Salasar Services Insurance Brokers Pvt. Ltd.

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Salasar Newsletter November - 2017

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Motor insurance to be costlier from November

Motor insurance policies are likely to cost more from November as the Insurance Regulatory and Development Authority of India has hiked the agent commission on such products. Motor insurance in India are of two types — comprehensive that covers own damage and third party, and the second that covers only third-party damage. The agent commission on own damage part of comprehensive insurance policies has been hiked to 17.5% for four-wheelers and 15.0% for two-wheelers from 10% at presen

Motor insurance policy constitutes more than 40% of the total premium collected by the general insurance industry. Total motor premium stood at Rs 76 bn in first quarter For standalone third-party cover, which did not have set commission earlier, the agents will now get 2.5% of annual premium. Currently, there are no commissions on standalone third party products, but insurance companies typically pay a flat fee of 100-150 rupees to help agents or distributors cover their costs. Third-party motor insurance policy is mandatory in India and comprises nearly 55% of the total motor insurance premium collected in Apr-Jun by general insurance industry.

In the first quarter of the current fiscal, general insurance companies collected 138.50 bln rupees by selling motor insurance policies. Of this premium for third party stood at 76.08 bln rupees, while the rest 62.42 bln rupees were from own damage premium. Motor insurance constitutes 40% of the total premium collection.

BENEFITS OF DIGITAL INSURANCE TO CUSTOMERS AND DISTRIBUTORS

There has been a significant shift in consumer behaviour in the form of changed social interactions. Globalisation and widespread use of internet and social media has changed customer behaviour. Customers today expect every organisation to deliver products and services at lightning speed, with a seamless user experience. The tolerance level towards turnaround time is dwindling by hours and minutes and no longer by days. Customer expects delivery of services immediately and a real-time report of their purchase. They expect all service providers to have automated access to all the data they provide and are not comfortable with submission of supporting documents and proofs during repeated transactions. In view of the changing times, the financial sector is taking quick strides towards digitisation, ensuring services and products are available to consumers online at the comfort of their homes. Convenience is the key which appeals to customers today. Online transactions provide ease and simplicity of buying and engaging into insurance processes sitting at home. However, digital shopping does not begin with the customer buying the product. The entire process of developing the portal, procurement, distribution and payment is enabled by digitisation.

Demystifying digitisation: Digitisation does not mean mere automation of an existing process but extends to simplifying complexities in sales process and enriching customer experience. Businesses are increasingly dependent on transactions enabled by digitisation and online procurement. Companies are accelerating the digitisation of their business processes to keep pace with growing industry and expectations of the customers. This also includes reduced documentation and developing automated decision making. For instance in the financial sector, paying insurance premiums, redeeming funds and retrieving tax statements can be done from the mobile phones In fact, the whole process has evolved for the financial planner with the help of tablet-based sales process. Pre installed information in tablets gives relevant information and recommends suitable plans based on the age and life stage priority.

Demystifying digital: Digital is the operation which is performed by users. Organisations orchestrate the interactions with customers, distributors, regulators and internal teams with the help of digital platforms and tools. Simplified operating interfaces are derived for customers for the ease of accessing the life insurance buying. All future initiatives focusing on operational efficiency and seamless processing will ride on the “technology wave”.

Benefits of digital include:

Optimisation of cost: Technology has enabled standardisation and customers receive instant and comparable information. The erstwhile high operating expenses in advertising for both visual and print media has been reduced substantially through digital marketing. This saving in cost can be passed on to the customer. In the life insurance space, online term plans are becoming popular due to the low premiums. There is a direct interface between the customer and the insurer in the absence of a broker

High stakeholder engagement: Customers navigating on the internet view a website which is informative and simple to understand. The website/app should aim at helping the customer by providing more than just information. Today, tech savvy customers compare available products and services before making a decision. Hence the website should provide a solution to all the benefits that the customer is looking for

Adherence to compliance and regulatory: Digital sales rules out the element of mis-selling as the customer has to go through the buying process herself or himself. The customer can compare the products available in that category. The recent guideline on making Aadhaar mandatory will enable data sharing. This will further help in instant verification of information. To maintain the confidentiality of customer information, customer payment information is routed through payment aggregators and hence credit and debit card data is not stored with businesses.

Increased brand awareness: Digital marketing portals aim at triggering the buying decision by focusing on the needs of the target audience. This is possible by maintaining a website which contains quality and informative content. The same can be achieved via email marketing and/or social media channels.

Accuracy: Customers enter accurate information and the data gets verified instantly. Any discrepancy is flagged due to data sharing and linkage with various government and regulatory agencies.

