Newsletter October - 2016

Salasar Services Insurance Brokers Pvt. Ltd.

What is New

COMING SOON, LIBEL COVER FOR SOCIAL MEDIA POSTS

Are you afraid to truly express yourself on Facebook or Twitter because somebody might file a libel suit seeking a big amount in damages? Don't worry about it anymore: Bajaj Allianz is finalizing an insurance policy that would cover any third-party liability arising out of an activity on social media.

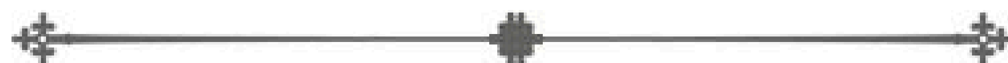
"In case an individual faces a litigation and has to pay compensation due to any posts or conversation on a social media website, the cyber insurance product will look into covering the costs," said Tapan Singhal, managing director at Bajaj Allianz General Insurance. The company is in the process of designing the individual cyber cover that would be similar to existing cyber insurance covers for corporates.

Insurers see demand for cyber covers for individuals that will protect their reputation, data breaches and losses in case any vital personal, financial or sensitive information is stolen. Singhal said individuals are exposed to new-age risks with the rise in the number of internet users and frequency of online transactions even as significant personal information is available on social media and ecommerce sites.

The individual cyber insurance policy will cover risks such as phishing, identity theft, cyber stalking, harassment and hacking of bank accounts.

Currently, cyber insurance products are sold mostly to IT firms, banks, ecommerce and pharmaceutical companies. It protects corporates against privacy and data breach, network security claims, and media liability.

Insurance companies are seeing increase in corporates buying cyber cover. In India, this product has been in existence for over three years now, and industry estimates suggest there are close to 500 active policies in India.



BURN CALORIES TO LOWER HEALTH INSURANCE COST

Burn more calories, pay less? Well, Hitting the gym everyday may help you gain more rewards than usual. Insurers are now looking at making health covers cheaper for their more fitness-conscious customers by tracking their health routine.

In a variable premium product, Cigna TTK Health Insurance on Wednesday launched its 'pay-as-you-workout' concept, where it is offering to charge its policyholders less if they manage to burn more in calories.

Earlier this week, Bajaj Allianz General Insurance had also launched a variable premium product with its 'pay-as-you-drive' motor insurance policy — enabled by telematics technology.

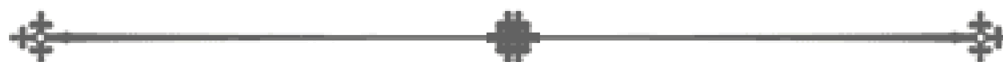
Cigna TTK Health has launched 'Get ProActiv India', where policyholders get rewarded for being fit. "We have a mobile app, which you can sync with any fitness wearable from Fitbit, Garmin or pedometers. The mobile app will maintain a daily log of your activities. The more you workout, the higher the reward points on the app. At the end of the year, you can use the points to pay less for your policy or use them towards availing of other health benefits like pharmacy bills, doctors' consultations," says Sandeep Patel, CEO & MD, CignaTTK Health Insurance.

While walking activity gets automatically updated on the app, for non-trackable activities like yoga, aerobics and dance, policyholders have the option of manually entering activity log. "Healthy reward points are earned based on the quantum of physical activity, and One point earned equals Re 1. High-intensity workouts like cycling, swimming and weight training can make the reward points ticker soar," says Cigna's Patel.

Two other private insurers are also contemplating launching a product with differential pricing based on the policyholder's fitness record. At an exploratory stage, the insurers are looking at whether they want to hand out the tracking devices themselves or tie up with a fitness device provider.

Dutch insurer Aegon Life has been looking at using data analytics for differential pricing of insurance products based on live health data streamed from wearables. "We are looking at using activity trackers like Fitbit to collect health data from individuals for pricing of life insurance. This sort of thing is already happening in motor insurance where pricing is decided by how the insured drives the vehicle," said Hiek van der Scheer, head of data and analytics at Aegon.

Cigna TTK said this latest initiative is part of its overall attention to fitness and well-being. Earlier this year, the insurer launch a "health coach" programme, where policyholders can avail of a personal fitness expert, dietitians and a doctor to draw up a diet chart and fitness regimen based on their individual needs.



