IBAI

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EXCLUSIVE!

Thoughts from senior insurance leaders

Roopam Asthana
CEO, Liberty General Insurance

THIS ISSUE

Azadi Ka Amrit Mahotsav

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THIS ISSUE

FROM THE PRESIDENT'S DESK

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YEAR OF CHANGE AHEAD

The first quarter has seen tremendous focus on the sector with Chairman setting up the tone for the next 5 yrs. Quarterly review meeting with CEOs of Life and General Insurance companies will be a routine. For the first time we are seeing targets been set for the Insurers and it is very ambitious looking at the present penetration and growth. We are currently hovering around 1% of GDP for GI and 3% on LI.

If the Industry has to achieve the above then we all have to pull up our socks and think out of the box as compared to current situation of renewing the existing policies. As a broking community we need to find a Blue Ocean strategy to align with the regulators dream. We have to look at the Life Insurance sector, as brokers we have not focussed compared to the other distribution channels.

The first quarter we saw a good jump in the GI figures as compared to the last quarter of F.Y. 21-22, the Industry netted a premium of 54,492 crores a jump of 22.73%. SAHI companies continues with another bumper quarter with a growth rate of 28.63%.

At IBAI our priority continues to speak up as the voice of insurance brokers and their clients in the interest of everyone who has a stake in the future of India, there is a plenty to do in the current year.

We have launched our new IBAI Website along with the state of art LMS modules which will benefit the members for their learning and development.

We have also launched the Unified platform for Retail Health which will be accessible to all the broker members free of cost for quote comparison.

Are we caught in the perfect storm? is the question we have to figure out.

Best Wishes to each and every one of you

Sumit Bohra
President IBAI

Roopam Asthana

CEO

Liberty General Insurance

Thoughts from senior insurance leaders

In an exclusive interview with IBAI,Mr. Roopam Asthana, Liberty General insurance\. shares his candid responses to a range of questions posed to him.

EXCLUSIVE INTERVIEW

The BIG question – Chairman IRDAI, Mr.Debasish Panda has set the pace for the non-life insurance industry..... and the pace for the next 5 years is a scorching one. How confident you are about the industry reaching this ' stretch target'?

In my opinion, historically the general insurance industry in India has under performed in terms of making relevant products available to the common man across the length and breadth of the country.

There are many reasons for this like:

- The concentration of focus of most all companies in the more developed metro centric urban regions across India,
- Inadequate investment in creation of economical distribution in the rural parts of India
- where over 60% of India's population lives,
- Large focus on motor insurance – which was easier to source as compared to other lines of business – at the expense of other lines of business,
- High levels of underinsurance in the commercial segments – just enough to meet the needs of their lenders
- Almost NIL investment in creating larger awareness of general insurance products and their need amongst the larger population of the country,
- Lack of adequate capital due to poor returns emanating from underwriting losses of the industry in general,
- Inside-out focus in product development with lack of innovation required for a country of our size and income disparity,

amongst many other reasons.

If I was to put it down to 3 areas of focus to achieve this growth we must address:

- Lack of Awareness
- Lack of Trust and
- Lack of Distribution

Two supplementary questions to the above
i) Which are the lines of business, in your opinion which will power the penetration drive leading to gross premiums of INR 11.7 lakh crores by 2027?
ii) Will the industry be able to bring in the humongous amount of capital required to achieve these levels of enhanced penetration?

While there are abundant opportunities for growth in all lines of business, some segments are today more poorly penetrated than others. As per census 2011, there are more than 30 crores residential houses of which, my estimate is not more than a couple of percent are insured today. Opportunities abound even in the Motor segment, which is relatively better penetrated – it is estimated that approximately 50% of vehicles on the road today do not have Motor Third party insurance. As per the Missing Middle Report of the Niti Aayog, 40 crore individuals do not have any protection on the health front. Our shopkeepers and self-employed professionals which form a large part of our economy do not have any insurance. To achieve a USD 5 Trillion economy by FY 2025, it is estimated that investment in infrastructure to the tune of USD 1.4 Trillion will be required – this will generate huge opportunity for Indian insurers. On the rural front, it is estimated that more than 70% of gross cropped area is uninsured. Add plantation crops, livestock and other retail segments and the rural opportunity is itself very large.

