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# Journal

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**Managing the Risks  
EFFICIENTLY**

बीमा विनियामक और विकास प्राधिकरण

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## From the Publisher

**R**isk is an inherent part of any business activity. A major tool of risk management is risk transfer and this enables the corporate houses to be in business and yet not be unduly bothered by the risks associated with it.

It is insurance which provides this cushion. Consequently, the business of insurance is associated with making promises for payment of a sum of money, contingent on the happening of an event. This necessitates that insurers have a reasonable understanding of the likelihood of the event occurring; and its severity. It is here that the role of the actuary assumes criticality. Unless the basic data that goes into the assessment of these risks, their interpretation and analysis for future events are all highly reliable; insurers themselves would be exposed to serious risks.

Underwriting as a function holds key importance for insurers. While it may be possible for an insurer to recover from a poor decision made with regard to investments, a bad underwriting decision could put an

insurer's entire business in jeopardy. This is a huge operational risk that the insurers face. The risk is all the more in the recently detariffed Indian market. It may not be possible to generate underwriting profits despite the best effort and care. However, it would be an insurer's imperative to ensure that overall profitability is achieved. This puts a great emphasis on the investment strategies of insurers, an area which is again vulnerable to risk.

These are just some of the several risks that insurers have to contend with. 'Risk Management for Insurers' is the focus of this issue of the Journal. As insurers are in the business of making promises for payment of money on a contingent event, it is essential that they provide for sufficient reserves in order to be able to meet their liabilities as and when they fall due. Reserving and Solvency will be the focus of the next issue of the Journal.

*C.S. Rao*

C.S. Rao

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# Risk Management for Insurers

Risk management for insurers is assuming greater importance in light of the ever-changing dynamics in corporate management. As against very specific covers that used to be the order of the day, the interpretation of policy conditions and clauses is putting the insurers in a vulnerable position with regard to the exact terms of coverage. This calls for a very closely monitored designing of the policies which is easier said than done. Besides, the keen competition in the domain demands that there has to be certain relaxation in providing exact coverage and it is this leverage that could put them in a spot of bother later. Considering the various ways that policy conditions are being interpreted, one has to admit that the margin for error is indeed very small.

Further, the global economic scene keeps changing at a rapid pace and in a world where the borders are fast vanishing; it would be too naïve to believe that a particular domain can afford to remain oblivious to what is happening elsewhere. This puts the insurers in a very sensitive spot as regards their investment strategies and the asset-liability management. Especially in a scenario where underwriting profits are hard to get by, insurance companies have to look at generating sizeable gains from investment. The delicate balance that they have to draw between maintaining regulatory restrictions and still maintain a profitable investment portfolio is a huge challenge. Insurers have to fight against the risk of seemingly lucrative opportunities which could later put their interests in distress.

Another area that is very sensitive, especially in the recently detariffed scenario, is the endless scope of business opportunities. As has been uttered time and again, risk assessment should remain the prime factor in accepting risks and the task of a scientific underwriting should never be relegated to the back seat, regardless of the possibility of making huge gains. The global corporate scene has more recently been riddled with lots of controversies and some of the big names have just vanished overnight on account of several scandalous happenings. Corporate governance has assumed great importance and insurers should remain ever alert to the risk of their reputation being tainted.

'Risk Management for Insurers' is the focus of this issue of the **Journal**. We have several professionals and practitioners throwing light on various aspects of this hugely important domain. At the outset, Mr. Ashvin Parekh talks about the risks associated with the bountiful business opportunities in the de-tariffed regime and cautions against the possibility of building a bad portfolio. In the next article, Mr. V. Rajagopalan emphasizes on the importance of risk-based capital approach and the role of an actuary in this domain. Dr. R. Kannan takes a look at the macro aspects pertaining to risk management for insurers in his article 'Operational Risks in the Insurance Industry'.

Mr. Thomas E. Power delves into the area of risk management more specifically in the health, fire and motor lines of business; and discusses the importance of product designing and pricing. Periodical review of risk management programmes is of vital importance for corporate success and this forms the focus of the next article by Mr. Jagadish Bhatkal. Enterprise Risk Management (ERM) is one of the more recent management imperatives; Mr. Alam Singh narrates the role of ERM for insurance companies.

Insurers are in the business of assuming risks of individuals and corporate entities. This puts them in the onerous position of having to pay the claims whenever they arise. In order to fulfill this function responsibly, they should allocate the requisite funds and create reserves on a regular basis so that their solvency is never in doubt. 'Reserving and Solvency' is the focus of the next issue of the **Journal**.

U. Jawaharlal





9	<b>Aviva</b>									
	Individual Single Premium	6.08	35.10	11.03	794	4076	2774			
	Individual Non-Single Premium	127.01	656.91	391.31	55459	293382	161215			
	Group Single Premium	0.23	3.10	1.39	0	1	0	181	1790	894
	Group Non-Single Premium	7.83	28.92	3.81	20	96	26	66372	394959	190647
10	<b>Kotak Mahindra Old Mutual</b>									
	Individual Single Premium	16.36	47.03	32.91	2553	5901	6836			
	Individual Non-Single Premium	128.92	499.34	348.85	41632	159101	89802			
	Group Single Premium	3.40	14.88	2.81	1	10	4	25512	88315	18068
	Group Non-Single Premium	22.61	53.69	12.97	33	191	108	78503	328767	131585
11	<b>Max New York</b>									
	Individual Single Premium	79.80	161.59	2.02	2387	8384	274			
	Individual Non-Single Premium	119.03	752.84	439.36	91609	544121	423404			
	Group Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
	Group Non-Single Premium	1.62	5.91	1.89	55	165	102	45381	103795	66919
12	<b>Met Life</b>									
	Individual Single Premium	7.20	13.84	6.48	1067	2418	1396			
	Individual Non-Single Premium	89.29	302.67	127.47	31492	116988	94025			
	Group Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
	Group Non-Single Premium	12.76	27.58	8.68	11	204	184	26317	424724	331919
13	<b>Sahara Life</b>									
	Individual Single Premium	7.34	22.53	17.26	1981	6023	4387			
	Individual Non-Single Premium	10.17	19.70	4.49	15141	35636	18910			
	Group Single Premium	0.00	0.00	0.06	0	0	23	0	0	10054
	Group Non-Single Premium	0.00	0.94	0.00	1	4	0	70	103261	0
14	<b>Shriram Life</b>									
	Individual Single Premium	23.54	92.52	0.00	4938	19879	0			
	Individual Non-Single Premium	31.61	87.26	10.31	22659	76198	20797			
	Group Single Premium	0.00	0.00	0.00	1	1	0	200	200	0
	Group Non-Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
15	<b>Bharti Axa Life</b>									
	Individual Single Premium	0.01	0.01	0.00	480	480				
	Individual Non-Single Premium	3.29	7.75	0.00	2300	5220				
	Group Single Premium	0.00	0.00	0.00	0	0		0	0	
	Group Non-Single Premium	0.01	0.01	0.00	3	3		3067	3067	
	<b>Private Total</b>									
	Individual Single Premium	696.29	2904.87	2245.90	191047	652763	422371			
	Individual Non-Single Premium	3490.54	14023.22	6943.22	1829537	7267087	3445512			
	Group Single Premium	349.27	1027.76	459.96	74	354	274	242392	1016293	861391
	Group Non-Single Premium	571.40	1515.98	603.68	348	2070	3253	861489	4737109	2851686
16	<b>LIC</b>									
	Individual Single Premium	3890.91	20641.12	8753.09	720585	6064684	2274387			
	Individual Non-Single Premium	4826.51	23899.29	12945.82	12343246	32143891	29298160			
	Group Single Premium	3643.82	11394.28	3946.28	3452	20717	18160	2103439	14164320	11468008
	Group Non-Single Premium	0.00	0.00	0.00	0	0	0	0	0	0
	<b>Grand Total</b>									
	Individual Single Premium	4587.20	23545.99	10998.99	911632	6717447	2696758			
	Individual Non-Single Premium	8317.05	37922.51	19889.04	14172783	39410978	32743672			
	Group Single Premium	3993.09	12422.04	4406.24	3526	21071	18434	2345831	15180613	12329399
	Group Non-Single Premium	571.40	1515.98	603.68	348	2070	3253	861489	4737109	2851686

Note: 1. Cumulative premium upto the month is net of cancellations which may occur during the free look period.  
2. Compiled on the basis of data submitted by the Insurance companies.



# Reserving and Solvency

## THE BEDROCK OF INSURANCE BUSINESS

“IN ORDER TO BE ABLE TO MEET THEIR CONTRACTUAL OBLIGATIONS, INSURERS HAVE TO AUGMENT THEIR RESERVES FROM TIME TO TIME, AND MAINTAIN ADEQUATE LEVELS OF SOLVENCY. FAILURE TO DO SO WOULD NOT ONLY INVITE ILL-REPUTATION IN THE MARKET BUT ALSO NECESSARY ACTION FROM THE AUTHORITIES” OBSERVES U. JAWAHARLAL.

A contract of insurance is basically a promise made by the insurer to pay a certain sum of money on the happening of an event. Uncertainty is the hall-mark of insurance and as such, the payment of the promised sum is itself contingent on the event's happening. Business prudence demands that insurers should have a reasonable estimate of the claims that are likely to occur. It is here that the actuary's role assumes a great deal of importance. Actuaries make use of a lot

of statistical information, analyse it and apply the results to arrive at the premium to be charged from a prospective policyholder; ensuring in the process that the premium charged is reasonable and also that the insurer's business interests are taken care of.

In a dynamic world where several events are intricately intertwined, to have a reasonable estimate of the happening of an event is no easy task. It is for this reason that several insurers make a loading while arriving at the premiums chargeable from the policyholder. To be able to pay the claims when they arise, the insurers must have made proper provisioning and generated sufficient reserves. Besides, there are regulatory norms for maintaining sufficient reserves and solvency margins for insurers. Insurers are accountable for such solvency margins and failure to maintain a required solvency margin could lead to embarrassment both from the authorities as well as the other stakeholders.

In life insurance contracts, where the promised sum is payable either on account of maturity of the contract or death during the contracted period as the case may be; the uncertainty is associated with the timing of death. In order to arrive at the reserves at their disposal; life insurers have to consider the time value of the total claims payable, the time value of the future premiums receivable and arrive at the surplus (or in extreme cases, the deficit).

To ensure that these values are realistic, the actuaries have to apply the most reasonable discount rate, which is once again a huge task considering the dynamics of global economics.

In the non-life domain, the adequacy of the reserves has to be considered in the light of past experience, changes in the trends that affect claim payments etc. One little advantage that the non-life insurers enjoy over their life insurance counterparts is that their contracts are for a short period and even in case of a bad experience, the premiums may be revised subsequently; although frequent revision smacks of immature management. However, they have to be cautious against their entire solvency being wiped out by a sudden bout of claims. Apart from creating reserves for the claims made, and claims in the offing; non-life insurers have to build reserves for claims incurred but not reported (IBNR).

Universally, there is a great emphasis on maintenance of adequate solvency margins by insurers. In several markets, the rating of the insurance companies is based on the solvency margins that they maintain. In India, although there is no such rating for the insurance companies as of now, it still is very important that insurance companies augment their reserves and maintain the required solvency margin continuously. 'Reserving and Solvency' will be the focus of the next of the **Journal**.

## Reserving for a Rainy Day...





# Risk Management in General Insurance Companies

## STRIKING THE RIGHT BALANCE

‘BY VIRTUE OF HAVING THE FIRST LEVEL OF CONTACT WITH CUSTOMERS, AGENTS ARE ANYWAY THE BEST JUDGE OF INSURANCE RISK INVOLVED IN ANY NEW BUSINESS BEING BOOKED’ EMPHASIZES ASHVIN PAREKH. HE FURTHER ADDS THAT THIS NECESSITATES THE AGENCY FORCE BEING TRAINED THOROUGHLY ABOUT THE COMPANY’S PRIORITIES.

### The changing business environment

Any sunrise industry faces a host of risks, both from within as well as from its environment. While in stable industries, most of the risks are well identified and emerge from the internal operations of the different players; an evolving industry is usually faced with stronger risks from the competitive and regulatory environments. Extending this principle to the risks currently faced by the general insurers

in India is incomplete without a short introduction on the prevailing business environment.

Two aspects are currently playing a very important role in the evolution of the general insurance industry. The first aspect revolves around the opportunities in the Indian general insurance market and the resulting focus of players on achieving business growth. In today’s environment, achieving growth requires a focus on sales and rapidly scaling up operations through expansion of channels and increasing geographical presence. A higher amount of focus on sales and business expansion does have the desired impact, but is accompanied by its own set of risks on business profitability.

The other industry driver is the ongoing process of calibrated de-tariffing. On the one hand, de-tariffing has provided players with significant opportunities in tapping more markets and will provide even more opportunities after product liberalization. On the other hand, it has placed the onus of correct pricing on the players themselves. While this has

resulted in players preparing to identify risk parameters and pricing products based on risks; the immediate response, under the pressure of a free market scenario, has been to drop the rates even in hitherto non-profitable businesses.

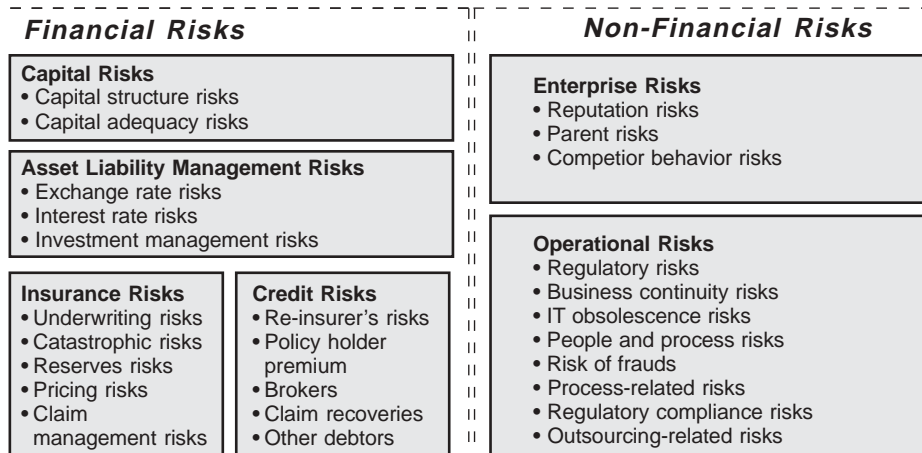
The result is price wars even in non-profitable business lines like motor insurance. Under such circumstances, in long term the players could be exposed to building a “bad portfolio” of covers and the end result could be unprofitable books and finally erosion of capital resulting from unmanageable claim ratios. The general insurance players are exposed to numerous such risks and unless managed well, these risks could adversely affect their business performance or even their survival.

This article highlights the risks that are relevant in current scenario in India and presents some suggestions on how to manage these risks.

### Key risks in the current market

Typically a general insurance player would be exposed to numerous financial and

**On the one hand, de-tariffing has provided players with significant opportunities in tapping more markets and will provide even more opportunities after product liberalization. On the other hand, it has placed the onus of correct pricing on the players themselves.**



non-financial risks as depicted in the diagram that follows. Whereas all the types of risks need to be addressed through a well defined strategy, structure and approach; some of these risks have greater fallout as a result of the above described current situation.

**Risks due to geographical expansion**

With an aim to rapidly expand geographically, focus is generally on identification of markets across states and across industrial sectors which provide a lucrative insurable customer base. However, in the push for identifying newer customer target segments, there is a risk of the insurer not sufficiently evaluating the level of insurance. Insurers focusing on 'market share capture' could end up taking large covers with hidden risks which have not been priced into the product.

**Mitigation**

While, understandably, the insurer planning to enter such new markets would not have the portfolio performance (primarily the claims patterns) history; insurance risk could be assessed based on inputs from multiple sources like public information, competitor information, research agency reports, internal research team findings, prior experience of company's management and channel intelligence. This would call for working

closely with the channel partners, research teams, external agencies and regional teams to include the risk profile and expected risk behavior of the markets being targeted.

On the basis of the identified risks, business plans could be updated to include not only the targeted customer segments and expected business volumes but also the target range of risk expected out of these markets. With a view of estimated future direction of the portfolio available, a decision on which markets to prioritise could then be managed better. As the experiences of market performance become available, the management can then evaluate how accurate was the initial assessment during business planning when comparing it with actual performance. More importantly, the risk-based planning at the marketing stage itself offers the opportunity to imbibe the culture and practice of

managing the business with both - risk-based and turnover-based - parameters in sight.

**Risks Due to Enhancement of channels**

When focusing on scaling up the strength of agents to meet the growth requirements, one of the major risks faced by insurers is maintaining an arms length relationship with the sales force instead of making it an important part in achieving the organizational goals. This is usually the case when the organization is more focused on increasing the market share instead of improving the quality of relationship with the customer. As a result, the organization is unable to completely own the customer's insurance needs and effectively sell all potential products to the customer.

**Risk Mitigation**

A sure way to mitigate this risk is by considering the agency to be a channel which brings in significant knowledge and understanding of the risk profile of new business being targeted and is capable of assessing the overall insurance needs for every client. By virtue of having the first level of (and closest) contact with customers, agents are anyway the best judge of insurance risk involved in any new business being booked. Therefore, it is important that the entire cycle of engagement with the agencies in terms of their induction, training, transacting and compensation should reflect this philosophy of agent being not only a part of the sales force, but also a partner in

**When focusing on scaling up the strength of agents to meet the growth requirements, one of the major risks faced by insurers is maintaining an arms length relationship with the sales force instead of making it an important part in achieving the organizational goals.**

insurance risk management. At the agency induction stage, this means that they should be reviewed for their risk knowledge and risk assessment processes and diligence to follow these processes. Once inducted, they should be trained for products (and the risks) and processes, they should be encouraged to offer suggestions for product design and pass on the customer feedback on regular basis and they should be asked to follow the processes (especially like risk rating, form filling, etc.) with minimum deviations. At compensation level, this means that the insurers should devise the agency channel's compensation structure to reward them not only for sales, but also for their adherence to processes, contribution to risk minimization and providing customer feedback and inputs for business planning and product design.

In case of using electronic channels like internet and call center as the means to grow the business, the biggest risks are primarily on two fronts. Firstly, on acquiring the business through these channels the risk evaluation may not be as robust (or as exhaustive) as that applicable in other channels. The other risk (which in a way is the cause of the first) is that processes of the electronic and conventional channels may not be tightly integrated or may not be standardized. It is therefore important that the Chief Operations Officer and the Chief Technology Officer work together to integrate the processes (especially the insurance risk assessment and management processes) on an ongoing basis and synchronise the developments or changes in online and offline processes of the company.

#### **Risks inherent in Processes and Systems**

As insurers focus on growth, one of the prime risks faced is of not being able to establish enough capability in the area of risk-based product pricing. It is often

easy to use risk rating parameters which were mandated by regulator or use the parameters which appear appropriate through common sense. However, it is important that the pricing is based on scientific methods, which is backed by historical data, Information Technology tools and robust processes.

#### **Risk Mitigation**

The key challenges in implementing robust data and processes are availability of data, selection and accurate deployment of technology tools; and propagating a process which calls for adherence to capture of all adequate data (when acquiring new business) and accurate use of risk-based pricing tools.

One of the important requirements for risk-based pricing is use of IT tools to undertake a causal analysis to reach up to the root-cause of why specific covers resulted in claims. This would, however, require that the processes mandate the insurer (and its channel partners) to capture all the required data elements not just at the time of acquiring the business but also at the time of processing a claim. Apart from a company's own captured data and intelligence, the insurers could use competitor intelligence to develop understanding of the parameters to be used for risk assessment. One of the other important sources of intelligence is the re-insurer who has a view of risk profile (and the corresponding parameters that cause them) of multiple businesses across

companies. Also initiatives of building national database on insurance business and claims data by the regulator or third parties (though not a prevailing practice in India yet) could be important source of intelligence on risk profile and the corresponding parameters causing those risks.

One of the other key enablers of insurance risk management is the approach of portfolio-based monitoring of business. This would mean monitoring the business as a portfolio of businesses across dimensions of channels, products, geographies and a combination of all of these. An analysis of the claims ratios and hence the quality of portfolio across these dimensions could provide important insights about how the partners or the locations are performing on risk management rather than just the business growth. To enable this, it is imperative that the insurer deploys technology tools that enable analysis of data across different dimensions. Again, to make this possible, the most important requirement would be robust process which mandates capturing quality data at each stage of processing.

