inotes
Newsletter from India's Leading Insurance Broking House
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India Insure
The risk managers

Message from the Editor

Dear Readers,

The 2006-07 figures are out – the Non Life Industry clocked a Premium growth of 22.37%, up from Rs 20,432 crores to Rs 25,002 crores. New India remains the largest Insurer at Rs 5000 crores of Premium, although ICICI Lombard seems bent on catching up fast (at Rs 3000 cr this year – it is within striking distance). Life Insurance Premium collections (First Premium) were at Rs 75000 crores this year (up from Rs 55000 crores, a growth of 36.36 %), of which LIC has a share of 74%.

Over the last 20-odd issues, i-notes has focused on various topics relevant to the Insurance industry. In this issue, we focus on a subject that is something like oxygen in our life – critical to our survival but neither discussed nor taken seriously enough. The use of Technology in the Insurance Industry.

Technology has played a role in the growth of almost every industry in recent times – travel, banking, medical science, publishing, education, entertainment, you-name-it. The generation of non-believers has long become extinct and there is hardly anybody who does not acknowledge (grudgingly, if you may!) the power of Technology in leapfrogging business. The International Insurance industry has embraced technology with attendant benefits, but the same cannot be said yet of Indian industry. We at, India Insure, recognized the importance of Technology quite early in our evolution (we became one of the first few brokers to develop an in-house Software platform and a web-based Insurance administration facility for the client to use – way back in 2003). This edition of i-notes calls attention to this important component of our business.

Our skies have seen a lot of hectic activity over the past 2-3 years, with a proliferation of Airlines and Flights crisscrossing the nation. In the 'product' section of this edition, we briefly touch upon Aviation Insurance.

We trust you will find the issue useful and interesting.

V Ramakrishna
Editor – ***i-notes*** & Managing Director, India Insure

Technology in Insurance

Introduction

Advances in technology have metamorphosized the world. Technology exists in a context that includes customers and their needs, business process and how people learn and work. Customers have become more demanding, requiring not only innovative product capabilities but also competent and convenient support and service. Companies that are able to meet this challenge will reap the benefits of a loyal customer base that is receptive to product cross-selling and up-selling. Technology has made innovative in roads in areas least expected- example – ITCs e-Choupal, the Railways on-line reservation project etc.

The Banking, telecom, media, infrastructure, healthcare, government, energy, IT and ITeS have all seen remarkable growth using technology as the differentiator.

How could technology help in the insurance industry?

Insurance companies around the globe are faced with challenges of decreasing margins. Automation of field services, claims and back-office systems is now the norm. Customers expect high-quality, timely Web sites and 24/7 service. Each day insurance organizations execute millions of transactions that require information to flow between systems, between people, and between the company and third parties.

The range of activities that could be driven by technology in the insurance industry include

New Business Acquisition: Inbound/outbound sales; Initial Setup; Underwriting; Risk assessment; Policy issuance.

Policy Maintenance: Record Changes- Name, Beneficiary, Address**;** Accounting & Reconciliation**;** Customer service - voice/email Collateral verification**;** Surrender**;** Audits; Accounts Receivable.

Claims Processing : Claim Set Up**;** Eligibility**;** Duplication**;** Validate Reserves**;** Account Settlement.

Data consolidation: Reports for analysis**;** Data for rating**;** Data collection for Risk Management **.**

In addition to the customized packages specific to each company, E Mail and Voice Mail are two major technological advancements that have resulted in greater customer satisfaction.

The status in India today

The Indian insurance industry is at a very nascent stage of using technology.

It was the entry of Private players in 2000 which led to a mini-revolution in the Indian Insurance industry. The clear focus of the Private entrants was "Technology first". On line policy delivery, on line claims registration, web facilities to customers, tracking of declaration policies have all made life comfortable for the customer.

a) **Retail vs Commercial**
As expected, the Personal Insurance lines, where the product is more standardized and easily underwritten (unlike Commercial, where covers are more tailormade & complex) have embraced technology faster. Motor, Marine and Travel Insurance have been made simpler and accessible at points-of-sale. In Life Insurance, Agents are being given hand-helds and PDAs, through which they can log in to portals, feed client data and issue quotes etc without having to move from the customer's presence.

b) **Financial Services vs Insurance**
Surprisingly, the insurance industry's level of technological sophistication is far behind other financial industries. True, while banks and investment companies have figured out ways to open online accounts, collect relevant data, transfer money and offer multiple types of services, they don't have to address issues such as multi insurance policies, claim filing, temporary coverage needs and endorsements that add layers of complexity to the insurance process.