On the question of capital required for this growth, there is need for substantial serious long-term capital and not the more volatile short-term capital that our industry seems to be attracting right now.

While apparently there seem to be a lot of interested investors, it seems that a large majority of those are more interested in generating returns from valuation rather than sustainable long term returns from the core insurance business. As an industry, the regulator, the Government, and the industry participants need to do serious introspection on the reasons for the same. Another question that needs to be asked is why the increase in FDI in insurance from 49% to 74% has not attracted the expected capital. Looking at it from outside, the industry Combined Ratio of over 120% with an inordinately large dependence for returns on volatile investment income in an uncertain economic environment does not look very attractive. For the FYE 31 Mar 22, 25% of all business written by multi-line insurers was concentrated in Motor Third Party insurance – a tariffed line of business, wherein large segments are priced inadequately. Some strategic investors could also be waiting in the side-lines waiting for the regulatory environment to stabilize such that long term strategic plans can be put into play.

Coming specifically to Liberty, a renowned name internationally, do you look at India as a market totally different/insulated from the rest of the world where specific local practices have to be followed or do you feel that international best practices are becoming more acceptable with 'Price' not being the only deciding factor?

The general insurance opportunity in India is very large and India will very soon be amongst the top global insurance marts. Just like all other large economies, India is increasingly getting integrated into the global economy and gaining from it. In this context, believe the General Insurance business in India has a lot to gain from development and innovation in products, process, technology and reinsurance in more developed general insurance markets. The opportunity for us in India is to shorten the learning cycle basis international experience and adjust basis local nuances to be more effective. We at Liberty General Insurance are collaborating extensively with our foreign promoter, Liberty Mutual Insurance Group, especially in areas related to technology and technical aspects of insurance – specifically in data management, model based pricing, actuarial and analytics. For us in Liberty General Insurance, the driving objective is Sustainable Profitable Growth and we are keen to assimilate all experiences and practices from other global markets that will help us achieve our objective

In terms of a technology backbone and outreach, it has now become a 'Must have' and not merely a 'Good to have'. What are the technology initiatives at Liberty aimed at sales and more importantly servicing?

We are focused on driving both – "digital outside" and "digital inside". While we usually see the "digital outside" aspect of a business, the need to invest continuously in "digital inside" helps make a business more resilient, agile and flexible. We were one of the first insurance company in India to migrate all our applications to the cloud. We are currently running a Data Project to ensure that data that we have and will receive in the future is maintained in a fashion such that it can be used widely within the organization for analytics and business improvement. We were one of the pioneers in management of claims using photo/video and creating an infrastructure that enabled our customer service team to service our customers from anywhere in India and issue policies sourced in any part of the country from our operations hubs in other parts of the country.

This flexibility and agility was especially useful as the pandemic hit and parts of the country went into a lockdown. Another area where we are expending considerable efforts is in IT security that becomes more crucial as we continue to integrate our systems with other third parties. We are working diligently on use of AI for managing our Motor as well as Travel related claims. Implementation of OCR tech for Health-related claims has helped us cut down time taken for settlement. E-FNOL trough use of digital assets for claims reporting has made the experience seamless and easy. It is good to see that our customers are recognizing these efforts and we are seeing a steady climb in out t-NPS scores.

Even after nearly 50 years since nationalisation & 21 years after the opening -up, there is still a lack of trust between insurers and insureds. Insureds always have the feeling that getting a claim approved is a mammoth task in itself. No doubt, every insurer has the statistics to show that the number of claims settled exceed 85-90% of the claims lodged. Essentially the dissatisfaction and doubt stems from the whole process of claim settlement. What has Liberty done to change the narrative or make the whole claims process a pleasant experience for the policyholders?

