

- Commercial Crime insurance coverage "exclusive"
- Interview - Corporate & Insurer
- Readers Speak
- Claims Case Study
- View Point

Message from the Editor

Dear Readers,

The much awaited and talked about Health insurance portability is finally a reality in the Indian market effective October 01st. This comes as a respite to policy holders who have been tolerating the deficient services for fear of losing their pre existing cover benefit. How beneficial it is going to be for a policy holder and will this improve the services of the insurer remains a million dollar question as the new insurer has every reason to load the premium as per the company guidelines. Insurers would need to enhance their service capabilities to service their existing customers and woo in fresh ones.

Innumerable cybercrimes plague our country every year. While there are several variants of the Crime policy in the Indian insurance market, the cybercrime policy is yet to make a coming in this market, even as one of the private insurers have just

made an announcement of the same. In this issue we cover the Crime insurance getting into the nuances of what's covered and what's not.

In our interview section we have Mr Aniruddha Gadre, Assistant VP –Finance, Tech Mahindra & Mr. Praveen Gupta, CEO, Raheja QBE General Insurance Company, expressing their views on the crime liability market in India. Our sincere thanks to them for sharing their valuable insights with our readers.

With the festive season round the corner, our greetings to all of you!



V Ramakrishna

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

Commercial Crime insurance coverage "exclusive"

- **Citibank India employee arrested for alleged £57m fraud**
- *The Telegraph, 30 Dec 2010*
- **Godrej comes under Economic Offenses Wing (EoW) radar after employee fraud**
- *Live Mint, 31 May 2010*
- **Wipro employee commits \$4 Million fraud**
- *The Hindu, 23 Feb 2010*
- **Company boards wake up to employee fraud**
- *The Economic Times, 9 Jan 2011*
- **Overall incidence of fraud rising in India Inc: KPMG**
- *The Economic Times, 6 Apr 2010*

Recently employee fraud, embezzlement and dishonesty have made headlines as never before. While a few recent cases have gained media attention due to the huge sums and the parties involved, almost all organizations grapple with multiple incidents of relatively smaller magnitude that stay out of the spotlight.

How prevalent is the risk then? The KPMG India Fraud Survey Report 2010 has mentioned that "The overall incidence of fraud is rising in corporate India in the last two years". An overwhelming majority of the survey respondents indicated that the incidence of fraud, overall and specifically within their industry and company, is rising thereby indicating that India Inc needs to deal with fraud risks firmly.

It is generally accepted that frauds are committed (by individuals) when the following three conditions co-exist:

- The individual must have an incentive to commit fraud
- The individual must identify an opportunity to commit fraud
- The individual must be able to rationalize the reason for committing fraud.

According to a recent survey by India Forensic Research, India might be losing as much as USD 40 billion annually to frauds which are occurring in even the best work environments. These fraudulent schemes involve every possible angle, taking advantage of any potential weakness in a

company's financial controls. From fictitious employees, dummy accounts payable, creation of new schemes, non-existent suppliers to outright theft of money, securities and property - they take any form. Such potentially devastating crime-related losses can cause a catastrophic impact to the bottom line of organizations. More importantly, the cost of managing fraud (including legal investigation, stakeholder management and public relations costs) is also very high. Despite many companies having very solid internal controls there is always the possibility that these can be breached by employees or third parties. In order to better manage the risk, those internal controls must be accompanied by a Commercial Crime Insurance policy.

Coverage Details

Crime insurance policy covers losses to a business organization due to criminal activities. The term 'criminal activity' is exhaustive and refers to situations ranging from employee dishonesty to theft, embezzlement, fraudulent fund transfers, computer fraud and forgery.

A number of insurers offer commercial crime insurance and many differences exist among policies and providers. However broadly the Crime insurance policy covers losses of money, securities or other property (e.g. stock) caused by the dishonesty of:

1. Employees and
2. Third Parties

Crime insurance is also sometimes divided between losses that take place "inside" the business premises and losses that occur "outside" the business premises.

We briefly dwell upon the individual coverages available in a standard crime insurance policy.

The crime policy provides a wider coverage compared to the fidelity guarantee and money policies.

Employee theft coverage is similar to the fidelity guarantee cover offered by Indian Insurers where employee theft/forgery with respect to money, securities and other property is covered regardless of whether it happens within or outside the office premises.