c) **Absence of Standardisation**
Another factor for the technology lag is that every insurance company has differing levels of automation efficiency. One insurance company may not be capable of giving brokers a firm quote through its system — only an indication. Another carrier may issue quotes online but cannot bind and issue. Without a common practice standard, brokers often must go from one insurance carrier to another, jumping through hoops to get the information needed for their customers.

d) **Absence of Data**
We have also paid the price very dearly for not having the data consolidated by PSUs over the past almost three decades. Had the PSUs been technologically driven in the past, there would have been sufficient data available in the country for underwriting more scientifically. Till date there is no single source of claims data in the country. Post 2001, each of the insurer has been building up his

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Technology in Insurance....*Contd. # 1*

data bank, but while we do have IRDA coming out with the consolidation of Premium figures, claims statistics is way behind. There is no kind of industry wise claims analysis, peril wise claims analysis. We have lost 3 decades of very useful insurance data in the country due to lack of usage of technology.

Case studies of benefits of technology in the Indian Insurance industry

One of the clear advantages a Private insurer has had has been in the field of Marine declaration policies. They had come out with a facility called e-Marine which was installed to ease out the operations of a marine declaration policy. This was a great value add to the customer as well as the insurer as far as ease of operation was concerned. A similar facility has been launched by several insurers for Overseas Travel where the premium is paid up front for the number of travel days and the corporate keeps updating the travel days when a person leaves the country. This ensures ease of operation for both the Customer as well as the insurer.

How can brokers use technology to extend service to customers?

Brokers work in the trenches — acquiring clients, searching for the right coverage, and getting compensated. It is technology that makes their jobs easier and it should be welcomed. Better efficiency through technology means increased business for both brokers and carriers.

As the Internet is used increasingly for comparison-shopping and buying, insurance customers expect brokers to have the same tools to find the best rates for the needed coverage — and they expect fast answers. Brokers are feeling the pressure to speed up the insurance process from their customers. Even when the right policy is found and accepted by the customer, it is rare that an insurance carrier can quote, bind and issue the policy online.

How do we see the technological developments benefiting the industry in the future?

The insurance industry in India is undergoing an evolution and facing a wealth of challenges.

The top three strategies that the industry would be looking for are reducing operational costs, increasing efficiency and revenue generation.

Insurers and brokers would be using technology in :

Marketing and Pre sales: To support targeting and customer segmentation; Improving product development; Sales efficiency, collaboration between sales and underwriters, movement of underwriting to point of sale; Greater focus on seamless interactions with distributors by using emerging technologies.

Policy Issuance: Electronic policy creation; Delivery and Storage.

Underwriting: Pricing and assessing risk**;** Web enablement for underwriting — moving underwriting to an Internet based channel where everyone involved has access to the information. Having all the information electronic eliminates the data entry errors that sometimes occur from re-keying the information over and over.

Customer relationship and distribution channels: Web-based Point of Sale technology—technology that will work when they are in the office, as well as when they are out in the field.

Claims Process:

Notification of loss: Insurers are investing in solutions such as intake devices, customer service portals, and monitoring devices. "Intake devices are systems such as computer devices in vehicles that can notify the insurance company when the airbags deploy or when there is a point of contact for the vehicle.

Customer service

- ❖ Customer service portals, can allow customers to enter a loss or claim electronically via the insurance company's customer service Web site
- ❖ Monitoring devices, another type of notification of loss technology, could be particularly important for Property insurers.

Processing & risk assessment

- ❖ Fraud analysis solutions, business intelligence and dynamic modeling tools.
- ❖ Catastrophic events can be mapped based upon an insurer's book of business.

Data Initiatives

Data is one of the best ways companies can promote competitive differentiation. "In the past, the role of data in the organization and the use of new data technologies wasn't a key priority. This is changing, however, as insurers begin to think more strategically about data, including how to turn data into information, standardizing data, data mining and enterprise data analytics.

- ❖ Consolidate and centralize the data across the organization.
- ❖ To use the data to identify and evaluate events signaling opportunities and risks.

Conclusion

The domestic insurance players – regulator, insurers, brokers, TPAs and Surveyors – have a golden opportunity to build the industry almost from scratch. If we get our act right, the structure will last long with little need for repair. Get it wrong, and we might need large scale renovation very soon. The use and spread of Technology is the foundation.