One of the key principles that we put into play as we started our business in 2013 was that we can manage customer touch points better if we can own them. At a time when outsourcing was in vogue, we took a contrary step to insource all we can and outsource only what was really low value add for customer experience. As a result we insourced as much of the claims experience as was permitted by regulations and created a claims process that was standardized across all our branches. This gave us the ability to monitor the customer experience being delivered in a granular fashion and gave the customer more confidence as they were dealing with an insurance company employee and not any outsourced service provider. This also enabled us to monitor closely the quality of claims employees being hired and provide them with appropriate training – both in soft skills as well as technical - and clearly the resultant customer experience was better.

Later as we started our Health insurance business, we invested in our own in-house TPA "Health 360" where we were able to again monitor performance closely and keep improving it. We also run an internal program called "Grahak Manch" where the senior management team looks at complaints and listens to customer calls received in the call centre. This makes senior decision makers more aware of the issues, do root cause analysis and provide quick solutions pushed directly from the top. We have also automated our customer feedback loop to ensure the sanctity of that process and manage it better with focus on elimination of causes of complaints. Continuing investment in photo/video appraisal and use of AI for claims management will further enhance our customers experience in claims managements.

Are you happy with the product-mix between Corporate and Retail at Liberty? Any big changes contemplated in this mix, keeping in mind the numbers to be achieved by 2027? Specifically, does Liberty look at Crop insurance and Health insurance schemes of the Government as areas to be in?

Liberty General Insurance is a very well capitalized and long-term player in the Indian insurance sector. The company is focused on building a diversified portfolio that can deliver sustainable economic value and ultimately offer adequate returns to our shareholders. We will continue to focus on all lines of business that are able to provide us Sustainable Profitable Growth – in both the Corporate and Retail sectors.

In corporate business, a few of the first-generation private insurers are in pole position and command a lion's share of the market? This is more in case of risks with very high sums insured where capacity becomes the main issue. Do you see some of the younger private insurers pooling capacities and in collaboration with brokers, creating 'facilities' as prevailing in advanced markets?

To effectively cover emerging risks as well as larger exposures, the industry will have to look at all possible combinations. Lately the international markets have been witnessing an increase in the market of placements made on a portfolio or pool basis and we are also seeing some activity in our own local market as well. The success of the facilities being managed currently by local brokers will to a large extent decide the future of such arrangements in the future.

Liberty makes use of multiple channels for distribution. How do you address channel conflicts which are bound to arise and more importantly, how do you provide comfort to all channels that your approach is consistent?

Multiple channels have existed for many years now and insurers have through experience learnt to manage the potential challenges that arise in a multi-channel environment. The key is to be transparent in dealings with all channels and open to suggestions and feedback to make the experience of intermediation better for the policyholder. At Liberty General Insurance, we have always worked in collaboration with our partners to make the overall experience smoother and beneficial for the customer. If both the channel and the insurance company is focused on providing good value to the customer, this issue of channel conflict gets minimized.

Do you think there is severe shortage of good insurance talent in the industry ? How do you attract the best talent and what will be your suggestions for promoting better quality insurance education?

As per industry experts, employee attrition has been on the rise lately in private sector multi-line insurance companies. With new companies on the anvil and expected growth, we will need to induct a lot of new blood into our industry. Today, not too many young Indians get out of school aiming to work for an insurance company. We need to work with the education ministry to get a chapter on insurance included in the school curriculum for 11-12 grade students. This should also talk about the exciting things happening in the industry in terms of tech, analytics, underwriting, actuarial etc. Also, as we step up awareness for insurance in the country, it will have a positive rub on effect on the industry attractiveness for job seekers too.