Integration of digital and digitisation: Marrying both digital and digitization gives rise to digitalisation which uses technology to provide an interface with the user and give solutions to address their needs in real time. It is only with the help of digital technology that digitalisation has been able to transform a business unit model into a digital one which adds value in terms of revenue and future opportunities.

Digitalisation is compelling businesses to keep evolving with the ever changing digital landscape through breakthrough innovations using the combined power of analytics, cloud technologies, social media and mobility. These transformations which provide a customer centric real time experience are largely driven by customers.

No doubt incremental use of technology has transformed the way businesses are conducted. Leveraging the benefit of digitalisation along with manual process has become the way forward for organizations to maximize returns to customers, distributors and organizations. Artificial intelligence, big data analytics and digital learning is ever evolving and will push efficiency, deliver transformative and differentiating customer strategies, relationships and customer convenience.

CONVENIENCE IS KEY

- Customers expect quick delivery, seamless user experience, real-time report for purchases
- Online transactions provide the ease of engaging in insurance processes from home
- Digitisation simplifies sales process enriching customer experience

HOW TO LINK AADHAAR TO INSURANCE POLICIES

The Irdai has issued a circular making it mandatory for all policyholders to link their Aadhaar and PAN details to their insurance policies. If one does not have a PAN card, Form 60 must be furnished to comply with this requirement. Insurance companies are sending intimations to policyholders to link their Aadhaar numbers to their insurance policies by spelling out how one can go about doing this.

Online linking for registered user:
This is the easiest way of updating Aadhaar. The policyholder can login to the customer service portal of the insurance company and add his Aadhaar details to his profile.

Online linking for non-registered user:
Alternatively, if the policyholder is not a registered online customer, he can visit the insurance company website and complete the process. Here the policyholder will have to furnish details such as policy number, date of birth, PAN, email id, mobile number and Aadhaar number.

Authentication:
Once Aadhaar number is furnished using any of the above methods, an OTP is sent to the registered mobile number. Once OTP is entered, the Aadhaar number is successfully registered.

Offline linking:
The policyholders can approach their respective insurance agents or visit the nearest branch office of the insurance company with their Aadhaar card to carry out the linking. A self-attested copy of Aadhaar needs to be furnished to complete the process.

Points to note:

1. Aadhaar is required to be captured at the proposal stage itself for all new policies.
2. In order to avail online linking facility, the mobile number of the policyholder must be registered with the Aadhaar database.

ROAD TRANSPORT MINISTRY TO LAUNCH ONLINE PORTAL TO TRACK UNINSURED VEHICLES

In an attempt to check vehicles plying on roads without even the mandatory third-party insurance, the road transport ministry is planning to set up an online portal that will host data on uninsured cars and two-wheelers. The online platform will be made available to every state transport department and traffic police in order to enable them to track offenders who do not renew their motor insurance policies. As per the current practice, enforcement agencies are required to physically verify whether a vehicle has insurance cover only after stopping vehicles. Digital availability of data will improve enforcement, although critics said several vehicles were not registered at the correct address or the change was not communicated.

About 6.5 crore vehicles have insurance cover against approximately 21 crore registered vehicles, suggested data from the Insurance Information Bureau (IIB). Since a large share of registered vehicles are off the road, junked or are unusable, officials estimate 50-55% of the vehicles on the road are insured. While almost all commercial vehicles have a cover as they have to go for annual renewal of their registration, in case of passenger cars, the insured population is 70-80%. Two-wheelers have the lowest coverage of around 40-50%. This segment accounts for around 70% share of all vehicles registered in the country.

Not only do uninsured vehicles pose a serious risk as accident victims involved in such vehicles face the risk of getting inadequate compensation, driving any vehicle without third-party (TP) insurance is an offence and attracts up to Rs 1,000 fine with a possible jail term of three months. Though a Supreme Court panel on road safety had directed insurance regulator IRDA to sell TP for cars and two-wheelers for three and five years respectively at the time of registration, IRDA has said it won't be possible since they notify the premium every year.

CYBER COVERAGE TO GROW FASTEST IN RETAIL AND MANUFACTURING INDUSTRIES

The cyber insurance market has been forecast to reach almost $17 billion by 2023, growing over 20% CAGR between 2017-2023, according to P&S Market Research Global.

The Banking Financial Services and Insurance (BFSI) sector has been the largest consumer of cyber insurance, as these companies are more prone to cyber-attacks – accounting for over 35% of the global market share in 2016.

However it's the retail and manufacturing industries that P&S says will see fastest growth in cyber cover demand in coming years due to numerous cyber challenges and risks such as digital supply chain management and online operations.

