These include the lack of control over the business which has a huge geographical spread, lack of loss experience data that will free it of the oppression of the tariff and the all but loss of the first mover advantage, and decades of monopoly.

When computerisation happened it was not without the stamp of the unions either. Leaving aside rents extracted like machine operating allowance, including for officers, the unions stipulated the front-office should not be computerised. So the PCs were installed in the accounts department. After the policies were issued by manually typing them after the mandatory few weeks, a flimsy carbon copy of it would find its way to the data entry operator who would key in, again, the details of the insured, premium, risks etc for creating an underwriting database!

When slowly the database did get built up, the companies unfortunately got locked up into unfavourable arrangements with software providers and, to this day, live with this legacy, facing hurdles in moving to a new generation of information technology systems and processes, when they should be using India's software talent to soar to the skies.

Given their spread and market share, given their sheer balance sheet size (no matter they are making losses now), IT would have been the growth engine to rev them up and give them the momentum to take off. It would have cut back the management expenses that are killing them now and would have helped analyse and grow the premium base along suitable lines.

But then, there should be vision and implementation skills – both necessary but not sufficient. There should be motivation and there should be a sense of purpose.

Which LIC has displayed to a larger extent. As far back as in the first half of the 90s it started putting in place a wide area network that has served it well. Quietly facing the fact that competition would be here sooner or later, it computerised the mammoth organisation, cutting down maturity claims settlement delays almost completely and offering customers a decent interface to pay premiums anywhere and verify policy and payment information. They have now to find their second wind to go on with it.

For optimum IT implementation and usage is a moving target.

Private companies that were registered in the last couple of years should be on a much better footing. But they too have been, it is believed, more or less pressed into adopting legacy packages from parent companies, where the systems need to be considerably modified for Indian business, not to speak of updating for current requirements. This has spawned a specialised industry providing new front-end systems, and another, building the middleware so that the old and the new can talk to each other.

But they have advantages. The motivation and the inclination, and also the fact that they are IT-enabled from scratch (indeed some foreign aspirants to insurance licences ran software development centres for the insurance industry abroad and provided IT-enabled services too while they waited for the insurance sector in India to open up).

Operations and management using IT as a powerful tool is only the first step. Marketing is where it all counts and the Internet would be the next frontier that the insurance companies should attack. Enabling regulations have been made by the IRDA for electronic payment. It is creating the mechanisms for IT-aided marketing and e-selling, popularising these new avenues and taking care of security issues that should occupy the minds of the industry in the short term.

Revision in Surveyor Limits

The IRDA has revised, with effect from June 1, the surveyor limits in the case of Marine Cargo and Miscellaneous businesses. There is no change in the values of work allotted to surveyors in Motor, Marine Hull and Loss of Profit businesses.

In 2002, the IRDA had split the licensing of surveyors into three categories – “A”, “B” and “C” – and had indicated the financial limits up to which each individual category of surveyor would carry out the survey.

Following a large number of representations from surveyors for rationalisation of the structure it has been decided to re-fix the limits of the value of survey to be undertaken by different category of surveyors as follows.

In respect of Marine Cargo and miscellaneous the following are the changes:

- Category “C”: The existing limit of Rs. 1 lakh will be enhanced to Rs. 3 lakhs.
- Category “B”: The present limit of Rs. 3 lakhs will be enhanced to Rs. 7.5 lakhs.
- Category “A”: Surveyors in this category will be permitted to undertake survey in respect of claims over Rs. 3 lakhs.

In the Fire portfolio the following are the enhancements:

- Category “C”: The existing limit of Rs. 10 lakhs would be reduced to Rs. 5 lakhs.
- Category “B”: The existing limit of Rs. 25 lakhs would be reduced to Rs. 20 lakhs.
- Category “A”: For surveyors in this category the limit is reduced to above Rs. 5 lakhs instead of Rs. 10 lakhs.

For Engineering business surveys the following changes are being made:

- Category “C”: The existing limit of Rs. 5 lakhs is being reduced to Rs. 2 lakhs.
- Category “B”: Rs. 10 lakhs will be reduced to Rs. 7.5 lakhs.
- Category “A”: The limit will be above Rs. 2 lakhs as against Rs. 5 lakhs.

LICENCED BROKERS

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Power to intervene in sub-judice claims cases

The IRDA can intervene in cases of pending claims and issue directions to an insurer under Section 64UM of the Insurance Act, 1938, to settle a claim even if a case relating to the claim is pending before the courts. These directions can be issued subject to the cases being withdrawn by the insured.

The IRDA in a notice has said that it has received legal opinion to this effect from the Additional Solicitor General of India through his letter dated April 30, 2003. The letter states that the IRDA, under Section 14 of the IRDA Act, 1999, has the powers as outlined above.

Research to Save Lives

The IRDA is to set up two institutes, one to do research work in the area of road and vehicle safety testing and rating, and the other on Motor insurance data.

This came about after a serious study, financed by the Financial Institutions Reform and Expansion (FIRE) Program of USAID, to examine the weakness in the existing Motor insurance area. The Fire Program is also expected to help the IRDA in the setting up of the institutes and to monitor the performance of the different aspects and segments.

Mr. N. Rangachary, Chairman, IRDA, told a gathering of general insurance company chief executives on May, 6, in Hyderabad that the institutes, which would be common user facilities to benefit the industry, would come up in Chennai and be funded by the IRDA.

The Tamil Nadu Government has granted about 50 acres of land off Chennai for developing a state-of-the-art vehicle safety testing centre. An announcement to this effect was made in the State Assembly in the first week of May.

The centre will be part of the Road Safety Research Institute (RSRI), and the Institute of Motor Data and Insurance Research (IMDIR) will also be housed there.

The projects follow IRDA's thinking that these two were vital areas for research that would serve the insurance industry as a common user facility.

The RSRI – envisaged as a centre for strategic research and information on road safety in India – has been outlined by Mr. Chris Evans of Consumer Research Associates, the UK, in the feasibility report that he was retained to prepare. Mr. Evans has worked with the consumer movement in the UK in the area of vehicle safety for several decades.

In this report it is proposed that the RSRI would undertake generic research, with significant emphasis being given to promoting its findings. Research would be based on data obtained from police and enforcement authorities, hospitals and the insurance industry. Typical research programmes would cover topics like seatbelt usage and pedestrian-related and alcohol-related accidents.

The end-users of the research outputs from the RSRI would include policy makers, law makers, vehicle manufacturers and the public at large.

As for the benefits of this institute, says Mr. Evans, "Accidents will be reduced, there will be fewer lives lost and costs will be reduced." Major beneficiaries, he says, will include the insurance industry as payouts would be less because accidents would be reduced.

The pressing reason for research work in this area is that India with a population of 50 million vehicles and over 85,000 vehicle related deaths each year, while the US, for instance, with 220 million vehicles has 42,000 deaths a year. This works out to a risk to the population from fatal collisions in India of 10 times higher than that for the US.

Apart from the human tragedy, which

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“Accidents will be reduced, there will be fewer lives lost and costs will be reduced,” says Mr. Chris Evans of Consumer Research Associates, the UK.

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has been estimated at one to three per cent of the GDP by the World Bank, costs of road accidents are also spiralling. This is in keeping with economic developments like higher car ownership, higher value and more powerful, cars.

All of this has not just led to increased loss of life but loss of property, loss of valued employees to industry, increase in medical costs, loss of earnings, trauma caused by accidents and significant losses to insurance companies too.

At India's GDP in 2001-02 of Rs. 1,265,429 crores, the current cost of crashes at two per cent of the GDP could cost Rs. 25,308 crores.

It is proposed that the RSRI and IMDIR would come under the same umbrella and

be headed by the same person. The IMDIR would work in the areas of data collection from various agencies like the police, judiciary, vehicle manufacturers, vehicle financiers, road transport authorities, hospitals and insurance companies both for its own use and for the use of the RSRI.

IMDIR would collect, mine, analyse, store and disseminate data, information and trends relating to motor vehicle insurance and accidents in India, including aspects like vehicle and road safety and operational systems and enforcement recommendations for improving them.

The direct benefit to the insurance industry would be to serve as an input for Motor tariffs or guide rates as the case may be. With the detariffing of Motor insurance business being imminent, this data would throw up trends in loss experience related to homogenous sets of users in terms of usage patterns, health and other personal data so that rates can be quoted that reflect the risk profile of the insured more equitably.

The IMDIR – which will be a central, online database – also plans to create a real-time information centre for road accidents in the country on vehicles and people involved etc, and thus to aid victim rescue, emergency recovery and rehabilitation work.



What Regulations Say...

—Protecting Policyholders

Consumer protection has been one of the most important objectives of the IRDA. This may appear out of the realm of one who is basically the regulator of an industry, but it is not really so. To put it cynically, it is actually enlightened self-interest.

The regulator exists to regulate develop and monitor the industry. The industry exists to do business with the consumer and make money by doing so. Isn't it logical that it is only the consumers' satisfaction, delight and protection that will lead to the healthy growth, prosperity and longevity of the industry? And that ensuring this is a legitimate role for the regulator who has to make sure that a healthy balance is struck between the regulated and the customers of the regulated in the larger interest of the society?

It is in this spirit that the Insurance Regulatory and Development Authority

(Protection of Policyholders' Interests) Regulations, 2002, were made.

And not so clinically either. Recalls Mr. N. Rangachary, Chairman, IRDA: "We were deluged by complaints from customers who were getting indifferent, and even shabby, treatment from insurers." They were not being given surveyors' reports, they were being sold products that they found later did not suit them, and claims settlement and rejection – which of course had to stick to the terms of the contract – were arbitrary and uncaring many a time.

More often it was a case of casual treatment of claims and claimants who could do little against mighty corporates.

A case in point he recalls with unhappiness:

There was this letter from a widow in Calcutta whose claim on her husband's life insurance policy was

rejected. The reason: he had taken medical leave but his proposal had not 'disclosed properly' any health problems.

The IRDA took the matter up with the insurance company and asked them to review the case. It was found that the medical leave was actually a half-day casual leave on medical grounds and was availed in order to go to the railway station to receive some family visitor.

On these grounds the company refused to pay a widow about Rs. 29,000 – the sum assured of the policy – which she was obviously in dire need of and, moreover, was entitled to and what had been contracted and paid for.

This kind of thing hit home hard for the team at the IRDA which was making regulations for the insurance industry. It was decided that many simple but far-reaching measures that would safeguard the customer should be

What the regulation says about

Point of sale material and brochures

Often brochures or prospectuses are given to customers with product information. A clause in the PPIR requires the insurance company to give the prospective customer a prospectus which clearly

- States the scope of benefits
- States the extent of insurance cover
- Explains the warranties, exceptions and conditions of the insurance cover explicitly
- States whether the product is participating (with profits) or non-participating (without profits) in the case of a life insurance product
- Spells out clearly the allowable rider or riders on the product along with their scope of benefits and
- Ensures that in no case the premium on all riders – except those related to health related or critical illness riders in the case of term or group products – together exceeds 30 per cent of the premium of the main product
- The premium on health and critical illness related riders can go up to 100 per cent of the premium of the main policy
- Any benefit arising under each of the riders should not exceed the sum assured under the basic product
- The nature of the rider will be the same as that of the main policy with regard to whether it is participating or non-participating

If these relate to the physical process of the sale, there are also set rules by which intermediaries should behave while making a sale. They should act according to the code of conduct prescribed by the IRDA, the life insurance or general insurance council as the case may be, and their own professional organisations.

Proposal Forms

- Except for marine insurance there should be a written proposal before grant of cover. It is the duty of an insurer to furnish to the insured free of charge, within 30 days of the acceptance of a proposal, a copy of the proposal form.
- Insurers are encouraged to issue forms and documents in regional languages to suit the customer.
- While filling the proposal form, the prospect should take care that all material information is disclosed, as failure to do so could go against his interests when a claim arises. Life insurance proposal forms should prominently state the requirements of Section 45 of the Act which speaks of disclosure of material facts.
- Where a proposal form is not used, the insurer shall record the information obtained orally or in writing, and confirm it within a period of 15 days with the proposer and incorporate the information in its cover note or policy. The onus of proof is with the insurer in respect of any information not so recorded, where the insurer claims that the proposer suppressed any

material information or provided misleading or false information on any matter material to the grant of a cover.

- Wherever nomination facilities are possible and allowed, the insurer should draw the attention of the proposer to it and encourage him or her to avail it.
- Insurers should communicate decisions on proposals in writing within 15 days of their receipt.

Grievance redressal procedure

Every insurer should have proper procedures and an effective mechanism to address complaints and grievances of policyholders efficiently and with speed. These measures and information about the Insurance Ombudsman system should be conveyed to the policyholder along with the policy document and as may be found necessary.

Matters to be stated in a life insurance policy

A life insurance policy shall clearly state:

- the name of the plan governing the policy, its terms and conditions;
- whether it is participating in profits or not;
- the basis of participation in profits such as cash bonus, deferred bonus, simple or compound reversionary bonus;
- the benefits payable and the contingencies upon which these are payable and the other terms and conditions of the insurance contract;

codified in a regulation that would be binding on all insurance companies.

“We did it to create a confidence in the system,” Mr. Rangachary sums it up.

The scope of these regulations (referred to as PPIR hitherto) extend to things like specifying a timeframe for settling or rejecting a claim – so that the insured is not left hanging for an indeterminate period of time following up with the insurance company – and also compensation for delayed claims beyond 30 days, both for life policies.

The first of the points that the PPIR makes starts with the logic of the business process itself. The point of sale.

One of the many generic complaints about insurance products, and in fact many financial products, is that the consumer just does not understand what he is buying. He is not always told,

he does not know what to ask, and he mostly ends up with a product that he did not want.

Sometimes it is the nature of the product, but it could equally be, and is, an unsatisfactory level of information from the seller's side.

Hence the reason for various conditions at the point of sale. At this stage, when the insurer or his representative is talking to a prospective customer, disclosure about the product is an important concern. The regulations say that the insurer or his agent or any other intermediary should provide dispassionately all material information about the insurance product being sold so that the prospect can decide which is the best cover for his or her needs.

An added precaution is that if the proposal and other connected papers are not filled in by the prospect, a certificate needs to be incorporated at the end of

proposal form from the prospect that the contents of the form and documents have been fully explained to the customer and that he has fully understood the significance of the proposed contract.

The above precautions and requirements take care of an oft repeated complaint against insurance companies: that they were not adequately informed.

The regulations go into details about what should and should not be done at each stage of interaction with the customer. Some of these, relating to the stage till the issue of the policy, are listed in the box below.

What the PPIR provides when it comes to claims handling and other servicing aspects of the policy will be outlined in the second part of this article in the next issue of the **IRDA Journal**.

K.N.K.

- (e) the details of the riders attaching to the main policy;
- (f) the date of commencement of risk and the date of maturity or date(s) on which the benefits are payable;
- (g) the premiums payable, periodicity of payment, grace period allowed for payment of the premium, the date of the last instalment of premium, the implication of discontinuing the payment of an instalment(s) of premium and also the provisions of a guaranteed surrender value;
- (h) the age at entry and whether the same has been admitted;
- (i) the policy requirements for (a) conversion of the policy into a paid up policy, (b) surrender (c) non-forfeiture and (d) revival of lapsed policies;
- (j) contingencies excluded from the scope of the cover, both in respect of the main policy and the riders;
- (k) the provisions for nomination, assignment, and loans on security of the policy and a statement that the rate of interest payable on such loan amount shall be as prescribed by the insurer at the time of taking the loan;
- (l) any special clauses or conditions, such as, first pregnancy clause, suicide clause etc.; and
- (m) the address of the insurer to which all communications in respect of the policy shall be sent;
- (n) the documents that are normally required to be submitted by a claimant in support of a claim under the policy;

Free Look in period

The PPIR provides the life insurance policyholder an opportunity to change his mind about a policy he has purchased, within 15 days of receiving the policy document, if he disagrees to any of the terms and conditions of the policy. He will be entitled to a proportionate refund of the premium less expenses of the insurer on medical examination and stamp duty charges.

In respect of a unit linked policy, the insurer will also be entitled to repurchase the unit at the price of the units on the date of cancellation.

In respect of a cover, where premium charged is dependent on age, the insurer shall ensure that the age is admitted as far as possible before issuance of the policy document. In case where age has not been admitted by the time the policy is issued, the insurer shall make efforts to obtain proof of age and admit the same as soon as possible.

Matters to be stated in a general insurance policy

A general insurance policy shall clearly state:

- (a) the name(s) and address(es) of the insured and of any bank(s) or any other person having financial interest in the subject matter of insurance;
- (b) full description of the property or interest insured;
- (c) the location or locations of the property or interest insured under the policy and, where appropriate, with respective insured values;

- (d) period of insurance;
- (e) sums insured;
- (f) perils covered and not covered;
- (h) any franchise or deductible applicable;
- (i) premium payable and where the premium is provisional subject to adjustment, the basis of adjustment of premium;
- (j) policy terms, conditions and warranties;
- (k) action to be taken by the insured upon occurrence of a contingency likely to give rise to a claim under the policy;
- (l) the obligations of the insured in relation to the subject matter of insurance upon occurrence of an event giving rise to a claim and the rights of the insurer in the circumstances;
- (m) any special conditions attaching to the policy;
- (n) provision for cancellation of the policy on grounds of mis-representation, fraud, non-disclosure of material facts or non-cooperation of the insured;
- (o) the address of the insurer to which all communications in respect of the insurance contract should be sent;
- (p) the details of the riders attaching to the main policy;
- (q) proforma of any communication the insurer may seek from the policyholders to service the policy.

Insurers should keep customers informed periodically on the requirements for lodging a claim and the procedures to be followed by him to enable the insurer to settle a claim early.

Handling a Difficult Claimant

C. P. Udayachandran

Eavesdrop on a conversation among insurance practitioners and you are sure to hear at least a few of them strongly disapproving, or complaining about, the general attitude of insureds.

"The disposition of any insured hardens when questions seeking clarifications on the claims are put to them," observes Mohan Gidwani, a claims surveyor. "Extracting sensitive information from the insured is always a disagreeable process. Often it turns them hostile, leaving the claims assessor and insurer with no option but to view claims harshly."

The insureds, on the other hand, have a different version. "The surveyors and insurers always seek information with only the objective of seeing how things can be turned against us," says a bitter Suresh. A medium scale entrepreneur, he has a different tale to tell. "They call for more and more information with the sole object of reducing the pay out or, even worse, to deny benefits."

There is no doubt that it has become far too common between insurers and insureds to believe that the other side is abusing the claims investigation process. Suffice it to say that it has grown to such an extent that there is an air of mutual mistrust when it comes to the finalisation of a claim.

From the side of the insurers, there is too common a belief that insureds are conspiring and hiding critical information in an effort to perpetrate insurance fraud. On the other hand, it is generally held by insureds that insurers are merely attempting to create evidence to support a denial, or are trying to frame charges of suppression of information material to the claim. These suspicions are heightened on both sides when the stake involved is substantial.

