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J. B. BODA GROUP

MEDIAN

Issue 80

February 2014

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ON "WRITE" SIDE

CORPORATE PHILOSOPHY ON INSURANCE – II

HANDLING OF RISKS:-

The corporates are not entirely free to decide how they will handle their risks. In every country, there are statutes and regulations regarding health & safety at work; fire precautions, hygiene, construction & operation of vehicles, environmental pollution, food & drink, handling & conveyance of dangerous substances, building codes and many other matters relating to property, personal injury & other risks. Similarly, most Governments have enacted Compulsory Insurance Regulations and in addition a corporate may be obliged to insure certain risks under the provision of leases, construction and other contracts. Failure to comply with both safety and compulsory insurance regulations may constitute a criminal offence and may lead to the enforced closure of a plant or other establishment or the prohibition of the offending activity. Thus, if a corporate wishes to carry on certain activities, it must comply with official risk handling regulations relating thereto. There will remain, however, other areas, where it can exercise its own discretion regarding either physical or financial loss control.

Risks can be handled broadly in four ways:

1. RISK AVOIDANCE

It is very remotely possible to avoid a risk completely. In Horrigan's words, it can involve "either absolute inconvenience or drastic action", and generally risk avoidance is only feasible at the planning stage of an operation; for example a particular site may be so prone to flooding that it is rejected in favour of an alternate site.

2. RISK REDUCTION

In many ways, physical risk reduction is the best way of dealing with any risk and it is usually possible to take steps to reduce either the probability of loss or its severity, should it occur. Again, however, the ideal time to think of risk reduction measures is at the planning stage of any new project, when considerable improvement can be often achieved at little or no extra cost. The only cautionary note regarding risk reduction is that as far as possible, expenditure should be related to potential future savings in losses and other risk costs; in other words, risk reduction generally should be evaluated in the same way as other investment projects.

3. RISK RETENTION

A corporate can retain risk itself, when it can either:

a. charge losses against normal operating costs as they occur;

b. set aside regular contribution to a special contingency fund from which losses can be paid;

c. borrow to cover the cost of any losses, repaying over an agreed period.

The funding method is often labelled as 'self-insurance'. Rather, this is misleading term, because responsibility for the risk remains with the corporate. If, when a loss occurs, the fund proves to be inadequate, or has been appropriated for other purposes, the corporate is left to bear the financial consequences nevertheless.

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4. RISK TRANSFER

Finally, a corporate can seek to transfer its risks. Sometimes it is possible to transfer the risk arising out of a particular operation by subcontracting the work to another entity. In other instances, it may be possible to transfer the responsibility for the consequences of risk occurring; exemption clauses in contracts of sale or carriage and repair clauses in building leases, are common example. On the other hand, although risk may be transferred, the ultimate cost may still lie with the same party; for example, a vendor faced with conditions of purchase that impose wider responsibilities, for defective goods than is required by law may raise his price accordingly. Also the tendency worldwide is for the courts and legislators to severely restrict the scope for contracting out responsibilities for losses. Indeed in relation to liability for injury and damage caused by defective products, the trend is to impose even more stringent liabilities on manufacturers and suppliers.

The main method of risk transfer is insurance. The value of insurance lies in the financial security of an individual or corporate can obtain by transferring to an insurer, in return for a known premium, the risk of losses arising from the occurrence of a specified peril (or perils). Thus, insurance substitutes certainty for uncertainty. Insurance does not protect a corporate against perils occurring; it offers restoration, atleast in part of any resultant economic losses.

In comparing insurance with other methods of handling risks, two points always should be borne in mind. The first is that insurance only offers compensation against economic losses; it can never for example, comfort the family of the employee who is killed in any accident that could have been prevented. Second by the tax treatment of the various elements should be allowed for in calculations.

Apart from risk avoidance, none of the other forms of risk handling is mutually exclusive. Risk reduction measures may be a pre-condition to an insurer providing insurance, or which may entitle the corporate to a reduction in premium. Also risk sharing is widely practised: large deductibles on insurance covers are now quite prevalent.

