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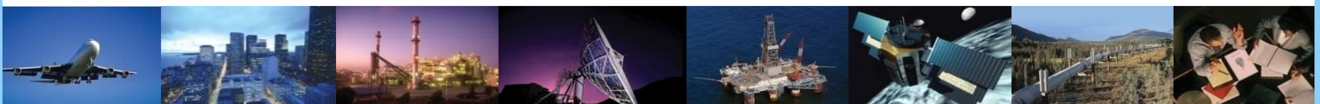

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PRIME STORY

ACCELERATORS, BRAKES AND AIRBAGS – RISK MANAGEMENT IN OVERDRIVE?

The scale of the recalls announced recently by Toyota both in the US and UK has caused considerable interest in the area. As a result, the manufacturer has been forced to mount a major PR offensive, speaking publicly about its importance to the US economy and the number of people it employs. Reeling from the shock of recalling more than 9m vehicles worldwide since November for “unintended acceleration” issues, Toyota now has to contend with a recall of its market-leading hybrid Prius model due to concerns with their brakes as well as concerns over the Corolla. If misery likes company, Honda has provided some comfort in recalling some 1.3m cars due to airbag problems – perhaps a good time to bury bad news?

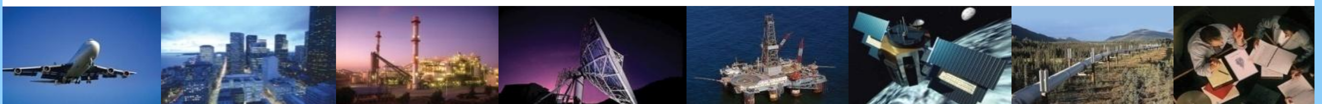
The issue of product recall, and how relevant lessons from the automotive industry translate into risk management issues for businesses of all types is examined here.

THE CRISIS AT TOYOTA

It is an understatement to say that the car manufacturers have not had an easy time of late. If the impact of the recession on their bottom line and maintaining employment levels was not hard enough, even those who had seemingly escaped the worst now find themselves co-ordinating a recall programme of huge proportions to fix critical faults. The damage that such recalls can have on a company has been shown to vary widely depending on how that organisation is both set up to manage the problem as well as how it confronts the matter with the public and appropriate regulators.

The longstanding accusation levelled at the automotive industry is that there are too many components which have been harmonised across models as a cost-saving issue. Unarguably a laudable aim, but a step which creates a far more widespread problem in the event of a defect. As commentators get to grips with the latest mot du jour – kaizen: Japanese for “continuous improvement” which drove the highly-admired Toyota Production System (TPS) – those who manage an organisation’s risk should consider the parallels with and lessons for their own business.

The TPS advanced just-in-time inventory thinking, designed out overburden, inconsistency and waste and reconsidered long-accepted practices to see if they were capable of challenge.



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Now, exposed by the need for recall, the overarching philosophy of the TPS is being rethought: does it institutionalise cost-saving to a degree where the law of unintended consequences is bound to prevail as in this case? That part of the recall to fix accelerator pedals is currently known to affect seven different models in the UK, and eight in the US. Against this background, it seems more evident that the obvious commercial and financial sense in standardising parts should be carefully stress-tested against worst-case scenarios to understand their full implications.

PRODUCT RECALL – WHEN TO RECALL

It is human nature, not to say good business practice, to look at the current misfortunes of the Japanese car industry to see what lessons can be learned. One might tend to look kindly on Toyota, pointing out that (at present) it is only the sixth-biggest recall in US automotive history, far behind Ford's 14.9m for combustible cruise control switches a few years back, but what the current story does underline is the need for organisations to have in place coherent strategies for not only dealing with defective product issues, but more importantly trying to prevent them arising.

