i-notes
Newsletter from India's Leading Insurance Broking House
January 2010

Summary

India Insure
The risk managers

Message from the Editor

Dear Readers,

A very happy New Year to all of you!

The year 2009 has ended on a positive note with signs of the economy recovering. This has been mirrored in the insurance industry too. By and large there has been a steady growth, with the new business of Life insurers growing by 22% against 1.43% for the period Apr – Nov 09 last year and the Non life industry growing by 13.57% as against 10.56% for the same period last year.

December 2009 had all eyes focussed upon the UN Climate Change conference at Copenhagen. Perhaps no industry is as aligned with the interests of a changing climate as the insurance industry is. Climate change has the potential to bankrupt the industry, or at the very least make it a lot smaller and a lot less profitable. So insurers have every incentive to push for solutions to climate change, including advocating for strong public policy.

Keeping with the trend of focussing on different industries, in this issue we focus upon the risk exposure in the Construction industry. We had met up with various players in the industry across the country and our thanks to them for sharing their inputs.

In the interview section this issue, we have Mr. J Harinarayan, Chairman IRDA along with Mr. P K Tripathi, CEO, Unitech and Mr. Rajeev Hajela, General Manager- Insurance, DLF Ltd sharing their views. Our sincere thanks to them for taking time off for our readers.

We look forward to your feedback and suggestions.

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

Risk exposure in the Construction Industry

Construction Industry Overview

Construction Industry plays a major role in the economic growth of a nation and occupies a pivotal position in the nation's development plans. This industry has a profound impact on our daily lives: the buildings we live in, the roads and bridges we drive on, the utility distributions systems we use are all products of this vital industry. The construction industry in India is worth over USD 55 billion and accounts for more than 8 per cent of the GDP. It is also the largest employer after agriculture as it provides employment to more than 3% of the country's population. The Indian construction sector has been on a high-growth trajectory, growing at more than 12% p.a. in the last four years, i.e. almost 1.5 times the country's overall growth. But India accounts for only 2.5% of the global market size and as such there exists a tremendous potential for further development. India has set an ambitious target of investing USD 500 billion in infrastructure during the Eleventh Five year plan period (2007-2012), which is nearly 2.3 times more than the previous five-year plan.

Construction sector is broadly divided into three segments viz. infrastructure, industrial activities and real estate. The construction industry in recent times has witnessed a strong growth wave powered by large spends in housing, road, ports, water supply, airports development, easy availability of housing loans, falling interest rates and active private sector participation.

Risks- Construction Industry

The construction industry is subjected to more risk and uncertainty than many other industries. The process of taking a project from conception to completion and into use is complex, generally bespoke and entails time-consuming design and production processes. It requires a multitude of people with different skills and competing interests and the co-ordination of a wide range of disparate, yet interrelated activities. Such complexity is further compounded by many uncontrollable external factors.

All construction projects begin with the best of intentions. Unfortunately, in a highly competitive and complex climate that is fraught with risk, unfavorable outcomes can often plague these projects and their participants. In a perfect world the engineer never alters his drawings, the owner never changes his mind, the contractor always operates at 100% efficiency and Mother Nature behaves herself. Sadly that world does not exist. In the real world the engineer, the owner, the contractor and Mother Nature combine to make changes that produce new risks.

All construction projects begin with the best of intentions. Unfortunately, in a highly competitive and complex climate that is fraught with risk, unfavorable outcomes can often plague these projects and their participants.

Many of these risks emerge over time. Projects that appeared sound at a point in time suddenly become unmanageable. Risks combine and interact to create turbulence. Many risks are linked to the life cycle of the project: regulatory risks, for instance, diminish very soon after permits are obtained: technical risks drop as engineering experiments are performed. Some risks, especially market-related ones continue as they are partly independent of project life cycle.

That's why effective identification & analysis of risk sources is extremely important. Although not exhaustive by any means, the risks affecting a construction project can be categorized by the subsections below :

Technical Risks

Projects face technical risks that reflect their engineering difficulties and novelty: some of these risks are inherent in the designs or technologies employed. Incomplete designs are a widely recognized problem on construction sites. Design-build contracts subject contractors to the risk of design errors and

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omissions as he assumes responsibility for both design and construction. If issues like alterations in design, changes in scope and differing site conditions require revisions to the contract or drawings and specifications, the re-submittal of the same will cost time and money and result in unnecessary delay. This makes it advisable for contractors to ensure that design engineers pay adequate attention to quality assurance, coordination of various design disciplines and manufacturer's specifications.

Construction is a complex undertaking and often new technologies bring unintended consequences.

Risks also arise if the technology used in the project is not sufficiently proven. Construction is a complex undertaking and often new technologies bring unintended consequences.

Resource Risks

This risk refers to the timely availability of resources – particularly raw material, construction equipments, spare parts, fuel and labor. It also includes the risk that the raw material prices might move adversely. Construction materials account for nearly two-third of the average construction costs. Contractors are thus exposed to variations in prices of steel, cement, copper, nickel, zinc, aluminum etc. Rising material costs affect profitability and competitiveness, particularly in cases of lump-sum turnkey contracts without any price-escalation clause. Large projects can take years to complete, during which such cost increases can eliminate margins of the builders.

As is the case in any business, people are a construction organization's greatest resource. A company's ability to successfully complete projects and to win new orders depends largely on its ability to attract, train and retain its workforce. The major impediments today faced by the construction industry in raising the levels of productivity are the acute shortage of skilled manpower, both at worker and supervisory levels, as well as the lack of experienced construction engineers and project managers. The industry as a whole needs to do a lot more to address the lack of talent. Dearth of right talent could restrict the industry growth leading to rise in costs and the success of projects may be compromised.

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Risks from Competition

In recent years, India's liberalized regime has created opportunities and also increased competition in the construction business, which has seen significant interest of foreign players. In many cases, foreign players are believed to have greater technological expertise, deeper pockets and more extensive experience compared to domestic companies. These advantages could mean overseas companies winning work at the expense of local players or partnering with them. The competitive environment varies depending upon size, nature & complexity of the project as well as the geographical region where it is to be executed. New competitors entering the market and the current competitors pricing more aggressively intensifies the highly competitive condition that already exists.

Risks from Suppliers/ Subcontractors

A construction company relies on innumerable third parties for timely supply of specified raw materials, components, equipment and services. Some events could result in the complete or partial failure of supplies or in supplies not being delivered on time. Supply disruptions may also be the result of excessive dependence on a single supplier, strikes, lockouts, natural calamities, supplier insolvency or unexpected logistics challenges. Also failure by subcontractors, to meet the specified completion date could delay completion of the overall project and may lead to delayed payment/levy of penalties.

