i-notes
Newsletter from India's Leading Insurance Broking House
July 2012

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India Insure The risk managers

Message from the Editor

Dear Readers,

Greetings from India Insure!

There has been a buzz of activities related to the Insurance industry yet again!

The stern message from the Finance ministry to all the State owned General insurers to pull the harness on the policy of under-pricing particularly in certain lines of business like Property and Health has had the entire market heaving a sigh of relief and looking forward to a more radical methodology of pricing coming up. We presume the Private insurers will take cue and join hands in helping the industry regain its lost footing.

The Government has also set the ball rolling for the listing of two insurers, General Insurance Corporation and the New India Assurance and the insurers have already begun work on their valuation. This would mark the commencement of achieving yet another milestone in the Indian insurance industry and we sincerely hope that it fructifies over the next couple of years.

An industry which has been in the news with the outlay in the 12th 5 year plan being a whopping INR 73793.95 crores is the Port industry. A large number of minor ports are slated to dot the Indian coast line in the near future and we hence thought it appropriate to do a study on the risks in the Sea ports. We also have Mr. Arif Hoda, DGM, United India sharing his perspective on this industry in our interview section. Our sincere thanks to Mr. Hoda for sharing his views with our readers.

We trust you will find this issue interesting and look forward to your feedback.

V Ramakrishna
Editor – *i-notes* & Chairman – India Insure

Major Risks in Sea Ports

Introduction

Sea Ports are vital arteries in the international supply chain. Throughout civilization, seaports have served as a critical economic lifeline for the movement of goods and services to people around the world. India's long coastline of over 7,500 km is home to the country's 13 major ports and around 200 non-major ports. Major ports are under the jurisdiction of the Union Govt. managed by the Port Trust of India while minor ports are under the jurisdiction of the respective State Governments. Since the last decade, the Indian port sector has been witnessing certain structural changes, with state monopoly (viz. the major ports) gradually giving way to greater private sector participation in port investment activity. According to the estimates of the Ministry of Shipping (MoS), cargo volumes in India are expected to breach the 2 billion tonne mark by 2016-17. With 95 % in volume and 70% in value of all foreign imported goods being shipped via sea route into India, ports play an important role for the economy.

Risks in the Seaport

In today's modern economic world, International Port Operators face a myriad of risks and challenges in undertaking business; ranging from changing regulations, safety and environmental compliance standards, the economic demands for improved operational efficiencies, security threats, etc. In addition to both marine and land based risks, they are also exposed to international as well as domestic legal regimes.

There are two basic methods of managing a Port; the first is "involved", where the authorities are responsible for the management of the Port and Operations such as pilotage services, vessel traffic management, stevedoring, cargo loading, ship repairing, engineering, etc. and the second is "Passive", where the authorities are more likely to outsource these operations to external contractors. Port Authorities, even if of a "passive" nature, are still responsible for the general efficiency and safety of the port and its approaches and may therefore be exposed to a multitude of risks and incur liability from any number of sources. In addition to general public or third party liability exposure, most ports have entered into contracts for such things as leased buildings, hired-in plant and equipment and in many cases this aspect of contractual liability also need to be looked at carefully. This article sheds light on the major risks that Seaports are exposed to.

Construction/ Completion Risk

Construction of seaports in majority of cases ends up in cost and time overruns. The principal causes for cost or time overruns are delays in land acquisition and statutory clearances (coastal, forest, pollution and environmental), uncertainties of time duration of construction project, contractual disputes, labour problems etc. Also geological surprises may spring up as soil conditions in the ocean bed are extremely unpredictable. For e.g.- Jetty pile and pile cap construction at Berth 208 at the Richards Bay Port, South Africa were challenging because of the area's particular geology and the work had to be completed from a floating barge. Also the increasing use of prefabricated units in port construction is a growing issue particularly when it comes to towing it to the site by sea. These units are of a fairly high value & if one sank, it could knock back the whole project. Construction of ancillary facilities like road and rail connection linking to port area, dredging in harbor basin and channel approach, construction of warehouses, transit shades, yard area, offices also need to be completed in time for the port to be operational. Delay in operations will lead to a delay in revenue receipts resulting in a crunch on critical cash flow.

Financial Risk

Financial risk concerns changes in basic financial conditions, which can affect the viability of the investment. These risks encompass fiscal issues like rate of inflation, the exchange rate and the convertibility of the local currency as well as the terms of financing such as the interest rates, period, loan covenants and availability of additional funds. Besides, there could be pressures on the capital structure and debt servicing indicators in case the debt component in the overall project funding is high; there are mismatches between loan tenures and the project stabilisation period. Moreover, owing to the high capital costs of development, most greenfield ventures have an inherently high vulnerability to trade downcycles during their initial stabilisation phase. Given the size of the capital expenditure outlay and the gestation till the build-up of adequate cargo volumes, the

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port's profitability, return indicators and free cash flows are likely to remain subdued.

