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Message from the Editor

Dear Readers,

Another financial year comes to a close very soon and all eyes are on the finishing line; more for the intermediate slots where we have a huge shift in the rankings. In less than 8 years since privatization, we have the Private insurers mopping up 35% of the market share.

While the market is slowly settling down to the drop in prices in the property market and the insurers continue the battle in the price game, the talks in the corridors of the insurance stake holders remains the date for opening up of the wordings which was slated for April 01st 2008.

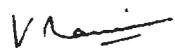
In this issue we focus upon a much neglected area in the Corporate world which has its bearing on insurance – The Contract wordings. We have made an attempt to draw attention to an area which needs to be discussed much more seriously between the Corporates and the

Insurers. We also have the views expressed by seniors from the Insurance industry in the wake of the developments in the industry. Our sincere thanks to Mr. K A Somasekharan, President and CEO of Reliance General Insurance Company and Mr. R K Kaul, General Manager of National Insurance Company for sparing their valuable time and sharing their views.

An article on the Workers' Compensation policy and how it compares to the Employers Liability policy has also been included in this issue.

Trust you find the articles useful and interesting.

Our best wishes for a financial year end that meets your targets planned!



V Ramakrishna

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

Contracts, Risks and Insurance

Introduction

Today's contracts are extensive and complex, imposing a variety of obligations, duties, and limitations on service providers/vendors and customers. Understanding these contracts can be difficult and time consuming. However, knowing what risks are contained in these agreements is vital.

Contracts have to be drafted carefully ensuring that the parties involved have their roles, deliverables, liabilities and obligations clearly defined. Well-written contracts clarify agreements, improve project outcomes and create good working relationships between the contracting parties. Unfortunately, companies enter into contracts either without knowledge of the amount of liability they are assuming or by turning a blind eye to the liabilities being assumed out of sheer desperation for winning the deal. Ignoring even the smallest of risk factors in a contract can result in significant losses to all parties involved. In this article, we do a brief review of contracts with a special reference to the insurance angle; highlighting areas of concern which if handled carefully will minimize ambiguities, and lead to a lesser cause for litigation.

What is a Contract?

A contract is a legally binding exchange of promises or agreement between parties that is enforceable by law. The key elements to a contract are offer, acceptance and consideration. Contracts have important legal consequences that will impact your business. Contracts can be verbal or written. At any time, a written contract usually provides better evidence than a person's recollection of a verbal contract, as to what was agreed between the parties.

Contracts vary, but are usually based on industry standards. They generally include a description of the responsibilities and work to be done, price, the schedule of work, warranty terms, indemnity & insurance requirements, dispute resolution and termination or cancellation clauses. A contract is legally binding on both the parties.

Unfortunately, companies enter into contracts without knowledge of the amount of liability they are assuming.

Therefore understanding and knowing what you can provide, how to explain why you cannot meet certain requirements, and successfully negotiating changes to the insurance requirements have become important.

Managing Contract Risk through Insurance Agreements

Insurance requirements for projects or service deliverables are set out in the insurance clauses of the contract itself. The more complex the service deliverable, more stringent and complex is the insurance requirement. The party awarding the contract would always like to ensure maximum protection for them. Therefore understanding such insurance requirements, knowing what you can provide, how to explain why you cannot meet certain requirements, and successfully negotiating changes to the insurance requirements have become important for the party bidding for the contract.

Unfortunately, insurance is given scant attention when contracting. At this juncture, it is important to ensure that, you give a copy of the entire contract to your insurer or broker as there may be vital aspects in the contract for which you have assumed liability unintentionally and which can be avoided by reducing the limits imposed or by appropriately insuring the same. A review of the complete contract by the insurer / insurance broker enables them to highlight clauses which can never be covered by insurance irrespective of the cause of the loss. E.g. consequential damages, penalties etc.

Consider this example: M/s A1 Constructions, a construction company was in charge of a contract wherein they were responsible for widening and strengthening an existing road, owning it, operating it and then transferring it to another party at a later date. M/s A1 declared the project cost as the sum insured for insurance purpose and the policy was issued accordingly. During the operation phase, a flash flood washed away the road. M/s A1 filed a claim with the insurer for the same; but were disappointed with the claim settlement. The Insurer settled the claim, only for the cost of the strengthening and widening work which they had undertaken on the road and not for the primary road which was not included in the Sum Insured. They were also penalized heavily for under insurance. A closer review by

Contracts, Risks and Insurance.....Contd. # 1

professionals who understand the implications of contract wordings that are unintentionally ignored, unreasonable or even impossible to comply with; in this case, the section about a careful reading of the scope of work would lead to the point of the sum insured being inadequate for the purpose of insurance.