Regulatory Risk

As per the prevailing scenario in India, any organization engaged in construction activity requires registration under five different legislations, apart from obtaining licenses under three enactments and being subject to inspection under 12 laws. Further, there are 27 statutes pertaining only to labour. The multiplicity of laws, rules & regulations and the complexities thereof causes unnecessary time delays and cost overruns constraining the growth of the construction sector.

Financial Risks

- **Price risk:** This is the risk that the price of the project's output might be volatile due to supply-demand factors. If new capacities are coming up or if there is likelihood of fall in demand of the project output, the price risk is high.
- **Foreign exchange fluctuation:** With a growing thrust on exports and global sourcing, construction companies are subject to significant foreign exchange fluctuations. There is the risk that the currency of sale of the project produce would depreciate with reference to the currency of the project loans.
- **Liquidity and interest rate risks:** Movements in the international liquidity conditions may affect the timely availability and the cost of funds. Interest rates may also adversely affect the cash flows of the Project.

Force Majeure Risks

In general terms, force majeure is considered to be "an act of God" or an occurrence outside the control of the parties which impacts or delays the project. Weather and construction have been at odds since the beginning. Construction sites are highly susceptible to the vagaries of weather and natural disasters. Examples include cyclones, floods, earthquakes, prolonged high temperatures and extended periods of rainfall. Perhaps, a force majeure clause can be inserted into the contract that shifts the risk allocation to the owner who can then insure for the loss caused by delay.

Casualty Risks

Historically the construction industry has had a poor record of work-related accidents. Building sites are challenging, as

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Interview – *IRDA Chairman*

In an interview with inotes, the IRDA Chairman, Mr. J. Hari Narayan shares some critical insights on the future growth of the Indian insurance industry and his thoughts, concerns and priorities going forward.

IRDA Chairman - Mr. J. Hari Narayan

It has been over a year since you have taken over as the IRDA Chairman. What are your thoughts, concerns and priorities going forward?

The liberalization of the Indian insurance sector in 2000 was a process which was conducted very smoothly and efficiently. The initial focus of the Regulator was to enable an increase in the players in the Indian insurance industry. Thereafter, corresponding to the boom in the real economy in all parts of the globe, the Indian insurance industry entered into a period of breakneck rate of growth. Recently, the rate of growth has come down and the insurance industry in India can be said to have come of age. Going forward, the priorities for the IRDA would be the further consolidation of this process by addressing appropriately market conduct by insurance companies and to usher in a more comprehensive disclosure regime. In addition, the IRDA will be focusing on issues of corporate governance and the finalization of guidelines for issue of IPOs. On the operational side, the IRDA would be focusing on matters which more directly have a bearing on policy holder protection.

The Insurance industry after a high growth phase over the last few years has tempered down last year. There would be various reasons attributing to the slowing down of the market. What according to you are the critical reasons behind this? And how do you foresee the industry moving in the next 5 years?

I would agree with your perception that the phase of breakneck rates of growth has probably passed. The phenomenal growth was the consequence of the general growth in the economy which enabled larger sections of the Indian populace to enter the job market and to some extent the industry was meeting a pent up demand. Currently, the Indian insurance industry has captured a little over 4% of the GDP in terms of the annual premium. This number compares very favourably with the proportion of the GDP in insurance even of advanced economies. However, the per-capita investment (ticket size) at about 40 dollars is very low even compared to other smaller Asian economies. Going forward, therefore, the rate of growth would be crucially affected by the growth of per-capita income which itself is part of a much wider and larger economic capsule. There has also been the negative effect of the financial crisis which has engulfed several large economies of the world. In these circumstances, I would not expect the breakneck rate of growth which we had observed in the past but would expect to see a slightly slower rate of growth of between 10% and 11% per year over the next 5 years. There would certainly be a deeper penetration into Tier-3 and Tier-4 towns and a wider array of health insurance products being made available to the general public.

The life insurance penetration in India increased from 1.77% in 2000 to 4% in 2007 but the general insurance penetration has only risen a tad from 0.55% in 2000 to 0.6% in 2007. What do you think are the reasons for this low level of penetration in general insurance?

The penetration of general insurance has increased only marginally from 0.55% in 2000. One of the principal reasons for this is the detariffing which was effected in 2007-08. This led to a steep fall in insurance premiums in the general insurance sector which reflects itself in a low penetration. But such development is not unusual and has in fact been experienced by all economies which have undertaken such detariffication. I would expect a hardening of rates over the next few years which in turn would show itself in a higher penetration.

There were reports that IRDA is considering whether to allow banks to tie-up with multiple insurers to sell their insurance products. What is the idea behind this? Will this not result in clash between bancassurance & broking?

For the regulator, the overall emphasis is on a healthy growth of business. Looking at the progress made by the Bancassurance channel as also the vast network that banks in India enjoy, especially in the rural areas; it was being thought out whether to allow the banks to

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News TitBits

Edelweiss, Tokio Marine in life insurance JV

Financial services firm Edelweiss Capital today announced that it had entered into a joint venture (JV) agreement with Japanese insurer Tokio Marine Holdings for a foray into life insurance.

Indiabulls Financial, SocGen end India life venture

Source: Economic Times

Indiabulls Financial Services Ltd and France's Societe Generale have agreed to end their life insurance joint venture in India, the Indian firm said. In a statement, Indiabulls said the companies had entered into a joint venture agreement in April 2008 with regulatory approval for the Indian firm to hold up to 74 percent in the venture. Undeterred by the premature end to its life insurance joint venture, French banking giant Societe Generale is still buoyant on the opportunities in the sector and plans to develop a fresh strategy.

Life insurers new biz grows 22% to Rs 55,355 crore in April-Nov period

Source: Economic Times

The new businesses of the life insurance companies grew 22% to Rs 55,355 crore in the first eight months of the current fiscal, compared to the corresponding period last year. The industry mopped up Rs 45,337 crore during the same period last fiscal, according to IRDA data. The market share of LIC among 23 players in the sector jumped to 66% at Rs 36,448 crore during the first eight months of 2009-10, from Rs 25,219 crore during the same period last fiscal. However, the private life insurance industry has registered a decline of 6%. The 22 private insurers have collected Rs 18,905-crore first year premium during April-November this fiscal, compared to Rs 20,116 crore during the same period last year.

Employee health cost pinches India Inc

Source: Deccan Chronicle

With rising premiums in the group health insurance policies an increasing number of Indian corporates have started asking their employees to share the burden of their parents' premiums. Indian companies providing health care cover to their employees are grappling with an average 10 to 15 per cent rise in premiums over the last three years. According to Mr Kulin Patel, head of benefits practice, Watson Wyatt India: "One of the major reasons for the rise in premium was the advent of sophisticated medical technologies. However, employees seeking excessive care and malpractices like over-recommendation of services were also cited as major reasons."

have multiple tie-ups. We have formed a committee to go into the finer aspects of this point; and depending upon its recommendations, we will take it forward.