CIRCULAR HANJIN

You are well aware that Hanjin shipping has initiated bankruptcy proceedings and their assets are said to be frozen. It was also reported that it will be difficult for them to continue with the voyage further and to deliver the cargo to the final destination of the shippers as per their schedule voyage due to their financial constraints.

In view of financial constrain, large number of containers were offloaded and Hanjin vessels were arrested at short of destination or at destination, being moored up or remaining outside port limits to avoid arrest or being stuck at a port since Port Authorities were reluctant to provide any service without advance payment.

In marine cargo policy, the arresting of vessel and/or non- prosecution of voyage due to insolvency or financial default of the owners, managers, charters or operators of the vessel triggers Clause 4.6 of General Exclusionunder Institute Cargo Clause (A) 1/1/82, which provides as under:

"Exclusions

4. In no case shall this insurance cover

4.6 Loss damage or expense arising from insolvency or financial default of the owners, managers, charters or operators of the vessel……."

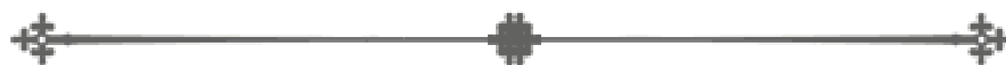
However, with the introduction of Institute Cargo Clause 2009 in the International market, the Clause 4.6 appeared in the General Exclusion of the policy is modified/relaxed. It is important to note that the insolvency and financial default exclusion (Clause 4.6) under Institute Cargo Clause 1982 is a blanket exclusion.

The revised Institute Cargo Clause (A) 2009 have the same insolvency exclusion, but applicable only to cases where the underwriters can prove that the original assured knowingly employed for the carriage by sea persons whose solvency was likely to jeopardize the normal prosecution of the voyage.

The modified wording of 4.6 under Institute Cargo Clause, 2009 provides as under

"Loss damage or expense caused by insolvency or financial default of the owners managers charterers or operators of the vessel where, at the time of loading of the subject matter insured on board the vessel, the Assured are aware, or in the ordinary course of business should be aware, or in the ordinary course of business should be aware, that such insolvency or financial default could prevent the normal prosecution of the voyage. This exclusion shall not apply where the contract of insurance has been assigned to the party claiming hereunder who has bought or agreed to buy the subject matter insured in good faith under a binding contract"

Since Clause 4.6 of general exclusion under ICC 2009 is not a blanket exclusion, it will be in order to suggest the client to obtain marine import and/or export policy with ICC 2009 to have a better protection due torelaxed version of insolvency exclusion clause.



EMPLOYER'S LIABILITY INSURANCE POLICY

INTRODUCTION:

Employer's Liability Insurance Policy (Earlier known as Workmen's Compensation Insurance Policy) protects organization from the threat of expensive lawsuits and large compensation pay-outs. The policy covers statutory liability of an employer for the death of or bodily injuries sustained by workmen in the Insured's immediate service and arising out of and in the course of employment. It is the compensation payable under a scheme set out in the Workmen's Compensation Act of India amended as Employee's Compensation Act, monitored by the Ministry of Labour. The employers' legal liability under the W.C. Act to pay compensation to employees not covered under E.S.I. Act for bodily injury or disease sustained / contracted out of and in the course of employment is covered by this policy. Liability to employees under Indian Fatal Accident Act 1855 and at Common Law is also covered under the policy.

RELEVANT STATUTES & LAWS:

The policy covers legal liability of an employer under:

1. Workmen's Compensation Act, 1923 amended as Employee's Compensation Act, and subsequent amendments of the said Act prior to the date of issue of the policy.
2. Indian Fatal Accidents Act, 1855, and subsequent amendments of the said Act prior to the date of issue of the policy

WHO NEEDS THIS COVER:

1. Any employer, whether as a principal or contractor, engaging "workmen" as defined in the Workmen's Compensation Act amended as Employee's Compensation Act
2. Any employer of employees who may not qualify as "workmen" but share an employee employer relationship.