Lastly, in a growing environment, one of the key issues is binding the growing number of offices, people and partners through a common processes and systems. In the case of a haphazard growth, the geographically dispersed teams (of insurer and the channel partners) could well operate like "Amoebas" of independent

**An analysis of the claims ratios and hence the quality of portfolio across these dimensions could provide important insights about how the partners or the locations are performing on risk management rather than just the business growth.**

insurers. Such isolated "Amoebas" could end up building a customer portfolio of its own having its own characteristics (customer segment, profile, behavior) and its own risk profile. This primarily poses two risks. Firstly, the controls on underwriting processes and risk assessment could be compromised if the standards are not followed uniformly across locations resulting in unreasonably risky portfolio of business. Secondly, and more importantly, the senior management of insurers may not get a visibility of the reasons for bad portfolios (wherever they exist) of such "Amoebas". The time lag in information transfer from such "Amoebas" is considerably high and even when the information reaches the senior management, it may not be error free and accurate. In a large country like India, which has a diverse risk behavior across regions, it is important that the processes and systems capture these differences and enable the senior management to monitor each region with these characteristics already captured in the process.

**Risk is an extremely broad concept. It can include any potentially negative future event whose occurrence is not certain.**

**Conclusion**

The biggest challenge for the insurers today is to strike the right balance between achieving growth in their top-line vs. their bottom-line. It is important for the insurers to remind themselves that while the top-line growth is visible on daily basis; if the risks are not managed well, the deterioration in bottom-line would surface with time.

Also, in a growth environment, when scaling up reach, channels, IT systems and processes; insurers face a risk of reducing focus on quality (primarily from risk-management perspective). Since most of the insurers are young organizations,

focusing only on increasing the "numbers" even in medium term could mean that the insurers could end up establishing structures, processes and systems which are not robust. This could result in organizations establishing cultures which do not propagate risk management as an important area. It becomes difficult to bring about changes in such a culture once the organization has grown reasonably large. This risk is apart from the risky portfolio of business which the company would have anyway added to its portfolio.

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**INSTITUTE OF INSURANCE AND RISK MANAGEMENT**

*Established jointly by the Insurance Regulatory and Development Authority (IRDA), India and the State Government of Andhra Pradesh*

It may be recalled that it was already announced last year that the candidate standing 1<sup>st</sup> overall will receive Lloyds' London cash prize of £ 1000 and a gold medal at the Convocation to be held in July 2007.

Further, Tata AIG have instituted this year two prizes of Rs.1.00 lakh and a gold medal for candidate standing first in Life Insurance and General Insurance Courses which will also be awarded at the Convocation. Similar prizes will be awarded for the next two years.

International School of Actuarial Sciences has been launched by IIRM. Admissions are open presently. Classes are likely to commence from August 2007.

Sd/  
Managing Director.

# Risk Management in Life Insurance

## REGULATORY DEVELOPMENTS

V RAJAGOPALAN WRITES  
‘STEPS HAVE BEEN TAKEN IN  
MANY OF THE DEVELOPED  
COUNTRIES TO MOVE  
TOWARDS A RISK BASED  
CAPITAL APPROACH, WHICH  
IS PRINCIPLES BASED; AND  
FOCUSES ON THE SPECIFIC  
RISKS TO WHICH THE  
BUSINESS IS EXPOSED’.

Insurance companies are in the risk business. In the process of providing insurance and financial services, they assume various kinds of actuarial and financial risks. In the case of insurance companies, due to the inherently uncertain nature of the business; a greater degree of safeguard for the policyholders has been considered necessary. Historically, this has been achieved by applying three methods, namely minimum paid up capital, deposits and margins of solvency. The regulatory regime in India is also along these lines.

The reporting framework for published accounts for insurance companies is prescribed by the IRDA and is mainly aimed at demonstrating solvency and protecting the interests of policyholders. The solvency requirements are related to

mathematical reserves and sum at risk, reflecting the EC formula (Solvency I). Also, the insurers are required to maintain, at all times, solvency margin at not less than 150% of the required level as per the regulations. As of now, the regulations allow only equity as the accepted form of capital.

Along with the statutory accounting and actuarial returns, the IRDA obtains through the Appointed Actuary's report, elaborate information on a variety of risk related issues affecting the company. The returns and the Appointed Actuary's report are scrutinized by a Committee appointed by the IRDA, consisting of senior actuaries. The IRDA reviews the functioning of the insurance company, from time to time, through inspections, meetings with the CEO, CFO, the Appointed Actuary and other senior officials, to form a view of compliance and how risk issues are addressed by the company.

The Actuarial Society of India (ASI), which is the professional body of actuaries, has prescribed, peer review of the work of the Appointed Actuary on the statutory valuation related duties and reporting on the financial condition of the insurance company to the Board of Directors, as part

of professional guidance to its members. Also, the ASI reviews regularly, the compliance of its guidance notes by the Appointed Actuaries.

In many respects, the solvency framework in India is similar to some of the Asian countries, which follow the EC formula. However there are developments at international level and steps have been taken in many of the developed countries to move towards a risk based capital approach, which is principles based; and focuses on the specific risks to which the business is exposed. This paper will describe some of the developments in these areas, with particular reference to regulatory focus on risk management within the framework of the solvency regime.

### Initiatives of the International Association of Insurance Supervisors (IAIS)

The IRDA is a member of the International Association of Insurance Supervisors (IAIS), which is working towards a common structure and common standards for assessing insurer solvency, as a new framework for insurance supervision. While IAIS will not be prescribing a specific solvency regime to be applied

**The IRDA reviews the functioning of the insurance company, from time to time, through inspections, meetings with the CEO, CFO, the Appointed Actuary and other senior officials, to form a view of compliance and how risk issues are addressed by the company.**

compulsorily by the jurisdictions of IAIS members, the common structure and common standards will form the major benchmark for their own solvency regimes and supervision.

The basis for the common structure and common standards is set out in the Cornerstones Paper, which was adopted by the IAIS in October 2005. A key element of the common structure and common standards is the clarity on the main risk factors an insurer faces, their possible impact and the way these risks are reflected in the regulatory financial statements. The IAIS position is that the solvency regime should address all the risks of potentially material importance and identify which risks call for a financial requirement and which risks may be dealt with purely through governance or market conduct requirements and supervisory assessment. Different risks may be dealt with differently in the insurer's risk management or in the supervisory assessment and may call for different management and supervisory action, which may include requiring additional capital.

The risks faced by an insurer have been categorized under five heads, namely, underwriting risk, credit risk, market risk, operational risk and liquidity risk - the categorization employed by the International Actuarial Association in its Report "A Global Framework for Insurer Solvency Assessment" published in 2004. Each category of risk has a number of components in terms of volatility, uncertainty and extreme events. The IAIS papers discuss the main ways to manage these risks and reflect them in the solvency assessment.

### United Kingdom

The Financial Services Authority (FSA) of the United Kingdom has carried out significant changes in the way the life insurers are regulated. During 2001 -02, the FSA carried out a general review of

**The company's arrangements should be such as to furnish its governing body with the information it needs to play its part in identifying, measuring, managing and controlling risks of regulatory concern.**

the with profit business, led by factors such as the events surrounding the closure of Equitable Life, high profile compliance failings and the falling equity markets followed by sustained fall in interest rates.

Starting with the consultation paper issued in 2001(CP97) on the proposed new prudential requirements for life insurance business, the FSA completed the process in 2004, when it introduced the Pillar One and Pillar Two capital requirements . One of the objectives of the new regulatory regime was to require senior management of the company to identify and control risks to their business and to assess the capital required to cover those risks.

Life companies with with-profits liabilities in excess of Pounds 500 millions are required to carry out two valuations for each with-profits fund; the first along the current regulations with some relaxation to the rules (regulatory peak) and the other based on a "realistic market valuation" of assets and liabilities and applying stress test (realistic peak). This dual valuation assessment is known as the "twin peaks" approach. The reported capital requirement will be based on the more onerous of the two calculations and described as the Pillar One. Companies with smaller with profit liabilities, are not required to apply the twin peaks approach but can elect to do so.

In addition, all companies, irrespective of size and in respect of both with profit and without profit business, are required to carry out an Individual Capital

Assessment, described as the Pillar Two. This will be in the light of the risks they are facing to demonstrate that they have adequate capital resources. Companies are required to identify major sources of risk under the headings of credit risk, market risk, liquidity risk, operational risk and insurance risk. In each case, stress and scenario testing is necessary to identify the financial resources required to withstand potential adverse scenarios. Following a review, as part of its normal supervisory monitoring program, the FSA will privately issue individual capital guidance if the company's assessment is deficient in some way. The Individual Capital Assessment is not a matter of public disclosure.

Also, the FSA has the objective of monitoring risk management within the regulated firms. In the consultation paper issued, the FSA commented that the requirement would be, for each company, depending upon the scale, nature and complexity of the business; to have a separate risk management function and that the organization and responsibilities of the risk management function should be documented. The company's arrangements should be such as to furnish its governing body with the information it needs to play its part in identifying, measuring, managing and controlling risks of regulatory concern. The Company should plan its business appropriately so that it is able to identify, measure, manage and control risks of regulatory concern. It should also have in place appropriate arrangements for business continuity - to ensure that it can continue

**The need for a new solvency regime was felt because the current framework was considered too simple and did not direct capital accurately where the risks were.**

to function and meet its regulatory obligations, in the event of an unforeseen interruption. As a result, companies regulated by the FSA are required to put in place well designed risk assessment, management and monitoring systems, so as to meet the regulatory requirements.

### Singapore

The Monetary Authority of Singapore (MAS) introduced the Risk Based Capital (RBC) framework for the insurance industry from 2004. The RBC concept was announced through an exposure draft in 2001. In formulating the framework, the MAS worked closely with the insurance industry and representatives from actuarial and accounting professions.

The new valuation regime makes a fundamental shift away from the old philosophy, built upon estimations of asset and liability values with undisclosed margins and approximations, to one that emphasizes greater transparency (i.e. asset valuation based on market value of all assets and policy liability valuation based on cash flows using realistic assumptions of mortality, morbidity, lapses, expenses etc.; and appropriate discount rates and additional provision for adverse deviations), and provides a more accurate picture of the insurer's financial position. The new capital requirement framework is built on several principles - it is risk based reflecting the relevant risks faced by the insurance company, will serve as an effective buffer to absorb losses, aligned across financial institutions to minimize capital arbitrage and to serve as early indicator of financial

strength or weakness and facilitate progressive intervention by regulators.

The risks arising from an insurer's assets and liabilities are grouped into the following three components:

The first component (C1) relates to insurance risks undertaken by the insurer. The risk charges applicable to different business lines vary according to volatility of the underlying businesses. For life insurance business, the requirement is calculated by applying specific risk margins to key parameters such as mortality, morbidity, lapses and expenses.

The second component (C2) relates to risk inherent in an insurer's asset portfolio and is calculated based on an insurer's exposure to various markets, including debt, equity, property and foreign exchange. The C2 requirement also reflects the extent of the mismatch between assets and liabilities.

The third component (C3) relates to concentration risks in certain types of assets, counterparties or groups of counterparties and is calculated based on the insurer's exposure in excess of the prescribed concentration limits.

The framework provides for the MSA assessing the need for additional capital, for risks that are specific to particular insurers, through the risk based supervisory process. These are risks arising from the activities of the insurer and such other factors as the MSA considers relevant. Examples of such risks include operational risk, weak corporate governance and internal control and lack of access to additional capital.

### European Union (EU)

The solvency regulations in the EU were introduced in the seventies. The Solvency I directive adopted in 2002 left the solvency calculation unchanged but only adjusted some other components e.g. solvency requirements be fulfilled at all times rather than only at the time the financial statements are drawn up.

The need for a new solvency regime was felt because the current framework was considered too simple and did not direct capital accurately where the risks were. In recognition of this, several countries have strengthened regulation to address known inadequacies, resulting in patchwork of rules in place across Europe. The static solvency standards had not kept pace with the progress in the science of risk management and many large companies had developed sophisticated risk management systems.

The project on Solvency II, the future prudential supervisory system in the EU, was initiated in 2001. The design of the future supervisory system was concluded in early 2003. As per the time schedule, the EU Commission is expected to adopt the Solvency II directive in mid - 2007. After its adoption by the EU Parliament and the Council of Ministers, the implementation is scheduled to be completed by 2010. The EU covers 27 insurance markets with different laws and regulations.

### Solvency II

One of the objectives of Solvency II is to establish a solvency capital requirement which is better matched to the risks of an insurance company. It will explicitly quantify risk inter-dependencies and will create an incentive for insurers to use their own internal models to measure and manage their risks.

The other characteristics of Solvency II are: it will be based on principles and not detailed rules; the calculation of solvency position will be based on market consistently valued parameters; it will be

based on a Basel type, three pillar approach; and it will aim at consistency across financial sectors and harmonization of supervisory methods across Europe and convergence in international prudential standard setting.

Pillar I will deal with quantitative requirements - the financial resources a company needs to hold to be considered solvent. Rules for calculation of technical provisions envisage a market consistent valuation of assets and liabilities. There will be two levels of capital requirements under Solvency II. The Minimum Capital Requirement (MCR), will be the minimum level below which ultimate supervisory action will be triggered. The MCR should be a simple, robust and objective measure. The Solvency Capital Requirement (SCR), should deliver a level of capital that enables an insurance undertaking to absorb significant unforeseen losses and gives reasonable assurance to policyholders that payments will be made as they fall due. It should reflect the amount of capital required to meet all obligations over a specified time horizon to a defined confidence level.

Thus all significant, quantifiable risks to which an insurer is exposed - underwriting, investment, ALM, credit and operational risks, should be factored into the calculation of SCR. The SCR will be calculated by applying either the standard approach or the insurer's internal risk model, which has to be validated and approved by the supervisory authorities. In house risk models will allow insurers to calculate solvency in a way that reflects their actual risk profiles.

Investment rules will also be covered in Pillar I. The proposal envisages that assets covering technical provisions, MCR and SCR should secure the safety, yield and marketability of the undertaking's investments. In this context, regulation should be a combination of overall eligibility criteria, or principles and / or a list of eligible asset classes.

**Particular mention is made of life insurance where traditional actuarial practices have not extended to assessing and putting a value on product guarantees and option features.**

Pillar II will provide the principles for the supervisory review process and for insurer's internal control and risk management. Furthermore, risks which cannot be quantified in Pillar I should be assessed qualitatively in Pillar II. Liquidity risk is to be considered and managed in Pillar II.

Pillar III will build on disclosure and transparency to reinforce market mechanisms and risk based supervision. So far no Pillar III reporting requirements have been defined.

The adoption of an integrated risk approach will be a fundamental change compared to the Solvency I regime. This will require an enterprise - wide risk management organization; adaptation of organizational structure and processes; data base which represents value of assets and liabilities and makes it possible to calculate the size of risks and their interdependencies; setting up and maintaining the models; and IT systems to run the capital requirement calculation and the designated scenarios.

It is expected that Solvency II will be a particular challenge for insurers who, in the past, have done business without adequately considering the underlying characteristics of their risks. Particular mention is made of life insurance where traditional actuarial practices have not extended to assessing and putting a value on product guarantees and option features. Solvency II will also reinforce insurer's focus on risk / return fundamentals.

### **Risk Based Capital approach for insurance in India**

The move to Risk Based Capital approach for insurance industry in India is being discussed from time to time. The banking industry has already accepted Basel norms for capital adequacy and is in the process of moving towards it. IRDA is a participant in the IAIS initiatives and discussions. The ASI has set up a working group to prepare the industry for moving towards risk based capital in future. Going by the experience in other jurisdictions, the proposal will need several years of hard work involving consultation, preparation and coordinated work with the industry and representatives of accounting and actuarial professions. It is not too early to get started!

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# Operational Risks in the Insurance Industry

## NEED FOR A CLOSER LOOK

'OPERATIONAL RISK TAKES A LONG TIME TO SURFACE' OPINES R. KANNAN. HE GOES ON TO WRITE THAT ACCORDINGLY OPERATIONAL RISK CALLS FOR REVIEW OF PROCESS IN THE INSURANCE COMPANIES FROM TIME TO TIME.

**R**isk management is the 'mantra' of modern business management. In particular, operational risk management has assumed key importance in the last one decade since the episode of Barings in 1995. There are three primary forces, which are inter linked to each other, behind this increasing trend towards operational risks, viz., the growing number of operational losses of significant sizes; increasing reliance on highly sophisticated financial technology; and advances in deregulation and globalization. The financial services

industry relies more and more on highly sophisticated financial technology and has been undergoing unprecedented deregulation. The Basel Committee on Banking Supervision had stated that growing use of highly automated systems had the potential to transform high frequency and low severity manual processing errors into low frequency and high severity system failures. The ever growing internet business poses risks such as fraud and security issues that are not yet fully understood.

In addition to the three factors mentioned above, it is important to note that the value of an insurance company is nothing but the present value of its future cash-flows adjusted for risks. Shareholders' value can be increased by reducing the volatility of future cash-flows. In the last few years, financial industry had developed many sophisticated techniques to manage various risks and in spite of this development, large earnings volatility still takes place. Many studies have proved that a major source of volatility is not related to financial risks

but the way in which the company operates. There are many important reasons to reduce the volatility of a company's cash-flow. For risk-averse managers, stability of earnings is very important. Smoother income reduces the likelihood of financial distrust in future, which imposes huge cost on the company. Furthermore, due to capital market imperfections, earnings volatility can seriously affect company's opportunities to invest in new ventures.

The variance effect introduced by operational as well as financial risks render a strong support for positioning various risk management techniques. What differentiates operational risk from financial risk is the mean effect. Normally, market risk and interest rate risk are considered zero mean rate risk. A company is equally likely to suffer or gain from market and interest rate movements. Operational losses from a few insurers can also cost significant damage to the market value of the whole industry due to contagion effect.

In 1989, the Basel capital Accord was

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revised (Basel II) which is to be implemented since 2007 and this is based on three complementary pillars viz., minimum capital requirement (Pillar I), supervisory review process (Pillar II) and market discipline (Pillar III). A major innovation in this accord is to introduce a minimum capital requirement exclusively for operational risks.

Operational risk is defined by the Basel Committee as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. This definition includes legal risk, but excludes strategic risk, reputation risk, and systemic risk. An earlier definition distinguished between “direct or indirect loss”, but since indirect loss could be construed as opportunity cost which is not intended to be provided for under operational risk capital, this distinction has been dropped. The current definition is based on underlying causes of operational risk, which are broken down into four categories: people, processes, systems and external factors. In order to capture the most significant cause for a full range of operational losses and to provide better guidance on what types of events should be recorded for internal loss data, the Committee breaks losses into seven event types, as mentioned below:

- Employment Practices and Workplace Safety: Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity or discrimination events.
- Internal Fraud: Losses due to acts of a

type intended to defraud, misappropriate property or circumvent regulations, the law or company policy (excluding diversity / discrimination events) which involves at least one internal party.

- External fraud: loss due to acts of a type intended to defraud, misappropriate property or circumvent law by a third party.
- Damage to Physical Assets: Losses due to loss or damage of physical assets from natural disaster or other events (manmade disasters are also included, i.e. fire, explosion, terrorism, etc).
- Business Disruption and System Failures: Loss arising from disruption of

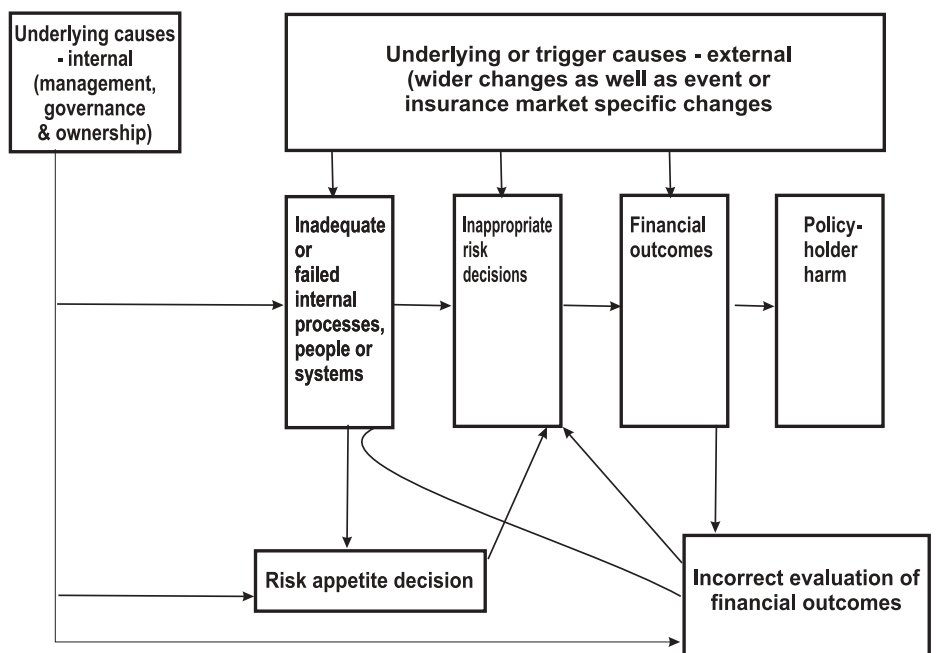
business of system failures including hardware and software failure, system development and infrastructure issues.

