i-notes
Newsletter from India's Leading Insurance Broking House
January 08

Summary

- Trends and Developments in the Global Insurance Industry - 2007
- Design Defect Insurance
- Claims Case
- Customers' View on Detariffing
- News Focus

india insure
The risk managers

Message from the Editor

Dear Readers,

__i-notes__ is now 22 issues old. Perhaps a good time to announce an important change.

i-notes will henceforth come out in an 8-page format (instead of the earlier 4-page).

Every year for the past 3 ½ years, we have religiously been bringing out an issue every 2 months – writing on topics ranging from 'plain English in insurance' to 'health insurance' to 'alternative risk management'. Over the years, i-notes has built up a strong readership base - many of whom take the trouble of regularly giving us valuable feedback and suggestions.

With this issue, we have responded to yet another of these suggestions - to increase the size of the newsletter and to deal with various other topics. Starting with this issue, i-notes will also bring you all or some of the following: __Claims Case Studies; Comments from buyers of Commercial Insurance; Insurance Report Card; and Insurance News__.

We sincerely hope the new format and the additional information proves useful and interesting to our readers. As always, we will be eager to hear from you and make changes as we go along.

V Ramakrishna

Editor – *i-notes* & Managing Director – India Insure Risk Management & Insurance Broking Services P Ltd

Trends and Developments in the Global Insurance Industry - 2007

Introduction

The global insurance industry's run of good fortune continues on the back of rising equity markets, benign claims environment, disciplined underwriting and good risk selection. The majority of 2007 witnessed falling rates and the beginning of more competition in the insurance market place. **The overall insurance market is softening significantly** and market conditions continue to remain challenging, yet insurers defied expectations with strong results. Barring a severe high-loss catastrophe, the trend towards increased competition - often resulting in lower prices and improved terms and conditions - is expected to continue.

Coming off an exceptionally profitable year in 2006, many re-insurance markets are flush with capital and are eager to put it to work, thus increasing the risk taking capacity of re-insurers and insurers. These elements along with increasing competition are pushing prices down, leading to a soft market, the effects of which are being felt even in India. The market has become so competitive that, in both the primary and excess markets, underwriters are trying to lock in deals for some risks, three to four months prior to renewal.

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Emerging countries like India and China are experiencing phenomenal growth in insurance due to large untapped potential, strong economic growth and further proliferation of new channels and products, adding substantially to the overall global growth trend. Healthy growth happened in life insurance, with strong development of savings, unit linked and pensions products. Asia's overall premium growth has remained strong in 2007, in view of positive economic outlook and further improvements in household income. In this article, we highlight some of the important happenings in the global insurance industry in 2007.

Highlights of the World Insurance Market

- **Soft Market everywhere:** 2007 ended much the same way it began: Soft. A soft market is essentially a **buyer's market**. However, a split market has developed for risks that are catastrophe exposed versus those that are not. For non-catastrophe exposed risks, global capacity is readily available and carriers are willing to compete. While all commercial lines reported significant price declines, it has been most prevalent in commercial property and general liability insurance lines.
- **Catastrophe losses** globally have been moderate in 2007. But, compared to 2006, the insurance industry had to cope with far higher natural catastrophe losses in 2007. Despite the general absence of extreme events, overall economic losses had reached US$ 75bn (INR 3000bn) by the end of December – an increase of 50% on 2006 which was US$ 50bn (INR 2000bn). However, the loss figures were well short of 2005's record US$ 220bn (INR 8800bn). Insurers now seem to be more willing to cover CAT-exposed properties at increasingly competitive prices.

  In terms of overall economic losses, the earthquake that struck the Niigata region in Japan on 16th July produced the year's biggest catastrophe story (economic losses of around US$12.5 bn). The earthquake partly damaged the world's largest nuclear power plant, close to the city of Kashiwazaki, small quantities of radioactive material escaping into the environment. Storms, floods and landslides in various parts of Asia caused more than 11,000 deaths, around 3,300 attributable to Cyclone Sidr alone, which struck Bangladesh in November.
- **Property Market:** The property insurance market remains competitive - particularly for those insureds with good to excellent loss history. Loss experience has become a key driver in determining underwriters' willingness to reduce premiums.