Commercial Risk

Commercial risk refers to the risks associated with the revenue generation of the project. Commercial risk has two components - traffic risk (that the demand will not be sufficient) and tariff rate risk (demand will not support a sufficient level of charges). Port industry is a service sector and the demand for its service is fundamentally derived demand and depends upon regional and international trade.

The demand for services is influenced by the cost of using the port and the quality of services expected by customers from the port. As competition among ports has increased, major shipping lines are taking advantage of their bargaining power in negotiating concessions for dedicated terminals and/or in deciding ports of call. In today's business climate; clients are pressurizing port and terminal operators to increase the value of their services in terms of cargo handling efficiency, port costs, handling congestion, related infrastructure, etc. Shipping companies today look forward to an integrated service that not only provides port services but also efficient hinterland connections as well as co-ordination of these services with port services. This in some instances is leading operators into less familiar territory therefore increasing their exposure.

Regulatory & Political Risks

Regulatory risk refers to the government's role in regulating the activity of the port authority. Three of these risks are:

- A change in the laws affecting port operations and investments;
- A change in the rules and procedures for regulation of pricing and performance of port services;
- Other changes in laws or policies that affect the rights of the private party or the obligations of the government;

On the regulatory front there are some evolving aspects in India like the proposed institution of a Major Port Regulatory Authority (MPRA) to replace TAMP (Tariff Authority for Major Ports) and the empowerment of the new regulator to specify and monitor performance standards and levy penalty on terminal operators. Also the proposals to bring the non-major ports under tariff purview could cause them to lose their pricing flexibility. Further, regulatory risk can also manifest itself in the form of policy changes that may affect traffic flows of particular cargoes, which could have an adverse impact on the business of ports that have a high exposure to such cargoes. A case in point is the recent ban on export and movement of iron ore from Karnataka, which is expected to constrain the cargo and cash flows of port companies with a high exposure to iron ore originating from the Karnataka belt. Further, a Draft Captive Policy 2011 has recently been formulated, which seeks to allow major port users (port-based industries) to set up their own dedicated berths at the major ports on a nomination basis. This could potentially jeopardise the business prospects of the nearby private terminals that have been set up on a BOT basis and is being seen by the incumbent terminals as a breach of the concession agreements already signed, which normally give a grace period for setting up the next competing terminal.

Political risk is another significant risk involved in port project. Broadly speaking, political risk is the range of politically motivated events that adversely affect investments and contracts. These may refer to actions terminating the agreement, imposing taxes or regulations which severely reduce the value to investors, restrictions on the ability to collect tariffs, etc.

Safety & Security Risks

Ports and terminals are inherently risky places and the operators need to ensure that the environment is as safe as possible both for those that work there and those who visit the facilities. The workers in the seaport are vulnerable to the inherent risk of loss to their life and limbs. Accidents that can occur include crane collapse, injuries from faulty machinery, injuries during loading / unloading, electrical accidents, fires and explosions, etc. The low knowledge and skill level of workers, failure to use personal protective equipments and workers' poor attitude towards safety also causes accidents. Loss or damage resulting from human error and negligence can in principle be reduced by adequate training of personnel.

The terrorist attacks on Mumbai in 2008 depict the vulnerability of our coastline to security threats. Before 26/11, security operation in seaports around the world barely considered the need to prevent a terrorist attack but ever since the effort has been to combat it. Also, recent media reports indicate that sea freight containers could be abused to contraband weapons of mass destruction across borders and seaport facilities may be attacked to disrupt their operations and thus cause economic damage. Trouble can arrive from land, sea or air. In order to achieve a sufficient level of security, seaport operators have to address these security risks. Every port facility must implement a security plan that controls access, verifies credentials of port workers, inspects cargo for tampering, designates security responsibilities and reports all security breaches or suspicious activities.

Environmental Risks

Concern about the environment and safety of marine surroundings has increased dramatically over the last decade. Environmental issues constantly intrude into the port and its surroundings, notably where the port finds itself in areas where the eco system is fragile. International and regional laws and regulations regarding environment and safety are being implemented very strictly in the maritime industry.

Environmental issues in port construction and operation primarily include the following:

- Dredging & Dredged materials management
- Bunkering Activities
- Air emissions
- General waste reception
- Waste water & Ballast water management
- Solid waste management
- Hazardous materials and oil management
- Cargo spillage
- Noise, dust, effluents

During cargo handling operations in ports; discharges and emissions can and do occur. Handling of dry bulk cargo including grain, coal, iron ore, china clay may cause the production of dust. Handling of liquid bulks may require discharge through pipelines, which provides the potential for leaks, emissions and spillages. Sources of atmospheric pollution can stem from cargo vapour emissions.