RISK MANAGEMENT AND INSURANCE IN THE CORPORATE:-

Almost all large corporates and public corporations now employ full time personnel to manage their insurances. A few corporates combine all responsibilities for the handling of risks into a single Department under the control of a senior executive. The broadest view of the risk management function is that it should embrace not only pure risks, which form the subject matter of insurance, but also extend to the analysis and control of all risks arising out of the business of the corporate.

If a corporate is too small to have a full time Insurance or Risk Manager with responsibility for implementing the insurance programme, then the task should be undertaken by a senior executive such as the Company Secretary or Chief Accountant. A considerable amount of largely routine work is involved in compiling data and values of assets to be insured, providing information to insurers for the purpose of adjusting premiums, notifying details of changes affecting the insurance arrangements and handling claims. Technical assistance and advice of insurance intermediaries can be availed. Insurance is a highly specialised, complex subject, which needs expert knowledge in order to avoid costly mistake, both in making the initial arrangements and subsequently in dealing with large claims.

CORPORATE POLICY ON INSURANCE :-

Corporate Policy should be laid down in a written statement on the lines indicted below:

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OBJECTIVES:

Protection of the company's assets and earnings against loss, including protection against legal liabilities, all at a reasonable cost commensurate with optimum cover.

ASSUMPTION OF RISK:

Assume risk

1. If the probable maximum loss is small and can be met from earnings.
2. If the probable maximum loss is small in relation to the insurance premium required and there is a wide spread of risk.
3. If deductibles are possible, having considered the probable maximum loss, and the discount allowed on the insurance premium.
4. If funds or reserves can be relied upon to make good the loss.

PURCHASE OF INSURANCE:

1. Consider whether to place insurance direct or through intermediaries.
2. Insure all insurable exposures to catastrophe, unless they can at any time be met by available internal funds, bearing in mind possible cash and over-draft positions.
3. Insure exposures where the probable maximum loss is too large for the corporate to bear.
4. Insure where the insurers make insurance an economical and convenient method.

ADMINISTRATION:

1. As far as possible, administrative systems and methods should fall into line with those operating within the particular corporate or organisation.
2. Aim at simplicity by such methods as the amalgamation of policies, the grouping of renewal dates, the placing of wide covers and by reducing the number of declarations to a minimum.
3. In major companies with many subsidiaries, branches, works or divisions, weigh the advantages of centralization of insurance administration. Since insurance is a highly specialised business, it is usually imperative and pertinent to have a Programme, including the centralised purchase of insurance. This brings the advantages of expertise, balance, consistency and volume, as well as relieving local management of a task for which they are not well equipped. Centralisation should reduce the possibility of multiple covers as well as gaps in covers.

CONCLUSION :-

CORPORATE INSURANCE –

IS NOT A NECESSARY EVIL, BUT AN AFFIRMATIVE GOOD.

IS NOT AN EXTRA BURDEN, BUT AN ESSENTIAL COST.

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NATIONAL

NON – LIFE

INSURANCE YEAR 2013 IN INDIA

The year 2013 was an action-packed one for the insurance industry, marked by a string of regulations and innovations.

The year also saw Mr. T S Vijayan taking the helm in February at the industry's regulatory body – Insurance Regulatory and Development Authority (IRDA).

The year that was …

From a bird's-eye view, there has been a big overhaul in the industry, benefitting the industry, the competition and the policyholders.

Traditional plans have gone through a major churn, as have health and motor policies. While the changes have been customer - centric, the pace of the change saw insurers continually acclimatizing to the new guidelines. The potential is seen very promising.

Here's a List of major regulatory changes that the period saw, and how they are expected to shape up the industry in 2014:-

Increase in Third Party Motor Insurance Premium: The third party compulsory premium is still mandated by the regulator and free pricing is not allowed. Since the burden borne by the insurers as claims is more than the premiums collected, the regulator gave a nod to a steep 20% upward revision of third party premiums. While insurers want this to go up further, there is strong opposition from different stakeholders, including transporters' associations.