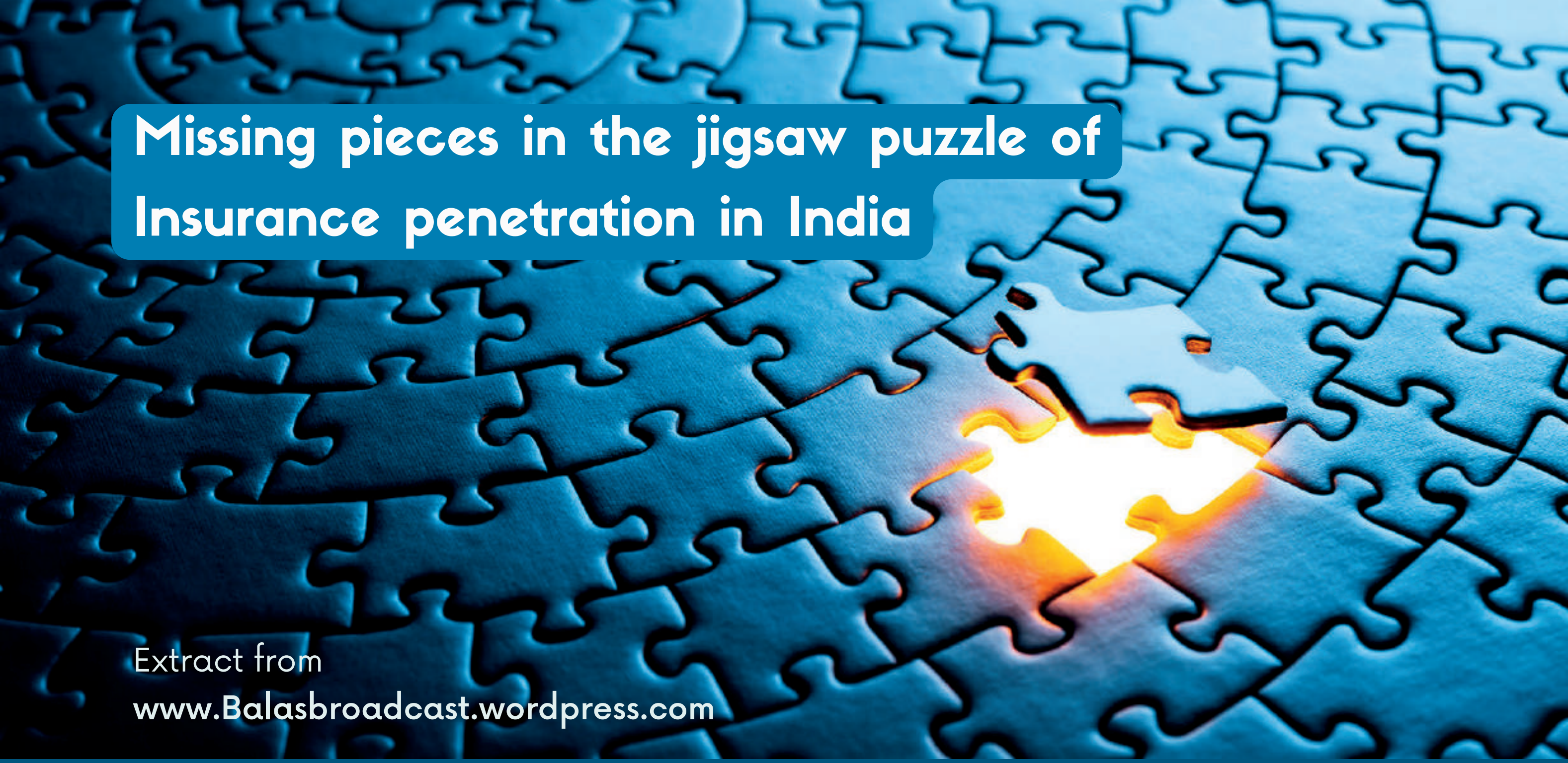
What are your expectations from brokers in terms of shouldering additional responsibilities on your behalf(apart from bringing in premium), be it in the claims process, risk management activities or generally educating the public on insurance awareness and nuances?