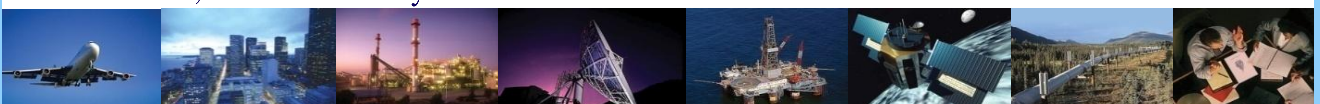
There are in excess of 20 EU directives identifying vertically defined sectors in which products placed on the EU market must meet harmonised standards. Layered over this is an overall horizontal consumer protection layer in the form of the general product safety directive which, put simply, requires products to be safe. Broadly it also requires products to be traceable and monitored for risks, for information to be available to consumers and for authorities to be informed if products are no longer safe or risk becoming unsafe.

A decision to recall is never simple, but must always have regard to consumer health and safety, involving consideration of questions including:

How many products are there in circulation?

..What characteristics make it unsafe?
..How serious is the risk?
..Are specific categories of people (e.g. the elderly or children) at risk?

Recall is the last resort, and multiple options exist along the scale to try to prevent the need for such a potentially brand-damaging act: will consumer warnings be sufficient? Can the products simply be discontinued or withdrawn from further sale? Until such time as it is clear that the products are unsafe, discussions need not be held openly with regulators in the UK, but a time may come where sharing information with industry enforcement bodies will help reduce the risk of being accused of hiding it. That decision should involve insurers, public relations and legal functions alongside operations and logistics. The task of recall is formidable, but it is certainly achievable.



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Criminal sanctions for a breach of the general product safety requirement as well as possible civil liability certainly focus the minds of many decision–makers when the question of recall is raised, but since that threat is ever-present, it should form part of an organisation’s thinking at all levels.

WIDER RISK MANAGEMENT

Translating this into other business contexts, and the risk management function that usually hovers somewhere between legal and finance, to what extent does the organisation rely upon individual ways of working or single points of failure? There are inevitably more questions than answers, but the process of working through scenarios which might have a significant impact on the bottom line can offer solutions to, or at least mitigation of, the potential downside.

The obvious place to start is with the now all-pervasive IT system:

..Is it backed up with disaster recovery capability, and is that real-time or delayed?

..How long would it in fact take for your business to recover from a lost power supply or from being cut off from the internet?

..How reliant are you on a single IT system that has been developed on a bespoke basis? On the assumption that you have a maintenance contract to support it, do you have access to the underlying code in order to be able to fix it if you lose that supporting vendor?

Turning to insurance:

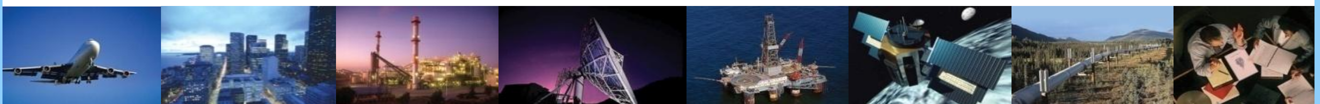
..How does the extent of your policy interplay with the internal operational risks (failures of equipment etc.) as well as the liability risks accepted in the provision of customer service set out in orders and other contracts?

..Do you have a process to ensure that new product development cannot proceed to market without due consideration of the implications for any insurance you may have in place?

..How often do you test your cover to ensure that it would in fact protect against the range of products and scenarios which it is designed to do?

Having a global reach can lead to global problems:

..To what extent does your risk management policy in fact cater for local jurisdictional issues? Do they need to be tailored to take account of local culture and inherent business risk?



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..From a personnel perspective, are the necessary people empowered to take decisions, or do they have reporting access in emergency situations so that action can be taken to mitigate the worst effects of a problem.

Brand management in this context is not a question of intellectual property rights, but more public relations. It relies upon agreeing an approach to communication with customers, regulators and other interested parties so as to ensure that the necessary information is delivered in a way that maintains a customer's confidence to keep coming back to the brand. Done well, this "conversation" continues irrespective of an intervening recall.