Commercial Crime insurance coverage “exclusive” Contd. # 1

Covers	Loss of	Due to	By	From
Employee Theft Coverage	money, securities or other property	theft or forgery	an identifiable employee of the Insured	Within office premises / outside the premises
Premises Coverage	money or securities	destruction, disappearance, wrongful abstraction or computer theft	third party	Within office premises / banking premises
	other property	robbery	third party	Within office premises
Transit Coverage	money or securities	destruction, disappearance, wrongful abstraction	third party	outside the Insured's premises while being conveyed by any person authorized by the Insured
Depositors Forgery Coverage	money	fraudulent cheque, draft, promissory note, bill of exchange drawn on the Insured account	third party	NA
Computer Fraud Coverage	money, securities or property	unlawful taking or fraudulently induced transfer	third party	a computer network and facilities either owned and operated or leased and operated by an Insured
Funds Transfer Fraud	money or securities	fraudulent instructions issued to a financial institution to transfer money or securities	third party	from the Insured's bank account

Ex 1: A premier educational institution lost Rs. 79 lakhs to an embezzling employee. The employee who was in the HR department opened a bank account in her sister's name and deposited huge amounts into that account in the name of guest faculty fee. This scheme went on for almost 3 years unnoticed. Loss Covered under the Crime policy.

Ex 2: The comptroller of a multinational company's new overseas subsidiary provided his fiancée with a corporate credit card. Over 2.5 years, the comptroller authorized payment of Rs. 48 lakhs in charges for his fiancée's purchases and cash advances. The loss was discovered when the comptroller was on sick leave and a box of monthly credit card bills arrived at the company's office. Loss Covered under the Crime policy.

Ex 3: A finance director to fund his extravaganza lifestyle, embezzled funds from his company for a period of 2 years causing a loss of more than Rs. 1.5 crore. Crime policies of some insurers exclude any acts committed by a director/partner of insured.

The **Premises coverage** of the Crime policy covers the loss of money as well as securities kept within the entire office premises and even the banking premises. It also extends the cover to loss of other property by robbery within the premises.

Ex 1: An employee at the cash counter is being held at gun point and is being robbed of the cash. Loss Covered under the Crime policy.

Ex 2: A company deposits 50 lakhs in its bank locker. The bank is burgled and all the money in the locker is lost. The premises coverage of the crime policy responds here.

The **Transit coverage** under the crime policy is comparable to the money-in-transit policy. It provides cover against loss of money/securities while being conveyed by any person authorized by the Insured. It also covers

the loss of money/securities while temporarily within the home of an authorized person.

Ex 1: A cashier was taking the daily collections to be deposited in the bank in the evening. On his way to the bank, an unidentified person snatches his briefcase containing the money and runs away. Loss Covered under the Crime policy.

Ex 2: The account manager of a firm based in Hyderabad was to hand over Rs. 63 lakhs cash to a supplier in Chennai. He withdraws the money from the bank in the evening, keeps the money at his home that night as he was supposed to board the early morning flight the next day. A burglary happens at his house that night & the money is stolen. Loss Covered under the Crime policy.

Ex 3: A cashier was carrying some money in his scooter to be deposited in the bank. On the way, he stopped to have snacks at a restaurant. While he was at the restaurant, someone broke open the lock of the cabinet of the scooter and decamped with the money. Some Crime policies do not cover losses from an unattended vehicle.

The **Depositors Forgery Coverage** covers losses from instruments such as cheques fraudulently drawn on the Insured's accounts by a third party.

Ex - A resort decided to enlarge the poolside area. When a member of the finance team went to the bank to encash money for the enhancement works, he was surprised to note that only the minimum balance amount was available in the account. When he enquired further, he came to know that one of their supplier's employee had forged the Finance Manager's signature & withdrawn the money from the bank. Over 45 lakhs had been embezzled. Loss Covered under the Crime policy.

Interview – Corporate & Insurer

A comprehensive Crime policy is an absolute necessity for corporate managers concerned with protecting their company's assets today and in the future. In this issue we speak to Mr. Aniruddha Gadre, Assistant VP – Finance, Tech Mahindra on how his company is handling the liability risks and also to Mr. Praveen Gupta, CEO, Raheja QBE General Insurance on how well the Crime insurance policy has caught up in India.

Mr. Aniruddha Gadre, Assistant VP –Finance, Tech Mahindra Limited

As companies world-wide are becoming potential targets for white collar crime, do you see the awareness of this insurance product increasing among corporates in India?

There is certainly an increase in awareness about this product among corporates as earlier this being only a 'perceived risk' is fast becoming a 'Real risk' which needs mitigation and control, if one looks at recent incidences and trends in the marketplace. Corporates need to be alive to this risk which not only impacts their earnings but also has potential to hurt reputation and brand equity in the marketplace.

Despite heightened efforts at regulation and companies' investments in controls, fraud remains a major threat to companies around the world. How are these risks managed at Tech Mahindra so that the potential losses are minimized?

Tech Mahindra follows an approach of Risk Identification, Assessment, Quantification (wherever applicable and possible), Prioritization and Mitigation/control. The Risk Register is maintained, updated and reviewed on a regular basis. Company also maintains adequate internal control system which is enhanced by Enterprise Resource Planning (ERP) package implemented companywide.