It is my belief that over a period of time insurance companies should become more technical in nature focusing on product and portfolio management, claims supervision, fraud management, underwriting, actuarial, investment management etc. and brokers and agents need to effectively become the front end of the insurer for all intermediated business. This requires a substantial investment by brokers in capital as well as in building trust with insurers and that has to begin now with provision of better-quality risk information to insurers to enable them to make the appropriate decisions on capacity, price and terms. I also see immense scope in brokers collaborating with insurers in the new regulatory environment to provide more focused protection to our customers.

Finally, out of the office, what does Roopam Asthana do to unwind? Two important Stress-busters you would suggest?

With long hours at work and constant travel, spending time with my family and family holidays are my biggest stress buster. Spending time with good friends even if it is on Zoom always lifts my spirits. Another habit that has helped is reading – both fiction and non-fiction – which takes me away from the humdrum of daily stress and expands horizons.

IBAI thanks for your valuable time and views and also wishing a grand success to the the entire Liberty General Insurance team on behalf the all Insurance brokers



Missing pieces in the jigsaw puzzle of Insurance penetration in India

Extract from
www.Balasbroadcast.wordpress.com

The oft-repeated question is how do we increase the insurance penetration in India? General insurance penetration stands at around 1% while life insurance penetration is 4% (total of 5%) This compares rather unfavorably with countries like South Korea (11%), Taiwan (17%), USA (12%), UK (11%) & Japan (8%). Obviously, there are reasons for the low insurance penetration in India, even after over two decades of opening up of the insurance sector. Introspection is the need of the hour but what we see are so-called experts/Tech wizards coming out with prescriptive solutions for what they perceive to be the problem hindering insurance penetration.

Is it the high cost of insurance which comes in the way of greater penetration? Or is it the absence of a variety of products suited to customer needs? Or is it the difficulty in buying insurance? Finally, are there some missing pieces in the jigsaw, that we are hiding with an ostrich-like approach which would help solve the puzzle of insurance penetration? I strongly believe that the industry is ignoring these missing pieces.

Before we attempt to examine each of the possible hindrances to penetration, one needs to be clear about how insurance penetration is computed. GROSS WRITTEN PREMIUM/ GROSS DOMESTIC PRODUCT X 100. So, popular myths that insurance penetration means a higher number of policies, more people/ businesses covered or covering larger geographical areas are busted, though I would hasten to add that doing all of these leads to higher gross premium thereby increasing insurance penetration.

The country's GDP will continue to grow and looking at the stated formula, insurance penetration can increase only if the numerator i.e. Gross written premium increases at a higher rate than the denominator does. The gross written premium can increase in three ways:

1. Increase in the number of insureds or a larger number of policies (New-New)
2. Selling additional insurance products to exiting insureds (New-Old)
3. Charging higher premium from existing insureds for existing policies (Old-Old)

It will be obvious even to a layman that charging higher premium from existing insureds can never be a long-term strategy and if pushed for long periods, can be counter-productive. Generating higher premium by cross-sell, i.e. selling additional insurance products to existing clients, calls for hard work/ larger number of resources and there are limitations on the extent to which this can be pursued. Acquiring a new insured and acquiring more and more of them is the real essence of insurance as a larger pool is created. Alas, this is the most difficult of all and perhaps the most expensive in terms of cost of resources. The spirit of insurance penetration is however only (1), which the IRDAI of late has been stressing upon — more and more people should have access to insurance, especially the ones in remote areas and those who are under-privileged. Premiums may be low but the overall volumes would make it viable, provided we get the distribution and servicing not only efficient but economical too. Is the Indian market ready for it?