Some important clauses to be carefully reviewed in every contract

Liquidated damages: Liquidated damages are damages generally defined where there are time bound deliverables involved by the vendor. E.g. In a construction contract, liquidated damages are chargeable against funds due to the contractor for each day the contractor fails to complete the project beyond the contract completion date. Damages can be liquidated in a contract only if the predetermined sum is reasonable and considers the actual or anticipated harm caused by the contract breach i.e. it cannot be an arbitrary figure and the damages are structured to function as damages, not as a penalty. If these criteria are not met, a liquidated damages clause will be void.

Many a time in contracts signed by IT or service oriented companies while the liquidated damages clause exists, it does not define the formula for arriving at the damages cost. In such a scenario, it is possible that at the time of a loss, the party awarding the contract can claim an arbitrary sum as damages which may be higher than the actual damage caused.

Performance Guarantee: Some contracts may require you to provide a performance guarantee that the required specifications and conditions as mentioned in the contract will be met. If this is agreed to, the customer will sue you if there is a delay in completing the project or if the completed project does not perform as expected. The performance guarantee is generally taken for a percentage of the contract value. Performance guarantee insurance is prevalent in the global markets but come at a very high price. Moreover these insurance covers are contract specific covers.

The underwriters usually insist on reviewing the entire contract, the capability of the insured to actually perform the contract within the stipulated specifications, the history of the insured for other similar contracts executed. Insurers in the Indian market are still not comfortable in offering an insurance cover for performance guarantee.

Additional Insured: A common feature of most contracts and subcontracts is a requirement that the contractor or subcontractor name their customer/contractor as an additional insured under the formers general liability insurance policy. An additional-insured endorsement states that in addition to the insured, another party is an "additional insured party" under the insurance contract, thus giving the "additional" party the right to make a claim directly on the policy. The logic was that if the customer/contractor got sued for a fault of the contractor/sub-contractor, it was only fair that the subcontractor's/contractor's insurer should defend that lawsuit.

Of late the trend for insisting on additional insured status has also increased in professional indemnity insurance policies for IT / ITES companies.

Before signing the contract, it is essential to check if you are expected to name the contractor or owner as an additional insured and whether it is an unconditional indemnity? Insurers generally refuse to provide unconditional indemnity, and hence it is important for you to negotiate

with the customer before signing the contract that indemnity will be provided for only his vicarious or contributory negligence. In other words, the endorsement will cover suits against the contractor only so long as the subcontractor's conduct or work has some causal connection to the injury or damage.

But it is critical to be aware that, by giving the additional insured status to your customer / contractor, you are giving them the right to make a claim against you insurance policy directly which may exhaust your insurance limits and aggravate your claims ratio thus turning you into a "bad risk" from the Insurer's point of view.

Waiver of Subrogation: Contractors often enter into contracts with owners or prime contractors where the contract provisions call for a waiver of subrogation rights. The right of subrogation is a legal right which allows the insurance company to recover its loss from a third party who is at fault for the loss. One of the ways to avoid subrogation is through the implementation and enforcement of waivers of subrogation. The waiver of subrogation clause prevents one party's insurance carrier from making a claim against another party or parties on the project. A waiver of subrogation clause is placed in the contract to minimize lawsuits and claims among the parties. While most property insurance policies permit such waivers, others do not and actually prohibit the insured from waiving subrogation rights. This is the case specifically in Professional Indemnity or Crime Insurance covers. A vendor should not accept this type of contractual waiver during negotiations without having first cleared the issue with the respective insurer and verifying that such a waiver will not impair insurance coverage.