Unfortunately for insurers, suppression of material facts as a defence for denying benefits or coverage is an over-used argument before the judicial forums. Very often, this is primarily because of the lack of specific detail when raising the issue during the claims assessment process.

Many a time, the insurance professional, be it a surveyor or the claims

manager, tends to forget the rudiments when dealing with a claimant.

The key to open commerce is in the attempt to identify the 'why' behind the perceived lack of co-operation. Are they concerned about the impact of the investigation on an ongoing claim situation? Are they suspicious about the insurer's motivation? After you can determine the 'why,' you are better positioned to make your claims handling smoother.

If, however, you are within the proper scope of the co-operation requirement, address the issue with the seriousness it deserves. When dealing with such a situation, discussing the requirement with the insured frankly and identifying the specific potential impact the lack of co-operation will have on the processing of the claim is critical for any subsequent attempt to enforce the provision.

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**The uncooperative insured
is a myth. The fraud
perpetrator is usually a
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easy-to-deal-with
insured.**

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There is a chance that forums of justice might respond favourably to a clearly described and specific failure on the part of the insured to provide critical information for determination of a claim. However, there is hardly any chance that they will respond to a generalised and vague defence that the insured has not parted with relevant or necessary information to finalise the claim.

The problem is a lack of professionalism in the claims process. The uncooperative insured is a myth. The fraud perpetrator is usually a most cooperative and easy-to-deal-with insured.

An insured is uncooperative in the claims process for only two reasons - he was not been dealt with professionally or he has something to hide!

A professional claims manager can overcome the first problem easily by treating the insured with courtesy, intelligence and respect. A sensible, professional, explanation of the insurance policy contract and the obligations of each party to the contract can be conveyed in simple, easy to understand language. Claims handling is a service. Once the insured understands the claims professional is present to perform a service, cooperation follows.

If, on the other hand the insured wants to hide something from the professional claims handler, a professional can get the required information with skill and good grace. A trained interviewer can cause the most reluctant witness to confide in him or her. An experienced investigator can search out facts and documents from public records that will assist the investigation without the cooperation of the insured.

Courtesy, knowledge, experience, and training make the uncooperative insured rare. When nothing else works, the professional can point out the lack of cooperation in a professional written communication quoting the appropriate policy language that explains the mutual obligations of both parties to the insurance contract.

The truth is that the difficult person can be killed with kindness. The trick for the claims professional is not to fall into the trap of anger so that information can be gained. The object is to see that the insured and the claims manager work as a team to resolve a claim.

And now, the final word: If the insurance industry does not employ professionalism in claims; if claims professionals cannot read, understand and explain policy wordings to insureds in common language; if adjusters fail to understand construction, values of personal property, and investigative techniques, lawyers will thrive on litigation and their practice will grow to the disadvantage of the insurers!

The author is Deputy Manager, United India Insurance Co. Ltd., Ernakulam Regional Office.

Report Card:LIFE

Life premiums decline in 2002-03

The year 2002-03 had 13 companies vying with each other for capturing a share of the huge life insurance market. While 12 of these players are new entrants, having received registration certificates over the last two and a half years, LIC was the public sector monolith with over forty years experience. The new entrants coped with the challenges of setting up operations, building up the agent force and spreading to the rural and semi-urban areas. In addition, the industry as a whole also faced a regime of declining interest rates and shrinking avenues for investment in the face of the overall slowdown in the economy.

Against such a background the industry witnessed an overall decline of 18.60 per cent in the new business premium from Rs.15,139.93 crores in the year 2001-02 to Rs.12,324.83 crores in the year 2002-03. Interestingly, the number of new policies issued during the period witnessed an increase of eight per cent over the previous year. Overall the decline in the new business ensued from LIC, which recorded a negative growth of 23.58 per cent.

Of course, the growth in new business figures of the private insurers has to be viewed against the fact that the year 2001-02 was a full twelve month period of operations for only a handful of insurers and as such the growth in premium income in the year 2002-03 is not truly comparable with that in the previous year. However the performance of the private players was certainly commendable in that they captured eight per cent of the new business as against two per cent in the year 2001-02. Of the private players ICICI Prudential took the lead with approximately three per cent of the market. As against this ING Vysya, MetLife, Aviva and AMP Sanmar have yet to make an impact in terms of market share. Here is an analysis:

INDIVIDUAL BUSINESS

Individual regular business

The year 2002-03 witnessed a three-fold increase in the new business underwritten by the 12 private players. As against a premium income of Rs.15,470 lakhs in the year 2001-02, a business of Rs.47,271.65 lakhs was underwritten in the year 2002-03. Among the private players the endowment business with premium

income of Rs.16,110.78 lakhs continued to attract maximum business, followed by unit-linked products at Rs.14,936.34 lakhs as against this in the previous year the premium underwritten for the unit-linked products was Rs.2,214.90 lakhs. Accordingly, whole life, money back and term policies with premiums underwritten of Rs. 5,165.87 lakhs, Rs. 7,336.14 lakhs and Rs. 2,537.74 lakhs, respectively, fell behind the unit-linked products in terms of new premiums underwritten.

In respect of rural business, the premium underwritten grew from three fold from Rs.222.22 lakhs in the previous year to Rs.679.78 lakhs, with the favoured products being term and endowment policies. Compared to the previous year, there was a deviation from the previous year, in that the money back products witnessed a slow down in percentage terms, although in absolute terms the premium grew approximately four fold as against the previous year.

In respect of LIC the individual regular new business witnessed a decline of 8.17 per cent as against the previous year. While endowment, money back, and riders witnessed a decline as against the previous year, whole life policies and unit-linked policies showed an increase in the premium underwritten of 1.27 and 10 times respectively.

The premium underwritten by LIC in the rural sector under this segment, witnessed a decline of 11.56 per cent. While premium underwritten in the whole life segment witnessed an upward trend, the declines were witnessed in endowment, money back and term products. However, the number of policies underwritten exhibited a rise of 18 per cent at 45,23,457 as against 37,01,444 in the previous year.

Single premium business

The single premium new business premium for the private insurers witnessed a 260 per cent growth with new business premium underwritten at Rs.29,754.34 lakhs as against Rs.8,271.51 lakhs in the previous year. The maximum growth was recorded in the unit linked products with the premium income exhibiting an increase of 13.91 times at Rs.13,559.8 lakhs. In addition, whole life products and others exhibited a growth of about 430 per cent each with premium underwritten at Rs.4,914.22 lakhs and Rs.993.43 lakhs respectively. Term products did not find

New Business Underwritten for the month of April, 2003

(Rs. in lakhs)

Insurer	Premium	No.of Policies/ Schemes
Allianz Bajaj		
Individual	107.12	2,378
Group	0	0
ING Vysya		
Individual	122.48	1,925
Group		
AMP Sanmar		
Individual	23.34	713
Group	0	0
SBI Life		
Individual	14.93	239
Group	73.88	—
Tata AIG		
Individual	588.38	7,225
Group		
HDFC Standard		
Individual	802.17	11,434
Group	55.51	2
ICICI-Prudential		
Individual	1729	13,990
Group	0	0
Birla Sunlife		
Individual	730.7	2,816
Group	110.8	5
Aviva		
Individual	91.03	2,228
Group	0	0
Om Kotak		
Individual	94.6	591
Group	324.04	1
Max New York		
Individual	273.63	3,766
Group	27.16	—
Met Life		
Individual	54.44	666
Group	0	0
Total - Private		
Individual	4,631.82	47,971
Group	946.70	14
LIC		
Individual	13,650.92	—
Group	17,187.21	355
Grand Total		
Individual	18,282.74	5,10,436*
Group	18,133.91	369

* Does not include LIC.

much favour with the insured with total underwritten premium at Rs.373.28 lakhs as against Rs.262.94 lakhs.

As regards the rural business underwritten, the premium income doubled at Rs.87.65 lakhs in the year 2002-03, as against Rs.44.4 lakhs in the previous year – with the number of policies growing to 35,269 as against 6,210 in the previous year. The favoured product continued to be endowment policies (67 per cent of premium underwritten) as in the previous year. Single premium unit-linked products too made a beginning in the rural sector – although at a negligible Rs.1.95 lakhs.

In respect of LIC the comparisons of the two-year figures throw up some interesting facts. The premium underwritten declined from Rs.5,36,485.49 lakhs to Rs.3,00,921.77 lakhs, ie, a decline of 44 per cent, with a similar decline being reflected in the number of policies underwritten. As against premium of Rs.11,910.72 lakhs under money back in the financial year 2001-02, the premium income for the year 2002-03 was a mere Rs.2.32 lakhs. Similarly, the whole life premium income also declined to Rs.77.19 lakhs as against Rs.1,409.67 lakhs in the previous year – interestingly, the number of policies increased from 22 to 176 in the year 2002-03. The premium in respect of endowment policies however reflected an over four-fold increase at Rs.69,917.94 lakhs as against Rs.13,677.19 lakhs in the previous year.

The performance of LIC in the rural segment exhibited a decline of 43 per cent, although interestingly, the business in the endowment segment grew from Rs.914.53 lakhs in the previous year to Rs.2,572.48 lakhs in the year 2002-03, i.e., an increase of 181 per cent. No business was underwritten in the money back and unit linked products.

Individual Pension Business

The business underwritten by the private players in the individual pension category increased from Rs.2,918 lakhs in the year 2001-02 to Rs.81,448.69 lakhs during the financial year under reporting, ie, an increase of about 27 times. The number of policies exhibited an increase of 88 per cent at 45,595 policies.

Interestingly, the pension business of LIC reveals a divergent trend – both the number of policies and premium income have declined by 68 per cent from 7,58,790 to 2,41,034 in the year 2002-03, and from

Rs.2,56,135.38 lakhs to Rs.32775.64 lakhs, ie, 87 per cent, respectively.

The decline in this segment in the rural sector for LIC is stupendous at Rs.824.99 lakhs as against Rs.10,790.74 lakhs in the previous year, with the number of policies underwritten declining to 6,686 as against 43,313 in the year 2001-02.

GROUP BUSINESS

Group Insurance Business

The group business underwritten by the private players too exhibited a quantum jump in the year 2002-03 as against the year 2001-02 – facilitated, at least partially by the fact that the said year was a full year of operation for eleven of the twelve players, and at least some of them had stabilised their operations. The number of lives covered by the private insurers jumped from 4,27,273 in the previous year to 8,05,503 lives in the year 2002-03, i.e., an increase of 89 per cent, with a corresponding increase in premium to Rs.3,299.8 lakhs as against Rs.692.14 lakhs in the previous year. A major chunk of business, at 94 per cent, has come from term policies.

In the social sector, the number of lives covered by the private insurers has gone up to 1,67,982 (including individual business) as against 37,760 lives in the previous year, and correspondingly, the premium underwritten has increased to Rs.419.47 lakhs as against Rs.21.16 lakhs in the previous year.

LIC too has recorded commendable growth in the group business, with the premium underwritten increasing by 60 per cent to Rs.3,366.43 lakhs in the financial year 2002-03 as against Rs.2,114.29 lakhs in the previous year, and the number of lives covered increasing to 13,67,344 (15 per cent) as against 11,90,977 in the year 2001-02. In addition, under the Janashree Bima Yojana, 6,36,744 lives were also covered in the social sector at a premium of Rs.636.74 lakhs, besides group insurance without subsidy of Rs.9.11 lakhs.

Group Gratuity Business

The twelve private sector insurers underwrote premium income of Rs.1,858.73 lakhs covering 6,040 lives during the financial year 2002-03, as against Rs.50.39 lakhs covering 1,175 lives in the previous year. It may be mentioned that during the previous year only one insurer had launched the product.

The private insurers did not cover any

lives in the social sector under this product.

Under its Group Gratuity and Leave encashment schemes LIC underwrote a premium income of Rs.64,055.86 lakhs, a quantum jump of 177 per cent as against Rs.23,066 lakhs in the previous year. While group gratuity business grew to Rs.51,997 lakh as against Rs.21,884.11 lakhs in 2001-02, the group leave encashment business grew to Rs.12,058.82 lakhs as against Rs.1,181.89 lakhs in the previous year. The total lives covered too increase to 3,61,819 lives as against 2,11,034 lives in the year 2001-02.

The LIC too did not underwrite any social sector business under the group gratuity business.

Group Superannuation Business

The private insurers underwrote 2,371 lives with premium of Rs.1,030.31 lakhs as against 885 lives with premium underwritten of Rs.739.82 lakhs in the previous year.

No social business was underwritten by the private insurers in the segment during the financial year.

LIC, under its group superannuation scheme and the group annuity schemes underwrote premium of Rs.97,143.04 lakhs as against Rs.74,265.85 lakhs in the previous year, i.e., a growth of 30.80 per cent. The major contributor to the segment was group superannuation with an increase of 302 per cent, with lives covered totalling 83,260. No business was underwritten under the voluntary retirement scheme as against Rs.9,303.23 lakhs in the previous year.

Provisional claims data

While it is early days for the private insurers to be handling claims in the life business, provisional data is available on the same for the year 2002-03. The accompanying table gives a synoptic view of the claims handled by the life insurers during the financial year 2002-03. In terms of numbers the maximum claims were received by Tata AIG, with Aviva, the latest entrant in the industry, bringing up the rear. In monetary terms, the claims received by Tata AIG and Max New York were almost the same at around Rs.330 lakhs each, closely followed by ICICI Prudential at Rs.315 lakhs.

In respect of LIC while the data on similar lines is awaited, the insurer has settled 89.32 per cent of its claims by due date and 90.3 per cent of the death claims within 30 days.

RUNNING IT WELL

K. Nitya Kalyani

Good governance is one of those blessings that you don't recognise till its absence hurts.

Presumptions of good management in companies have led many industries and markets in several countries astray. In our own backyard is the prime example. The insurance industry in India in the 1950s was made up of a myriad companies of various shapes and sizes slackly regulated, and in hindsight, many of them poorly governed. The chaos that was threatening to break loose in the market had to be curbed, and the Government of the day chose to do that using the fashionable management tool of that era of governments – nationalisation.

The nationalised industry had rules and regulations, and checks and balances. But with its blindness to the market and the customer, could never capture the confidence of either.

What was lacking was leadership, except sporadically. Simply because leadership was never rewarded, and indeed many say, no good deed went unpunished.

In this, ironically, was proof that the market ruled, because in response to this lack of demand for leaders or visionaries, the system did not produce any – or those produced in spite of the system, left to find their muse elsewhere or waited largely unused, to emerge when two dozen new companies set up shop.

The employee as stakeholder took precedence over all others, including the owners and managers and definitely the customers.

The private industry earlier had the leadership, but not always the systems and maybe the intent to ensure proper conduct of business benefiting all stakeholders. What let the customers down was more often than not, the lack of enforcement on the regulator's part.

The peculiarity with the insurance

industry is that failure to meet best practices affects the customer in hard-hitting ways. The individual loses security against death or financial losses that he pays for, and businesses lose foundations on which they could have based their business.

It has to be a combination of self-interest and taking care of the interests of the other stakeholders that will take the owners and managements of a company far. If the right balance is not struck, if dynamism is lacking, or if sufficient momentum is not built up, the entire structure and machinery of the company suffers. And with it, the stakeholders.

This is why with the codified systems in the public sector we still face a situation where the public sector general insurers are making losses and don't have their until now comfortable investment incomes to prop up the bottomlines to the extent they did before.

If boards members had been active and knowledgeable, they could have seen investment incomes crashing and asked hard questions of the management about what they planned to do. But then, boards were appointed along very different lines, indifferent to the needs of the business, and it was more a privilege than a responsibility to be on a board.

Today, with the four non-life public sector companies owned directly by the Government, the chances of domain

knowledge on the part of outside directors on the board dwindles. At least earlier the General Insurance Corporation of India (GIC), the holding company, was running the show and knew what the business was all about.

In the case of LIC too, it could be a case of dwindling investment incomes catching up with it. The corporation has phased out most of its high guaranteed return products, which it would have done earlier with just the right advice from domain experts. But there are other challenges it will face in the future, including keeping its vast marketing machinery going in the face of competition.

A more important challenge, and one that would be critical to its success, would be to bring the lapsation rates, which are supposedly around 30 per cent for the industry, down to manageable levels, to build a marketing force and to evolve a remuneration system that will serve these ends.

For the private industry the issues are plenty enough, specially given they have to spend most of their resources and energies garnering good quality market share. But they still have the advantage of creating good systems from scratch.

In time, their strengths and weaknesses will also show through, and quickly. One thing is sure, at the back of their minds, one hopes, is the caution that chinks in the armour can be fatal.

And in the case of the insurance industry, the fatality can be contagious.



Codes for the Aspiring

Ashvin Parekh

Corporate Governance in the Insurance Industry

In this article I will try to set out corporate governance codes for insurance companies which aspire to the highest standards of ethical conduct, doing what they say and reporting performance with accuracy and transparency.

These companies strive to maintain full compliance with the laws, rules and regulations that govern the company business. The provisions of governance concern all the stakeholders, namely shareholders, executives, analysts and policyholders.

We will also see some measures companies take to deal with potential acquisition threats and their significance.

Categories of Governance Provisions

The aspects have been classified under four categories, namely, effective management, protection, voting and delay. The provisions under each of these could be as below.

Management	Protection	Voting	Delay
Directors' duties	Compensation plans	Bylaws and charter	Blank cheque
Internal control procedure	Contracts	Cumulative voting	Classified board
Risk assessment parachutes	Golden	Secret Ballot meeting	Special
Market conduct	Indemnification	Supermajority	Written consent
Fair practice and price	Limitations of directors' liability	Unequal voting	Poison pills
	Severance	Business combination laws	
	Pension parachutes		
	Silver parachutes		
	Anti-greenmail		

Management

Directors' Duties

Boards should ensure that collectively they have sufficient expertise to understand the important issues in relation to the operations and

control of the insurance company. Boards should set out clearly who has authority to enter the company into contractual obligations. These obligations should be regularly reported to ensure that the management is sufficiently accountable to the board.

Internal control procedure

The board shall establish internal control procedures that are, in its opinion, necessary and sufficient for the purpose of identifying key operational risks. Internal controls should cover at least the following areas.

- Prudential oversight in respect of insurance matters, including
 - ❖ controls for underwriting risks
 - ❖ valuation of technical provisions
 - ❖ investment and liquidity management, and
 - ❖ reinsurance, including the credit status of reinsurers
- Monitoring the adequacy of its capital resources and the ability to demonstrate at all times compliance with its margin of solvency requirement.
- Oversight of market conduct activities where the company concerned is dealing directly with the general public.
- Oversight of divisions of responsibilities between the board and/ or members of the board and third party service providers.
- Oversight of custody of other arrangements put in place to safeguard the assets of the company.
- Appointment of a risk reporting as well as money-laundering reporting manager/ officer.
- An oversight of compliances issues at each board meeting.