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The 10 largest natural catastrophes in 2007

Ranking by overall losses

Date	Country / Region	Event	Fatalities	Overall Losses (US $mn)	Insured Losses (US $mn)
16-Jul-07	Japan	Earthquake	11	12500	300
18-Jan-07	Europe	Winter Storm Kyrill	49	10000	5800
Jun-Aug 07	China	Floods	650	6800	
Jun-07	UK	Floods	4	4000	3000
Jul-07	UK	Floods	1	4000	3000
04-Jun-07	Oman	Cyclone Gonu	70	3900	650
28-Oct-07	Mexico	Floods	22	3000	700
Oct-07	USA	Wildfires	8	2500	1900
15-Nov-07	Bangladesh, India	Cyclone Sidr	3300	2300	
13-Apr-07	USA	Winter storm	23	2000	1566

Source: Munich Re

Competition in the insurance marketplace will allow clients to continue to improve coverage terms and achieve higher sub-limits.

- **Liability Market:** In the liability market, premiums are down, capacity is up, and terms and conditions continue to improve. The market for directors and officers (D&O) liability insurance remains generally favorable for most insureds, with rate reductions common for 2007 renewals. The number of securities class action suits filed has recorded a significant decline in 2007 and that has put added pressure on rates. Insurers, attracted by the profitability in this line, are allocating more capital to D&O with a belief that there will be a continuing low claims environment. However, it is predicted that a spike in securities class action filings in the second half of 2007 tied to the subprime mortgage problem in US could lead to reduced rate cuts.

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- **Aviation Market:** Increased market capacity in the United States has resulted in a dramatic softening of the general aviation insurance market. Almost all lines of general aviation are experiencing rate reductions, a startling 40% over the past two years. Airlines benefited from rate and premium reductions, with underwriters using the growth in exposure to offset the level of rate reductions being given.

> 2007 will be the first unprofitable year for the aviation underwriting community since 2000.

The total hull and liability premium in the market will be approximately $1.46 billion for 2007, but the level of losses indicates claims will be at least $1.53 billion. This suggests that 2007 will be the first unprofitable year for the aviation underwriting community since 2000. In the end, while losses have been high in 2007, there has not been a catastrophic loss for some time, and a large amount of underwriting capacity is still available at the moment. Primarily, the aviation insurance market has been very profitable for the last five years and as a result, global underwriting operations will be unwilling to pull out as a result of a single challenging year but if the trend extends into a second year, it may become a significantly hard market in 2009.

- **Terrorism:** In the aftermath of the terrorist attacks on 11 September 2001, reinsurance rates surged, premiums and brokerage fees went up and insurance terms and conditions got tougher and there has been an immediate, intense hardening of insurance markets. Overnight, terrorism risk cover became a scarce commodity that insurers declined to offer. To fill this gap, the US Government passed the Terrorism Risk Insurance Act of 2002 (TRIA) for U.S. based risks where the responsibility for insured commercial property and liability losses resulting from an act of Terrorism was shared between the Government and the insurers.

The passage of this Act brought stability in the market both in terms of pricing and availability. With TRIA due to expire at the end of 2007, it became a great source of uncertainty for the insurance market. Finally on Dec. 26, the much awaited legislation on terrorism cover in US was renewed extending the current program for another seven years and eliminating the previously blurred distinction between foreign and domestic acts of terrorism. According to the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) of 2007, the government will cover 90 percent of the insurer's losses that fall above the insurer's annual program deductible. Not only US, all other countries have benefited from this Act as it has created a comfort level where re-insurers are willing to offer the coverage and provide bigger limits.

- **Climate Change**: often referred to as "global warming"—is one of the most significant emerging risks facing the world today, presenting tremendous challenges to the environment, to the world economy, and to individual businesses. Global warming and the increasing losses due to weather catastrophes will have a huge impact on the world economy. In February, the Intergovernmental Panel on Climate Change (IPCC) confirmed that the temperature in the atmosphere and the oceans has grown warmer and can be expected to continue to do so.

The insurance industry is assuming an important role in documenting climate change and in attempting to halt its advance. 2007 saw a growing number of eco-insurers offering green products, driven by consumer concerns about climate change. Insurers are crafting innovative products like energy savings insurance, renewable energy project insurance, weather derivatives, green buildings insurance etc. They are also giving premium discounts to policy holders that drive low-emitting cars and for driving low mileage.