The Broking industry in India took off with a bang in the year 2003. However, brokers have not been able to establish themselves as a wanted entity as on date. What do you think are the reasons for this? Would there be any kind of regulatory changes to encourage brokers rather than them being treated as competitors by Insurers.

It is wrong to suggest that the broking industry has not developed as they are being treated as "competitors by insurers". You yourself have observed that the rate of growth of general insurance business has been much less than the life insurance business and the reasons for that have been touched upon elsewhere in this article. The broking industry is largely in the general insurance space and consequently is not immune to the effects of slow growth.

The non-availability of a data bank is today acting as one of the biggest hindrances in the scientific pricing of insurance products. What role is IRDA playing to increase the information exchange among providers and consumers? Are there any future plans for data sharing amongst insurers?

I fully agree with you that lack of meaningful and sufficient data is a big hindrance in scientific assessment of the risk. In order that this constraint is overcome sooner than later, we have established a data centre at Hyderabad; and it has been making a steady progress in the collection/ updation of data pertaining to the Indian insurance industry. Data sharing is a very important prerequisite for insurers to keep adverse selection at bay and also to fight the evil of moral hazard. Once the data centre is fully established, the industry will realize the benefits of data sharing in a more meaningful manner.

While IRDA had permitted products being filed with new Add ons under the erstwhile tariffed products, there have not been any such coverage which has excited the customer. Product innovation also has not been to the extent anticipated. What do you think are the reasons for this?

Non-Life insurance in India has historically not been particularly favoured by the general customer. This is probably because the general household assets in India are generally not substantial. As per-capita incomes rise and greater consumption takes place, the situation would undergo a substantial change.

There were reports on the GI council developing a standardized health insurance policy to help portability. By when is it likely be ready? And also, are there any plans to allowing portability in group health insurance as currently the health insurance of many individuals is interlinked to their job.

It is true that IRDA is working towards achieving a standardized health insurance policy that helps portability. We have also taken up the issue with the General Insurance Council for finalizing a standardized policy structure. As there are several important issues that have to be tided over, we have had a few iterations of discussions on this. I admit that by being tied up to a particular insurer, the customer is necessarily constrained to go along with him – irrespective of whether the service rendered is to his satisfaction or not; and portability takes care of this constraint. However, because of the complications associated with factors like pre-existing conditions, no-claim bonus etc, it could not be achieved earlier. We have taken up the matter in right earnest and hopefully it would not be long before portability is introduced in Health Insurance policies.

It is often heard that several hospitals have different tariffs for treatment charges for people with & without insurance causing the claims cost to escalate. Are there any plans for IRDA to intervene and take up the cause since this is one of the key factors for the health portfolio incurring losses year after year?

At the outset, it must be recognized that the IRDA is not a body set up to regulate hospitals and that is the function solely of the Medical Council of India and other such bodies as established by the Ministry of Health etc. But with the establishment of the data warehouses and with wider access to granular data, I am confident that the problem of irrational pricing for services will be addressed. It is further incorrect to state that the health portfolio is incurring losses from year to year. Individual health portfolio is as healthy as can be expected at this stage of development. However, it is the group health segment which has been displaying strain on claim ratios. While pricing behavior of the nature you have pointed out certainly casts its negative impact, as the Regulator, I am more concerned with the pricing policies adopted by the insurance companies in an effort to garner more group business.

While the industry is growing at a healthy pace with the number of insurers and brokers steadily rising, there appears to be a dearth of training houses or inhouse trainings taking place. There may be a time in the future where in we have a lack of depth of insurance knowledge in the industry. Would you have any comments to offer regarding this?

There is no doubt that the insurance industry would require trained professionals in many areas germane to the industry like accountants, actuaries, managers and insurance trained professionals etc. The market has definitely taken note of this development as we see several educational institutions starting courses on insurance and related subjects besides the increasing number of young people who are taking up courses of study to equip themselves with appropriate professional skills. But manpower problems of this nature can only be addressed in the medium term and not solely by the industry.

Would you like to share with our readers any other areas of regulatory review IRDA is currently working on?

None, in particular.

News TitBits

BoB, Andhra Bank float life insurance venture *Source: Mydigitalfc*

Bank of Baroda, Andhra Bank and UK's Legal and General on Monday launched their life insurance joint venture — IndiaFirst Life Insurance. The 23rd life insurance company in India, which received the final R3 approval from Insurance Regulatory and Development Authority (Irda) recently, will start operations by the year-end.

Irda sounds out insurers on nuclear accident cover *Source: Economic Times*

A year after private nuclear plants became a possibility in India following the Indo-US nuclear deal, the insurance regulator is deliberating with companies to cover liabilities arising out of nuclear accidents, which is essential for such plants. "Our discussions on insurance covers for nuclear risks are at a preliminary stage," Irda chairman J Hari Narayan told. "We need to examine global practices of covering such a liability before taking a final view," he said.

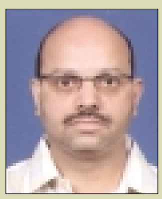
Interview – *Corporates*

Today's construction industry operates in a highly competitive environment as projects have become more complex. In this section, we interview Mr. P.K. Tripathi, CEO, Unitech Sai Pvt Ltd and Mr. Rajeev Hajela, General Manager- Insurance, DLF Ltd on the issues & risks facing the construction industry today and how they foresee the next decade for the construction industry.

What are the prominent changes/issues that have affected the construction industry over the last one year?

Mr. P.K. Tripathi :

- Global financial melt-down.
- Due to the above, construction industry has been facing acute shortage of funds.
- Demand from clients has gone down considerably. People desist from investment in an un-certain environment.
- As the prices of Real Estate went down in the market, the speculators and investors vanished from the scene. This left only genuine buyers in the market.
- Due to the above, there has been an oversupply in the market and builders have a huge unsold inventory.



Mr. Rajeev Hajela : After recording a spectacular growth in double digit, more than the country's GDP in the past half decade, the Indian construction sector all of a sudden lost stream in last fiscal largely due to global financial turmoil. The turmoil created multiplier impact across sectors including steel, cement, power, petroleum, aluminium, IT and ports, besides badly bruising the Indian economy.

In the prevailing scenario, infrastructure remains a top priority for addressing developmental gaps as it is considered omnipotent with potentials of lifting economy out of the financial turmoil. The governments around the world are pumping money to generate demands for goods and services by creating jobs through higher spending into physical and social infrastructure. The next couple of years will be the moment of reckoning for the construction industry to demonstrate its managerial, financial and technical prowess to establish new benchmarks in construction management, construction quality, imparting value addition to its products and services in critical construction equipment product line.