SALIENT FEATURES:

The Employee's Compensation Insurance Business in India is controlled by the Workmen's Compensation Insurance Tariff (W.C. Tariff). The Tariff provides for two types of Insurance as follows:

Table A: This policy provides indemnity to the Insured if any employee in the Insured's immediate service shall sustain bodily injury by accident or contracts disease arising out of and in the course of his employment by the Insured in the Business and if the Insured shall be liable to pay compensation for such injury either under.

i. Workmen's Compensation Act, 1923 amended as Employee's Compensation Act and subsequent amendments of the said Act prior to the date of issue of the Policy provided that the insurance granted is not extended to include any interest and/or penalty imposed on the insured on account of his / their failure to comply with the requirements laid down under the W.C. Act, 1923, and
ii. The Fatal Accident Act, 1855 of at Common Law

And in addition all costs and expenses incurred with the company's consent in defending any claim for such compensation.

Table B: This Policy provides indemnity to the Insured against their legal liability under the Fatal Accidents Act, 1855, and at Common Law. (This Policy is not issued to cover employees who fall within the definition of "workmen" under the Workmen's Compensation Act, 1923, as amended).

SCOPE OF COVER:

1. Death
2. Permanent total disablement
3. Permanent partial disablement
4. Temporary disablement
5. Legal costs and expenses incurred with the company's consent with a view of defending any case.
6. Funeral expenses of Rs. 5,000/-

EXCLUSIONS:

1. Any non-fatal injury caused by any accident directly attributed to:
    a. Influence of drinks or drugs
    b. Willful disobedience of an order for securing safety to the workman
    c. Willful removal or disregard of a safety guard device
2. War group and nuclear group of perils
3. Liability to employees of contractors of the Insured (unless separately declared and covered)
4. Liability of the Insured assumed under an agreement
5. Occupational diseases are not covered.
6. Any change in statute provisions after the policy has commenced.

EXTENSIONS:

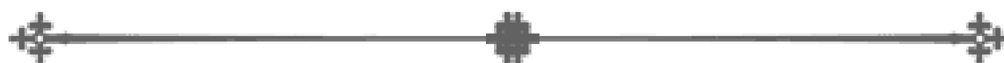
Extra covers on payment of additional premium are as mentioned below:

1. Actual medical, surgical and hospital expenses including the cost of transport to hospital for accidental employment injuries.
2. Contractors/sub contractor's employees can be covered.

SUM INSURED:

The sum insured is calculated on the basis of:

1. Earnings include wages, salaries, over time, board / lodging, and other perquisites.
2. No deductions for Pension / PF to be accounted.
3. TA / traveling concessions not to be accounted.
4. No deduction for Income Tax at source.



INSURANCE BROKERAGE IN THE ERA OF CONNECTED CUSTOMERS

There is a global deluge of increasingly complex, disruptive and under-insured environments. Multiple causes from climatic, geo-political and simple globalisation are wreaking havoc. Traditional areas of insurance are being rewritten both due to technology (factors like driverless cars) and connected customers. Insurance brokers are ideally positioned to help coordinate between customers, corporations, carriers and policy makers. But to do this, they have to rethink how they operate and lead.

As the traditional facilitator in the risk transfer chain, brokers can create innovative solutions that provide relief to the changes in the risks and also create technology-led customer solutions.

The key questions a broker should ask are:

- Do I have the capability to address these changes?
- Am I effectively creating a customer experience that ensures my customer gets the best experience?
- Can I respond quickly to keep pace with the market and risks?

Key challenges faced by brokers

Technology, especially internet influences like e-commerce, has effectively helped take away the intermediary, putting a lot of pressure on the broker community. For commodity insurance, the new generation of customers are not too bothered about traditional relationships and they want to start digital relationships.

The insurance industry is at the crossroads of modernisation. This means that the broker has to have multiple ways of engaging with carriers and customers. The key challenges a broker is currently facing or will face are:

- Ability to provide uniform digital relationship to a customer;
- Ability to provide upgraded product information (driverless cars, cyber security, genetic data theft, risk changes such as solar panels installation on fire coverage etc);
- Ability to engage customers on a smart device;
- Ability to introduce new products from the carriers to customers or prospects effectively.

Who will succeed in the new age of insurance?