What according to you are the main obstacles to achieving successful management of liability risk within your business?

- Inhouse expertise including understanding of Risks ,coverage (policy wordings) and Reinsurance Markets
- Direct access to reinsurance markets

Does the crime insurance policy presently available in the Indian market cover all the threats that you foresee or are there any risks desired to be covered but not getting covered?

While there are crime policies available with wide coverage , there are few gaps which needs to be bridged such as loss due to cyber security and loss covering third party.

Looking ahead five years, what do you think are the main 3 sources from which the future liability issues will emerge?

- Climate change impact
- Globalization of business /cross border acquisition
- Global Meltdown/Recession

Mr. Praveen Gupta, CEO, Raheja QBE General Insurance

How has the response been so far for the Crime insurance policy in India? In terms of market size, how large would this market be in India?

Crime Insurance in India is not actively bought but being sold by Insurance Brokers & Insurance companies. Most corporates are aware that a Corporate Crime can make a big dent to their balance sheet, however, most are not aware, beyond a rudimentary Fidelity cover. While there is a big scope to increase the penetration of this product in the Indian market by making customers aware of the risks associated with Corporate Fraud & employee Crime, given the diverse nature of people based industries in our



economy, there is no specific data available on the premium numbers of the total market.

Crime insurance - is there a gap on the awareness front? Are corporates aware of the fact that there is a difference between the fidelity guarantee insurance policy & Crime insurance policy?

Most buyers are not aware of the fact that Crime Insurance can cover a wider foray of risks associated with employee & third party crime. For instance, a Crime policy could cover the costs for defending a claim against the insured by their client to establish liability for a loss that would actually be covered by the Crime policy. Also, risks associated with computer fraud, data reconstitution, Corporate Card Fraud & counterfeit of currency or money orders, consolidations or mergers, a World Wide coverage territory, are more precisely addressed under the Crime policy than under the fidelity policy.

What kind of organizations / industry sectors do you think need to opt for Crime insurance?

The Crime policy can be taken out by any organization transacting business from traditional manufacturing setups handling materials, inventory & cash to new age technology run environments like a Business Process Outsourcing company or an Information Technology company, which has it's employees & operations spread across multiple locations, domestic or across continents.

What are the critical parameters considered in arriving at the premium for Crime insurance?

Our risk assessment process involves

- Understanding the business in which the company is in,
- It's philosophy
- Size & scale in terms of it's people, revenues, assets
- Analysis of the internal controls within the company to minimize the ability of the perpetrator of Corporate Crime
- Analysis of values & it's policies regarding money handling & transfers
- Bank account handling & securities handling procedures
- Vendor management, invoicing, stock management and the likes.

Needless to mention, the full range of comprehensive diligence with willing co-operation of both, the placing broker and the end customer, is a must.

What are the areas of concern that the insurance industry has with Crime insurance coverage in India and how do those concerns influence or shape the solutions that are provided? Are the solutions on par with those provided in the international market?

The coverage offered by underwriters of Crime Insurance in India is of course at par with the global standards or what would otherwise be available in the international market. We, at Raheja QBE, have expertise & capacity available, to underwrite Corporate Crime Insurance. The buyers tend to buy smaller limits to minimize their premiums, however, their risk to be victim of Corporate Crime would be much higher in terms of the value and frequency. As per a recent survey, in 91% of the frauds, the perpetrators carried out transactions over long periods of time, before it was actually discovered. And then, interestingly, 60% of the victims said that they could only recover 20% of the loss that they actually suffered due to the Crime. Yes, we do hope more corporates become aware of their risks and rely on Crime Insurance policies.

What has been the claims scenario in India as far as Crime insurance is concerned?

There have been a few large claims which have come out in the open, since the values were high, the nature of fraud was unique and they involved some of the biggest & well managed companies, in the Indian Corporate sector. However, the losses suffered by the industry have been much more than the insured claims, for sure.

"Views expressed herein are purely personal and do not reflect the views of the Company"

Commercial Crime insurance coverage “exclusive” Contd. # 2

Computer fraud: covered or not?

Computers are an integral part of the financial accounting and transaction infrastructure of all organizations today. Given the headlines in recent months regarding massive computer security breaches, insurance coverage for such crimes have never been greater.

Some insurers overseas are beginning to offer coverage specifically geared toward crimes perpetrated electronically through the Internet dubbed "cybercrime", for claims arising out of copyright infringement, defamation, invasion of privacy, security breaches etc.

Crime insurance policy with the attached rider of "**Computer Fraud**" provides coverage for losses caused by manipulation of computer hardware or software programmes by any third party who does not have authorized access to such computer system. Computer fraud by employee is covered under the employee theft section by some insurers.