While technology and Project Management have been playing a critical role in reducing the time period for completion of a project, where would you rate Risk management in Project Management. What is the time being spent on risk evaluation and management at the project stage today?

Mr. PKT : As the developers had not anticipated the above scenario, they had made large scale investments into land banks and found themselves in an overstretched situation. They had taken loans in a big way and the servicing cost also increased enormously. Not being able to complete the projects, the money got further blocked. This further resulted in wrath of the customers and adverse publicity in the media. Stimulus by the Govt. has certainly helped in retrieving the situation but the boom scenario of earlier times is certainly miles away. All dark clouds have a silver lining. The terrible setback has certainly given a lesson to the developers. They are being more realistic now, the market situation is being property assessed and arrangements for financing the projects are being made in advance before launch of the ventures.

It must be admitted that the time spent on risk evaluation and management at the project stage is unsatisfactory and minimal.

Mr. RH: Risk management is an integral part of Project management and can not be segregated from it. Project risk management is to analyze and mitigate potential risks. As the extent and type of risks varies like pure, financial, political and business, the organisation has to do due diligence exercise at every stage of risk assessment. Another categorization of risks can be on the basis of impact, which can include dynamic vs static corporate vs individual, internal vs external, positive vs negative, acceptable vs unacceptable, insurable vs non-insurable, thus making it a complicated exercise. A good deal of manpower and time is provided by organisation in assessing the risk parameters.

According to you, what are the three biggest risks facing the construction industry today?

Mr. PKT:

- Lack of demand.
- Lack of funds - In view of the recent experience and considering realty as a risk area, funding is not easily available. Lenders are now asking for greater guarantees/securities against the loans.
- Uncertain future - The economic recovery is still fragile and does not generate a sense of confidence.

Mr. RH : There are some very serious challenges facing the construction industry that are motivating new approaches to how we design, build, operate, and maintain buildings and infrastructure. While these new technologies are designed to address challenges in the construction industry, I think that they are going to profoundly affect other sectors such as operations and maintenance, emergency planning, first response and urban planning

- ***Global Climate Change:*** *Leadership in Energy and Environmental Design Green Building Rating System* LEED, developed by the **U.S. Green Building Council** (USGBC), provides a suite of standards for environmentally sustainable construction.
- ***Aging infrastructure:*** Substandard road and bridge design, pavement conditions, and safety features are factors in 30% of all fatal highway accidents
- ***Shrinking workforce:*** Loss of critical knowledge and the inability to find replacements with utility-specific skills are the two biggest challenges facing the industry
- ***Declining Productivity:*** The construction industry is highly competitive, and firms must continually improve their productivity to remain competitive
- ***Information flow:*** As much of the disciplines such as architecture, structural engineering, construction, civil engineering, and GIS are classic information silos. Each maintains its own information island comprised of design applications and data. This is problem area for operations and maintenance, emergency planners and responders, urban planners, and others who require seamless access to urban terrain. The biggest challenge is not typically data, because the data that would help these people already exists but to integrate existing data in a seamless view.

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Readers Speak - Claims Service

The realization of insurance only comes to fruition when a loss occurs and a claim is made. Claim settlement is that process which fulfills the promise the insurance policy makes.

Unfortunately, claims handling is one of the main areas causing complaints from customers of insurance products. A recent survey conducted by Max Bupa Health Insurance and TNS, a market research firm, has found that the majority of participants believed that making a claim is more difficult than it should be, with many reporting experiencing "intricacies" while making a claim in the past.

Isn't getting a claim paid, in case some thing fortuitous happens, the very reason a person buys insurance in the first place? Then why is the situation of being put through the process of handling a claim with insurers so bad? Are customers satisfied with the insurer's claims service? Are claim handlers trained to find ways to deny coverage rather than look for it?

Has the quality of claims service improved over the years with technological advances or has it worsened? If so, what are the reasons for improvement / causes of the problems? How can claims handling be a better experience for both, the customer and the insurer?

Your opinion is solicited!

Please send your responses in 200-300 words to knowledge@indiainsure.com

In the last issue of inotes, we had asked

With reports in the media that insurers are cancelling group health insurance policies due to the adverse claims ratio, do you think it is time for corporates to adopt some cost containment strategies?

Below are some of the responses we received.

Mr. Sriram Rajgopal, HR Head, Det Norske Veritas (DNV) says

In countries like India where state sponsored social security is poor, and awareness about health insurance is inadequate, the need for a company sponsored health insurance scheme is critical. A major hospitalization for the employee or a dependant family member has the potential to wipe out years of savings.

Claim ratio has a tendency to get disturbed when the average age of the insured becomes higher, or in case of organizations with a significant female employee base through maternity benefit getting extended. While this is a positive retention tool for many organizations, it should also be financially viable. For insurers their bleeding portfolios resulted in management initiatives including cancellation of loss making mediclaim policies. For organizations, since retention is not such a hot topic nowadays, cost / benefits analysis is a point of discussion.

In my opinion, there is a need for insurance companies to come together, collaborate with hospitals, arrive at a common understanding regarding room tariff and set limits for cost of medical treatment. There is also a need for better governance mechanisms of hospitals so that initiatives such as group mediclaim schemes are sustainable, for insurance companies, hospitals and for corporates. Some private hospitals have to realize that in poor countries like India, medical treatment needs a social overview. Profit is important, but should not be the single determining factor.

I would like to conclude by saying that even dark clouds have a silver lining. With a little collaboration, claims ratios, high premiums, and most importantly employee morale can be safely managed through some corrective action.

Mr. Rajiv Mundhra, Head- Treasury & Taxation, Zensar Technologies says

For quite sometime, it is being reported that adverse claim ratio in group health policies is resulting into losses for the Insurance Companies.

In some cases, the Insurance Companies have reportedly initiated steps for cancellation of the policy. Without going to the legalities, I strongly feel that the Insurers should not resort to such an extreme measure, particularly considering the fact that they were fully aware of the underlying risk.

However, this situation may not continue for long. It is time now that the Corporates should actively consider claim control measures, otherwise, they may have to shell out higher premiums in future. Some of the measures worth considering are capping of room rents, capping maternity claims, introducing co-payments etc.

{Views expressed are purely personal and does not reflect the views of the Company}

Claims Case Study: *Road Construction Claim*

Background : Mr. Vamsi Mohan was awarded the work of construction and completion of "improvements to Road No: X" by Govt of AP and the approximate value was Rs.250 lakhs. Mr. Vamsi Mohan was also instructed to take insurance for the construction as well as maintenance, as per the terms of agreement. He therefore took a Contractor's All Risk Insurance Policy.