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Interview – *Insurer*

Mr.Arif Hoda, DGM, United India Insurance Company Ltd.,

With the participation of the private sector in the port industry since last decade, there has been a lot of buzz about this industry. The industry has diversified into newer areas of servicing and with it has come in more risks. In this issue, we speak to Mr. Arif Hoda, DGM, of United India Insurance Company Ltd; on the risks that the port industry is exposed to and how best it can be handled through insurance.

What in your opinion are the 3 major risks being faced by the Sea Ports industry today?

a) The greatest risk that the port operators face is Earthquake / Tsunami as it can stall the complete operations caused by heavy damage to ports assets such as wharfs, quays, terminals, buildings, bridges, roads, etc. It can also lead to damage to the goods lying in the port premises for which the ports are liable.

b) The second risk which can affect the port operators is Port Blockage. This may be caused due to collision of ships. Blockage of port will lead to total stoppage of incoming as well as outgoing traffic which means total loss of revenue. Moreover, the port authorities may have to incur heavy expenditure in removal of the obstruction.

c) The third risk to which the port operators are exposed is Fire. A large number of ports handle dangerous and inflammable cargoes. In fact, at some port there are massive storage tanks to store flammable liquids and gases. These cargos have a high exposure and can cause heavy damage to port property as well. Moreover, various types of materials are handled by the port both in bulk and in containers. These if not stored/handled properly can catch fire. Coal specially when handled in bulk is potential fire hazard as they are prone to spontaneous combustion.

There have been different schools of thought with regard to whether an IAR or Port Package policy is more appropriate for a Sea port to be opting for. Can we have your views on this?

The ports operate on the edge of water where the land meets the sea hence they are exposed to a different pattern of risks. The port Package policy is specifically designed for Port operators and provides comprehensive cover. The risk ranges from damage to property such as wharves, jetty and other installation to damage to the vessels operating in the port area. There could also be potential damage caused by port blockage and environmental pollution caused by spills and leakages from the vessels. The wordings of the port package policy have been specifically designed to take care of the entire gamut of their operations and various exposures.

The IAR policy is basically designed for a manufacturing unit and are ill suited for the Port Operators. However it is fashionable to take the IAR policy just due to its price advantage

How has the claims experience been in this industry (seaports) in particular over the past 3 years?

There have been no major losses during the last 3 years except one which was caused by channel blockage caused by collision of two ships. There has been another major loss to a port under construction near Cuddalore due to Cyclone Thane in December 2011. By and large the experience has not been bad.

What has been the major loss prone area in the Port industry in a) the Project stage and b) the Operational stage?

At the project stage the major loss prone area are various facilities which are at different stages of construction. A cyclone can cause devastating losses. Dredging risks are also there at the construction stage. At the operational stage the major loss prone areas are the various facilities such as conveyors, cranes and other handling equipment.

With an increased thrust on development of ports and the government encouraging the private sector to come forth in developing port activities and operations, what are the plans that UI has in targeting this segment?

United India sees port insurance as the major growth area. We have been holding regular meeting with various ports which are at different stages of development. We often hold customers seminar and make presentations to educate the clients on different types of exposures and suggest the proper coverage. We often utilize the expertise of the brokers to educate the clients.

Having witnessed the free pricing market for almost 5 years now, do you think the industry has reached the bottom? Do you foresee a more mature understanding developing amongst Corporates and Insurers in the near future as far as pricing the risk appropriately is concerned? Can we have your views on this?

Free pricing has led to plummeting of rates to abysmal level. This is a natural phenomenon and all markets undergo such rate crashes when free pricing is introduced. I feel that the rock bottom has been reached because of two reasons:

1) One there is no scope for further reduction as the prevailing rates are below the burning cost and there is hardly any margin.

2) Secondly there are some silver linings as all domestic insurers are coming together and discussing at General Insurance Council for methods to shore up the rates and reduce the outgo. There has been a general agreement amongst all the domestic insurers to increase the deductibles and it is being followed scrupulously. This is a good sign and bode well for the future of the industry. After the success of deductibles implementation, the domestic Insures have gone ahead with fixing of minimum premium for the AOG perils. This has also being implemented diligently by all the insurance companies.

Earlier during the tariff regime the corporate were looking more towards savings in insurance costs but now with brokers and other experts lending their expertise, the corporates are hiring their own risk experts. As a result there is a discernable change in their attitude. Now they are more focused on adequate protection of their balance sheets. The corporates are no longer looking at insurance as a cash flow solution but as a balance sheet protector. In this context they are accepting much larger deductibles both for Material damage and Business Interruption than earlier. Additionally the corporate do not go in for bargain hunting every year and normally attempt to continue with the same insurer for extended period. The corporate also realise the importance of risk management and are open to suggestions from the insurance companies and the broker's risk engineers.

