

## Message from the Editor

Dear Readers,

Time flies.... It seems like just yesterday that we shared the happy news of our company's 5<sup>th</sup> Anniversary with our readers and we have already blown the candles for our 6<sup>th</sup> Anniversary last month. It's been a good 6 years and we are well on our way to building a world-class broking firm.

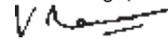
What is most gratifying is that we are part of the team which is giving shape to a brand new industry (and not just one organization) in India – the Insurance Broking industry! We are re-defining the concept of Insurance intermediation in the non-life sector – focusing on people, knowledge, service and technology – in a market which was hitherto used to dealing direct or, sometimes, being serviced by individual agents.

The year has started well for the Broking industry, with the IRDA's new rule (i.e. abolition of 5% Special Corporate Discount on Tariffed Policies for all companies with a paid-up capital of less than Rs 15 crores) coming

into effect from April 1, 2005. This has opened up a huge market for brokers as (the qualifying) companies will now have nothing to lose and everything to gain by working with us.

In this issue of *i-notes*, we deal with a much debated topic – health insurance in India. In our Product section, we have focused on Credit Insurance – a long-awaited cover which is bound to become very popular in the coming years. Several of our corporate clients operate out of high-rises with a large head-count. We found it fit to provide some Risk Management tips on how to handle Evacuations in such situations. After all, money can't bring back lives!

Warm Regards



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

## What ails Health Insurance in India?

Health Insurance is a much-maligned subject in India. It is potentially the largest and most profitable segment of non-life Insurance, but at present, it is neither. In its present form, it is the darling of neither the insurers, who have been collectively losing large money on this portfolio, nor the insureds, who have always been at the receiving end of increased costs and coverage restrictions.

The Standard Health Insurance Policy of PSUs, known as Mediclaim, in operation for several years, covers only in-patient hospital care (and domiciliary hospitalisation benefits, subject to conditions) leaving out routine out-patient care. The coverage is subject to numerous exclusions, coverage limits and restrictions on eligibility. Entry of brokers and private insurers has addressed the issue by limiting these exclusions and bringing in innovations in terms of coverages, at least for Group Insurance members. These changes however, in turn fuelled already high loss ratios.

The Indian Insurers per se lack in

- efficiency in claims processing,
- visibility,
- mechanism to monitor fraud and excessive fee by the doctors

Unlike in the US where majority of Insurance Coverage comes from employer sponsored schemes India has very little contribution from employers. Again, there are no prepaid schemes like equivalents of Blue Cross or Blue Shield type of associations. Blue Cross or Blue Shield plans are non-profit associations organized to provide for pre-payment of

hospital expenses and physicians fees. They agree to provide a specified service benefit rather than traditional cash reimbursement. Akin to these are HMO (Health Maintenance Organization) plans which provide wide range of health care services for an annual membership fees.

India has a huge uninsured populace. Only about 15 million out of a total 1 billion of our countrymen are covered under some sort of health scheme. Compared to present level of Rs 1,500 crores premium written by all companies, the potential premium estimates is Rs 50,000 crores and above. It is a beckoning opportunity. But what are the major impediments in increasing private sector health insurance penetration? Some of them are:

### High Claims Ratio

- Being a non-tariff product, insurers are forced to undercut prices, leading to high claims ratio and losses.
- Large and informed employee groups have traditionally abused the scheme – member impersonations, malafide claims etc – leading to large losses.
- Hospitals have added to the problem by allegedly over-charging where the patient is known to be insured. Interestingly, while all the other players i.e insurers, TPAs and brokers, are subject to regulation, hospitals somehow seem to be exempt from any regulation.

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## Credit Insurance

Sweeping changes in the international political landscape and widespread market deregulation have made trade the driving force in our worldwide economy. Companies venturing into new territories will be the ones to prosper.

But expanding sales and building new customer relationships can leave balance sheets vulnerable.

In emerging markets, foreign legal systems and unpredictable political developments make promising opportunities fraught with risk.

Economic downturns, privatization of public entities and inconvertibility or non-transfer of currency can leave your customers unable to pay what they owe.