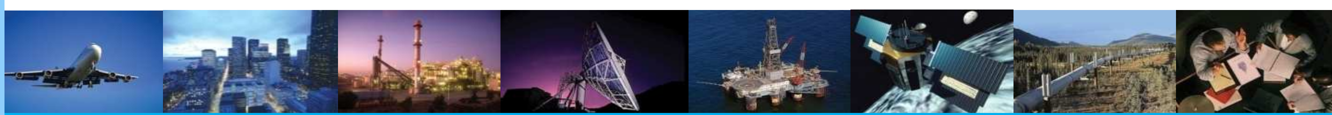
Standard Application Form: The regulator introduced the concept of a 'standard application form' for the life insurance business. While this may appear a small step, it is crucial in providing transparency and bringing in more standardisation in the industry.

Health Insurance Regulations: A lot of clarity and customer feedback seems to have gone into making these set of rules. Most of these changes were positive from the customer's perspective.

Banks as Brokers: Till recently, banks could operate only as corporate agents of insurance companies. This meant that they could offer products only from one life, one general and one standalone health insurance corporate. Since a large number of banks are promoters in major insurance companies, they sold products of only those insurance companies. IRDA has now allowed banks to operate as insurance brokers, which means that they can sell plans from any insurance corporate. However, this does not mean that they cannot continue to operate as corporate agents.

While this is a good step forward, it remains to be seen how many banks will want to take this route.

Proposed Guidelines for Web Aggregators: In line with the greater acceptance of the online medium and the emerging acceptance of web aggregation as a convenient and preferred mode of comparing plans and buying, the regulator has suggested a improved set of rules for the operation of web aggregators.



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Launch of Insurance Repository: An insurance repository was officially launched by the regulator. This is a huge step for the industry and will go a long way in digitizing the entire process which will lead to huge cost-savings and make sharing of data within the industry simpler. Right now, the facility is available for life insurance policies. However, it is expected to include the general insurance sector as well. This will also be a great step forward for compliance in motor insurance, where access of insurance validity will be easy for law enforcing agencies.

Insurance for those with HIV: The regulator also opened up for discussion the issue for providing life and health insurance covers for those living with HIV/AIDS. This is a laudable step to ensure financial security to the family of such members.

Changes in Traditional Life Insurance Plans: Traditional plans are also mandated to go through a major overhaul. The changes were supposed to go live in October 2013, but were shifted to January 1, 2014. The guidelines will have a major impact on the way the benefits under these plans are designed.

There is a lot of focus on transparency and consumer awareness, with the IRDA mandating the prescription of the right product for each customer based on their profile, with increasing focus on plans with longer tenures. The changes in the minimum amount of cover, which needs to be offered, and the increase in surrender values have also made insurance consumer-friendly. These are positive changes for the consumer.

PASSAGE OF INSURANCE BILL REMAINS AN UNFULFILLED DREAM IN 2013

Lack of political consensus kept the long pending Insurance Bill a pipe-dream in 2013. The Insurance Bill seeks to raise foreign investment limit to 49 % from the existing 26 % . The Government had introduced the Bill in Upper House of Parliament in December 2008 to improve and revise Laws relating to the insurance sector in the wake of private participation.

INSURANCE DENSITY, PENETRATION SHOW DECLINE

Insurance penetration in India has fallen for the second time after the sector was opened for private players. The IRDA in its Annual Report for 2012-13, said insurance penetration stood at 3.96 % , while insurance density stood at $53.2 for 2012.The measure of insurance penetration and density reflects the level of development of the sector. While insurance penetration is measured as the percentage of insurance premium (in $) to GDP (in $), insurance density is calculated as the ratio of premium (in $) to total population. On the life insurance side, the penetration fell 3.17 % in 2012 from 3.40 % in 2011. Life insurance density also fell to $42.7 in 2012 from $49 in 2011. Non-life segment, however, has seen a marginal increase in penetration and density. Insurance density rose to $10.5 in 2012 from $10 in 2011. Non-life insurance penetration, though was still under one per cent, rose from 0.70 in 2011 to 0.78 in 2012.