Limitation of Liability: Accepting unlimited liability is a definite invitation to losses and claims on your insurance programs. It is important for vendors to cap their liabilities on every contract either to a pre defined amount; or the contract

value; or the value of specific each individual assignments under the master contract. Another form of capping liability is also to limit it to the invoices raised in the last 6 -12 months. It has been seen that IT contracts typically have an unlimited liability for IPR and breach of confidentiality. It is important for the vendor to know that IPR litigation are usually very high value and stand alone insurance covers for IPR are expensive. They can be taken as an extension on existing Professional indemnity insurance but it would be restricted to copyrights and trademarks. Patents and Trade secrets are generally always excluded.

Contracting process:

While understanding the contract clauses is very critical, it is also critical to ensure that there is a stringent contracting process in place within every organization. The process adopted goes a long way in giving comfort to insurers in providing you with comprehensive coverage.

Your corporate philosophy and the due diligence imposed on the contracting process are key factors considered by insurers before providing coverage.

This is true especially when very large value contracts are being considered for insurance coverage.

Some of the key aspects underwriters consider while providing coverage are:

Through the performance guarantee clause, the customer is guaranteed compensation for any monetary loss that occurs in case the contractor fails to perform his contractual obligations.

A waiver of subrogation clause is placed in the contract to minimize lawsuits and claims among the parties.

Workers' Compensation vs. Employers' Liability Insurance

The Genesis of Workers' Compensation

The industrial expansion that took place in most parts of the world including India during the 19th century was accompanied by a significant increase in workplace accidents. The workers who got injured on the job at that time were compensated under a system of negligence liability. If the worker could show that the accident was caused by the employer's negligence, the worker was entitled to get compensation.

But at the same time, the employers could raise certain powerful common-law defenses:

- **Assumption of risk:** The employer could allege that the employee knew the risks of injury inherent in the job and assumed those risks by accepting the job.
- **Contributory negligence:** The employer could allege that the employee contributed to his or her own injury and was, thus, not entitled to any recovery.
- **Negligence of a fellow employee:** The employer could allege that a fellow employee, not the employer, caused the injury.

So, in the above three cases, even if the worker could show that the employer had been negligent, he still might not receive any compensation. Simultaneously, the employers were also exposed to potentially devastating financial penalties if the workers' suits were successful. Ultimately, both employers and employees favored legislation to ensure that a worker who sustained an occupational injury or disease arising out of and in the course of employment would receive predictable compensation without delay, irrespective of who was at fault.

The Workers' Compensation Acts in various countries were intended to create a compromise solution whereby employees gained a safety net while they were recovering from their injuries.

What is Workers' Compensation Insurance in India?

Workers' compensation insurance pays benefits to a worker who incurs a job-related injury or illness. For purposes of workers' compensation, an injury is deemed to be job-related when it

arises out of employment activities and when it occurs in the course of employment. Liability to employees under the Workman Compensation Act 1923, Fatal Accidents Act 1855 and at Common Law are covered under this policy.

The Workers' Compensation Acts in various countries were intended to create a compromise solution whereby employees gained the safety net of having their medical expenses for work-related injuries and a portion of their lost wages paid while they were recovering from their injuries.

Workers' compensation insurance assures that injured workers get medical care and compensation for a portion of the income they lose while they are unable to return to work. Since its inception around 85 years ago, the workers' compensation system has provided millions of injured employees with benefits for on-the-job accidents while simultaneously protecting many employers from lawsuits.

Who needs to take a WC insurance policy?

This insurance policy is mandatory for each and every employer, either as the principal or the contractor who engages "workmen" as defined by the Workmen's Compensation Act to cover his liability towards them under Statutory and Common Law.

What injuries are covered?

Injuries, employees sustain on the workplace premises or anywhere else while the employee is acting in the "course and scope" of employment are covered. In addition to injuries from accidents, workers' compensation covers injuries employees may sustain from other events that may occur while they are working, including workplace violence, terrorist attacks and natural disasters. It also covers, by payment of additional premium, certain illnesses and occupational diseases contracted as a result of employment. The employee is also covered for injuries that occur off the employers premises such as at an off-site meeting and also if the employee was injured during commuting to and from work.

WC policy does not have a maximum limit with respect to the sum insured because the amounts of compensation stipulated in the Act(s) or Awarded by a court of law determine the limits of liability.

What benefits do injured workers receive?