Loss of brand reputation from cyber-attacks has been cited as a primary reason by most of the industry leaders for the mainstream adoption of cyber insurance programs in their operations.

The increasing interconnectivity, commercialization, and globalization of cybercrime are driving greater frequency and severity of cyber incidents, including past data breach incidents.

The trend of intrusion of unauthorized access entities into critical data and illegitimate access to private and confidential business information has risen along with the threat of cyber-crime, leading to a huge loss of enterprise value, which is expected to continue over a period of time, P&S said.

Cyber analysts tracking the rapid increase in criminalisation of the internet have noted a trend of individual cyber criminals uniting into international criminal groups to increase the impact of their attacks against critical business data.

The growth in demand for cyber cover by business leaders looking to protect enterprise data from cyber-attacks and cyber criminals will continue to spur re/insurance innovation and investment into new products as the industry adapts to meet the needs of the growing intangible asset economy.

Major players in the growing cyber risk cover market include; American International Group, Chubb Limited, Zurich Insurance AG, XL Group, Berkshire Hathaway, Allianz Global Corporate & Specialty SE, and Munich Re, according to P&S.

These competitors in the cyber insurance market have been investing in new product launches and strategies to cater to the larger market and expand their offerings globally:

in July 2017 XL Catlin announced the launch of its cyber and data protection insurance policy in Asia-Pacific which aims to protect businesses from the threats they face from a malicious network and breach of data.

Recent high profile computer breaches such as hack of Democratic National Committee and Twitter have reinforced the need for insurance against cyber threats and led to an increase in demand for cyber liabilities and sophisticated policy cover.

LESSONS IN BUSINESS INTERRUPTION WITH CASE STUDIES (TO BE CONTINUED IN NEXT EDITION)

Case study 1:

Inadequate Maximum Indemnity Period
Thai floods: Auto supply chain disruption

Overview

Inadequate Maximum Indemnity Periods can cause underinsurance where the period of reinstatement is longer than that provided for in the insurance policy.The following claim example highlights the need for robust loss scenario planning prior to selecting the Maximum Indemnity Period.

Background

The Insured operated a car parts manufacturing business in an industrial park in Thailand. During the 2011 Thai floods the entire industrial park was flooded, which caused extensive damage to the Insured's property, including their CNC machines.*

While the Insured had previously conducted Maximum Foreseeable Loss scenario modelling, they assumed that the replacement of the CNC machines was not on the critical path and could be reinstated faster than the damage to buildings.

The Maximum Indemnity Period was set at six months.

Challenge

Following the loss, the Insured approached the original manufacturer of their CNC machines for a quotation and projected lead time for the fabrication, installation and commissioning of the replacement machines. Due to the extensive nature of the flooding, many competitors and other manufacturers in similar industries also had their CNC machines destroyed. As such the insured was advised that it would take six months longer than usual for the replacement CNC machines to be delivered due to the increased demand from other businesses in Thailand that had also been affected by the flood event. Typically this would have taken three months.

Impact

As a result of the loss, the Insured could not manufacture any car parts from the initial date of the loss. The building and other services were reinstated within the Maximum Indemnity Period, but the CNC machines did not arrive on site until three months after the Maximum Indemnity Period had lapsed resulting in an uninsured Business Interruption loss for three months after the reinstatement of the buildings. The Business Interruption loss was in the order of USD 6 million for the Maximum Indemnity Period, and there was an uninsured loss outside the Maximum Indemnity Period of USD 3 million. In addition, their competitors were able to reinstate faster and attract market share away from the Insured which meant that even when the Insured was back to full operation, their business never returned to its previous market position.

Key learnings

- The Maximum Indemnity Period needs to reviewed carefully and the critical path analysed thoroughly. Time should be taken to think about critical supplies and where your organisation lies within your key suppliers' priorities.
- Maximum Foreseeable Loss modelling should be undertaken for all businesses prior to setting the Maximum Indemnity Period. Think about ramifications of wide area damage – even if you have stock set aside, you may not be able to access it.
- Scenario modelling should be undertaken prior to settling the Maximum Indemnity Period. It should also address all elements of the critical path of reinstatement of damage and the assumptions utilised in the model should be stress tested for potential external impacts.

Maximum Indemnity period (MIP) defined:

The MIP is the period for which insurers will indemnify the insured for financial loss whilst the business results are impacted due to a loss event.

Tips on setting your Maximum Indemnity Period (MIP)

Determining the most appropriate MIP is a significant challenge that requires a full understanding of your business operations' interdependencies, and must be done in consultation with relevant business units. Further, as well as internal factors, external influences must also be understood and analysed, for example customer supply, denial of access, wide area damage, availability of loss adjusters, infrastructure damage, exchange rate fluctuations and many more.