In the recent meeting with the CEOs of all insurance companies, the regulator threw estimated targets for each of them and pegged the non-life industry's estimated premium in 2027 at INR 11.7 trillion, up from INR 2.2 trillion in 2022, leaving all of them stunned. Many pointed out that though the numbers were achievable, it would need huge infusion of capital, which may be an issue. A very pertinent concern — will the promoters put in additional capital? Should a foreign insurer be given a stake? Should PE investors be welcomed ? Should the companies go public or raise debt? That is a separate discussion. What will be the strategy to reach these mammoth targets at a CAGR of close to 40%? Am afraid none of the insurers had anything concrete to say, even about the broad contours of their Blue Ocean strategy. Yes, this will need to be Blue Ocean, for sure. So how has the non-life industry progressed so far? Remember, the current growth rates of the industry are nothing to be scoffed at. The regulator is only raising the bar to bring in the breeze of insurance penetration.
The industry growth, to a very large extent has been based on the following:

The industry growth, to a very large extent has been based on the following:

- Vying for the existing pie of business with the lure of lower premiums, where possible, especially in the corporate business segment and relying on organic growth of their clients, to enhance their own book.
- After a while, when loss ratios started catching up, insurers/reinsurer brought in an informal Tariff regime leading to huge increase in premiums in some segments. So the initial low pricing was neither based on sound underwriting/actuarial basis nor intended to benefit the customer. Simply put, it was to snatch each others' business
- On the retail or individual business segment, mainly Automobile & Health, insurers realized that the 'insurance buying' decision was based on the distributor's recommendation/choice and NOT that of the insured. So, it was easy to pamper large distributors who consolidated automobile premium with obscene pay-outs (both fair and foul). Was the insured getting the best deal? Maybe yes, in some cases, maybe no, in others. Consolidators would gravitate to those insurers who paid them more.
- In case of retail insurance products sold through banks, the insured could well be termed a hostage. Very high-priced insurance products would be foisted on him, he would be coerced into buying or in some cases, even his bank account debited with the insurance amount with the insurance premium. Clearly, where there was/is an opportunity to charge high premiums, it was done and the benefit passed on to the intermediary in the form of huge pay-outs.

The simple point — The customer or the insured was never the focal point for insurers though considerable lip-service was provided. Being part of this industry for over three decades, I make this statement with a sense of shame.

Now, coming back to insurance penetration, there are a number of pieces which would help complete the jigsaw puzzle. We have a mushrooming number of 'insuretechs' who claim to have found the missing pieces of the puzzle. Some propagate ease of buying from the comfort of our homes, with product comparatives, price comparatives, reduced pricing, etc. They have made some inroads but AGAIN, they are eating into the exiting pie of premium only. Enhanced penetration? No. Again the business models of quite a few of them are doubtful and sustainability is a question. Pricing is certainly a concern for insurance buyers but as explained earlier, insurers tend to be flexible, charging lower premiums where warranted and when the insureds are not the direct decision-makers, charge high prices too, feeding the distributors. So pricing is not a big hindrance to insurance penetration.

Whenever a distributor is questioned on why penetration is low, the stock reply would be ' absence of appropriate products' as desired by the buyers. Suffice to say, that there are over 2000 insurance products in the non-life industry and leave alone the buyers, distributors too would not be aware of all of them. So, the statement that absence of appropriate products hinders penetration, would again be incorrect.

