i notes
Newsletter from India's Leading Insurance Broking House
March-April 09

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India Insure
The risk managers

Message from the Editor

Dear Readers,

It is that time of the year when the accelerators are pressed and everyone is on top gear with target completions and budgets being discussed on a weekly or daily basis.

With the entire global economy on a downward spiral, the Indian non-life insurance industry including stand-alone health insurers has managed about 11% growth rate while life insurance industry grew at 3.5% until Jan 2009.

There is a constant pressure on the managers to improve efficiency of their supply chains with an objective of keeping the flow continuous with the cost at a minimum. In this issue, we focus upon a topic which has been the key area of focus by several organizations in the recent years – Supply Chain Risk management which has been evolving towards a more lean process in the recent past.

Our sincere thanks to Mr. G Srinivasan, CMD, United India Insurance Co. who in this issue has shared with our readers his valuable insights into the present insurance scenario and also to Mr. Peter H Jayakumar, CRO, GATI Ltd. who has shared his thoughts on Risk Management with a particular relevance to the Supply Chain Risk management. We also thank our readers who have been contributing their thoughts which keeps us going.

Wishing all our readers a financial year ending on a positive note!

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

Understanding Supply Chain Risks

At a glance

- The events of the last few years like 9/11 terrorist attacks, fuel crisis etc., serve as profound reminders of the fragility of supply chains.
- The greater reliance on partners and global supply sources and markets is generating more supply chain uncertainty and shows no signs of abating.
- Risks lurk along the entire length of supply chains and understanding and managing the portfolio of risks facing supply networks today is critical to maximizing business performance.
- Unless risk managers play a more strategic role in tackling these challenges by good supply chain risk management, companies will constantly expose their very existence & bottom line to supply chain volatility.

Introduction

Over the course of the past several decades a significant change has taken place in the way raw material suppliers, manufacturers, wholesalers, retailers and end users deliver and receive goods and services. Where stocked shelves in warehouses once provided testimony to the ability of a supplier to meet customer needs, now goods and materials are delivered "just-in-time" to meet manufacturing or distributing schedules better, faster and cheaper than ever before. The development of a highly efficient and deeply integrated global supply chain has been a great boon to the economy - companies are able to reduce the cost of goods, develop new markets and free-up resources to focus on core value-adding activities.

> A supply chain can be thought of like a rope, a series of integrated and intertwined threads. It is these threads that give the rope its strength. Break a thread and the strength of the rope is reduced. Just as with a rope, a supply chain must be fully integrated to operate at maximum efficiency.

But this deadly combination of Outsourcing, Lean manufacturing, Multi-tiered supplier networks and Just-in-time inventory leads to a greater exposure to supply chain disruptions. The events of the last few years like 9/11 terrorist attacks, fuel crisis etc., serve as profound reminders of the fragility of supply chains, the cascading effect of disruptions and the damage to the economy that such a disruption could inflict. These have awakened companies as never before to supply chain risks, some of which had been introduced or heightened by the very actions they had taken to drive costs out of their supply chains.

Understanding a Supply Chain

A supply chain can be thought of like a rope, a series of integrated and intertwined threads. It is these threads that give the rope its strength. Break a thread and the strength of the rope is reduced. Just as with a rope, a supply chain must be fully integrated to operate at maximum efficiency. Modern supply-chains are very complex, with many parallel information flows occurring in order to ensure that products & services are delivered in the right quantities, to the right place in a cost-effective manner. The supply chain is where risk becomes most probable and most damaging. If there is a disaster looking for a place to happen, the supply chain seems to be an obvious candidate.

Supply Chain Risk (SCR) refers to "*an unpredictable event affecting one or more of the parties within the supply chain or its business setting, which can (negatively) influence the achievement of your own business objectives*". Failing to understand the potential risks can compromise the supply chain's ability to handle unexpected and sudden shocks.

Supply Chain Risk Categories

Risks lurk along the entire length of supply chains and may be either internal or external to the company. By understanding these risks, an organization can more clearly identify its options for optimizing the supply chain to ensure viability and strength.

Supply Chain Risks: *Tales from the Industry*

Case I: A well-known example of supply chain risk management is the fire that destroyed a Philip's semiconductor plant (that supplied chips to both Nokia and Ericsson) in New Mexico in 2000. The resulting damage to the factory from smoke and water was much more extensive than the fire itself, contaminating the entire stock of millions of chips.