- Execution, Delivery and Process Management: Loss from failed transaction processing or process management, from relations with trade counterparties and vendors.
- Clients, Products and Business Practices: Loss due to an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.

The committee originally proposed the level of capital for operational risk to be 20 per cent of the Minimum Regulatory Capital (MRC), but subsequently reduced it to 12 percent, based on industry feedback.

The Committee has identified three methods of calculating operational risk capital in order of increasing sophistication and risk sensitivity.

**HIGH-LEVEL RISK-MAP**



- **Basic Indicator Approach (BIA):** This approach is an elementary, top-down approach that can be followed by any company irrespective of its size or complexity. Under this approach, the operational risk capital is calculated using a proxy indicator for the entire company proposed as the average annual gross income over the previous three years. This indicator is multiplied by a parameter  $\alpha$ , which is given by an internal committee or by the regulator. This parameter is calibrated so that the operational risk capital equals 12 percent of MRC. The Committee has proposed a value of  $\alpha$  as 15 percent to achieve 12 percent of MRC.
- **Standardized Approach:** This method breaks out the above calculation by business line. Eight business lines have been identified by the committee: Corporate Finance, Trading and Sales, Retail Banking, Commercial Banking, Payment and Settlement, Agency Services and Custody, Asset Management, and Retail Brokerage. For each business line, the operational risk capital is calculated as  $\beta \times$  Indicator. Originally, the Committee had proposed a variety of indicators such as Gross Income, Annual Average Assets, Total Assets Under Management, and Annual Settlement Throughput, depending on the particular line of business. However, in the absence of demonstrably increased risk sensitivity, it later specified that average annual Gross Income over the previous three years be used for all business lines. The regulators calculated the  $\beta$  from industry data. On the basis of the third round of Quantitative Impact Study (QIS), the committee has indicated  $\beta$  estimates in the range of 12 -18 percent for different business lines.

Advanced Measurement Approach (AMA): Under the AMA, the regulatory capital requirement will equal the risk measure generated by the bank's internal

operational risk measurement system using the quantitative and qualitative criteria for the AMA discussed below. The use of AMA is subject to supervisory approval.

Now let us consider a few implications of operational risks. The literature identified three types of effects due to this category of risks, viz., announcement effect, contagion effect and competitive effect. Announcements of an operational loss event can affect the company's stock price in the following three ways. First, if the announcement is fully anticipated, there will be no change in the stock price. Second, if the announcement conveys negative and unexpected information, the stock price will be adversely affected. Third, if the announcement conveys positive and unexpected information, the stock price will go up. The last situation may be unusual, but it is possible. If there is substantial information leakage before the announcement day, the estimated loss amount will be incorporated into the stock price before the announcement. If the announcement confirms the operation loss event with a considerably smaller loss amount, this news will be considered positive and will lead to upward adjustment to the stock price. In an efficient capital market, the announcement of operational loss events are said to be informative if they lead to a change in investor's assessments of the companies' future loss distribution. Thus, under the first situation, the announcement is said to be non-informative. Under the later two

situation's, the announcement is said to be informative.

Contagion effect usually refers to "the spillover effects of stocks of one or more firms to others". A number of event studies have documented the contagion effect around a variety of corporate events in many industries such as bankruptcy announcements and filings, dividend reduction announcements, open market repurchase announcements, earning restatement announcements, and asset write-down announcements.

Lang and Stulz (1992) made a significant contribution to the contagion literature by introducing the *competitive effect*. They point out that announcement for bankruptcy need not only convey negative information. The announcement can potentially increase the value of rival company's by redistributing wealth from the announcing company. This is called the competitive effect. They find that depending on the industry-specific characteristics, both competitive and contagion intra-industry effects can occur. The competitive effect, which indicates that the competitors benefit at the expense of the announcing firm; and the contagion effect, which indicates that other firms also experience financial difficulties, offset each other. It is not clear which should dominate. They find that industries with similar cash flow characteristics exhibit the contagion effect and that the competitive effect dominates in highly concentrated industries.

**In an efficient capital market, the announcement of operational loss events are said to be informative if they lead to a change in investor's assessments of the companies' future loss distribution.**

**Market conduct problems are clearly the bigger factor driving insurer losses. They cause significantly more damage to affected insurers.**

Operational loss events are also considered to be very useful information to the investors. They lead to an update of expectations regarding future profitability and a significant loss of market value. Market conduct problems are clearly the bigger factor driving insurer losses. They cause significantly more damage to affected insurers. Market conduct problems are very common in the insurance industry, especially with life insurers. These events are most likely to have a greater impact than other type of events due to the negative implications of future cash flows caused by consumer confidence and reputation issues. They are by far the biggest factor in insurer losses. This concludes the empirical results for the contagion effect study. Operational loss events are highly contagious in the insurance industry. The results in this section have shown that the effect of operational losses goes beyond the firm that incurs them. The large losses studied in this section affect investors' assessment for the whole industry and not just the company itself. Recently, there has been increasing recognition of the importance of managing operational risk by many types of organizations, among companies and regulator alike. Identifying and understanding operational risks provide the foundation of good operational risk management.

Ran Wei (2003) had found that operational loss events have significant negative effects on the market value of affected insurers. The effect of operational losses

goes beyond the firm that incurs them. The large losses studied in this paper affect investors' assessment for the industry as a whole and not just the company itself. The significant damage of market values of both the insurers and the insurance industry caused by operational losses should provide an incentive for operational risk management in the US insurance industry.

Industry definitions ranged from the broadly stated "all risks other than market and credit risk" to the narrowly focused "risk arising from operations". The first definition would potentially include business or strategic risk, which often cannot be directly controlled risk managers also cannot be expected to manage systemic risks such as recessions and general business downturns. Focusing on operations risk in terms of processing errors or technology failures excludes losses caused by fraud and breakdown of internal controls. It is also important to distinguish cause from effect, as in the case of reputational risk, which often is the result - not the cause - of operation risk breakdown.

The widespread underwriting and asset problems associated with operational risks were able to arise because of the fundamental weaknesses, and the combination of poorly managed risks made the company particularly vulnerable to adverse external events. In this context it is worth referring to a study conducted by FSA which had gone deep in analyzing the reasons for 53 failed insurance companies in Europe. This

study compared problem cases with other firms who weathered similar circumstances better, a pattern emerged of the following four forms of management problems:

- incompetence, straying outside their field of expertise or uncritically following herd instinct;
- excessive risk appetite or objectives that are at odds with prudent management of the business;
- lack of integrity; or
- lack of autonomy and inappropriate pressure e.g. from parent company.

From the governance of the companies in order to control the operational risks the following issues were highlighted by FSA study viz.

- the insurance entities in a group have enough autonomy and are not subject to pressure to take imprudent decisions, for instance, to use their balance sheet to invest in or lend to other businesses for strategic reasons rather than managing their assets to optimize the balance of risks and rewards.
- Key personnel not only have the appropriate skills and experience when they join the firm, but also maintain and develop their skills; and the firm reassesses its total available skill-base and experience as needed so that this remains up-to-date and appropriate.
- Performance assessment and bonus policy for senior management do not encourage an excessive risk appetite - the key assumptions that are most critical to pricing or reserving should be reasonable and not overly optimistic.
- Any indication of lax risk management or systems and controls, excessive risk-taking or a lack of integrity generates a searching response in case it is symptomatic of a deeper malaise. Such symptoms can include minor breaches

and infringements of policy, manipulation of results, or delays in implementing plans or dealing with an audit management letter. They can also include conduct of business problems, evidenced perhaps in customer complaint levels.

Tiner (2002, p.37) describes sound management as a 'cornerstone' of the regulatory regime. Where companies and regulators succeed in 'nipping problems in the bud', they are likely to benefit significantly;

- Firms will be less likely to fail or to face serious threats to their solvency or market standing that are a major drain on senior management resources;
- Supervisors are more likely to achieve regulatory objectives and save the effort involved in taking more severe enforcement action at a later stage or coping with a failing firm; and
- Consumers and other market participants will benefit from reduced risk of loss and inconvenience; and market disruption that can arise when a firm is in trouble.

## Conclusion

It is clear from the above that time has

come for us to pay due attention to operational risk issues and address them in an adequate manner so that these risks are suitably identified at an early stage; and measures are in position to mitigate these risks. This is due to the following reasons:

- unlike other risk factors, operational risk takes a long time to surface; for e.g., in the case of credit risk or interest rate risk, the moment the interest rate changes or credit rating changes, the company knows well the impact of these changes. But if there is a serious error in the policy document and one policyholder has gone to court, then the operational risk factor is felt only when the court case is probed further. Hence companies must address all related issues with operational risks well in advance.
- the contagion effect of operational risk (from one company to another within the insurance sector) is to be duly recognized. If one or two companies have huge operational risks, the policyholders may lose interest in the insurance products of these companies and later other potential buyers of insurance products from other insurance companies will also lose

significant business. In the days of financial convergence, customers will switch from one financial product to another. In the long run this will significantly affect the insurance companies.

- in an integrated market one part of financial sector may do a lot of business with another segment, in the process of risk transfer. If insurance companies are seriously affected due to operational risks then this could have impact on the other parts of financial sector also.

Hence operational risk calls for review of process in the insurance companies from time to time. It is also important that the peer reviewers and external auditors may be asked to give their opinion of satisfaction regarding the process being followed. As India is poised to move towards second generation of reform in the insurance sector, it is high time that the risk identification and mitigation measures were in proper position; and there should be a check that the process is adequately in place in all companies.

**In the days of financial convergence, customers will switch from one financial product to another. In the long run this will significantly affect the insurance companies.**

*The author is Member (Actuary), Insurance Regulatory and Development Authority. The opinions expressed in the article are personal.*

# Risk Management for Insurance Companies in India

HEALTH, FIRE AND MOTOR LINES OF BUSINESS

THOMAS E. POWER AVERS 'CAPITAL IS ONE OF A NUMBER OF FACTORS TO BE CONSIDERED WHEN ASSESSING THE SAFETY AND SOUNDNESS OF EACH COMPANY'. HE FURTHER ADDS THAT ADEQUATE CAPITAL ACTS AS A SAFETY NET FOR THE VARIETY OF RISKS THAT A COMPANY IS EXPOSED TO IN THE CONDUCT OF ITS BUSINESS.

**Insurance companies are exposed to the operational risks inherent in their functions of assuming the risks of others and guaranteeing the payments of claims based upon perils that are random and uncertain as to frequency and severity.**

which every financial institution is exposed because of the pooling/intermediary nature of such institutions, insurance companies are also exposed to the operational risks inherent in their functions of assuming the risks of others and guaranteeing the payments of claims based upon perils that are random and uncertain as to frequency and severity.

Insurance regulatory authorities, such as IRDA, do not have the responsibility for insurance company risk management (this is fundamentally the obligation of an insurer's management); but supervisors must be responsible for monitoring the conduct of management in dealing with the risks associated with financial institutions in general and the insurance mechanism in particular.

This paper sets forth the areas that insurance regulatory authorities should be scrutinizing in reviewing the policies and performance of insurers writing health insurance, fire insurance and motor insurance. This paper is not exhaustive of the whole subject of risk management nor is it intended to be. Indeed, volumes have been written on the subject. The

purpose here is to focus on areas that are of particular interest in India, particularly because India has moved to an open-competition premium rate regime. For example, topics such as accounting cycle controls; premium collection cycle and controls; claim payment cycle and controls; agency operation cycle and controls; and the synergies between the appointed actuary and the board of directors that are of great importance are not reviewed herein.

The approach will be to denominate selected areas of exposure to risk that ought to be of concern to insurance company management (and also to insurance supervisory personnel). Irrespective of the line of business that is written, all insurers are exposed to these risks. For the purposes of this paper, however, in addition to identifying risks applicable to the insurance in general, the particular exposures relative to health, fire and motor (respectively) will be discussed and the types of protocols that managers should establish in order to manage those particular risks will be reviewed.

## Introduction

The insurance sector faces unique challenges in risk management beyond those of other financial institutions. In addition to having the responsibility to manage the risks to

## Purposes and objectives of risk management

The standards of sound business practices are intended to apply to all insurers carrying on business in India. The standards apply to the company's overall operations. A company must be able to demonstrate compliance in relation to risks that are material to its operations. A risk is material if it has the potential to result in financial consequences that would likely influence the reliance upon, or actions of policyholders, creditors, investors, or regulators.

## Role of the Board of Directors

The board of directors of each company is ultimately responsible for the company's risk management policies and practices. In delegating its responsibility, a board of directors usually charges management with developing and implementing risk management programs and ensuring that these programs remain adequate, comprehensive and prudent.

A board of directors needs to have a means of ensuring that material risks are being appropriately managed. This is normally done through periodic reporting by management and an audit function. The reports should provide sufficient information to satisfy the board of directors that the company is complying with its management policies, and the risks covered by the standards.

In relation to each area covered by a standard, a board of directors, or a committee thereof should, where appropriate:

- review and approve management's risk philosophy, and the risk management policies recommended by the company's management;
- review periodically, but at least annually, management reports demonstrating compliance with the risk management policies;
- review the content and frequency of management's reports to the board or to its committee;
- review with management the quality and competency of management appointed to administer the risk management policies;
- ensure that the audit function regularly reviews operations to assess whether or not the company's risk management policies and procedures are being adhered to and confirms that sufficient risk management processes are in place.

## Role of management

The management of each company is responsible for developing and implementing the company's management program and for managing and controlling the relevant risks and the quality of relevant portfolios in accordance with this program. Although specific management responsibilities will vary, management at each company is responsible for:

- developing and recommending management's risk philosophy and policies for approval by the board of directors;
- establishing procedures adequate to

the operation and monitoring of the management program;

- implementing the management program;
- ensuring that risk is managed and controlled within the relevant management program;
- ensuring the development and implementation of appropriate reporting systems to permit the effective analysis; and the sound and prudent management and control of existing and potential risk exposure;
- ensuring that an audit function will review regularly the operation of the management program;
- developing lines of communication to ensure the timely dissemination of management policies and procedures and other management information to all individuals involved in the process; and
- reporting to the board, or to a committee thereof, on the management program as comprehensively and frequently as required by the board of directors.

## Capital management

### Purpose

This section sets out the minimum policies and procedures that each company needs to have in place and apply within its capital management program. It also sets out the minimum criteria that each company should use to ensure that it has adequate capital and effective plans to prudently manage its capital requirements and the demands on its capital base.

Capital is one of a number of factors to be considered when assessing the safety and soundness of each company. Adequate capital acts as a safety net for the variety of risks that a company is exposed to in the conduct of its business. It is available as a cushion to absorb possible losses and provides a basis for confidence in the company by policyholders, creditors and

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others. The regulation of capital is commonly viewed as an important tool available to company regulators. It is a measure by which a company's solvency is assessed.

Attention to capital management considerations is essential for health insurance, fire insurance and motor insurance. Capital affects the capacity of the insurer to write business and manage its policy exposures.

### Definition

For regulatory purposes, current minimum initial capital requirements for companies are established by law or regulation. Also, the protocol in the vast majority of jurisdictions is to establish a solvency margin or provisions against actual capital (sometimes called "risk-based capital") that are related to the types or volume of premiums or claims, types or quantities of investments and other formula. While meeting regulatory requirements is a sine qua non, for planning purposes a company's needed capital will be determined in accordance with the company's capital plan. Capital provides a stable resource to absorb any losses and thus provides a measure of protection to policyholders and other creditors in the event of liquidation.

### Capital management program

Managing capital is the on-going process of determining and maintaining the quantity and quality of capital appropriate for a company. Managing capital adequacy requires a clear understanding of a company's capital requirements and capital position related thereto. Since capital is an economically scarce and strategic resource, capital management is an important component in the safe and sound management and the strategic planning of companies.

The objective of capital management is twofold:

- On the one hand it ensures that capital is, and will continue to be, adequate

to maintain the safety and stability of the company, one of the consequences of which is the maintenance of confidence in the company.

- On the other hand, it ensures that the return on capital is sufficient to satisfy the expectations of investors and/or policyholders to the extent of their participation in the returns of the company. Generally speaking, return on capital for fire and motor insurance is expected to be higher than in health insurance. However, with the advent of managed care-type health insurance, that distinction is disappearing.

Although the particulars of capital adequacy and capital management will differ among companies, a comprehensive capital management program requires:

- establishing and implementing sound and prudent policies governing the quantity and quality of capital required to support the company; and
- developing and implementing appropriate and effective procedures to monitor, on an on-going basis, the company's capital requirements and capital position to ensure that the company meets its capital requirements and will continue to meet its future capital requirements.

### Capital Management Policies

As part of its capital management program, each company needs to develop, implement and maintain such capital management policies that will ensure the quantity and quality of its

capital is adequate to meet all applicable regulatory requirements. In determining these policies for companies with share capital, regard must be had as to whether capital management policies in relation to shareholders' accounts should be different from capital management policies for participating policyholder accounts and, if so, to what extent.

### Capital Management Procedures

Each company needs to develop, implement and maintain appropriate and effective procedures to manage its capital position, including:

- on-going monitoring procedures to ensure that the company's capital position meets its minimum capital requirements; and
- a process of capital planning to ensure that the company will continue to meet its future capital requirements.

When measuring capital adequacy, it is not sufficient to consider only the current capital position. The conditions on which any such judgment is based will change over time. Therefore, each company needs to have a capital planning process in place in order to be prepared for changing conditions. A company should develop, at least annually, a plan for maintaining adequate capital. Depending on circumstances, a longer term plan may be appropriate.

A capital plan needs to project, consistent with the company's business plan, the company's capital requirements and

**The regulation of capital is commonly viewed as an important tool available to company regulators. It is a measure by which a company's solvency is assessed.**



**Product design and pricing need to be managed consistently with capital management, investment underwriting and claim, or marketing policy of the company.**

position over at least five years, taking into account the company's current capital position and the effect on capital of foreseeable changes in the company's regulatory requirements and business, operational and financial position, including an assessment of potential capital requirements relating to the redemption of maturing capital instruments:

- identify the underlying assumptions supporting the projection;
- identify the quantity, quality and sources of additional capital required, if any;
- assess the availability of any external sources identified;
- estimate the financial impact of raising additional capital;
- take into account the plans and requirements of the various business units of the company;
- take into account the plans and requirements of a company's subsidiaries to the extent they may impact upon the company; and
- anticipating the need for additional capital enables the company to take timely advantage of opportunities in the marketplace to raise capital on more favorable terms.

**Factors that may necessitate capital additions include:**

- changes in regulatory requirements;
- growth in assets and liabilities (both on- and off-balance sheet) including acquisitions;
- changes in the company's risk profile; operating or investment losses; and the

company's dividend policy to investors and/or policyholders that participate in the returns of the company.

### **Product design and pricing management**

#### **Purpose**

This section sets out the minimum policies and procedures that each company needs to have in place to prudently manage and control its product design and pricing risks. The nature of certain life and health insurance products involves commitments by the company to provide financial obligations and insurance coverage for extended periods of time. Fire insurance written on a broad form that includes liability coverage and, of course, motor vehicle third party liability insurance while normally not written for more than one year do involve exposure to delayed claim development (the so-called "long tail"). Experience indicates that the quality of product design and pricing goes hand in hand with financial soundness.

This section focuses on a company's responsibility for managing and controlling the product design and pricing risk. It is intended to cover all products issued. Product design and pricing need to be managed consistently with capital management, investment underwriting and claim, or marketing policy of the company.

#### **Definition**

Product design and pricing risk is the exposure to financial loss resulting from transacting insurance business where the

costs and liabilities assumed in respect of a product line exceed the expectation in pricing the product line.

### **Product design and pricing management program**

Sound product design and pricing management involves prudently managing the company's risk/reward relationship and controlling product risk across a variety of dimensions, such as concentration, anti-selection, misrepresentation, adverse experience, currency fluctuation, and ongoing service and maintenance. Although the particulars of product design and pricing management will differ among companies depending upon the nature and the complexity of their products and the manner in which they are marketed and serviced, a comprehensive product design and pricing management program requires:

- identifying new product lines and material pricing, or product changes to existing product lines and developing product design and pricing policies to effectively manage and control them<sup>1</sup>;
- developing, documenting and implementing effective processes for the introduction of a new product, or material change to an existing product; and
- developing and implementing comprehensive procedures to effectively monitor and control the nature, characteristics and quality of products.