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Technological Risks

The shipping and cargo handling technologies are changing rapidly. Major technological changes viz. containerization of cargo and development of larger and deeper specialized vessels have caused a revolution in the seaport sector across the world. Containers have allowed large cost reductions in cargo handling, but they have also imposed new needs on ports in terms of equipment (gantry cranes, specialized terminals, improved pavements, etc.). On the other hand, economies of scale obtained by the transport of large quantities of containers and bulk cargoes have led to the building of increasingly larger specialized ships that require substantial port investments in new infrastructures and equipment. If the existing seaports don't keep in pace with these technological changes, they could be left far behind in the rat race.

Competition

In recent decades, competition has become a prominent issue in the seaport industry in large part due to fundamental changes that have redefined the competitive environment. With containerization, ports in the same region become closer substitutes and hence are more exposed to competition from other ports with superior infrastructure. This tendency is reinforced by two other factors. First, the use of ever larger container vessels implies that fewer port calls are required for the same freight volume. This move to larger ships reduces shipping lines' dependence on particular ports and intensifies competition among ports for the remaining calls. Second, the emergence of intermodal rail and barge corridors has extended ports' geographical reach. The extension of hinterlands leads to more overlap among ports' hinterlands and hence to stronger competition.

The recently formulated Policy for Prevention of Monopoly at Major Ports, 2010, seeks to restrain operators with existing facilities at a port from bidding for similar terminal development projects within the same port and/or within a radius of 100 km of it. The intention is to allow development of healthy market competition and prevent capacity concentration, which may impact pricing and performance standards.

Natural Catastrophes

Seaports are highly susceptible to the vagaries of weather and natural disasters. Examples include cyclones, floods, earthquakes, prolonged high temperatures and extended periods of rainfall. The most prominent natural disaster, both from the standpoint of frequency and damageability, is the water hazard. For e.g.- the earthquake & tsunami that hit Japan in 2011 caused major damage to the Japanese ports disrupting global supply chains and causing billions of dollars in losses. Many of these seaports took months to resume operations.

Also risk exposure arising from accumulation of cargo at seaports is an issue right at the heart of the port industry. Understanding and quantifying potential accumulations within a portfolio of risks can be vital. In particular for cargo, an assessment could be made regarding the daily accumulation at seaports and having proper safeguards in place to avoid a disaster. On June 27, 2008, a hail shower of unprecedented ferocity seriously damaged 30000 new cars parked at the docks in the German port of Emden. Awaiting export overseas, the vehicles were battered by hailstones as big as golf balls.

Liability Risks

Port authorities can face legal liability to customers & third parties in respect of death, bodily injury and property damage arising within the port and occasioned through the port's activities. Each port differs not only in the geography of the area in which it is situated but also in the type of goods which it handles and the services it provides.

The services provided by a Port can include:

- Marine traffic management;
- Pilotage, tug and line services;
- Channel surveys, dredging and marking;
- Wreck salvage or removal;
- Refueling facilities;
- Power and water services;
- Stevedoring/cargo handling;
- Terminal operations - Container/Bulk storage, Bonded warehousing, cold stores, etc;
- Property owner of wharves, buildings, walkways, offices, warehouses and other cargo handling or storage facilities;
- Fire fighting and emergency services

The greater the number of services offered by a port, the greater the operator's exposure to risk. In August 2010, two cargo ships MSC Chitra and MV Khalijia collided off the Mumbai coast resulting in spilling of containers and oil along the full coastline. The oil spill caused both Mumbai Port and Jawaharlal Nehru Port Trust (JNPT) to shut down till the oil slick was cleared and the channel made navigable.

In July 2010, at least 103 people fell sick when they inhaled chlorine gas which leaked from one of the imported cylinders lying in Bombay Port Trust's (BPT) Hay Bandar premises.

Historically, ports provided traditional stevedoring and intermodal cargo-handling services to their customers whereby they loaded and unloaded ship cargo, transferred the cargo to any onward mode of transport and perhaps, stored the cargo waiting for collection for onward transport. Liabilities arising from such services were generally limited to claims in respect of damage or delay.

In the new world of "one stop shop", port authorities have ventured into providing a whole range of logistics solutions to their customers which has resulted in a risk exposure port operators are traditionally not familiar with. Operators today may be liable for a multitude of claims, including: loss of or damage to cargo, delay in delivery of cargo or delivery to an inappropriate destination or improper person, injuries to third parties or loss of or damage to the property of third parties, liabilities arising out of pollution and costs for cleanup operations as a result of accidents, not maintaining the required water depth resulting in grounding of a vessel, pilot error causing damage to vessels, business interruption due to port blockage, among others.