Unlike other insurance policies, WC policy does not have a maximum limit or ceiling with respect to the sum insured because the amounts of compensation stipulated in the Act(s) or awarded by a court of law determine the limits of liability. The policy transfers the employers' legal liability to the insurance company, to pay compensation to the employee, whether that liability turns out to be small, medium, or crushing. The WC policy provides benefits under two tables: Table A and Table B.

News TitBits

Global players keen to firm up insurance partnerships in India

A number of global insurers who have been keenly studying the Indian market are now expected to firm up joint ventures with Indian companies in the next three to six months. US health insurers Aetna and Cigna and UK-based Company Bupa are interested in setting up stand-alone health insurance companies, said a senior official with an international consultancy firm. American company Ace and Germany-based Talanx are looking at entering both the life and non-life sectors, while US-based Liberty Mutual and Travelers Group are interested in the non-life sectors, said the official. The health insurers have so far been waiting in the wings, as until 2007, health insurance was loss-making under the tariff regime.

Global reinsurance outlook stable:

A.M. Best

A.M. Best Co. Inc. said that its outlook for the global reinsurance sector remains stable for the second straight year. The outlook reflects "generally strong balance sheets, continued improvements in enterprise risk management and general earnings momentum through 2007". Best said depending on catastrophe activity, the sector "is poised for a profitable 2008 given that technical rates of most major lines of business are still profitable." Even so, Best said "price deterioration, competition and increased cedent retentions are drivers of concern relating to the sustainability of the sector's long-term operating performance."

Universal Sampo enters general insurance space

Universal Sampo General Insurance, a joint venture between Allahabad Bank, Sampo Japan Insurance Corporation, Indian Overseas Bank, Karnataka Bank and Dabur Investment, entered into the general insurance space with the launch of two policies.

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Contracts, Risks and Insurance.....Contd. # 1

1. How many people in the organization vet the contract before signing it with the customers?
2. Who has the Veto power for signing a contract?
3. Legal counsel appointed for vetting the clauses – whether in-house or retained counsel?
4. Who is authorized to sign the contracts in the organization?
5. What is the level of negotiating and bargaining that the organization does with their customers to ensure there are no onerous conditions being accepted in the contract?

While the above is not an exhaustive list of queries from an underwriter, it does provide broadly the factors being considered by them to enable a comprehensive cover.

Conclusion

While the above outlined issues are few among the most important in negotiating contracts, there are numerous other issues that require special attention to produce a contract that will satisfy the objectives of both the owner and the contractor.

Contracts seem to be like snowflakes—no two are alike. However, with careful planning, you can create a contract that effectively manages risk while improving project performance, reducing costs and establishing a strong working relationship among all the parties involved.

04

Workers' Compensation vs. Employers' Liability InsuranceContd. # 3

Table A: This table covers the employers' legal liability to provide compensation for death/ injury of an employee under the WC Act of 1923, the Fatal Accidents Act of 1855 and at Common Law.

Table B: This table covers the employers' legal liability to provide compensation for death/ injury of an employee under the Fatal Accidents Act of 1855 and at Common Law. This Policy is not issued to cover employees who fall within the definition of "workmen" under the Workmen's Compensation Act, 1923.

Also, the legal costs and expenses incurred by the insured with the approval of the insurer to defend any claim from employees are also payable. The policy can be extended to cover

- The medical expenses including surgical and hospitalization expenses incurred as a result of the injury.
- The legal liability of the Insured towards the contractor's workmen, performing work for the Insured in respect of which the policy is granted.

The benefits are paid in 4 designated classes of disability; Death, Permanent Total Disablement, Permanent Partial Disablement and Temporary Total Disablement. A waiting period of 3 days applies before benefits for loss of wages (temporary disablement) begin. If the disability continues beyond that, benefits will be paid for the initial waiting period also. The insurance granted is however not extended to include any interest and/or penalty imposed on the insured on account of his / their failure to comply with the requirements laid down under the W.C. Act, 1923.

Claims Case: Burglary in a jewellery shop

The Incident:

Shubam Jewellers (name changed) had taken a burglary insurance policy from X Insurance Company for a sum of Rs.50 lakhs - Rs.49,80,000/- was for the property insured and Rs.20,000/- for cash and currency notes. On the intervening night of 5th and 6th December, a burglary took place in the insured premises and information to that effect was given to the Police and the Insurance Company.