History teaches us that many "invincible" brands are not too big to fail. The significant impact on a brand caused by product failure and/or recall is only one possible root cause of wider business failure, but when recalls on the scale of those currently witnessed occur, it is a good time to step back and review one's own processes to minimise the risks of featuring in future headlines.

WHAT ACTION CAN BE TAKEN IN THE ABSENCE OF A RECALL OR SIMILAR CRISIS?

The three areas of focus identified above are all examples of where gaps can be plugged in the overall defences. Nonetheless, at its heart, risk management is about protecting the brand and ensuring that once the immediate crisis is past, any damage to the organisation's future is minimised. Staying ahead of the problem as far as one can is something that can pay dividends:

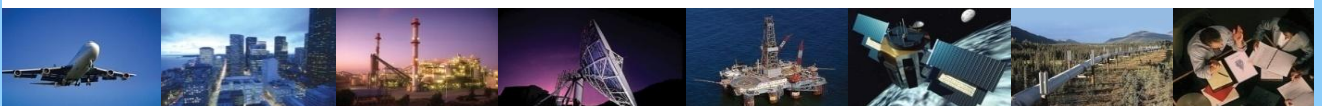
..Ensure the right personnel are engaged in a risk management forum, where appropriate, tasked with managing product recalls. Make sure others know who they are;

..Review insurance coverage and consider when cover might not be available;

..Engender a culture within relevant working groups where continuous improvement is a goal, but differentiate between that and simple cost-efficiency;

..Encourage processes and products to be scrutinised even if it involves a little more cost – spending a little more now might well save a great deal later on.

Source: MR. RUPERT CASEY, Macfarlanes



NATIONAL

INSURERS CAN HOLD ONLY 5% IN PROMOTER COMPANY, STIPULATES NEW INSURANCE ORDINANCE

The new insurance ordinance stipulates that no insurer can acquire more than 5% in the promoter company but gives them some leeway on holdings in other firms. The Insurance Act 1938 does not prescribe any limit on how much of its parent company an insurer can own.

To be sure, the Insurance Regulatory and Development Authority (Irda) has fixed a ceiling of 5% of the total-owned fund of the insurer. Experts said that the move to fix a 5% cap is aimed at preventing a contagion risk and preventing subsidiaries from propping up the shares of parent companies.

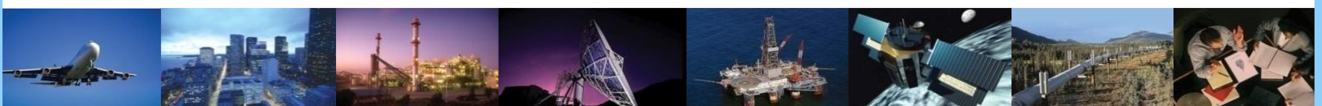
At the same time, the ordinance has done away with the existing 10% cap on the equity stake that insurers can hold in other companies. Instead, it gives regulator Irda the discretion to fix a ceiling on investments in other companies.

The Insurance Act 1938, which currently prevails, says that an insurance company can acquire 10% of the issued capital of a company or bank or 10% of its own investible funds, whichever is lower. In the past, Irda contemplated a higher investment limit to accommodate Life Insurance Corporation (LIC) of India, which had crossed the 10% investment cap.

Traditionally, LIC had been holding sizable equity in several companies at the behest of the government. Any move to lower the stake to below 10% would have resulted in a sharp reduction in share prices. To prevent this, a special dispensation was made for LIC under Section 21 and 46 of the LIC Act giving absolute powers to the central government on matters relating to the state-owned company, including investments. LIC manages a corpus of Rs 20 lakh crore ($ 3,253,371 Trillion) and has crossed the equity threshold of 10% in several banks One expert sounded a warning.

"If Irda is not firm, powerful corporates can arm-twist Irda to approve large investments in a single company," said Srinivasan Kalambur, former whole-time member of Irda. Others said that the cap of 5% on a promoter company and removal of the 10% cap on holding of another company complements each other.