Ex 1: ABC company's Web site was hacked into by an employee of one of its supplier - XYZ, who changed XYZ's bank routing code on the Web site to her own. When ABC paid XYZ for services rendered, the money went directly into her account instead. Loss Covered under the Crime policy of ABC.

Ex 2: After being fired, a former employee used his manager's password and gained access to his system. He initiated transactions using his bank routing code to receive fake reimbursements purportedly made to the company's customers. Loss Covered under the Crime policy.

Ex 3: A competitor gained unauthorized access to a company's computer and stole confidential trade secrets. This would not get covered by the Crime policy as it excludes loss of any trade secrets.

Funds Transfer Fraud rider covers losses sustained by an insured resulting from fraudulent instructions issued to a financial institution by a third party directing them to transfer money or securities from the Insured's bank account without the Insured's knowledge and consent.

Ex 1: A company's finance director opened an email with an attached zip file that contained a virus. The virus obtained the user ID and password to the company's account with its bank. Immediately thereafter, a fraudulent electronic wire transfer initiated by persons unknown caused Rs. 71,37,000 to be wired from the company's bank account to an unknown bank account. The money was withdrawn before it could be recovered. Loss Covered under the Crime policy.

A word of caution:

Discovery Period

Discovery period is a grace time extended by the Insurance Company to the Insured to notify any losses that have happened during the policy period but came to light only after the expiry of the policy. The more number of days you get as the Discovery Period, the more beneficial it is. Some policies extend it only for 90 days while some policies provide an extended discovery period up to 12 months. It is also advisable to take a retroactive date* for the policy so that fraud committed prior to the inception of the existing policy, but discovered during this policy term is covered.

Definition of employee

Policy holders need to carefully review the definition of "employee" in the crime insurance policy. Keeping it broad to ensure that part-time / temporary employees / volunteers/ project students are covered is beneficial.

Employee who the insured is unable to identify by name but whose act or acts have caused a loss should be covered.

Employee Benefit Plans

It is important to cross-check, if the money swindled from the employee benefit plans like provident fund, pension schemes etc is covered under the policy.

World-wide coverage

Ask for the world-wide coverage instead of restricting it to India especially with respect to the Computer Fraud coverage. This coverage should apply to both the territory and the jurisdiction clause under the policy.

Extensions of coverage include:

- Care Custody and control cover which covers the property belonging to others but which is in the care, custody or control of the insured.
- Legal fees incurred and paid by the insured in the defense of any demand, claim, suit or legal proceeding which results directly from a loss covered under this policy.
- Data Reconstitution Costs - costs incurred in rewriting or amending the insured's software programmes or systems where such rewriting or amending is necessary to correct the programmes or amend the security codes following a loss covered under this policy.
- Investigative Specialist - the fees and expenses of an investigative specialist, to investigate the facts behind a loss covered under this policy.
- Automatic cover for new subsidiaries

Factors considered in Premium Computation

Each individual risk is priced individually according to what the size of the risks are, the individual exposure, the type of business the client is in, their security controls, their audit control etc. Insurers will check if the client has an approved list of vendors? What kind of control do they have in the accounts payable area? Does it take two signatures to approve bills over certain amounts?

Of course every policy will be different based on the amount of coverage being underwritten and the deductible chosen.

Conclusion

Economic crime continues to be an expensive proposition for companies, both in terms of losses due to such crimes and the cost of managing frauds. The changing economic environment, global expansion, mergers and acquisitions and technological development inevitably facilitate employee infidelity, fraud, theft, forgery and computer-related crime. Companies in India, therefore, cannot afford to be complacent. Ignoring the potential risks of economic crime can prove costly. While fraud can never be eliminated, companies that adopt a proactive and risk-based approach towards fraud risk are better equipped to combat such situations. As Indian companies expand globally, the importance of an appropriate Crime insurance cover should not be overlooked. A comprehensive Crime policy is an absolute necessity for corporate managers concerned with protecting their company's assets today and in the future.

**Retroactive Date: Claims-made policies incorporate a retroactive date which is the date on which the policy first inception and is renewed without a break. Whenever cover is changed to a new insurer it is important that the existing retroactive date is carried forward to the new policy.*

Report Card - August 2011

News TitBits

Gross premium underwritten by non life industry for and up to the month of August 2011*
(Rs. In crores)

