Salasar Services Insurance Brokers Pvt. Ltd.

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AXA Rated As Top Global Insurance Brand

AXA is the 1st insurance brand worldwide for the 8th consecutive year with a brand value growth this year of 14 percent

It is the 46th best global brand, up two spots in a year, 1st insurance brand and the third best brand across all financial services, with a brand value that has gone up by 14 per cent this year. It represents a 49 per cent increase since 2013. It is now valued at $10.579 billion.

"We are very proud to be the leading insurance brand for the 8th year in a row. I would like to thank our 103 million customers who have trusted us once again this year. I would also like to thank our employees and our distributors for this new achievement. Their daily commitment towards our customers illustrates our new strategic vision: Empower people to live a better life. The AXA brand reflects this mission and we are very pleased to be recognized for our continued efforts," said Véronique Weill, group chief customer officer.

BAJAJ ALLIANZ GENERAL INSURANCE LAUNCHES 'DRIVE SMART' SERVICE

Bajaj Allianz General Insurance on Monday launched a telematics-based offering — 'Drive Smart' — to reward customers who drive safely and well.

This will be done through a device fitted in the car and through the company's mobile app which provides real-time feedback on driver behaviour — including on overspeeding, changing gears in the wrong fashion, too much idling or driving rashly. It will provide a whole range of statistics, including the time spent driving, the distance travelled, the likely fuel consumption as well as the amount saved by right driving practices. There is also a one-touch call feature that allows for 24/7 roadside assistance in the event of an emergency or breakdown. Customers can opt for this while buying motor insurance policy from the company.

Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance, explaining the thought process behind launching this service, said that currently good drivers end up subsidising the bad ones. Also, while everyone wants to be a good driver, no coaching or mentoring is imparted subsequent to the driving licence test.

There is also the absence of speed controls and breach notifications that would enable drivers correct their own driving behaviour. The telematic device will address these shortcomings and provide feedback which will help correct driver behaviour, make roads safer and eventually help reduce costs — both fuel as well as premium costs for the customer.

CABINET APPROVES MOTOR VEHICLE (AMENDMENT) BILL 2016:

The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has given its approval for Motor Vehicle (Amendment) Bill 2016. The Amendment aims to improve.

Every year 5 lakh road accidents are reported in the country in which 1.5 lakh people lose their lives. Government is committed to reduce the accidents and fatalities by 50% in five years.

To address the issue of road safety, a draft Road Transport & Safety Bill was prepared soon after NDA Government came to power. However, most of the States have expressed reservations.

In the present Motor Vehicle Act, there are 223 Sections out of which the Bill aims to amend 68 sections whereas Chapters 10 has been deleted and a Chapter 11 is being replaced with new provisions to simplify third party insurance claims and settlement process.

The important provisions include increase in compensation for Hit & Run cases from Rs. 25000 to Rs. 2 lakhs. It also has provision for payment of compensation upto Rs 10 lakh in road accidents fatalities.

The Bill also proposes insertion of 28 new sections.