PREMIUM ON LUXURY CARS TO INCREASE

Insurers are considering increasing the premium charged on luxury cars because claims from this segment have outpaced the auto industry average and costs to repair these high-end vehicles are high. According to industry reports, the increasing number of claims has made the business of insuring luxury cars a loss-making one for them. The ratio of claims to premium paid in this segment doubled from a year earlier to 80 % in the fiscal year ended on March 31, 2013. The rising sales of luxury cars and the changing profile of buyers are to be blamed. Initially these cars were bought by only a few, now they are being bought by many.

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STOCK BROKERS COMPROMISE ON INDEMNITY COVER

Around 1,200 stock brokers are buying the mandatory Indemnity Insurance Policy that does not cover them fully. The rules mandate that every broker must have minimum Professional Indemnity Insurance for INR 500,000. The policies various brokers have bought do not cover them for the crucial ‘Errors and Omissions’ (E&O) Clause. This would have given cover for errors in punching in the rates, scrip name, number of shares, and ‘selling’ instead of ‘buying’ and vice versa. Non-life insurers saddled with a high claims ratio of over 200 % in indemnity policies bought earlier with E&O cover. The claims arise on account of punching errors at dealer terminals. The insurers offer 50-70 % discount to brokers who buy a cover without E&O. Generally, Brokers are buying covers that only cover them for infidelity of employees, computer crime, burglary, loss of securities and cash, which can be covered through a normal Office Package Policy.

INDIA: MUMBAI MARATHON ORGANISERS BOUGHT US$3.25-MLN INSURANCE

The organisers of recent Mumbai Marathon, bought comprehensive insurance cover INR 200 million (US$3.25 million) against event cancellation, public liability and terrorism. Around 40,000 runners participated in the 42-km run, the 11th annual Marathon in the city. Security threats at marathon events have increased following bombings at last year’s Boston Marathon. Generally in events such as marathons, organisers do not perceive much liability risk since the event takes place in a public place. However, organisers take insurance cover against event cancellation or abandonment due to adverse weather conditions or political tensions. Mumbai Marathon is a high-profile public event, attracting international runners, CEOs and celebrities.

INSURERS FREED ON CYLINDER BLASTS

Insurers need to pay up for third-party loss on account of gas cylinder blasts “only if such incidents occur while the cylinder is being installed, or while it's being transported for installation”. In a Judgment that will provide a reprieve for insurers, the National Consumer Dispute Redressal Commission (NCDRC) has ruled that in all other instances, the local gas agency and the respective oil corporate should compensate victims of gas cylinder blasts.

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NATIONAL LIFE

NEW INSURANCE GUIDELINES WITH EFFECT FROM 1ST JANUARY 2014

For starters, new traditional products will have a higher death cover.

Product guidelines for linked and non-linked life insurance products that have been revised by the IRDA will be implemented.

Here is an overview of the changes that have come in from 1st January, 2014:

NEW TRADITIONAL PRODUCTS WILL HAVE A HIGHER DEATH COVER. For regular premium policies, the cover will be 10 times the annualised premium paid for those below 45 years and seven times for others. The minimum death benefit in case of a traditional plan is at least the amount of the sum assured and the additional benefits.

IN THE CASE OF UNIT-LINKED PRODUCTS (ULIPS), insurers will have to intimate customers about changes in the yield of the Ulip every month. Variable insurance plans will guarantee a certain minimum rate of return at the beginning of the Policy, though they are linked to an index.

THESE VARIABLE INSURANCE PRODUCTS will be treated on a par with Ulips, those products will follow the same commission package for Ulips.

AGENTS WHO TEND TO SELL SHORTER TENURE PRODUCTS will now have to shift their sales strategy to longer tenure products, since commissions have now been linked to tenure of a Policy. Higher the duration, higher is the commission. Hence, an agent will push for a product with tenure of 20 years and more.