What then are the missing pieces in the jigsaw? First and the most important piece is INSURANCE AWARENESS. Fifty years have elapsed since the cycle of nationalization of non-life insurance and then the opening up of the sector have happened, yet if one speaks to the man on the street, his only thought on insurance will be LIC. What has the industry done to dispel this misconception and spread insurance awareness in the form of insurance education in schools or massive awareness campaigns in the print and electronic media? It is only now that the regulator is looking in this direction and pushing the insurers. While we compare the mutual fund industry with the non-life insurance industry, look at what AMFI has done. Their campaign 'Mutual fund sahi hai' with celebrities as brand ambassadors has ceratinly helped create awareness and the massive inflows into the sector are proof s of the concept. Of course, they still have a huge untapped market. This role here should have been taken by the General Insurance Council. However, it was surprising to hear the Secretary-General of the GI Council speak recently at the Bima Manthan and extol as one of the Council's main activities, interaction with Courts and other Consumer Redressal Forums who he claimed often went overboard and beyond the policy conditions and passed awards in favour of the complainant insureds. So, is the GI Council's role centered around defending its member insurers? Should they not be concerned about why there are so many complaints against their members too? A corollary is that it is apparent insurance awareness is missing in the learned judiciary or adjudication authorities, so where does this leave the common man? Insurance companies have advertisement campaigns but if one sees their spends on Advertisement, the corresponding outputs or visibility is just not there. So where does the amount shown to be spent on advertisements actually go? Food for thought.

The second missing piece in the jigsaw relates to people who are aware or reasonably aware of insurance yet do not want to insure unless it is semi-mandatory or they are coerced into buying, like in the case of retail products sold by banks discussed earlier. This section of the population, apart from being aware of insurance , also have the ability to pay, yet do not buy.Why? It is TRUST DEFICIT. The vital missing piece in the jigsaw which insurers choose to hide! The utility or value of insurance is apparent only when there is a claim. Ask anyone, be he an individual or a corporate house and whatever be the class of business (Motor insurance, on an overall basis is an exception), the general perception is — 'getting a claim is a cumbersome process. There may be degrees of difficulty between different insurers but the Trust deficit exists and very little has been done about this by the industry as a whole. Insurers reel out Claim Settlement Ratios in the high 80s and 90s, but yet the customer is not satisfied. Why? The whole process of claim settlement is not seamless. It is never a pleasant experience and there are high levels of subjectivities, starting with varying interpretations of policy terms and conditions, calling for documents on piece-meal basis, seeking gratifications through third parties connected with the claim, etc. How does one explain the proliferation of claim-consultants (some with PE investors as well), insurance advocates and the piling up of cases before the Consumer Redressal forums, Ombudsman and Courts? Gross deficiency in the claim-settlement process. The grievance mechanism too is weak and time-consuming. Not for a moment am I advocating that all claims be settled blindly. Yes, frauds are a concern, no doubt and has to be curbed. However, do not look at every claimant as a fraudster. Looking at the moral hazard of the proposer should be done at the underwriting stage itself. Sadly, this is often given the go-by, what with steep targets, incentives, promoters' demands and so on. Trust Deficit is all pervasive — 1) Insured does not trust the intermediaries 2) Intermediaries do not trust the insurers 3) Insurers do not trust the insureds 4) Insureds do not trust the insurers 5) Insurers do not trust the intermediaries. In such an ecosystem brimming with mistrust, who has the time to focus on Insurance penetration? So easier options like consolidation, forced selling and higher pay-outs are resorted to, by insurers to grow their businesses.

Another favorite talking point of one and all is cracking the SME/MSME code through increased use of technology for buying and introduction of products suited to their needs. Do the SMEs/MSMEs see value in this? What is the point in selling an online policy to a MSME and once there is a loss, ask for the same set of documents as you would from a large corporate? How this segment operates is usually Greek & Latin to the underwriters and claim-handlers. Asking for Fixed Assets Registers, proper accounting records, statutory compliances, etc. only make the insureds move away from insurance....... widening of the Trust Deficit. The urgent need is to look at simple parametric losses, where once the event occurs, the agreed limit of indemnity gets paid. The Trust Deficit could be bridged.

INSURANCE AWARENESS and bridging of the TRUST DEFICIT by the insurance industry are the two missing pieces which will help complete the jigsaw of Insurance penetration. Insureds should see and feel value in buying an insurance product. Missing the wood for the trees and creating fancy products and ease of buying using technology alone will not give the desired results. Heavy lifting is required from insurers, intermediaries, the IRDAI and the GI Council...... and the immediate steps should be to start putting in these missing pieces.