Unlike competitor Nokia, which demanded that Philips provide chips from an alternate source in Europe, Ericsson relied on assurances that the plant would be back on-line within a few weeks and discovered too late

(Contd... 02)

Category*	Examples
Operational/ Technological	Forecast errors, component/material shortages, capacity constraints,quality problems, machine failure/downtime, software failure, imperfect yields, efficiency, process/product changes, property losses (due to theft, accidents, etc.), transportation risks (delays, damage from handling/transportation, re-routing, etc.), storage risks (incomplete customer order, insufficient holding space, etc.), budget overrun, emergence of a disruptive technology, contract terms (minimum and maximum limit on orders), communication/IT disruptions
Social	Labor shortages, loss of key personnel, strikes, accidents, absenteeism, human errors, organizational errors, union/labor relations, negative media coverage (reputation risk), perceived quality, coincidence of problems with holidays, fraud, sabotage, acts of terrorism, decreased labor productivity
Natural/Hazard	Fire, lightning, flood, monsoon, ice storm, drought, heat wave, cyclones, hurricane, earthquake, tsunami, epidemic, famine
Economy/ Competition	Interest rate fluctuation, exchange rate fluctuation, commodity price fluctuation, price and incentive wars, bankruptcy of partners, stockmarket collapse, global economic recession
Legal/Political	Liabilities, law suits, governmental incentives/restrictions, new regulations, lobbying from customer/political groups, instability overseas, confiscations abroad, war, tax structures, customs risks (inspection delay, missing data on documentation)

*Source: Adapted from Deleris and Erhun (2007)

that this was not true. It had no alternative sources of supply since it had taken the decision some years earlier to single source key components in a bid to simplify its supply chains as a cost reduction measure. Ericsson lost an estimated $400m in new product sales as a result of the fire & stocks dropped by 14%. Thus is the tale of how an 'Act of God' half a world away would set off a train of events that would eventually precipitate a major competitive re-alignment.

Case II: A Feb. 1, 1997 fire at Aisin Seiki Co. forced Toyota to close its 18 assembly factories in Japan which build 14,000 cars a day for almost a week and cost Toyota $195mn. Aisin Seiki's Kariya Plant supplied Toyota with about 90% of major brake parts that were used in nearly all Toyota models. Post crisis, Toyota realized that acute reliance on a single supplier was the cause of the work stoppage and then planned to engage in double-sourcing. Organizations that have single supplier arrangements are putting all their eggs in one basket and leaving themselves exposed.

Case III: During 2007, toy maker Mattel repeatedly made the headlines for recall of toys containing significant amounts of lead. In one specific case, the culprit seemed to be a sub-contractor in China that used uncertified paint which contained excessive amounts of lead. Lack of supply chain visibility for Mattel had resulted in this problem.

Case IV: Reports of more than 80 deaths & 400 patients in the US suffering severe complications after receiving the blood-thinner heparin drug between January 2007 & February 2008 had American investigators uncover that the raw material for the drug (made from pig intestines), became contaminated on its journey from China. The drug was manufactured by Baxter, Inc., which bought the active ingredient from a company that outsourced its manufacture to a plant in China, which had gone uninspected by FDA. FDA's consequential investigation revealed that the plant was not being able to meet basic good manufacturing practices.

Such instances highlight the dynamics of today's more global and intertwined supply chains as a small oversight can result in loss of reputation and bottom line.

Root Causes of Supply Chain Risks

Globalization: Supply chain risks have become ubiquitous as globalization causes supply chains to lengthen. While globalization has obvious appeals, including cheaper costs and access to wider markets, a down side is that the lack of control over supply chains can lead to delivery and quality problems. Many countries which can offer lower costs cannot offer the production, IT and transport infrastructures to guarantee that fluctuations in demand can be responded to quickly and deadlines can be met.

Leaner supply chains: Whilst leaner operations were accepted as a commercial necessity, overzealous application of lean principles would restrict opportunities for growth because there will not be enough capacity to meet short-term upswings in demand. It also results in less "buffer" to absorb supply chain disruptions and delays. Over dependence on a single supplier or over concentrating locations leads to an extremely fragile supply chain that ignores the risks of change or failure.

Increased outsourcing: The industry trend towards outsourcing more activities to suppliers, contract manufacturers, logistics service providers and other supply chain partners has resulted in supply chain risks spreading its wings across borders. Business owners are significantly challenged by the lack of supply chain visibility and the inability to build accurate plans and respond to constant changes across their extended supply chain, creating increased risks.

Supply Chain Risk Management (SCRM)

Supply Chain Risk Management is a structured and synergetic process throughout the supply chain, which seeks to optimize the totality of strategy, processes, human resources, technology and knowledge. The aim is to control, monitor and evaluate supply chain risk, which will serve to safeguard continuity and maximize profitability.

What does RM within the supply chain entail?

Risk identification & assessment: Identify the risks related to your suppliers, your consumers, your environment and the risks within the supply chain.

Mapping key supplier dependencies is the first step in taking control of the risk exposures. Mapping tools can help in the identification of 'pinch points' and 'critical paths'.

Categorize them into a quadrant of high-low probability vs. high-low impact. By identifying single point failures and quantifying exposures, organizations can take conscious decisions to mitigate exposures.

Once risks are identified, build a Cross functional team of subject matter experts - combination of leaders from finance, legal, risk and operations to improve risk assessment both internally and externally.