Source: Economics Times



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MAX INDIA TO SPLIT INTO 3 BUSINESSES

Demerger aimed at giving investors structural clarity, says Analjit Singh
The board of Max India, the flagship company of New Delhi-based serial entrepreneur Analjit Singh, approved on Tuesday a plan to demerge the group's three businesses-insurance, healthcare and specialty firms to create holding companies for each of them. These holding companies will later be listed on the Indian bourses after receiving necessary regulatory approvals. “The demerger is aimed at giving structural clarity for long-term investors,” Singh, Chairman of Max India, said after announcing the new plan. “This will help in unlocking shareholder value.”

“Currently, three unrelated businesses are operating under one listed entity which was making it difficult to explain the business model to our different stake holders,” he said. “What I have learnt in business school is that if you are unable to describe your business in one sentence, then you do not know your business” Singh said, adding that the move will give complete clarity to the investors. ET was the first to report the demerger plan in its edition dated January 2014.

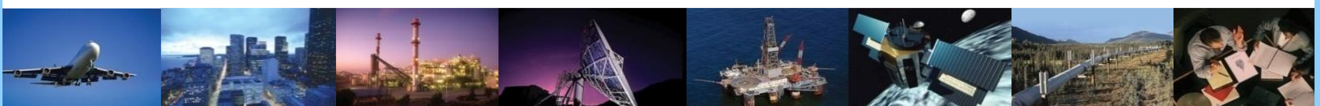
Under the proposed plan, Max India will be renamed Max Financial Services which will own investments in life insurance joint venture Max Life Insurance. It owns 72.1% equity stake in Max Life and another 26% s with Japanese insurance major Mitsui Sumitomo Insurance. Healthcare and specialty films business will be housed under two separate holding companies which will be listed separately. The ownership of healthcare and related business - Max Healthcare (hospitals chain), healthcare insurance (Max Bupa Health Insurance) and Antara Senior Living - will be put in a new holding company that will be named Max India.

The third vertical will house the investment activity in the group manufacturing subsidiary Max Speciality Films, one of the leading players in specialty packaging films business, and will be named Max Ventures and Industries (MVIL).

Since all the three businesses are vertically demerging, the shareholding pattern of the new entities will be a mirror image of the currently listed company Max India. In all the three companies, promoters Analjit Singh and his family's ownership will be about 40.5%.

Their promoters - Analjit Singh and his family - have also decided to increase their ownership in MVIL to 75%. Following the completion of the demerger exercise, the promoters will make an open offer to increase their ownership to 75% from the 40.5% at present.

The voluntary open offer for MVIL would be made at an equity value of Rs. 1680 million ($ 27.33 million) for the company. This, in effect, means that the open offer will cost 580 million ($ 9.43 million) for 34.5% stake in MVIL. In addition, the board of Max India



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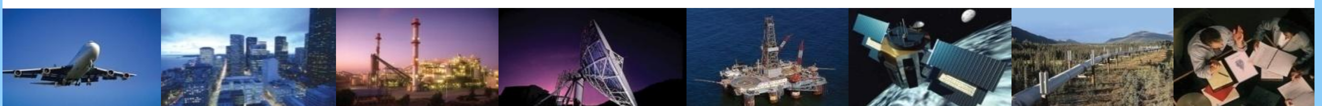
decided to exit from clinical research business. It has decided to sell its clinical research business for $1.5 million to Canadian company JSS Medical.

Following the completion of demerger, Max India's shareholders will retain one equity share of Rs. 2 each in Max Financial Services and will additionally get one equity share of Rs. 2 ($ 0.033) each of Max India for every one share of Rs. 2 each held in Max Financial Services. In addition, the shareholders will get one equity share of Rs. 10 ($ 0.16) each in MVIL for every five equity shares of Rs. 2 each in Max Financial Services.