### **Product design and pricing risk management policies**

The foundation of an effective product design and pricing risk management

1. This includes products which are currently being offered, or proposed to be offered by the company in conducting its business activities, or which provide for an adjustment in the price charged, financial arrangement provided, investment income credited or fees assessed.

program is the identification of the existing and potential risks inherent in a company's product offerings and pricing levels, and the maintenance of clearly defined policies, formally established in writing, that set out the product design and pricing philosophy of the institution and the parameters under which the product design and pricing risk are to be controlled.

Pressure for increased profitability, marketing considerations and technological advances has led to more innovative and creative products. The long term nature of certain products, the consequences of which are not fully known at issue; represents a unique risk to the insurance industry. Measuring the risks attached to each new product, material product change or pricing change permits the determination of aggregate exposures for control and reporting purposes. Product design and pricing policies establish the framework for offering products to the customer and indicate the company's culture and marketing strategy. To be effective, policies must be communicated in a timely fashion, be implemented through all levels of the organization by appropriate procedures and revised periodically in light of changing circumstances.

Product design and pricing policies need to contain:

- a product design and pricing philosophy governing the extent to which the company is willing to assume the product design and pricing risk;

- product lines in which the company is prepared to engage or is restricted from engaging;
- clearly defined and appropriate levels of delegation for approval of all material product design and pricing changes; and
- sound and prudent product concentration limits.

### Product Design and Pricing Risk Philosophy

The product design and pricing philosophy is a statement of principles that outlines a company's willingness to assume product design and pricing risk and will vary with the nature and complexity of its business, the extent of the risk assumed, its ability to absorb losses and the minimum expected return acceptable for a specific level of risk.

### Product Lines

The product lines in which a company is prepared to engage or is restricted from engaging would usually specify:

- whether the policyholders would have voting rights in the company and whether they would have rights to participation of profits, experience rating, or some other form of risk participation;
- the nature of the risk undertaken;
- the target customer profile and the needs that the related products are intended to satisfy; and
- the manner in which the product will be delivered or distribution approach.

### Approval Authorities

Clearly defined and appropriate levels of authority for product design and pricing approval help to ensure that such decisions are prudent and acceptable, that the integrity and credibility of the process is fair, consistent and objective, and that, given the expected return, the risk is acceptable.

The approval process needs to ensure:

- satisfaction that systems and administrative procedures are in place;
- satisfaction that requirements regarding product illustration, service and sales staff training, presentation and contract materials, have been met
- satisfaction that corporate objectives with regard to use of capital and returns on capital have been met; and
- satisfaction that the underwriting and claim control procedures that are in place are compatible with the design of the applicable product.

Authorities may be absolute, incremental or a combination thereof and may also be individual, pooled or shared within a committee, recognizing the experience of the officers. The delegation of authority needs to be clearly documented and should include:

- the authority being delegated;
- the officers or positions or committees to whom authority is being delegated;
- the ability of recipients to further delegate; and
- any restrictions.

### Product Concentration Limits

Concentration occurs when a product portfolio contains excessive exposure to:

- a geographic region;
- a type of product;
- a distribution system or facility;
- an industry;
- specific health or demographic characteristics;

**The long term nature of certain products, the consequences of which are not fully known at issue; represents a unique risk to the insurance industry.**

- a single individual or group;
- a number of associated individuals or organizations; or
- any other specific risk profile.

Reinsurance is one method to minimize certain concentration risks. Diversification policies should be stated clearly and include portfolio goals.

## Product Design and Pricing Analysis and Documentation

The most significant risk that a company faces is issuing policies where the value of the costs and liabilities assumed exceeds the value of the price charged for such a product line. This applies particularly to health, fire and motor insurance. To minimize its exposure, the company should give proper consideration to, and conduct an assessment of, each new product or material product change or pricing change prior to regulatory approval and ensure such reviews are appropriately documented. Assessment documentation should set out the process to be followed for risk identification, risk limitation, and risk measurement.

Risk identification would include assessment of the exposures. Measurement of the risk involves a quantification and documentation of the financial impact involving:

- sensitivity testing;
- risk and return trade-off;
- capital requirements.

## Product Design and Pricing Monitoring and Control

Establishing adequate procedures to effectively monitor and control the product design and pricing function within established guidelines has been found to be an effective method of limiting financial exposure for companies. A company needs to develop and implement comprehensive procedures and information systems to effectively

**Establishing adequate procedures to effectively monitor and control the product design and pricing function within established guidelines has been found to be an effective method of limiting financial exposure for companies.**

monitor and control product development and pricing. These procedures need to define prudent criteria for identifying and reporting potential problems, followed up with appropriate corrective action.

## Securities portfolio management

### Purpose

This section sets out the minimum policies and procedures that each company needs to have in place and apply, and the minimum criteria it should use, to prudently manage its securities portfolio and exposure to position and credit risk. Regulatory changes expanding the investment of insurers, pressure for increased profitability, innovations in securities instruments have resulted in a re-evaluation of the role of the securities portfolio management function. Consequently, the securities portfolios of many companies now constitute a more significant medium for the matching of liabilities, and for the investment of surplus funds. Duration analysis is important for health, fire and motor insurances because of the nature of claims payments. Due care must be taken to achieve reasonable levels of liquidity for these lines of business because, in most cases, claim payments will be more likely to come due on a fast-track schedule.

Securities portfolio management must be conducted in the context of several considerations, such as the nature of a company's liabilities, its participating policyholders' reasonable dividend expectations, its ability to absorb

potential losses and the overall strategic business objectives of the company. Caution must be used in the construction of a portfolio consisting of equities and high yield/low investment-grade debt, due account being taken of the risks inherent in a high risk/high return strategy, the time-scale appropriate to such a strategy, and the need for capital to support it. Further, although this section focuses on a company's responsibility for managing its securities portfolio and exposure to position risk, it is not meant to imply that the securities portfolio can be managed in isolation from other asset/liability management considerations, or from other risks inherent in a securities portfolio, such as interest rate risk, credit and foreign exchange risk.

### Definitions

For the purposes of this section, securities include debt and equity instruments (excluding securities loans, loan substitute securities and strategic investments in subsidiaries) held by a company, both on - and off-balance sheet. Although the underlying transactions of securities loans and loan substitute securities are evidenced by securities, the ultimate risks of such transactions fundamentally involve credit risk. As such, the management of these transactions is more appropriately addressed within the credit risk management function of companies. Position risk is the exposure of a company to the effect of price changes on the market value of those elements of the company's portfolio of

securities, both on- and off-balance sheet, which are not already cash flow matched against specific liabilities. Price changes may occur because of a number of factors, such as those solely related to specific securities within a portfolio (e.g., a change in the credit status of an issuer of a security) or those unrelated to any specific attribute of an individual security (e.g., investor preferences/demand, political and economic developments, and broad market price movements). The effect of the price changes a function of the size of the securities position, and the degree of price movement between the purchase date and the date of subsequent reevaluation or sale, as the case may be.

### **Securities portfolio management program**

Managing the securities portfolio is a fundamental component in the safe and sound management of a company. Sound securities portfolio management involves prudently managing the risk/reward relationship and controlling securities portfolio risks across a variety of dimensions, such as quality, portfolio concentration/diversification, maturity, volatility, marketability, type of security and the need to maintain adequate liquidity. Although the particulars of securities portfolio management will differ among companies depending upon the nature and complexity of their securities activities, a comprehensive securities portfolio management program requires:

- establishing and implementing sound and prudent policies to effectively manage the securities portfolio, securities activities and position risk;
- developing and implementing effective securities portfolio management processes governing securities investment decision making and authority; and
- developing and implementing comprehensive procedures to

effectively monitor and control the nature, characteristics, and quality of the securities portfolio and the extent of position risk assumed.

### **Securities Portfolio Management Policies**

The foundation of an effective securities portfolio management program is the development and implementation of clearly defined policies, formally established in writing that sets out the securities portfolio management objectives of the company and the parameters under which securities activities are to be undertaken and controlled. Each company needs to establish explicit and prudent securities portfolio management objectives governing:

- the extent to which the company is willing to assume position risk;
- general areas of securities activities in which the company is prepared to engage or is restricted from engaging, including the company's policy with respect to acquiring securities of related parties;
- minimum quality and rate of return expectations for the securities portfolio;
- the selection of securities dealers and other counterparts with whom the company is authorized to deal or is restricted from dealing with; and
- securities portfolio concentration and exposure limits.

Securities portfolio management objectives reflect a company's risk

philosophy, codify investment criteria, establish the foundation for the development of securities portfolio management strategies, and provide the basis for monitoring portfolio characteristics and measuring portfolio performance. Securities portfolio objectives provide overall parameters governing securities investment decisions by describing the broad purpose and goals of securities investments. They also assist in ensuring that securities investments are sound and prudent, and that the securities portfolio risk is acceptable given the expected return.

### **Securities Portfolio Management Philosophy**

The securities portfolio management philosophy is a statement about the willingness of a company to engage in securities portfolio investment activities and to assume position risk. The securities portfolio management philosophy will vary with the nature and complexity of a company's business activities, liquidity management needs, the extent of other risks assumed and its ability to absorb potential losses.

### **Securities Portfolio Quality and Return Objectives**

Objectives governing the quality of securities that may be held in a securities portfolio are usually stated in terms of minimum acceptable credit or investment rating for securities investments or issuers of securities (such as those established in-house or by independent rating agencies for securities), or an approved

**Securities portfolio objectives provide overall parameters governing securities investment decisions by describing the broad purpose and goals of securities investments.**

**Clearly defined and documented securities portfolio concentration limits ensure that the nature and level of a company's exposure in the form of either securities or credit positions is appropriately diversified and does not exceed sound and prudent limits.**

list of securities or issuers of securities. Objectives respecting the acceptable return for a portfolio of securities are usually stated in terms of return on investment and should consider the company's cost of funds and effective after-tax return on investment. Individual security/issuer selection should be made taking into consideration the overall quality and return objectives established for the portfolio. In this context, although there may be certain securities or issuers that do not by themselves meet the portfolio risk/return criteria, they may still yield an appropriate overall return when combined with other securities or investments in like issuers.

#### **Selection of Securities Dealers and Other Counterparties**

It is important that companies have sufficient confidence in the ability of the securities dealers and other counterpartiescounterparts with whom they are dealing to fulfill their commitments. Moreover, some companies may rely on the expertise and advice of a securities dealer for recommendations about proposed securities alternatives and portfolio strategies and for the timing and pricing of securities transactions. In this context, except in situations in which a company settles securities transactions with counterpartiescounterparts on a value for value basis, each company needs to:

- establish in writing sound and prudent selection and retention criteria for securities dealers and other counterpartiescounterparts;

- maintain a list of securities dealers and other counterpartiescounterparts with whom they are authorized to conduct business; and
- actively monitor exposure to securities dealers and other counterparties.

#### **Securities Portfolio Concentration Limits**

Clearly defined and documented securities portfolio concentration limits ensure that the nature and level of a company's exposure in the form of either securities or credit positions is appropriately diversified and does not exceed sound and prudent limits. Securities portfolio concentration occurs when a company's securities portfolio contains an excessive level of exposure to:

- one type or class of security; or
- single and groups of associated issuers of securities.

Excessive concentration is contrary to the sound investment principle of adequate diversification and renders a company vulnerable to adverse price changes in the area where exposures are concentrated. Determining whether or not an undue concentration risk exists is a matter of judgment. As with other aspects of financial management, a trade-off exists between risk and return. Although the avoidance of concentrated security positions or the hedging of such exposures may mitigate position risk, such a securities portfolio management policy may not be desirable for other sound business reasons. Accordingly, the

objective of securities portfolio management need not necessarily be the complete elimination of exposure to changes in market prices of securities. Rather, it should be to manage the securities portfolio's risk and return and the impact of price changes within self imposed limits after careful consideration of a range of possible market price environments. Securities portfolio diversification policies must place sound and prudent aggregate and individual exposure limits for each type or class of security, and for single issuers and groups of associated issuers in which the company is permitted to invest. Usually, limits by class of security include limits for how much of the portfolio should be made up of specific types of securities such as equities and the portfolio concentration by geographic and industrial sector. Such limits need to be established in the context of the company's aggregate exposure to a single issuer or a group of associated issuers in terms of both securities and credit exposures. The management of such aggregate exposures is usually done at a level senior to securities traders and lending personnel so as to ensure that appropriate "firewalls" are maintained between the securities portfolio and credit risk management areas of the company. Securities concentrations by single or associated issuers need to be reviewed regularly to ensure that prior considerations have not changed to an extent that warrant reclassification. Securities portfolio concentration limits are usually defined either in absolute dollar or volume terms or in terms of a company's capital or assets.

#### **Securities Portfolio Management Process**

To develop and maintain a sound securities portfolio, each company must have:

- an effective formal evaluation process that provides for an objective analysis

and assessment of securities investment proposals; and

- clearly defined, prudent and appropriate levels of delegation of securities transaction approval authority, formally established in writing.

### Securities Analysis and Assessment

Prudence suggests that securities investment decisions be made only after careful examination and consideration of several areas including:

- the company's securities portfolio management policies, and other corporate objectives and policies, such as the nature of the company's liabilities and the need to maintain adequate liquidity;
- potential risks and returns related to a particular security in the overall context of the company's securities portfolio management policies, the composition of the securities portfolio and the reasonable expectation of a fair return or appreciation given the nature of the security, and the risk of loss or impairment;
- current and projected regulatory and economic/financial environment under which securities transactions are made; and
- investment alternatives.

### Securities Transaction Approval Authorities

Clearly defined and appropriate levels of securities transaction authority help ensure that a company's securities activities are appropriately undertaken and that securities positions do not exceed the limits established under its securities portfolio management policies. Approval limits may relate to type of security, size, maturity, or other criteria, such as the retention or delegation of voting rights acquired through securities. Authorities may be absolute, incremental or a combination thereof, and may also

**Each company needs to develop and implement effective and comprehensive procedures, accounting policies and information systems to monitor and manage the characteristics and quality of its securities portfolio.**

be individual, pooled, or shared within a committee.

The delegation of authority needs to be clearly documented, and should include:

- the absolute and/or incremental securities transaction approval authority being delegated;
- the units, individuals, positions or committees to whom securities transaction authority is being delegated;
- the ability of recipients to further delegate approval authority; and
- the restrictions, if any, placed on the use of delegated authority.

The degree of delegation of securities transaction authority will depend on a number of variables including:

- the company's securities portfolio management objectives and overall risk philosophy;
- the quality of the securities portfolio;
- the ability of the company to absorb losses;
- the size and types of securities and the complexity of risks being assessed; and
- the experience and ability of the individuals responsible for carrying out the securities portfolio management activities.

### Securities Portfolio Management Monitoring Procedures

Each company needs to develop and implement effective and comprehensive procedures, accounting policies and information systems to monitor and manage the characteristics and quality of

its securities portfolio. These procedures should be appropriate to the size and complexity of the company's securities activities and need to include:

- systems to measure and monitor securities positions;
- controls governing the management of the securities portfolio; and
- independent audits.

### Conclusion

While only the most critical risk management subjects have been discussed, it is apparent that the same degree of management focus and attention to detail and oversight need to be applied in all areas of operations. Health, fire and motor insurance probably depend more upon product design and pricing than other lines of business because they are generally the products that are most in demand and thus most sensitive to the marketplace. Also, since India has detariffed these lines of business, there is not as lengthy a corporate history of the policy design and pricing considerations of these lines of business. Accordingly, the industry and IRDA will need to be particularly observant of risk management activity relative to these lines of business.

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*The author is Senior Manager, BearingPoint.*

# Risk Management by Insurers

## PRIORITIES IN A DETARIFFED REGIME

JAGADISH BHATKAL

OPINES THAT THE INSURANCE INDUSTRY HAS BECOME MORE SCIENTIFIC IN THE QUALITY OF RISK SOLUTIONS BEING OFFERED. HE FURTHER ADDS 'AN INSURER ALWAYS MAKES AN EFFORT TO KNOW THE BUSINESS ACTIVITIES OF THE INSURED MINUTELY.'

In the present industry scenario, the market dynamics are shifting rapidly and the risks are becoming increasingly more diverse. Effective risk management can improve safety, quality of risk and in turn increase business performance. For an insurance company, risk denotes the amount that may be at stake in the event of a loss. From the insurer's perspective proper understanding and evaluation of the risk during acceptance phase is very crucial. Risk Management plays a vital role in the area of measuring, assessing the risk and developing strategies to manage it. Strategies include transferring the risk to another party, avoiding risks,

reducing the negative effect of the risk and accepting some or all of the consequences of a particular risk.

The momentum of technology advancement is progressing rapidly and moving into prototype developments with many untried and/or experimental features, all of which increase the risk factor and financial exposures manifold. These aspects embrace the development of new materials; critical path design criteria; bigger and faster machines; the sophistication of electronic apparatus; the development of new civil and structural construction techniques; the formulation of new chemical procedures and formulae; and the like.

The insurance industry has become more scientific in the quality of risk solutions being offered. An insurer always makes an effort to know the business activities of the insured minutely. Insurance companies provide financial protection to firms against the consequences of pure risks being taken and value added benefits in improvising the risk, which play a vital role in reduction of losses. At the same time the insured has become proactive in sharing details pertaining to both

finance and risk management with insurers which helps better understanding of the risk.

In an effort to improve the risk during the execution period, the insurer offers one or more of the following value additions as a part of Risk Management initiative:

- ✓ Quantitative Risk Assessments
- ✓ Safety Audits
- ✓ Hazard and Operability (HAZOP) studies, Fault tree Analysis
- ✓ Risk Analysis
- ✓ Electrical Installation Audits
- ✓ Lightning Protection requirements
- ✓ Hazardous Area Classification
- ✓ Layout Review
- ✓ Environmental Risk Analysis
- ✓ Job Safety Analysis

The insurance premium rating adopted by any insurance firm is related to the quality of the risk being taken. For instance in fire premium rating, in addition to the pre-detariff hydrant system discount alone; in the detariffed regime additional discounts have been offered for special protection systems like FM-200/Inergen systems, smoke/heat detection system, good management

**Risk Management plays a vital role in the area of measuring, assessing the risk and developing strategies to manage it.**

**When either source or problem is known, the events that a source may trigger or the events that can lead to a problem can be investigated.**

practices, etc. On the other hand, premiums are being loaded in case of undesirable risks eg, poor house keeping, inferior construction, non standard electrical fittings, etc.

Insurer inspects the risk, discusses on the measure/s that can be taken in saving premium and submits report with risk improvement recommendations. This exercise would prompt the insured in deciding on the implementation of the additional protections, thus contributing risk improvement/ loss preventions and risk reduction exercise.

The process of Risk Management from an insurance perspective follows a logical approach as below and given in the Fig 1:

- Risk Identification
- Risk Assessment
- Risk Avoidance and Risk Retention
- Risk improvement and mitigation using appropriate techniques and recommendations
- Implementation of the recommendations

- Periodic review of the risk including management programs

### Risk Identification

It broadly involves an in-depth understanding of the industry, the areas/markets it serves, its activities, range of products, legal, social and economic environment in which it operates and other physical/natural hazards associated with the company's operations. Developing and exercising proper checklist for identifying these hazards is part of risk management process. (As given in Fig. 2).

Risk identification is important in managing the risk, which deals with source and problem analysis. When either source or problem is known, the events that a source may trigger or the events that can lead to a problem can be investigated. For example, major explosion in a mini steel plant may affect business continuity of the unit, the stakeholders withdrawal during a project

may endanger funding of the project, fire damage to a chemical firm due to missing lightning arrestor may result in major material damage, flood damage to a pump station of irrigation project due to a facility located in a low lying area might delay the project completion schedules, delayed or missed inspections may result in failure to identify corrosion - thinning vessels, piping or support structures and failure under these conditions could result in Fire, Explosion or Vapour Cloud, all of which could destroy the Plant and cause other losses.

Risk Identification process involves identifying the risk factors and evaluate the potential loss that might take place. It broadly comprises of the following areas:

### Maintenance Procedures

Identification of the nature and extent of maintenance procedures, their regularity and the skills of the technicians undertaking the work.