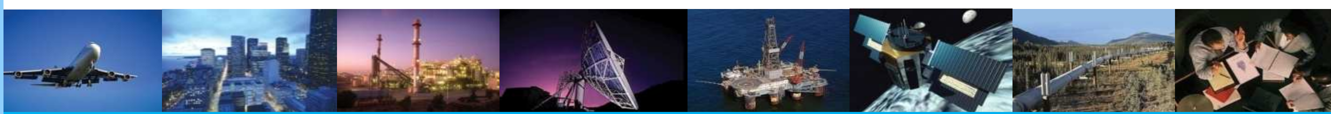
THERE WILL BE A CHANGE IN SURRENDER VALUE FOR POLICY HOLDERS. This is the cash component that a policyholder gets when he/she surrenders a Policy. The surrender value will depend on the premium paying term of the Policy. If the premium paying term for Policy is less than 10 years, then the Policy will acquire the surrender value after paying premium for 2 years (Compared to three years). If tenure is more than 10 years, the surrender value will be acquired only after paying premium for three years.

THE MINIMUM SURRENDER VALUE NOW IS 30% OF ALL THE PREMIUMS PAID without excluding the first year premium. Earlier, first year premium was excluded. Between the fourth and seventh year, the surrender value will be 50% of all premiums paid.

ALL ASSET-VALUE RELATED CALCULATIONS & DETAILS OF THE RETURNS, in case of linked products, will now be clearly put on the Policy Form. While some of it could be illustrative in nature, the product will be more transparent since the customer will have a clear idea of the product and its returns.

SMALL SAVING PLANS MAY GET INSURANCE ADD ON

Amid concerns over the falling household savings rate, it has been mooted to revamp the Postal Small Savings Plans, which include schemes like National Savings Certificate (NSC) or Public Provident Fund (PPF). In an annual review meeting of the National Savings Institute (NSI), the agency which manages the schemes, it was suggested to come up with changes in the existing plans to make them attractive. This includes incorporating pension and insurance features in the Scheme.



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INTERNATIONAL

ASIA PACIFIC: REGION INCREASINGLY OCCUPIED WITH REGULATORY RISK

Regulatory changes are beginning to become a major concern in the Asia Pacific, according to the third annual Allianz Risk Barometer report which surveyed over 400 corporate insurance experts from more than 30 countries. Cyber crime is another new entrant in the Top 10 Asia Pacific risks. The results of the study also show how an increasingly globalised world means that risks are becoming more closely aligned. The top three risks globally are Business Interruption (BI) and Supply Chain, Natural Catastrophes and Fire / Explosion. These rankings are the same for the three regions covered by the Barometer which are Europe, Middle East and Africa (EMEA), the Americas and the Asia Pacific.

The Top 10 risks in Asia Pacific for 2014 are:

1) Business interruption, supply chain risk
2) Natural catastrophes
3) Fire, explosion
4) Changes in legislation and regulation
5) Loss of reputation or brand value
6) Cyber crime, IT failures and espionage
7) Commodity price increases
8) Market fluctuations
9) Intensified competition
10) Talent shortage, aging workforce

MOST AT EARTHQUAKE RISK

Three cities in the Middle East are among 15 metros around the world that are most at risk of being hit by the next 'Big One', according to a well-known earthquake researcher.

University of Colorado professor Roger Bilham compiled the list of 15 cities based on population growth and seismic history, among other factors.

The cities are:

- Tokyo, Japan
- Jakarta, Indonesia
- Delhi, India
- Teheran, Iran
- Lima, Peru
- Mexico City, Mexico
- Karachi, Pakistan
- Los Angeles, US
- Istanbul, Turkey
- Lahore, Pakistan
- Dacca, Bangladesh
- Manila, Philippines
- Cairo, Egypt
- Osaka, Japan
- Bogotá, Colombia.