The company's cash reserves of Rs. 6050 million ($ 98.41 million) will be split between the three listed companies. Of this, the largest portion of Rs. 4450 million ($ 72.39 million) will go to Max India, and Max Financial Services will get Rs. 1500 million ($ 24.40 million), while Rs. 100 million ($ 1.63 million) will be allocated to MVIL.

Singh, founding promoter of Hutchison Max (now Vodafone India), owns 74% stake in each of the two insurance ventures - Max Life Insurance and Max Bupa Health Insurance - and 46% in Max Healthcare, which runs the hospitals.

Following the news of demerger, Max India share price gained 8.4% to close at 492.75 per share on Tuesday. Its current market capitalisation is Rs. 131,310 million ($ 2136 million).



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NATIONAL - LIFE

PRIVATE INSURERS SHUTTING BRANCHES IN SMALL TOWNS DUE TO LACK OF PROFITS

Private insurers are shutting their branch offices in small towns due to lack of profits from these areas, leaving the state-run Life Insurance Corporation to bear much of the burden of financial inclusion.

According to the latest annual report by the Insurance Regulatory and Development Authority, LIC opened 1,313 offices during 2013-14 while private insurers closed down 732 offices and opened 166, taking the net reduction in offices of private insurers to 566 during the fiscal.

Of the total 11,032 total offices of life insurance firms in the country, LIC has 79.6% of its branches in small towns while its private peers have 57.95%

MORE AGENTS JOIN FORCE TO SELL INSURANCE

Regulator raises concern about high attrition rate despite net increase in number by 3.1%

Selling insurance seems to be a gainful employment, attracting a large number of people to become agents of both private insurers as well as Life Insurance Corporation of India (LIC).

According to the Insurance Regulatory and Development Authority of India (Irda) Annual Report for 2013-14, the number of insurance agents have increased by 3.1 per cent, after a steady decline since FY11. As of March 31, 2014, India has 2.18 million insurance agents, up from 2.12 million on March 31 the previous year. Private insurers recorded an increase of 4.5 per cent and LIC two per cent in the numbers of their agents.

“LIC had a higher number of individual agents than all private life insurers put together,” said IRDA in its report. At the end of FY14, the number of agents with LIC stood at 1.19 million, the corresponding number for private sector insurers was 0.99 million.

In 2013-14, the total number of agents appointed was 0.72 million and the number of agents terminated was as high as 0.65 million. While private insurers appointed 0.38 million agents, about 0.34 million agents were terminated. At LIC, 0.31 million agents were terminated while it appointed 0.34 million agents.

The regulator has raised concerns about high levels of attrition among insurance agents. In the annual report, it said even though there was a net increase in the number of individual

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agents, such high attrition may adversely affect life insurers' business, policy persistency and public perception of the agency channel as a stable career.

"It is, therefore, in the interest of all the stakeholders to work on reducing the turnover of agents and building a stable and growing agency force," said IRDA.

Life insurance companies have been making additional efforts to ensure that the longevity of an agent's career in the organisation and in the insurance sector.

Apart from offering training and mentoring, financial and non-financial incentives are being offered to high-performing agents to attract and retain them in the sector. Agent attrition has been an ongoing issue in the life insurance sector.

Irda has decided to remove minimum persistency criteria (the minimum number of policies sold by agents that have to be renewed), leaving it to the board of each life insurer to have their own norms on persistency, the insurance regulator said.

Before this, agents were required to have a minimum persistency rate of at least 50% to remain in the business.

LIC STILL TOPS INDUSTRY IN CLAIM SETTLEMENT, SAYS IRDAI ANNUAL REPORT

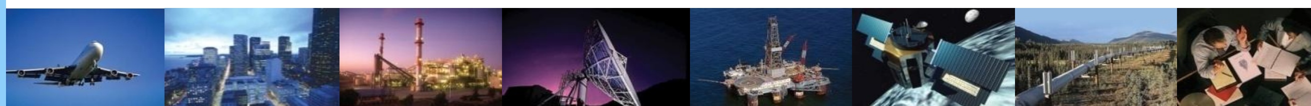
Life Insurance Corporation of India (LIC) still maintains the lead in the life insurance industry with respect to claim settlement. In the year 2013-14, the life insurance companies had settled 857 million claims on individual policies, with a total payout of Rs 108,606 million ($ 1767 million), said the Insurance Regulatory and Development Authority of India (IRDAI) Annual Report.