Many machine operators believe that a visual inspection and a lubrication service are all that a machine needs on an annual basis. They ignore the necessity of NDT - Non Destructive Testing, such as vibration analysis, ultrasonic examination, eddy-current tests, magnetic particle or dye penetrating examinations, infrared evaluation of electrical apparatus and the like. Lack of proper maintenance and upkeep procedures in the case of Civil and

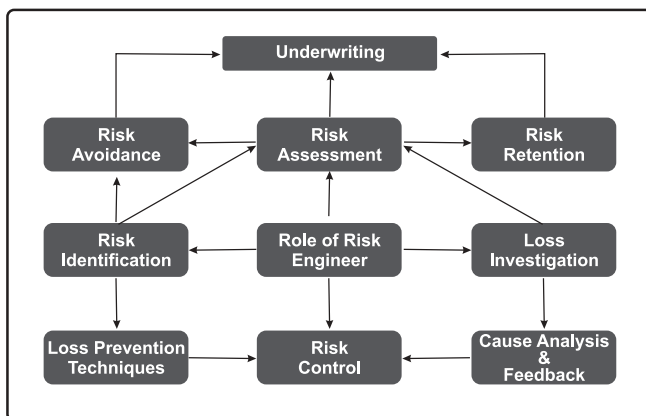


Fig 1

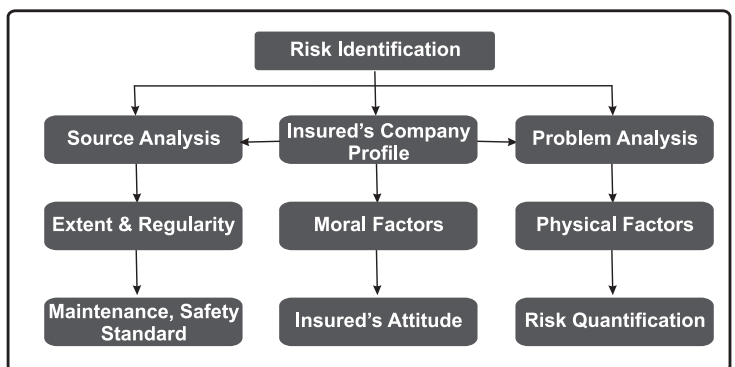


Fig 2



**By means of appropriate interviewing of the people at site and plant observations, one can obtain multiple indicators of moral hazards in the risk.**

Structural Property could lead to premature decay, loss of integrity and structural failure.

**Moral Factors**

By means of appropriate interviewing of the people at site and plant observations, one can obtain multiple indicators of moral hazards in the risk. For instance: A corporate who allocates excessive amounts of time to production and sets aside limited time for maintenance and servicing of facilities. Maintenance programs that are financially driven must be seen as a potentially high risk factor. On the other hand, it is not difficult to establish a philosophy of running machinery to destruction before taking it out of service. This attitude assumes that the client will rely on insurance claims to cover maintenance costs and production losses.

**Physical Factors**

These are essentially sensory, visual signs of lack of due care and control of the working environment to avoid damage. A clean, tidy and uncluttered work environment, not only denotes pride of possession, but more importantly, a culture of loss avoidance.

A company can face operational and business continuity problems in the absence of proper risk identification and risk control measures. For instance: Non-availability of alternate power source such as UPS or a diesel generator; and if the distribution feeder or panel fails due to fire, business can get interrupted in banks, IT and similar establishments. Business interruption susceptibility of an

organization depends on the kind of service that the organization provides.

In case of chemical and other process industries, the complexities of plant as a result of continuous new developments in technology, expansion or de-bottlenecking, advanced control systems, etc. are increasingly becoming common. This has resulted in a need to check design for errors and omissions, a task which has traditionally been carried out on an individual basis. Hazard and Operability (HAZOP) studies are a method of providing a form of such synthetic experience. It is an ideal examination method which helps detect any predictable undesirable event by using the imagination of members to visualize the ways of conceivable malfunctioning or mal-operation. Insurer has chosen such and similar models as a part of risk identification techniques.

**Risk Assessment**

Once risks have been identified they must then be assessed as to their potential severity of loss and probability of occurrence or in other words risk

quantification (Ref Fig 3). These quantities can be either simple to measure, in the case of the value of a lost building, or impossible to know for sure in the case of the probability of an unlikely event occurring. The fundamental difficulty in risk assessment is determining the rate of occurrence ‘loss frequency’, since statistical information is not available on all kinds of past incidents.

There are models to assess the ‘loss severity’. Proper risk assessment would help the underwriter to apply judgment to the risk by securing material information and by determining actual conditions are better or worse than average, whether there are more or fewer hazards than average and management & control of the plant/equipment is better or worse than average. This would help understand the construction, protection and occupancy factors affecting a given property, as well as the possibility of loss being caused by its surroundings. It would assist underwriting through the development of loss estimates, provision of previous loss history and provision of opinions of the risk.

**Risk Avoidance and Risk Retention**

Once risks have been identified and assessed, all techniques to manage the risk is called the Risk Treatment. Following are some of the risk treatment techniques being adopted by an insurer:

- Risk avoidance and risk retention

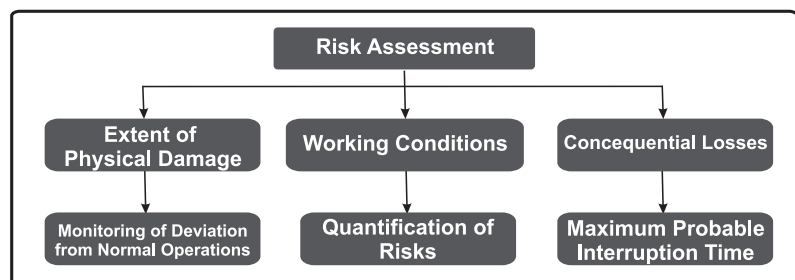


Fig 3



- Risk transfer
- Risk improvement and mitigation
- Periodic risk review

**Risk avoidance** is non-performance of an activity that could carry risk. A risk of potential damage to a control room in a petrochemical complex can be avoided by making the control room blast proof, potential damage by flood to a pharmaceutical warehouse could be avoided by shifting warehouse to a higher elevation. For insurers, avoidance may seem the answer to all risks; but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed. Not entering a business to avoid the risk of loss also avoids the possibility of earning profits.

**Risk retention** involves acceptance of loss. All risks that are not avoided or not transferred are retained by default. This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be infeasible. War is an example since most property and risks are not insured against war, so the loss attributed by war is retained by the insured. Risk retention is a viable strategy for small risks that can be absorbed and where the cost of insuring against the risk would be greater over time than the total losses sustained. True self insurance is risk retention for an insured. Example: A large and financially strong firm may create a self insurance fund to which periodic payments are created. Risk retention pools are technically retaining the risk for

the group, but spreading it over the whole group involves transfer among individual members of the group. This is different from traditional insurance, in that no premium is exchanged between members of the group up front, but instead losses are assessed to all members of the group.

Risk transfer means causing another party to accept the risk, typically by contract or by hedging. Insurance is one type of risk transfer that uses contracts. Risk transfer takes place when the activity that creates the risk is transferred. Other times it may involve contract language that transfers a risk to another party without the payment of an insurance premium. Liability among construction or other contractors is very often transferred this way. Other examples of risk transfer could be subcontracting a hazardous operation outside the manufacturing facility.

**Risk improvement and mitigation using appropriate techniques and recommendations**

Risk reduction is an important task of Risk Management which involves methods that reduce the severity of the loss

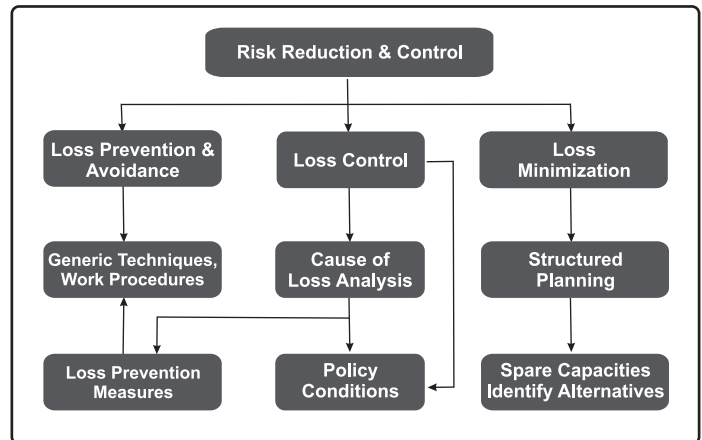


Fig 4

(Ref Fig 4). Examples include sprinkler system designed to put out a fire to reduce the risk of loss by fire. This method may cause a greater loss by water damage and therefore may not be suitable. FM 200 or Inergen fire suppression systems may mitigate that risk, but the cost may be prohibitive as a strategy.

The first step would be preparation of mitigation plans for risks that are chosen to be mitigated. The purpose of the mitigation plan is to describe how this particular risk will be handled - what, when, by who and how will it be done to avoid it or minimize consequences if it becomes a liability. Loss prevention area of Risk Management process aims to eliminate or to reduce the firm's losses. There is the implication that if the insured adopts the recommendations, then the quality of risk will be improved. In this area the risk engineer is in the eyes and ears of the insurer's Risk Management Programme whose commitment to loss control may produce an incidental benefit to the Client's Loss Control Programme.

Implementation of the recommendations Loss prevention recommendations could be from both the operational management point of view and physical risk improvement requiring capital expenditures. Some examples for measures to be taken to prevent or reduce loss are:

**Risk retention is a viable strategy for small risks that can be absorbed and where the cost of insuring against the risk would be greater over time than the total losses sustained.**

**Risk is a relative measure and from insurer perspective it is important to map the risk consequence with probability in a risk coordinate system.**

**Plant operational/ maintenance department:**

- o Maintenance programme for plant/ machineries, fire protection/ detection systems
- o Internal safety audit, committee meeting and implement results of the audit/meeting
- o Electrical earthing review systems
- o Bonding and grounding for pipelines/ equipments handling flammable liquids
- o Segregation of stocks, lowering storage heights
- o Clearing debris drains, house keeping review, spillage control
- o Review of lock open and close valves
- o Formation of an emergency organization
- o Incident and accident report systems

**Physical risk Improvement**

- o Hydrant system review and recommend modifications if any
- o Provision of new or additional sprinkler protection
- o Smoke/ heat detection systems and gas leak detection systems
- o Electrical audit : ensure flame proof electrical fittings as per area classification
- o FM200/ Inergen or CO2 installations
- o Exhaust ventilation in a flammable liquids room
- o Fire proofing for structures where highly flammable chemical are used
- o Roof repairs, such as new roof covering;
- o Tarpaulins for emergency cover ups provision of storm water drains
- o Provision of flood shields or flood gates
- o Provision of grounding cables

**Periodic review of the risk including management programs**

Risk is a relative measure and from insurer perspective it is important to map the risk consequence with probability in a risk coordinate system.

High probability and high consequence is the worst possible case. Total risk value in this case is highest, because there is increased potential of events with large consequences. The best label for this direction of movement is Out of Business.

Low consequence and high probability is a nuisance quadrant, because there needs

C o n s e q u e n c e	High Consequence Low Profitability	High Consequence High Profitability
	Low Consequence Low Profitability	Low Consequence High Profitability
	Profitability	

to have failure frequency tolerance in place. Here there is lowest threshold of a loss which is Normal Loss Expectancy. These need minor repairs, replacement and minimum business inconvenience. Below this level the insured assumes all expense. Above that amount the insurer starts to pay.

Low consequence and low probability is the objective of risk based continuous improvement. Total risk is reduced and they are most productive. From an

assessment point of view, the companies or plants moving in this direction are least likely to experience large catastrophic accidents.

High Consequence & Low Probability, this region is important from the underwriter’s perspective, particularly when costs are above the company’s deductibles.

The threshold which is Probable Maximum Loss (PML), relates to the value of possible major accidents or failures requiring extensive repair or replacement cost. Insurer assumes risk exposures based on the estimates which is one of the prudent parts of risk management exercise. The cost imprecations are fundamental to insurance pricing. The insurer must collect sufficiently high premium to have enough money on hand so that when PML occurs, the insurer can be financially solvent.

Risk Management is a building block of an insurer Risk Identification, Risk Assessment, Risk Control and Claims Investigation in which Insurer’s Risk Engineer acts in conjunction with the Insured’s Engineer. In this way a partnership is developed between Insured and Insurer. More importantly, the “partnership” develops sentiments of trust and confidence in each other’s abilities, integrity and an understanding of the common objectives of the partnership.

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# Enterprise Risk Management for Insurers

## A COMPREHENSIVE PACKAGE

'THE NUMBER AND TYPES OF RISKS FACED BY INSURERS GO FAR BEYOND THE ONES THAT ARE TYPICALLY ENCOUNTERED BY ENTERPRISES IN OTHER SECTORS' SAYS ALAM SINGH.

### Introduction

**E**nterprise risk management (ERM) is the process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on an organization's capital and earnings. It is based on the premise that a holistic approach to risk management is the most effective one. On a theoretical level, this makes sense for a number of reasons:

- Not all risks can be effectively measured and quantified in the manner of claims risk, and many "soft" risks can pose significant threats to a company's financial health.
- A company should try to understand risks in relationship to one another.

Risks tend to be interrelated. The risk posed to a company by a specific natural disaster, for instance, also has implications for the region or the economy as a whole.

- Spreading the awareness of risks and the responsibility for managing them throughout a company increases the likelihood that they will be dealt with effectively.
- Risk is always there, and it is ever-changing. Managing it effectively requires a strategic, long-term approach reliant on consistent tracking and reporting.

Insurers are intimately familiar with the concept of risk - it is the heart of insurance. Insurers qualify, quantify, and analyze risk through underwriting; they also manage financial risk through the practice of maintaining reserves. The number and types of risks faced by insurers go far beyond the ones that are typically encountered by enterprises in other sectors. The main differentiator for insurers, while planning risk management, is the long-term nature of

the insurance business and the effects of unplanned risk on insurers' ability to fulfill long-term commitments, which can frequently extend into decades. An integrated, strategic, and consistent approach to managing risk is required by insurers. This will result in better decision-making, particularly in terms of the reserves and capital needed to support any given initiative, but also in choosing which risks to mitigate and how.

ERM requires effort and attention over the long term to realize its benefits. As regulators and markets around the world judge companies on their risk management effectiveness, ERM is rapidly becoming industry-standard practice.

### The scope of enterprise risk management

Risk is an extremely broad concept. It can include any potentially negative future event whose occurrence is not certain. To begin, ERM takes a vast field of possibility and breaks it down into a number of more manageable categories. Apart from the core actuarial and pricing

**Risk is an extremely broad concept. It can include any potentially negative future event whose occurrence is not certain.**

risks inherent to the insurance business, enterprise risk for an insurer can be classified into the following areas:

#### **Strategic risk**

Strategic risk occurs based on corporate decisions that have an impact over time. Growth strategy, executive decision-making, mergers and acquisitions, and approaches to capital management are all areas of strategic risk. The very act of strategic planning represents an attempt to manage strategic risk, but such efforts can be greatly enhanced by an ERM approach.

A simple example of strategic risk is the entrance by an insurer into a new product line with inadequate operational expertise in underwriting, claims processing, or policy servicing. The failure to anticipate the strategic moves of competitors is itself a strategic risk. Hence, multiple competitors simultaneously targeting the same product market will give rise to intense competition and product failure, if not anticipated in advance and not planned for.

For instance, if the top management takes a decision to shift its focus from traditional business to the unit-linked insurance plan (ULIP) product going by the market demands; agents may not be willing to push the product due to low commissions and the regular renewal requirements of a ULIP.

Strategic risk management is effective if it is applied throughout the organization. Strategic risk management may include risk-adjusted pricing, capital budgeting, hedging, investments, and risk-adjusted performance measurement through the creation and use of financial reporting systems.

An emerging concept is economic capital. Insurers should make strategic decisions based on a realistic assessment of the capital required or available. Economic capital takes a more rational view of risk specific to the insurer's conditions than the conventional methods, which focus on the difference between the value of assets and liabilities on the statutory balance sheet. Different companies may use different approaches for economic

capital measurement using internal models.

#### **Financial risk**

Insurance is fundamentally a finance business; financial risk is an area that the industry plans for fairly well. Nonetheless, ERM asks that insurers take an even wider view of financial risk. Interest rate hedging and reserving are fairly well-known examples of this risk type. The risk of losing financial data to theft or damage falls under this category, as does "model risk," the possibility that financial models could fail to predict real conditions within an acceptable range of error. On the level of individual assets, default, changes in liquidity, and poor reinvestment returns are all areas of financial risk.

In the past, insurance companies have generally approached the business of insurance with a focus on premium growth and non-claim-related cost containment. While never optimal, this approach was able to leverage rising capital market returns on a fairly large scale. However, the focus of insurance executives is beginning to shift to pricing management rather than premium growth, and to overall risk control rather than cost containment.

#### **Operational risk**

Under the heading of "operations" come all those things that keep an insurance company running from day to day, including human capital, billing, claims processing, contracts, IT systems, and so on. And under the heading of operational risk are all the things that can bring a company's operations to a halt: natural disasters, labor problems, fraud perpetrated from within the company, and data problems.

Operational risks can be divided into

cluster risk and commingled risk. Cluster risk involves the extent of exposure to any single event based on the accounts and/or type of coverage a company underwrites.

Cluster risk is best exemplified by geographic exposure. If the accounts are clustered in one area, for example, then that entire book of business could potentially be affected by a single event. Such a situation is inconsistent with the principle of diversification, which, in many ways, is a cornerstone of the insurance business. In fact, aggregate exposure can put a company's solvency at risk from a single event. Commingled risk involves the correlation of risk between insurance coverage/exposure and the risks related to the investment portfolio.

Operational risk can also be associated with core processes such as the problem of accurately processing claims. It also arises in recordkeeping, processing system failures, and compliance with various regulations. As such, individual operating problems are small probability events for well-run organizations but they expose a firm to outcomes that may be quite costly. Managing operational risk is made somewhat easier by the fact that operational elements tend to be more controllable than other business functions. In India, the recent interest in business continuity plans represents an increasing awareness of the need to manage operational risk - but even continuity plans must be considered within the total risk profile for maximum effectiveness.

#### **Reputation risk**

For any company with a public profile, reputation risk is increasingly a concern

**Cluster risk is best exemplified by geographic exposure. If the accounts are clustered in one area, for example, then that entire book of business could potentially be affected by a single event.**

- especially in this age of instantaneous information transfer. A negative news story, analyst's report, or agency rating can wreak havoc on an insurer's bottom line. Reputation is intimately related to the other areas of risk. Unexpectedly poor financial results, fraud, disgruntled employees, a bad model - almost anything could result in the propagation of negative stories in the media, among customers or even among competitors. Sometimes the reputation risk is not just to one company but to the entire industry, in which case it might be harder to control. In such cases the industry regulator may take steps. In a recent press release, "Misleading Sales Literature on Unit Linked Product," issued on March 2, 2007, IRDA clarified that: "Returns under unit-linked products are dependent on the performance of the chosen fund, which is in turn affected by the performance of the stock markets." Such cases of mis-selling by insurance agents are a serious threat to the industry's reputation.

Most companies have a corrective or reactive approach to reputation risk. It is essential to recognize reputation risk as a separate risk class and take necessary steps to identify, quantify, and manage potential threats to the company's reputation and public image.

### Elements of an ERM strategy

#### Planning

Whether or not the company hires a risk management team and/or chief risk officer (CRO), outsources ERM development, or simply works with a team of current employees; ERM begins with an audit of an organization's potential liabilities, with special

attention paid to their likelihood and severity. Given the difficulty of quantifying diverse kinds of risk in a common framework, this evaluation typically begins in qualitative fashion.

While this effort typically involves senior management, it is important to gather information from a wide variety of sources, as individuals at a high level may not be in a position to see every significant risk that could affect the company. At minimum, the risk plan should be reviewed annually and adjusted in light of changing conditions and ongoing risk management efforts. Where possible, the risks to the business should be quantified, but this may not be possible or practical in every case. What is crucial is to gain an understanding of the total universe of risks and their relative importance.

Another element of planning is to define a company's risk tolerance and propagate it to decision-makers throughout the enterprise. Reducing risk should produce some value for the company. If a risk is highly unlikely and not particularly severe, yet mitigating it could be quite expensive; it may be best to just leave it alone. The most difficult cases are when a risk is somewhat or very severe but not very likely, in which case a company's risk tolerance comes into play in a big way.

#### Risk tracking and reporting

A key component of ERM is to track risks over time to see how well they are being managed—and to deal with trends early. It may turn out that many of the risk elements inside a company are already being tracked in one form or another, in which case it is just a matter of gathering those metrics together in one place. Comparing them to each other is not as

important as establishing a baseline that can be tracked across reporting periods. Insurers need to continually remind themselves that just because a risk cannot be effectively quantified or compared to others does not mean it should be discounted or excluded from an ERM plan. Even if the financial impact of a risk is difficult to measure, its occurrence can still be recorded and tracked.