The Insurer appointed a surveyor who found out that the culprits entered the Jewellery shop by breaking the locks and grill of the rear door. They broke open the cupboards and stole silver, gold and some diamond fitted items totally worth about Rs.8.80 lakhs. However, the burglars did not touch the gold items that were kept in the safe/strong room (worth about Rs.41.00 lakhs).

On 5th Dec night, there was only one watchman on duty and after 12.00 hrs he went upstairs. Since the rear portion of the shop was not visible to the main road, the offenders took advantage and broke open the locks and grill and made their entry into the shop.

The net loss was assessed as under	
Cash reported to be stolen as per the cash book	18200/-
Gold items lost/assessed	123703/-
Silver articles loss/assessed	708915/-
Diamonds etc.	175000/-

How is premium determined and who pays it?

The premiums are based on the industry classifications of the employers and the gross annual earnings of the employee.

Premium is completely borne by the employer. Making employers fund the cost of their negligence should in theory lead to an improvement in health and safety practices and thereby reduce the number of accidents. Furthermore, an assessment of and improvement in risk management would often be a condition of an insurer agreeing to cover a risk - this too should lead to fewer accidents.

Claims Settlement under WC policy

Claims falling under the WC Act will be settled by the WC Commissioner based on the predetermined scale (as per W.C. Amendment Act, 2000) which takes into account the monthly salary and the age of the injured workman. The amount of compensation is not payable to the workman directly. It is generally deposited along with the prescribed statement, with the Commissioner who will then pay it to the workman.

Any one filing a claim under common law shall have to do so in the civil courts in India and the claim amount will depend on the award made by the Court. There is no need to prove negligence in case of a claim under WC Act but it will have to be undeniably proved in case of a common law action.

What is Employers' Liability Insurance?

The Workers' Compensation policy in some countries has two parts: Part One - Workers' Compensation and Part Two - Employers' Liability. Under Part One, the insurer agrees to pay whatever the state-required amounts of compensation may be. Part Two of the policy provides coverage for an employer who is sued by an employee for work-related bodily injury or illness that isn't subject to state statutory benefits. This is that section of the policy which has a monetary limit. This coverage is intended to provide insurance protection to employers (insured's) for work-related

Two months later, the Insurer repudiated the claim on the ground that there was a breach of the warranty clause prescribed in the Policy, as the stock was not kept in a 'secured locked burglar proof safe' at night time.

The Findings: Shubam Jewellers being aggrieved and dissatisfied filed a complaint against the Insurer with the State Redressal Commission contending that the entire premise was properly locked and having a grill in front of it. There was also a strong room in which the gold jewellery was kept.

The Commissioner examined the Proposal Form; paragraph 5 (1)(b), where it has been stated:

"Will the whole of your stock when on your premises be kept in safe locker at night and at all times when the premises are closed? If not, state value and class of stock which will be left outside safes locker?" (Yes)

By answering this question in the affirmative and not abiding by it, the insured breached the promise which he had made in the Proposal Form. The last part of the Proposal Form itself makes it clear that the proposal form duly signed and submitted by the insured would be binding to the insurance company and that it shall be the basis of issuing the policy.

Also, the Commissioner examined a specific noting in the Proposal Form made by the officers of the Insurance Company to the effect that:

liability suits; claims not covered under Part I of the policy. Also, a lot of states exclude certain employees from the statutory benefits covered by Part One of the policy. Employers' liability coverage would insure the employer for liability to such employees.

What injuries are covered?

Usually, if an employee is injured at work, Part One, Workers' Compensation steps in, but there are occasions when it cannot help. For example, when the harm is caused over a long period or the injury is not physical i.e. a mental injury such as nervous shock or fright or a stress injury. In these cases the injured employee retains the right to sue and this is when Employers' liability policy would respond thereby indemnifying an employer against what could be a substantial liability.

Employers' liability also protects an employer in the below situations where an employee can sue for injuries:

Third-party action over: A third-party action over case would exist in the following scenario: An employee is injured while using machinery, and in addition to filing a workers' compensation claim, the injured employee pursues an action against the manufacturer of the machinery. If the employee's action against the manufacturer is successful, the manufacturer may bring an "action over" against the employer, perhaps on the basis that the employer was negligent for improper maintenance of the machinery or inadequate training of the injured employee. Damages resulting from the manufacturers "action over" against the employer would be paid under the employers' liability coverage.