Risk Assessment

Boards of insurance companies should ensure that there is an adequate procedure with regard to identification, quantification and mitigation of risks including the following:

- Underwriting risk
- Credit risk
- Market risk
- Liquidity risk
- Legal risk
- Business risk
- Crime risk
- Disaster risk
- Information technology risk
- Regulatory risk
- Reputation risk
- Systems and operations risk

Market Conduct

The insurance company must be able to demonstrate that it has in place procedures for dealing with customer complaints. A performance schedule with time schedules must be evolved to examine and settle these. Likewise, it should have proper procedures for ensuring that there is no mis-selling of products by its intermediaries or sales staff. The board should adopt a goal of improving customer awareness and knowledge.

Fair Practice and Price

The board must evolve proper controls to ensure that there are fair practices with regard to the protection of policyholders' values. Sound procedure should be adopted to classify assets procured for specific classes of life insurance products and strict monitoring of preservation of values. Transparency with regard to any cross-subsidisation of values or pricing of products should be observed and reported.

Protection

This aspect comes to the fore when you take into account the trend towards consolidation among various insurance companies worldwide. This is a phenomenon that will enter the Indian market sooner or later. It could be by reason of mergers and acquisitions (M & A) involving the parent companies, or could originate with the Indian joint ventures themselves given the market conditions, the state of the investment markets and the moving targets of



capital and solvency requirements.

Compensation Plans

Compensation plans with changes-in-control provisions allow participants in incentive bonus plans to cash out options or accelerate the payout of bonuses should there be a change in control. The details may be a written part of the compensation agreement, or discretion may be given to the compensation committee.

Contracts

Director indemnification contracts are contracts between the company and particular officers and directors indemnifying them from certain legal expenses and judgements resulting from lawsuits pertaining to their conduct.

Golden Parachutes

Golden parachutes are severance agreements that provide cash and non-cash compensation to senior executives upon an event such as termination, demotion, or resignation following a change in control. They do not require shareholder approval.

While the net impact on managerial entrenchment and shareholder wealth is ambiguous, the more important effect is the clear decrease in shareholder rights. In this case, the 'right' is the ability of a controlling shareholder to fire the management without incurring an additional cost. Golden parachutes are highly correlated with all the other takeover defenses.

Indemnification

Director Indemnification uses the bylaws, charter, or both, to indemnify officers and directors from certain legal expenses and judgements resulting from lawsuits pertaining to their conduct. The cost of such protection can be used as a market measure of the quality of corporate governance.

Limitations on Directors' Liability

These are charter amendments that limit directors' personal liability to the extent allowed by state law. They often eliminate personal liability for breaches of the duty of care, but not for breaches of the duty of loyalty or for acts of intentional misconduct or knowing violation of the law.

Severance

Executive severance agreements assure high-level executives of their positions or some compensation and are not contingent upon a change in control (unlike golden or silver parachutes).

Pension Parachutes

Pension parachutes prevent an acquirer from using surplus cash in the pension fund of the target to finance an acquisition. Surplus funds are required to remain the property of the pension fund and to be used for plan participants' benefits.

Silver Parachute

Silver parachutes are similar to golden parachutes in that they provide severance payments upon a change in corporate control, but differ in that a large number of a firm's employees are eligible for these benefits.

Greenmail

This refers to a transaction between a large shareholder and a company in which the shareholder agrees to sell his stock back to the company or to a specified shareholder, usually at a premium, in exchange for the promise not to seek control of the company for a specified period of time. Anti-greenmail

provisions prevent such arrangements to discourage accumulation of large blocks of shares because one source of exit for the stake is closed.

Voting

The following aspects are what are at the disposal of the shareholder – or are not – in an M&A situation. Adoption of some of these which protect a company's stability, decrease shareholders' control over developments.

Bylaw and Charter

Bylaw and charter amendment limitations limit shareholders' ability to amend the governing documents of the corporation. This might take the form of a supermajority vote requirement for charter or bylaw amendments, total elimination of the ability of shareholders to amend the bylaws, or the ability of directors (beyond the provisions of state law) to amend the bylaws without shareholder approval.

Cumulative Voting

Cumulative voting allows a shareholder to allocate his total votes in any manner desired, where the total number of votes is the product of the number of shares owned and the number of directors to be elected. Allowing them to concentrate their practice helps minority shareholders to elect directors. Cumulative voting and secret ballot (see below) are the only two provisions whose presence is coded as an increase in shareholder rights, with an additional point to the Governance Index if the provision is absent.

Secret Ballot

Under a secret ballot (also called confidential voting), either an independent third party or employees sworn to secrecy are used to count proxy votes, and the management usually agrees not to look at individual proxy cards. This can help eliminate potential conflicts of interest for fiduciaries voting shares on behalf of others, and can

reduce pressure by management on shareholder-employees or shareholder-partners. Cumulative voting (see above) and secret ballots are the only two provisions whose presence is coded as an increase in shareholder rights, with an additional point to the governance index if the provision is absent.

Supermajority

Supermajority requirements for approval of mergers are charter provisions that establish voting requirements for mergers or other business combinations that are higher than the threshold requirements of state law. They are typically 66.7, 75, or 85 per cent, and often exceed attendance at the annual meeting. In practice, these provisions are similar to control-share acquisition laws. These laws require a majority of disinterested shareholders to vote on whether a newly qualifying large shareholder has voting rights.

Unequal Voting

Unequal voting rights limit the voting rights of some shareholders and expand those of others. Under time-phased voting, shareholders who have held the stock for a given period of time are given more votes per share than recent purchasers. Another variety is the substantial shareholder provision, which limits the voting power of shareholders who have exceeded a certain threshold of ownership.

Business Combination Laws

Business combination laws impose a moratorium on certain kinds of transactions (e.g., asset sales, mergers) between a large shareholder and the firm, unless the transaction is approved by the Board of Directors. Depending on the country, this moratorium ranges between two and five years after the shareholder's stake passes a pre-specified (minority) threshold.

Delay

The following are some takeover prevention strategies that companies put in place. Their disclosure, or level

of disclosure, is a question that has to be resolved.

Blank Cheque

Blank cheque is stock over which the board of directors has broad authority to determine voting, dividend, conversion and other rights. While it can be used to enable a company to meet changing financial needs, its most important use is to prevent takeover by placing this stock with friendly investors. Because of this role, blank cheque is a crucial part of delay strategy.

Classified Board

Classified board is one in which the directors are placed into different classes and serve overlapping terms. Since only part of the board can be replaced each year, an outsider who

Boards should ensure that collectively they have sufficient expertise to understand the important issues in relation to the operations and control of the insurance company.



gains control of a corporation may have to wait a few years before being able to gain control of the board. This slow replacement makes it a crucial component of the delay group of provisions.

Special Meeting

Special meeting limitations either increase the level of shareholder support required to call a special meeting beyond that specified under the provisions of the statute or eliminate/limit the ability to call one entirely. Such provisions add extra time to proxy fights, since bidders must wait until the regularly scheduled annual meeting to replace board members or dismantle takeover defences.

Written Consent

Limitations on action by written consent can take the form of the establishment of majority thresholds beyond the level of state law, the requirement of unanimous consent, or the elimination of the right to take action by written consent. Such requirements add extra time to many proxy fights, since bidders must wait until the regularly scheduled annual meeting to replace board members or dismantle takeover defences. This delay is especially potent when combined with limitations for calling special meetings (see above).

Poison Pills

Poison pills provide their holders with special rights in the case of a triggering event such as a hostile takeover bid. If a deal is approved by the board of directors, the poison pill can be revoked, but if the deal is not approved and the bidder proceeds, the pill is triggered. Typical poison pills give the holders of the target's stock other than the bidder the right to purchase stock in the target or the bidder's company at a steep discount, making the target unattractive or diluting the acquirer's voting power. Poison pills are a crucial component of the "delay" strategy at the core of modern defensive tactics.

Conclusion

Several provisions collectively determine the quality of governance in an insurance company. The relevant information must be collected and communicated, to ensure that all stakeholders receive relevant, timely accurate and comprehensive information on the company's activities. The extent of disclosure should be impaired under the pretext of being detrimental to the company's competitive position.

The author is Executive Director of Deloitte Touche Tohmatsu. The views expressed here are his own and not necessarily those of his organisation.

Accountable Boards

G.V. Rao **The Way Forward for General Insurers**

Before analysing the current financial performance of the general insurance industry and the role its corporate governance systems are expected to play in influencing it, it is useful to get a view of what corporate governance is all about, and what role it is expected to perform in enhancing corporate performance.

Though a lot has been said and written about corporate governance since the Cadbury Committee report was published in 1992, it is only now, after the investor-hurting collapses have taken place in the US in 2001, that good corporate governance and its implications have come to the fore. The Government of India, in August 2002, set up a committee under the Chairmanship of Naresh Chandra, which has made its recommendations on Corporate Audit and Governance.

The Importance of Corporate Governance

The demand for reforms in corporate governance is not new. The Cadbury Committee report in 1992 in the UK and the recommendations of National Association of Directors in the US in 1995 had addressed some of these concerns earlier.

The East Asian crisis in 1997-98 demonstrated that financially healthy companies too could collapse due to crony capitalism, poor board management, inadequate accounting and auditing standards, and sharp stock market practices. These crises caused but ripples in the otherwise placid waters of the corporate world. Only a tidal wave in the proportion of what happened to Enron and others in the US in 2001 shook up the corporate world around the globe and made all countries look deeper within their spheres to re-examine if their existing laws and institutions needed revision to ensure that what happened in the US, the citadel of capitalism, did not happen in their countries.

What is Corporate Governance?

Corporate governance deals with the question of performance accountability of an enterprise. Accountability is integrally related to setting strategies for operations and establishing accountability for execution of these strategies. The two decision-making structures within an enterprise are the Board and the Management. Corporate governance is a set of relationships among the shareholders, Board, management and other stakeholders; and it also sets up a structure for laying down corporate objectives and provides the means to achieve them.

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Theories of Corporate Governance

There are three corporate governance theories proffered, based on the relationships desired to be built with the stakeholders for examining what corporate governance means. One is the *agency theory* in which the shareholders are the principals and the management their agents. There are agency problems involved if the objectives pursued by the two are misaligned. The directors through their vigilant and independent oversight on managerial efficiency ensure that management performs according to the sole interests of the shareholders and none else. In addition, the Board ensures financial and non-financial disclosures for corporate transparency among analysts, investors

and informed intelligentsia. The role of independent statutory auditors and the independent oversight of management by the Board are the two major aspects of corporate governance under the agency theory.

The second theory is based on the *stewardship principle* in which the directors perform their roles as trustees to enhance the value of tangible and intangible corporate assets without necessarily taking the views of the stock market or the shareholder into account. The trusteeship model demands, unlike the agency model, the evolutionary development of the corporation around its core skills and activities, because it is these skills and activities, rather than mere financial performance, which are believed to be the essence of the corporation.

The third theory that is increasingly attracting attention in many markets is the *stakeholder principle* in which the directors are *responsible* for relations with all stakeholders such as customers, employees, suppliers, credit-providers like banks, local societies and the government. The Board is expected to



develop policies to address the concerns of all these stakeholders; but they are *accountable* to their shareholders for results.

The directors' role gets redefined under this theory. With such array of different stakeholders to satisfy, it becomes difficult to build a clear yardstick for judging their performance or that of management. The criticism is that with so many diversified target groups who will press their individual interests to the fore, the Boards may not feel accountable to anyone, and the principles of corporate governance would thus lose their focus. But increasingly the stakeholder approach is gaining ground as more equitable in achieving the objectives of the enterprise in the beneficial interests of the stakeholders. The public sector units in India come under the stakeholder theory of corporate governance.

Unless the management and the Board understand clearly the focus of the enterprise, if it is the profit-based interest of the shareholder or the socially-oriented stakeholder interest that has primacy, corporate governance system can get a short shrift. In the US, individual enterprise and skill is admired, and profit maximisation in the short-term is the goal. In Europe and Japan the interests of the society are considered as equally important.

Critical issues in Corporate Governance

The critical issues that need addressing in corporate governance are: *standards of audit and accounting, disclosure and transparency, standards of company direction, maximising long-term corporate market valuation, laying down corporate values, codes of conduct and behaviour, approving corporate strategies and strategic objectives; special monitoring of risk exposures and holding management to strict accountability for financial and non-financial performance achievement parameters.* The question arises whether the Boards are at present examining these issues in critical terms

and ensuring that the responses of the managements are satisfactory both in theory and in actual achievement.

Corporate Governance Norms in Banks

In the banking sector, the Reserve Bank of India (RBI) has endorsed Dr. A S Ganguly's recommendations on the roles and responsibilities of directors, for adoption by the boards of individual banks, for overseeing the risk profile of the enterprise, ensuring expert management and maximising the interest of its stakeholders.

Further, every director, before he takes office, is asked to ensure that his responsibilities are well-defined and to familiarise himself about the functioning of the enterprise in the areas of:

The four public sector
units produced a premium
income of about
Rs.12,000 crores in
2001-02 and operating
losses of Rs. 2,064 crores.
Investment income made
that a profit of
Rs. 36 crores.



- Delegation of powers
- Strategic plan of the enterprise
- Organisational structure
- Financial and other controls and systems
- Economic features of the market and competitive environment
- They also have to undergo need-based training programmes/seminars/ workshops specially designed to acquaint the Directors with market challenges and developments facing the industry and to make them more sensitive to their role as a director. In fact, the RBI has offered its institutional

facilities for such orientation purposes.

Corporate Governance in the General Insurance Industry

There is every justification and need that similar corporate governance norms should be implemented in the general insurance industry in India as well. The public sector insurance units have cut their links with the General Insurance Corporation of India (GIC), as the holding company, and are now looking to the Government for guidance and direction. This situation is untenable as the Government does not have the insurance know-how or expertise.

The Board of Directors of each public sector insurer has the responsibility for effective and efficient corporate governance. But how many external directors are knowledgeable about the challenges and problems facing the industry? How vast is their understanding of the company's current performance and of the major issues that are holding it back from making better progress? How deep is their commitment to hold managements responsible for initiating new strategies and monitoring their implementation? How keen are they to learn about the competitive environment? How aware are they of the global developments affecting the domestic insurance scenario?

Unless the Directors are reasonably well-versed in these intricacies of insurance business, it would be difficult for them to efficiently discharge the responsibilities assumed on their appointment as Directors. Otherwise, they will, more often, tend to ratify the decisions of management.

What are the major challenges facing the public sector insurers? The pronounced loss-making trend in Motor business is a serious issue. These losses are reducing shareholder value by whittling down the net worth of companies. The cost of doing business is high at 30 per cent due to overstaffing, low productivity and an outdated

organisational structure and antiquated work procedures that have remained unchanged in the last three decades. The investment incomes, which in the past had offset underwriting losses, are shrinking due to poor stock market conditions. Unhealthy competition from the private sector is intensifying. New distribution channels in the shape of brokers and corporate agents are adding new competitive pressures to defend existing businesses.

Public Sector Performance

The four public sector units produced a premium income of about Rs.12,000 crores in 2001-2002. The management costs at 31 per cent and the claims ratio at 95 per cent on earned premium has pushed the combined ratio to 126 per cent resulting in operating losses at Rs. 2,064 crores. The investment and other income amounted to about Rs. 2,100 crores producing a meagre profit of Rs. 36 crores before tax. Three years ago, they had produced a profit before tax of Rs. 1,000 crores. This rapid deterioration in profits coupled with two insurers producing net losses wiping out a net worth of Rs. 335 crores is indeed a matter of great concern to all interested parties and to the Government, the only investor.

Issues that Need Attention

To what extent are the Boards of Directors of these units responsible for the rapidly deteriorating situation? More importantly, what are the remedial measures they are currently taking and propose to take in future to arrest the negative trends? Will the industry become sick? Will the net worth of insurers deplete faster than at present? What steps are in progress to reduce the very high cost of doing business? How are the units meeting competitive pressures from the private sector players and the new distribution channels? How are the global developments - post-9/11 scenario - in reinsurance markets affecting the capacity and rating issues of insurers? What business strategies are currently

followed? How is monitoring of financial results done? How are other stakeholders' interests looked after? What redressal mechanisms are in place to deal with customers' complaints? How does the compulsory transaction of Motor TP business at coercive rates affect the profitability of insurers? Is the market ready for tariffs to be dismantled? What training and development programmes are in place to improve the quality of the available human resources? There are a host of other concerns as well that need to be examined in detail, decisions made and strategies developed to tackle the emerging scenario.

Role of Directors

The Government, as the sole investor, expects its nominated directors on the Boards of insurers to be

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**The Government as the
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accountable to it for protection of its interests and investments. It is, therefore, imperative that the Directors are thoroughly briefed and are made fully aware of the current and future market trends and its imperfections and growth potential to discharge their responsibilities effectively.

There is an urgent need to conduct regular and periodic informational programmes/workshops by independent institutions to make the external Directors aware of not only their basic obligations to the Government but also of how to discharge them through an enlightened and stricter oversight of managements, who are ultimately

responsible for achieving the short-term and long-term corporate objectives. The responsibility to initiate measures to revitalise the selection and quality criteria of the external directors rests with the Government as the sole investor. It must draw up suitable training schemes, in consultation with the IRDA, to raise the governing standards at the Board level.

Conclusion

If the present trend of drift and neglect continue unattended, the public sector units will end up faster as losing concerns, with hopes of any future recovery getting dimmer and dimmer. There is an urgent need for the Government to rethink its selection and training procedures of nominated directors so as to better supervise managements and hold them to stricter accountability of protection of the entrusted assets and ensure reasonable returns on the capital employed in the interests of all stakeholders.

As the Government cannot do much beyond the proper selection of the external directors and the selection of the chief executive to manage the enterprise, it has to concentrate on performing these tasks more purposefully with the goal of ensuring proper accountability for results than at present.

Is there any hope that this will happen soon? If not, the public sector units will be easy targets for strategic partners from the private enterprise. It is also high time that other stakeholders like the customers and employees show keener interest in the affairs of the units to bring enough pressure to bear on the authorities so that what has been achieved in the past three decades in the nationalised sector is not frittered away in a span of five years or less. Is anyone listening to the alarm bells?