The claim settlement ratio of LIC was better than that of the private life insurers. The settlement ratio of LIC had increased to 98.14% during the year 2013-14 when compared to 97.73% during the previous year. The percentage of repudiations was 1.10% in 2013-14 remaining almost at the same level (1.12%) as of the previous year.

For private insurers, settlement ratio had gone down slightly to 88.31% during the financial year 2013-14 when compared to 88.65% during the previous year. Private insurers had repudiated more (10,036) number of claims when compared to (8,387) of LIC. The percentage of repudiations for private insurers was 8.03% in 2013-14 which was 7.85% for 2012-13.

However, IRDAI's annual report said that the industry's settlement ratio had slightly increased to 96.75% in 2013-14 from 96.41% in 2012-13 and the repudiation ratio had remained almost at the same level of 2.08% in 2013-14 as in 2012-13 (2.10%).

Source: Business Standard



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NON-LIFE

MOTOR INSURANCE BUSINESS TO REMAIN FLAT OVER EXCISE DUTY INCREASE CAR PRICES SOAR WITH WITHDRAWAL OF LEVY CONCESSION IN DEC, PREMIUM COLLECTION LIKELY TO BE HIT

The general insurance sector, which had hoped for a revival in this financial year's last quarter, would likely see a flat period with an excise duty across the vehicles segment.

The sector was pinning its hope on a revival of the sales of automobiles in the last quarter, leading to higher purchase of motor insurance policies, which constitute the largest share of non-life premiums. But a rise in prices, thanks to the excise duty, will affect insurance sales, too.

Motor insurance consists of two segments — own-damage and third party (or TP) cover. While the own-damage covers losses to self during accidents, TP covers liability to a third party caused by a vehicle owner during an accident.

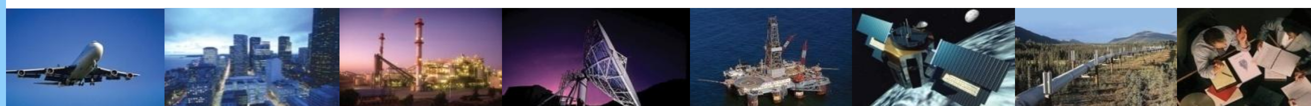
The prices of cars and sports utility vehicles (SUVs) are beginning to soar by five to six per cent with the withdrawal of the excise duty concession in December.

As the excise duty increased by at least four per cent from January 1, across vehicle segments, car prices have shot up. Besides, other costs such as road tax and value-added tax have made the price increase steeper.

The general manager at a public general insurance company said the cost of the vehicle is also looked into, while pricing a cover. "In a comprehensive policy — where both own-damage and TP cover are offered — the prices will see a hike with the annual TP pricing revision and also due to own-damage price correction with a car price hike."

Since motor TP segment is not yet de-tariffed, Insurance Regulatory and Development Authority of India (Irda) increases the premium every year. For this financial year, IRDA has hiked premiums in the range of nine to 20 per cent for different categories of vehicles.

Source: Business Standard



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INTERNATIONAL

SOUTH AFRICA: GOVERNANCE AND RISK MANAGEMENT FRAMEWORK FOR INSURERS

The Registrar of Insurance recently published the Governance and Risk Management Framework for Insurers which is intended to provide for enhanced requirements for the South African insurance industry

The Registrar of Insurance recently published the Governance and Risk Management Framework for Insurers ("GRMF"). The GRMF is intended to provide for enhanced governance and risk management framework requirements for the South African insurance industry and takes effect on 1 April 2015. More particularly, the GRMF is intended to ensure that South African insurers implement effective governance and risk management frameworks that provide for the prudent management and oversight of their businesses and adequately protects the interests of its policyholders.
Source: Article by Clyde & Co

MAGNITUDE 5.1 QUAKE HITS NEGROS OCCIDENTAL

CEBU -- A magnitude 5.1 earthquake hit the province of Negros Occidental at 3:09 p.m. Monday, January 26, 2015, the state seismologists reported.