Risk Prioritization: Prioritize risks so that attention can be focused on those with the greatest potential to cause damage and those that represent the greatest opportunity for risk reduction. The process of prioritization should consider the cost of risk reduction in cost-benefit terms, i.e. the organisation should focus on those risks where the expected degree of risk reduction achievable per unit cost invested is the greatest.

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Interviews – *Insurer & Corporate*

Risk has always been with us. But today it is appearing in new shapes & forms that have hitherto been unheard of. The events of the past six months – are some of the most dramatic in the history of financial services and risk management. Major events like September 11, tsunami, 26/11 terrorist attacks and the most recent financial crisis afford us the opportunity to stop and think about what we need to do more systemically. And as the environment gets ever more complex and volatile, risk management continues to grow in importance.

To find out how risk managers are responding to this new world of risk and where they see themselves going in the future, we speak to Mr. Peter H. Jayakumar, Chief Risk Officer, GATI Ltd.

We also speak to Mr. G. Srinivasan, Chairman & MD of United India Insurance, where he gives us an insight into how his company is doing in the current financial year and its strategies to move forward at this very critical juncture when financial markets worldwide are in mayhem.

{Views expressed herein are personal and not of the company}

Excerpts from the interview with Mr. G. Srinivasan, CMD, United India Insurance

1. Reports worldwide are predicting the beginning of a hard insurance market. But the trends in India suggest otherwise. All the way, there is heavy price discounting, insurers running to bag accounts at any cost and no end of envisaged cross subsidization. Your views on this?

   It is necessary for insurers to preserve their financial strength by ensuring that their operations are conducted in a sustainable manner. It is the experience worldwide that immediately on detariffing rates go down and the market stabilises after some time. The essence of detariffing is that risks get rates they deserve due to their physical hazards, safety practices, management philosophy towards risk improvement and loss control. This would mean that good risks get low rates and other risks have to pay higher rates.

   There are clear indications that this differentiation is taking place in the Indian market now. The market is also showing symptoms of stabilising. The cross subsidisation is also getting reduced though not fully eliminated. We need to give some more time to the market to reach complete stability.

   It is a fact that Indian market has done a much better job on Detariffing as compared to many other markets in the world.

2. While the PSU's have recorded a negative growth of -0.68% in Nov 08, in Dec 08 they have clocked an impressive 20.02% growth with an accretion of Rs.269 crores. What according to you are the reasons for this remarkable performance in Dec 08?

   The public sector companies in India have solid strengths like High Financial Net Worth, Competent Manpower, Large Infrastructure and Years of Experience in dealing with Indian Customers. It is a fact that these strengths assume prominence during periods of economic slowdown. This could be one of the reasons why customers today are migrating to public sector companies.

   The public sector companies have been transforming themselves in the last one year by making changes in their organisational structure, systems, approaches and this has added to their efficiencies. In United India the Transformation exercise of UNISURGE has resulted in creation of specialised offices for serving different segments of customers resulting in specialised and focussed service to our customers.

3. United India has registered a growth rate of 13.53% for the period Apr- Dec 08 compared to a growth rate of 5.02% during the same period in 2007. What change in strategy & focus have you adopted to bring about this notable performance?

   United India has focussed on retail segments in a very large way. We have carried the message to all our people that customer service is the focus of the company and once this is taken care of, the rest will follow. The organisational restructuring done as part of Unisurge has also contributed significantly. The growth of United India is very balanced in all segments of business and in all geographical regions of the country.

4. What do you think are the implications of the recent financial turmoil on the insurance sector?

   The recent financial turmoil has brought to focus the need for financially strong insurers. The Indian market had not differentiated insurers on their financial strength. This was really a paradox as insurance is ultimately a financial security. We will also now fall in line with international markets in this regard.

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News TitBits

IRDA sees 2009 as year of consolidation for insurance industry

Source: Economic Times

The insurance regulator has said it sees consolidation in the insurance industry in 2009. The regulator is also concerned over the finances of non-life companies and is talking to ICAI to assess the audit framework for all insurers in the wake of the Satyam scandal. IRDA chairman J Hari Narayan said the phase of consolidation is set to begin and the regulator will soon come out with guidelines for mergers and acquisitions in the insurance industry. Industry watchers feel the consolidation could be triggered by global M&A, involving partners of Indian players, or by resistance by Indian promoters to put in more capital, either because of a fall in valuations, or because of their own capital constraints. The regulator is keeping a watchful eye on insurance ventures with troubled international giants are partners.