Even in areas traditionally considered “stable”, such as the United States and Europe, threats such as insolvency, adverse liability judgments, inadequate insurance protection and balance sheet fraud can impact a company’s ability to fulfill its payment obligations. And when such events affect a company’s customers, they can dramatically impact its balance sheet as well.

No credit manager can foresee the effect that a leveraged buyout, stock market downturn, or regional recession will have on their customers. It’s impossible to know the customers as in the past.

And often by the time customer insolvency or credit loss is foreseen, it’s too late to protect the company’s account receivable.

Accounts receivable can make up nearly 75 percent of a company’s current assets. And like all major balance sheet assets, they require insurance protection. Are you adequately covered?

*Credit Insurance provides the security companies need to compete in today’s global market.*

Coverage is available for both foreign and domestic accounts receivable, and customised solutions for each client’s specific trade credit insurance requirements can be developed.

### What is covered?

- Non-payment/ Realization of Invoice due to the failure of the buyer to pay.
- Any Legal costs incurred (with prior consent of the Insurer) for Recoveries.

*It covers the speculative risks and hence protects the business from financial consequences of such risks like bad debts.*

### Types of Risks

- Commercial Risks like Protracted Default and Insolvency are covered
- Political Risks Insurance helps insulate companies from the effects of unexpected, discriminatory or arbitrary acts of foreign governments.
- Expropriation or arbitrary and capricious intervention in the business of the buyer.
- Currency Inconvertibility
- Confiscation, expropriation or nationalisation of assets.
- War and political violence.
- Import / export embargo or licence cancellation.
- Contract repudiation.
- Wrongful calling of “on- demand” guarantees.

### What are the important features of the policy?

- Worldwide coverage - All overseas sales could be covered under one global cover
- The loss is paid on completion of the waiting period.
- The Indemnity provided is generally ranging from 80-90% depending on the Country of sales
- Coverage may be provided for all countries including CIS countries depending on the Trading Experience.
- If more than one invoice is outstanding from a buyer, then the Waiting Period is applied only to the first outstanding invoice, after completion of which all the outstanding invoices are paid.
- Reasonable DCL can be negotiated for ease of administration and free trading with buyers with good trading experience / financials.

### What is excluded from coverage?

- Wrongful or dishonest acts or omissions of the Insured or its agents;
- Quality disputes between the Insured and the Buyer.
- Failure to comply with applicable laws and regulations for the acquisition and transfer of Contract Currency.
- Insolvency or financial default of any party except the Buyer or, if applicable, the guarantor.

## Credit Insurance..... Contd. from # 02

- War between the people's Republic of China, France, the United Kingdom, the Russia Federation, and United States of America is normally excluded in most of the Credit Insurance Policies.
- Dispatches made to a buyer who already has outstanding balances beyond the maximum extensions.
- Administrative costs
- Indebtedness above permitted limit.

### Why Credit Insurance?

- Helps expand sales in an increasingly competitive environment.
- Financial Protection for major assets.
- Customer would be thoroughly vetted by the Insurer who generally has vast and expanded network
- Bank Borrowing / additional lines of finance are more readily available.
- Improved ability to handle bad debts.
- Allows to trade on terms in excess of usual norms.
- Is an acceptable security by Banks for Discounting
- Cost effective and comprehensive.

## Humour

Mr. John Mumford III, was a rich old man was dying from a rare disease. On his deathbed, he called for his insurance agent, doctor and preacher: "I trusted each you my entire life. Now I want to give each of you \$30,000 cash in an envelope to put in my grave. I want to take it with me."

Mr. Mumford died and at the funeral, each one placed the envelope on top of the man, then he was laid to rest. On the way from the funeral, in the limo, the doctor confessed

"I must tell you gentlemen, I only put \$20,000 on top of Mr. Mumford, I wanted buy this new machine that would enable me to diagnose his rare disease and save others. It's what he would have wanted".

Then the preacher said: "I have to confess, I only put \$10,000 on top of Mr. Mumford. We needed that money to help more homeless, and it's what Mr. Mumford would've wanted".