The Philippine Institute of Volcanology and Seismology (Phivolcs) said the tremor was located at 18 km (11.18 m) northwest of Sipalay, Negros Occidental.

The quake had a depth of 21 km (13.05 m) and was tectonic in origin.

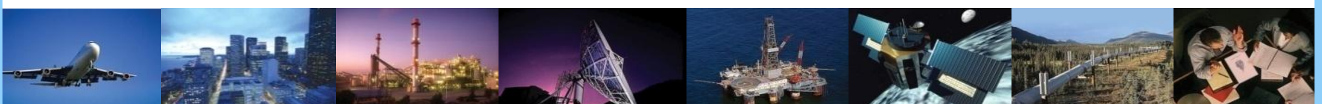
Intensity five was felt in Hinoba-an Municipality and Sipalay City in Negros Occidental; while intensity four was felt in Iloilo City and in the municipalities of Tayasan, Sta. Catalina, Bayawan City, Siaton, and Basay in Negros Oriental.

Intensity three was felt in Tobias Fornier in Antique and Ayungon in Negros Oriental.

Intensity two was also felt in Dipolog City, Calamba in Misamis Occidental, Dumaguete City, Jordan, Guimaras, and Cebu City.

Phivolcs said there were no reported damages, but aftershocks are expected.

Source: Sunnex



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SPORTS LEISURE & ENTERTAINMENT

LIMITED INSURANCE OPTIONS FOR ADVENTURE SPORTS

Adventure sports such as river rafting, long-distance biking, para-gliding, skiing, etc, are becoming popular with Indian tourists. For instance, biking in the mountain ranges is a popular holiday activity for many. Similarly, Hrishikesh is as well known for water sports like river rafting as it is for temples. But if you meet an accident while on an adventure-sport holiday, chances are your regular travel insurance will not cover you for the hospitalisation. In fact, if you look at the websites of general insurance companies, sporting activities are part of the exclusions for most. Some offer it as an add-on cover or for only group policies.

Bajaj Allianz General Insurance offers cover for any injury during adventure sports under a professional trainer/assistance as an amateur and not involved in as a professional. It is covered under medical sum insured limit of the comprehensive travel insurance, says Renuka Kanvinde, associate vice-president. “This is the normal cover under all travel policies. However, a claim under any professional sport will be excluded,” she says.

The duration for the policy is 180 days and can be extended for a further 180 days. It covers the participation of the insured under supervision of a trained professional in winter sports, mountaineering (where ropes or guides are customarily used), caving or pot-holing, hunting or equestrian, sky diving or other underwater activity, rafting or canoeing involving white water rapids, sailing yachts or boating outside coastal waters (two miles). The premiums depend on the age of the policyholder, geographical coverage, duration of travel and plan opted, Kanvinde adds.

Usually, as a part of the base policy adventure sports aren’t covered, these are part of add-on covers only. The additional cover for such policies can vary from 20-23% of the base policy premium. The tour operators or organisers should be recognised and should follow all safety precautions.

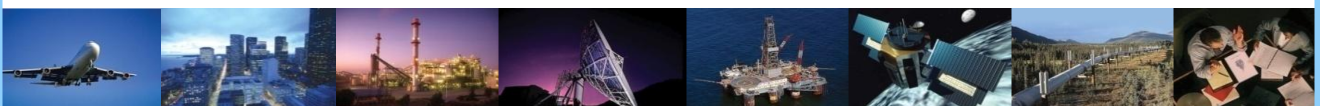
Since policies for adventure sports are customised, it is not feasible for insurance companies to offer these for small ticket individual policies. Additionally, since it is not a part of the standard travel policy the pricing is higher. But it is easier to get such a policy for a group, since premiums can be lower.