There are some issues which we need to address collectively and urgently:

- Data Capture: The need of the hour is to capture data. The various operating offices of all the players are dealing with "tons" of valuable data daily, which needs to be captured. Once data is captured in its entirety, it can be processed in a million ways *(it is disappointing to note that several insurers –even among the new private players – capture information about companies only after they become customers, not while they are in leads & prospects – thereby losing valuable underwriting data on scores of companies which their marketing teams prospect but cannot convert).*
- Standardisation: while the industry is still young and flexible, we should get together and adopt common standards (Accord?) – eg: common formats for proposals and claims.
- Brokers Initiatives: Brokers need to realize that their Customers' interests will be best served with "Lifecycle" management of the customer's risk profile – how the risk performed over the last 3-5 years, what material changes, etc.
- Exchange of Information: Insurance fraud can weaken the industry even before it takes off. Insurers, Brokers, TPAs and Surveyors should exchange information on moral hazard cases, so that fraudsters can be kept at bay.
- Incentivise Technology Adoption: While large Insurance JVs and TPAs can afford to and have adopted Technology, the other players cannot always afford it. Brokers and Surveyors should be incentivized to invest in Hardware/ Software and capture data for posterity.

Insurance companies need to prioritize their technology investments based upon their risk tolerance, technological maturity, and user adoption. In order to meet the combined challenges of regulation, competition and growth, the industry needs to get as close as possible to its new and existing customers. Insurance companies need to make business processes more flexible in order to improve the customer experience and properly exploit new channels for products and services.

Aviation Insurance

Introduction

Aviation Insurance was first introduced in the early years of the 20th Century. It is believed that the first aviation polices were underwritten by the marine insurance Underwriting community.

No single insurer has the resources to retain a risk the size of a major airline, or even a substantial proportion of such a risk. The Catastrophic nature of aviation insurance can be measured in the number of losses that have cost insurers hundreds of millions of dollars (Aviation accidents and incidents).

What is aviation insurance?

Aviation insurance primarily covers the "Hull" (body of the aircraft), passenger legal liability and third party loss cover. Policy price is dependent upon a large number of variables - Aircraft value, aircraft age, aircraft type, pilot experience, operational territory, intended use and liability limit will all be considered when an underwriter sets a price. The total premium is always made up of two primary components: the hull premium and the liability premium. Aviation insurance is mandatory, and without insurance no aircraft will ever take off. Most airlines arrange "fleet policies" to cover all aircraft they own or operate.

A brief about what is covered?

Hull "All Risks"

The hull "All Risks" policy is an exclusion based policy.

Airline hull "All Risks" policies are subject to a standard level of deductible (that is an uninsured amount borne by the Insured) applicable in the event of partial (non-total) loss.

The term "all risks" can be misleading. "All risks of physical loss or damage" does not include loss of use, delay, or consequential loss.

What the policy will cover is the reinstatement of the aircraft to its "pre-loss" condition, if repairable damage is involved, or some other form of settlement in the event that more substantial damage is sustained.

Today, the vast majority of airline hull "all risks" policies are arranged on an "Agreed Value Basis". Under an Agreed Value policy the replacement option is deleted.

General Exclusions include:

- Wear, tear and gradual deterioration
- Ingestion damage - caused by stones, grit, dust, sand, ice, etc., which result in progressive engine deterioration is also regarded as "wear and tear and gradual deterioration".
- Mechanical Breakdown - likewise is thought by aviation insurers to be an operating expense, but subsequent damage outside the unit concerned is usually covered. Mechanical breakdown of engines may be covered by way of a separate policy.

Spares

We must identify what we mean by a "spare" or perhaps - "when is a spare not a spare" to which a simple answer is "when it is attached". Under most "Hull" policies the word "Aircraft" means Hulls, machinery, instruments and the entire equipment of the aircraft (including parts removed but not replaced). Once a part is replaced it is no longer, from an insurance viewpoint, part of the aircraft. Conversely once a spare part is attached to an aircraft as a part of that aircraft (not in the hold as cargo or on the wing as an extra pod) it is no longer a "spare".

If the equipment is insured on the hull "All Risks" policy the automatic transfer of coverage from "aircraft" to "spare" and vice versa is automatically accomplished.

Hull War Risks

The hull "All Risks" policy will contain the exclusion of "War and Allied Perils". Generally speaking, throughout the aviation insurance world, "War and Allied Perils" have a defined meaning.

War Definition

1. War - this includes civil war and war where there is no formal declaration.
2. The detonation of a weapon of war employing nuclear fission or fusion.
3. Strikes, riots, civil commotions and labour disturbances.
4. Political or terrorist acts.
5. Malicious or sabotage acts.
6. Confiscation, nationalization, requisition and the like by any government.
7. Hi-jacking or any unlawful seizure or exercise of control of the aircraft or crew in flight.

The exclusion also applies to any loss or damage occurring whilst the aircraft is outside the control of the operator by reason of any of these "war" perils.