- **Spotlight on India and China:** With their booming economies, huge manufacturing base, enormous supply of natural resources, and expanding consumer spending, it's no surprise that China and India are high on the agenda for businesses around the world. While awareness of most

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Trends and Developments in the Global Insurance Industry - 2007.......Contd. # 2

insurance policies is increasing with market liberalization, the actual usage or purchasing behavior by insureds is not yet reflective of the level of awareness. Insurance remains a commodity that must be sold rather than bought. Marine cargo, product liability, directors' & officers' liability (D&O) and professional indemnity (PI) are the classes with the most promising growth prospects in these countries.

Indian Insurance Market – The only way is up

As we bid farewell to 2007 … and welcome the year 2008, we realize that it has been one year since tariffs were partially removed in the Indian non life industry, where insurers got near-complete freedom to price their motor, fire and engineering policies — the three major business lines. We set the ball rolling as we provide a brief overview of the flurry of activity in the general insurance industry in 2007 and the action likely to unfold in 2008.

Performance Report: The General Insurance industry grew 11.75 per cent from Apr to Nov 07, with robust performance by private players including Reliance General which continues to be the fastest growing insurer. The 13 non-life insurers collected Rs 18,509 crore in premium up to November 2007 against the Rs 16,560 crore collected in the same period last year (11.77% higher), according to industry data. During the period, the four public sector non-life insurance companies collected Rs 11,156 crore against Rs 10,747 crore in the corresponding period a year ago. The private players increased their business from Rs 5,813 crore to Rs 7,353 crore till November in FY08.

Premium growth slowed: Although all companies recorded a large growth in number of policies sold, a decline in product prices resulted in a fall in total premium income. Most

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companies saw a sharp cut in premium rates during 2007 — about 20 per cent in motor insurance own damage cover and 51 per cent in fire and engineering insurance (the maximum allowed by regulator Insurance Regulatory and Development Authority). The sharp rate cuts have resulted in a steep decline in the growth rate. As against a growth rate of 32% recorded by the industry in November 2006, this year, growth has eased to 13%.

New players in the market: Making hay while the sun shines seems to be the buzzword for the new players entering the insurance market in India. The last one year has seen a horde of foreign and domestic players flocking to explore this new market. They include Future Generali,

> The New Year has ushered in a free pricing regime in the industry as IRDA has fully withdrawn the price limits for all policies except statutory insurances.

Universal Sompo, Apollo DKV, Bharti AXA and IDBI Fortis. The booming domestic insurance market along with saturation of markets in many developed economies has made India a very attractive proposition for global insurance majors.

Second phase of detariffing- Removal of floor rates: The New Year has ushered in a free pricing regime in the industry as IRDA has fully withdrawn the price limits for all policies except statutory insurances like Motor Third Party, Workmen's Compensation & Public Liability. On the first day of free pricing, premiums for property insurance fell by as much as 75-80% over the 2006 tariff rates. While it is raining discounts under the partly detariffed regime with insurers bending backwards to offer cheaper policies, not all may be lucky as premiums would be based on the risk profile of the customer.

Brokers at the center stage: The detariffed regime will bring the broking community to the center stage where their role will be properly understood and appreciated by the clients. The detariffed market will enable brokers to demonstrate their value in 'shopping around' for the best deal and structuring a customised solution for their client.

Conclusion

For the most part, pricing trends continue to be very positive for commercial buyers in the global market. The soft market is driven by rapidly increasing policyholders' surplus, which equates to insurance capacity. Underwriting profits and strong investment returns continue to add to surplus, which suggest that this soft market has a long way to go before it reaches the bottom, barring a major catastrophe. The landscape of the industry is going to be determined by the extent to which insurers hold underwriting discipline in the wake of high capacity and declining rates.

In India, premium income is forecast to decline under the influence of detariffication and stiffer competition. Despite the slow down, the premiums have nearly doubled over the past five years. At the outset, there might be some confusion due to widely different prices, perceptions of service levels, and network capabilities but slowly things will level out. The outlook for India remains sound and favourable as it will continue to benefit from an extended growth cycle and further market liberalization.