Section		Old Provision / Penalty	New Proposed Provision / Minimum Penalties
177	General	Rs 100	Rs 500
New 177A	Rules of road regulation violation	Rs 100	Rs 500
178	Travel without ticket	RS 200	Rs 500
179	Disobedience of orders of authorities	RS 500	Rs 2000
180	Unautorized use of vehicles without licence	Rs 1000	Rs 5000
181	Driving without licence	Rs 500	Rs 5000
182	Driving despite disqualification	Rs 500	Rs 10,000
182 B	Oversize vehicles	New	Rs 5000
183	Over speeding	Rs 400	Rs 1000 for LMV Rs 2000 for Medium passenger vehicle
184	Dangerous driving penalty	Rs 1000	Upto Rs 5000
185	Drunken driving	Rs 2000	Rs 10,000
189	Speeding / Racing	Rs 500	Rs 5,000
192 A	Vehicle without permit	Upto Rs 5000	Upto Rs 10,000
193	Aggregators (violations of licencing conditions)	New	Rs 25,000 to Rs 1,00,000
194	Overloading	Rs 2000 and Rs 1000 per extra tonne	Rs 20,000 and Rs 2000 per extra tonne
194 A	Overloading of passengers		Rs 1000 per extra passenger
194 B	Seat belt	Rs 100	Rs 1000
194 C	Overloading of two wheelers	Rs 100	Rs 2000, Disqualification for 3 months for licence
194 D	Helmets	Rs 100	Rs 1000 Disqualification for 3 months for licence
194 E	Not providing way for emergency vehicles	New	Rs 10,000
196	Driving Without Insurance	RS 1000	Rs 2000
199	Offences by Juveniles	New	Guardian / owner shall be deemed to be guilty. Rs 25,000 with 3 yrs imprisonment. For Juvenile to be tried under JJ Act. Registration of Motor Vehicle to be cancelled
206	Power of Officers to impound documents		Suspension of driving licenses u/s 183, 184, 185, 189, 190, 194C, 194D, 194E
210 B	Offences committed by enforcing authorities		Twice the penalty under the relevant section

CREDIT INSURANCE - A LIFEBOAT FOR ALL INDUSTRIES

- Have you ever experienced credit losses, especially with overseas suppliers?
- Have you ever experienced a default in payment due to the insolvency of your customer?
- Do your customers delay in making payments beyond the agreed credit period?
- Do you sell to new customers and in new markets?
- Have any of your customers declined acceptance of goods after they have been shipped?
- Have you ever faced a restriction by the buyer's Government resulting in delay of your payment?
- Is the fear of approaching a new market due to various risks hampering your expansion plans?

If your answer to any of these questions is a 'yes', then read on.

Managing credit exposures has become one of the top risks facing businesses in today's global economy. Most trade whether domestic or exports are carried out on credit terms and one of the major risks that the organization may face is non-payment or delay in payment. As far as exports are concerned, majority of trade from India is carried on open account sales. The balance is on Letters of Credit of various kinds and / or ther forms of recourse to credit.

Accounts receivable are often the largest uninsured asset on a company's balance sheet - even though it is also the primary source of revenue. Isn't it surprising that though organizations protect their tangible assets such as property and plant; they often neglect and leave open an important exposure - their receivables! Research suggests that 18% of companies go bust because they have experienced bad debt or poor working capital. This brings to focus the importance of Credit Insurance as a risk mitigation tool in both domestic as well as cross border trade.

What is Credit Insurance? Credit insurance provides a business with protection against the failure of a customer to pay their trade credit debts. This can arise as a result of a customer becoming insolvent or because a customer fails to pay within the agreed credit period. These risks are referred to as 'commercial risks'.

Companies that export in addition to covering 'commercial risks' can protect themselves against a range of 'political risks' which may prevent or delay payment.

Two basic types of Coverage offered in Trade Credit Policy Consider these examples:

Commercial Risks :

- Non Payment due to buyer insolvency
- Delay in Payment (Protracted Default)
- Non acceptance of goods
- Contract repudiation

Political Risks :

- Inconvertibility
- Contract, Frustration due to war, civil war, rebellion etc
- Contract cancellation by Govt of Insured buyer
- Export/Import restrictions
- Shipment Diversion.

A fast growing Apparel company was shaken when their largest customer, a retail giant, declared insolvency. The unexpected failure caused crores of rupees in receivable losses nationwide, and left this apparel company alone facing 82 lakhs in exposure. The catastrophic loss crippled the Apparel Company for a long time and it took them more than 5 years to come back to their former state.