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

प्रकाशक का संदेश

लगभग सात साल से उद्योग से अति निकट संबंध के बाद जबकि मैं अपने कार्यकाल की समाप्ति पर पहुंच चुका हूं। मेरा मस्तिष्क उस पहले दिन की तरफ जाता है जब अगस्त 1996 को मैंने अंतरिम प्राधिकरण का कार्यभार ग्रहण किया था।

न्यू इंडिया के गेस्ट हाउस के एक छोटे से कमरे से जो अन्यथा पवित्र किया गया था उसके निवासी श्री आर. एन. मल्होत्रा तथा उनकी समिति के सदस्यों से हम परिश्रम भवन, हैदराबाद आ गये।

अपनी शैशव अवस्था में प्राधिकरण की यह यात्रा बिना घटनाओं, उपलब्धियों तथा समस्याओं के बिना नहीं हो सकती थी और इससे पहले की यह निकाय एक विधायी निकाय के रूप में मान्यता प्राप्त करती इसने अपने आपको दूसरे देशों में चलाये जा रही प्रणाली को समझने में व्यस्त रखा साथ ही यह इंटरनेशनल एसोसियेशन ऑफ़ इश्योरेंस सुपरवाइज (आईएआईएस) और ऐसी संस्थाओं का सदस्य बनने से इसे बड़े पैमाने पर अंतर्राष्ट्रीय संस्थाओं का अनुभव हुआ।

वर्ष 1997 में हमने आईआरडीए बिल को बनाने में काफी मेहनत की लेकिन अंतिम निशान चूक जाने से हमारी उम्मीदों को धक्का लगा। ये उम्मीदें तथा इच्छाएं अन्ततः अक्टूबर 1999 में पूरी हुयी जब लोकसभा ने बिल पारित किया और उसके साथ ही राज्यसभा ने भी यह बिल पारित किया और हमें सफलता प्राप्त हुयी।

29 दिसम्बर 1999 को अधिनियम को मंजूरी मिली और प्राधिकरण की स्थापना 19 अप्रैल 2000 को की गयी। इसके अनुसार अंतरिम निकाय बनने के बाद हमें यह पूरा करने के लिये 29 महीने लगे। ऐसी प्रणाली के लिये जो स्वामित्व तथा पर्यवेक्षण को अलग अलग कर सकती है।

हमने देश से वचन भरा था कि पहले पंजीकरण दिसम्बर 2000 में प्राप्त हो जायेंगे और मैं प्रशंसा तथा आभार प्रकट करता हूं जो संगठन में छोटे से अधिकारियों के समूह ने लंबे घंटे तक काम करके कर दिखाया और यह था अपने वचन को पूरा करना तथा समय से पहले पूरा कर दिखाना।

हम यह भी महसूस करते हैं कि यदि विनियमन व विनियामक का प्रभावशाली होना है। जरूरी है कि सभी लेन - देन में खुलापन तथा पारदर्शिता होनी चाहिये।

यही कारण है कि आईआरडीए सदा सुझावों के लिये खुला रहता है और यह सभी प्राप्त होते हैं उन हितों के द्वारा जो देश में बीमा समुदाय बनाते हैं।

ऐसे मुद्दों पर सार्वजनिक वाद-विवाद को विनियामक द्वारा सदा प्रोत्साहित किया गया जो कंपनी के प्रशासन तथा विनियमन से जुड़े मुद्दे हैं। यह वाद-विवाद तथा चर्चा हमारे लिये ज्ञान का भंडार हैं तथा दृष्टिकोण लाते हैं जिन्हें हमने विनियमन बनाने में प्रयोग किया है जो किसी अन्य पर्यवेक्षक निकाय ने अभी तक नहीं अपनाया था।

इस सबने प्राधिकरण में हमें इस योग्य बनाया है कि हम बड़ी संख्या में बीमाकर्ता के निकट पहुंच सकें तथा विनियामक को सफलता इस बात में है कि हम बीमा बचतों को कैसे सुरक्षित रख सकते हैं।

हमने बीमा उत्पादों के वितरण तथा बिक्री की अवधारणा को प्रारंभ किया। हमने बीमाधारकों के हितों की आवश्यकता को स्वीकार करने की वकालत की। हमने भारत में पहली बार नियुक्त बीमाकर्मियों की प्रणाली को प्रचलित किया। इससे इस पेशे को एक आधार मिला जिसके लिये यह पात्र था यह सभी प्राप्त कर लिया गया और अब ऐसे उत्साहार्थक चिन्ह दिखाई दे रहे हैं जो बताते हैं कि भारत में बीमा उद्योग ठीक पटरी पर चल रहा है।

मैंने ऐसे मौके भी देखे हैं जब हमारी बड़ी उम्मीदें बिलकुल जमीन पर गिर पड़ी, हमारी कुछ अपेक्षाएं समाप्त होती दिखी जिसके कारण हमें पीछे जाना पड़ा। मैं आपको यह विश्वास देना चाहता हूं। यह बीमा उद्योग व्यवसाय चलाने वाले संस्थानों के लिये नहीं था लेकिन यह उस व्यवहार में था जो विनियामक कार्यालय के सामने आती थी।



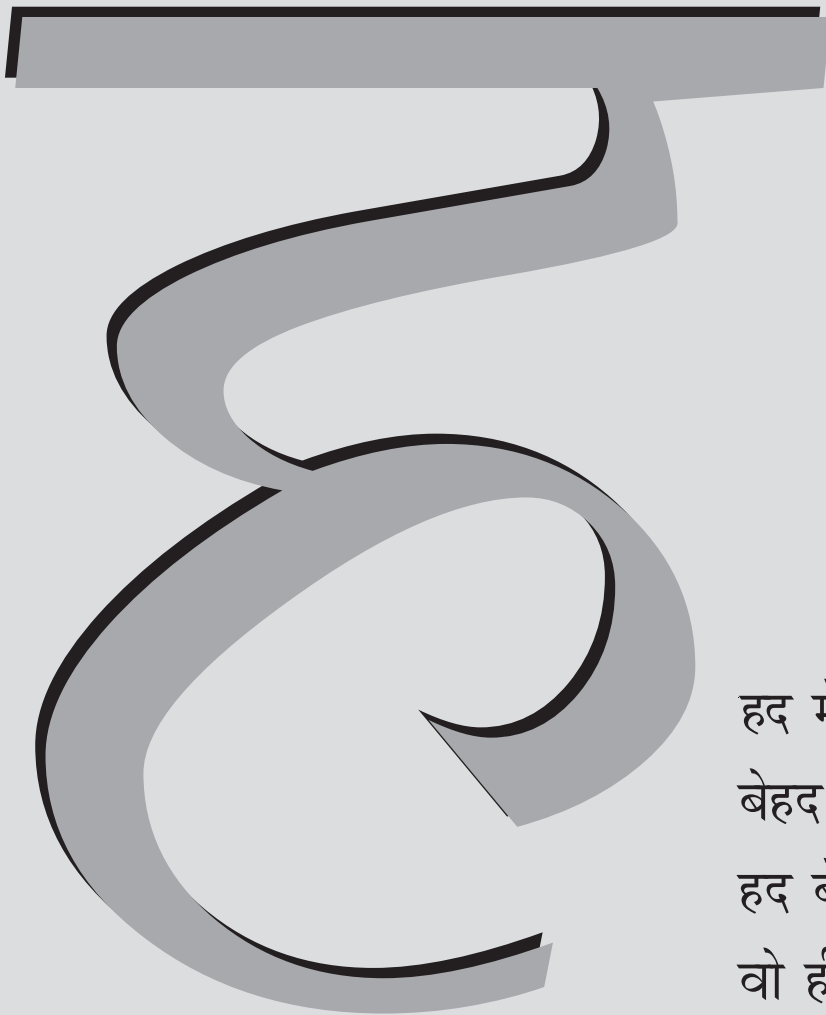
मेरे मस्तिष्कानुसार विनियामक यदि प्रभावशाली बनाना है तथा उसे उस उद्योग जिसका वह पर्यवेक्षण करता है प्राप्त करनी है। वह पेशेवराना रूप से प्रतिस्पर्धात्मक होना चाहिये तथा प्रबल स्वतंत्र होना चाहिये। स्वतंत्रता न कार्यशील क्षेत्रों में वरन् वित्तीय रूप से स्वतंत्र जिससे यह कार्यालय चलाया जा सके। इस बात को लेकर चारों ओर काले बादल घिरे हैं। मुझे विश्वास है जब मैं यह कार्यालय छोड़ दूंगा तो शांत हो जायेंगे तथा बरसात के रूप में बरसेंगे।

एक पद पर सात साल व्यतीत करना बड़ा समय है। संभवतः सबसे लम्बा समय जो मैंने किसी एक पद पर अपने कैरियर में गुजारा। एक ही कुर्सी पर इतने लंबे समय कार्य करने की कुछ अच्छाईयां हैं तो बुराईयां भी। अच्छाईयां यह हैं कि आप उस कार्य से बहुत अच्छी तरह अभ्यस्थ हो जाते हैं। सभी व्यवसायियों को आप जान जाते हैं। उनका व्यवहार, आचरण जानने का और आपके पास पर्याप्त समय होता है ऐसे मानक निर्धारित करने के लिये जिन पर दूसरों को चलना होता है।

लंबे कार्यकाल की बुराईयों के रूप में एक ही बात को बार बार दोहराने की आकृति के रूप में सामने आता है। मेरे प्यारे पाठकों मैं आपको यह विश्वास दिलाना चाहता हूं कि अपने कार्यकाल 1 अगस्त 1996 से मैं एक भी दिन अपने कार्य निष्पादन से नहीं ऊबा।

जब मैं अपनी जगह अपने सक्सेसर को 9 जून 2003 को दूंगा। मैं सिर्फ एक बात का अनुभव करूंगा, मैं उसके लिये एक प्रणाली छोड़े जा रहा हूं जो संगठन के लिये उपयोगी है तथा जिसने नाम कमाया है, सम्पन्नता कमाई है तथा प्रोत्साहन प्राप्त किया है। और ऐसे उद्योग जो बड़े उद्यमियों से भरा पड़ा है। ऐसी आकृति के रूप में जिससे राष्ट्रीय उद्योग बनता है तथा छोटे उद्यमियों से जिनको एक भूमिका निभानी है। एक ऐसी भूमिका जो सभी को बड़ी विशिष्टता के साथ निभानी है। मुझे यह विश्वास है यह उद्योग जो दुनिया का सबसे बेहतरीन उद्योग है वह गौरव के साथ सामने आयेगा। तथा भारतीय बीमा उद्योग जो अपनी प्रभावशाली कुशलता तथा ध्यान उपभोक्ताओं के लिये तथा भारत के बाहर भी मैंने पिछले सात सालों में बहुत कुछ सीखा है। अलग अलग क्षेत्र के लोगों से एक उपभोक्ता से लेकर एक बैंकर तक, एक बीमाकर्ता से एक बीमाकर्मक तक तथा मेरे अपने कार्यालय में जिसने मुझे अभी तक मार्गदर्शन दिया। सभी को मैं धन्यवाद देना चाहता हूं।

एन. रंगाचारी
एन. रंगाचारी



हद में रहे सो औलिया
बेहद रहे सो पीर
हद बेहद के पार जो
वो ही सच्चा फकीर

“कुछ तो लोग कहेंगे”

ब्रोकरों के मध्य भी समझदारी की कमी है जो पहले से बाजार में है, ब्रोकर की भूमिका क्या होगी। यह ग्राहक को भी नहीं पता। ब्रोकरों को अपनी स्थिति बढ़ा देने वाले, छूट देने वाले उच्चे दर्जे के एजेंटों से नहीं बनानी चाहिये।

*मि. पीटर जे. वैंलेंटाइन, सीईओ,
एचएसबीसी इंडियोरेंस ब्रोकर्स, भारत।*

म्यूनिख री क्रसहोल्डिंग के द्वार बंद है। यह समय है अलायंस की तरह पीढ़ी परिवर्तन का।

एम एम वारबर्ग इन्वेस्टमेंट पर एक समीक्षा

अधिक आयु के लिये सुरक्षा प्रदान करना जोखिम भरा है यह जोखिम सरकार के पास चला जायेगा, व्यक्तिगत रूप से बचत निवेश करने होंगे जो पहले कभी नहीं था।

*कोर्पोरेट सेवानिवृत्ति के यूरोप में गिर जाने पर एक
अर्थशास्त्री नेता*

पर्यवेक्षक प्रणाली में राजनैतिक हस्तक्षेप कम करने के लिये जरूरी है एक स्वतंत्र व्यवस्था कायम की जाये। आज विनियामक स्वतंत्रता पर वाद विवाद उसी प्रकार है जैसा दो दशकों पूर्व केन्द्रीय बैंको का था।

श्री एन. रंगाचारी, चैंयरमैन, आईआरडीए

यह दुःखत विषय है कि सैद्धांतिक रूप से बड़े दायित्व का कारण असाधारण हानि अनुपात है, जबकि दावा समझौता होने में लंबा समय लगता है। इसको भी एक कारक के रूप में लेना चाहिये जबकि अब इस पर ब्याज लगता है तथा दावे की लागत भी देनी होती है। अतः यह नहीं कहा जा सकता की हानि की घोषणा केवल असाधारण दावों के कारण है।

न्यायाधीश टी. एन. सी रंगराजन

जब बैंक इंडियोरेंस के जरिये व्यापार बढ़ रहा है। हमें विनियामक द्वारा अधिक हस्तक्षेप की जरूरत है क्योंकि ज्यादातर उत्पाद सेबी के अधिकार क्षेत्र में आ रहे हैं।

*श्री आर. कृष्णामूर्ति, महाप्रबंधक, एसबीआई लाइफ
इंडियोरेंस क. लि.*

महाविपदा से मुकाबला

आईआरडीए में नौकरी प्राप्त करने के बाद सुजन क्रिसमस की छुट्टियों पर पहली बार 21 दिसंबर को अपने घर जा रही थी। उसने हैदराबाद से बैंगलोर के लिये ट्रेन पकड़ी तथा वह यह सोचकर सोने चली गयी थी कि सभी लोग उसके साथ छुट्टी बनाने इकट्ठा हो चुके होंगे।

अगली जानकारी उसे है वह यह कि उसने धातु की रगड़ की आवाज सुनी तथा ट्रेन एकदम रूक गयी। एकदम अंधेरे में तथा किसी भी स्थान के मध्य में नहीं। कुछ मिनटों में ही सभी ने अपनी शय्याओं से नीचे उतरना प्रारंभ कर दिया और कुछ समय बाद सभी अपने सामान के साथ नीचे खड़े थे। अमुक तथा डरे हुये वह यह महसूस कर सकते की उनका सवारी का डिब्बा पटरी से उतर गया है और अगला विचार था क्या यदि हम पुल पर हैं। बाहर एकदम गुप अंधेरा था तथा कोई भी दिखाई नहीं दे रहा था। उसके बाद उन्होंने सुनी गूँजे तथा चिल्लाहटें। सुजन भाग्यशाली रही क्योंकि उसका डिब्बा सुरक्षित था उन अभाग्यशालियों के पीछे जिन्हें दुर्घटना का कोप इंजन के आस पास झेलना पड़ा।

वहाँ कोई बस्ती दिखाई नहीं पड़ती थी पर वहाँ इतनी रोशनी भी नहीं थी कि वे इस बात का अहसास कर सके वे कहाँ पर हैं। फर्स्ट एड, प्रशिक्षित बचाव कार्यकर्ता, मेडिकल परिचालक सभी ऐसे शब्द थे जिनके सपने लिये जा सकते थे।

अभाग्यशालियों के लिये धीरे धीरे मदद आयी और कुछ के लिये इसकी बहुत देर हो गयी, इससे पहले की वे जान पाते वे कहाँ असहाय खड़े हैं और वैसे अस्पताल में जा सकते हैं। वुगल 21 लोग मारे गये तथा सौ से ऊपर जख्मी हुये।

इस क्षण की विशेषतः भी थी वह थी मानवता बोध इस डर से बाहर निकलने का तथा मदद करने का, जो सुरक्षित डिब्बों में थे

वे उन डिब्बों की तरफ गये जहाँ लोग परेशानी में थे तथा स्वयंसेवकों का भी एक दल तैयार हो गया तथा कुछ लोग नेता के रूप में अचानक सामने आये। बचाव में पहले बच्चों, स्तब्ध पुरुष तथा महिलाएँ और कुछ परिस्थितियों में मृत शरीर। कुछ सेल फोन बज उठे और चिकित्सक बुलाये गये। सभी कुछ उस जगह पर बिना किसी योजना के त्वरित रूप से गठित हुआ।

इसी प्रकार की व्यथा जब भी देखने को मिली जब एक घंटे के बाद रेल्वे कर्मचारी तथा अन्य स्वयं सेवा घटना स्थल स्थल पर पहुँचे। घायलों को निकट के अस्पतालों में ले जाने की लड़ाई और यह साफ नहीं था कि निकट में कौन सा अस्पताल है और कौन सा रास्ता निकटतम बड़ी सड़क की ओर ले जा सकता है।

और वे सूचना में सबसे ज्यादा क्या नहीं प्राप्त कर पा रहे थे वे था फैसी उपस्करों का प्रयोग जो बिल्कुल काम में नहीं आ रहा था।

रात के कई भयानक घंटों के बाद सुजन घर चली गयी। उसका बड़ा स्वागत बैंगलोर स्टेशन पर किया गया एक दिन दुःख परेशानी के बाद वह बहुत अच्छा क्रिसमस बना रही थी।

प्रो. आई वी मुरलीकृष्णा तथा उनका दल जो कार्य कर रहा है वह ऐसे हादसों के समय अच्छा नियंत्रण तथा समस्याओं को अधिक जटिल होने से बचाना है।

उनके लिये चीजों को कम दर्दनाक बनाना है जो उसमें शामिल हैं।

प्रो. तथा अध्यक्ष सेंटर ऑफ स्पायरल इन्फोर्मेशन टेक्नोलॉजी (सी एस आई टी) जवाहर लाल नेहरू टेक्नोलॉजी विश्वविद्यालय (जे एन टी यू) आंध्र प्रदेश ने एक पायलट विपदा प्रबंध सूचना प्रणाली तैयार की है जो दक्षिण मध्य रेलवे निर्णय समर्थन प्रणाली का एक भाग है। सूचना प्रौद्योगिकी का प्रयोग करते हुये तथा विभिन्न क्षेत्रों की सैटेलाइट इमेज को समझते हुये इस मामले में रेल लाइन के दोनों ओर धरती पर जाँच करते हुये दल ने भूगोल सूचना प्रणाली तथा ग्लोबल स्थिति प्रणाली को रेल्वे रूट पर लगाया है। इस भूभाग मानचित्र का निष्कर्ष हमें मदद करता है कि दुर्घटना स्थल को पहचाना जाये। यह हमारे लिये आपातकालीन सूची सूचना (जैसे निकटतम बस्ती, चिकित्सालय, पुलिस तथा अन्य एजेंसी सुविधायें जैसे टेलीकम्युनिकेशन, यातायात सुविधा आदि)।

यह राहत कार्यकर्ताओं के पास सरलता से उपलब्ध होंगे। कुछ ही मिनटों में जैसे ही मानव निर्मित इस प्रकार की आपदा सामने आये इस प्रकार के आंकड़े पृष्ठभूमि में प्राप्त करते हुये कंट्रोल रूम जो बनाया जायेगा रेल्वे द्वारा इस प्रणाली के अंग के रूप में कंप्यूटर पर माउस के एक क्लीक करने पर दुर्घटना साइट की स्थलाकृति का पता लग जायेगा जिससे ठीक प्रकार से राहत स्रोत प्राप्त हो सके। इससे प्रभावशाली ढंग से स्थल पर निकासी हो सकेगी तथा ट्रैफिक को भी आवश्यकतानुसार मोड़ा जा सकेगा।

पायलट परियोजना में सिकन्दराबाद तथा भोन्गीर के मध्य 140 कि.मी. मार्ग की माप की गयी है। साथ ही हैदराबाद - चैनै के मध्य हवाई मार्ग की छोटी माप भी की गयी है। यह इलेक्ट्रॉनिक कार्परेशन ऑफ इंडिया के साथ किया गया है जो भारतीय विमानपत्तन प्राधिकरण के साथ वायुयान आपदा प्रबंध परियोजना पर काम कर रहा है। भूतल की विभिन्न विशेषतायें जैसे जल स्रोत, वन को चिन्हित किया गया है जिससे बचाव प्रक्रिया को बड़े इलाके में पड़े मलबे में कार्यान्वित किया जा सके।