Policy Period: From 01st October 1992 to 31st March 1994 + 1 year maintenance period from 1st April 1994 to 31st March 1995

Claim Details : On 11th September 1993, Mr. Vamsi Mohan addressed a letter to the Insurance Company intimating that the road work covered by the policy had developed cracks due to sudden inundation and heavy rains resulting in seepage of soil beneath the road. The Insurance Company was also informed that the cracks have developed within weeks.

Insurance Company, thereafter, appointed 2 surveyors who arrived at the conclusion that the claim was not payable. Hence, the Insurance Company issued a letter repudiating the claim. The reasons given here under are:

(i) Excessive watering of the road surface;

(ii) Heavy traffic was permitted during the execution of work, and

(iii) There was improper and defective workmanship, which would be outside the scope of policy.

Further it was stated that the entire bitumen work had been completed by 31st May, 1993 and that traffic had resumed and since the cracks on the road surface were seen only in July, 1993 the damage appeared to have occurred after completion of road work. Therefore the liability of the Insurance Company had ceased as the contract contemplates, "The company's liability expires also for parts of the insured contract works taken over or put into service by the Principal prior to the expiry date specified in the policy whichever shall be earlier".

Also the loss as above would not fall within the ambit of the limited maintenance cover because under 'limited maintenance visits cover', the coverage is for 'loss of or damage to the contract works caused by the insured contractor in the course of the operations carried out for the purpose of complying with the obligations under the maintenance provisions of the contract'.

Claim referred to National Consumer Disputes Redressal Commission

The questions requiring consideration were:

(i) Whether exclusion clause would apply for the use of the road for traffic purpose?

(ii) Whether the exclusion clause which provides that the Company shall not be liable for the cost of replacement, repair, or rectification of defective material and/or workmanship is established by the Insurance Company?

(iii) Whether heavy watering of the road surface could be the cause for repudiation?

(iv) Whether insurance coverage was in existence in the month of July, 1993?

Traffic:

Learned counsel for the Insurance Company submitted that heavy traffic was permitted to pass on the road and thus it has resulted in development of the cracks. For this purpose, the Court has examined the Superintending engineer who denied the allegation that the traffic was allowed even during the construction of the road. So, the exclusion clause would not apply to such case.

Defective material or workmanship

Regarding this, the engineer stated that there was no deviation by the Complainant from the specification for relaying of the road prescribed. Even the Executive Engineer at the relevant time stated that on the verification of the work it was found that the work was done as per the specification.

Heavy Watering

The engineer confirmed that after profuse watering for 14 days, the surface was allowed to dry up. After drying up was completed, B.M. (Bituminous Macadam) layer was placed on the road as per the specification. Profuse watering was only to strengthen the W.B.M. and it does not have any adverse impact as contended by the insurance surveyor.

It is his say that due to heavy rains the water content in the sub-soil and side drains had increased leading to inundation in the W.B.M. layers. The excessive water in the W.B.M. layers was under constant pressure due to heavy traffic on the road, which resulted in capillary action forcing the water to find its way into the top BM layer. This resulted in appearance of the cracks on the road. He has specifically stated that he has gone through the surveyor's report and the reasons given therein for rejecting the claims were technically wrong and made without any understanding on the subject.

Whether the insurance coverage was in existence in the month of July, 1993.

Cracks in the present case were noticed in the month of July, 1993. In the present case, insurance coverage is two fold: one – during the construction period/relaying of the road, and the other, after construction/relaying of the road. It is the contention of the Complainant that the work was completed on 23rd August, 1993, and for this reliance is placed upon the letter written by the Executive Engineer to the Surveyor wherein it is stated that the work of relaying commenced on 3.8.1992 and was completed on 23.8.1993, and thereafter, traffic has been allowed.

In the repudiation letter, the Insurer has stated that maintenance coverage is taken for 1.4.1994 to 31.3.1995, but has to be reckoned from the date of handing over the road stretches for traffic. Therefore, if the road stretches were handed over in the month of June, 1993 as claimed by the insurer, the insurance coverage for maintenance would undoubtedly be applicable. This is in conformity with the insurance policy as insurance coverage for maintenance period is for one year and that, normally, would commence as soon as relaying of the road is completed and handed over for traffic.

The Outcome : The Court concluded that in such eventuality the insurance company is required to pay or make good such loss up to the limits specified in the schedule for replacement or repair of the work. In this view of the matter, the Insurance Company is bound to reimburse the replacement or repair cost incurred by the complainant.

News TitBits

Now, health insurance to cover OPD charges

Source: Business Standard

There is finally some good news for health insurance buyers. Insurers are now beginning to cover outpatient department (OPD) expenses. At least two players — Apollo DKV and ICICI Lombard —have come out with such a policy that was so far denied by insurance companies on fears of misuse by policyholders. Apollo DKV's Maxima and ICICI Lombard's Health Advantage Plus come at a fixed annual premium of Rs 13,000 and Rs 15,000, respectively. To check against possible misuse, companies have, for the moment, decided to cap the OPD expenses.

Insurers to take Rs 140-cr hit for IOC fire

Source: Business Standard

Insurers are likely to take a hit of up to Rs 140 crore from the recent fire accident at the IOC marketing plant near Jaipur. The plant was insured for Rs 238 crore by ICICI Lombard as the lead insurer, while Oriental Insurance had the second-largest share, followed by Iffco Tokio and National Insurance with 10-15 per cent stake each.

Job-hopping not to affect mediclaim

Source: Economic Times

General insurers, both private and public, have started offering continuity of features of group mediclaim policies to employees even after one quits an organization where the cover was originally offered. People retiring can also continue to avail of the facilities of the group health policies. The only catch is that it no longer remains a group policy and gets struck off the list of covered employees of the company. It is now treated as an individual policy. Premiums for the policy, therefore, are higher than what the former employer paid for the individual. But, features like inclusion of pre-existing diseases and continuity clauses remain with the policy while waiting periods for covering certain ailments are waived. Although group policies are generally tailor-made for each company, their continuity with individuals after they quit are being increasingly allowed by a number of general insurers like ICICI Lombard, Bajaj Allianz General Insurance as well as the four public sector companies.