From our conversations with PARIMA members, the majority choose a MIP of 12 months, however, 18 month and 24 month indemnity periods are not uncommon. We found there was a concern by members that the period was not adequate for the business to repair property damage, particularly critical machinery and recover trade and profit levels to the same level had the loss not occurred. In addition, many advised that the MIP was a historic figure that had been in place for several years.

While renewed on a rolling basis, it was not reviewed in full detail or to consider lessons learnt from losses that had occurred during the policy year, or any changes that could negatively impact the availability of goods, machinery, services etc.

Swiss Re Corporate Solutions strongly advocates that corporate risk and insurance professionals consider working with brokers, insurers and loss adjusters with Business Continuity experience, to run in-depth scenario planning when determining their indemnity period. Like many international insurers, we can offer a MIP of 36 months and 48 months for petrochemical and complex property risks.

Tips on setting your Maximum Indemnity Period (MIP)

- Involve business management and technical expertise as well as the risk management department
- Determine the company's exposure to fire and explosion risk as well as Natural Catastrophes (as well as those of your suppliers)
- Health and Safety considerations such as civil authority intervention, environmental investigations
- Supply chain considerations
- Critical infrastructure - power, water, roads, ports, airports, bridges etc
- Loss mitigation measures and backup facilities
- Review existing BI policies to understand deductible and indemnity periods as well as insured perils

- Consider the existing machinery production set up and consider how the breakdown of just one machine could impact total production. Parallel production techniques can reduce vulnerabilities to malfunctions and breakdowns
- Repair times for damaged machines, installations and buildings
- Procurement times for spare parts or replacement machines
- The degree of dependency on computers for process control, certain interrelated operational premises and special work conditions such as dust-free or temperature-controlled climates.
- The availability of stand-by equipment in the case of a breakdown
- Review the scenario and potential losses against the BI policy to see if there are any gaps and to ensure the MIP would cover loss of Gross Profit and Increased Costs of Working

Note: The list above is not intended to be exhaustive. It will vary by industry and the unique exposures facing a company, however it does serve as a good starting point for some of the factors to consider when determining your MIP.

Case study 2:

Underinsurance caused by miscalculation of Sum Insured

Machinery breakdown for a cardboard manufacturer in Thailand

Overview

The calculation of the Business Interruption Sum Insured can be quite complex – let alone for those without an insurance background. Confusion caused by the difference between financial accounting and insurance accounting can allow unintended gapsin coverage to emerge.

Background

The Insured operated a cardboard manufacturing facility in Thailand and in late 2012 a fire destroyed their manufacturing facility and production machinery. The Insured had a Business Interruption policy in which they had calculated their Sum Insured in the amount of USD 12 million. In arriving at the figure, the Insured had utilised the Gross Profit from the financial accounts for the 2011 financial year. The Insured took almost twelve months to reinstate the damage to their property andrestart production. At this time they submitted a Business Interruption claim.

Challenge

There were two key challenges for the insured both related to underinsurance caused by miscalculation of their Sum Insured

1) Having relied upon and utilised the results of the business for the previous financial year, the Insured failed to recognise the fact that the business was growing and had in fact achieved a 10% year-on-year growth rate in the period immediately prior to the loss.

2) The Insured utilised the gross profit as per the financial accounts. However,in the calculations, the Insured's accounting department had treated the costof labour as a variable expense and as such, production labour was effectively labelled as an Uninsured Working Expense for the purposes of the insurancepolicy. Following the loss, as the Insured wanted to retain all of their staff toenable them to restart production efficiently after the reinstatement and did not layoff any workers.

Impact

As the Insured failed to consider the growth rate of the business, the Sum Insured was inadequate when compared to the Value at Risk. As such, the amount payable under the Business Interruption claim was proportionately reduced.

The Insured continued to incur the cost of labour throughout the interruption period, amounting to USD 480 000 but was not entitled to any payment from Insurers for the costs incurred.

Key learnings

- When calculating Sum Insured, take into account projected year on year business growth rate to avoid underinsurance and forecast out 24 months from policy inception.
- Consider an uplift to your sum insured. Typically some Insureds will set this at 33% to ensure if the loss occurs at the end of the policy period the correct indemnity amount is taken into account for the following year.
- Work with your broker and insurer to understand how Gross Profit is calculated from an insurance standpoint to avoid gaps in coverage and follow the definition within the policy.

INHERENT DEFECTS INSURANCE

WHAT IS INHERENT DEFECT INSURANCE (IDI) ?