इस अध्ययन में विभिन्न गणनायें जैसे अस्पताल में बिस्तरों की संख्या जो कि एक निश्चित परिसीमा में उपलब्ध है। निकटतम सड़क से दूरी तथा लिंक टेलीकम्युनिकेशन सुविधायें तथा स्टोर सूचनायें, स्थानीय प्रशासन जैसे टेलीफोन संख्या, स्थानीय स्तर, राजस्व तथा पुलिस अधिकारी जिनसे आपातकाल में संपर्क स्थापित किया जा सके।

सीएसआईटी, अपने पायलट प्रोजेक्ट में कुछ सुधार करके तथा मान्यता प्राप्त कर से ऐसी विधि वाणिज्यिक कारोबारियों को उपलब्ध करवा देगी जो इस परियोजना को पूरी तरह से लागू करना चाहते हैं।

हमें पूरे देश में क्या चाहिये? एक जाँच परखी राहत तथा समुत्थान योजना जिसे जमीन पर लागू किया जा सके तथा एक प्रभावशाली नियंत्रण कक्ष जिसके पास वह सभी सूचनायें हो जो आपातकाल के समय ठीक प्रकार से लागू की जा सके।

इसके विपरीत हम आजकल कर क्या रहे हैं, टेलीविजन पर दुर्घटना में मरते हुये लाचार लोगों की तस्वीरें देखते हैं और उसमें राहत कार्यकर्ताओं की कमियों को देखते हैं।

भूतल तथा प्रशासनिक आंकड़ों के मिलन के बाद तीव्र तथा प्रकृति मदद आपदा के समय फँसे लोगों को मिल सकेगी। हम ऐसे समय में जब परिस्थितियाँ हाथ से बाहर हो जाये आपदा का भली प्रकार प्रबंधन कर सकेंगे।



प्रकृति के कोप का निधिकरण

यह भूकंप, बाढ़ एवं चक्रवात के रूप में होता है और हम जान-माल की क्षति एवं निराशा को कुछ ही समय में भुला देते हैं जबकि प्रकृति अपना कोप पुनः नहीं दिखाती है।

प्रकृति का प्रकोप संपूर्ण विश्व पर पड़ता है पर यह वहाँ सबसे अधिक भयानक होता है जहाँ की आर्थिक व्यवस्था पिछड़ी हुयी है।

प्रकोप के पश्चात यदि कोई मुड़कर पीछे देखे तो वह यह पायेगा कि यह देश की समृद्धि या प्रकोप की पूर्व सूचना नहीं है, जो प्रकोप को कम करती है लेकिन यह समय पूर्व तैयारी। शारीरिक और आर्थिक दोनों प्रकार की पूर्व तैयारी। इससे हम न सिर्फ बचाव कार्य को गति प्रदान कर सकते हैं बल्कि नुकसान की भरपाई भी कर सकते हैं।

प्रारंभ से ही प्रारंभ करने पर हम पाते हैं कि भारत में हमें यह स्पष्ट अनुमान नहीं है कि देश के किस हिस्से में किस प्रकार की क्षति को लेकर हम कमजोर हैं और यह वह स्थान है जहाँ से हमने पहला कदम उठाया है।

विश्व बैंक ने एक नया उत्पाद बाजार में उतारा है - प्राकृतिक क्षति बीमा - जो भूकंप एवं तूफान के कारण हुयी क्षति की भरपाई करता है। श्रीमान रोडनी लेस्टर जो विश्व बैंक बीमा कार्यक्रम के मुख्य हैं तथा जिनका दल इस पर एक तकनीकी पत्र तैयार कर रहा है तथा जो अब तैयार है। भारत सरकार से अनुमोदन प्राप्त करने के लिये आईआरडीए जर्नल से बात की तथा कहा कि यह पॉलिसी प्राकृतिक क्षति से हुये नुकसान को ध्यान में रखकर तैयार की गयी है।

पॉलिसी क्षति की रूप-रेखा तैयार करेगी, इसके बारे में योजना तैयार करेगी तथा नुकसान का मूल्यांकन करेगी तथा यह भी तय करेगी की किस प्रकार समाज के कमजोर समुदाय को सहायता प्रदान की जाये।

इसकी प्रक्रिया जोखिम की रूप-रेखा तैयार करने से प्रारंभ होगी। राज्य सरकारें जो सहयोग

प्राप्त करना चाहती हैं उन्हें सबसे पहले अपने जोखिम की रूप-रेखा तैयार करनी होगी तथा वास्तविक क्षति का अनुमान लगाया जा सके। राज्य सरकार द्वारा नुकसान को सहने की क्षमता का अनुमान लगने से नुकसान के लिये वित्तीय तैयारी के स्तर का पता लगाने में मदद मिलेगी।

उदाहरण के लिये केन्द्र व राज्य सरकार घरों की पुनः मरम्मत के लिये पूर्णतया: जिम्मेदार है। यदि सभी जिनके पास मकान है वे बीमा का खर्च उठा सकते हैं तो सरकार का यह भार कम हो सकता है तथा सरकार का पैसा दूसरे महत्वपूर्ण कार्यों में लगाया जा सकता है जैसे सड़क एवं पुलों का निर्माण।

विश्व बैंक का शोध पत्र पहले दक्षिणी कोरिया को ध्यान में रखकर तैयार किया जाना था परंतु अब यह पूर्णतया: भारतीय है। सबसे बड़ी बात यह है कि यहाँ कि बहुत सारी जोखिम समस्याएँ बीमा के माध्यम से सुलझाई जा सकती है। श्रीमान लेस्टर ने कहा कि भारतीय बाजार में इन जोखिमों को लिखने की क्षमता है व पुनः बीमा की तरफ भी जाया जा सकता है।

अन्य देशों में भी इस प्रकार का प्रयोग किया गया। जैसे भूकंप के प्रति संवेदनशील देश तुर्की में जहाँ की आंतरिक क्षमता जोखिम को उठाने के लायक नहीं है वहाँ तुर्की आपाती बीमा कार्यक्रम का प्रारंभ किया गया जिसके अंतर्गत कंपनी ने उत्पाद के रूप में बीमा का वितरण किया परंतु जोखिम को लिखित रूप में नहीं लिया गया तथा दायित्व का केन्द्रीय रूप से निधिकरण किया गया।

श्रीमान लेस्टर ने कहा - भारत में इसका उद्देश्य निधिकरण के मार्ग को ढूँढना है। निधिकरण के ये कुछ सुझाव इस प्रकार हो सकते हैं जैसे कि प्राकृतिक क्षति बीमा के लिये प्रीमियम का संपत्ति कर के रूप में संग्रह या संपत्ति के हस्तांतरण की अवधि में अतिरिक्त कर या फिर संपत्ति के गिरवी होने पर कर।

आईआरडीए ने सुझाव दिया है कि प्रीमियम की संपत्ति कर के रूप में वसूली अधिक सुविधाजनक है क्योंकि यह विभिन्न अंतराल पर इकट्ठा किया जाता है तथा साथ ही यह भी सुझाव दिया कि प्राकृतिक क्षति में आग से हुये नुकसान को भी शामिल किया जाये।

आईआरडीए के अध्यक्ष श्री एन. रंगाचारी के अनुसार - हम केन्द्र एवं राज्य सरकार को यह सुझाव देने का विचार कर रहे हैं कि वो जिनके पास संपत्ति है उनके लिये अग्नि बीमा शामिल किया जाये।

श्रीमान लेस्टर ने सहमति जताते हुये कहा - कार्यक्रम की सफलता के लिये इसे आवश्यक बनाया जाना आवश्यक है। तथा प्रीमियम को इकट्ठा करना हमारी चुनौती है। यह जिम्मेदारी समूह बीमा के अंतर्गत राज्य सरकार को सौंपी जा सकती है। उन क्षेत्रों के लिये जो इसका खर्च वहन नहीं कर सकते हैं। एक राज्य सरकार के लिये प्रीमियम प्रतिवर्ष लगभग 60 करोड़ रहने की उम्मीद है।

साथ ही विश्व बैंक एक संघ के लिये आकस्मिक सुविधा के रूप में एक पुनः बीमा प्रीमियम लागू करने का विचार कर रहा है ताकि संकटपूर्ण पहले वर्ष में संभाला जा सके। यानि कि यदि संघ के पास पुनः बीमा प्रीमियम के भुगतान के लिये धन की कमी हो जाये तो विश्व बैंक इसमें निवेश करेगा।

इसी प्रक्रिया के एक भाग के रूप में भारत के चार राज्यों आंध्र प्रदेश, गुजरात, महाराष्ट्र एवं उड़ीसा में आरएमएसआई जो एक वैश्विक सूचना प्रौद्योगिक कंपनी है ने अध्ययन किया। इसके अंतर्गत बाढ़, भूकंप एवं चक्रवात के कारण होने वाले नुकसान का निर्धारण किया गया। इसका तात्पर्य नुकसान के पश्चात निवेश प्रक्रिया का निर्धारण करना था। यदि यह परियोजना लंबे समय तक जारी रहती है एवं जन साधारण इसे अपनाता है तो भविष्य में प्रकृति से होने वाले नुकसान को कम किया जा सकता है।

सोचनिय तथ्य

आर. देशीकन



हांलाकि मेरे जीवन के प्रारंभ से ही मेरे पास कुछ बीमा पॉलिसिया है परंतु पिछले 10 वर्षों से मैं बीमा क्षेत्र के जितने करीब हूँ उतना पहले कभी नहीं रहा। एक ग्राहक के नाते मैंने पिछले 10 वर्षों में जो जानकारीयाँ प्राप्त की है वह न सिर्फ मेरे लिये परंतु प्रत्येक बीमा ग्राहक के लिये उपयोगी है।

इस क्षेत्र में मेरी पहली शिकायत भारतीय जीवन बीमा निगम की हाउसिंग फाइनेंस स्कीम से है। संक्षेप में शिकायत निगम द्वारा हाउसिंग ऋण पर भारी ब्याज दर लगाये जाने को लेकर है।

मान लो कि आप हाउसिंग फाइनेंस योजना में 1 लाख रुपये का ऋण लेते हैं तथा यह तय होता है कि आप 3,000 रुपये प्रत्येक की 32 अर्द्धवार्षिक किश्तें चुकाते हैं। माना आपने 10 किश्तों का भुगतान कर दिया तथा 22 किश्तें चुकायी जानी शेष हैं। आप 11वीं किश्त कुछ हफ्ते की देरी से चुकाते हैं तो वे आपसे कुछ नहीं कहते हैं परंतु यदि आप 12वीं किश्त 4 हफ्ते की देरी से चुकाते हैं तो आप पर ब्याज लगाते हैं। यह ब्याज 12वीं किश्त की राशि पर नहीं होता है बल्कि शेष 21 किश्तों की कुल राशि पर लगाया जाता है।

जब यह तथ्य मेरी नजर में आया तो मैं इसे उपभोक्ता मंच में लेकर गया। निगम ने यह बयान दिया कि मैंने ऋण की सारी शर्तों को पढ़कर उस पर हस्ताक्षर किये हैं तथा यह ब्याज उसी शर्त के अंतर्गत लगाया गया है। हमने यह सिद्ध किया कि निगम द्वारा 3000 प्रतिशत से ज्यादा दर पर ब्याज लगाया गया था। खैर उपभोक्ता मंच का जो भी निर्णय रहा हो मैं यह कहना चाहूंगा कि निगम को अपने नियमों में परिवर्तन करना चाहिये। मैं इस मामले में यह बताना चाहता हूँ कि ग्राहक के हितों की अनदेखी कर किस प्रकार नियम तैयार किये जाते हैं।

जब मुझे मोटर भाड़े का पुर्नावलोकन करने वाली समिति - अंसारी समिति की सेवा करने का मौका

मिला तब मुझे सार्वजनिक क्षेत्र की बीमा कंपनियों के ज्ञान व रुझान को जानने का मौका मिला और मैं कहना चाहूंगा कि वे निम्न स्तर के थे। संपूर्ण उद्योग दावों के उचित सांख्यिक आधार के बगैर मोटर भाड़े के पुर्नावलोकन के पक्ष में थे।

इस प्रकार जब मैंने ग्राहकों कि समस्याओं के विषय में अध्ययन किया तो यह पाया कि इस क्षेत्र में ग्राहकों के प्रति ईमानदारी, पारदर्शिता, स्पष्टता एवं दोस्ताना व्यवहार की कमी है।

यह व्यवहार शायद बीमा क्षेत्र के राष्ट्रीयकरण के फलस्वरूप पैदा हुआ हो पर मैं यह नहीं कहूंगा कि राष्ट्रीयकरण ही एकमात्र कारण है। मुख्य कार्यकारी अधिकारियों एवं प्रबंधन की लापरवाही, उनके अधिकारों की कमी, उनकी पदोन्नति पर राजनीतिक प्रभाव, यदि किसी दावे का निपटारा जल्द किया गया है तो लेखा परीक्षा की आपत्ति

इस प्रकार जब मैंने ग्राहकों कि समस्याओं के विषय में अध्ययन किया तो यह पाया कि इस क्षेत्र में ग्राहकों के प्रति ईमानदारी, पारदर्शिता, स्पष्टता एवं दोस्ताना व्यवहार की कमी है।



तथा कुछ मामलों में केन्द्रीय कार्यालयों का हस्तक्षेप तथा उत्तरदायित्व की कमी प्रमुख कारण है जो बीमाधारकों की समस्याओं की अनदेखी करते हैं। यहाँ तक कि निजी कंपनियों के आगमन के पश्चात इस प्रतिस्पर्धा के युग में भी सार्वजनिक क्षेत्र की कंपनियों के व्यवहार में कोई परिवर्तन नहीं हुआ है।

मैं और लाखों बीमा ग्राहक बीमा उद्योग से क्या अपेक्षा रखते हैं?

- बेहतर ग्राहक सेवा
- पॉलिसी की स्पष्टता
- एक बीमाकर्ता द्वारा दावे का निपटारा करने में लगने वाला समय
- एक दावे के निपटारे के लिये किन कागजातों

की आवश्यकता पड़ती है और क्या ये सूचना कंपनी से माँगी जा सकती है?

- क्या यह सूचना बीमाधारकों को पहली बार में ही प्राप्त होगी या उसे कंपनी के महीनों चक्कर लगाने पड़ेगें?

साथ ही

1. क्या आईआरडीए द्वारा दावों के निपटारे या अस्वीकृति के लिये तय की गयी समय सीमा जो 30 दिनों की है सभी बीमाधारकों को पॉलिसी के निर्गम के समय जानकारी दी जाती है।
2. पॉलिसी के पुनः नवीनीकरण के समय क्या ग्राहकों को 15 दिन पहले सूचित किया जाता है व क्या उनसे व्यक्तिगत संपर्क स्थापित किया जाता है ताकि ग्राहकों की समस्याओं को सुना जा सके?
3. क्या किसी मेडीक्लेम पॉलिसी में ग्राहकों को अपवादों के विषय में पूर्ण जानकारी दी जाती है?
4. यदि एक बड़ा व्यापार सुनिश्चित हो जाये तो बीमा कंपनी बीमाधारकों से बराबर संपर्क बनाकर नहीं रखती है। मैं सुझाव देना चाहता हूँ कि सभी योजना एक मध्यस्थ या विकास अधिकारी के सुपुर्द की जाये चाहे कमीशन का भुगतान हो या न हो।

मोटर वाहन दुर्घटना के मामले में यह जरूरी है कि पुलिस अधिकारी, मीडिया व चिकित्सालय से संपर्क स्थापित किया जाये ताकि नजदीकी रिश्तेदार को जल्द ही बीमा की रकम का भुगतान किया जा सके। दावों के जल्द निपटारे से दावे की रकम घटेगी जिससे कंपनी को लाभ पहुँचेगा। इस लाभ को ध्यान में रखकर प्रीमियम की रकम कम की जा सकती है तथा कम प्रीमियम दर पर व्यापार बढ़ेगा।

प्रायः सभी सार्वजनिक क्षेत्र की कंपनियों का व्यवहार यह होता है कि न्यायालय ही हर मामले का निपटारा करता है। जीवन की हर परिस्थिति में दो प्रकार की संभावनाये होती हैं-

- उन कारणों को ढूँढना जिसके कारण परिस्थिति का सामना नहीं किया जा सकता है।
- परिस्थिति का हल ढूँढना।

लंबे समय से सार्वजनिक कंपनियाँ पहली संभावना पर ही जोर देती है। यदि सार्वजनिक क्षेत्र की कंपनियों को ग्राहकों के हित के बारे में सोचना है तो उन्हें दूसरी संभावना की तरफ अपने कदम बढ़ाने होंगे।

संरक्षण की नीति

जनता के सदस्यों तथा बीमा कंपनियों के ग्राहकों के द्वारा आईआरडीए को निरन्तर पत्र प्राप्त हो रहे हैं। जिसमें प्रायः ऐसे प्रश्न पूछे जाते हैं कि निजी क्षेत्र बीमा कंपनियों की साख क्या है? क्या वे लंबे समय तक भारत में कार्यरत रहेगी तथा अपनी देयताओं को पूरा कर सकेगी!

प्राधिकरण ऐसे कदम उठा रही है जिससे साधारण जनता को यह बताया जा सके कि कोई बीमा कंपनी भारत में आई आर डी ए के पंजीकरण के बिना कार्य नहीं कर सकती। पंजीकरण की प्रक्रिया बड़ी लंबी तथा

सख्त है, इसमें आवेदनकर्ता की साख को इस तथ्य को सामने रख कर परखा जाता है कि क्या उनमें

यह क्षमता है कि वे व्यापार को लंबे समय तक भारत में चला सकें, उनका भारतीय बाजार के प्रति समर्पण तथा उनकी वित्तीय क्षमता, को परखा जाता है। इसके अतिरिक्त जब किसी बीमा कंपनी द्वारा किसी उत्पाद को बाजार में लाया जाता है तो उत्पाद का प्रस्ताव सभी संबंधित दस्तावेजों के साथ प्राधिकरण में 30 दिन के लिये जमा करवाया जाता है। प्राधिकरण प्रस्ताव के आधार पर निर्णय लेती है कि उत्पाद भारतीय

बाजार के लिये उपयुक्त है तथा बाजार की सभी आवश्यकताओं की पूर्ति करता है।

इस संदर्भ में एक सनदी लेखा श्री कमल कुमार गुप्ता द्वारा दिल्ली से प्राधिकरण से एक प्रश्न पूछा गया है तथा उसके लिये हमारा उत्तर आम जनता के लिये प्रकाशित किया जा रहा है।

एन. रंगाचारी
अध्यक्ष

श्रीमान,

मेरे मुवक्किल श्री संजीव अग्रवाल एम डी, मुन ब्रेवरीज लि. के प्रतिनिधि के रूप में मैं आपसे कुछ प्रश्न पूछना चाहता हूँ जो आपकी कंपनी (मैट लाइफ इंडिया इश्योरेंस क. लि.) की साख के बारे में है। कृपया इस प्रश्न का उत्तर दें जिससे आपकी कंपनी में हमारा भरोसा बढ़ सके?