#### Risk mitigation

Once the relative severity and likelihood of various risks is assessed, a mitigation plan is developed to reduce both. As in all things, ERM decision-makers should assess the impact of a decision on various areas of risk. In other cases, a mitigation strategy for one risk could actually increase the likelihood or severity of another risk, in which case the trade-off must be examined carefully. Also, some risks can actually represent competitive advantages. This might happen when a competitor is more susceptible to the risk, or if your company can manage it more effectively than others.

#### Risk financing

No matter how carefully a company understands and plans for risk, many risks will eventually become adverse events. Guarding the business from failure under such conditions is a familiar practice to most insurers because of reserve requirements. Most businesses also have typical business insurance coverage like Directors and Officers, Errors and Omissions, and so on. What is different under ERM is how financing and coverage requirements are calculated.

While ERM might increase a company's reserve or liability coverage requirements, its goal is to provide the optimum preparation for adverse events. In some cases, an ERM framework will reduce certain costs by reducing the double-counting of risks by previously siloed risk management efforts. In any case, under ERM a broader variety of risks is likely to be considered. Modeling techniques are changing to accommodate this fact, including the use of stochastic techniques to calculate "tail risk"—long-term risks associated with events that are unlikely but severe.

**Another element of planning is to define a company's risk tolerance and propagate it to decision-makers throughout the enterprise. Reducing risk should produce some value for the company.**

**However prioritized, the company's ERM objectives should be measurable and should articulate the expected payoff from achieving them.**

## Implementation

There are certain ERM fundamentals - objectives, scope, organization, and tools - that companies can use to establish an ERM framework and implementation plan. For an ERM strategy to succeed, it is important to prioritize the objective according to company needs. The objectives, ranging from the reactive to the proactive, are as follows.

- **Compliance** - Reacting to externally imposed corporate governance guidelines that concern risk identification, disclosure, management, and monitoring.
- **Defense** - Anticipating problems before they threaten the company's strategic objectives; this is largely a matter of avoiding the "land mines."
- **Coordination/integration** - breaking down internal silos by coordinating various pockets of risk management activity for efficiency's sake.
- **Exploiting opportunities and creating value** - appreciating how risks interact across the enterprise and exploiting natural hedges among them.

However prioritized, the company's ERM objectives should be measurable and should articulate the expected payoff from achieving them. ERM encompasses two dimensions: both the types of risks that ERM will cover and the management processes that ERM is intended to influence. The management processes that company executives desire ERM to influence could be strategic planning, internal audit, capital management, asset allocation, risk financing, hedging, reinsurance, mergers and acquisitions, performance measurement, etc.

In addition to a CRO (Chief Risk Officer), many organizations have established an ERM policy committee or an ERM working group. The combination of CRO and ERM committee is regarded as a "best practice," coupling the individual capabilities of a professional CRO with the integrating mechanism of a committee.

## Tools

Some of the specific tools that are important for implementing ERM are :

- **Risk audit guides** - These guides can be used for risk mapping of individual risks, risk assessment workshops, and risk assessment interviews - the latter a "best practice" because interviews are very effective at uncovering how the business actually works.
- **Stochastic risk models** - A mathematically rigorous approach used to simulate the dynamics of a specific system by developing cause-effect relationships between all the variables of that system.
- **Risk monitoring reports** - These can include regular reports to managers, boards, and relevant external stakeholders such as regulators and investors. Our experience suggests these reports today are primarily "ad hoc." Where reporting is more formal, the reports are most likely to go to the executive committee and the board of directors. Reports are least likely to go to operational managers through "dashboards" that will enable them to adjust their actions to the reality of their risk environment.

The risks should drive the choice of tools. The choice of tools should not drive the choice of risks covered in an ERM program.

## Conclusion

The most important step in any ERM effort is to gain buy-in and participation at all levels of the company. ERM is an ongoing, organized, systematic process of managing risks throughout the organization. Risk management must become part of the consciousness of every decision-maker, and even of low-level employees. Nearly any decision can be improved by the consideration of its impacts on key areas of risk. What kinds of risks are exacerbated by the decision? Which are mitigated? How likely are various outcomes?

At the core of the existence of insurance companies is the solvency maintenance and growth. All risk management activities would revolve around the same, although they may not be directly related. Additionally, quality risk management systems would positively provide a competitive edge to management's pursuing the same in true spirit.

Across the industry, related movements—like economic capital, risk-based capital, and principles-based reserving—are refining our understanding of how to plan for and mitigate risks that affect the health of insurance enterprises. As rating bodies, analysts, and legislators continue to catch on, ERM will become a requirement rather than an option. Insurers who begin the process now—or have already begun to do so with the right data quality, relevance, modeling, and measuring capabilities and implementation—are likely to have a competitive advantage in the future.

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## प्रकाशक का संदेश

किसी भी व्यावसायिक गतिविधि का जोखिम आवश्यक पहलू है। जोखिम प्रबंध का महत्वपूर्ण औजार जोखिम का स्थानांतरण है और यह निगमित कार्यालयों को व्यवसाय में रहने के लिये प्रोत्साहन देता है तथा उन्हें बेकार में इससे जुड़े जोखिम की चिंता नहीं होती।

यह बीमा ही है जो एक गुंजाइश उपलब्ध करवाता है यह बीमा का व्यवसाय एक निश्चित भुगतान के बदले में एक वचन प्रदान करता है। जोकि घटना के समय सामने आता है। यह आवश्यक है कि बीमाकर्ता को घटना घटने की संभावनाओं का ज्ञान हो तथा उसकी पृथक्ता का भी पता हो। यहाँ ही एक बीमांकक की भूमिका सामने आती है। जब तक इस जोखिम निर्धारण के लिये मूल सांख्यिकी जो जोखिम के मूल्यांकन के लिये चाहिये इसकी व्याख्या तथा भविष्य के घटनाओं के लिये उच्च विश्वस्ता भर होगा जो बीमाकर्ता स्वयं ही गंभीर जोखिम के शिकार हो जायेंगे।

बीमाकर्ता के लिये बीमालेखन सबसे महत्वपूर्ण कुंजी रखता है। जबकि यह संभव है कि कोई बीमाकर्ता बुरे निर्णय से बाहर आ जाये जो कि निवेश के लिये किया गया हो एक बुरा बीमा लेखन निर्णय संपूर्ण व्यवसाय को ही खराब कर सकता है। यह एक बड़ा प्रचलन जोखिम

है जिसको बीमाकर्ता बर्दाशत करते हैं। प्राशुल्क मुक्त भारतीय बाजार हो जाने से जोखिम और भी बढ़ गया है। यह संभव नहीं है कि बीमा लेखन लाभ पैदा करे फिर भी बीमाकर्ता की आवश्यकता है कि कुल सभी लाभों को प्राप्त किया जा सके। यह निवेश कूट योजनाओं को बीमाकर्ता के लिये उस क्षेत्र में पहुँचा देता है जहाँ वह बड़े जोखिम के सामने खड़ा है।

यहाँ कुछ ऐसे जोखिम हैं जिन्हें अंतर्वस्तु विषय बना होगा वह- बीमाकर्ता के जोखिम प्रबंध से संभव है। यह जर्नल के इस अंक का केंद्र बिन्दु है। क्योंकि बीमाकर्ता वचन देने के व्यवसाय में हैं। जिसके लिये उन्हें भुगतान किया जाता है। किसी बुरी घटना के लिये। यह आवश्यक है कि वह पर्याप्त रिजर्व अपनी देयता के लिये बनाये रखे जब कभी वह देय हो। जर्नल के अगले अंक के केन्द्र में आरक्षिता तथा सॉल्वेंसी केंद्र बिन्दु होंगे।

सी. एस. राव  
सी. एस. राव  
अध्यक्ष



# // दृष्टि कोण //

एशिया के बीमा बाजारों में व्यावसायिक प्रतिस्पर्धा को अच्छा बनाने के लिये सर्वप्रथम कोशिश है। केवल वियतनाम में ही नहीं। तकनीकी शिक्षा तथा प्रशिक्षण एक महत्वपूर्ण भूमिका निभाता है। नयी योग्यताओं को दिशा देने के लिये जो कि दोनों विकासशील तथा विकसित बीमा बाजारों के लिये है।

**श्रीमती जॉन फिट पैट्रिक**

*ऑस्ट्रेलिया तथा न्यूजीलैंड बीमा तथा वित्तिय बीमा संस्थान*

वास्तव में हम एक मिश्रित बर्ताव की स्थिति के मध्य में हैं जहाँ हम बड़ी महाविपदा को भूमंडलिय आतंकवाद, अपर्याप्त जोखिम प्रबंध तथा उच्च गरीबी दर में हैं जबकि जनसंख्या का दबाव बढ़ रहा है।

**जनरल एन ही विज**, पीवीएसएम, यूवाईएसएम, एवीएसएम (सेवानिवृत्त)

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बीमा कंपनियों के संबंध में दर के नाजुक जोखिम के साथ बीमालेखन तथा आरक्षित उन्हें मध्य व्यवसाय जैसे साख बाजार प्रचालन तथा जोखिम की अस्वीकृति भी शामिल करनी होगी।

**कुम टीयो स्वी लेयन**

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परंपरागत रूप से बीमा बाजार प्रक्रिया महाविपदा के जोखिम का प्रबंध करने के लिये सक्षम नहीं है। फ्लोरिडा के लोगों पर यह थोपा गया है कि वे चुनाव करें बढ़ते हुये बीमा प्रीमियम अथवा अपने घर को बेचने में से।

**श्री चार्ले क्रिस्ट**

*फ्लोरिडा गवर्नर*

बीमाकर्ता के लिये महाविपदा का प्रबंधन करने में सारणीबद्ध प्रक्रियाओं से गुजरना होता है जो प्राप्त होते हैं जोखिम के अनुमान, एकत्र हुये जोखिम के मूल्यांकन, जोखिम को ठीक प्रकार से लेखन करने, माँगे जाने वाले पुर्नबीमा आदि के लिये।

**श्री सी एस राव**

*अध्यक्ष, बीमा विनियामक और विकास प्राधिकरण, भारत*

यह महत्वपूर्ण है कि इस बात पर पुनः दबाव डाला जाये कि बीमा कि आवश्यकता विवेकसम्मत मूल्य निर्धारण करने की कूट आलाचना से है तथा प्रभावशाली लाग नियंत्रण तरीके जोकि उद्योग के बड़े ढंग से लागत नियंत्रण ढंग होंगे।

**श्री लो व्नोक मून**

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# बीमा में सरल अंग्रेजी

## वक्त की जरूरत

वी रामाकृष्णा कहते हैं कि एक दबावपूर्ण कारण है कि धनात्मक दावा मनोवृत्ति को अपनाया जाए पॉलिसी की व्याख्या के लिए यह एक केन्द्र बिन्दु में होगा। किसी दावे पर दृष्टि डालते हुए न की उसके लिए कोई बहाना ढुँढते हुए।

### प्रस्तावना

एक्स वाई जेड साधारण बीमा कंपनी (द कंपनी) एक कंपनी से प्रस्ताव पत्र तथा प्रीमियम प्राप्त करती है उस शेड्यूल में जिसका विवरण आगे किया गया है। तथा वर्णित प्रस्ताव तथा घोषणा इकट्ठा विश्व के साथ, रिपोर्ट अथवा अन्य दस्तावेज के साथ जो पॉलिसी जारी करने का कारक बनती है तथा बाद में निर्देशित होती है कि इसे स्वीकार किया गया संविदा के आधार के लिए।

अगर उपरोक्त वाक्यांश आप पहली ही दृष्टि में समझ सकें तो माना जा सकता है कि आप एक अनुभवी मंजे हुए बीमा के धुरंधर हैं। भारत की

किसी साधारण बीमा कंपनी की बीमा पॉलिसी के आमुख में से लिया गया है। आप बाकी की बीमा दस्तावेज के बारे में स्वयं समझ सकते हैं जो कि दस से भी अधिक पृष्ठ का होता है।

परंपरागत रूप से बीमा पॉलिसियों को समझना कठिन होता है, उन्हें किसी विधि दस्तावेज की तरह ही पढ़ा जा सकता है। यदि कोई को समझे कि वैज्ञानिक रूप से दस्तावेज का क्या अर्थ है।

विश्वभर में बीमा संविदा भाषा के प्रयोग के संबंध में चिंता का विषय है। ऐसा क्यों है कि यदि दो दलों के बीच बीमा एक समझौता है तो बीमाकृत को उसके शब्दों के बारे में कहने का कोई अधिकार नहीं है? यदि संविदा में सरल भाषा का प्रयोग होगा तो क्या विवाद कम हो जाएँगे।

### बीमा पॉलिसी शब्द संरचना का इतिहास

सबसे पहले बीमा संविदा (जिसमें बीमा का स्वरूप पता लगता है) वह जहाजों के लिए मैरिन बीमा संविदा था। जिनेवा में 2347 में सांटा क्लारा में यह देखा गया। पॉलिसी इटली की भाषा में थी तथा

वह एक मैरिटाइम ऋण के रूप में चर्च द्वारा प्रयोग के प्रबंध को दूर करने के लिए थी।

पहले बीमाकर्ता मर्चेट बीमा लेखक थे। अपने साथी मर्चेट के लिए जो पार्ट टाइम आधार पर थे। बीमा संविदा की कानूनी या वैज्ञानिक कार्य के परिणामस्वरूप तैयार नहीं किया गया लेकिन वह मर्चेट्स द्वारा स्वयं ही तैयार किया गया जिसका कारण व्यापारिक आवश्यकता था (आवश्यकता अविष्कार की जननी है)।

जब तक इंग्लैंड में लार्ड मैसफिल्ड सीजे थे, उनके कार्यकाल में बड़ी संख्या में मामले तथा सिद्धांत परिपादित प्रसिद्ध न्यायधीशों द्वारा किए गए जिनमें से कुछ आज भी बिना बदलाव के सामने हैं। (उदाहरण अनुसार बीमा संविदा परम सद्भाव के संविदा हैं, प्रकटीकरण का कर्तव्य, गलत अभिवेदन तथा गैर प्रकटीकरण बीमा संविदा में, बीमा संविदा में कपट का प्रभाव वारंटी, इत्यादि यहाँ कुछ को बताया गया है)।

वैसे पॉलिसी शब्दावली बड़ी मात्रा में बिना परिवर्तन के है तथा लायड्स पॉलिसी शब्दावली का उदाहरण मानती है जो कि लगभग 200 वर्ष पहले बनाया

परंपरागत रूप से बीमा पॉलिसियों को समझना कठिन होता है, उन्हें किसी विधि दस्तावेज की तरह ही पढ़ा जा सकता है। यदि कोई को समझे कि वैज्ञानिक रूप से दस्तावेज का क्या अर्थ है।

गया था। यह विशेष रूप से दिखाई देता है। मैरिन बीमा व्यक्तिगत आधार पर बीमा पॉलिसी शब्दावली काफी उन्नत हुई है, तथा सरल भी हुई है आज के समय में।

## वैज्ञानिक स्थिति

संविदा विधि का यहाँ सामान्यतः मान्य नियम है कि संविदा के संबंधितों के संविदा के प्रावधानों की पूर्ण जानकारी होगी। लिखित संविदा में साधारणतः एक व्यक्ति नियम शर्तों से बाध्य है जबकि वह पढ़ी जाए तथा उन्हें समझा जाए अथवा नहीं। ऐसा कहा जा सकता है कि बीमाकर्ता को बीमा के प्रावधानों की जानकारी होगी यहाँ तक की उसने उसे पढ़ा हो अथवा नहीं। न्यायालय परंपरागत रूप से बीमाकर्ता का उत्तरदायित्व इस संबंध में तय करती है क्योंकि वह बीमा के अति तकनीकी स्वरूप को मान्यता को समझे की वैज्ञानिक रूप से दस्तावेज का क्या अर्थ है। इसलिए न्यायलयों की यह प्रवृत्ति है कि बीमाकर्ता को संदेह का लाभ असमता जो बीमाकर्ता के कारण है के लिए दिया जाए।

बीमा पॉलिसी एक संविदा आसंजक है जिसका अर्थ है कि पॉलिसी में कोई भी संदेह या संदिग्धता उसके विपरीत जाएगी जो पक्ष पॉलिसी बनाता है क्योंकि पॉलिसी को बीमाकर्ता तैयार करता है, साधारणतः कोई भी प्रश्न जो उसके अर्थ के लिए हो बीमाकर्ता के विरुद्ध जाएगा। न्यायलयों ने आवश्यक रूप से इस स्थिति का रुख किया है। इस सिद्धांत

के पीछे यह तर्क है कि बीमाकर्ता पॉलिसी की भाषा का चयन करता है, यह मान लिया जाए कि बीमाकर्ता ने पॉलिसी के क्षेत्र को सीमित किया है। उचितता यह बताती है कि भाषा के अर्थ के संदर्भ में कोई भी संदेह बीमाकर्ता के पक्ष में तय किया जाएगा। इस बारे में कोई भी छोटी अथवा तकनीकी बनावट अन्याय की तरफ जाएगी। इसके परिणामस्वरूप ऐसे मजबूर करने वाले कारण हैं कि बीमाकर्ता पॉलिसी की व्याख्या के लिए एक धनात्मक प्रवृत्ति रखें। वह दावे के निपटान के लिए उसमें ऐसे प्रयास रखे कैसे सम्मिलित किया जाए न कि कैसे उसे दूर रखा जाए।

## सरल अंग्रेजी क्या है?

सरल अंग्रेजी ऐसी भाषा है जो स्पष्ट, प्रत्यक्ष तथा सीधे कार्य करती है।

- स्पष्ट, प्रत्यक्ष अभिव्यक्ति, केवल उतने शब्दों का प्रयोग जितना आवश्यक हो। ऐसी भाषा का प्रयोग जो अश्लीलता बड़ी हुई शब्दावली तथा जटिल वाक्य विन्यास न हो।
- यह बच्चों की बात नहीं है न ही यह अंग्रेजी भाषा का आसान पाठ है यह पढ़ने वाले को मस्तिष्क में रखकर लिखी जाती है तथा आसान भाषा की ध्वनि जो स्पष्ट तथा सतर्क हो।
- यह नए शब्दों पर अंकुश लगाने के लिए नहीं है अथवा लम्बे शब्दों को खत्म करने के लिए भी नहीं है अथवा संपूर्ण व्याकरण को प्रोत्साहन

देने के लिए भी नहीं है और न ही यह व्याकरण को दूर रखने का प्रयास है। और अन्ततः यह ऐसी आसान भी नहीं है जैसा इसके बारे में सोचा जाता है।

## जटिल खंड का उदाहरण

पढ़ने के ज्ञान के ज्ञाता यह संस्तुति करते हैं कि एक वाक्य में औसत 20 के लगभग शब्द होने चाहिए। उदाहरण के लिए पूर्ण स्थापन खंड को लिजिए (274 शब्द) जो आज बीमा पॉलिसी से लिया गया है। यह बहुत लंबी अवास्तविक सूचना है। इसकी संबंधित तथा सहखंड को कम तरीके (ये विषय तथा शब्दों के मध्य) इसे शामिल करते हैं। तथा वर्तमान विचार यह है कि इसे ठीक प्रकार से संगठित नहीं किया गया है।

यदि कंपनी अपने विकल्प को पूर्णस्थापित अथवा बदले सम्पत्ति क्षति अथवा विनाश व अन्य कोई मांग, हानि की राशि भेजने के बदले अथवा क्षति अथवा इसे किसी अन्य कंपनी के साथ जोड़ा जाए अथवा बीमाकर्ता कंपनी के लिए करते हुए हानि की राशि का डुगतान करते हुए हानि अथवा संयुक्त रूप से किसी अन्य कंपनी के लिए अथवा बीमाकर्ता यदि ऐसा कंपनी के साथ करना चाहे वह ठीक प्रकार से प्राप्ति के लिए नहीं होगा अथवा पूर्ण रूप से लेकिन जैसा कि परिस्थितियाँ लागू हो तथा एक ठीक प्रकार से पर्याप्त अवस्था में तथा किसी भी मामले में कंपनी यह सुनिश्चित नहीं करेगी ऐसी हानि के घटित होने पर या क्षति कववनी द्वारा। यदि कंपनी चुनी जाए अथवा किसी सम्पत्ति की प्रतिपूर्ति करे जिसमें योजना की विशिष्टताएँ होंगी, कंपनी के लिए आवश्यक हो तथा कोई एक्ट नहीं किया जाएगा अथवा कारक नहीं होगा। कंपनी द्वारा इस दृष्टि से की पूर्ण स्थापना अथवा पूर्ण व्यवस्था हो चुनाव के द्वारा पूनः स्थापन या परिवर्तन हो।