INSURER	AUGUST		GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR	APRIL - AUGUST		GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR
	2011-12	2010-11		2011-12	2010-11	
NIA	614	463	33%	3637	3058	19%
UII	642	512	25%	3245	2571	26%
NIC	559	442	27%	3001	2379	26%
Oriental	451	416	8%	2456	2229	10%
ICICI	466	358	30%	2126	1755	21%
Bajaj	272	230	18%	1358	1198	13%
AIC	850	432	97%	1139	710	60%
ITGI	158	128	23%	853	769	11%
Reliance	122	125	-3%	782	690	13%
HDFC ERGO	164	111	47%	772	544	42%
TAIG	127	89	43%	730	529	38%
RSA	118	88	34%	592	443	34%
Chola	98	73	34%	546	399	37%
Star Health	31	27	16%	543	555	-2%
Shriram	90	56	61%	416	254	64%
FG	80	55	44%	384	261	47%
ECGC	65	70	-8%	374	338	11%
Bharti AXA	61	40	53%	324	220	48%
Sompo	28	23	24%	140	127	10%
Apollo Munich	28	13	124%	130	69	90%
SBI	17			75		
L&T	11			50		
Max BUPA	10			31		
Raheja	3			8		
PUBLIC TOTAL	3180	2334	36.26%	13851	11286	22.74%
PRIVATE TOTAL	1885	1419	32.87%	9861	7828	25.97%
GRAND TOTAL	5066	3753	34.98%	23713	19114	24.06%

* Source : IRDA

Observations: Performance for Apr-August 2011 Period

- The industry (incl stand alone health insurers, ECGC and AIC) have collected premium of Rs. 23713 crores recording a growth rate of 24% in Apr-August 2011 compared to Rs. 19114 crores during the same period last year.

	Apr – Aug 11	Apr – Aug 10	Growth
	Premium (Rs. crs)		
PSU	13851	11286	22.74%
Private	9861	7828	25.97%
Total	23713	19114	24.06%

- The PSU's have registered a growth rate of 22.74% during this period compared to last year's 21.46 %.
- The private players have registered a growth of 25.97% during this period compared to 24.09% during the same period last year.
- The accretion achieved by the PSU's during this period is Rs. 2566 crores and private players: Rs. 2033 crores towards the overall market accretion of Rs. 4599 crores.
- The major contributors for the performance in the period Apr-August 2011 have been United India with an accretion of 674 crores, National with an accretion of 622 crores, New India with an accretion of 579 crores, AIC with an accretion of 429 crores and ICICI-Lombard with an accretion of 371 crores.
- At the end of this period, the private players have collectively increased their market share to 41.59% from 40.96%.

Ulip holders to get interest if they discontinue

Source: *The Statesman*

Holders of unit-linked policies who discontinue their policies mid-way shall get a minimum guaranteed interest at par with SBI savings bank account rates, regulator IRDA said in a circular. Changing the rules, the Insurance Regulatory and Development Authority (IRDA) also asked the life insurers that the policyholders unit-linked insurance products (Ulips) should be allowed to revive their cover within two years of stoppage of premium payment, but not later than the expiry of lock-in period.

Slow takeoff for health portability

Source: *Mydigitalfc*

It maybe unfair to compare mobile portability with health insurance, considering the poor penetration of insurance in India and the mobile density that the country has witnessed. But, health insurance companies too, have not been keen on promoting or creating awareness on portability among people for the fear of attracting expensive, claims-ridden customer.

GIC caps brokerage fee on group health insurance to reduce losses

Source: *Mydigitalfc*

In a desperate attempt to limit underwriting losses reported by general insurance companies, General Insurance Council (GIC) has put a cap on brokerage fee paid to brokers on group health insurance policies. Brokerage fee on group health insurance policies has been capped at 5 per cent from the prevailing 15-20 per cent of the premium.

Life insurers new business premium income dips in Aug 2011

Source: *The Economic Times*

New business premium income for life insurance companies fell 23% during the April-August 2011 compared with the same period last year mainly due to the base effect. The fall in collection is on account of the base effect after insurers last year tried to meet annual targets ahead of change in norms since the new ULIP guidelines came into effect from September 2010.

IRDA mulls allowing brokers to pursue claims

Source: *The Times of India*

There is good news for insurance policyholders who are at sea when it comes to pursuing claims from insurance companies. The insurance regulator is considering a proposal from brokers to pursue claims on behalf of policyholders. The Insurance Regulatory and Development Authority (IRDA) said such a move will give customers the benefit of expert advice in dealing with an insurance company.

TPAs to serve only insurance companies

Source: *Asia Insurance Review*

Third party administrators (TPAs) in the health insurance arena will now have to confine their services only to insurance companies. This follows the withdrawal of permission by the IRDA that was given to TPAs in 2005 to offer their services to entities other than insurance companies, such as the central and state governments.

Readers Speak

Should IRDA allow banks to tie-up with more than one insurer?

In the last issue of inotes, we had invited our Readers opinion on "Whether IRDA should allow banks to tie-up with more than one insurer?"

Response from Mrs. Nirmala M. Ravishankar, DGM, National Insurance Co.