1. आईआरडीए द्वारा कौन से कदम उठाये गये हैं जिनसे निवेशक का हित संरक्षित हो सके।
2. यदि कंपनी कुछ वर्ष बाद अपना संचालन समेट ले, ऐसी अवस्था में मेरी पॉलिसी के लिये कौन जिम्मेवार होगा?
3. क्या एल आई सी के पास भारत सरकार की राजकीय गारंटी है?
4. यदि मेरा एजेंट मुझे डिस्काउंट आफर करता है तो क्या मुझे स्वीकार कर चाहिये या यह गैर कानूनी है?

आपके जल्द उत्तर की प्रतीक्षा में

कमल कुमार गुप्ता
सनदी लेखा

प्रिय गुप्ता जी,

संदर्भ- मैट लाइफ इंडिया इश्योरेंस क. प्रा. लि. की प्रामाणिकता।

आपका दिनांक 7 अप्रैल 2003 को मैसर्स मैट लाइफ इंडिया के बिक्री प्रबंधक बिस्वजीत दास गुप्ता को लिखा गया पत्र जिसमें आपने कंपनी की प्रामाणिकता पर प्रश्न किये हैं, हमें मैसर्स मैट लाइफ इंडिया से प्राप्त हुआ। एक सनदी लेखा के रूप में मैं समझता हूँ कि आप वित्तीय क्षेत्र में हो रहे परिवर्तनों के बारे में पूरी तरह जागरूक होंगे। विशेष रूप से वह लाभ जो आम जनता को उपलब्ध है। बीमा कंपनी से नयी व पुरानी दोनों द्वारा, आपके पत्र से यह पता चलता है कि आप मूलभूत रूप से सूचना पॉलिसी होल्डर के संरक्षण के लिये चाहते हैं। मैं आपको उन विनियमनों का संदर्भ देना चाहूंगा जो पॉलिसी होल्डरों के अधिकारों के रूप में इसी प्राधिकरण ने बनाये हैं। इन विनियमनों की एक प्रतिलिपि आपके संदर्भ के लिये अनुलग्न की जा रही है।

मुझे विश्वास है इन अधिकारों के प्रति न केवल आप अपने मुवक्किल श्री संजीव अग्रवाल प्रबंध निदेशक

मुन ब्रेवरीज लि. को सलाह देंगे वरन् आप अन्य सभी मुवक्किलों को भी सलाह देंगे जिससे आपके सभी मुवक्किलों को बीमा संरक्षण का ज्ञान प्राप्त हो सके। आपके प्रश्न के मुख्य बिंदु इस प्रकार हैं।

1. आईआरडीए द्वारा क्या कदम उठाये गये हैं जिससे निवेशकों के हितों की रक्षा हो सके?
आईआरडीए (पॉलिसी होल्डर के हितों के संरक्षण) विनियमन 2002 बड़े क्षेत्र में निवेशक के हितों के लिये कार्य करता है। जिसका प्रारंभ प्रस्ताव पत्र की प्रतिलिपि लेने के अधिकार से शुरू होती है। जिन पॉलिसी के संदर्भ अंतिम पॉलिसी की प्रतिलिपि ग्राहक फ्री लुक अवधि के दौरान ग्राहक को दी जानी चाहिये। साथ ही बीमा कंपनी के कर्तव्य सेवा तथा पॉलिसी विस्तीर्ण, तथा पॉलिसी पर हुये दावे के समय दावा निपटान में देरी के कारण ब्याज की प्रतिशत शामिल है। विनियामक ने एक ऐसी प्रक्रिया भी निर्धारित की है जिसके अंतर्गत शिकायतों का निपटान होता है। इसमें बीमा लोकपाल भारत के विशिष्ट स्थानों पर शामिल है। इसके अतिरिक्त

आईआरडीए अधिनियम प्राधिकरण को यह शक्तियाँ देता है कि यदि बीमाधारक सीधे प्राधिकरण से संपर्क स्थापित करे तो प्राधिकरण मध्यस्थ के रूप में बीमा धारक के अधिकारों की रक्षा करता है।

2. यदि कोई कंपनी अपना परिचयाख्यान कुछ वर्ष के बाद समाप्त कर दे तो मेरी पॉलिसी के लिये कौन उत्तरदायी होगा?
बीमा का दर्शन स्वयं में ही लंबे समय की वचनबद्धता बीमाकर्ता की बीमाध्यायक के प्रति है। भारत में कोई भी बीमाकर्ता आईआरडीए से लाइसेंस प्राप्त करने के बाद ही अपना कार्य प्रारंभ कर सकता है। इस लाइसेंस को दिये जाने से पहले प्राधिकरण आवेदनकर्ता की वित्तीय क्षमता, साख तथा भारतीय बाजार के प्रति वचनबद्धता की जाँच करता है और ठीक पाये जाने पर ही लाइसेंस दिया जाता है।
एक नीति के रूप में प्राधिकरण आवेदनकर्ता के आने वाले दस वर्ष के व्यापार प्रेक्ष्यण को देखता है जिससे यह सुनिश्चित किया जा सके कि कोई मंसुबा उत्पाद के दरों/ब्याज को नीचे लाकर

अपने प्रतिद्वंद्वियों से आगे निकलने की तो नहीं है। जो बाद में बीमाकर्ता की साख क्षमता तथा मजबूती को भी प्रभावित करे।

साख क्षमता को वर्तमान आधार पर बनाये रखा जाता है। कुछ ही मामलों में जहाँ जीवन बीमा व्यापार समस्याओं में पड़ सकता है विनियामक को यह शांति है कि वह दूसरे बीमाकर्ता को मान्यता प्रदान करे जो उसकी चालू देयताएँ तथा पॉलिसी कठिन समय में हस्तांतरित कर लें।

3. क्या एलआईसी के पास भारत सरकार की

राजकीय गारंटी है ?

जीवन बीमा निगम अधिनियम में प्रावधान है कि भारत सरकार से गारंटी प्राप्त हो उन मामलों में जिनमें एलआईसी द्वारा पॉलिसी जारी की जाती है। यह गारंटी स्वामी (सरकार द्वारा) दी गयी है।

4. यदि मेरा एजेंट मुझे छूट देने की पेशकश करे तो क्या मुझे उसे स्वीकार करना चाहिये या ऐसा करना गैर कानूनी है ?

एजेंट एक विधान के अंतर्गत प्रतिबंधित है कि वे किसी प्रकार की छूट अपने कमीशन में से

प्रदान नहीं करेंगे जो उन्हें बीमा कंपनियों से मिलता है। यह बीमा अधिनियम 1938 के अंतर्गत अपराध है। मुझे विश्वास है कि आप अब तक भारतीय बीमा बाजार की बीमा कंपनियों की साख के बारे में अच्छी जानकारी प्राप्त कर चुके होंगे। अब आप इस स्थिति में होंगे कि एक आईआईएलए प्रतिनिधि के रूप में यह सूचना अपने मित्रों तथा मुव्वकिलों तक पहुँचा देंगे।

भवदीय

हस्ताक्षर

एन. रंगाचारी

अप्रैल 21, 2003

आईआईआरएम का प्रारंभ



बीमा एवं जोखिम प्रबंधन संस्थान (आईआईआरएम) अपना पहला शैक्षणिक कार्यक्रम मई माह के तीसरे सप्ताह में जकार्ता, इंडोनेशिया में प्रारंभ कर रहा है।

बीमा एवं जोखिम प्रबंधन में डेढ़ वर्ष का यह स्नातकोत्तर डिप्लोमा कोर्स व्यापार एवं विकास संयुक्त राष्ट्र समिति के साथ संयुक्त तत्वावधान में कराया जा रहा है। इसमें भारतीय, यूरोपिय तथा एशिया के प्राध्यापक अपनी सेवाएँ देंगे। यह कोर्स इंडोनेशियन बीमा विनियमन के सहयोग से कराया जा रहा है।

श्रीमती मेजोन ओमर जो अभी तक मलेशियन बीमा संस्थान के निदेशक पद पर कार्यरत थी ने आईआईआरएम के मुख्य कार्यकारी अधिकारी का पद ग्रहण किया है तथा श्री जे. एस. कुमार जो

अभी तक मलेशियन बीमा संस्थान के वरिष्ठ प्रबंधक के पद पर कार्यरत थे ने संस्थान के मुख्य संचालक अधिकारी का पद ग्रहण किया है।

श्री कुमार के अनुसार जल्द ही जोखिम प्रबंधन, बीमा, निवेश योजना एवं पेंशन पर अन्य अंतर्राष्ट्रीय कोर्स प्रारंभ किये जायेंगे।

आईआईआरएम भारतीय बीमांकक संस्थान एवं भारतीय बीमा संस्थान के नजदीक में रहकर कार्य करेगा। इसका कार्यक्रम भारतीय व अंतर्राष्ट्रीय प्राध्यापकों के साथ शैक्षणिक, शोध एवं काम समय के कोर्स प्रारंभ करने का है। ये कोर्स UNCTAD, OECD, विश्व बैंक, अंतर्राष्ट्रीय बीमा पर्यवेक्षण संस्थान और अंतर्राष्ट्रीय बीमा आधार के सहयोग से चलाये जायेंगे।

आईआईआरएम ने हाल ही में अपनी तृतीय इमरजिंग मार्केट्स कॉन्फरेन्स का आयोजन किया जो सफलतापूर्वक समाप्त हुयी तथा कई लोगों ने इस कॉन्फरेन्स में हिस्सा लिया।

वर्तमान में आईआईआरएम, प्लॉट नं. 310, रोड नं. 25, जुबिली हिल्स, हैदराबाद में कार्यरत है।

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जीवन बीमा परिषद

श्री पी. ए. बालासुब्रह्मण्यम, बीमांकक सदस्य, आईआरडीए को भारतीय जीवन बीमा संगठन की जीवन बीमा परिषद का अध्यक्ष चुना गया है। यह पद पूर्व अध्यक्ष श्री एच. ओ. सोनिग की 31 दिसम्बर, 2002 को सेवानिवृत्ति के पश्चात रिक्त हो गया था।

Make Me a Plan

K. Ragunathan

Corporate securities transfers are generally outsourced to Registrars and Share Transfer Agents (Registrar). In India, Registrars are to be registered as an intermediary with Securities and Exchange Board of India (SEBI) and can then undertake the activities of securities transfer agents on behalf of listed corporate clients. With the advent of depositories in India, Registrars perform the functions of Depository Transfer Agent (DTA) too and service physical (who hold physical scrips) and electronic (who hold them in dematerialised form) shareholders.

A Registrar generally performs the functions of effecting security transfers, attending to shareholder requests like sub-division of shares, consolidation of shares, effecting change of address of shareholders, issue of duplicate share certificates for those reported lost/stolen etc., and many other shareholder related service requests. DTA performs the functions of converting the physical holding of a shareholder into electronic holding. Corporate actions like payment of dividend, rights issue, bonus issue etc., are also performed by the securities transfer agents.

Work Flow at Registrar's Office

The job functions of the Registrar involve combination of manual scrutiny of documents, computer database updating, preparation of shareholder intimations and reaching such intimations to the shareholder. Regulatory time limits have also been prescribed by rules, statutes, acts, regulations and agreements, which a transfer agent is supposed to follow in processing various service requests from shareholders.

Thus workflow at the office of a securities transfer agent involves management of manual and automated tasks and of business rules, exception and escalation procedures. While the depository has substantially enhanced electronic transactions in the securities market, transfer agents continue to handle reasonable amount of manual

tasks, leading to errors and omissions.

Insurance coverage

Transfer agents are not able to cover many of their risks with a single comprehensive coverage policy. Some of the important risks affecting the transfer agents are given below.

Professional liability (Errors and Omissions)

Errors and omissions may accidentally creep into various manual tasks that a Registrar performs in the normal course of its business. Such errors and omissions may lead to a shareholder or investor suffering financial loss, and thus ending up with a claim against the Registrar.

In most Western countries, a broad insurance and surety coverage is made available to all regulated security transfer agents. Unlike in India, regulators in such countries have made business risk management compulsory.



Directors' and Officers' Liability

In every Registrar's office, there is a nominated compliance officer who is responsible for compliance with various rules and regulations. This officer can be held responsible for lapses and thus carry a liability due to the position she or he holds. Further, most registry organisations being joint stock companies, the regulator may also hold the directors of such companies liable for various lapses.

Mail Lost Liability

A transfer agent is in receipt of bulk inward mail from various shareholders on a day-to-day basis. There are possibilities of such mail being lost-in-



transit or lost at the officer of the Registrar in view of the volume of transactions that are handled manually. Such lost mail may contain important documents which a shareholder may send to Registrar like an original copy of a will or probate obtained from a court. To obtain duplicates of such important documents at times may be difficult, time consuming and costly and a shareholder may insist that such duplicating costs be reimbursed by the Registrar for its lapse.

Document waiver liability

Various service requests that a Registrar performs on behalf of its principal (listed corporate entity) are document driven. Sometimes, a Registrar may waive some or all of the documentary requirements that may have to be submitted by a shareholder on a case-to-case basis, appreciative of the difficulties that a shareholder may have to undergo. Often, a Registrar is also forced to waive such documentary requirements keeping the service factor in mind. But at a future date, waiver of such documents may lead to some liability on the Registrar's head, leaving it exposed without any help from the shareholder concerned for whom such waiver was done.

Loss or destruction of securities/ records

One of the challenges faced by a Registrar is to preserve the records of various actions that were performed by them. While SEBI regulations provide most documents to be preserved for a minimum period of three years, there are also longer periods of retention of documents prescribed as per provisions of the Companies Act and the Income Tax Act. At times, a Registrar is unable to produce the required document or record when demanded by a regulatory authority and thus consequential loss or damage may be suffered by the Registrar or its principal. At times, a Registrar may have destroyed the documents in the normal course of its business and thereafter, such destroyed documents may be demanded to be produced to defend a claim from a shareholder.

Fiduciary liability

The Registry function sometimes necessitates holding of securities in trust on behalf of a shareholder and to return them partially or in full, after the completion of a corporate action. In such an obligatory situation, accidental loss or destruction of securities at the Registrar's end may end up with cost and liability for the Registrar.

Employment practices liability

With the fast growth of depositories, many Registrars would be faced with the problem of reduced manual work and would look for voluntary and involuntary reduction of work force. Such an action may lead to employment related claims and may prove very costly to a Registry organisation with meagre financial net worth.

Securities custodial liability

A Registrar often holds blank securities of its clients, which is required for efficient and timely servicing of shareholders. Such securities may be misused by employees of the Registry or stolen and misused by third party. Such stolen security may change hands for a valuable consideration and thus creating financial risk on the Registrar.

Electronic business activity (e-risk)

Most actions in depository transfer agency activity are electronically performed by a Registrar. Some of them may not be reversible and any error or omission may lead to risk of claim from investors or shareholders.

One stop shopping for Registrars

Registrars have not been favoured with a single umbrella policy to cover these and other related risks. Many

registrars in India today operate with considerable risks without even a business risk policy and thus are exposed to unlimited risk of claims from investors, shareholder or others.

In most Western countries like the US and UK, a broad insurance and surety coverage is made available to all regulated security transfer agents. Unlike in India, regulators in such countries have made business risk management compulsory for such security transfer agents.

Keeping the largeness of the Indian securities market in mind, there is an immediate need to design a comprehensive product to meet the needs of various security transfer agents operating in the country. With several foreign insurance players with considerable experience now doing business in India, one sincerely hopes that a customised product will be developed and offered. There are over 100 security transfer agents operating in the country, leaving the smaller ones, and they can be a good target market for an insurance company to capture.

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Report Card: GENERAL

Business Booms for Non-life Companies

The May issue of **IRDA Journal** carried the premium performance figures of the general insurers for 2002-03. These indicate that the industry, at least revenue-wise, never had it so good.

A comparative analysis of the public and private players for the last two years sends out a powerful message that liberalisation has worked wonders, as the industry's pie has grown by over 20 per cent in 2002-03 to record a premium level of about Rs. 14,000 crores from the previous Rs. 11,600 crores.

Both the sectors seem to have performed well. The four public players have recorded an impressive growth of 13 per cent to reach Rs. 12,500 crores up from Rs. 11,140 crores. It is, however, the private players that have stolen the annual show for the brighter performance. Not only have they pulled

up the industry's overall growth rate higher to 20 per cent by their sectoral performance of 180 per cent growth rate but they have also made heavy inroads into the profitable segments of Fire, Marine and Engineering portfolios of the market.

Private players

While the private players have garnered a 9.5 per cent share of the market up from 3.5 per cent last year, it is even more remarkable that they have captured 14 per cent (Rs. 3,000 crores) market share in the Fire, seven per cent (Rs. 1,200 crores) of the Marine and eight per cent (Rs. 9,700 crores) of the miscellaneous portfolios, including 18 per cent (Rs. 720 crores) of the Engineering portfolio. (Figures in bracket are the figures for the market as a whole.) The marketing strategies of the private players seem pretty clear and that is to ambush the public players in the most sacred of their profitable portfolios – that is the Fire and

Engineering portfolios that have a market volume of Rs. 3,700 crores.

Health Insurance

The most interesting piece of information for analysts is the fact that the Health premium, a late starter in the market, at a volume of over Rs. 1000 crores, has outstripped the traditional Engineering business (Rs. 720 crores) transacted in the country for over 50 years! Who deserves the motivational credit for the rapid rise in volumes, the insuring public, who desperately want to buy medical insurance or the insurers' salesmen who want to penetrate the market? Is medical insurance going on the Motor trail, though it is not mandatory? It seems to be demand driven like the Motor business.

Motor Business

Private players have a market share of only seven per cent in Motor, a very wise move, to avoid getting in to too much paper work, litigation and losses

Provisional Premium Figures of Non-life Insurers in 2002-03

(Rs. in crores)

Insurer	Fire		Marine		Miscellaneous		Total	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
National	536	496	223	211	2,131	1,732	2,890	2,349
New India	877	859	341	339	2,711	2,313	3,929	3,512
Oriental	528	531	227	214	2,027	1,753	2,782	2,498
United India	616	636	331	255	2,021	1,889	2,971	2,781
Total	2,557	2,522	1,122	1,019	8,893	7,687	12,572	11,140
% Increase—public sector	35		103		1,206		1,432	
Bajaj Allianz	55	28	8	1	227	112	290	141
Tata AIG	32	19	26	9	163	50	221	78
ICICI-Lombard	132	11	9	0	74	16	215	27
IFFCO-Tokio	104	36	18	3	92	32	214	71
Reliance	55	46	9	2	121	29	185	71
Royal Sundaram	38	18	13	3	131	50	182	77
Total	416	158	83	18	808	289	1,307	465
% Increase—private sector	258		65		519		842	
Total Increase	293		168		1,725		2,274	
Grand Total	2,973	2,680	1,205	1,037	9,701	7,976	13,879	11,605
% Total Increase	11%		16%		22%		20%	

in the early stages of their operations. After all, each public player sees both their fellow players and the private players as their fierce competitors. They seem to be still in the toppling game based on premium volumes. Size, not necessarily quality, still counts a lot as a market sentiment.