News TitBits

Insurance sector to touch Rs 2,00,000 crore by 2010: Assocham

A study by Assocham reveals that the insurance sector, both life and non-life, is likely to grow by over 200 per cent, and private insurers are expected to achieve a growth rate of 140 per cent as a result of aggressive marketing techniques.

OECD report - Mumbai has the highest exposure to coastal flood

As many as 150 million people in the world's major cities could be reliant on flood defenses by 2070 – more than three times the 40 million people today – as a result of climate change and urban development.

Today, the 10 most exposed cities are fairly evenly split between developed and developing countries, with Mumbai having the highest exposure to coastal flood.

San Francisco sues ship owner, others in oil spill

San Francisco has sued the owner and others associated with a ship that collided Nov. 7 with the Bay Bridge, spilling 58,000 gallons of oil into San Francisco Bay. Among other demands, the state court lawsuit filed Monday in San Francisco seeks compensatory damages, punitive damages, civil penalties, an ongoing remediation plan for harm caused by the spill. The suit charges that the spill from the Cosco Busan killed or injured at least 2,200 birds as well as other marine life, damaged waterfront property, harmed the livelihoods of San Francisco Bay area fishermen, impaired the public's recreational enjoyment and compelled the city to "expend substantial sums of money."

Societe Generale signs Indian life insurance JV MOU with India bulls

IDBI Fortis Life Insurance Co Ltd sets up shop in India

Design Defect Insurance

Introduction

Construction is a high risk industry. Accidents, including personal injuries and property damage, happen all the time, and these accidents cost the contractor money. The number of construction-defect cases has surged in recent years because projects are being constructed in record numbers to meet the high demand. Projects of any kind are exposed to many man made & natural perils. Man made perils can come from faulty materials, faulty workmanship, faulty design etc. In project insurance, materials and components don't present a high risk since they are standardized to quite some extent. The risks lie largely in the design as the consequential losses resulting from a defective design can be very serious. Especially in new projects, the design is likely to be untested and unproven. The design aspect is of particular relevance to a project as even a small defect in the design can cause a downpour of direct & consequential losses. Failure by design professionals, such as architects or engineers to exercise due care, skills or diligence can result in a defect which causes major implications for the contractor.

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Insurance is something to which most contractors pay scant attention when contracting. If project insurances have to indemnify the contractor down the line when a disaster strikes, the first step is to ensure that an insurance policy is in place that contains the proper terms and conditions.

If the dearth in coverage is identified before the insurance contract comes into force, the parties can negotiate the risks, including reducing the excess or removing some exclusions in exchange for payment of a slight additional premium.

What is a design defect?

A design defect is defined as: A defect in the structure arising from inadequate design because of which the value of the structure is diminished and may require remediation. So, when a design contains a fault that should not be there ordinarily, it is called a defective design. They include faulty drainage, structural failure or collapse, improper landscaping etc. Some defects are obvious, but many are less obvious and do not become apparent until years after the project was constructed.

What does Design Defect insurance cover?

Contractors' All Risk (CAR) and Erection All Risk (EAR) policies provide cover for damage to the works by most causes except defects in design, materials and workmanship. An example of the wording of such exclusion is:

Loss or damage due to fault, defect, error or omission in design, plan or specification, failure of design, defective materials or workmanship is excluded.

The impact is that if the damage was caused by defective construction, the loss is excluded from coverage. So, to cover the loss caused by a faulty design or workmanship or material, an endorsement has to be taken by paying additional premium. It covers the physical loss or damage caused to the property because of a faulty design but any personal injuries resulting from the defect cannot be recovered.

Claims Case : Fire in a Textile Mill

The Incident: A major fire broke out in a textile mill which was engaged in spinning different counts of yarn. The yarn was sold in India and also exported to foreign countries. There were five godowns in the mill compound. The first was used to store machinery spares and other four for storing cotton bales. On the day when this incident happened, unloading was going on and at around 14.30 hrs, the unloading shed was full. Therefore, cotton bales were unloaded in the open area adjoining the unloading shed. Around 15.00 hrs the truck driver was asked by the godown assistant to take a turn and come back and unload the rest of the bales. After informing the truck driver, the assistant left to meet the cashier.