A Chemical company supplied reactors to an international company that set up its operations in India as a joint venture with an Indian partner. After the reactors were supplied, the plant started operations but in a weeks' time some internal dispute between the joint venture partners brought things to a standstill. The plant was shut down abruptly, employees were laid off and suppliers were left in the lurch without payments. Talks were going on between the JV partners without any definite conclusion and this continued on for more than 18 months. The chemical company which had taken a loan of 80 lakhs from the bank to carry on the work order had to keep paying interest without recovering the capital, leave alone the profit. This had a disastrous effect on the chemical company's balance sheet

Days after announcing an unexpected loss of more than 250 crore due to an elaborately concealed financial swindle, a previously top-rated IT company files for insolvency. A year later, the company's Annual report paints a far bleaker picture, with losses totaling 1000 crore resulting from six consecutive years of misstated financial statements. The manipulation had been intentionally concealed from auditors, and left suppliers and investors shaken. Suppliers who had obtained insurance for their receivables emerged from the disaster unscathed while many others were not so well prepared.

A buyer risk is one aspect while a foreign government problem is another, often perceived to be beyond the insured's control, making it difficult to predict. A good example of this risk was when the Russian government declared a moratorium on all foreign debt in 1998, including trade debt, as a measure to keep hard currencies in the country during its financial crisis.

Commercial as well as Political risks can jeopardize the continued existence of the Company. Late payments slow down growth and reduce profitability because fewer financial means are available to carry out the necessary investments. Invoices that remain unpaid also cause liquidity problems. Consider this example - If a company's profit margin is five percent and one of its customers defaults on debt of Rs. 10,00,000, the company will have to produce additional sales of Rs. 200,00,000 to make up for the lost profits.

Types of Credit Insurance Policies

Credit insurance policies offered in India are of 3 types:

- Whole turnover policy - covers all customers of the policyholder
- Key account Policy - covers the policyholder's largest customers
- Single-buyer Policy - covers a single buyer of the policy holder

Insurers in India are only allowed to sell the Whole turnover policy as per insurance regulations while ECGC (Export Credit Guarantee Corporation owned by Govt. of India) is permitted to sell all kinds of credit policies. The Insurance Regulator IRDA had imposed restrictions on credit insurance in 2010 in the wake of large defaults on credit insurance policies issued by a state-owned insurer

Currently, ECGC provides most of the coverage, accounting for about 80% of the premium paid for credit insurance while the rest is covered by private insurance companies. Private insurers offer credit cover for domestic sales as well as exports while ECGC covers only exports. India's ratio of trade covered by credit insurance to GDP is around 5%1 compared to about 10% for China and around 20% in some of major European economies. Many reasons contribute to the low penetration in India including lack of product awareness, self-insurance (maintaining sufficient bad debt reserves), budgetary/cost constraints and limited distribution channels in marketing this specialty product

Globally, the 'Big 3' (Euler Hermes, Atradius and Coface) dominate the credit insurance market and have been estimated to have a combined global share of 85% of credit insurance premiums. They operate in and out of a growing list of countries and hold credit information on millions of buyers worldwide. Even insurers in India have tied up with these global leaders to offer credit insurance.

How credit insurance works?

The focus here is on the Whole turnover policy as it is the most common form of credit insurance. The Whole turnover policy covers the policyholder's entire customer base for a one year period. Whole turnover policies can be based upon domestic or export trade, or a mixture of both. The cover provided by most insurers is aimed at contracts on credit terms of up to 90-180 days.

Factors considered in Premium Computation :

The policyholder has to make estimations of the sales turnover for the coming year and a provisional premium is calculated, based on the expected turnover. The elements considered in the premium calculation are the proposer's industry, the country to which exports are made, the sales turnover, the claim history, the largest customers, the risk spread, terms of payment, etc. Because of the spread of risk, premium rates are usually competitive in a whole turnover policy. The premium can be paid in monthly / quarterly installments and is subject to adjustment at the end of the year based on actuals.

Credit Limits:

The insurer analyzes the credit worthiness and financial stability of the policyholder's customers and assigns them a specific credit limit (based on the maximum outstanding amount anticipated during the life of the policy), which is the amount the Insurer will indemnify if that insured customer fails to pay. Underwriting control is exercised primarily through a credit limit set for each buyer covered. The Insurer also assesses country risks and may have a Country limit of liability which is the Insurer's maximum liability for all loss in each particular country. For political risks, ECGC has divided countries into two groups. For countries under the open cover category; political risks are automatically covered under credit policy for exports. For restricted cover countries; prior approval of ECGC is mandatory for political risks cover to be available.