न्यायालय परंपरागत रूप से बीमाकर्ता का उत्तरदायित्व इस संबंध में तय करती है क्योंकि वह बीमा के अति तकनीकी स्वरूप को मान्यता को समझे की वैज्ञानिक रूप से दस्तावेज का क्या अर्थ है।

यदि कंपनी यह निर्णय लेती है कि दावे का भुगतान पुनः स्थापन अथवा परिवर्तन जो कि हानि की संपत्ति में पूर्ण रूप से अथवा कुछ हद तक हुआ है लेकिन सबसे अच्छा करने के लिए जैसी की परस्थितियाँ अनुमति देती है। यह एक तर्कसंगत समय में किया जाना चाहिए तथा पुनः स्थापित करने के लिए लागत जो कि दावे की पर्याप्तता के लिए थी। अच्छा बनाने की कोई भी लागत विशिष्टीकरण, मूल्यांकन, गुणवत्ता इत्यादि। उसे बीमाकर्ता द्वारा उठाया जाना चाहिए।

इसी प्रकार से अधोलिखित धाराक को जो संपत्ति बीमा से संबंधित पॉलिसी है।

हम इस पॉलिसी के अंतर्गत आवरण को दूर नहीं करेंगे। यह पॉलिसी यदि आप इससे अनुतीर्ण रहें जिसमें जोखिम को दिनांक के प्रारंभ से पॉलिसी में दिया जाता है, ऐसे स्वरूप प्रदान करना जान बूझकर नहीं है।

इस वाक्य पैटर्न को इस प्रकार अच्छा बनाया जा सकता है।

यदि आप सभी जोखिमों की घोषणा करने में असमर्थ रहें और वह जान बूझकर न हो तब हम इस पॉलिसी में दावे की मनाही नहीं करेंगे।

सरल अंग्रेजी में कोई भी संदेश, लिखा गया हो जो कि पढ़ने वाले के मस्तिष्क के अनुसार दो।

### विश्व / भारत में क्या हो रहा है?

पिछले दो दशकों में एक संस्कृति स्पष्टता की आई है जो कि कई बीमाकर्ताओं तक भी फैली है। कई देशों में जिसमें यूएस तथा यूके शामिल हैं, ऐसे देशों में सरल अंग्रेजी एक आंदोलन बन चुका है।

पिछले दो दशकों में एक संस्कृति स्पष्टता की आई है जो कि कई बीमाकर्ताओं तक भी फैली है। कई देशों में जिसमें यूएस तथा यूके शामिल हैं, ऐसे देशों में सरल अंग्रेजी एक आंदोलन बन चुका है।

इन देशों में बीमा कंपनियों के अतिरिक्त अन्य कंपनियाँ जैसे सरकारी विभाग, बैंक तथा स्थानीय निकाय ने यह अनुभव किया है कि स्पष्ट संचार ही वास्तव में अच्छा है। किसी को भ्रमित अथवा प्रभाव डालने की अपेक्षा अब वे लिख रहे हैं, सूचना देने तथा स्पष्ट करने के लिए वे सरल अंग्रेजी का उपयोग इस कार्य के लिए कर रहे हैं। यह जान कर प्रसन्नता होगी कि यूएस में भी सरल अंग्रेजी की तरफ रुझान हुआ है। मिशिगन में सभी बीमा पॉलिसीयों सरल अंग्रेजी में लिखी जा रही है अथवा पढ़ने को आसानी तो दे ही रही है। आगे इन्हें सरल अंग्रेजी में लिखा जा रहा है जो पिछले पाँच दस वर्षों से हो रहा है लेकिन इन उदाहरणों को सामने रखते हुए।

वर्ष 1977 में रायल बीमा कंपनी कनाडा में सरल अंग्रेजी कार्य होम शील्ड पॉलिसी जो गृह बीमा के लिए है प्रारंभ हुआ। इससे विक्री में 38 प्रतिशत की वृद्धि हुई जो 58 मिलियन डॉलर से म्मिलियन डॉलर तक पहुँच गई।

1970 के प्रारंभ में बैंक ऑफ नौवा स्कोतिया ने अपने फॉर्मों को दोबारा बनाना प्रारंभ किया। भारत में बड़े स्तर पर आईआरडीए के हस्तक्षेप के कारण तथा उद्योग के उदारीकरण के कारण कई बीमाकर्ता

पॉलिसी को सरल बनाने में लगे हैं। जिससे यह पढ़ने वालों की दोस्त बन सके। कठिन या तकनीकी शब्दों को उदारित करते हुए तथा उनकी परिभाषा इन पॉलिसीयों में पढ़ने तथा समझने की दृष्टि से काफी सुधार हुआ है।

### निष्कर्ष

उपरोक्त के बावजूद आज भी अगर आप साधारण जनता से बात करें तो वे यही कहेंगे कि बीमा पॉलिसी अपनी परंपरा का ही उदाहरण है। क्यों? क्योंकि बीमा पॉलिसीयों को विधिपरक भाषा में लिखा जाता है तथा लोग इन्हें पढ़ना छोड़ देते हैं। यह एक मजबूत कारण है कि उद्योग के लोग कुछ समय इसे सरल बनाने में व्यतीत करें।

जबकि उपभोक्ता का हित सर्वोपरि हुआ है, वह दिन दूर नहीं जब बीमा पॉलिसी सरल अंग्रेजी में होगी तथा यह बीमा जागरूकता फैलाने में मददगार होगा।

*लेखक इंशौर रिस्क मैनेजमेंट सर्विस प्राईवेट लिमिटेड में प्रबंध निदेशक हैं। यहाँ बताए गए विचार उनके अपने हैं।*

# ओईसीडी देशों में जोखिमों का प्रबंधन

क्या सरकार प्रभावशाली कदम उठा रही है जिससे महाआपदा के वित्त बोझ को उठाया जा सके? क्या वित्त क्षेत्र के संगठन तैयार हैं प्रचालन तथा वित्त दृष्टिकोण से महाआपदा का सामना करने के लिए? प्रोफेसर एल्बर्टो मोंटी इन प्रश्नों पर चर्चा करते हैं। वर्तमान संगठनों के मुख्य बिन्दुओं पर एक बृहद अभ्यास जो कि ओईसीडी जाल में किया गया के लिए बात करते हैं।

## प्रस्तावना

पिछले दशक में भूमंडल पर आर्थिक जोखिम तथा उसका वित्तीय प्रभाव बहुत बढ़ गया है तथा यह बड़े जोखिमों के समान है। यह कई कारणों के कारण हुआ है जिसमें सामाजिक, डेमोग्राफिक, राजनैतिक तथा वातावरण व जलवायु के कारण शामिल हैं। इसमें नया कारक 9/11 को हुए आतंकवादी हमले के कारण यह एक उदाहरण है जिसके कारण जोखिम की अवधारणा में बदलाव आया है। बदलते जलवायु पैटर्न की अनिश्चितता ने भी जोखिम की भूमिका को बदला है। शहरी क्षेत्रों में वृद्धि तथा जनसंख्या घनत्व जो संबंधित क्षेत्रों में हुई है ने भी इस घटनावृत्त को बढ़ा दिया है।

उपरोक्त की दृष्टि से, ओईसीडी देशों तथा गैर ओईसीडी अर्थव्यवस्थाओं में महाविपदा से निपटने के लिए वित्तीय प्रबंधन तथा राजनैतिक तुलनात्मक संदर्भ में ओईसीडी देशों में वर्तमान संस्थाओं द्वारा ऐसे जोखिमों से निपटने के लिए मुख्य बिन्दु क्या है। इन कूट योजनाओं जिनको सरकार द्वारा बढ़ते हुए वित्तीय बोझ के लिए लिया गया, तथा जिनमें वित्तीय क्षेत्र से बचाने के लिए संगठनों को महाविपदा के साथ रखा गया है। वित्तीय तथा प्रचालन दृष्टि के अनुसार महाविपदा के साथ होता है।

## चुनौतियाँ

सबसे महत्वपूर्ण प्रश्न यह हो जाता है कि महाविपदा का प्रबंधन कैसे तैयार किया जाए। आम जनता के नजरिये से विपदा की कुल लागत कम करने के लिए। जो स्पष्ट है वह यह है कि संबंधित भूमिका

तथा उत्तरदायित्व सार्वजनिक प्राधिकरण के लिए वह वित्तीय क्षेत्र में भागीदारी रखते हैं (जैसा कि बीमा तथा पुनर्बीमा कंपनियाँ तथा संस्थागत निवेशक) व्यवसाय तथा व्यक्तियों को स्पष्ट रूप से अनुमान लगाना चाहिए इस उद्देश्य से कि एक प्रभावशाली जोखिम प्रबंधन नीति देश तथा क्षेत्रिय स्तर पर बन सके।

विभिन्न सार्वजनिक क्षेत्र प्रतिभागियों द्वारा बनाया गया प्रोत्साहन प्रणाली महाविपदा जोखिम के प्रबंधन के लिए को निरीक्षण की आवश्यकता है उस एप्रोच के साथ। अन्ततः वित्तीय क्षेत्र के संघटनों द्वारा ऐसी विपदा के लिए तैयारी जो की वित्तीय दृष्टि अथवा परिचालन दृष्टिकोण से हो ऐसा स्पष्ट होना चाहिए। यदि सरकार वित्तीय क्षेत्र पर ऐसी डील के लिए निर्भर करती है तो हो सकता है कुछ हद तक तथा प्रबंध के बड़े पैमाने पर महाविपदा के लिए तो यह नाजूक हो जाता है कि वित्तीय क्षेत्र इस भूमिका को ठीक प्रकार निर्वाहन करे यदि एक या अधिक महाविपदा घटित होती है। महाविपदा जोखिम का प्रभाव वित्तीय प्रणाली की स्थायित्व पर होगा।

## संगठनात्मक उत्तर

विधि के सिद्धांत से, कई विधि प्रणालियों में, सोलिडेटरी के सिद्धांत को आगे बढ़ाते हुए हानि का परस्पर कारण जो महाविपदा के कारण होता है वह किसी नागरिक का मौलिक अधिकार बन जाता है।

प्रायः सभी ओईसीडी देशों में मूल सामाजिक सुरक्षा व्यक्तिगत क्षति के लिए होती है जो यह सुनिश्चित करता है कि करने वाले दल के लिए दावे हो जाए। जहाँ तक संपत्ति के क्षति का प्रश्न है। खास तौर पर मानव द्वारा बनायी गई विपदा के लिए यहाँ स्थिति या कुछ कम करने में सहायक होते हैं लेकिन जिसे स्तर पर महाविपदा प्रबंधन सहभागिता तथा वास्तविक सेवा शर्त की बात है वह देशी बाजार के लिए विशेष महत्व रखता है।

बीमा करने की समस्या को ध्यान में रखते हुए डाले गए महाविपदा जोखिम अधिकांशतः सरकार के लिए कुछ समय होता है इस सहभागिता के लिए निजी

बीमा क्षेत्र को इस दृष्टिकोण से समझने के लिए जो कि साधारण जनता को उपलब्ध है। विशेष संगठन संविदा जिसमें निजी सार्वजनिक क्षेत्र की भागीदारी हो उसे कई ओईसीडी देशों में स्थापित किया गया है तथा यह गैर सदस्य देशों में भी स्थापित किया गया है जिससे प्रकृत महाविपदा की हानि से निपटा जा के, साथ ही मानव द्वारा तथा आतंकवाद के जोखिमों से भी निपटा जा सके।

### बाद में तथा अनुमानित उत्तर

एक अनुमानित नीति बनाने वित्तीय प्रबंधन के लिए बड़े स्तर की महाविपदाओं के जोखिमों के लिए उनकी देख रेख करने पर महाविपदा हानि के लिए बाद में क्षतिपूर्ति करने की नीति की अनेक सीमाएँ हैं। ज्यादातर मामलों में ये लागत के अनुरूप नहीं होती तथा लक्ष्य पर नहीं केन्द्रित होती। क्षतिपूर्ति को देना भी बहुत धीमा होता है तथा सरकारों के लिए यह वादा देना कि यदि कोई महाविपदा आती है तो वह उसकी क्षतिपूर्ति करेगी बहुत कठिन है। यह एक अनिश्चितता के रूप में देखा जाता है। हाल ही का एक उदाहरण है जो टर्की ने प्रस्तुत किया है जहाँ विपदा के बाद क्षतिपूर्ति गैर बीमित लोगों के लिए की गई जो कि भूकंप के महाविपदा बीमा पूल के अंतर्गत टिक नहीं पाई। ऐसा दृष्टिकोण वह रोकथाम के लिए उल्टा प्रभाव ही प्रस्तुत करेगा।

यह नोट किया जाना चाहिए कि कुछ प्राकृतिक विपदा जोखिम इतने बड़े होते हैं तथा इतने दूर होते हैं कि जिन्हें प्रभाव के साथ डील करना होता है और वह भी बाद में स्थापित करने के आधार पर। जबकि अनुमानित उत्तर बहुत ही महँगा पड़ेगा। वैसे यह बहुत कठिन है कि एक गहरी रेखा जोखिम प्रकारों के मध्य खींची जाए। सभी बातों को ध्यान में रखना चाहिए जब संगठन की योजना को तैयार किया जाए।

### निजी, सार्वजनिक सहयोगिता (पीपीपी)

जैसा कि ओईसीडी देशों में अनुमान लगाया गया है एक ट्रेड संगठनात्मक उत्तर की तरफ लिया गया है। जिसमें निजी सार्वजनिक सहभागिता (पीपीपी) वित्तीय प्रबंधन के लिए आवश्यक है जो कि महाविपदा के लिए होगा। पीपीपी के संदर्भ में बीमा तथा पुनर्बीमा क्षेत्र बीमा तथा पुनर्बीमा तकनीकी प्रदान कर सकता है विभिन्न जोखिम प्रबंध प्रक्रियाओं के लिए। जिसमें शामिल है जोखिम प्रबंधन, निवेश, आरक्षित पर दावे तथा हानि समझौते।

एक सार्वजनिक प्राधिकरण के लिए एक वित्तीय वादे का चुनाव जिसके लिए वह प्रयास करती है जो कि प्रत्यक्ष रूप से अथवा किसी विशेष कारण से होता है, एक प्राथमिक बीमाकर्ता के रूप में।

प्रणाली का प्रभाव प्रभावशाली ऐच्छिक बीमा आवर किसी भी महाविपदा के लिए बताता है। वैसे यह निर्भर करता है बीमा कंपनी की पेशेवर प्रभाव को जिसमें बीमालेखन तथा दावा के क्षेत्र शामिल हैं। उचित विपदा जोखिम मॉडल की उपलब्धता तथा बीमा उद्योग की क्षमता महाविपदा के दावों को प्रक्रियाबद्ध करने के लिए तेजी से आगे बढ़ने के लिए एक महत्वपूर्ण कदम हो जाता है।

पूँजी बाजार इसकी प्रक्रिया में अतिरिक्त श्रोत वित्तीय क्षमता बनाने में जिससे कि महाविपदा को संजोया जा सके बनाते हैं।

बाजार जो कैट बॉंड होते हैं तथा अन्य बीमा संबंध प्रतिभूतियाँ अभी यूवा है। जबकि यह नब्बे में देरी से प्रारंभ हुई थी लेकिन यह सतत रूप से आगे वृद्धि की ओर है। हाल ही में उपलब्ध आंकड़े के अनुसार 2006 एक अन्य रिकॉर्ड वर्ष था जिसमें नये इश्यु 4.69 बिलियन में थे। अन्य उदाहरण आतंक नैतिक शास्त्र के जोखिम शैल्फ को दी जाने वाली बढ़ावे से हुआ है जो कि अनुमति देती है तरलता तथा निम्न लागत। यह भी जानना रुचिकर होगा गैर बॉंड प्रकार में प्रतिभूतियों की गतिविधियाँ जैसे साईड कार, उद्योग हानि गारंटी तथा अन्य वाहन।

जबकि आधुनिक महाविपदा जोखिम की गणना लेन देन के लिए कुछ प्रकार का जोखिम होता है जो है पोर्टफोलियो लाने के लिए लगाया गया जोखिम। यह जानना नाजूक हो जाता है कि प्रायोजकों का उद्देश्य क्या है। मई 2006 में कैट से संबंधित मामलों मैक्सिको सरकार के अंतर्गत उदाहरण के लिए जिनका उद्देश्य बहुत से भूकंपों के लिए हानि की गणना के लिए था। इसी प्रकार का उद्देश्य कैरेबियन बीमा सुविधा जो कि विश्व बैंक के अंतर्गत जारी किया गया है उसका भी यही उद्देश्य है। जो कि कैरेबियन सरकार को यह अनुमति देता है कि वह खरीद सके वृहद बीमा सुरक्षा जो कि उपलब्ध करवाएगी त्वरित

नकद भूगतान जबकि बड़ी दुर्घटना घटित हो जाए। अतः ऐसी पारंपरिक तरलता से बाहर आना जो कि पीछे चलती है रिकवरी प्राचलन के बिना किसी देरी किए।

अंततः सार्वजनिक प्राधिकरणों के लिए बड़ी भूमिका भावी क्षेत्र में है। प्राधिकरण एक पीपीपी है। सार्वजनिक क्षेत्र की सहभागिता यह सुनिश्चित करती है कि किसी आवश्यक हानि बीमा साम्राज्य (जो उपलब्ध करवाता है काफी जोखिम पूल तथा विपरीत जोखिम को कम कर देता है) विनियामक तथा विधि आधारभूत संरचना के चलते। पुनर्बीमा उपलब्धता विशेष रूप से लगाई गई सुविधा अथवा राज्य की गारंटी की अन्य प्रकार की गारंटी जो कि सीमाबद्ध कर देगी निजी क्षेत्र के दिखावे को यदि कोई महाविपदा आती है। आगे यह भी है सार्वजनिक प्राधिकरण निजी पूँजी बाजार के चलते मूल भूत संपत्तियाँ महाविपदा के लिए तैयार करेगी जिससे निजी बीमा उद्योग भली प्रकार चल सके।

एक सार्वजनिक प्राधिकरण के लिए एक वित्तीय वादे का चुनाव जिसके लिए वह प्रयास करती है जो कि प्रत्यक्ष रूप से अथवा किसी विशेष कारण से होता है, एक प्राथमिक बीमाकर्ता के रूप में। जैसा कि स्पेन, न्यूजीलैंड, अथवा आइसलैंड में भूकंप जोखिम के लिए होता है। पुनर्बीमाकर्ता अपने अंतिम प्रयास में (जैसे फ्रांस तथा आस्ट्रेलिया में आतंकवाद जोखिम) अंतिम लक्ष्य का नेतृत्व (जैसे आस्ट्रेलिया तथा चैक में आतंकवाद जोखिम) अथवा गारंटर (जैसे स्पेन, न्यूजीलैंड, फ्रांस तथा आइसलैंड में भूकंप का जोखिम) सार्वजनिक तथा निजी क्षेत्र के बीच जोखिमों को बाँटने का संविदा उसे अमेरिका में भी लागु किया गया है जो कि आतंकवादी जोखिम के लिए है (टीओआईए तथा टीआरआईए के अंतर्गत) तथा जापान भूकंप जोखिम (1966 के भूकंप बीमा अधिनियम के अंतर्गत)।

एक अन्य तथ्य जिस पर गैर किया जाना चाहिए वह है संगठन की संरचना जो कि ऐसी योजना के अंतर्गत है जिसकी प्रकृति स्थायी अथवा अस्थायी है। पीपीपी के अनुसार साथ बाद्य नीति को भी प्रभावित करता है।

यह भी जानना महत्वपूर्ण है कि ओईसीडी में किए गए संगठनात्मक संविदा अलग अलग प्रकार के जोखिमों को सुरक्षा प्रदान करते हैं। इसमें से कई का प्रचलन योग्य बड़ा क्षेत्र है, जो बड़ी महाविपदा के लिए लागू होता है। पूँजी बाजार इसकी प्रक्रिया में अतिरिक्त श्रोत वित्तीय क्षमता बनाने में जिससे कि महाविपदा को संजोया जा सके बनाते हैं। वैसे यह बहुत कठिन है कि एक गहरी रेखा जोखिम प्रकारों के मध्य खींची जाए। सभी बातों को ध्यान में रखना चाहिए जब संगठन की योजना को तैयार किया जाए। उचित विपदा जोखिम मॉडल की उपलब्धता तथा बीमा उद्योग की क्षमता महाविपदा के दावों को प्रक्रियाबद्ध करने के लिए तेजी से आगे बढ़ने के लिए एक महत्वपूर्ण कदम हो जाता है। उपरोक्त की दृष्टि से, ओईसीडी देशों तथा गैर ओईसीडी अर्थव्यवस्थाओं में महाविपदा से निपटने के लिए वित्तीय प्रबंधन तथा राजनैतिक तुलनात्मक संदर्भ में ओईसीडी देशों में वर्तमान संस्थाओं द्वारा ऐसे जोखिमों से निपटने के लिए मुख्य बिन्दु क्या है। इन कूट योजनाओं जिनको सरकार द्वारा बढ़ते हुए वित्तीय बोध के लिए लिया गया, तथा जिनमें वित्तीय क्षेत्र से बचाने के लिए संगठनों को महाविपदा के साथ रखा गया है। वित्तीय तथा प्रचालन दृष्टि के अनुसार महाविपदा के साथ होता है।