Around 15.05 hrs a mixing attendant noticed the fire in the bales stored in the open and raised an alarm. By the time he could muster the support of other employees, the fire had started spreading to the bales stacked in the unloading shed and to the bales stacked in godown no. 3. The fire brigade was informed over the phone around 15.15 hrs.

The fire tender arrived around 15.30 hrs followed by 4 more tenders. The fire brigade could not gain access to the godowns as the doorway was blocked by burning bales. Huge stocks of cotton bales in the godown burnt producing severe heat and dense smoke, which hampered fire fighting operations. The fire brigade did not have access

There are several clauses which provide various degrees of cover for defects in the design, material and workmanship of a project. In most cases, only the consequences of such defects are covered, while the faulty part is excluded. The London Market design clauses offer five levels of coverage against defects in design, materials, and workmanship. Taken individually, each level of coverage seems to explain itself, yet each clause differs subtly from the next. The five clauses, in order of increasing coverage, are as follows:

DE 1: Outright Defect Exclusion: Excludes any and all damages due to property in a defective condition. The basic CAR & EAR policies provide the equivalent of DE 1 with respect to faulty design.

DE 2: Extended Defective Condition Exclusion: Excludes damages to (a) property that is in a defective condition, or (b) property that relies on (a) for support. Consequential damage to any other property free of defective conditions, however, is covered.

DE 3: Limited Defective Condition Exclusion: Excludes damages to property that is in a defective condition, in whole or in part; covers consequential damage to any other property free of defective conditions.

DE 4: Defective Part Exclusion: Excludes damages to only that constituent part of the property that is deemed defective (the "faulty part"); covers consequential damage to any other property free of defective condition.

DE 5: Design Improvement Exclusion: Covers all damages excluding only the additional costs of improvements to the original design, materials etc.

As the cover increases for each level, so does the premium rate. In India, the practice is to give cover upto DE 3 for CAR policies and upto DE 4 for EAR policies. The premium rates are tariff driven and governed by the Tariff Advisory Committee.

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Claims Case ....Contd. # 4

to the north and east sides of the godown. The fire was brought under control at 15.00 hrs the next day. The stocks of cotton bales and yarn stored in the godown were destroyed and damaged by the fire. The machinery spares in godown no. 1 were also destroyed. The estimated loss was approximately Rs. 3 crore.

The Probable Cause: The fire broke out in the bales lying in the open, which were unloaded from the truck around 14.30 hrs. Around 15.00 hrs, the truck left to take a turn and return for unloading the remaining bales. Before the truck returned the fire broke out. During unloading the bales were dropped from the truck which got loosened and bulged out. In all probability, these loosened bales easily got ignited by sparks emanating from the truck's exhaust pipe and the fire spread fast.

The Outcome: Claim Payable / Not Payable?

The claim was paid under the fire policy as the cause of loss was fire, an insured peril.

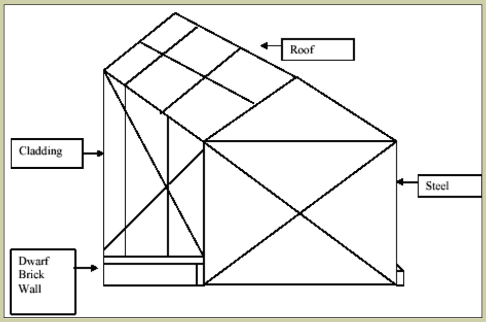
How the loss could have been averted / minimized:

- Open storage of cotton very close to the godown caused the rapid spread of fire to the godown. The steel door of the godown was kept open at the time of fire and this facilitated easy fire spread. Open storage should not be allowed within 15 meters of godown. The godown door should be kept open only while stacking and fire doors should be installed.
- The fire tenders did not have access to all four sides of the godown; this hampered fire fighting operations. 2.5 to 3 meters wide roadways should be provided for easy manoeuvring of fire engines.
- Absence of smoke vents in the godown resulted in smoke logging. Workers broke down portions of the external wall to facilitate fire fighting. In addition to normal ventilators, godowns should be fitted with smoke vents of sizes not less than 1.3 m2 distributed in such a way that there is at least one sq. meter vent per 50 sq.m. of floor area. The affected godown was protected by portable fire extinguishers only. Use of hydrants immediately after the fire could have controlled the fire quickly. Hydrants should be provided in the premises exclusively for fire fighting purposes.
- Trucks entering the mill compound are not provided with spark arrestors. Sparks from the smoke exhaust pipes of the trucks can ignite cotton. The management should procure spark arrestors which can be fitted to the exhausts of the trucks entering the premises and the same can be removed when they leave. 'No smoking' regulations should be strictly enforced.
- The fire could have been tackled at the initial stage itself by using fire extinguishers effectively. Training selected people on basic fire fighting and on how to manage emergencies would have been effective in tackling the fire situation

Design Defect Insurance ....Contd. # 4

An example:

- Steel framed building
- Roof completed
- Cladding partially completed
- Dwarf brick wall completed.
- Bolts used in construction of steel framework proved to be inadequate and the whole structure collapsed, damaging everything.



In the above situation,

DE 1 - Covers nothing.

DE 2 - All damaged items excluded except the Dwarf brick wall

DE 3 - Steel Framework excluded: Roof, Cladding and Dwarf brick walls paid for

DE 4 - Only Nuts and bolts excluded

DE 5 - Covers everything, improvement costs excluded.

In short, DE 1 excludes everything, while DE 5 covers everything, except the improvement expenses. Also, the difference between DE 3 and DE 4 seems very minute, but at the time of a claim this distinction makes all the difference as to what is payable. For example: a faulty winding in a turbine can cause complete damage to the turbine which costs lakhs of rupees. In such a case, DE 3 coverage wouldn't pay for anything. DE 4 coverage would pay for everything except the faulty part i.e. the winding. It is always better to be on the safe side by taking coverage on a DE 4 basis because a small defect which is not covered can cause enormous losses to the insured. However, note that a design is not considered "damaged" merely by the presence of a defect. To trigger the cover, the defect must result in a sudden and unforeseen physical loss event.

> Contractors' all risk (CAR) and Erection All risk (EAR) policies provide cover for damage to the works by most causes except defects in design, materials and workmanship.

Now, you must be wondering as to why the contractor should take the insurance for defects in design and not the design professional. If the design defect insurance is not taken, the contractor will have to be his own insurer for the loss / damage caused by defective design and cannot go against the engineer in circumstances where the

- the design whilst incorrect was not "negligent"
- the engineer's liability was limited by the terms of his agreement or
- the engineer's Professional Indemnity cover failed to operate or was exhausted and his own realizable assets are small in relation to the contractor's loss

Conclusion

Given the embryonic nature of high-tech engineering, the rules, and the risks, are constantly changing. Contractors, on whom the major responsibility for the care of the works rests, will feel more comfortable if they also arrange for the design defect insurance cover. When applying design clauses, every project will inevitably present its own challenges and complications, but a proper evaluation of risks and appropriate covers will save you from the ordeal of financial disasters.

Report Card - General Insurance

Gross premium underwritten for and up to the month of November 2007 (Rs. in crores)**

INSURER	NOVEMBER		APRIL - NOVEMBER		GROWTH % OVER THE SAME PERIOD LAST YEAR
	2007-08	2006-07	2007-08	2006-07	
Royal Sundaram	60.45	47.67	439.76	388.84	13.09
Tata-AIG	55.28	62.45	527.69	520.12	1.46
Reliance General	186.68	75.19	1315.36	520.85	152.54
IFFCO-Tokio	97.49	84.18	708.35	813.15	-12.89
ICICI-lombard	283.98	243.33	2348.1	2078.69	12.96
Bajaj Allianz	190.45	153.32	1515.52	1158.87	30.78
HDFC General	18.63	16.31	148.18	125.88	17.71
Cholamandalam	34.23	23.73	349.02	206.68	68.87
Future Generali*	0.86	0.86			
New India	403.32	356.98	3520.36	3316.14	6.16
National	316	291.34	2591.89	2428.54	6.73
United India	303.64	313.88	2443.45	2351.6	3.91
Oriental	276.11	305.36	2600.49	2650.47	-1.89
PRIVATE TOTAL	928.04	706.18	7352.84	5813.07	26.49
PUBLIC TOTAL	1299.07	1267.56	11156.19	10746.75	3.81
GRAND TOTAL	**2227.12**	**1973.74**	**18509.02**	**16559.81**	**11.77**
SPECIALISED INSTITUTIONS					
Credit Insurance					
ECGC	55.38	51.79	420.26	391.67	7.3
Health Insurance					
Star Health & Allied Insurance	3.55	0.78	98.45	14.61	573.75
Apollo DKV*	0.02	0.02			
HEALTH TOTAL	**3.57**	**0.78**	**98.47**	**14.61**	**573.87**