Insurance Solutions

Port Operations comprise a diverse mix of marine and land based activities and a multiplicity of interconnected risks which challenge the insurer to establish an appropriate cover. Below is the risk matrix that identifies the risks exposed to and the availability of an insurance cover.

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Report Card - May 2012

Gross premium underwritten by non life industry for and up to the month of May 2012* (Rs. In crores)

INSURER	MAY 2012-13	MAY 2011-12	GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR (%)	APRIL - MAY 2012-13	APRIL - MAY 2011-12	GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR (%)
United India	773	625	24	1685	1344	25
New India	707	577	23	1889	1579	20
National	685	584	17	1490	1246	20
Oriental	537	456	18	1188	1037	15
ICICI-Lombard	358	329	9	1035	916	13
Bajaj Allianz	309	265	17	621	546	14
IFFCO-Tokio	190	140	36	427	365	17
Tata-AIG	161	129	25	419	334	25
Reliance	155	157	-1	388	367	6
HDFC ERGO	147	113	30	427	343	24
Cholamandalam	133	102	30	254	213	19
Royal Sundaram	121	109	11	234	244	-4
Shriram	117	80	46	215	148	46
Bharti AXA	88	58	52	212	145	47
FG	87	66	32	195	160	22
ECGC	84	79	6	154	145	7
AIC	50	39	28	117	77	52
Star Health	44	31	42	132	256	-49
Sompo	40	24	67	82	56	47
SBI General	34	9	278	90	26	238
Apollo	32	20	60	68	51	34
Max BUPA	14	5	180	24	9	159
L&T	12	7	71	36	19	89
Raheja	3	1	200	5	2	100
PRIVATE TOTAL	2044	1645	24	4864	4200	16
PUBLIC TOTAL	2836	2361	20	6524	5428	20
GRAND TOTAL	4881	4006	22	11387	9628	18

* Source : IRDA

Observations: Performance for April-May 2012 period

- The industry (including stand alone Health insurers, ECGC and AIC) have collected a premium of Rs. 11387 crores recording a growth rate of 18% in April-May 2012 compared to Rs. 9628 crores during the same period last year.
- The accretion achieved by the PSU's during this period is Rs. 1096 crores while the private players have achieved Rs. 663.41 crores towards the overall market accretion of Rs. 1759.41 crores.
- The PSU's have registered a growth rate of 20% during this period compared to last year's 17%, while the private players have registered a growth of 16% during this period compared to last year's 29%.
- The major contributors for the performance in the period April-May 2012 have been United India with an accretion of Rs. 341.02 crores, New India with an accretion of Rs. 309.48 crores, National Insurance with an accretion of Rs. 244.84 crores and Oriental Insurance with an accretion of Rs. 151.02 crores.
- At the end of this period, the PSU's have increased their market share collectively to 57.29% from 56.37% while the private players have decreased their market share collectively from 43.63% to 42.71%.

Major Risks in Sea Ports .... Contd. # 4

Risks associated with	Insurance Availability
Construction of port	Yes
Plant & Machinery	Yes
Damage to customer / third party property	Yes
Operational services including pilotage, towage, marine traffic control, stevedoring etc.	Yes
Inflation, Interest rate, Exchange rate	No
Traffic/ Demand for port service	No
Tariff/ Price controls	No
Competition	No
Changing regulations	No
Political interferences	No
Employee/ Customer/ Third party safety & security	Yes
Legal Liability to customers/ employees/ third party	Yes
Environmental Pollution & Contamination	Yes
Business Interruption due to an insured peril	Yes
Change in Technology	No
Act of God perils	Yes
Errors & Omissions	Yes
Terrorism	Yes

Port operators have varied requirements depending on their size and scope of activities. An encompassing programme (Port package insurance policy) addressing all areas of liability and physical damage to property and equipment is usually the most efficient manner of arranging insurance cover.

Conclusion

Port operators occupy a unique position in the global logistics chain and this sector today provides one of the best avenues to participate in the development of India's infrastructure. Further, considering the criticality of the port sector to overall economic growth and to bring about an orderly development of the sector, several regulatory and policy initiatives have been taken, the most notable being the National Maritime Agenda 2010-20 and the Draft Port Regulatory Authority Bill, 2011. On January 13, 2011, the Ministry of Shipping outlined its 10-year plan for the development of the Indian maritime sector under the Maritime Agenda 2010-20 which envisages a cumulative investment of around Rs. 2,77,400 crore in the port sector over the next 10 years in three phases. The non-major ports are expected to account for 61% of the proposed investment and the major ports for the rest. While the policy measures augur well for the development of the Indian port sector, at the ground level the gap between planning and implementation remains significant because of various risks; the resolution of these remains critical for the full realization of the sector's potential. To overcome these, the industry as a whole will need to craft risk management solutions that will allow them to capture value in such an environment.