मैक्सिकन फंडर तथा फ्रेंच योजना जो अपेक्षाकृत प्राकृतिक महाविपदा तथा तकनीकी विकास को आवरण प्रदान करती है। यही मामला स्पेन में वर्ष 1986 तक था। जबकि एक आधिकारिक घोषणा की आवश्यकता को हटा दिया गया था। ज्यादातर योजनाएँ संपत्ति हानि के लिए क्षतिपूर्ति प्रदान करती है लेकिन संपत्ति

की प्रकृति का आवरण अलग अलग होता है। एक परिपाटी है जिसमें व्यवसाय रुकावट को शामिल किया गया है जैसा कि स्पेन में महसूस किया गया है। अंततः कुछ ही योजनाओं में क्षतिपूर्ति शामिल होती है (देखें आस्ट्रेलियन एआरपीसी)।

योजना की आवश्यक प्रकृति अधिकांशतः मूल रूप से कई संगठनों से ओईसीडी के संविदा के अनुरूप होता है। फिर भी किसी को भी अनिवार्य का अर्थ स्पष्ट कर देना चाहिए। कुछ देशों में महाविपदा बीमा पॉलिसी को लेना अनिवार्य बना दिया गया है जैसे टर्की, आइसलैंड तथा स्वीटजरलैंड। कई देशों में अग्नि तथा प्रथम दल बीमा को ऐच्छिक आधार पर दिया जाता है लेकिन बीमा कंपनियों के लिए यह आवश्यकता विधि के अनुसार है कि महाविपदा के लिए ऐसी पॉलिसीयाँ जारी करें। यह मामला आस्ट्रेलिया से जुड़ा है। साथ ही फ्रांस, न्यूजीलैंड, नॉर्वे तथा स्पेन भी हैं। अंततः योजना की अनिवार्यता निजी बीमा कंपनियों के लिए भागेदारी के लिए बीमा अथवा पूनर्बीमा संविदा बनाता है।

महाविपदा के लिए मूल्यनिर्धारण एक अन्य विशेषता है। विभिन्न योजनाओं की जबकि कुछ लोग एक जोखिम आधारित मूल्य निर्धारण को लगाते हैं। अन्य सीधा मूल्य निर्धारण का विकल्प चुनते हैं। इस कार्य में यह जानना महत्वपूर्ण हो जाता है कि क्षेत्र में अलग अलग प्रकार का जोखिम किस प्रकार का है जो एक देश अथवा क्षेत्र में होता है, तथा ऐसे जोखिमों के मूल्य निरेधारण के लिए अलग से रखा जाता है, जिससे सबसे ज्यादा प्रत्यक्ष जोखिम को ठीक प्रकार का प्रोत्साहन दिया जा सके जबकि अवरण को वाहन योग्य तथा मूल्य को प्रबंध योग्य बनाया जा सकता है।

प्रतिस्पर्धा के विधि मामलों को भी आवश्यक रूप से लेखा में लिया जाना चाहिए, जबसे बीमा पूल स्थापित किया गया है उत्पाद के यंत्र केन्द्रीयकृत मूल्य यंत्र

तथा सूचना को बाँटने का संविदा टकरा सकता है जो विनियामक द्वारा विधि बनाई गई है उससे।

## निष्कर्ष

प्रकृति महाविपदा से संबंधित मामलों से समायोजन स्थापित करते हुये तथा मानव द्वारा बनाये गये विनाश के लिये मिश्रित मॉडल जहाँ राज्य की निधि विशेष बीमा योजना के कार्यान्वयन के लिये आवरण प्रदान करने के लिये लागू होती है तथा प्रणाली के अन्य उपस्कर, जिसमें महाविपदा बाढ़ तथा जलवायु डेरेवेटिव शामिल है। जो परिपाटी है निसंदेह एक मिश्रित मॉडल को स्थापित करने करने लिये है जहाँ कई मूल्यांकन को स्थापित करना हो जो निजी तथा सार्वजनिक स्तर पर होंगे तथा वह एक दूसरे में समाहित तथा एक दूसरे से संवाद स्थापित करने वाले होंगे।

यह स्मरण रखना चाहिये कि कोई भी मानक संगठन हल उपलब्ध नहीं है सभी देशों के लिये अलग-अलग समान होने के कारण अलग-अलग सामाजिक तथा राजनैतिक मौकों पर तथा अलग विधि तथा सासंकृतिक पृष्ठभूमि के लिये। किसी भी मामले में एक स्पष्ट तथा परिदृश्य जोखिम आबंटन तथा सार्वजनिक प्राधिकरण का उत्तरदायित्व यह भी नाजुक होगी की पॉलिसी के औजारों को (जैसे कि- योजना की तकनीकी विशेषताएँ) पॉलिसी के निर्धारित लक्ष्यों को सरकार द्वारा आगे लाया जाये जैसा कि समुचित वित्तीय आवरण सभी व्यक्तिक इकाइयों को अथवा सरलता से आवरण को उपलब्ध करवाना।

इस दृष्टिकोण में विभिन्नता तथा विभिन्न संगठनात्मक समाधानों के लिये यह स्पष्ट रूप से सामने आया है कि विनाश बीमा को बुलाया जाये जो त्वरित महत्वपूर्ण भूमिका कुल विपदा विनाश की लागत के लिये तथा उत्तरदायित्व को सामने ला सके जो विनाश से बचने तथा उसका प्रबंधन करने के लिये होता है। अनेक विधि प्रणालियों में स्थिति में निरंतर परिवर्तन हो रहा है और यह सनिश्चित करता है सूचना के बटवारे की आवश्यकता जिससे दूसरों के अनुभवों से लाभ उठाया जा सके।

एक परिपाटी है जिसमें व्यवसाय रुकावट को शामिल किया गया है जैसा कि स्पेन में महसूस किया गया है। अंततः कुछ ही योजनाओं में क्षतिपूर्ति शामिल होती है (देखें आस्ट्रेलियन एआरपीसी)।

*लेखक बोकोनी विश्वविद्यालय मिलन इटली में तुलनात्मक विधि के प्रोफेसर हैं। वे बीमा के वकील हैं तथा ओईसीडी में परामर्शदाता हैं। जो वित्तीय मामलों का मंडल (पेरिस, फ्रांस) में है। उन तक [lberto.monti@unibocconi.it](mailto:lberto.monti@unibocconi.it) के माध्यम से पहुंचा जा सकता है।*



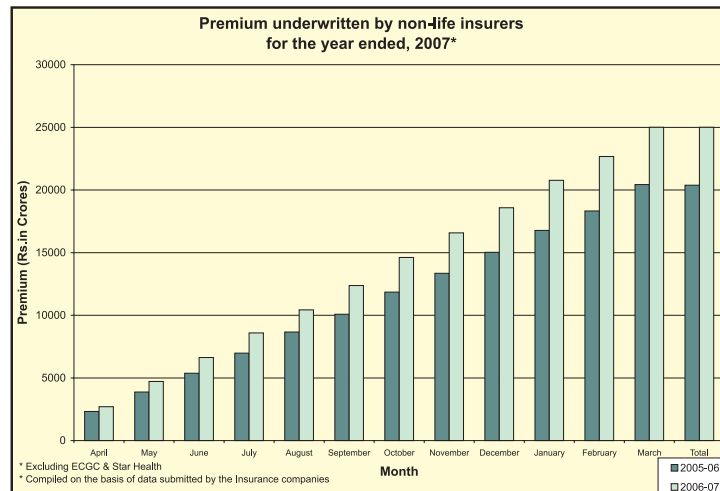
# Report Card: General

## GROSS PREMIUM UNDERWRITTEN FOR AND UPTO THE MONTH OF MARCH, 2007

(Rs.in Crores)

INSURER	PREMIUM 2006-07		PREMIUM 2005-06		GROWTH OVER THE CORRESPONDING PERIOD OF PREVIOUS YEAR
	FOR THE MONTH	UP TO THE MONTH	FOR THE MONTH	UP TO THE MONTH	
Royal Sundaram	57.37	600.03	52.31	459.35	30.63
Tata-AIG	54.61	741.56	72.23	612.39	21.09
Reliance General	108.64	912.23	17.66	162.33	461.96
IFFCO-Tokio	80.05	1150.32	116.96	896.11	28.37
ICICI-lombard	200.11	3003.45	123.53	1592.00	88.66
Bajaj Allianz	183.16	1804.60	119.65	1284.57	40.48
HDFC CHUBB	19.99	190.16	28.59	205.77	-7.59
Cholamandalam	34.74	314.59	15.37	222.21	41.57
New India	515.62	5024.15	534.90	4791.51	4.86
National	382.67	3810.88	350.63	3523.67	8.15
United India	349.15	3509.95	316.21	3154.78	11.26
Oriental	344.32	3940.53	347.07	3527.13	11.72
<b>PRIVATE TOTAL</b>	<b>738.67</b>	<b>8716.94</b>	<b>546.30</b>	<b>5434.73</b>	<b>60.39</b>
<b>PUBLIC TOTAL</b>	<b>1591.76</b>	<b>16285.51</b>	<b>1548.81</b>	<b>14997.09</b>	<b>8.59</b>
<b>GRAND TOTAL</b>	<b>2330.43</b>	<b>25002.45</b>	<b>2095.11</b>	<b>20431.82</b>	<b>22.37</b>
<b>SPECIALISED INSTITUTIONS</b>					
ECGC	72.53	618.05	64.54	578.46	6.84
Star Health & Allied Insurance	5.72	22.42	0.00	0.00	

Note: Compiled on the basis of data submitted by the Insurance companies





## CIRCULAR - LIFE INSURERS

16th April 2007

IRDA/F&A/002/Apr-07

**Re : Declaration of Bonus under Section 49 of the Insurance Act, 1938**

### Introduction

This is further to Circular No.:F& A/CIR/011/MAR-04 dated 23 rd March, 2004 issued by the Authority on the said subject.

The Authority vide the Circular under reference, had issued instructions to clarify the manner of interpretation of the provisions of section 49 of the Insurance Act, 1938 for the purpose of declaration of bonus in respect of life insurance companies which had set up operations post opening up of the sector.

### Provisions of Section 49

Section 49 of the Insurance Act, 1938 provides that no insurer shall declare bonus to the policyholders except out of a surplus shown in the valuation Balance Sheet which may arise as a result of actuarial valuation of the assets and liabilities of the insurer; nor shall such surplus be increased by contributions out of any reserve fund or otherwise unless such contributions have been brought in as revenue through the Revenue Account on or before the date of valuation.

### Relaxation for Life Insurance Companies

With a view to facilitating declaration of bonus by an insurance company, where the Life Fund is in deficit, the Authority has laid down the manner of funding of the bonus and has stipulated conditions which are required to be strictly complied with. This relaxation has been made available to the insurers only during the first five financial years, beginning from the year in which the life insurance company commences operations.

While laying down the stipulated conditions, it was expected that after five years of operations, the operations of the life insurers would have stabilized, thereby enabling declaration of bonus from generation of surplus within the life fund without recourse to contribution from the shareholders.

### Extension of the Relaxations

The Authority has been receiving representations from life insurance companies for extension of the relaxation for the purpose of declaration of bonus in cases where the Life Fund is in deficit, for a period of another two years, i.e., upto the seventh year of operations of the life insurance company.

After examining the request of the insurance companies, the Authority hereby extends the applicability of the Circular No. F& A/CIR/011/MAR-04 dated 23 rd March, 2004 upto the first seven financial years, commencing from the year in which the life insurance business operations are started.

All conditions as stipulated in the Circular under reference would continue to be applicable and are required to be complied with by the life insurance companies.

Sd/-  
(C. S. Rao)  
Chairman

## CIRCULAR - LIFE INSURERS

16th April 2007

IRDA/F&A/001/Apr-07

**Re : Unit Linked Disclosure Norms**

To  
CEO's of  
All Life Insurance Companies

- This is further to Circular No. 054/IRDA/F & A/FEB-07 dated February 20, 2007 on the subject. At the request of the Life Insurance Companies, the requirement of 'Industry wise disclosure of Investments (with exposure of 5% and above) segregated at scrip level' under "Disclosures for ULIP Business" in the circular under reference, is being relaxed. The stipulations in the said para may now be read as "Industry wise disclosure of Investments (with exposure of 10% and above) segregated at scrip level".
- Further, in view of the difficulty expressed by the life insurance

industry in complying with the disclosure requirements for the corresponding previous year, the Authority hereby relaxes the requirement for the Financial Year 2006-07. In cases, where the insurers are unable to incorporate the previous year information, they are allowed to make the disclosures as stipulated in the circular under reference, only for the year 2006-07.

It is reiterated that this relaxation is provided only for the FY 2006-07

Yours faithfully

Sd/-  
(C.R. Muralidharan)  
Member



## NOTIFICATION

**Indian Institute of Insurance Surveyors and Loss Assessors**  
(Incorporated under Section 25 of the Companies Act, 1956)  
(Regd. Office: Parisrama Bahavan, 5-9-58/B,  
Basheer Bagh, Hyderabad-500 004)

### Notification - First Elections to the Council

In pursuance of Article 49 of the Articles of Association and the Procedure for the conduct of First Elections to the Council of the Institute (as amended upto date), I, D.K. Poddar, the Election Officer (as appointed by the IRDA), hereby notify the First Election to the Council of the Institute as follows, in consultation with the Promotee Council:-  
Election Schedule

Sl. No.	Particulars	Date & Time
1.	Last date for receipt of nominations by post at the Office of the Election Officer	Before 5.00 P.M. on 12-06-2007
2.	Date of scrutiny of nominations at the Office of the Election Officer	At 11 A.M. on 14-06-2007
3.	Date of announcement of list of valid nominations on the website of IRDA	15-06-2007
4.	Last date for withdrawal of nominations by intimation in writing by post to the Election Officer by the candidate concerned	Before 5.00 P.M. on 27-06-2007
5.	Intimation of final list of candidates on IRDA website	29-06-2007
6.	Despatch of voting papers by post to eligible voters from the office of the Election Officer	On or before 01-08-2007
7.	Last date for receipt of voting papers by post by the Election Officer	Before 5.00 P.M. on 03-09-2007
8.	Dates of Counting of Votes	10 A.M. to 5.00 P.M. On 6th, 7th & 8th Sept, 2007
9.	Date of declaration of results at the Office of the Election Officer	At 11.00 A.M. on 11-09-2007

(The same would be subsequently hosted on the website of IRDA)

Candidates who desire to contest the elections to the First Council of the Institute in terms of the provisions of Article 15(2) of the Articles of Association of the Institute, shall send in their duly filled in nominations in the prescribed manner by post to the Election Officer by name so as to reach him at his office on or before the aforesaid stipulated date and time at the following address:-

Shri D.K. Poddar  
(Election Officer)  
Dy. General Manager  
Tariff Advisory Committee  
Ador House, II Floor, 6-K,  
Dubhash Marg Fort, Mumbai-400 023.

It may be noted that persons who have applied for membership of the Institute on or before 28-2-2006, and whose application has been accepted for admission to the category of membership applied for and whose name is entered in the register of members maintained by the Institute shall be entitled to contest the first elections, propose or second candidates and cast vote. Candidates and all concerned are advised in their own interest to visit the website [www.irdaindia.org](http://www.irdaindia.org) for familiarizing themselves with the Articles of Association of the Institute and the procedure for the conduct of First Elections to the Council, as amended upto date.

The nominations shall be strictly in the form as prescribed and hosted on the aforesaid website. Nomination forms can be downloaded from the aforesaid website. Further, nominations shall be sent only to the Election Officer at his office in Mumbai.

The number of members to be elected from each Zone as specified in Article 15(2)(a)(i) & (ii) is as below:-

Sl. No.	Zone	Number of Persons to be Elected
1.	North - comprising of States of Jammu & Kashmir, Himachal Pradesh, Punjab, Haryana, NCT of Delhi, Uttaranchal, Uttar Pradesh and Union Territory of Chandigarh.	2 (two)
2.	West - comprising of States of Gujarat, Goa, Madhya Pradesh, Maharashtra, Rajasthan and Union Territories of Daman, Diu and Silvassa (Dadra & Nagar Haveli).	2 (two)
3.	South - comprising of States of Andhra Pradesh, Karanataka, Kerala, Tamil Nadu and Union Territories of Lakshadweep, Pondicherry and Andaman & Nicobar Islands.	2 (two)
4.	East - comprising of States of Assam, Arunachal Pradesh, Bihar, Chattisgarh, Jharkhand, Nagaland, Meghalaya, Mizoram, Manipur, Orissa, Sikkim, Tripura, West Bengal.	2(two)
5.	All India Basis	4 (four)

A copy of this Notification is also being hosted on the website [www.irdaindia.org](http://www.irdaindia.org)

Mumbai  
Date: 3rd May, 2007

D.K. Poddar  
Election Officer

<b>08 - 09 May 2007</b> Venue: Taipei	1st Asian Insurance CFO Summit - Creating a More Active Role for CFOs By <i>Asia Insurance Review, Singapore</i>
<b>14 - 19 May 2007</b> Venue: Pune	Prevention of Insurance Frauds By <i>NIA Pune</i>
<b>21 - 26 May 2007</b> Venue: Pune	Effective Underwriting in Detariff Regime By <i>NIA Pune</i>
<b>28 - 29 May 2007</b> Venue: Dubai	1st Middle East Conference on Bancassurance & Alternative Distribution Channels By <i>Asia Insurance Review, Singapore</i>
<b>28 May - 02 June 2007</b> Venue: Pune	HRD for Line Managers By <i>NIA Pune</i>
<b>07 - 09 June 2007</b> Venue: Pune	Scenario Mapping & Business Planning (Life) By <i>NIA Pune</i>
<b>17 - 19 June 2007</b> Venue: Amman, Jordan	MENA CEO Insurance Summit By <i>Asia Insurance Review, Singapore</i>
<b>18 - 23 June 2007</b> Venue: Pune	General Management Programme for Engineers By <i>NIA Pune</i>
<b>27 - 29 June 2007</b> Venue: Hong Kong	1st IFRIMA International Risk Management Summit By <i>Asia Insurance Review, Singapore</i>
<b>25 - 30 June 2007</b> Venue: Pune	Investment Appreciation Programme By <i>NIA Pune</i>

# // view point //

Improving professional competency is top of mind in all Asian insurance markets, not just Vietnam. Technical education and training providers have an important role in shaping and accelerating the uptake of new skills in both developing and mature insurance markets.

**Mrs Joan Fitzpatrick**  
*The Australian and New Zealand Institute of  
Insurance and Finance (ANZIIF)*

We actually are in the midst of a ‘multiple threat situation’ wherein we have extreme vulnerability to natural disasters, global terrorism, inadequate risk management instruments and high poverty rate with increasing population pressures.

**Gen. N.C. Vij, PVSM, UYSM, AVSM (Retd.)**  
*Vice Chairman  
National Disaster Management Authority, India.*

In the case of insurance companies, besides the critical insurance risks in pricing, underwriting and reserving; they also have to address other business risks such as credit, market, operational and reputational risks.

**Ms Teo Swee Lian**  
*Deputy Managing Director (Prudential Supervision)  
Monetary Authority of Singapore*

Traditional insurance market mechanisms are not adequately managing catastrophic risk. Floridians are being forced to choose between paying skyrocketing insurance premiums or selling their homes.

**Mr Charlie Crist**  
*Florida Governor.*

For the insurer, managing catastrophic risks involves a series of processes starting from assessment of the exposure, assessment of the accumulation of risks, writing the risks in the appropriate manner, arranging for the required reinsurance etc.

**Mr C.S. Rao**  
*Chairman  
Insurance Regulatory and Development Authority, India.*

It is perhaps important to re-emphasise the need for insurers to maintain prudent pricing strategies and effective cost control measures as this is in the best interest of the industry at large.

**Mr Low Kwok Mun**  
*Executive Director (Insurance Supervision)  
Monetary Authority of Singapore*