* Commenced operations in November, 2007 ** Source: IRDA Journal

News TitBits

Reinsurance treaty terms likely to be tougher

With general insurance tariffs dropping by over 80 per cent, treaty negotiations with the reinsurers has come under a cloud.

Highly placed sources said that global reinsurers have indicated that with the steep fall in tariffs in fire and engineering since the beginning of this month, treaty terms would be restricted. This implied that primary insurers would have to take more liabilities on their books. The stiffening stance comes despite the absence of major claim events in the country during the last two years.

Now, roadside services from motor insurers

Spain's Mapfre Group, is setting up shop in India where they will provide services for any kind of automobile breakdown or accident. Customers need to dial the call centre numbers and report the problem, following which a suitable vendor will be notified and sent to the spot, to either fix it or to tow the car away. In case of a serious problem, the company will even provide the customer with a replacement car.

Customers' View on Detariffing

Ending all speculations about the second phase of detariffing, the IRDA has decided to give full pricing freedom to the general insurance companies from January 1, 2008. While applauding this welcome move, we spoke to three of our clients- **Mr. Atul G Juvle (AGJ), General Manager – Legal & Company Secretary of Otis Elevator Company Ltd, Mr. Prakash Laxman (PL), General Manager – Plant Finance of Owens Corning and Mr. S. Saranathan (SS), General Manager - Finance of Shasun Chemicals and Drugs Limited** as to their views and expectations from this second round of detariffing.

(Views expressed herein are personal and not of the company)

1. **We have seen 3 decades of a tariff regime followed by a year of partial opening up of the market. With the opening up of the market (barring statutory insurances) to pricing w.e.f Jan 2008, what are your expectations?**

AGJ: Transparency – As regards the policy terms and conditions, Insurers should be more transparent in revealing the coverage. Insurance Companies and Brokers will have to be transparent in dealings so as to indicate their earnings.

Disclosure – Insurance Companies and Brokers need to disclose their financial arrangements and the client should be aware of what costs he is incurring, directly or indirectly.

Governance – Insurance companies should adhere to norms of IRDA on underwriting, solvency parameters and capital adequacy norms.

PL: Free pricing has happened. The market has become totally free for the first time. This augurs well for clients/ customers.

SS:

- The discounts should be shown in the Schedule of the policy, instead of just showing the Net Premium.
- Claims Experience Discount should be allowed for Terrorism Premium also.
- When short period policies are renewed without a break, the premium should be converted into pro-rata basis and appropriate premium should be refunded.
- Minimum retention of premium for Fire Floater policies should be reduced to 50%.
- Exclusions relating to a) Own Fermentation, Natural Heating or Spontaneous Combustion and b)

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Customers' View on Detariffing.......*Contd. # 7*

Undergoing any heating or drying process should be removed especially for Pharma and Chemical Industries.

2. What are the trends you foresee? Would there be a rise in any of the lines of insurance?

AGJ: There will be growth in Insurance with more awareness. Sustainability will be based on sound underwriting philosophy. New policies will come up like Unemployment Insurance or as market needs. New lines will be customer specific. Health rates can go up/ or premiums may be linked with the claims.

PL:

- This augurs well for quality risk people in the industry. There would not be much quality underwriters left in the market.
- Only companies with depth in Balance Sheet will sustain. I expect consolidation in the market. Companies will have to concentrate on risk based pricing.
- These are days for the Insured. In terms of coverage however nothing new has come up as of now. The limits for Mega Risk need to be scaled down. Health rates ought to go up. Cross subsidy in pricing of different products will go away and each and every product will be competitively priced. Even property insurance products will have to stand on its own.