Readers Speak

"Should Professional indemnity insurance be made mandatory for a larger section of professions?"

In the last issue of inotes, we had invited our Readers opinion on the above topic.

Response from **Mr. Amresh Dhari Singh, Senior Vice President, Luthra & Luthra Law Offices.**

"Professional Indemnity Insurance Cover should be made mandatory for all Professionals irrespective of whether they are offering services to foreign clients or not. With increasing consumer activism and for their own protection, all professionals should have adequate professional indemnity cover. Governing bodies like IMA, CA Institutes, Bar Councils should make this mandatory for all practising professionals."

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Next Issue - Should there be a provision for sharing of claims data and experience by the insurers? How would it help the insurance industry?

The banking industry in India shares the credit history of the customers. CIBIL maintains a record of all the customers and a rating is given based on the credit record. Before sanctioning the loan, banks obtain information from CIBIL regarding the history of the customer. Before issuing the credit cards also banks obtain information from CIBIL and then proceed with the formalities. This has helped the banking industry to a large extent.

On similar lines, taking into the consideration the bad claims experience of the insurers, would it help the insurance industry if they share their claims experience with each other? What do you think? Would it make the industry healthy and stronger or would it not?

Your opinion is solicited.

Please send your responses in 200 - 300 words to knowledge@indiainsure.com

News TitBits

General insurers told to raise premiums
Source: Business Standard

The finance ministry has asked the general insurance companies to do away with the policy of under-pricing the risks for the sake of getting larger business volume. It wants them to hike premium to the pre-detariff era to boost profitability and improve the combined ratios that are hovering around 120 per cent.

Govt sets the ball rolling for listing of 2 general insurance companies
Source: Business Standard

The government has set the ball rolling for the listing of two general insurance companies by asking the General Insurance Corporation (GIC Re) and New India Assurance (NIA) to start the process by appointing merchant bankers. According to sources close to the development, GIC Re and NIA have already appointed a merchant banker to work on the valuations.

Insurance sector losing sheen; Operational challenges, delay in FDI forcing some players to exit
Source: Economic Times

All's not well with the insurance sector. Slowing growth, delay in FDI decision and lower profitability has dimmed the lustre of the insurance sector, which was once seen as a panacea for the financial ills of the nation. Promoters, who looked to flip their holdings when FDI norms eased, are losing patience.

Central govt. directs states to enforce third party motor insurance
Source: Asia Insurance Review

The central government has asked all states to launch a special drive to check and enforce third party insurance of all vehicles. In a recent circular to all transport secretaries and commissioners at the state level, the Transport Ministry says that the lack of insurance cover for a vehicle is not only illegal, but also has serious implications if the vehicle gets involved in an accident.

India: New insurers to come up with twice the capital requirement
Source: Asia Insurance Review

New insurance companies in India will have to cough up nearly twice the statutory capital requirement stipulated. The IRDA has indicated to prospective entrants that the mandatory INR1 billion (US$18.1 million) start-up capital for life and general insurance is too low and insurers will have to start with at least INR2 to 2.5 billion.

India ranks 15th in world insurance market in 2011-12
Source: indiainfoline.com

Due to a sharp decline in life insurance business in 2011-12, India's ranking in the world insurance market has fallen four places to number 15 in 2011 from number 11 in 2010. Since there is a drop in life insurance premium, India's share of the world insurance market has declined to 1.58% in 2011 from 1.8% in 2010.

Claims Case Study: *Negligence in Handling*

Background: Samarth Port is a port based on the southern coast of India. The port authorities had purchased a comprehensive port package insurance policy from Whale Insurance Company for the period 1st Jan 2010 to 31st December 2010. The policy provided damages for approved costs and expenses, blockage, carrying or lifting equipment amongst other coverages. During the period of the policy a liability arose on Samarth Port from the shipping agency Vasuki & Co on account of the damage to the containers of Nagraj Public Ltd by Local Transporter M/s. Sahil India Pvt. Ltd. who were authorized by the Port authorities to handle the transportation within the Port premises.

Facts of the case: On 10th June 2010 at 10 a.m. two containers containing Dimethylaniline were toppled while being transported for loading on the vessel by the transporter M/s. Sahil India Pvt. Ltd. subcontracted to take care of the internal transportation in Port premises.

As soon as the port authorities on duty observed this, they intimated M/s. Sahil India Pvt. Ltd. vide a letter dated 10th June 2010 mentioning the details of the accident and also intimating them that if any claim arises on a later date, it would be the responsibility of M/s. Sahil India Pvt. Ltd. to compensate them for the same. Further, on 15th June 2010, Samarth Port issued a letter to M/s. Sahil India Pvt. Ltd. that the mishap happened due to the carelessness of the driver of the vehicle and so they held them responsible for the container and the loss of cargo as well.