Insurance sector may shrink 10%

Source: Economic Times

The leading lady of the country's largest private sector life insurance company, Shikha Sharma, was quick to admit that growth has significantly moderated in the insurance sector. "A slowdown was anticipated after years of hyper growth in the sector," said the managing director & CEO of ICICI Prudential Life Insurance. In fact, the insurance sector will show a dip of 10% this year compared with an annual growth of 35% for the past seven consecutive years, she said. ICICI Pru is planning to increase its investments this year — that's our mantra for winning in a downturn, said Ms Sharma. "One needs to stay invested in people and this is the right time to accelerate investments, especially in rural areas and health insurance," she added.

Cos now want employees to share health insurance bills

Source: Economic Times

Cost-conscious managements are asking employees to share rising health insurance bills, which were earlier footed entirely by companies, as part of employee benefits. Hit by falling profits and rising costs, they are now asking employees to share the costs. The cost of group health insurance has jumped 15-20% in the past 12 months. Insurance companies now do not have the margins in property insurance to cross subsidise loss-making group health insurance. Typically, under such programmes, while companies will continue to provide cover to an employee and to the spouse, the cost of covering parents' insurance will be on the employee. In some cases, this cost is shared equally or in different ratios, with the advantage that the employee is involved in designing the benefit programme.

Interviews – Insurer & Corporate ..... Contd. # 3

The insurers will also have to factor the financial aspects of their customers in their risk assessment and underwriting decisions.

5. What according to you are the emerging risks likely to impact the companies in India?

   The Indian insurance market is seeing emergence of new risks like Terrorism, Financial Defaults, D&O Liability. However traditional risks like Cat Losses viz. Flood, Cyclone, Earthquake continue to be major concern for the Indian market.. The absence of Data and any scientific reliable model for assessing exposures of insurers is a serious concern.

6. By and large, distribution of insurance products and services to corporate remains a people-intensive process that relies on intermediaries / marketing officers from insurers. How is this distribution system able to cope efficiently in identifying the needs and emerging risks of corporate houses?

   The Indian Customers have by and large bought standard products and have not really focussed their efforts on insurance protection. This would undergo a change due to emergence of new risks, opening of insurance allowing product innovation and the realisation of customers that insurance buying is a serious business.

   There is a clearly a need for professional intermediaries who can advise customers on various aspects of insurance. It is necessary that there is focus on risk management as a whole. The customers need to be advised and helped to understand their risks and buy an insurance programme which is efficient and cost effective.

7. In the recent past, there have been talks of seeing consolidation in the industry. How soon do you expect consolidation to happen in this sector?

   It is good to have big and strong insurers for any market. The process of consolidation is market driven and no one can predict when this will happen. Past experience suggests that during economic slowdown consolidation gets impetus.

Excerpts from the interview with Mr. Peter H. Jayakumar, CRO, GATI Ltd

1. Risk Management- Is there a gap between awareness and action?

   There is no gap between awareness & action but certainly the challenge is the consistency in practice over a period of time, before that is handled, the Risk itself requires a different action. Hence all efforts are required to create the requisite awareness at all levels.

2. What is the most important issue today in the area of risk management for the logistics industry?

- Managing the warehouse risk where huge investments are made.
- Movement of High value shipments which are fragile.
- Of course with the present trend the focus is on costs. The constant pressure on the service provider is to improve efficiency in supply chain, which is vulnerable to disruptions.
- There are major changes in the way goods are stored and distributed to meet the increasing needs of customers. The transport risk factors, storage risk factors are to be addressed on a continuous basis. The hazard register is one of the tools for monitoring the same.
- Continuous investment in Material handling equipments is the need of the hour for safe handling of shipments.

Claims Case Study: *The Claims Notification Clause*

Most policies of insurance contain a provision that requires the insured to give prompt notice to the insurer of any loss and/or circumstance that may give rise to a claim on the policy. Such clauses are intended to give insurers an early opportunity to investigate the circumstances surrounding the event giving rise to the claim. Its importance to insurers is often underlined by giving *the notice clause*, the status of a condition precedent, breach of which will discharge the insurer from all further liability under the policy irrespective of the gravity of the breach or the consequences resulting from it.

Background Facts: KK associates, a firm of chartered accountants, held a Professional Indemnity policy on claims-made basis for the period 1st April 2007 – 31st March 2008 that provided cover for claims made against the insured during the policy period. As is typical of this type of policy, cover was extended to include claims arising out of circumstances that had been notified to insurers during the policy period. On 21st May 2008, KK associates made a claim under their Professional Indemnity policy in respect of claims brought against it by clients - relating to discrepancies in a number of tax saving schemes marketed by it. The claims made against KK associates allege almost exclusively that they were negligent in (i) advising their clients in relation to the schemes, (ii) making false representations about the schemes, and (iii) failing to give their clients adequate warning of the risks inherent in the scheme. The claims have arisen because of KK associates allegedly poor advice and because, on analysis, the schemes have been found to be fundamentally flawed in their design and conception, and hence ineffective to avoid tax. The clients who entered into them said that they would never have done so, had they been competently advised. All the claims were received by the insurer after the expiry

- Last but not the least are the social & environmental risks that the service provider is exposed to.