As per the existing rules, a Bank can tie up with only one life insurer and one general insurer for selling insurance products. In practice, the branch managers of banks may know some insurers from earlier times and/or service may be extremely satisfactory and would be more comfortable insuring with them even if they are not their bancassurance partners. The insurance companies also may not be giving uniformly good service across the country to their tie up bancassurance partners. In view of the above points, it is noted that all the premium is not being booked by tie up insurer and quite a lot of amount goes to other insurers, based on location, relationship or comfort.

In this scenario, relaxing the rule and allowing the banks to tie up with one more general insurer would help to bring in competition in terms of service and this will give an opportunity to the insurers to improve their service to the bancassurance clients and also introduce their policies which are company specific. This, in turn will give the clients a wider choice and also plug gaps in areas, where standard policies do not come to rescue.

This is all the more necessary, as the branches will be more densely situated in the zone where a bank has its headquarters and consequently their premium potential will be high. At the other end of the geographical spectrum, the number of branches and consequently their potential for premium will be less and the tie up insurer in that area will not have an incentive to regularly follow those banks for small returns. If the tie ups are made strategically by the banks and the general insurers keeping the overall picture in mind, the discrepancies of geographical spread can be overcome successfully. Zone wise selection of tie up Insurance partner may hold the key.

On the flip side, tie-up health policy holders who form a sizeable chunk of Tie-up Business, may be disadvantaged. Health policy holders may not be consulted and would stand to lose (despite portability) due to pre-existing clauses, need for continuity and availability of medical history, due to the administrative policy of a Bank Branch. Pricing and commission related issues may take precedence over the clients requirement.

Provided the above loop holes are plugged, allowing a bank to tie up with two general insurers will be a win-win situation to all concerned, viz., the clients, the banks and the General Insurance Companies.

"Views expressed herein are purely personal and do not reflect the views of the Company"

Next Issue- What is the state of product innovation in the Indian Insurance Industry?

One of the objectives and expectations when the insurance market got liberalized in the year 2000 was that there would be substantial

Claims Case Study: Fidelity Guarantee

BACKGROUND

M&M Company is engaged in the business of processing marine products in Kerala. After processing the marine products at Cochin, the purchasing centre, the marine products were transported in insulated vans belonging to the appellant to various destinations. The appellant had been taking Fidelity Guarantee Policy from Bright Insurance Company from the year 2000 onwards without any interruption. The respondents had agreed to indemnify the appellant in case of any loss sustained by M&M due to acts of fraud or dishonesty committed by the employees and had a cover of Rs.20 lakhs in respect of five unnamed persons. During the currency of the policy taken during April 2006 - March 2007, the Purchase Manager along with the van drivers and two others conspired and stole semi processed squid and other marine products while being transported. During transportation of these products, the drivers seemed to have broken open the sealed locks of the vans and opened the doors of the insulated vans and stole the marine products and sold the same.

This modus operandi of the drivers along with the Purchase Manager caused loss to the tune of Rs. 45 lakh. M&M came to know of the aforesaid illegal act and defalcation on 9.5.2006 and immediately intimated the Insurance company and lodged a police complaint against the defaulting employees. Thereafter, a claim form was submitted to the Insurer on 7.7.2006.

THE ISSUES

Despite the notice, the Insurer had not settled the claim and did not bother even to reply. The claim was pending even after 4 years. Hence, the matter went to Court.

product innovation to cater to the various segments of the customers. While Liberalization has brought about some innovative variants in the Life and Health sector, it appears that innovation is still not at a level needed to meet growing customer needs. What are your views? How has the industry fared in the past decade in this aspect? Has the industry succeeded in bridging the gap between the customer needs and his insurance cover provided? What are the segments where the industry needs to explore new opportunities to innovate?

Your opinion is solicited!

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

News TitBits

Job loss insurance to become latest offering

IRDA mulls reinsurance exchange

Reliance Life 26% stake sale to Nippon Life gets Irda nod

More than 10 Lakh insurance agents call it quits in 2011

RK Global eyes entry into insurance space within 2 yrs

The Insurer argued on following grounds:

- The Purchase Manager was permitted to resign in December 2005 and all the benefits were paid to him by M&M. It is argued by the Insurer that even before the Purchase Manager had resigned, material was available to detect the defalcation and the resignation ought not to have been accepted. Had the Purchase Manager been in service, the money could have recovered and that opportunity was now lost.
- That the filing of police complaint was delayed and that there was breach committed by M&M due to inaction.
- Lastly, it is stated that there are 6 accused in the case whereas the policy provided only for 5 unnamed persons. The claim form submitted by the insured named 5 persons of which only 4 are shown as accused.

The Counsel for M&M contended that they were not aware of the defalcation by the Purchase Manager in December. They also argued that there was no delay in lodging the Police Complaint. Regarding the no of drivers, they elaborated that two outsiders were roped in, into the theft by the drivers and the Purchase Manager.