A successful broker provides a holistic experience to their customers at all stages of a relationship. Educating customers based on the changes in the regulatory, risk and financial environments is a must and not one size fits all. This requires a broker to have the ability to publish content that can be consumed by different customers where appropriate. Proactive engagement is also a must. All interaction points should be properly evaluated and continuously improved. As a broker, the following are the key areas to succeed:

- Capability – Content, transaction and analytics. Also ability to leverage social engagement is a must as this will replace the traditional referral schemes.
- Customer experience - Ability to engage a customer through personalised content, transaction ability and effectiveness of engagement digitally.
- Response – Ability to provide seamless response to all queries and requests – this is only possible if your IT systems are simple and flexible to adapt to the changes in the carrier's integration standards.

What it takes to succeed?

Technology will be a major driver in the future of insurance brokerage. Other industries such as securities are leading the way and a brokerage should replicate this.

By adopting streamlined technology, a brokerage can expand from small P&C to large specialties in the near future. By showing value to both customers, in terms of digital relationship and customer experience and carriers through the ability to bring a large pool of customers and reducing the overall cycle time and cost, a brokerage will be relevant in the foreseeable future. The following are the key areas to take action:

- Capability – Undertake an audit of capabilities and find the key gaps to fix (both IT and talent). Make processes simple and straight through.
- Customer experience – Create unique customer experiences by empowering self-service both online and mobile. Key focus should be on understanding your customers.
- Response – Simplify interfaces between brokerage IT systems and carriers to enable faster response to customer queries. Large brokerages have embarked on adopting standards like ACCORD.

Finally, to succeed a brokerage should:

- Get the basics right
- Focus on clients to identify and close any gaps between their legitimate expectations and what they deliver
- Recognise where things have or could go wrong, and fix them
- Make it easy to do business with them

Some words of caution

Not everything can be solved by technology alone and a brokerage should retrospect the processes underneath. Automating a broken process will make it worse! Depending upon the maturity of the carriers you are dealing with, the ability to integrate seamlessly into their technology stack can be challenging.

In this case, you will need to rely upon a manual or semi-automated work around, which may require you to think of adopting to a workflow or process automation solution. A sound business case is a must to undertake even for a small digital transformation, and use a trusted and experienced partner to get it done.

Conclusion

To be competitive and scale the business in the coming years, a brokerage must:

- Be ahead of the curve – Make sure your brokerage system is modern and flexible. This will help you in offering more products, make it easy to expand operations across multiple locations and optimise cost by reducing manual or paper work. Also consider utilising cloud technologies from reputed providers to reduce CAPEX and leverage on expansion capabilities.

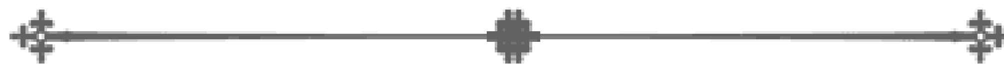
- Provide digital channels and choice – A recent study found that around 75% of customers use more than three channels when interacting with an organisation. A brokerage must arm its employees with easy-to-use tools that allow them to interact with customers and prospects via online, social and mobile channels.

- **Leverage data** – As a broker, you are sitting on a wealth of data (both risk and customer). Use this data to predict customer characteristics to effectively introduce new products and help them in their decisions. Also, there are monetization opportunities based on habits. A brokerage can add value to carriers by providing feedback on what customers are looking for and how they can help.

Technology is a leading factor that can catapult brokers into the future. Ability to leverage technology to improve capabilities and meet customer expectations will be key to establishing a broker's role as a trusted adviser and help scale business.

Highlights

- Technology will be a major driver in the future of insurance brokerage; and
- To succeed, brokers should have a modern and flexible IT system, provide digital channels and choice to customers and leverage the wealth of data they have.



RISK RETENTION

WHAT IS RETENTION?

The proportion of risk that is retained by the cedant is known as retention.

SETTING RETENTIONS:

Proportion of risk that is retained by the cedant is known as retention. Insurers have different systems of retention and reinsurances for different risks and their related insurances.

RETENTION LIMITS:

Management of an insurer set the retention limits at a level they can afford to risk their solvency. If management sets retention limits too low, they may find they are ceding too large a part of their premium income to their reinsurers. If the retention limits are set high they expose themselves to retaining more when claims occur.