For larger limits, the figure is set specifically by the insurer, but it is common for policyholders to have discretion to set limits for smaller customers without reference to the insurer, on the basis of their credit and collection procedures. When a Discretionary Credit Limit is granted to the policyholder, he can decide on the credit limit as long as the exposure remains below the discretionary limit set and the decision taken is along the rules that are set in the insurance contract.

Commencement of Cover:

The cover commences on delivery for a local sale and on shipment for export of goods. For technical or professional services provided, cover commences on performance of the services for which payment is due.

Declarations to be made:

Transits/ Shipment details must be declared monthly /quarterly by the policyholder in a prescribed format within 30 days of the end of the quarter. At anytime during the policy's life, the insured can request additional limit for trade with any existing customers or cover for any new customer being planned to acquire. After evaluating the risk, the Insurer takes a call of increasing the coverage and will either approve the additional credit limit request or decline it with a clear explanation.

Deteriorating credit conditions:

Throughout the policy period, the Insurer pro-actively monitors the credit worthiness of the policy holder's customers. If the information obtained at any point of time indicates that any of the company's customers is experiencing financial difficulty, the Insurer will notify the Insured of the increased risk and help establish an action plan to mitigate and avoid loss. Also the credit limit granted to a customer can be changed at any time, depending on new information available to the insurer. However, any restrictive decision will apply to future transactions only.

Risk Sharing:

Like all insurance, credit insurance involves some aspect of risk sharing rather than 100% risk lay-off. Typically 80-95% of invoice value is covered by trade credit insurance, with some insurers giving a higher percentage of cover for vetted customers as compared to discretionary limits.

Limit of Liability:

The credit policy also has a limit of liability which caps the aggregate value of claims that will be paid by the insurer during the policy period.

Extension Period:

The policy holder has the option to grant extensions to his customer for payment beyond the due date (as per sale contract) but within the maximum credit period specified in the policy without prior approval of the Insurer. The date thus set is called the extended due date. If the debt /outstanding receivable was not paid in full at the extended due date, the Insurer must be informed since this communication is also the start of a waiting period for protracted default.

Waiting Period:

There is a waiting period of 4-9 months (varies between policies of insurers) from the due date in case of protracted default before the claim is paid out by the Insurer. In case of insolvency, liability is upon admission of the claim by an appointed liquidator. The waiting period shall not apply to a buyer that is insolvent

Debt Collection:

If the policyholder organizes the debt collection after the extended due date, prior approval must be sought for the expenses from the Insurer. If these are reasonable, the expenses are added to the insured debt and paid at the time of claim.

What the policy does not cover

As important as it is to know what credit insurance covers, it is equally important to know what it does not.

- Disputes between the Insured and his customer must be settled in the Insured's favor to maintain coverage for a disputed sale.
- Sales contract made with government departments and local authorities in the Insured's country.
- Sales contract made with associated companies or sister concerns.
- Decision taken by the government of Insured's country that hinder the execution of the sales contract or prevent the payment of the debt.
- Sales made on terms of cash on delivery, and confirmed or unconfirmed irrevocable letter of credit.
- Certain limitations for risky countries or risky sectors may be incorporated into the policy. For example, insurer may have a maximum limit or may impose an additional claims waiting period.

Key Points to bear in mind

Contrary to other insurance policies, credit insurance requires a much greater active participation by the insured during the proposal stage as well as the life of the policy. A detailed proposal form needs to be filled up and the information given to the insurer has a direct bearing on the cover received.

When using credit insurance, it is important to remember these key points:

- The credit period granted to customers must not exceed the 'maximum credit period' specified in the policy.
- Quarterly Declarations on transits/shipments must be made in the prescribed format within the timeline specified in the policy. In case of nil shipments during the period, submit a 'nil' declaration.
- The policyholder shall report to the Insurer on a monthly basis details of receivables for any customer that is overdue (past the due date in the contract of sale) for more than 30 days.