SS: No, there will not be any price increase in any line of insurance due to the high competition among the insurance companies.

3. What is the differentiator you would be looking for while finalizing your insurer?

AGJ: Companies which follow transparency in dealings and fair treatment to customers will be the key parameters. I expect higher ethical standards in business dealings.

PL:

- Quality of underwriting will be TOP OF MIND. Reinsurance capacity and knowledge level will also be important.
- Till now Insurers as well as Brokers were differentiated on basically price parameters. With price getting very competitive, clients will look for service differentiators in terms of quality advice offered.
- Brokers who have a good knowledge base can survive and the remaining will not be able to sustain.

SS: The Insurer will be selected based on the department-wise claims ratio, since an insurance company with a low claims ratio in a particular department will comparatively quote low for that particular department. Of course, the Service Levels are also to be looked into.

4. How do you anticipate the effect of falling pricing to impact the quality of servicing?

AGJ: Yes, the terms and conditions will be reviewed by Insurance companies strictly.

PL: Surveyors might take a rigid stance in claims. Insured will have to be more knowledgeable in terms of coverage offered and interpretations of terms and conditions of policies.

SS: Fall in price can never be a reason for deficiency in service. On the other hand, the Insurance Companies, who understand well that their property portfolio will shrink, will step on the gas as regards service levels, so that they can win new accounts.

5. It is expected that the market would open up to Policy wordings too, effective April 2008. What do you anticipate post April 2008? What would your wish list seem like?

AGJ: Customers will have to cross check covers offered and interpretations and will be more careful. Loyal customers should get more benefits.

PL: Free wordings with less ambiguity should be there in policy terms and conditions. However I do not expect much change immediately. Lot of standardization and rigidity will still continue.

SS:

- Tailor-made policies should be made available, based on the profile of the risk being insured. Inappropriate and inapplicable covers should be left out of the scope of the policy, resulting in savings in premium for the insured.
- Need for professional brokers will be felt since they will be in a position to understand the risk profile and suggest suitable covers at optimum cost.

Insurance Humour

Airman Jones was assigned to the induction center where he was to advise new recruits about their government benefits, especially their Guaranteed Insurability (GI) insurance. It wasn't long before Captain Smith noticed that Airman Jones had almost a 100% record for insurance sales, which had never happened before.

Rather than ask about this, the Captain stood in the back of the room and listened to Jones's sales pitch. Jones explained the basics of the GI Insurance to the new recruits, and then said:

"If you have GI Insurance and go into battle and are killed, the government has to pay $200,000 to your beneficiaries. If you don't have GI insurance, and you go into battle and get killed, the government has to pay only a maximum of $6000."

"Now," he concluded, "which bunch do you think they are going to send into battle first?"

News Focus

New treatment norms pull plug on inflated medical claims

Pulling the plug on inflated medical insurance claims, the Armed Forces Medical College (AFMC), Pune has brought out a first-of-its-kind standard treatment guideline that specifies the average treatment cost for 35 common diseases. In many of the cases, the rates are a fraction of what patients have been claiming from insurance companies.

For instance, AFMC points out that the maximum charges for a caesarean section, one of the most common claims reaching insurance companies, will not exceed Rs 5,525 in a tertiary hospital with more than 100 beds. The same procedure can also be carried out by spending Rs 393 in a single-doctor managed clinic. On the other hand, insurance company officials said medical bills claimed by policy-holders touch Rs 30,000 to Rs 50,000 for a caesarean case.

The AFMC document, generated after month-long consultations with various stakeholders in the healthcare industry, has four types of costing to take into account the size of the hospital. AFMC had collaborated with prestigious hospitals like All India Institute of Medical Sciences, Post Graduate Institute of Medical Sciences, Chandigarh, and NIHAMS, Bangalore in preparing the guidelines. All 11 departments in AFMC and 50 to 60 doctors had participated in the program.

The study was commissioned by the Ministry of Health and Family Welfare and the World Health Organization (WHO). The data is designed to help companies offering medical insurance improve their financial bottom line. Information on a range of costs of health care services could become a base for negotiating with the health care provider on the payment mechanisms in health insurance and any other healthcare purchasing mechanisms.

Disclaimer

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