Future

With a narrow and clear focus on their goals – garnering more profitable Fire and Engineering business - the private players are well poised to take a further leap in 2003-2004 with the active support of their more enterprising promoters and a helping hand from the hungry broking community that has to marshal enough business to stay on as a successful player with a future. Acquiring 20 per cent market share in 2003 - 4 is not an impossible task for the private players, given the momentum they have generated. The public players need to watch their backyards more carefully and come up with strategies that can checkmate their rivals in the business game that is getting interesting!

CORRECTION

The non-life industry premium statistics for 2002-03 published in the May issue of **IRDA Journal** (Page 38) carried some inadvertent errors. The correct figures are given below. The error is regretted.

– Editor

Health insurance premiums stood at Rs. 1,045 crores or 7.32 per cent of the premiums of the entire industry. Of this the public sector wrote Rs. 962.77 crores worth of business making up seven per cent of their portfolio and the private sector Rs. 82.34 crores, which was 6.18 per cent of their business.

April 2003 Premiums Grow by 12.17 %

The non-life insurance premium grew by 12.17 per cent in the first month of the current financial year compared to the same period last year. The total premium of Rs. 1,87,576 lakhs was up from Rs. 1,67,211.85 lakhs for April 2002.

While private sector insurers accounted for Rs. 31,535.44 lakhs of that (Rs. 14,485.15 lakhs in April, 2002) the public sector had the lion's share of Rs. 1,56,041 lakhs (Rs. 1,52,726.7 lakhs).

Growth rates for the private sector were much higher in general, given the small base. The entire sector grew by 79 per cent. Tata AIG General Insurance had a premium growth of 509 per cent topping the list, and ICICI Lombard grew by 208 per cent while Reliance General showed a negative growth rate of 42 per cent.

The public sector grew at a slower 2.17 per cent in total, of which National showed the highest growth rate at 16 per cent and New India grew at a negative 4.6 per cent.

The private sector players captured 16.81 per cent of the market in April, 2003, as against their combined marketshare of 8.7 per cent for the same month last year. The market share of the public sector was 83.19 per cent in April, 2003, compared to 91.3 per cent for the comparative period.

Gross Premium Underwritten for the month of April, 2003

(Rs. in lakhs)

Insurer	Premium April 2003	Premium April 2002	% Growth
Royal Sundaram	3,095.23	1,861.00	66
Tata AIG	6,727.40	1,105.00	509
Reliance General	1,916.23	3,325.00	-42
IFFCO-Tokio	5,571.22	2,374.97	135
ICICI-Lombard	7,528.78	1,448.00	208
Bajaj Allianz	5,359.85	3,371.18	59
HDFC Chubb	283.73	–	NA
Cholamandalam	1,053.00	–	NA
New India	46,389.00	48,611.00	-4.6
National	34,674.00	29,904.00	16
United India	36,860.00	36,761.00	0.27
Oriental	38,118.13	37,450.73	1.78
Private Total	31,535.44	14,485.15	118
Public Total	1,56,041.1	1,52,726.7	2.17
Grand Total	1,87,576.54	1,67,211.9	12.17

ECGC's premium for April '03 was Rs. 2,563.01 lakhs.

Directors and Independence

R. Anand



Plenty has been said and written on the subject of corporate governance. There have been philosophical statements that corporate governance is not a piece of legal

document, but a 'state of mind.' Indian companies are now feeling the heat and pinch of implementation in the field of good corporate governance. Questions have been raised about to what extent companies have to be transparent, to what extent stakeholders and constituents of companies should know the details of corporate functioning, to what extent directors are accountable and so on.

In the field of insurance, particularly after the opening up of this industry, all insurance companies, both in the public and private sectors, have to fall in line with what is legally accepted as corporate governance.

The debacle of big names in the US has brought into focus trans-national issues on published accounts and auditor-auditee relationships. The Sarbanes-Oxley Act of 2002 announced to the world immediate and urgent measures taken by the super power to clean up its act on corporate governance.

India quickly followed suit and now we have the Companies (Amendment) Bill, 2003, focusing its attention on the role of 'independent directors' inter alia several other matters.

The provisions of Section 252 of the proposed bill is extracted below (see box item).

The proposed provision applies to all insurance companies, both in the public and private sector for the reason that the term public company under the Companies Act means any company that is not a private company, and not only listed companies.

In fact, even public financial institutions as defined in Section 4A of the Companies Act, which includes LIC and GIC, will come under the broad definition of public company and the proposed provisions would apply.

Position in the US

Incidentally, Section 303A of the New York Stock Exchange (NYSE) Rules mandates that the majority of the directors of a listed company be 'independent directors.' The NYSE listing standard defines a director not be independent in the following circumstances:

1. If the director has a material relationship with the listed company either directly, or as a partner, shareholder

or officer of an organisation that has a relationship with the company.

2. If, within the past five years, the director or a member of the director's immediate family.

- received more than \$ 1,00,000 per year in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service that are not contingent on continued service.
- was affiliated with or employed in a professional capacity by a present or former auditor of the company or as an executive officer of another company of which any of the listed company's present executives served on the compensation committee.
- is an executive officer or employee of another company (a) that, within the past five years, accounted for at least two per cent or \$ 1 million, whichever is greater, of the listed company's consolidated gross revenues, or (b) for which, within the past five years, the listed company accounted for at least two per cent or \$ 1 million, whichever is greater, of the other company's consolidated gross revenues.

For purposes of the NYSE rule, an 'immediate family member' includes a person's spouse, parents, children,

SECTION 252 HIGHLIGHTS

The statement of objects and reasons of the companies (Amendment) Bill, 2003, explains the background as under:

Further, based on the recommendations made by the Committee on Corporate Audit and Governance (the Naresh Chandra Committee), a number of provisions are proposed in the Bill to facilitate good corporate governance, of which one is the provision for the appointment of independent directors and women directors on the Board of Directors of the company;

The salient features of the proposal are highlighted as under:

- First and foremost, every public company

as defined in the Companies Act having net worth of over five crore Rupees or turnover of 50 crore Rupees has to appoint 'independent directors.'

- The stipulation is that the majority of the board shall be 'independent directors' and minimum should be seven directors and maximum 15 directors.
- There is also a proposal to prescribe the minimum number of women directors and the power is taken through rules or notifications to prescribe this number.
- Clearly, the message is to have a quota system on the board, projecting women directors as the architect of good corporate governance.
- All insurance companies will fall under the clutches of Section 252 of the proposed bill.

- The committee constituted by the Securities Exchange Board of India (SEBI) under the Chairmanship of Mr. N. R. Narayanamurthy to review the performance of corporate governance endorsed the meaning of 'independent director' defined by Naresh Chandra Committee.
- The term 'independent director' has to be construed with reference to Section 252A of the proposed bill which reads as under:

252A. (1) A person shall not be capable of being appointed as independent director of a company if –

- (a) he is a whole-time director or a managing director of the company; or
- (b) he has any transaction with the company (including its holding company or subsidiary company) or its chairman or managing director or

siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law (other than employees) who shares the person's home.

During the five years immediately following the effective date of the new NYSE listing standard, the five year 'look back' period will be shortened to the period since the effective day of the listing standard.

It is the Board that should determine that a director has no material relationship with the listed company, and the NYSE says, that in making 'independence' determinations, Boards should consider all relevant facts and circumstances.

In particular, a Board should consider the materiality of the director's relationship with a company not merely from the standpoint of the director, but also from that of persons or organisations with which the director has an affiliation. The NYSE says, material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. However, it does not view ownership of even a significant amount of stock, by itself, as a bar to an independence finding.

Issues and Concerns

In the Indian context, this proposal in the Companies Act is bound to raise eyebrows and create a major furore in the

corporate circles. Many of the companies who may be public companies in name are effectively glorified partnership firms. For them the process of identifying 'independent directors' itself will be a major, daunting, task.

Moreover, if the majority of directors are independent, what will be the role of the promoter who has put in his hard earned money and is literally running the company as a shop floor worker or as an employee?

Secondly, even today, there is a dearth of professional 'independent directors' without the proposed Sections 252 & 252A. *Finally, given the average board size of eight, corporate India will therefore be searching desperately for anything between 3,500 to 5,000 people to become independent directors. This is a massive task – more so since relatively few companies have given serious thought to the issue.*

Good companies follow corporate governance not by compulsion, but by their own lofty standards set over a period of time. Legislating a numbers game on the board by itself may not add value to the process of enhancing shareholder value. On the flip side, who is to appoint 'independent directors'? If 'independent directors' are appointed by promoters, then they cease to be 'independent

directors.' If outsiders have to appoint 'independent directors,' then the promoters are left out of a major decision-making process in corporate functioning.

We will then have a piquant situation of promoters handling the nitty-gritty aspects of company functioning, but will have no say in appointing 'independent directors.'

While the proposal could be a tactical message sent to the corporate world both in the Indian and the international arena, obviously it cannot be implemented in the manner in which it has been drafted. The existing provision of listing requirements and constitution of the board and audit committees can effectively serve the purpose as long as they are properly implemented and duly supervised by the regulator. Over-regulation without supervision will be counter-productive. There is no doubt that enough debate and controversy will be generated by the proposed Sections 252 & 252A and, more than anything else, journalists and the organisers of seminars will have a field day.

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

- whole-time director or secretary or manager or any officer who can be considered as an officer in default in connection with business or profession or in any other capacity; or
- (c) he is a relative of the chairman or managing director or whole-time director or secretary or manager or any officer who can be considered as an officer in default of the company; or
- (d) he has held any post in the company; or
- (e) he has been an auditor or internal auditor or consultant (including advocate or legal advisor) of the company during any of the three preceding financial years; or
- (f) he is or has been a supplier or vendor or customer of the goods or services of the company; or
- (g) he holds two per cent or more of the

- securities of the company having voting rights; or
 - (h) he has been a director or an independent director for a consecutive period of nine years or more; or
 - (i) he is holder of any equity shares of the company in which he is an independent director during his tenure as such a director and six months after he ceases to be an independent director; or
 - (j) he is a nominee director or employee or executive director of any bank or financial institution or corporation which has offered financial assistance to the company; or
 - (k) he is a nominated director in any other company which has nominated a director in the company in which he is an independent director.
- (2) No person shall be appointed as an independent director unless he has taken

training, from such date as the Central Government may notify, from an institute notified by the Central Government, within a period of two years prior to his appointment as such:

Provided that an independent director may take the training within eighteen months of his appointment, from an institute notified by the Central Government in failing which he shall cease to be an independent director and be not eligible for appointment as an independent director in any company till such time he takes training but he may continue as a director in that company:

Provided further that an independent director appointed before the commencement of the Companies (Amendment) Act, 2003, shall take training from such date as may be notified under the first proviso.

Applied Insurance offers technology

US-based Applied Insurance Research (AIR), a catastrophic risk assessment and management technology solutions provider, is seriously looking at the Indian insurance industry through its subsidiary AIR Information Technology in Hyderabad.

The company is involved in collecting data on natural calamities in different parts of the country and initial data suggests that some Indian cities and areas are vulnerable to such natural calamities.

Despite this, the Indian insurance providers are not going in for such assessment tools and solutions as compared to the US and European insurers and reinsurers at this stage.

The company says its technology is based on complex computer simulation models of global natural hazards such as hurricanes, earthquakes, fire following earthquakes, hailstorms, tornadoes and floods, adding that by incorporating AIR solutions and tools, one can mitigate all problems by managing asset exposures, determining insurance needs, pricing premiums, drawing pre-loss strategies, providing valuable information for risk-hedging strategies, claims handling, underwriting, reinsurance, other risk-transfer decision-making and overall catastrophic risk management.

The parent company has databases, ranging between 100 years and 1000 years, of 31 countries across the world and is on the verge of acquiring the data of Asia-Pacific and Middle East regions. India is also one of the countries which the company is seriously looking at for marketing its products and solutions.

Swiss help for disaster management

The Union Cabinet has approved an agreement with the Swiss Government for cooperation and assistance in disaster management.

The agreement envisages coordination for early warning systems, including sharing of information on weather monitoring and prediction methods. The pact is aimed at enhancing capacity building, preparedness and training of rescue teams and human resource development (HRD).

Cooperation in HRD includes various modules for training the disaster managers at various levels, preparation of training syllabus, deputation of resource persons and trainers for getting specialised training.

The two countries would together study emergency response mechanisms, training and equipping of specialised response units and the Swiss Government would offer free of charge assistance in deployment of search and rescue teams in the event of disasters.

India at its own cost would make available such logistic support as may be mutually agreed upon.

A.M. Best Affirms Rating of New India Assurance

A.M. Best Co. has affirmed the financial strength rating of A (Excellent) of New India Assurance Company Limited. The outlook is stable.

The rating action reflects the company's excellent capital position, the maintenance of its leading position in the Indian domestic insurance market and substantial returns from its investment portfolio. Offsetting factors include New India's reliance on the Indian investment and insurance markets, continuing weakness in the company's underwriting performance in the Indian motor market and uncertainties surrounding the economic environment in India, A.M. Best said.

New India's capital adequacy is excellent, according to the A.M. Best risk-based capital model. The

company's capital fully supports its plans for growth and diversification.

The company is the largest of the four government insurers in India and also writes a growing account of international business from over 20 countries.

In 2002, the company's net investment income increased 7.3 per cent despite unfavourable conditions in investment markets and A.M. Best expects New India to continue to produce substantial investment returns, albeit at a lower level, in 2003 as a result of the investment environment.

A.M. Best expects improvement in New India's motor underwriting in 2003 as a result of tariff increases, although the performance of this class continues to

cause problems in India. In 2002, motor business accounted for 39 per cent of the company's net written premiums. The 2002 net loss ratio was 124 per cent (compared to 114 per cent in 2001) due to the high level of motor third-party liability claims experienced.

A.M. Best said it continued to be concerned about volatility surrounding the economic development of India despite stabilisation in its financial markets over 2002 and 2003. Factors affecting A.M. Best's opinion include the fiscal deficit, deceleration in economic growth and regional instability.

A.M. Best Co., established in 1899, is the world's oldest and one of the most authoritative insurance rating and information sources.

A.M. Best Affirms Rating of GIC

A.M. Best Co. has affirmed the financial strength rating of A (Excellent) of General Insurance Corporation of India (GIC). The rating outlook remains stable.

The affirmation reflects the company's excellent capital position, its leading profile in the Indian insurance market and substantial returns from its investment portfolio. Offsetting factors include the company's reliance on its domestic investment and insurance markets, continuing weakness in its underwriting performance in the Indian motor market and uncertainties surrounding the economic environment in India.

GIC maintains an excellent capital base, according to A.M. Best's risk-based capital model. Underwriting leverage is conservative, with net premiums written to surplus at 0.6 times in 2002. A.M. Best believes that the current level of capitalisation provides scope for the company to develop new underwriting opportunities without the need to raise additional capital.

GIC is owned by the Indian Government and is the sole reinsurer in the Indian market. The company currently benefits from a compulsory 20 per cent cession from all Indian insurance companies, which accounted for 78 per cent of net premiums written in 2002. While foreign insurers have made inroads following liberalisation of the market in 2000, GIC continues to

experience substantial growth in business volume – net written premiums increased 22 per cent in 2002. Outside India, GIC's approach has been more cautious, and only a modest seven per cent of net premium is written in the international market.

A. M. Best has stated that GIC's operating performance has been excellent, supported by returns from its substantial investment portfolio. The company's approach to investments is underpinned by its emphasis on safety, liquidity and returns. A.M. Best believes that GIC's well diversified portfolio should enable an acceptable return to continue to be achieved, although weak investment markets will result in lower returns in 2003.

Despite increases in Indian tariff rates for motor business (32 per cent of 2002 net written premium), GIC continues to suffer from weak underwriting performance in the domestic motor market—the company's net loss ratio in 2002 was 146 per cent, up from 132 per cent the previous year. Although some improvement may be achieved as a result of further rate increases, adequate returns in this sector remain elusive, says A. M. Best, adding that it continues to be concerned about volatility surrounding the economic development of India despite stabilisation in its financial markets over 2002 and 2003. Factors affecting A.M. Best's opinion include the fiscal deficit, deceleration in economic growth and regional instability.

get their policies issued immediately at the agent's office while doing their ticketing and itinerary.

Globetrotter is available as Globetrotter Corporate (group) for employees of the companies travelling abroad on business and Globetrotter Leisure (individual) for leisure/individual travellers. It comes with a user-friendly web interface that gives full flexibility to the corporate traveller for amending trips anywhere in the world, permits last minute departures and enables accurate premium and balance days tracking, says a company press release.

ICICI Lombard's tie up for overseas travel cover

ICICI Lombard General Insurance has announced its association with Galileo India, the air travel ticketing systems company.

This tie up will lead to Globetrotter Leisure – ICICI Lombard's overseas travel insurance for individual travellers – being distributed by Galileo's network of travel agents through a web-enabled online policy issuance module. Consumers can

Govt plans sensitivity index for services

The Government is working on a price sensitivity index for five service sectors including banking, insurance, telecommunications, road transport and railways. The scope of the index could be expanded later.

The index will be merged into the wholesale price index, which is used as a measure for estimating the rate of inflation.

The index is still at a preliminary stage and various regulatory agencies are co-ordinating with the Ministry of Commerce and Industry to implement it. The IRDA has appointed a nodal officer who has been working with the Ministry on the preliminaries of working out a model for the insurance sector, and the Reserve Bank of India had been assigned the task of preparing the index for the banking sector.

The wholesale price index has three category of products — an index for primary articles comprising food and non-food items, manufactured products covering a gamut of product groups that are classified into the food and non-food category, and the index for fuel, power, light and lubricants. Manufactured products have the highest weight in the index at 63.75 per cent.

Once the system is implemented, a fourth component will be added in the wholesale price index to measure the price changes in the service sector, which accounts for nearly 50 per cent of the country's gross domestic product. The weight to be assigned to the sector is, however, still to be decided.

In the case of telecommunications and railways, the respective ministries will be used to source data, while a private party will help the Government in preparing the index for the road transport sector.

Once the framework is ready, the Central Statistical Organisation (CSO) would be consulted for fine-tuning the model and implementing it.

APRA to crackdown on industry

Australia's insurance regulator, Australian Prudential Regulation Authority (APRA), has signalled an impending crackdown on insurance industry practitioners in the wake of the collapse of HIH insurance.

APRA says it is considering the need to disqualify or remove a number of individuals from "responsible person" positions in the general insurance industry.

Under scrutiny are directors, senior managers, auditors and actuaries of general insurers.

APRA says the HIH Royal Commission added weight and substance to the regulator's own information.

The regulator now has a list of around 90 people who might have breached "fitness and propriety" requirements in the Insurance Act, although it does not expect to disqualify all, or even the majority of them.