- If the debt /outstanding receivable was not paid in full at the extended due date, the Insurer must be informed.
- The Insurer must be notified in writing as soon as the policy holder becomes aware of any adverse information concerning his customer.
- Claims must be filed with Insurer on completion of waiting period but no later than 6 months after the Waiting Period has expired. (varies between insurers)
- In the event of any payment of a loss under this policy, the Insurer shall be subrogated to all of the policyholder's rights of recovery.

Importance of Credit Insurance

Credit Insurance offers one of the most efficient and cost effective ways of managing credit risk for any enterprise. The key is having the right information to make informed credit decisions and therefore avoid or minimize losses. It is important to note that Credit insurance does more than just ensure that invoices are paid. It can help a business succeed by providing the following benefits:

- Safer business expansion
- Intelligent market prospection and Customer insights
- Protecting the Company balance sheet
- Better borrowing and financing options
- Debt Collection

Conclusion

The global crisis has sharply brought to focus the importance of Credit Insurance as a risk mitigation tool in home trade as well as cross border trade. With the increase of world trade, many companies are entering new markets and extending their supply chains across multiple regions – all of which further increases the need to protect themselves from risks involving commercial trade debts. Credit insurance thus can be a very effective tool in accelerating cash-flows, improving working capital and protecting the balance sheet. In the midst of a global recessionary climate, with an increase in the number of insolvencies forecasted and the tightening of credit across the board, credit insurance is more important than ever for a business' success.

PROPORTIONAL REINSURANCE

In proportional reinsurance, the reinsurer shares liabilities of the insurer along with sum insured, premiums and claims in the same proportion as per agreement in the treaty. Proportional reinsurance is of two types:

- Surplus reinsurance
- Quota share reinsurance

Proportional methods, if carefully structured, assist to improve and stabilise net retained Loss Ratio over a period of time. A potential for additional earning exists where ceding commission exceeds actual acquisition cost and expense, and could assist in improving Combined Ratio.

SURPLUS REINSURANCE

In surplus reinsurance, the original insurer i.e. the ceding insurer decides what part of the original insurance he wishes to retain for his own account and reinsures (cedes) the balance with a reinsurer. Premiums and losses are shared in the proportion that the ceding insurer's retention and the reinsurer's share bear to the sum insured of the original insurance.

The features of Surplus reinsurance are:

- Ceding Insurer's Retention: Under surplus method the ceding insurer decides the limit of liability which he wishes to retain on any one risk or class of risks. This limit is known as the ceding insurer's retention. This will be the maximum limit which ceding insurer will retain, but may also actually retain lesser amount as commensurate to risk exposure. The surplus over and above the retention will be allotted to one or more reinsurers. The limits will be scaled down according to type of risk as per the Table of Limits set for underwriting.
- Line: A ceding insurer`s retention out of sum insured for itself is called a "line". The amount of insurance ceded to surplus treaty reinsurers is stated as X number of Lines subject to an agreed amount. Thus, if the insurer's retention is Rs. 10,00,000, it could be (say) 10 Lines subject to a maximum of Rs. 1,00,00,000.
- Stating the Surplus Limit: There are two ways in which the limits of surplus can be stated:
- Sum Insured: The surplus to be reinsured - as seen in the examples above - is based on the sum insured and the maximum amount which the ceding insurer is prepared to retain for his own account.
- Probable Maximum Loss (PML): Probable Maximum Loss (PML) as a basis adds efficiency to retention.

Many risks in the fire and engineering classes are underwritten on the basis of PML. This means that an underwriter will estimate the maximum amount of damage that would probably occur in the event of an accident & base his decisions on retentions and reinsurance on such an estimate.

The approach based upon PML assists to retain more premiums by the ceding insurer and reduces his need for surplus reinsurance protection.