Report Card - November 2009

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

INSURER	NOVEMBER		GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR	APRIL - NOVEMBER		GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR
	2009-10	2008-09		2009-10	2008-09	
New India	412	372	10.80%	3930	3604	9.04%
National	338	314	7.38%	2891	2824	2.39%
United India	411	340	20.96%	3275	2757	18.78%
Oriental	335	270	24.06%	3031	2636	14.99%
ICICI-lombard	221	231	-4.16%	2135	2472	-13.60%
Bajaj Allianz	181	189	-4.10%	1603	1802	-11.02%
Reliance General	170	181	-6.19%	1386	1316	5.32%
IFFCO-Tokio	110	111	-1.04%	983	932	5.44%
Tata-AIG	59	52	13.45%	583	609	-4.28%
Cholamandalam	54	53	1.82%	531	467	13.69%
HDFC ERGO	66	25	160.60%	588	204	188.78%
Royal Sundaram	65	66	-0.58%	585	527	11.02%
Future Generali	25	14	83.58%	222	101	119.49%
Shriram General	37	17	115.13%	211	38	461.57%
Bharti AXA	22	2	960.77%	148	4	3661.83%
Universal Sompo	20	1	2081.11%	99	2	3861.45%
Raheja QBE	1	0	0	1	0	0
PRIVATE TOTAL	**1031**	**941**	9.48%	**9076**	**8474**	7.10%
PUBLIC TOTAL	**1496**	**1296**	15.40%	**13128**	**11821**	11.05%
GRAND TOTAL	**2526**	**2238**	12.91%	**22203**	**20295**	9.40%
1.Credit Insurance						
ECGC	64	60	6.54%	521	466	11.74%
2.Health Insurance						
Star Health	14	7	102.55%	644	319	102.18%
Apollo DKV	12	7	67.31%	71	25	177.10%
Health Total	**27**	**14**	**84.50%**	**715**	**344**	**107.72%**
3.Agriculture Insurance						
AIC	135	78	72.73%	1144	541	111.61%

* Source : IRDA

Observations: Performance for Apr-Nov 09 Period

- The industry (incl stand alone health insurers, ECGC & AIC) have collected premiums of Rs.24583 crores recording a growth rate of 13.57% in Apr- Nov 09 compared to Rs. 21646 crores during the same period last year.
- The private players have registered a growth of 7.10% during this period compared to 15% during the same period last year.
- In contrast, the PSU's have registered a growth rate of 11% which is almost double of their last year's growth at 5.86%.
- The accretion achieved by the PSU's during this period is Rs.1306 crores; the private players: Rs.602 crores and stand-alone health insurers: Rs.371 crores towards the overall market accretion of Rs.2279 crore.
- The major contributors for the performance in the period Apr- Nov 09 have been United India with an accretion of 518 crores, Oriental with an accretion of 396 crores, HDFC ERGO with an accretion of 384 crores and New India with an accretion of 326 crores.
- In fact, HDFC Ergo has now emerged as the fifth largest private player in terms of premium collection and has outpaced Tata AIG, Royal Sundaram & Cholamandalam.
- ICICI Lombard (-13%), Bajaj Allianz (-11.02 %) & TATA AIG (-4.28%) have recorded negative growth during this period.
- At the end of this period, the four public players have collectively increased their market share to 59.12% from 58.25% during the same period last year.

News TitBits

Combo cover of health and life permitted

Source: Mydigitalfc

Life and general insurance companies can now jointly offer policies combining both life and health cover. An Insurance Regulatory & Development Authority notification allowed a life insurance company to tie up with one in non-life insurance to offer health-plus-life combo products. Customers will thus have a wider choice of covers. The notification said insurance companies wanted to promote combos of both kinds of insurance. And it conceded the request for this new product class, as this would increase "the penetration of personal lines of the insurance business with a wider product choice to policyholders".

Corporate Affairs Ministry seeks insurance regulators help to introduce class action suits

Source: Asia Insurance Review

The Ministry of Corporate Affairs (MCA) will start talks with the IRDA to introduce in India class action suits and related indemnity for investors, reports the media. "The class action suit has to go hand-in-hand with the insurance industry as it is in the US," said Mr Salman Khurshid, the Minister of Corporate Affairs. "We are going to take concepts and ideas from other countries regarding class action suits but not blindly follow them," he added.

26/11: GIC hopes to settle hotels' claims by March 2010

Source: Business Line

The insurance claims of the three Mumbai hotels — Oberoi, Taj and Trident — damaged in the 26/11 terror attacks, are expected to be settled from the terror insurance pool by March 2010, according to sources in General Insurance Corporation of India. The payments, made so far, were on an unaccounted basis and the final amounts were likely to emerge shortly as the hotels were in the final stages of repairs, a senior GIC officer told. General Insurance Corporation (GIC Re), India's national reinsurer, has to date made insurance payouts of Rs 167 crores to the Indian Hotels and EIH that suffered terror attacks.

(Contd... 09)

Risk exposure in the Construction Industry .... *Contd. # 2*

contractors rush to get the job done. The workers in construction industry are vulnerable to the inherent risk to their life and limbs. Construction accidents that can occur include defective and collapsing scaffolds, fall from ladders, safety harnesses that don't work properly, fall from roofing structures, electrocutions, crane accidents, injuries from faulty machinery like tractors and forklifts, electrical accidents, lift accidents, fires and explosions, burn injuries, chemical burns and dumper crashes. The low knowledge and skill level of workers, failure to use personal protective equipments and poor workers attitude towards safety also causes accidents. The toll of construction accidents is high in terms of both costs and human suffering.

> Historically the construction industry has had a poor record of work-related accidents. Building sites are challenging, as contractors rush to get the job done.

A report documenting fatalities amongst construction workers in the capital-Delhi, has concluded that over 48 construction workers have died, and another 98 suffered serious injuries, in a series of mishaps at construction sites during 2008-09. Other recent fatalities include the collapse of an under-construction bridge in Kota where 45 people were killed, the caving in of the Chattisgarh under-construction power plant chimney in Sep 2009 killing at least 20 labourers, Delhi metro mishap in July 2009 where 6 persons lost their lives, the Lucknow flyover collapse in October 2008 where 7 people were killed etc. These & many other such incidents highlight the fact that safety is thrown to the winds in the rush to meet deadlines.

The risks of accidents is also higher because things can go wrong, fast in an unfinished building—from collapse to theft to a total-loss fire. There are many hazards at construction sites: compressed-gas cylinders, temporary heaters, combustible debris like wood chips, gasoline and other flammable liquids and blocked exits. It is therefore imperative to a business that safety is taken seriously, as the implications for not doing so can have a significant negative impact on the company.

Completion Risks

This is the risk that the project may not be completed on time due to various reasons such as cost overruns, scope changes, technology failure, force majeure, contractual disputes, labour problems etc. The triple constraints of quality, time and budget constantly pose a threat to the smooth completion of the projects. In a tough economy, the going gets even tougher.

Delays in construction will result in delays in operations and thus increased construction costs and a delay in revenue receipts. Construction projects have a bad reputation of failing to meet the deadlines and cost targets. Time is money to owners, builders, and users of the constructed facility. Delays result in extended overhead costs and put a crunch on critical cash flow.

Environmental Risks

The impact of environmental issues on construction has been escalating since the past decade. And with green issues very much to the forefront, construction has to meet increasingly tough environmental standards. Ideally, every project should address environmental issues during the planning and design phase itself. Failure to comply with environmental regulation can result in project delay or termination, disqualification from future work opportunities, fines, civil action and even criminal prosecution.