ASEAN ECONOMIC COMMUNITY

The goal of ASEAN Economic Community (AEC) in a region of more than 600 million people and GDP of US$2 trillion spells opportunities for the insurance industry. The insurance market is sizzling with expectations. Insurers have to be ready, not only to exploit the full potential of the regional economic integration, but also to protect their current positions.

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HONDA LEADS INSURANCE INDUSTRY'S 2014 SAFETY RANKINGS

Honda Motor Co. has topped the insurance industry's annual list of the safest new vehicles. The Insurance Institute for Highway Safety (IIHS), USA has given 39 vehicles top safety ratings for 2014. That's far fewer than the 130 on the list last year, because vehicles now must meet tougher standards. For the first time, the vehicles need top crash test scores and a good front crash prevention system - such as warning systems or automatic braking - to get the highest designation. Vehicles are now ranked as either a "Top Safety Pick" -- or "Top Safety Pick +" if they meet the front crash protection criteria, as well. Twenty-two vehicles got the absolute top grade and 12 others got the one just below it, the Institute said. Honda, which also owns the Acura brand, had the most winners of any automaker with eight of its vehicles making the list, including six that got Top Safety Pick +. The Honda Civic hybrid, Honda Accord, Acura RLX and Acura MDX all got the highest ranking. Its Honda Civic two-door and Acura TL were also ranked as top safety picks.

The list is often used by safety-minded car shoppers and by automakers in advertising. Most of the Top Safety Pick + winners made that grade only when they had optional front crash prevention systems, the Institute points out. When they weren't, they still met the Top Safety Pick criteria.

There were eight newcomers to the list, including Infinity's Q50, the Mazda 3, Toyota Highlander and the Chevrolet Spark mini-car. The Honda Civic Hybrid and several Volvo models won the top designation on the basis of standard equipment in their vehicles.

ONLY ONE SMALL CAR PASSES TOUGH IIHS CRASH TEST

The smallest cars on the road carry the biggest injury risk in common and deadly type of crash, a new Report of the Insurance Institute for Highway Safety (IIHS), USA has revealed. Only are of eleven small city and mini cars passed the IIHS’s small front overlap crash test in which a car hits a barrier with the front driver’s side corner at 40 miles per hour. It simulates clipping another car head-on or hitting a tree or pole. The worst performer was the Honda Fit, which earned a “poor” rating in the test along with five other models and all but one of the rest were “marginal”.

Just one car among the 2013 and 2014 models tested received an “acceptable” rating in the tough test-the Chevrolet Spark. Thus, Spark is the only one in the group to earn the IIHS Top Safety Pick designation. Small, lightweight vehicles have an inherent safety disadvantage.

Besides Honda Fit, also rated “poor” (from lowest to highest score) was Fiat 500, Hyundai Accent, Toyota Prius C, Nissan Versa and Mitsubishi Mirage.

Rated “marginal” were Ford Fiesta, Toyota Yaris, Kia Rio and Mazda2.

HONG KONG AS REINSURANCE HUB

Hong Kong may develop into a reinsurance hub by leveraging the large capital pool of the mainland. Hong Kong's advantages, namely, its legal system and market liquidity, can help the city to become a reinsurance centre after Zurich and London. Greater China is big enough to have two financial centers - Hong Kong and Shanghai.

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TIME MANAGEMENT PRACTICES

Use a calendar	Having a calendar is the most fundamental step to managing your daily activities.
Use an organizer	The organizer helps you to be on top of everything in your life. It's your central tool to organize information, to do lists, and other miscellaneous items.
Create a daily plan	Plan your day before it unfolds. Do it in the morning or even better, the night before.
Know your timelines	Mark the timelines out clearly in your calendar and organizer. So you know when you need to finish your tasks.
Keep a time limit to each task	Be clear that you need to finish A. task by 10 am, B. task by 3 pm and C. item by 5.30 pm..
Target to be early	For appointments, when you target to be on time, you'll either be on time or late. Most of the times you'll be late, however, if you target to be early, you'll most likely be on time.
Set alarms / reminders 15 minutes before	Set alarms / reminders before tasks.
One task at a time	Focus on just one key task at one time.

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