"Dual capacity" suits: A third-party action over becomes dual capacity when the employer is also the manufacturer of the machinery. In other words, dual capacity can exist when an injury arising out of and in the course of employment results from a product manufactured by the employer.

Employers' Liability policy provides coverage for an employer who is sued by an employee for work-related bodily injury or illness that isn't covered under WC policy.

*"Inspected the premises and found that the **jewellery** will be kept after business hours in specially constructed strong room with iron grill door. Round the clock security guard. Hence 10% discount may be given".*

Therefore, terms of the policy ought to have been according to the aforesaid endorsement.

The Outcome: Claim Payable / Not Payable?

Keeping the aforesaid terms and conditions in mind as well as the specific noting in the Proposal Form made by the officers of the Insurance Company, after the inspection of the premises, to the effect that only jewellery would be kept after business hours in the specially constructed strong room with iron grill door, for the loss of jewellery, namely, gold and diamond articles, Insurance Company was not liable to reimburse.

However, with regard to the silver items which are vessels and other articles being of a large quantity and as per the requirement of the noting, as only jewellery was to be kept in the safe and not the silver vessels, the Insurance Company settled the claim to the extent of the silver items.

Lesson Learnt: Read carefully before filling the proposal form since it forms the basis of the insurance contract. Completing the contract without this important document can leave doors open to disputes on what was intended to be covered or excluded.

Loss of consortium claims may sometimes be made by spouse/ family members of an injured employee against the employer. Loss of consortium occurs when one is not able to perform regular duties around the house such as parental guidance of children or losing out on activities such as camaraderie with children, siblings or diminished care, companionship etc. In addition, the family of the injured employee can bring an action against the employer for emotional damages, to which the employers' liability coverage would also respond.

Consequential bodily injury claims are also covered under employers' liability insurance policy.

Claim Payments under the policy

Typically, an employer must first be at fault in some way for causing an injury and the injury must occur during the policy period. Further, if legally liable, the employer may be obligated to pay damages based on tort/ common law, rather than workers' compensation benefits.

The employers' liability policy provides that the insurer will pay all sums up to the specified limit (as mentioned in the policy) which the insured legally must pay as damages to an injured employee. It also pays the costs incurred by the employer to defend the claims brought by employees for work-related injuries or illness.

Conclusion

While Workers' Compensation insurance i.e. Part I is mandatory in most countries, the Employers' liability insurance remains an optional one. Nevertheless, its importance cannot be undermined as the repercussions of a single lawsuit that tilts in the employee's favour can be disastrous to the employer. So, companies that do not have the coverage should be aware of the potential problems that can result in the absence of it and have a second thought about its necessity.

Gross premium underwritten for and up to the month of January 2008
(Rs. in crores)**

INSURER	JANUARY		APRIL - JANUARY		GROWTH % OVER THE SAME PERIOD LAST YEAR
	2007-08	2006-07	2007-08	2006-07	
Royal Sundaram	70.30	56.31	566.20	494.13	14.58
Tata-AIG	82.81	66.62	672.28	636.27	5.66
Reliance General	149.17	101.12	1673.64	712.26	134.98
IFFCO-Tokio	127.34	101.70	927.47	925.00	0.27
ICICI-lombard	278.43	275.03	2903.10	2601.56	11.59
Bajaj Allianz	212.57	166.77	1925.46	1474.27	30.60
HDFC General	17.46	14.28	185.98	156.21	19.05
Cholamandalam	48.00	29.05	435.52	258.65	68.38
Future Generali*	4.42	0	5.43	0	
New India	450.72	407.75	4361.44	4099.73	6.38
National	373.96	362.25	3296.06	3108.45	6.04
United India	315.87	273.10	3076.39	2901.78	6.02
Oriental	329.81	335.37	3224.71	3305.00	-2.43
PRIVATE TOTAL	990.50	810.87	9295.08	7258.36	28.06
PUBLIC TOTAL	1470.36	1378.47	13958.60	13414.96	4.05
GRAND TOTAL	2460.87	2189.35	23253.68	20673.32	12.48
SPECIALISED INSTITUTIONS					
Credit Insurance					
ECGC	56.99	49.37	530.95	492.78	7.75
Health Insurance					
Star Health	4.29	1.20	157.25	16.86	832.67
Apollo DKV*	0.49	0	0.61	0	
Health Total	4.78	1.20	157.85	16.86	836.27
Agriculture Insurance					
AIC	126.57	21.52	700.16	483.33	