The insurance agent was angry at both the men, and said: "I can't believe both of you, stealing from a dead man. I wrote Mr. Mumford a cheque for the full \$30,000!

## What ails Health Insurance in India? .....Contd. from # 01

- **High Equity Capital** : KP Narasimhan committee, working on a health insurance report, holds the view that government should allow stand-alone health insurance. The requirement for setting up a specialist Health Insurance Company is Rs 100 crores of capital same as for any General Insurance Company. There are favourable viewpoints aired in the Regulatory and Government on lowering the threshold limit.
- **Cap on Foreign Equity** participation at 26%. An increase to 49% or more would entice giants in this sector to consider India seriously for investment.
- **Cross-subsidization** : Heavy cross-subsidization of health premium with other policies sold by general insurance companies is making the health insurance an unattractive proposition to any serious player. Health Insurance Policies are often viewed as mere 'accomodation' business.
- **Health Insurance by non-life Insurers** : Health insurance currently falls under the same umbrella as general insurance, but in developed markets like North America, health insurance is covered under life insurance. There is a similar move being considered in India, as life insurance policies often invoke many of the underwriting considerations as those for health.
- **Lesser product range** : Indian market today doesnot have products like Long Term Care (LTC) etc.Bhavishya Arogya scheme of GIC was long abandoned by the PSU companies.
- **Absence of actuarial data** : Lack of reliable actuarial data and its effective analysis has lead to poor underwriting and poor pricing in India. Outpatient care cannot be covered till adequate data is made available to underwriters.

By sprucing up information management for assessing prices and terms, and patterns of operations, India can enhance quality of healthcare facilities. Coupled with "political will", India can become a hub for "health tourism" in this part of the world. A recent study by Wharton School estimates that India could potentially target some 10% of the world health care market.



## Risk Management Tips - Evacuation Planning

Protecting the health and safety of people is the first priority during an emergency. *Evacuation planning* is essential for every business. Evacuation plans will vary depending on the facility and the nature of the emergency. In the case of a fire, an immediate evacuation to a predetermined area away from the facility may be necessary. In the event of a hurricane, evacuation could involve the entire community and might take place over a period of days. When you develop evacuation plans, consider the needs of employees, emergency responders, visitors, and others. Consider these general requirements for Evacuation Planning:

### **Designate Roles and Responsibilities**

- Establish a clear chain of command. Identify who has the authority to order and direct an evacuation.
- Designate wardens to assist others in an evacuation and to account for personnel and visitors.
- Designate personnel to continue or shut down critical operations while an evacuation is underway.

### **Establish Evacuation Routes**

- Designate primary and secondary evacuation routes and exits.
- Install emergency lighting in case of a power outage during an emergency.
- Ensure that evacuation routes and emergency exits are:
  - ❖ clearly marked and well lit.
  - ❖ wide enough and unobstructed at all times, and safe for everyone who must use them.

### **Provide Evacuation Information**

- Establish, document, post, and distribute evacuation policies and procedures.
- Provide emergency information, such as checklists and evacuation maps. Post the maps in strategic locations.
- Consider the information needs of vendors, customers, and visitors.

### **Provide Evacuation Training**

Train employees in evacuation procedures. Hold sessions at least annually, or whenever:

- Wardens and other special assignments are designated.
- New equipment, materials or processes are introduced.
- Procedures are updated or revised.
- Exercises show that employees performance must be improved.

### **Consider Special Situations**

- Establish procedures for helping persons with disabilities. Consider elevators, evac chairs, buddy systems, areas of refuge, signs, alarms, and communication.
- Be sure that you can communicate essential information to people who do not speak English.

### **Consider Community Needs**

- Coordinate your plan with the local emergency management office and outside agencies such as fire and police.
- Consider employees' transportation needs for community-wide evacuations.

### **Know What to Do After an Evacuation**

- Designate assembly areas where personnel should gather after an evacuation.
- Plan to take a head count after the evacuation. Determine the names and last known locations of personnel not accounted for.
- Establish a method of accounting for non-employees (customers, vendors, visitors).
- Establish procedures for further evacuation in case the incident expands.

## Disclaimer

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