Liability Insurance

Liability can be divided basically into two categories:

- Liability in respect of Passengers, Baggage, Cargo and Mail carried on the aircraft. These liabilities result from the operations the airline is set up to perform and are normally the subject of a contract of carriage like a ticket or airway bill, which provides some possibility of limiting the airline's liability.
- Aircraft Third Party Liability - the liability for damage done to property or people outside the aircraft itself.

Every airline will arrange liability insurance for these two categories, normally in a single liability policy.

General Liabilities

The other category of liability covers premises, hangerkeepers and products liability and is called "Airline General Third Party" - being the liability for damage done to property or people arising from other than the use of aircraft. Many airlines cover their "Airline General Third Party Liability" within their main liability programme.

Basically for a risk to be considered as "Airline General Third Party Liability" it must arise from what are described as "aviation occurrences" being those involving aircraft or parts relating thereto, or arising at airport locations or arising at other locations in connection with the airline's business or transporting passengers/cargo or arising out of the sale of goods or services to others involved in the air transport industry.

The Aviation market today

Immediately after September 11 insurers rapidly and decisively grabbed the opportunity to correct years of under pricing. Airlines and aviation products manufacturers saw liability insurance prices soar in the aftermath. Significant price rises lead to the widely held perception that the rating environment is extremely favorable, a belief which led to the introduction of considerable additional capacity to international markets from both new and returning risk carriers.

Today, in the absence of major market losses, and supported by a decreasing frequency of attritional losses, the aviation market is seen a huge drop in premium rates.

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The aviation insurance market is also highly cyclical, with the 1990s representing a period of extremes for both aviation insurers and their clients. Despite the increasing quantum per claim, world airline premiums were roughly USD 1.9 billion in 1995 and continued to decline to approximately USD 1 billion in 1998. Premium then exceeded USD 1.8 billion in 2001 and is presently over USD 2 billion with a huge increase in the number of aircrafts added.

The Indian Aviation market as it stands today

With the entry of several low cost airlines along with fleet expansions by existing ones and increasing corporate aircraft ownership, the Indian aviation insurance market is all set to take off in a big way.

- ❖ Extraordinary growth in airline traffic: In 2001 the number of aircraft departures in India was 2,16,700. This had increased to 3,66,700 in 2005 and has grown to 4,38,700 departures in 2006
- ❖ Rapidly rising fleet size: The total fleet size of all airlines operating out of India are projected to grow rapidly. Number of aircrafts in the country are expected to rise from 160 in 2004 to around 620 in 2014.
- ❖ Emergence of multiple carriers: India has witnessed entry of airlines across the service spectrum ranging from full service carriers such as Kingfisher airlines, Jet airways and Paramount Airlines to a large number of low cost carriers such as Air Deccan, SpiceJet, Go Air, IndiGo and Premier Airlines.

Gross Direct Premium of Aviation

Estimated to be in the region of Rs.3.5 – 4.00 billion, aviation insurance premium business is growing at a fast clip. At present the government-owned four non-life insurers are the major players in this segment as they cover public sector airlines like Air India and Indian.

(Figures in crores INR.)

	Tata AIG	RIC	ITGI	ICICI	Bajaj	Chola	NIA	NIC	UIA	OIC
Dec'6	0.08	5.5	1.74	24.05	5.51	0.39	77.06	62.74	24	80.13
2005-06	0.02	7.00	0.73	16.60	4.81	0.94	116.85	66.60	37.04	49.51
2004-05	0.03	6.32	0	7.90	0.91	1.14	147.20	38.96	2.36	116.32

**Source: IRDA Journal*

GIC Re (The only Reinsurance company in India today) offers following Underwriting Capacities to its International Clientele (05-06) for Aviation business

Type	Any one Hull	Liability (AOO)*
Facultative (International)		
Airlines	USD 10 Mn	USD 100 Mn
Gen. Aviation	USD 5 Mn	USD 30 Mn
Treaty	USD 500,000 any one acceptance	

* Any one occurence

Conclusion

Aviation insurance is driven by the reinsurance market, with several layers of reinsurers for each deal. Today aviation insurance premiums are running dangerously low, according to industry experts, threatening the industry's ability to cope with future major losses.

With a fifth consecutive year of low accident numbers and low losses in 2006, it has put severe pressure on premium rates. As a result reinsurers have been warned that the amount of premium income is only just enough to pay current claims, with nothing in reserve for the next catastrophe.

It is estimated that the aviation industry incurred losses of around $1.4 billion in 2006. The impact of this, and of four other similarly relatively benign years (2002-05), is that written premiums for airline hull and legal liability now fall below $2.0 billion. This is some $500 million below the level insurers have said they need in order to build up the necessary reserves.

With premiums at their current rates, the industry is running a real risk of being caught short. The past five years have been good for the industry in terms of safety, but it can't afford to become complacent.

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