DETERMINING RETENTION FOR EACH POLICY:

The limits for retention are set out by the management and approved by it. These limits are the basis for implementing reinsurances as arranged and are referred to by the underwriter in his day to day decisions for determining retention for each policy as issued by his insurer. Reinsurance therefore follows the approved treaties and arrangements and decided through approved methods.

VARIETY OF LEVELS OF RETENTION:

There are no clearly defined formulas or rules to enable an insurer or indeed a reinsurer to decide on his retention. Experience shows that insurers and reinsurers have a wide variety of levels of retention without there being an evident reason. In the absence of technical formulas or rules insurers and reinsurers lay different emphasis to various factors that go into the calculation of retention and reach different conclusions.

ACCEPTABLE LEVEL OF RETENTION:

Within an insurer's (reinsurer's) office, the acceptable level of retention will be seen differently by different officials as explained below:

- Finance manager: whose priority is to protect the insurer's liquid assets
- Direct business underwriter: whose priority is to contain fluctuations in the insurer's results
- Shareholder: whose primary concern is preservation and return on capital

All have different subjective assessment on the level for risk taking.

AN OPTIMUM RETENTION

There is therefore no concept of a correct retention but only an optimum retention acceptable to the diverse interests.

FACTORS INFLUENCING RETENTION:

The following points mentioned below are the factors influencing the retention.

HE INSURERS ASSETS, CAPITAL, FREE RESERVES

The owner's assets are inevitably low at the time of commencement of business and builds up over time. On the one hand, the owners do not want to lose the money they have invested. On the other, they expect an adequate return on capital in the form of dividends to themselves and other shareholders.

The retention therefore is assessed in the light of the need to preserve the asset base and the need to generate adequate profit. The insurer has to decide as to what percentage of its free assets is it willing or can afford to lose in any one year.

THE PORTFOLIO OF RISKS

It can be objectively shown that the larger the portfolio the smaller the degree of fluctuation. On a very large portfolio, it is probable, on the basis of experience to predict within a few percentage points the technical result. On a small portfolio, the experience may be very bad or imperfect – there will be substantial differences from one year to the next.

The reinsurance manager, with due approval of his management must establish his retention and his reinsurance programme in such a way, as to limit the fluctuations to a degree that is acceptable. The stability of a portfolio as it grows and in contrast to the relative volatility of a small portfolio is referred to as balance. The aim is not to eliminate fluctuation – this condition would in any case need 100 percent reinsurance or alternative risk financing – but to determine the degree of acceptable fluctuation.

In theory- "As the portfolio and its degree of balance grows the retention could increase proportionately – maintaining the same theoretical estimate of acceptable fluctuation".

In practice the growth of the portfolio is more than the growth of retention, reflecting both conservatism to retain less in the face of growth and a seeking of diminution in fluctuation. Simply stated an insurer who is happy to retain 50,000 on a portfolio of 5,00, 000 would probably retain 60,000 when his portfolio had grown to 2,000,000.

CORPORATE LIQUIDITY

The reinsurance manager also assists for corporate liquidity when in consultation with his management and the Finance Manager he sets cash loss limit for his proportional reinsurance arrangements to make available cash when the immediate loss pay-out is estimated to exceed available cash.

Every insurer wants to maximise the return from his capital which is invested in financial assets. He must however balance the portfolio of investments against the potential need to pay for admitted claims. He has three choices for the same as explained below:

Long term investments: Evidently, investments of a long term nature are likely to yield higher interest but such an arrangement would mean illiquid asset or loss of higher interest due to premature closure.

Stock market investments: Investment in the stock market increases the

- cost of administration and
- exposure to capital loss

But at the same time investors can earn higher return depending on their risk taking ability. Given this characteristic, stock market investments are used to leverage capital gain for a better return from the investment portfolio.

Investment in liquid assets: Liquid cash is important, as it can be extremely embarrassing for an insurer to have insufficient liquid assets with which to pay a claim.

Neither should it be necessary, nor even would it be desirable to have to sell assets – perhaps stocks and shares for this purpose. It may not be the best moment to sell and in some cases the cash would not be quickly realizable.

Faced by this dilemma, the finance manager must be in a position to assess his optimum retention according to the liquid assets which he is willing to make available and given the support of cash loss from reinsurers.

The three decisions on what should be optimum retention from each of the three sources as discussed above are highly unlikely to be the same. Each represents a balancing of priorities by the individual for a department. The management would weigh the alternatives in order to arrive at the retention which represents the best solution for the insurer.