The benefits for such policies are similar to those under a regular travel policy and include medical expenses inclusive of repatriation and emergency medical evacuation, personal accident-death, permanent total disability, permanent partial disability and others.

One reason why insurance companies shy away from offering insurance for adventure sports is because the under-writing is different in case of each sport. For instance, the risk in case of para-gliding is different from, say, river rafting or biking. This makes it difficult to structure the product.

In some cases, the organiser may offer insurance at the spot. For instance, if you sign up for para-gliding, the organiser may offer you a policy at the spot, which will cover hospitalisation in case of fractures or injuries. These are group policies customised for the particular organiser and buyers don't have much choice.

Source: Business Standard



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EDUCATE YOURSELF

HOW TO CLAIM LIFE INSURANCE FOR MISSING PEOPLE?

Tragically, in 2014 we also witnessed drama in real life when Malaysian Airways aircraft MH#370 disappeared. Closer home, Srinagar was struck by one of the worst deluges of all times and several people went missing.

What happens to a person's insurance money who goes missing? Let us understand the procedure involved in claiming life insurance for missing people.

1) MAKING THE CLAIM: After declaration, how and when is the claim paid?
Once the court order is obtained after 7 years of the person missing, the insurance company processes the claim and releases it. However, the beneficiaries of the life insurance policy or the Insured's family should have been paying the premium to keep the policy alive for those 7 years till the insurance company pays the claim.

2) EXCEPTIONS FOR MAKING A CLAIM: Can the insurance company honour the claim before 7 years?

a) IN CASE OF REASONABLE PROOF OF LOSS: If there is clear reason or circumstances to believe that death has occurred (in insurance parlance, if there is 'proof of loss'), insurance companies may release the claim earlier than 7 years also. If the claim amount is very high, or there is a claim in the first few years of taking the Insurance cover, the company will have a thorough discussion and inquiry before releasing the claim. That said, in missing cases, which are not out of natural calamities, it is pretty difficult to get claims out before 7 years, as there is no circumstantial proof of loss.

In most cases when claim is released before the 7-year period, Insurance companies may also ask the customers to issue an indemnity bond, which requires the nominee to return the claimed amount, if the insured member is found alive later, after paying the claim. If the person is found alive after a period of 7 years, then also beneficiaries of the claim amount are liable to pay back the insurance company.

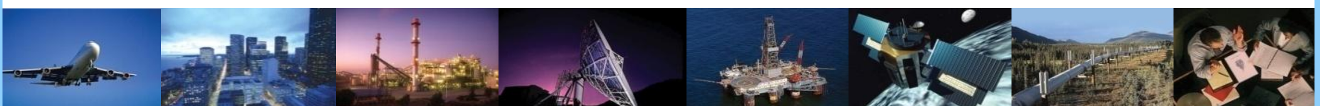
b) IN CASE OF NATURAL DISASTERS/ TERRORIST ACTS In cases, such as those arising out of natural disaster, terrorist acts or plane crashes, where government authorities have released a list of missing people to be presumed dead, most insurance companies take this into consideration. They override the 7-year clause, and make the claim payment.

Insurance Companies, generally LIC is asked to be lenient by the govt. in their paperwork in case of natural calamities. Like in the case of the Uttarakhand floods in 2013 when the then Finance Minister P. Chidambaram asked LIC, the country's largest life insurer to not insist on the 7 year clause and sign indemnity bonds so that the claims could be settled quickly.
a) Normal course of assuming death of a person is 7 years

b) Beneficiaries need to keep paying the premium on behalf of the missing person till claim is honoured.

c) In case proof of loss has been obtained out of turn, before 7 years, family may be asked to sign an indemnity bond to return the claim amount in case the missing person returns.

Source: Internet



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