However, it says substantial work will go into the decision-making over the coming months.

Huge insurance losses from tornadoes

US insurers have taken another hit these past few weeks as tornado season continues to wreak havoc on the nation. The tornadoes, which swept across parts of the US from May 2 to 11, have the potential to be the costliest in US history, according to the Insurance Information Institute (III).

Boston-based AIR Worldwide, which uses a computer modelling programme to estimate insured losses from catastrophes, has put the damages at \$2.2 billion. Actual claims filed now exceed \$1 billion, with damage assessment continuing in the affected areas. The 412 tornadoes during the first 10 days of May were the most since the National Oceanic and Atmospheric Administration began record keeping in 1950. The previous record for the first 10 days of May was 177 tornadoes set in 1999. More than 300 counties affecting 19 states suffered losses and more than 40 deaths were blamed on the storms.

The largest tornado-related loss in US history was in April 2001, when tornadoes and storms struck 16 states including Missouri, Nebraska, Texas, Kansas, Illinois and Pennsylvania, costing insurers \$1.93 billion (adjusted to 2002 dollars). Prior to 2002, the largest tornado-related loss was in May 1999, when tornadoes and storms struck 18 states including Kansas and

Oklahoma, costing insurers \$1.6 billion (adjusted to 2002 dollars).

The recent increase in homeowners insurance rates has been attributed, in part, to the frequency and severity of catastrophes, which began to increase dramatically during the 1990s. Over the past 12 years, insurers paid out more than \$100 billion in catastrophe-related losses — about \$700 million per month — many times more than in previous decades. Catastrophes include well-known events such as Hurricane Andrew and the Northridge earthquake, but also hundreds of smaller disasters associated with tropical storms, tornadoes, wildfires, hail, ice and snow.

According to the III, homeowners insurers over the past decade paid out \$1.18 in losses and expenses for every \$1 they earned in premiums. In 2001 alone, homeowners insurers paid out \$8.9 billion more in losses and expenses than they received in premiums, the second worst year on record (1992, the year of Hurricane Andrew, produced losses of \$11.5 billion). Losses in the homeowners insurance line over the past three years (2000 through 2002) are estimated at \$19 billion, rivalling the \$20.3 billion in insured property losses from the September 11 terrorist attack.

Silverstein sues insurer

Larry Silverstein, leaseholder of the destroyed World Trade Center complex, has sued his insurers saying that there is not enough insurance money to finish the ongoing reconstruction of a building that was part of the destroyed complex.

Silverstein, who is already battling his insurers over compensation for the destruction of the Twin Towers, said he had filed a complaint in New York against General Electric Co.'s Industrial Risk Insurers, the sole insurer of 7, World Trade Center.

The insurance policy on the building, which was across from the Twin Towers and was destroyed as a result of the September 11 attacks, is worth \$860 million, but Silverstein has only received \$440 million from Industrial Risk, the suit says.

That will not be sufficient to fund all the construction costs of the new building, now underway. It is scheduled to be completed in the beginning of 2006, not within the two years stipulated in the policy.

"It is physically impossible to complete the construction of a modern high-rise office tower such as 7, World Trade Center, in two years," the statement said.

But a spokesman for Industrial Risk said that the policy was not written in a way to compensate Silverstein for all costs.

Under the terms of the policy, Industrial Risk spokesman Dean Davison said Silverstein was entitled to the \$440 million cash payment and said it specifically covered only the cost of construction completed within two years of the building's destruction.

Silverstein has also been fighting with 20 or so insurers over compensation for the destruction of the Twin Towers. He claims that the attacks by two airplanes represented two separate events, entitling him to about \$7 billion in damages. Insurers led by Swiss Re have held that it was only one event, entitling him to half that amount.

Industrial Risk was insurer of the Twin Towers and is involved in the litigation as well.

Berkshire Hathaway profit jumps on insurance

Berkshire Hathaway Inc., the holding company run by billionaire investor Warren Buffett, reported its highest ever quarterly profit for the first quarter of year 2003, almost twice the last year's first quarter, powered by rising insurance rates.

Berkshire, based in Buffett's home city of Omaha, Nebraska, reported a net profit of \$1.73 billion, or \$1,127 a share, for the first quarter. That compared with \$916 million, or \$598 a share, in the same quarter last year.

The sharp rise in profit was helped by higher insurance and reinsurance rates charged by Berkshire units, partly as a reaction to the destruction of the twin towers of the World Trade Center on September 11, 2001.

Munich Re Chief Executive Officer Schinzler Resigns

Munich Re Chief Executive Officer Hans-Juergen Schinzler is stepping down as head of the world's largest reinsurer after more than 10 years, as losses tied to stakes in companies such as Allianz AG and HVB Group mount.

Schinzler, 62, will be replaced by management board member Nikolaus von Bomhard on January 1, Munich Re said in a statement. Von Bomhard, 46, currently oversees regional divisions in parts of Europe as well as Latin America.

Schinzler resigned after Munich Re reported two straight quarters of losses as falling markets forced the company to write down the value of investments. Schinzler has been slow to cut Munich Re's decades-old stakes in Allianz and HVB Group, holdings that have cost Munich Re more than the September 11 terrorist attacks.

The new CEO will have to unwind Munich

Re's domestic shareholdings, investors said. The stakes in banking and insurance rivals, once seen as protection from hostile takeovers, are now putting off investors as they wipe out earnings, analysts said. Munich Re lost 2.2 billion euros (\$2.4 billion) in the fourth quarter after 1.4 billion euros of writedowns.

Munich Re owns stakes in at least 14 German companies, including 18.1 per cent of insurer Allianz, 26 per cent of Munich-based HVB, Germany's No. 2 bank, and more than 10 per cent of Frankfurt-based Commerzbank AG, the country's No. 3 lender.

On the one hand, the main reinsurance business is improving, but there is opinion that Munich Re is still too tied to the fate of HVB Group and Allianz.

Nippon Life warned over misleading cancer insurance policies

Japan's Fair Trade Commission (FTC) warned the nation's largest life insurer over misleading advertisements for its cancer insurance policies.

This is the first time that the government's anti-monopoly watchdog has issued a warning to a life insurance company.

Between January 2001 and last November, the Osaka-based Nippon Life Insurance Co. stated in a leaflet for its cancer insurance policies that it would pay benefits to completely cover policyholder's hospitalisation costs for cancer treatment once they are suspected of suffering from the disease, the FTC said.

Nippon Life's salespeople also provided similar explanations to prospective customers. However, the company actually paid benefits to cover hospitalisation costs for policyholders only from the day when they were diagnosed as suffering from cancer.

FTC inspectors issued the warning to the life insurer after concluding the misleading advertisement constitutes a violation of the Law for Preventing Unjustifiable Lagniappers and Misleading Representation.

From March, Nippon Life began to pay benefits to cover hospitalisation costs from the day when policyholders were admitted to hospital for suspected cancer.

Insurers oppose FSA plan to regulate Lloyd's

UK insurers are opposing a proposal by the Financial Services Authority (FSA) that the Lloyd's of London insurance market should be brought within the industry's compensation scheme.

The Association of British Insurers (ABI) has written to the City regulator expressing 'deep misgivings' about the proposal that would leave its member companies exposed to the fate of the world's oldest insurance market.

The FSA's plan would only be triggered if the Central Fund at Lloyd's – the last link in the market's chain of security – was exhausted.

Lloyd's is also unenthusiastic about the plan, since it in turn would have to contribute if a UK insurer failed.

The FSA wants to bring Lloyd's within the scope of the Financial Services Compensation Scheme that pays policyholders if a UK insurer becomes insolvent.

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

The following questions have been compiled from phone-in programmes conducted on Doordarshan as

Public sector companies have Citizens' Charters. Is there any such system for private insurers?

The IRDA has come out with regulations to protect policyholders' interests, called The IRDA (Protection of Policyholders' Interest) Regulations, 2002). In a way it codifies the service norms insurance companies are supposed to ensure to their customers. It covers the terms and conditions of an insurance contract right from the time of issue of a policy to settlement of claims.

For instance, the agent/ intermediary has to explain the policyholder the terms and conditions of the policy before entering into a contract. In turn, the proposal form issued by the insurer bears vital questions like personal history and family history which are to be revealed by the proposer to make the contract a valid one. Both parties should maintain transparency while entering into an insurance contract.

There are also norms for claims settlement. Life policy claims, for instance, have to be settled or rejected in 30 days after the receipt of all the relevant papers from the insured, and delay beyond this will attract a penal interest of two per cent over the prevailing bank rate payable to the claimant.

Such measures in the regulation ensure what a Citizens' Charter would set out to do.

The value of the sum assured on a policy issued by the LIC of India is guaranteed by the Government of India. Will the same be applicable to private insurance companies also?

The Government of India owns the LIC and, as an owner, has guaranteed the returns on the corporation's policies. This practice does not obtain in the private sector, and indeed does not cover the public sector non-life insurance companies either.

What the IRDA does is to ensure that only companies with impeccable parentage and track records are registered to carry on insurance business in India. Apart from this, companies intending to start insurance business have to bring in a minimum capital of Rs.100 crores. This has to be maintained at all times from inception and also promoters have to inject further capital periodically based on the volume of business they underwrite.

The IRDA has regulations and mechanisms to constantly monitor the solvency margin, the pattern of investment to be made by an insurer and so on, to ensure that every company has the financial strength to honour its commitments.

part of IRDA's consumer awareness campaign on insurance and pensions.

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

Will an insurance agent be affected due to the entry of brokers?

One of the reasons for opening up the insurance sector to private players was the low penetration of the market by the state-owned companies. Only 20 to 25 per cent of the insurable population is covered by the public sector companies, and they operated only through agents in the past. It is clear that individual tied agents could not tap the vast market potential.

Agents represent the companies, but a broker represents the customer and advises him or her to decide on that product from any company which offers the most suitable terms and a competitive price. Similarly, corporate agents are another type of marketing channel, and they procure business from a different market segment.

There is place for all these different kinds of intermediaries to operate in the market successfully and thus increase insurance protection in the country.

Will private insurers pay claims promptly? Will they pay the claim amount in full? What is the guarantee given by the IRDA that they will not be fly-by-night?

According to the IRDA (Investment) Regulations, 2000, every insurer has to invest the funds that it holds on behalf of its policyholders strictly as prescribed by Section 27 of Insurance Act, 1938. These norms were set out with the safety of policyholders' funds as the primary objective, giving returns a lower priority. It is also mandatory for every insurer to report exhaustively its investment details on a quarterly basis.

The IRDA also monitors regularly market developments like the return on various types of investments and the risk profile of investment instruments. This will be reflected from time to time in its investment rules and circulars to companies with which the latter are bound to comply.

All these measures are to ensure that insurers have the financial strength to meet their liabilities. The insurers have to and will fulfil their contractual obligations under each policy and, in cases of dispute or customer dissatisfaction, there are a number of redressal forums open to the consumers including grievance cells of the insurance companies, of the IRDA, ombudsmen, consumer courts and of course, civil courts.

Any applicant for registration as an insurance company goes through stringent scrutiny on aspects like the reputation of the promoters and their commitment to the market. This is in order to ensure that they will not be 'fly-by-night' and will have the staying power financially to serve the market.



L to R: Mr. R. C. Sharma, Member (non-life), IRDA, Mr. N. Rangachary, Chairman, IRDA, Mr. P. A. Balasubramanian, Member (Actuary), IRDA, and Mr. Liyaquat Khan, President, Actuarial Society of India (ASI) at the Non-life CEOs meet.

Stock Brokers and Insurance

The Bombay Stock Exchange (BSE) held a meeting for its executives and member-brokers on intermediation opportunities in the Insurance industry on April 26, 2003. Mr. N. Rangachary, Chairman, IRDA, addressed the participants on "Growth of Insurance Sector and Role of Financial Intermediaries."



Mr. N. Rangachary, Chairman, IRDA, addressing the executives and brokers of the BSE. Dr. Manoj Vaish, Executive Director and CEO, BSE, looks on.



L to R: Mr. N. K. Shinkar, Consultant Actuary, IRDA, Mr. R. C. Sharma, Member (non-life), IRDA, Mr. N. Rangachary, Chairman, IRDA, and Mr. P. A. Balasubramanian, Member (Actuary), IRDA, at the Life insurance company CEOs meet.

Non-Life Insurance CEOs Meet

The Chairman and Members of the IRDA held a performance review meeting of the general insurance industry with the Chief Executives and Appointed Actuaries of all the companies on May 6, 2003, at Hyderabad. Mr. Liyaquat Khan, President, Actuarial Society of India (ASI), made a presentation outlining the importance of the role of the actuary in the general insurance industry.

Life Insurance CEOs Meet

The Chairman and Members of the IRDA held a performance review meeting of the life insurance industry with the chief executives of all the companies on May 5, 2003, at Hyderabad.

Event?

Send us a Picture!

Send us a write-up!

Dear Editor

Pension Plan

I am truly impressed with the standard pension plan that the life insurance companies are planning to launch, on the basis of recommendations of the Shinkar committee and as accepted by IRDA.

While, it incorporates several positive ingredients that were envisaged in OASIS report on public pension, I feel, following options could be planned for.

- The policyholder should have the option to switch over from one insurer to another, in case, he/ she is dissatisfied with the returns given by the insurer. Maybe there could be some withdrawal charge. Why should I be locked with one insurer, if I am not happy with their fund management skills?

This option should be viewed differently from premature withdrawal, which has been planned for in the proposed pension plan.

- The policyholder should have some say in investment of the fund also. This is the base of unitised product offered in the UK and the US as mentioned in the standard pension document itself. Yes, for those who are not able to decide, there could be a default option.
- The annual statement should be more explicit. For example, it should show how much out of the premium paid during the year, has been adjusted towards the life insurance option (if exercised). I would presume this should be the yearly renewal term (YRT) premium for the sum insured chosen. Further, the charges levied (I presume these will be back end charges) should be shown as 'Charges @ 2% on'
- There should be facility for loan against the accumulated value or cash withdrawal, subject to a minimum accumulated value, in genuine cases, such as a medical emergency.
- It is not clear, as to what will happen in case one stops contributing to the plan.

D. Pashupati

Ibexi Solutions Pvt.Ltd.
Bangalore

Thank you for your detailed response. The IRDA Standard Pension Plan as outlined in the special bulletin along with the May edition of IRDA Journal has at this stage only been proposed by the Shinkar Committee. IRDA has sought to give it wide coverage to elicit responses from the public before taking a view on it and then getting the concurrence of life insurance companies to offer it as a product.

We will get these and other questions answered over the next few issues. Your question about what will happen if one stops contributing to the plan, stages at which the fund becomes paid up etc are all well outlined in the committee's report. It was only a shortage of space that prevented us from giving all details.

Illness and Insurance

This has reference to the following passage on Page 45 of the April Issue: "Research shows that being uninsured takes a serious toll on men, women and children. Uninsured men are nearly twice as likely to be diagnosed with colon cancer at a later, more dangerous, stage than are men with insurance. Uninsured women with breast cancer are twice as likely to die as insured women with the same disease. Uninsured children are 70 per cent more likely than insured children not to receive medical care for common childhood illnesses as ear infections."

While the statistics might be accurate, and the incidence of disease and death might be greater among the uninsured than among the insured, I am surprised at the conclusion that it is because they are not insured.

As everybody knows, the insured consist of select lives and are expected to experience a better mortality rate. But to say that the uninsured die because they are not insured is little short of ridiculous. The data does not indicate the socio-economic profile of the people experiencing a higher mortality rate. Possibly they are having neither the educational nor economic background to afford healthcare, leave alone insurance. It is also possible that medical examination of the proponent before insurance is compulsory so that they know what is wrong with them and take better care.

However that may be, this kind of research data is not useful. It would be better not to publish such misinformation.

Nirmala Ayyar

Consultant, Back Office Processes and Software
Implementation
AMP Sanmar Life Insurance Company Ltd.

The thrust of the article you are referring to, which is about the US market, is that the uninsured are likely to allow medical problems to fester for a longer time because they cannot afford the medical bills for preventive care or early medical attention and diagnosis as compared to those who do have insurance. Hence it is not the incidence of diseases, but their early detection and cure (and preventing its becoming fatal), that is lower among the uninsured.

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

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Hyderabad 500 004 or e-mail us at irdajournal@irdaonline.org

Have your say!

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There is a lack of understanding even among brokers who are already out in the market as to really what the role of a broker is; and the customers don't know it either. Brokers must not position themselves as discounters, rebaters of premium or glorified agents.

Mr. Peter J. Valentine, CEO,
HSBC Insurance Brokers, India

Munich Re's stumbling blocks are the cross-shareholdings. It's time for a change of generation just like at Allianz.

An analyst at M.M. Warburg Investment

Providing for old age will always be risky. The risk may fall on a government which may renege on its predecessors' promises, or on a company that may welch on its contributions. Or on a money-manager who may deliver rotten returns. Increasingly, individuals will have to decide how to invest their savings. It won't be easy, but then it never really was.

Leader in The Economist on the corporate pension collapse in Europe.

It is a matter of regret that this theoretical situation that unlimited liability is the cause for the abnormal loss ratio is not convincingly proved with facts and figures. Since it takes a long time for the claims to be settled, the time lag is a factor to be taken into account, particularly when it may lead to penal interest as well as cost of litigation. Hence it is not clear if the losses declared are entirely due to the abnormal claims.

Justice T. N. C. Rangarajan in the report of the Committee headed by him on Own Damage detariffing.

Establishing adequate independence arrangements is crucial to reducing the likelihood of political interference in the supervisory process. The debate on regulatory independence is at the same stage the debate on central bank independence was two decades ago.

Mr. N. Rangachary, Chairman, IRDA

As business brought in through the channel of bancassurance increases, we need more regulatory intervention. This is because some of the products are getting into the domain of the Securities and Exchange Board of India (SEBI).

Mr. R. Krishnamurthy, Managing Director, SBI Life Insurance Company Limited

Events

June 2-3, 2003

Venue: World Bank headquarters, Washington DC
Financing the Risks of Natural Disasters: A New Perspective on
Country Risk Management

June 2-3, 2003

Venue: Jakarta Convention Center, Indonesia
Fourth Indonesia Reinsurance Seminar
"Building A Promising Future for the ASEAN Insurance Industry
in the Cyberspace Era"

June 8-10, 2003

Venue: Bangkok, Thailand
11th Annual LOMA/ LIMRA Strategic Issues Conference

June 23-25, 2003

Venue: Bangalore
5th Asia Pacific Conference & Exhibition on IT &
e-Applications in Insurance
IT & e-Applications to Boost Business & Efficiency —
Getting Beyond the Hype & Mantras to Exploit the Right
Technologies Best Suited to your Business

July 8-9, 2003

2nd Conference on Catastrophes Insurance in Asia Seeking Real
Solutions to CAT Exposures in Asia Taiwan

July 13-16, 2003

Venue: New York
39th Annual International Insurance Society Conference

July 24-26, 2003

Venue: Singapore
Singapore Insurance Institute Conference — Towards
Professional Excellence