DECISION

The sum insured under the Fidelity Guarantee Policy is Rs. 20 lakh for unnamed 5 persons which is being claimed by M&M. The Court expressed that it is an admitted fact that defalcation was by the employees. Drivers themselves confessed to the act of theft. The Insurers' contention that the act of defalcation was in December 2005 itself cannot be accepted considering that there is no evidence to show that M&M was aware of it. Hence, accepting the Purchase Managers

resignation and paying the retirement benefits and letting him leave the Company has no relevance in this case. Further the condition of the policy itself, gives the benefit to the Insured whereby he would be indemnified for fraud committed by the employees during the continuance of the policy or within 12 months after the death, dismissal or retirement of such employees or within 12 months after the policy has ceased to exist.

Regarding defalcation committed by the drivers with the help of two outsiders - that would not disentitle the appellant from claiming under the policy. The Court was annoyed with the fact that although there is no issue of violation of the policy, the Insurance Company, delayed processing the claim on one or other flimsy grounds. Also the fair disclosure by M&M without suppressing the facts was not appreciated by the Insurer.

The Court also noted that "Condition No. 5 of the policy specifies as under:

The employer shall, if required by the Company, give information and furnish evidence to the Criminal Authorities of any act or acts insured against committed or supposed to have been committed by any employee, in consequence of which a claim may be made under this policy and the employer shall if so required by the company, forthwith prosecute the employee for such acts, subject to the payment by the company in the event of a conviction of all expenses necessarily incurred by the employer in such prosecution.". But in this case the Insurer did not cooperate with the Insured to ensure the criminal proceedings against the accused.

Hence the Court held that the Insurer is liable to indemnify the Insured for Rs. 20 lakh with interest.

News TitBits

Insurers get stricter on parental claims in group health cover

Source: Mydigitalfc

For insurers providing group health insurance coverage, parents of employees are becoming more expensive to handle than the employees themselves. Most health insurers are now putting restrictions on claims arising out of parents of employees, who are covered under group health insurance, provided by their employers.

PPN for cashless mediclaim in Pune, Surat and Vadodra soon

Source: Mydigitalfc

Following the success of preferred provider network (PPN) of hospitals to provide cashless transaction for health insurance policyholders in tier-I cities, the scheme will now be extended to newer tier-II cities like Pune, Surat and Vadodra.

Insurers can't walk out of contracts mid-term : IRDA

Source: The Times of India

In a move that will benefit health insurance customers, IRDA has said that companies cannot cancel insurance policies mid-term. The move, sources say, is in response to complaints from group health insurance policyholders whose contracts were terminated before completion of one year because of high claims. In a circular issued to all companies this week, the Insurance Regulatory and Development Authority said that no

policy, either fresh or renewal, can be marketed which has a cancellation clause contrary to the regulations. Regulations allow cancellation only if there is a fraud, misrepresentation or non-disclosure of material fact from the insured.

Only 33% of vehicles in India were insured in FY10: Insurance Information Bureau

Source: Economic Times

Of the 12 crore automobiles and two-wheelers on Indian roads, less than four crore vehicles had any type of insurance cover in 2009-10, according to data available with the Insurance Information Bureau (IIB), which was set up by the Insurance Regulatory Development Authority (Irda) in 2009 to provide data to researchers and policy makers.

HDFC Ergo to provide \$15m cover to Formula 1 Race

Source: Economic Times

Private general insurance company HDFC Ergo, in collaboration with the Delhi-based Ace Insurance Brokers, will provide an insurance cover of USD 15 million (Rs 67.5 crore) to the Formula 1 Race, which is being organised in the Capital from the month end. "The insurance cover would protect the Formula 1 Grand Prix event against adverse weather, non-appearance of several teams, riots, strikes and civil commotion leading to cancellation of the event, its postponement or relocation," the Company said in a statement.

View point

ON STRIKES LEADING TO BUSINESS INTERRUPTION

This article has been provoked by the frequent power cuts and the regular newspaper headlines talking of power outages in various states due to the on going Telangana stir created in the state of Andhra Pradesh. Vital production of coal in the Singareni Collieries has been paralysed, affecting electricity generation by the various thermal power plants located in the state as well as in the neighbouring states whose main source of supply of coal is the Singareni mines.

Insurance companies since the past three decades have been insuring Thermal plants. However, with the mushrooming of a large number of Private ventures in the Thermal power sector, the last one decade has seen a long list of private thermal plants too added. The practice in the past and even now with the State owned Power plants is to opt for the basic operational covers ie. against the risk of Fire and allied perils as well as the risk of breakdown. The Private Power plants, by and large have been opting for the Industrial All Risks policy which is much wider in scope and extends to cover the losses arising out of Business interruption too consequent upon the losses arising out perils covered under the Fire policy as well as the Machinery Breakdown policy.