* Commenced operations in November, 2007 ** Source: IRDA Journal

No policy without clients 'proposal: IRDA to Insurers

The Insurance Regulatory and Development Authority (IRDA) has warned insurers not to issue policies without receiving the requisite proposal forms from customers as stipulated under Section 4 of the IRDA Act 9 (Proposal for Insurance). "Any violation of this provision by an insurer shall be viewed seriously by the authority and action as deemed fit, (will be) taken," said the regulator in a communication received by insurance company CEOs.

Bajaj Allianz Life becomes the first insurance company in India to get ISO certification

Bajaj Allianz Life Insurance Company has received the security certification of ISO 27001:2005 based on its compliance with new standards for data and information security set forth by ISO. Bajaj Allianz becomes the first insurance company in India to receive this certification and recognition. This certification has been awarded to IT systems and infrastructure situated at its Pune head office.

It has been two months since the second round of detariffication (i.e. giving full pricing freedom to the Insurers) has been in effect. In this issue, we are attaching excerpts from interviews with Mr. K.A.Somasekharan, President and CEO of Reliance General Insurance and Mr. R.K.Kaul, General Manager of National Insurance Company as to their views on the effect of detariffing.

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

1. How do you view the transition of the industry towards detariffing? Has it been healthy?

KAS: In the initial period of post detariffication, industry has seen some rationalization in price levels. However, the price discovery process has just begun and would mature over a longer period. Detariffing means to drive the industry towards risk and merit based rating. We expect the market to mature in the medium term. With the expected freedom on product wordings, the real benefits of detariffing would come to the customer in terms of tailor-made & innovative product lines.

RKK: It is a bit early to comment on this. It has been seen in all markets which migrate from Tariff regime to detariffed one that initially there could be a mayhem but eventually the markets settle down to a realistic and healthy pattern. The Indian market has not exactly seen mayhem although sometimes one comes across unrealistic discounts being offered. The madness if I may call it so is generally seen in midsize risks. I, however, believe that the Indian Market will settle down to a healthier situation in quicker time than what other markets have taken in similar situations.

2. What is the effect of detariffing on your company's renewals post 1st Jan 2008. And what do you predict the situation to be post April 01st, 2008?

KAS: Yes, we have lost some of our renewals to the competition and at the same time we have got entry into new accounts. We believe that the main objective of detariffing is to price a risk fairly for both the insurer and the customer. We also firmly believe that Indian customers are aware of the fact that the best value proposition for them is to choose an insurer who is reliable and whose product delivers value at the time of unfortunate event of a claim and not just on lowest pricing. We hope that pricing movement will be stabilized in the coming year and pricing will be based on merits of a risk and on individual risk assessment.

RKK: Post 1st January 2008 we have started having a small positive growth in Fire also. Engineering

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department continues to have a very good growth which it had before January also. I think post April the market will start correcting itself and the reverse transition towards sanity will begin.

3. What is the one big challenge your company is facing in this detariffed era?

KAS: We feel the biggest challenge is to spread the concept of risk based pricing and the necessity of collection of information to support the same. The market is still not accustomed to providing detailed risk information.

RKK: The big challenge is to appear credible to our clients and to retain our clients. From the results it seems we have been successful in facing this challenge. The other challenge is not to succumb under the pressure of unrealistic quotes which sometimes one is faced with and still continue to grow healthily.

4. What has been impact of detariffing on the treaties?

KAS: We do not have any adverse impact on our treaties as our underwriting philosophy take care of price fluctuations. The treaty reinsurers may bring down treaty commissions on pro-rata treaties or introduce sliding scale commissions.

RKK: Last year there was not much impact. This year we believe that there may be some pressure on commissions. The Indian market is a strong market and has except for one

odd bad year given good results to the reinsurers. I think the reinsurers will continue to be bullish about India.

The reinsurance programs of all the Companies are coming up for renewal and one hope that the reinsurers provide capacity in some proportion to the direct retentions of the cedents so that the cedents have a substantial stake in the results of the particular portfolio. This will hasten the migration of the market towards more sanity.