3. Despite the increasing emphasis on risk management in recent times, Enterprise Risk Management (ERM) continues to be an elusive goal for many organizations in India. Do you think it is because much ambiguity still remains as to what ERM really is and how it should be implemented? Or is it because of sheer complacency - since there is no mandatory regulation for companies to implement ERM?

   It would be incorrect to say that ERM is not being practiced by many organizations as we can see the components of ERM are strategic planning, operations planning & internal control. Organizations do handle all the above but may be in isolation. For winning organizations ERM would be adopted more as a tool rather than as a rule.

   Well we do not need a regulator to oversee this. As part of Good governance ERM is to be practiced. The management plays a major role in overseeing this. There are new laws like the Carriage by Road, Carriage by Air Bill etc on the anvil. The Business Intelligence software, VTS etc are some effective tools apart from Legal Risk Management to address the statutory issues.

4. Do you think the fundamentals of effective risk management are the same across all organizations or do they vary by industry sector?

   The fundamentals are the same but the way it is managed certainly vary from organization to organization, industry to industry & size of the organisation.

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of the policy; even though KK Associates were aware of the circumstance that would give rise to a claim 4 months before expiry of the policy. The insurer denied liability citing the notification clause that required the insured to notify the insurer about any circumstance giving rise to a claim as soon as practicable.

The Issue: The issue was purely "a contest about notification" and the matter went to Court.

The clause in question said *"The Insured shall give to the Insurers notice in writing as soon as practicable of any circumstances of which they shall become aware during the policy period which may give rise to a loss or claim against them. Such notice having been given, any loss or claim to which that circumstance has given rise which is subsequently made after the expiration of the policy period shall be deemed for the purpose of this Insurance to have been made during the subsistence hereof"*.

KK Associates relied principally upon two letters sent to Insurers during the currency of the Policy as constituting valid and effective notice of the circumstances giving rise to the claims. These letters sent to insurers and later sought to rely on as notifications, had been deliberately couched in a low key way so as not to cause ripples with insurers. They also relied on a number of other documents communicated to underwriters up to 8 months after the expiration of the Policy. Underwriters' argued that the documents sent to them could not be relied as notices and were not served "as soon as practicable", from the date of KK Associates awareness of the relevant circumstances and hence no coverage.

The Decision: The Judge held that cover under the Policy would only be provided where notice had been given of the relevant circumstances "as soon as practicable". The Judge recognized that where notification of circumstances is not given as soon as practicable and those circumstances subsequently led to a claim being made during the policy period, then the insured would be entitled to indemnity, subject to a reduction to the extent of any prejudice suffered. However the Judge drew a sharp distinction between that situation and the situation in this case, where the cover is to be provided in relation to claims made after the expiration of the Policy, but arising out of circumstances of which the insured became aware within the Policy period. The Court rejected KK Associates argument that the presentation of earlier communications to Insurers amounted to effective notification as it "did not make it sufficiently clear and unambiguous so as to leave the recipient in no reasonable doubt that a circumstance was being notified".

The judge concluded that there were defects in communications to Insurer, the requirement that the notification of circumstances be made as soon as practicable was an effective condition precedent under the policy and to find otherwise could result in a claims made policy becoming entirely open-ended. Hence the verdict was passed in favour of the insurer.

Our Learnings:

- Proper and timely notice is a condition precedent to liability.
- Check the policy provisions relating to claims notification and consider scope for improvement.
- Make sure notice of claims and circumstances is given in a timely manner.
- Don't be economical with the truth, remember the golden rule - If in doubt, shout!
- Make sure that the notification is given to all insurers.

5. Although supply chain risks have always been present, it has exacerbated over the last 2 decades. What do you think are the root causes of increased Supply Chain risks?

   The definition of Supply Chain over the years has been changing, with scope of work in the chain increasing for the service provider. Obviously the risks also increase.

   The requirement for movement of goods by different modes is governed by the market which is changing fast. Accordingly the risks to be monitored are of a different magnitude.

6. Even companies that appreciate the value & need for robust SCRM face distinct challenges in mobilizing their organizations to assess and address supply chain risks. What according to you are the biggest obstacles to effective supply chain risk management at organizations?

Rather than considering as obstacles, what is required is:-

- Establishing a common risk language or glossary.
- Describing the entity's risk appetite (i.e., risks it will take and will not take)
- Identifying and describing the risks in a "risk inventory" (risk register).
- Implementing a risk-ranking methodology to prioritize risks within and across functions.
- Introduction of unified GST from 1 st April 2010 which is bound to impact the distribution mode
- Establishing a risk committee and or Chief Risk Officer (CRO) to coordinate certain activities of the risk functions.
- Establishing ownership for particular risks and responses.
- Demonstrating the cost-benefit of the risk management effort.
- Developing action plans to ensure the risks are appropriately managed.
- Developing consolidated reporting for various stakeholders.
- Monitoring the results of actions taken to mitigate risk.
- Ensuring efficient risk coverage by internal auditors, consulting teams, and other evaluating entities.
- Make major investments in Information Technology and ensuring adequate network security and having a disaster recovery plan in place.
- In Mechatronic Warehouse, monitoring online the process for compliance.