India has witnessed several strong anti-construction protests and the Government itself has scrapped numerous proposals mostly where ecological impacts are high. Environmental concerns that impact construction include erosion and sedimentation control, wetlands and parklands, leaking underground storage tanks and contaminated soil, silica, asbestos, hazardous waste, dust control and noise. All of these concerns increase risks, which must be addressed and effectively managed. Ignorance of the law is no excuse and can place the project, its owner, contractor and the project manager in jeopardy.

> The impact of environmental issues on construction has been escalating since the past decade. And with green issues very much to the forefront, construction has to meet increasingly tough environmental standards.

Political Risks

When companies pursue opportunities in other markets, they face many complex risks, including political risks. Broadly speaking, political risk is the range of politically motivated events that adversely affect investments and contracts. Political risks that a construction firm might face include: failure of the host government to pay contractually due amounts, due to either inability or unwillingness to meet obligations, damage to construction equipment from politically motivated violence, seizure of equipment or assets by the host government, inability to convert local currency earnings or contract payments into hard currency and wrongful call of on-demand standby letters of credit posted as bid, performance or advance payment bonds.

Pressures can also emanate from adjacent property owners and the public at-large, including existing businesses, institutions, non-government organisations and residences adjacent to the constructed facility. Like the Singur issue where Tata Motors had to withdraw its small car project from West Bengal because of strong political agitation.

Contractual Disputes

Construction business is conducted through contractual arrangements that at times results in disputes. Claims and disputes have been steadily on the rise for years. Changes in the

(Contd... 11)

scope of work, accuracy of shop drawings & submittal, differing or unexpected site conditions are common grounds for a dispute. Contractors and design professionals often interpret the documents differently, particularly if the description of the work in the plans/specifications is unclear or ambiguous — or when the plans are contradictory to the specifications. Contract disputes can inflict considerable damage on a company's brand, by tarnishing its reputation with potential partners and customers alike. A large percentage of claims could be avoided by generating comprehensive, accurate, contract documents.

Insurance Solutions for the Construction Industry

The importance of insurance as a risk management tool in construction projects cannot be over-emphasized. The unique and often complex requirements of construction projects present myriad exposures to loss and liability for all parties involved. The most common insurable risks include damage to the project both during construction and after completion, third-party liability claims for property damage / bodily injury, defective or incorrectly performed work, delay in completion etc.

> The link between risk and reward has never been more important than it is now in the construction industry as it grapples with the challenges of quality, safety, time constraints & stiff competition.

Several different types of insurance policies cover many of the risks presented by a construction project. Below is the risk matrix that identifies the risks exposed to and the availability of an insurance cover.

Risks associated with	Insurance availability
Procurement of raw materials	Yes
Supply Chain	Yes
Construction	Yes
Storage	Yes
Plant & Machinery	Yes
Erection	Yes
Defective Design	Yes
Price changes	Yes
Force majeure events	Yes
Employee Health & Safety	Yes
Delay in completion due to an insured peril	Yes
Exchange rate fluctuations	No
Changing regulations	No
Third party liability	Yes
Dispute regarding Title / ownership of property	No
Existing defects in property	No
Environmental issues	Yes
Political interferences overseas	Yes
Political turmoil - India	No
Payment receipts	Yes
Terrorism	Yes

Conclusion

While risk in a project environment cannot be totally eliminated or transferred, it can be monitored, minimized or mitigated wherever possible. The extent to which these construction risks can be

successfully identified and managed largely determines whether a project meets its schedule, budget, and quality assurance targets. To succeed, organizations must commit to addressing risk management throughout the project lifecycle.

The link between risk and reward has never been more important than it is now in the construction industry as it grapples with the challenges of quality, safety, time constraints & stiff competition. Never before has effective management of business risk been so critical to gain competitive advantage and enhance corporate reputation. The onus is now on the construction fraternity to act, take quick action to inculcate, absorb and embed key risk management processes in their very DNA – which will augur well for the continued growth momentum of the construction sector in India.

News TitBits

Days of breakneck-speed growth over for insurance industry: IRDA Chairman

Source: Asia Insurance Review

"Breakneck speed" growth which the insurance sector witnessed in the years after 2002 is over, and the sector is expected to see "respectable and stable growth" with at best a 10% compounded annual growth rate in the next five to six years, says Mr J **Hari** Narayan, IRDA Chairman.

Insurers near Center of Climate-Change Debate in Copenhagen

Source: Advisen

With the number of extreme weather events continuing to grow around the world the insurance industry is finding itself at the very center of efforts to avert the worst effects of climate change. "But [tackling climate change] is not something that the industry can do by itself," said Patrick M. Liedtke, Managing Director of the Geneva Association. It requires flanking action from governments, policy makers, regulators, NGOs and a lot of public dialogue. The whole world can't be insured, only parts of it." Part of the debate taking place in Copenhagen is centered on addressing what, precisely, it will take to engage private insurers and harness their expertise in the large, complex and unexpected risk associated with increasingly calamitous weather patterns.

Interview – *Corporates*... Contd # 5

How does your company manage project risks? What controls & monitoring procedures do you have in place?

Mr. PKT :

- A proper market assessment— which shows that the demand, as far as the residential segment is concerned, is in affordable housing. The projects are being designed accordingly.
- As the demand in Commercial and retail buildings has gone down, further investments in this sector are being curtailed.
- All efforts have to be made to reduce debt liability and it's servicing cost. This has been possible by recent QIPs.
- To achieve the debt reduction, parcels of land from land bank have been sold. Some high value assets have also been disposed off.

Mr. RH : DLF is primarily is real estate developer and not in infrastructure development. Thus despite being a part of the construction sector the risk parameters for the company are in variance with the routine standards.

These risks are properly mapped and exposures defined and thus one of the major aspects of project risk management which is property and liability risks is covered by availing of suitable insurance covers. As regards other project risks which originate from the decision of acquiring land parcels like cost overruns, time delays, funding etc which are not on account of exposures covered by insurance, strict internal controls are in place to monitor these.

As one of countries largest Construction majors, what has been your experience as far as risks are concerned? Can you share with our readers the one single risk (not foreseen) that took you by surprise?

Mr. PKT :

- Immediately at the start of the financial crisis, the Company was affected in an adverse manner. Sale of property took a major hit. Cash was a problem which resulted in difficulty in servicing of debts. Difficulties never come alone – seeing the downturn, the lenders started putting all possible pressures for redeeming their loans. This further affected the flow of funds for projects, virtually bringing them to a grinding halt.
- Shortage of trained skilled manpower in the country.