On the other hand Vasuki & Co. issued a letter to Samarth Port informing them about the incident. They held Samarth Port entirely responsible for the damage to the container, stating that it was the responsibility of Samarth Port to load the containers properly onto the vessel. They further mentioned that they intend to conduct a joint survey on 10th June 2010 at 2 p.m. to arrive at the quantum of loss.

In the joint survey, the surveyors remarked that there was a leakage of contents as well as damage to the container.

Meanwhile, the authorities of Samarth Port sent a letter to Vasuki and Co. claiming the expenses incurred by the fire and safety services of the port that were used for clearing off the leakage from the container.

Vasuki and Co. refused to pay any such charges towards the fire and safety services. They claimed that it was the duty of Samarth Port to see that the containers were loaded safely onto the vessel. They hence rejected the claim on them. They further informed that they would be shifting the damaged container to the factory for repairs and held the port authorities responsible for the damage.

Meanwhile on 14th June 2010, M/s Sahil India Pvt. Ltd. in their acknowledgement to Samarth Port responded that their vehicle was taking turn very slowly from the container yard towards the vessel and that the containers toppled because the contents of the container came to one side. So, they refused to be held responsible.

Samarth Port had however informed their insurance brokers about this incident on 11th June 2010 itself.

The container was repaired and Vasuki and Co. forwarded the repair invoice to the Port authorities claiming reimbursement of the same.

Samarth port informed the same to their brokers and insurers and lodged a claim for repair of Container, leakage of contents as well as the cost of clearing up of the contents leaked out.

Conclusion: In this case the container got damaged when it was being carried from the container terminal to the jetty. The carelessness of the driver of the local transporter M/s. Sahil India Pvt. Ltd. led to a series of events leading to a claim.

However, as per the insurance policy "any liability on the assured in connection with any tenant of the assured for operations performed by any sub-contractor appointed by them, would be covered subject to condition that such a tenant / sub-contractor maintains adequate liability insurance."

Another important point to be noted is that the exclusion clause provided that any actual or alleged liability howsoever arising due to failure to warn or properly instruct as to the use of good or improper supervision of use of the goods would be excluded.

The Insurer repudiated the claim on the grounds of negligence. They observed that Samarth Port had failed to warn or properly instruct and supervise the loading of goods.

Lesson learnt is that in areas where there are multiple parties involved, due diligence is required on the part of all parties concerned while the contracts are being drafted and finally signed. Had the contract wordings between the Port authorities and the transporter been worded appropriately there was all possibility of the claim being recovered by the Port authorities from the transporter.

News TitBits

Ten years on, private life insurers need lifejackets
Source: mydigitalfc.com

India's private sector life insurance players remain in the red, even 10 years after breaking ground in the domestic insurance business, with sustained profitability eluding most companies. While life insurance companies do not disclose their embedded value, the actual measure of their profitability, several insurance officials said it was not even twice the capital infused for many players.

GIC Re links ceding fees to performance
Source: Business Standard

Huge losses during 2011-12 have prompted GIC Re to start a performance based commissions to non-life insurers.For the first time in its history, the 2000-founded GIC has developed a floating commission system based on the underwriting practices, claim history and pricing history of the insurance companies. The commissions offered vary between 5% and 35 %, linked with the performance.

Insurers to know about accidents before you call up
Source: mydigitalfc

It is just a matter of time that your insurance company would come to know about car thefts and accidents much before you lodge claims.Insurance companies, under the aegis of the General Insurance Council (an association of non-life insurers), are in talks with the police force to get first-hand information about stolen vehicles and accidents, the moment a first information report (FIR) is registered.

India: Life insurers prepare for new product rules
Source: Asia Insurance Review

Life insurers in India have started re-filing traditional products with the industry regulator in order to ensure that there is no shortage of such offerings in the market after 1 October, when all products have to comply with new rules which are currently being finalised. The insurers are re-filing traditional term and endowment products adhering to draft guidelines issued by the IRDA in May. Under the draft rules, insurers will have to offer life products with a minimum death cover of 10 times the annual premium paid. While this will increase the premium, the policyholder will also get a guaranteed surrender value, provided the premium is paid for two years.

Life insurance business remains almost stagnant
Source: Reuters

The life insurance industry in India is still struggling on the growth front while the general insurance industry seems to be doing well. The life insurance industry grew by a marginal 1.4 pct while the general insurance industry grew by 18.3 pct. Interestingly, while LIC was more or less flat with a growth of -0.6 pct, private players as a whole grew by 7.8 pct. There are 23 private players and LIC still retained a share of almost 75 pct of the market. In absolute numbers, the biggest growth was shown by HDFC Life followed by Metlife and Aviva.