Report Card - January 2009

Gross premium underwritten by non life industry for and up to the month of January 2009 (Rs. In crores)

INSURER	JANUARY		GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR	APRIL - JANUARY		GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR
	2008-09	2007-08		2008-09	2007-08	
New India	456.58	451.30	1.17%	4569.98	4359.75	4.82%
National	360.55	373.96	-3.59%	3558.95	3296.06	7.98%
United India	351.33	316.13	11.13%	3491.07	3081.08	13.31%
Oriental	338.93	328.68	3.12%	3304.64	3223.58	2.51%
ICICI-Lombard	317.80	278.43	14.14%	3039.67	2903.10	4.70%
Bajaj Allianz	217.09	212.57	2.13%	2214.43	1925.46	15.01%
Reliance General	140.70	149.17	-5.68%	1635.90	1673.64	-2.26%
IFFCO-Tokio	120.07	127.34	-5.71%	1161.53	927.47	25.24%
Tata-AIG	76.19	82.81	-7.99%	749.72	672.28	11.52%
Royal Sundaram	70.52	70.30	0.31%	663.03	566.20	17.10%
Cholamandalam	62.04	48.00	29.26%	587.97	435.52	35.01%
HDFC ERGO	33.62	17.46	92.49%	267.97	185.98	44.09%
Future Generali	26.38	4.42		150.14	5.43	
Shriram General	24.63	0.00		81.94	0.00	
Bharti AXA	6.47	0.00		14.30	0.00	
Universal Sompo	4.99	0.00		12.05	0.00	
PRIVATE TOTAL	**1100.48**	**990.50**	**11.10%**	**10578.65**	**9295.08**	**13.81%**
PUBLIC TOTAL	**1507.39**	**1470.07**	**2.54%**	**14924.64**	**13960.5**	**6.91%**
GRAND TOTAL	**2607.87**	**2460.57**	**5.99%**	**25503.29**	**23255.6**	**9.67%**
Health Insurance						
Star Health	102.76	4.29	2295.75%	484.38	157.79	206.98%
Apollo DKV	4.71	0.49	859.49%	38.01	0.61	6167.24%
Health Total	**107.47**	**4.78**	2148.33%	**522.39**	**158.39**	229.81%

OBSERVATIONS

January 2009

- The entire industry (excluding the standalone health insurers) grew at a rate of 5.98% for the month of Jan 09 with a total accretion of 147 crores. The growth rate has reduced for the month of Jan 09 when you compare it with the growth of 14% achieved by the industry in Dec 08.
- When standalone health insurers are also included in the figures, the picture changes with the industry recording a growth rate of 10.14% in Jan 09. The accretion of the standalone health insurers has been 103 crores In Jan 09.
- While in Dec 08 - the PSU's have clocked a remarkable 20.02% growth with an accretion of 269 crores, in Jan 09 they recorded a minimal growth of 2.54% with an accretion of 37 crores. While United put up an impressive performance with a growth of 11.13% in Jan 09, the effect was negated by the poor performance of the other 3 players especially National with a negative growth of 3.60%.
- The private players improved their performance in the month of Jan 09 recording a growth rate of 11.10% with an accretion of 110 crores compared to 5.23% growth with an accretion of 50 crs in Dec 08.
- The major contributors for the performance in Jan 09 have been ICICI Lombard with an accretion of 39 crores, United with an accretion of 35 crores, Shriram General with an accretion of 24.63 crores and Future Generali with an accretion of 22 crores. These 4 players together have added 121 crores to the total accretion of 147 crores. New India which was the top performer for Dec 08 with an accretion of 111 crore out of the total 318 crores dipped its accretion to 5 crores in Jan 09 with a dismal growth rate of 1.17%.

News TitBits

PSU insurers to jointly set up a third party administrator

Source: Economic Times

The four public sector insurers — New India Assurance, United India Insurance, Oriental Insurance and National Insurance Company are looking at jointly setting up a common 'third party administrator' for servicing clients better, besides achieving a sustainable and competitive position in the health insurance segment. A subsidiary or a model based on PPP or a joint venture could help them in achieving effective and better control over data, pricing, incurred claim ratio and in providing the best services to the health insurance policyholders," said a senior official at General Insurance Council, which is a representative body of insurers.