5. With the Indian economy on a rise, what are the products looking particularly strong for growth?

KAS: Post detariffication, there will be some realignment amongst different classes. The business mix will shift towards retail with major contributions from health, auto and small businesses. There will be demand for customized and package products. Products, which can help in tapping the underserved and un-served markets, would be the main growth drivers.

RKK: Due to rapid growth in the development of infrastructure, the products in the Engineering portfolio are set for a high growth. Also on the fast growth tract will be products like Directors and Officers Liability, the other liability products, aviation, health insurance etc. Further due to the policy wordings being freed in the near future, Insurers will come up with various innovative products.

Insurance Humour

Morris walks into an insurance office and asks for a job.

"We don't need anyone," he was told.

"You can't afford not to hire me," Morris said. "I can sell anyone, anytime, anything!"

"Well, we have two prospects to whom nobody has been able to sell a policy. If you can sell just one, you have a job."

He was gone about two hours. He returned and handed them two cheques, one for \$25,000 and another for \$50,000.

"How in the world did you do that?" they asked.

"I told you I'm the world's best salesman," Morris said. "I can sell anyone, anywhere, anytime!"

"Did you get a urine sample?" they asked.

"What's that?" he asked.

"Well, if you sell a policy over \$20,000, the company requires a urine sample. Take these two bottles and go back and get urine samples."

Morris was gone about six hours, and they were going to close the office, when he walks in with two five-gallon buckets, one in each hand. He sets the buckets down, reaches in his shirt pocket and produces two bottles of urine. He sets them on the desk and says, "Here's Mr. Brown's and this one is Mr. Smith's."

"That's good," they said, "but what's in those two buckets?"

"Well, I passed by the Holiday Inn and they were having a state teachers' convention, so I stopped and sold them a group policy!"



News Focus

Unit Linked Health Insurance

It seems to be raining unit linked health insurance policies these days. Last month i.e. February, LIC as well as Reliance Life have introduced these plans that offer the twin benefit of market linked return and health protection. LIC's product, Health Plus, is a standalone health insurance plan that provides cover to the entire family (husband, wife and the children) and is linked to investments made in the stock market. Units will be allotted to the policy holder based on the Net Asset Value (NAV) on the date of allotment. Health Insurance charges will be charged every month in respect of all the members covered by cancelling appropriate number of units out of the Policy Fund.

The benefits are provided in the form of Hospital Cash Benefit, Major Surgical Benefit and Domiciliary Treatment Benefit. The hospital cash benefit kicks in 48 hours after you have been admitted to hospital; in other words, you would have to bear expenses in the first 48 hours of treatment. Under this, a daily benefit is payable in case the insured is hospitalized either due to accidental body injury or sickness. The major surgical benefit is a lump sum payment that you get regardless of the amount you spent, but it depends on the type of surgery you had. Under Domiciliary Treatment Benefit, one can withdraw an amount equivalent to the actual expense he or she has incurred in respect of any domiciliary treatment. However, this benefit is available only after you have paid the premiums for the first three years.

The term of the policy is until you reach 65 years of age. At 65, the policy matures, and you can get the benefit of market-related returns, if there is a balance remaining after the claims you made during the policy term.

Reliance Life became India's second life insurer after LIC to offer a unit linked health insurance policy called Health + Wealth. The plan takes care of the hospitalization expenses which include: daily cash benefit; ICU cash benefit, Post Hospitalization expenses in the form of recuperation benefits payable as a lump sum, Death Benefit is payable in one lump sum on death of the Principal Insured before the end of the policy term. The amount of benefit will be equal to the fund value in respect of the base plan and top ups if any.

The premium contributed by the insured is invested in fund option of his choice for a specified period of time as selected and units are allocated depending on the price of units for the fund/funds. Insurance charges will be deducted on a monthly basis on the beginning of first day of each policy month using 1/12th of the Hospital Cash Benefit rates.

One of the main advantages of these plans is that unlike a pure health cover, there is some value that goes back to the policyholder on maturity. Thus, people who hesitate to invest in a health insurance policy because they are not assured of getting back their invested premium at maturity may find some value in such plans. But experts, advise people to first buy a simple mediclaim policy as a primary cover and then go for an extra benefit plan like this.



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