It MUST be remembered that the PML is the insurer' own exercise for decision making on how much to retain and how much to reinsure. PML is not the limit of liability. If the PML estimate is proved wrong by an actual loss, the insurer's retained share of loss and the reinsurer's share of loss, both get unduly increased.

QUOTA SHARE REINSURANCE

A type of proportional reinsurance in which the reinsurer assumes an agreed percentage of each risk and shares all premiums and losses accordingly with the reinsured.

- FIXED QUOTA SHARE

  A type of proportional reinsurance in which the reinsurer assumes an agreed percentage of each risk and shares all premiums and losses accordingly with the reinsured.

  If reinsurance protects 90 percent of each risk written by the ceding insurer, then the ceding insurer retains 10 percent and reinsures 90 percent of each risk. This can be better understood with the help of the following table:

  Premiums and claims are subject to the same percentages. The choice of retention as percent to sum insured is determined as part of reinsurance programme design.

  This is different from the surplus method where the percentage reinsured varies with retention on each risk according to the underwriter`s judgment.

- VARIABLE QUOTA SHARE

  Variable quota share is a method in which the percent of retention varies for different limit of sums insured and reduces with increase in limit of sum insured. This can be graduated to align with occupancy of risk.

  This method relies upon loss information by limit / exposure and assists the ceding insurer with flexibility to improve quality of retained risk.

Usually the quota share treaty is more profitable to a reinsurer as he participates in each and every risk on the same basis as the ceding insurer. The selection against him, present in the surplus treaty, is avoided. For this reason, as noted previously, quota share treaties usually receive a higher rate of ceding commission.

Under quota share reinsurance, the ceding insurer passes a large share of his premium income (and his profit) to his reinsurer. As losing the profit to a reinsurer is a high cost to the ceding insurer the quota share method is adopted for short-term specialised requirements rather than as a long-term arrangemen

A newly established insurer with low capital in relation to the insurance business he wants to write usually requires quota share reinsurance protection until such time he has built up a portfolio of a reasonable size; at which point in time he will seek to change over to surplus method.

In addition, it is used by a ceding insurer entering a new class of insurance business or a new territory as it enables the ceding insurer to enter the new business with the expertise and support of the reinsurer and the knowledge that his retained losses will be restricted to the fixed percentage share as retained on each and every risk.

Whether the insured is entitled to receive the claim amount with markup of 10% (CIF+10%) even if the consignment is lost before arrival of the carrying vessel.

The marine cargo policy is an agreed value policy. Sec 29(3) of MI Act states that subject to the provisions of this Act, and in the absence of fraud, the value fixed by the policy is, as between the insurer and assured, conclusive of the insurable value of the subject intended to be insured, whether the loss be total or partial. Therefore, agreed value policies are those in which the value of the thing insured is agreed on by the parties and the amount set out in the policies.

The CIF value with mark up of 10%-15% represents as a composite/single sum insured which is conclusive as between the insurer and assured .When the vessel carrying the consignment sinks with the B/L stipulating that the freight is to be paid at the destination on arrival, the insurer can not avoid payment on the ground of non payment of freight. Similarly, mark up of 10%-15% over and above the CIF value covers certain incidental charges of the buyers with some margin of their profit. Since buyers will loose CIF price, incidental charges and certain percentage of profit in the event of a loss, they include additional 10%-15% to cover incidental charges and average profit which the buyers of goods expect from the sale. It is important to note that marine policy does not follow strict principle of indemnity rather it is a modified/commercial indemnity policy.

In the case of Loders&Nucoline Ltd V The Bank of Newzeland, CIF sale of copra with the terms of the B/L stating that freight was only to be payable if and when the vessel arrived at the port of destination. During the voyage, the vessel, alongwith her cargo, became a total loss. The award in favour of the buyer was upheld by Justice Wright upon appeal.

The insurers paid, upon total loss of the vessel and her cargo, the total insured value less freight on the ground that freight was insured " free of total loss", Justice Wright said:

"I need not refer to the earlier cases about valued policies. It has been laid down over and over again that the valuation in a policy can not be reopened."