- IDI provides protection against the cost of repairing, restoring or strengthening of the insured building if the "Damage" is caused by an"Inherent Structural Defect".
- The cover is only offered for new buildings or civil structures.
- Damage means total or partial collapse of a building's load–bearing structure, or a condition requiring immediate remedial action to prevent such a collapse.
- Inherent Structural Defect is a defect which existed prior to the date of issue of the "Taking Over Certificate" however was not, or could not have been, discovered prior to that date. It includes design, workmanship and material defects

SCOPE OF COVER

The Cover provided may be summarized as cost of repairing , replacing or strengthening consequence upon:

INHERENT DEFECT

Defect attributable to defective design, workmanship, or materials undiscovered at practical completion

IN STRUCTURAL WORKS

Load bearing structures essential to stability, safety and strength of the premises eg: beam, columns, floor, slabs and external walls and roofing but not including equipment, doors, windows, skylight

CAUSED TO THE PREMISES

All works comprising structural, non structural and external works for which a Certificate of practical completion and certificate of approval has been issued by the technical inspection agency.

DUE TO

Actual physical destruction or threat of imminent collapse

WILL INCLUDE

Temporary repairs provided these repairs form part of final repair or reduce the risk of further damage.

IN ADDITION

Demolition costs, removal of debris as per limit specified, legal, professional or consultants fee as per limit specified.

PERIOD OF COVER

- The Policy cover commences at practical completion of the building and is usually for a five year period as 99% of the defects manifest within 5 years of construction.
- Even in countries like France, Belgium, Luxemburg, Italy and Spain where it is legislated by law, such liabilities are limited to 5 years post construction.
- It is possible to provide cover for less than 5 years but this deprives the Insured of the full benefits as Inherent Defect manifest up to 5 years.

FIXING OF SUM INSURED

The Sums Insured include load bearing members and non load bearing members as a Damage to a load bearing member can effect the non load bearing member.

- Sum Insured has to take into account
- Basis of Fixing at Sum Insured
- Building Shell
- Walls and roofing
- Finishing and normal equipment & installation
- Excluding all furniture and specialized equipment for schools, hospitals, industrial or
- commercial establishments

USP OF THE PRODUCT

FIRST PARTY POLICY

No Blame game as this is a first party policy, which implies that in the event of the claim this policy can take precedence over any contractual or legal rights.

ASSIGNABLE

This policy is assignable during the five year period which means that the subsequent owners of the property will be assigned the rights of this policy.

ADVANTAGEOUS OVER TRADITIONAL POLICIES

- Inherent defects not covered under the traditional policies of Engineering, Fire and Professional Indemnity.
- Recourse under the law of contract or law of tort is expensive, tedious, and only a first step to recovery.

IMPROVES QUALITY

- Technical inspection by independent engineers improves quality
- Stronger Letting position for developer and at rent renewal negotiations.

ISSUE OF MARINE CARGO POLICY WITH DUAL VALUATION

The underwriters should not issue Marine policies/Certificates with dual valuation. In terms of FEMA, exporters are allowed to purchase foreign currency denominated policies by paying premium in Indian currency. Thus premium has to be calculated on equivalent Indian currency of the sum insured. So dual valuation in policy is not necessary.

In the event of a claim, the overseas claimants will definitely require settlement in foreign currency at the time of loss. The Indian underwriters cannot offer them the settlement amount on the basis of exchange rate as on the date of payment of premium. In fact, if the claim is paid through overseas claim settling agents, actual exchange rate would be on the date of Letter of Credit replenishment. If the claim is subject to reinsurance, reinsurance proceeds will be accounted for on a much later date.

Likewise for imports, five dates are relevant for exchange rate viz, date of premium payment, date of loss, date of bill of Entry, date of payment to overseas suppliers, date of payment of the claim by the insurer. However, It is worth mentioning that Lord Denning in SCHORSCH MEIR VS HENNIN (1975) had decided to order the defendant to pay a German debt in Deutsche Marks, or if preferred, the equivalent sum in sterling at the time of payment.

Therefore it is suggested to avoid showing dual valuation in the policy/documents and to pay at the exchange rate based on either,

a. Date of premium payment or;
b. Date of loss or;
c. Date of B/E or date of adjustment of claim or;
d. Date of payment to suppliers or;
e. Date of claim payment by the insurers;

Whichever is in the best interest of the parties involved.

SALASAR NEWS

SALASAR SERVICES (INSURANCE BROKERS) PVT LTD ORGANISED A "LIABILITY SYMPOSIUM" FOR ITS CLIENTS ON 27TH OCTOBER AT THE LALIT GREAT EASTERN. THE SYMPOSIUM WAS CONDUCTED BY MS. UTTARA VAID.