View point

The Insurance Division of Ministry of Finance did create a flutter in the last week of May by issuing two letters in quick succession to the CMDs of the 4 State owned General insurance companies regarding the strategy to be adopted by the companies for Health insurance as well as Fire insurance. A stern message which can stem the beginning of a more rational market provided there is seriousness in its implementation!

Will this put to halt the reckless underwriting practices prevalent in the market post detariffication? Well, that may be asking for too much! But, then, this certainly marks a beginning. A long pending initiative to save insurers from hara-kiri!

Group health insurance has always been a constant source of consternation as compared to the retail health insurance segment. Large premiums induce insurers to go berserk in dropping premium rates. The letter also had a message to agents and brokers who have been playing an equally critical role in bringing the market to this situation. Distorting claims figures to reflect favourable claims ratio has been a vice practised by the various distribution channels in their bid to get an L1 quote and wrap the business through their code. As the policy unfolds, the insurer realizes what's in store and then threats of cancellation or payment of additional premium follow!

The focus of this directive is to watch out on the combined ratio rather than incurred claims ratio as there are more expenses other than claims to be looked into while working out the viability of the segment. Expenses like management expenses, procurement cost, medical inflation etc only add to policy being unviable for the insurer. Switching between PSUs is also to be monitored closely. But, then will this create a new problem by Private insurers following the same path and quoting low? Sharing of data between PSUs is also a welcome move and may result in quotes being more realistic. And finally a point we have been advocating since long….sharing of details of fraud claims. This is the only way frauds can be arrested and we look forward to seeing this on public domain so that the data can even be accessed by Private insurers and insurance distributors.

Five years of detariffing of the fire market and still no signs of reaching the bottom of the pit. Starting with a discount of 20%, moving upto 51% and then 70-75% and now the present market trend of even higher than 95% discount! The ministry had no other choice than take the insurers by their neck and drive the point home. PSUs are not up for sale! Had the market not hardened for the AOG perils, we would probably see the overall fire premiums falling to about 5% of the tariffed regime.

What next? We hear that similar directives are coming in the Engineering insurances as well. Will we see Private insurers too joining hands in building up the premium rates or would they make hay while the sun shines? How will the monitoring take place? Have insurers started working on the ways and means to cut losses or are they awaiting the verdict of the committee set up by stalwarts of the industry to decide on the next course of action? An interesting year ahead as we wait and watch the implementation of these directives.

– **P Srinivas Rao,** *National Head, Client Servicing*

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Contact us

India Insure Risk Management & Insurance Broking Services P Ltd.

Ahmedabad 105, Sears Towers,Opp. IIPM, Off C.G. Road, Gulbai Tekra, Ahmedabad- 380006. Gujarat, INDIA. Tel: +91 79 32422007, Fax:+91 79 26406044 (M) +91 98250 66044, +91 97255 04381
Mr. Pawan Kumar Mediratta email : pawan.mediratta@indiainsure.com

Bangalore H M Geneva House, Property No.14, 401, 4th Floor, Cunningham Road, Bangalore - 560001, Ph: 080-41128056-57. Fax: 080-41128597
Contact: Mr. Vippin Chandra, e-mail : vippin.chandra@indiainsure.com

Chennai Building No.824,Bhandari Towers, 1st Floor, Opposite to Kilpauk Medical College, E V R Periyar Road, Kilpauk, Chennai – 600 010
Ph: 044-42661540 Fax: 044-42023799,
Contact: Mr. V.G. Dhanasekaran, e-mail : dhanasekaran.vg@indiainsure.com

Kolkatta Ist Floor, 197, Sarat Bose Road, Kolkata -700029
Ph: 033- 6460 2097/ 98
Contact: Mr. V G Dhanasekaran e-mail : dhanasekaran.vg@indiainsure.com

Hyderabad # 405, Archana Arcade, St John's Road, Secunderabad - 500025
Ph: 040-27822989/90/91, Fax: 040-27822993
Contact: Mr. B N Prasad, email: bn.prasad@indiainsure.com

Mumbai **Branch & Corporate Office :** # 103, 1st Floor, Baba House, Opp. Cinemax Cinema, Chakala, Andheri - Kurla Road, Andheri (East), Mumbai – 400 093. Ph : 022-66791416, Fax: 022-66791421
Contact: Mr. Amin M, email: amin.m@indiainsure.com

New Delhi # B-3/6, 2nd Floor, Asaf Ali Road,New Delhi - 110002
Phone No: 011 43538760/61
Contact: Mr. Manikant, email: mani.kant@indiainsure.com

Pune Office No.592/2, Deccan Gymkhana, Off J M Road, 2nd Floor, Next to Hotel Central Park, Pune - 411004.
Ph: 020-66030713, 020-66016676. Fax: 020-66030713
Contact: Mr. Srinivasa Rao, email : srinivas.rao@indiainsure.com