Insurers may be forced to seek global risk cover

Source: Business Standard

In what may reduce the underwriting capacity of the general insurance industry, General Insurance Corporation (GIC) has withdrawn the market surplus treaty with effect from April 1. As a result, local insurers would be forced to seek more support from global players to underwrite large risks. Market surplus treaties have been providing capacity treaties to general insurers over the last ten years. A surplus treaty is an arrangement where only the excess amount of the normal capacity of a particular risk is ceded to the reinsurers and not a fixed proportion of every risk. Here, capacity is the maximum amount of business or premium volume, which a company or the total market can write, based on financial strength.

Dena Bank shelves general insurance foray plan

Source: Asia Insurance Review

On the backdrop of current economic meltdown, public sector lender, Dena Bank has shelved its plan of entering into general insurance business. "At this stage we are not going for such business as it requires substantial capital and takes a long time to break-even. For example typically a general insurance venture takes 5-7 years to break-even, so may be after 2-3 years when we grow bigger in size, we might look into it," said Dena Bank Chairman and Managing Director D L Rawal. The bank expressed its intension in mid-2007 to set up a joint venture along with another public sector bank, to mark its entry in the general insurance sector.

Kotak-Old Mutual life insurance JV sees break even in FY10

Source: Reuters

Kotak Mahindra Old Mutual Life Insurance Ltd, a joint venture between Kotak Mahindra Bank and Old Mutual Plc, expects to break even in the next financial year starting April, a top official said. "We have high hopes of breaking even next year... not only breaking even, but making some money next year," Executive Director Pankaj Desai told Reuters on Thursday. "We expect our own profits would fund our capital needs." The joint venture, which commenced operations in 2001, had an accumulated losses of 3.64 billion rupees at the end of December, he added.

Readers Speak

How long will the soft market continue?

The insurance pricing cycle is a function of the law of supply and demand - when the supply of insurance – as measured by the capital held by insurers, grows faster than the growth in demand for insurance, rates fall. In India, detariffication along with injection of additional capacity supplied by new players entering the market is driving down rate levels and leading to fiercer competition. But when reductions reach a point where the market begins to lose money, capacity is likely to contract and prices will climb as a result.

We would like to know what you think about this. How long will the soft market continue in India? Are insurers being irrational in their underwriting or are they responding wisely to competitive pressures? What about coverage terms - Has competition lead to broader coverage as well as reduced prices? How sustainable are the current levels of pricing? Where will risk pricing go in 2009? Can the industry absorb further cuts?

Your opinion is solicited.

We invite our readers to share their thoughts, ideas and opinions on this topic (not more than 300 words). The responses should be sent to knowledge@indiainsure.com and will be published in the May issue of inotes.

Service vs. Price in insurance industry: Jan –Feb inotes issue

The Readers Speak section of Jan-Feb issue of inotes dwelt on whether prospects and customers focus on just price or also the quality of service while purchasing insurance. Below are some of the responses we received.

Mr. Satheesh Thalapalli, Manager – HR, Virtusa India Pvt Ltd, Hyderabad

Whether someone accepts or not... Price always plays an important role. However, its our constant endeavor to balance between Service & Price. The benefit (to both Company & Employees) is not 100% without a proper composition. Our experience doesn't establish the direct correlation between Service & Price. And we do not agree that low price necessarily means mediocre service and high price means best service.

Ms. Daksha Naik, AVP- HR, Motif Intelligent Outsourcing, Ahmedabad

- Beyond service and price of an insurance policy comes commitment to provide the highest quality products and services through integrity and ethical practices to the stakeholder.
- As a consumer, the expectations would be to pay minimum premium and get comprehensive coverage including health and term benefits. Price of the insurance policy is directly proportional to the insurance coverage; service is a step ahead where the consumer expects right advice from its insurance partner and prompt claim processing. A customer delight factor of 'We care' will precisely define 'exemplary service'.
- The expectations of the client will vary over time, particularly as the policy progresses. It is important that the insurance company highlights this fact that the illustrations are the current ones and will change over time.
- It is not necessary that high price is directly proportional to the services provided. A consumer expects a dependable insurance partner who would strike a correct balance between the reasonable expectations of policyholders and their responsibilities as consumers. Both sides have responsibilities to inform and to communicate with each other.

Mr. Priyanko Roy, Asst. Mgr.- Benefits & Compliance, Cambridge Solutions Ltd, Bangalore

It is always service that tips the scale. A customer will inevitably look at the minimum price with the widest possible coverage but it is the quality of service that is the ultimate measure of success for any company. A customer will always be willingly to pay more for a product if the service commitment is there, when he is sure that he will be taken care of when something goes wrong. Companies need to strive to find that perfect balance between the highest levels of service while offering the best possible price.

Low prices will not necessarily signify mediocre service - simply because the price is low (or cheap), may not be an indicator of the quality of service. So, service providers need to proactively and continually monitor the service quality because in the long-run it is the companies which focus on quality experience that will ultimately prevail.