Mr. RH :

- Global recession from September 2007 took everybody with surprise and DLF was no exception to it. Credit squeeze coupled with absence of buyers and recessionary tendencies in the economy played havoc with the fortunes of companies in construction sector.
- Mumbai terror attack was another eye opener from insurance risk perspective as liability covers usually exclude terrorism risk. It led to sea change in conducting the exposure analysis of non industrial risks.

The Construction and insurance industry have a lot to depend upon each other for. What is it that you find lacking today in the Insurance Industry? Which are the areas you think that they should gear up to cater to your requirements what would your wish list be with regard to insurance coverage related to the construction industry?

Mr. PKT : The Workmen's Compensation Act and CAR policy are already part of the contracts. However, there are no Insurance policies which can take care of the risk due to delay in completion by unforeseen situations.

Mr. RH : Construction is high risk and high value venture. The stakeholders in the construction sector are very many and include the Project owner, construction companies, consultants, bankers and financial institutions, vendors & suppliers, the service providers, and even the space holders. Each has his own fears of facing risks in the conduct of business. The magnitude of the risks is indeterminate at times.

Market is still nascent in terms of providing specialized insurance covers for the sector, be it for property or on liability side. There is dearth of quality innovative products. The customization to match client's risks on the property side is available only in mega risk insurance covers. Mindless reduction in prices whether in engineering or in property segment have stagnated the development of domestic capacities for large risks.

While CIDC (Construction Industry Development Council) was formed with the objective of being a unified forum for taking up activities for the development of the Construction Industry in India, it has not made the impact that was anticipated. Your comments on this?

Mr. PKT : We have a similar feeling- CIDC has not made a large impact. It does not seem to be very pro- active and has not been very much in the visibility zone. However, CIDC has taken steps for certification of skilled workers, supervisors and quantity surveyors etc to provide manpower to the construction industry.

Mr. RH : CIDC being a govt. of India sponsored body has its own strengths and limitations. Though it has done work in risk alleviation in risk engineering, yet constant thrust is needed. However, personally speaking, industry status to real estate and parallel norms ala BSC would ensure much needed quality in construction activities across all verticals.

Yours is an industry that provides an overview of the economy? How would you characterise the economy right now? What was the effect of the recent recession and how do you foresee the next decade for the construction industry?

Mr. PKT : Construction industry is definitely an indicator for the status of the economy. It is also one of the largest employment generating agencies in the country. Although some signs of recovery are being seen but it would, perhaps, be too early to say that the crisis is over. However, with the Govt. putting lot of emphasis on infrastructure development, there is hope that the construction industry will show good growth in future. The recent recession has almost washed out the smaller players, the bigger players have learnt a lesson and it is hoped that this will result in more careful investments in the industry.

Mr. RH : It has helped in rebuilding focus, pruning tangential activities to achieve cost controls, which help in creating more effective systems and processes. And, it forced people to come up with innovative ways of handling problems, something mandatory for survival.

Among the three most affected - end users, investors, developers - surely, the end user has benefited the most during this period. The supply chain started addressing the real demand in market mid-end and affordable housing. The shift in strategy is in terms of market focus, product size, pricing and promotion.

{Views expressed are purely personal and does not reflect the views of the Company}

View Point - *Who will bell the cat?*

The queue of insurers at a large corporate renewing his Health policy is not as long as it was last year! As predicted by my colleague in the last issue of this newsletter, we have begun to witness the emergence of a hard market as far as the Health portfolio is concerned. Gone are the days of the jostling at the customers place in case his health portfolio is too adverse for there are some insurers out rightly shunning acceptance of such risk as the concept of a healthy bottom line has begun to emerge amongst insurers.

My point of contention here is that we have the customers who stand to suffer with the premium soaring, and on the other side is the insurer who is equally upset as the claims experience in the Health portfolio has been spiralling upwards too. In a situation like this, there appears to be only one party who is laughing his way to the bank .... the Corporate hospitals! Unfortunately there is no regulation to keep a check on the increasing hospital tariffs. Interestingly, we understand that the hospital has 3 tariffs – one for a patient who has an insurance policy, the second where the patient gets a fixed reimbursement from his employer and the third is that group which belongs to neither the first or second group. The tariff for these three categories in one of the large corporate chain of hospitals was Rs 90,000, Rs. 70,000 and Rs. 55,000 respectively for the case of hospitalization for gall bladder removal. Why should hospitals be getting away with this kind of a blatant approach?

A couple of years ago, the World Health Organization supported by Armed Forces Medial College in collaboration with Ministry of Health and Family Welfare had done an exercise on Costing of Standard Treatment Guidelines. While the aim of this report was to assist practitioners and patients in making informed decisions about appropriate health care for specific clinical circumstances, this also reflected the very reasonable cost by which treatment can be administered in hygienic conditions at various levels of hospitals ranging from a 6 bedded facility to over 100 bedded facility. The revelations are shocking!

Instead of insurers battling amongst themselves, in trying to give a lower quote and subsequently bleed or terminate the policy, should they not be cartelizing and blacklisting such hospitals? Or a better approach would be for the TPAs and insurers to get their act together and get the hospitals to arrive at standard package rates for various ailments. Or yet another solution could be that Corporates have a pre-decided list of hospitals where their employees can avail treatment on cashless basis and only have a reimbursement facility for treatment from the blacklisted hospitals. This would automatically discourage the employees from going to such hospitals. Of late in the West, where health care has reached such alarming costs and the Corporate is unable to afford the premium, they are resorting to Self insurance with an excess of loss protection. That is, the corporate agrees to reimburse to their associates an agreed amount each year and take an insurance policy as a top up cover in case the claims exceed a pre decided amount. The insurers treat this as a policy with a higher excess or deductible and are agreeable to give a discounted premium too.

The time is right for each of the stakeholders to put on his thinking cap and come up with some drastic steps to cut the menace before it is too late! Rather unfortunately, instead of looking at such solutions corporates are looking to deleting the parents from the cover or putting co-payment clauses, which finally only stand to put the employee under a financial loss in case of hospitalization. The concern today remains that the root of the problem is being ignored and we are looking to methods to healing the wound, without extricating the thorn.

There seems to be a ray of hope with recent news trickling in that one of the PSU insurers is going a little stiff with the hospitals as well as their terms with the Third Party Administrators. The insurer has told its corporate customer that claims will be paid only to the extent of the negotiated prices which are clearly indicated in the policy and if any policy holder goes to a hospital which charges more, the difference would have to be borne by the policy holder only. We only keep our fingers crossed and hope that better sense prevails and the insurers get together in taking this stand, else there would always be that one odd insurer or a new entrant insurer who would readily accept the risk and continue to let the hospitals get away scot free.

Ms. Meena Nair, *AVP, India Insure*

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