In addition, the policy also provides an extension of cover known as the 'Suppliers' premises extension' at an additional cost. In this case, say the insured, Alpha Thermal Power located at Nizamabad has taken an IAR policy with a suppliers extension cover naming the supplier as Singareni Collieries presuming failure of supply of coal from Singareni due to an insured peril affecting the premises of Singareni stands covered.

Since the Fire policy covers the risk of Riot, Strike and Malicious damage, the insured presumes that he stands covered under the present situation prevailing in Andhra Pradesh today where in the employees of Singareni Collieries have gone on strike, thus preventing the supply of the raw material, coal to Alpha Power. However, unfortunately, the present policy wordings in India do not support this. The strike has not caused any material damage to Singareni Collieries and hence the claim by Alpha for the Business interruption losses they have faced due to stoppage/ deficit in power generation following lack of coal supply, their main raw material required for generation of electricity will be turned down by the Insurer. We have similarly had the Jat reservation agitation in Punjab resulting in the Khedar and Panipat Power plant shutting down for some period.

Is this the same situation in countries having more advanced insurance products? Are the insurance products worded similarly? A policy called the Contingent Business Interruption, have in some specialized cases gone on to develop coverage to include situations where there is no physical damage involved. As in this case and also more prevalent in the hospitality industry where the turnover is proportional to the number of customers coming into a hotel is diminished largely by floods or riots in the city where the hotel is located such a policy would come to the rescue.

It is time to relook at the coverages required by customers and tailor suitable and appropriate policies rather than passing down the available standard covers to one and all, saying one size should fit all.

- V G Dhanasekharan, National Head - ISG

News TitBits

Non-life insurers lose Rs 10k cr in 2010-11

Source: Indian Express

For the Rs. 42,000 crore, Indian general insurance industry which has taken a hit of Rs. 10,000 crore in 2010-11, the path to profitability now appears to be a tough one.

IRDA to do away with mandatory 4.5% return on pension schemes

Source: Business Standard

IRDA has decided to do away with the 4.5 per cent guaranteed annual return clause from pension products. In a draft exposure on the pension plans, the insurance regulator, while allowing more flexibility to insurers, said these products should carry an "assured benefit" disclosed at the time of issuance.

Disclaimer

Nothing contained in this newsletter shall constitute or be deemed to constitute a recommendation or an invitation or solicitation for any product or services. The company makes no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same.

Contact us

India Insure Risk Management & Insurance Broking Services P Ltd.

Ahmedabad 105, Sears Towers, Opp. IIPM, Off C.G. Road, Gulbai Tekra, Ahmedabad- 380006. Gujarat, INDIA. Tel: +91 79 32422007, Fax: +91 79 26406044 (M) +91 98250 66044, +91 97255 04381
Mr. Pawan Kumar Mediratta email : pawan.mediratta@indiainsure.com

Bangalore H M Geneva House, Property No.14, 401, 4th Floor, Cunningham Road, Bangalore - 560001, Ph: 080-41128056-57. Fax: 080-41128597
Contact: Mr. Rajendra Naidu, e-mail : rajendra.naidu@indiainsure.com

Chennai Building No.824, Bhandari Towers, 1st Floor, Opposite to Kilpauk Medical College, E V R Periyar Road, Kilpauk, Chennai - 600 010
Ph: 044-42661540 Fax: 044-42023799,
Contact: Mr. V.G. Dhanasekaran, e-mail : dhanasekaran.vg@indiainsure.com

Kolkatta 4th Floor, Larica , 7 Red cross Palace, Kolkatta- 700001
Ph: 033-64602097 / 98
Contact: Mr. Dilip Burman e-mail : dilip.burman@indiainsure.com

Hyderabad # 405, Archana Arcade, St John's Road, Secunderabad - 500025
Ph: 040-27822989/90/91, Fax: 040-27822993
Contact: Mr. B N Prasad, email: bn.prasad@indiainsure.com
Mr. Vinod Kalevar, email: vinod.kalevar@indiainsure.com

Mumbai **Branch & Corporate Office** : # 103, 1st Floor, Baba House, Opp. Cinemax Cinema, Chakala, Andheri - Kurla Road, Andheri (East), Mumbai - 400 093. Ph : 022-66791416, Fax: 022-66791421
Contact: Mr. R. Chandrasekaran, email: chandrasekaran.r@indiainsure.com

New Delhi # B-3/6, 2nd Floor, Asaf Ali Road, New Delhi - 110002
Phone No: 011 43538760/61
Contact: Mr. Manikant, email: mani.kant@indiainsure.com

Pune Office No.592/2, Deccan Gymkhana, Off J M Road, 2nd Floor, Next to Hotel Central Park, Pune - 411004.
Ph: 020-66030713, 020-66016676. Fax: 020-66030713
Contact: Mr. Suresh Subramaniam,
email : suresh.subramaniam@indiainsure.com