Mr. N Kumar, Manager at a private insurer, Hyderabad

While many clients insist that price alone is not the deciding criteria to clinch a deal, more often than not, it usually narrows down to the price. In their frenzy to save money after being squeezed by an economic downturn, many insurance buyers tend to concentrate on price while overlooking coverage and service issues. But a single-minded focus on pricing alone when purchasing insurance for an organization is a major strategic error. With respect to pricing, just remember the old saying - "You get what you pay for". While its only natural that all Corporates expect the service levels to be exemplary irrespective of the price, they could be in for an unpleasant surprise at the time of a claim. A few coverages could be price sensitive and thereby could have an adverse effect at the time of the claim, if the Insured is not aware of the same. Your insurance policy is only as good as your claims handling services because, the realization of insurance only comes to fruition when a loss occurs and a claim is made.

While looking at a broader picture, low price does not necessarily indicate mediocre service and vice versa. But sometimes, declining prices put pressure on insurers and brokers to reduce costs, which can lead to a deterioration of service.

{Views expressed herein are personal and not of the company}

News TitBits

Medical insurers tighten cost levers

Source: Economic Times

Faced with the challenge of rising costs, players in the Indian medical insurance market are tightening various cost levers to ensure continued profitability. This review comes after many insurers began re-examining medical insurance products as "group healthcare" policies to corporates are proving to be a drain leading to huge losses. This has led many insurance companies to resort to retail sales. According to an official with Oriental Insurance, the company is actively pursuing retail health insurance and not chasing corporate accounts. "Insurance companies and TPA's are now keeping a stricter ceiling on treatment rates, beyond which the insured have to pay out of their own pocket. They are also encouraging the insured to visit medium-sized hospitals instead of large corporate hospitals to bring down costs," Jayashree Prasad, senior manager at health management and consulting company People Health, said.

Understanding Supply Chain Risks..... Contd. # 2

Determining the SCRM strategy and actions

The way you manage the identified risks depends on the chosen SCRM strategy on whether to control, transfer or prevent risks.

Preventing Supply chain disruptions:

- o Qualify suppliers around environmental, fair labor, financial, health and safety issues.
- o Wherever possible alternative sources of suppliers should be made available.
- o Develop centralized, systematic, and readily accessible records of suppliers, products and verifiable certification of each supplier.
- o *Supply chain visibility*: Use technology to aid good visibility of supplier performance and compliance. Supply chain visibility is the ability of all members of the supply chain to see from one end of the pipeline to the other. Visibility, for example, implies a clear view of upstream and downstream inventories, demand and supply conditions, and production and purchasing schedules with clear lines of communications and agreement on 'one set of numbers'.
- o Monitor the performance of the supplier regularly as it leads to better supplier development and collaboration. If your business is important enough to a supplier, that provider even may allow you to audit its facilities or agree to make safety or security changes to achieve preferred supplier status. Supplier performance monitoring makes it possible to set baseline goals, to tie those to performance scores, and to create alerts if those goals are not met.

Disruptions are inevitable and it will be those companies that break the risk spiral and restore supply chain confidence that will ultimately prevail.

Controlling risks

Where risks are deemed small enough to be withstood, companies can nonetheless take measures to control them. Risks many a times cannot be avoided but controlled.

Mitigating damage

When catastrophic supply chain disruption occurs, a quick response can help mitigate damage and minimize the consequences. Successfully accomplishing this requires companies have 3 measures in place before the disruption occurs.

- The first is a business continuity plan.
- The second is an insurance program with ample limits that can reimburse a company for operational and financial losses directly attributable to an interruption of business.

  Of course, the cost to transfer the uncertainty depends on the information and controls in place to manage it. Contingent Business Interruption (CBI) insurance provides coverage for interruptions to your income as it relates to a key supplier's or key customer's loss. When CBI coverage is triggered, it must be with the same terms and conditions as outlined in the property insurance policy covering your own operations.

  Insurers on the other hand need to be constantly on guard by ensuring that their risk assessment goes beyond the policyholder to include suppliers and a company's technical and economic dependencies.

  Besides conventional CBI covers, industry is also increasingly requesting covers for business interruptions with no underlying physical damage like political risks such as expropriation and imposition of import/export restrictions, insolvency of a named supplier, service interruption, government investigation, epidemics etc.
- The third measure is to create models and acquire supply chain software that can quickly simulate alternatives and pick the best one. As always plans needs to be put in place and tested prior to the event to be any guarantee of supply chain resilience.

Monitoring the SCRM process and the results

Monitoring can offer essential information to continuously evaluate and improve your SCRM strategy and actions.

Conclusion

We live in a marketplace that drives a global economy that is powered by a global supply chain. Events that occur half a world away and have a disruptive influence on the supply chain will be felt in every corner of the globe. Disruptions are inevitable and it will be those companies that break the risk spiral and restore supply chain confidence that will ultimately prevail. Hence, SCRM could mean the difference between smooth sailing and going down with the ship.

Disclaimer

Contact us

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