CORPORATE LIQUIDITY INFLUENCING RETENTION

- COMPETITION AND RATING IN THE MARKET
- INFLATION
- STATE OF THE RI MARKET
- LEGAL IMPOSITION
- OTHER REGULATIONS

TYPES OF RETENTIONS

In practice, retention is a combination of the financial consequences of risk and event based losses. This incorporates requirements of rating, liquidity and return. In this the "Actuary" plays a determining role and takes responsibility to certify solvency of his insurer to the regulator. There are two types of retention as explained below.

- PER EVENT

  The "per event" retention is managed through reasonable estimation of financial consequences and by allowing a catastrophe reserve for funds to accumulate and be available over the long term.

  Examples of event-based exposures are listed as below:

  - Possibility of accumulation within one branch
  - Possibility of accumulation between branches

- PER RISK

  The "per risk" retention can be managed through controlled and informed decisions. The "per risk" retention relates to the number of individual risks that could be hit by one event. The retention is scaled down accordingly.

  RETENTION PER RISK = RETENTION PER EVENT/ PMN

  P.M.N. = Probable Maximum Number of individual risks involved in one event.

  Retentions are inevitably scaled down in a variety of ways. A uniform retention on poor risks and good risks alike would not be in the insurer's best interests. The level of retention is scaled down in a manner relevant to the quality of the risk in question with retention on a first class risk being much higher than that on a perceptibly poor risk.

  Some alternatives can be as follows:

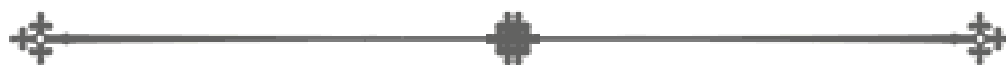
  - Fixed retention according to category of risk.
  - - Retention in inverse proportion to the applicable premium rates i.e. premium rate is 0.5 percent so retention rupees two crore on sum insured Rs. 10crores. Premium rate is one percent so retention rupees one crore on above risk (i.e.relatively good risk – higher retention).
  - Entirely discretionary level of retention from zero to maximum retention per risk.

The insurer (reinsurer) will calculate his retention to achieve his corporate objectives, such as market penetration and share. The prevailing characteristics of the reinsurance market will determine whether the limits of retentions will be acceptable to his prospective reinsurers. Often the proposed capacity is regarded as excessive and limits of retentions reviewed for re-fixation. On the other hand, if the reinsurance market is "soft", then the insurer may have a virtual "carte blanche" to set its own terms with due care as to credit rating of the reinsurer. The reinsurance market has no controlling influence on an insurer in such circumstances.

The level of retention is largely a subjective assessment of a series of factors, ranging from the certain, the insurer's asset base, to conjecture:

- will inflation increase?
- will crime increase?
- will competition hit premium levels etc.?

In some cases, a simple guess or feeling will guide the individual concerned. There is as much optimal retention as there are insurance companies, but even if the "correct" figure is unidentifiable, it might reasonably be said that serious and considered judgment leading to the appropriate level of retention is arguably the most important decision that any insurer is called upon to make. Regulatory direction for solvency is a guide to an insurer in correcting the limits as he continues to write business over the years.



EXCLUSION UNDER TERRORISM

One of Exclusions is the Add on cover of Terrorism perils is "The warranty also excludes loss, damage, cost or expenses of whatsoever nature directly or indirectly caused by, resulting from or in connection with any action taken in controlling, preventing, suppressing or in any way relating to action taken in respect of any act of terrorism."

It means any loss/damage to the property during controlling of terrorism activity between Forces and Terrorist will not be covered. Example: Suppose the Terrorists have taken shelter in a House/Industry and the exchange of fire between Force /Police and Terrorist resulting the damage/loss is not covered. It covers loss if the property/assets damaged directly by the Terrorist.

Based on this exclusion, a claim of a lady in Srinagar was repudiated as her house was damaged as Terrorist were hiding in her house and exchange of fire between Forces and Terrorist resulting the damage to her house. The claim amount was Rs 5 lakhs but after 6 months the incident of Mumbai attack on 26/11 the claim was settled ignoring this exclusion clause.