In Cyber Insurance – One cannot stand still

Today the world is in a phase of digital transformation that is integrated with the economy with links to technological, industrial, social and business issues. In future, possibly no business transaction will be feasible without some involvement of the internet somewhere in the chain. Modern machinery sensor systems linked up with the Internet of Things and artificial intelligence will see to this. So, a situation has come where everything will be cyber. In this, there may be visible and non-visible risks, obvious risks and silent risks.

Given this scenario, an insurer's role would be to find strategies for security to minimise risks in advance. This means that digitalisation strategies will be viable only if they are linked with necessary security strategies. Insurers have an opportunity to make security a competitive factor. This is because companies are going to be scrutinised for possible data-protection violations. In case of violation, fines and penalties are certain, apart from losses that stare in the face owing to the breach. Insurer thus need to offer not only new and relevant cyber products, but they need to be bundled with new security concepts to create defences against anyone breaching the cyber infrastructure with losses all round for everyone, including to the insurer.

Customers seeking cyber insurance need to make a thorough risk analysis to scan for weak spots and the robustness of the defences built up. For this the insurer would have to ally with the best-in-class cyber specialists or companies and their scrutiny is going to be the greatest benefit for the insured. There is a new need for not only the IT Department but also all departments of the organisation as also for the entire human resource of the organisation to be involved in ensuring cyber security.

The employee resource has been found to be often the weakest link, so they need to be trained through to get the necessary familiarity with possible cyber-attack methods that may involve the human resource.

Along with insurance cover, now insurers offer Incident Response Package which gives the insured a 24/7 access to a large pool of resources and experts. Finally, the cyber cover is structured to offer to reimburse the costs for complete crisis management. Then comes the indemnity for the insured's own losses and those of third parties.

Thus, for the digital transformation that is happening in business and to everyone in the economy, there is the need for a fundamental mindset change to bring in holistic management of cyber risk for companies and organisations, which must involve a strong alliance with a competent cyber insurer.

Sum Insured in Health Insurance

It is estimated that medical costs rise every year at an estimated 15% per annum. Hospitals have to upgrade their equipment, Doctors and other care givers are to be paid more in line with rising standards of the care they give, drugs are getting costlier day by day. Thus, in the unfortunate event of an illness, huge medical bills are certain, which can financially cripple any person or family.

Therefore, organisations and companies are providing health insurance to the extent possible to their employees. Those who are not in formal employment can still have a group health insurance through their societies, clubs and any organised association. Those who cannot avail any group insurance, can have individual or family insurance. If people are not having a proper health insurance, a single instance of hospitalisation can destroy hard earned wealth and life standards.

What is Sum Insured?

Sum Insured is an important part of a policy as it is the amount of money that is provided to the insured when a treatment is required in a hospital. This amount offers reimbursement for the cost that the insured person bears in an event of a hospitalisation. Where an insured has to pay an amount less than or equal to the sum insured, the entire amount is reimbursed by the Insurance company, but subject to the other limitations in the policy. In case, the amount of hospital cost exceeds the sum Insured, the extra amount is to be paid by the insured. This is a concept that is known as underinsurance. Sum insured is the maximum amount of claim that can be paid in case of a covered hospitalisation and any other admissible amount payable.

An Example

A family may avail a sum insured of Rs. 15 lakhs and as an example, they face two incidents of hospitalisation in the policy year concerned. If the first hospitalisation had a bill of Rs. 10 lakhs and the insurer has paid an admissible claim of Rs. 8 lakhs as the expenses as the balance of Rs. 2 lakhs was not admissible as some of the expenses claimed were not covered, then a balance of Rs.7 lakhs is left to the account of the insured. If the second claim is also for Rs. 10 lakhs, and the claim payable is Rs. 10 lakhs, then as the balance left is only Rs. 7 lakhs, only this amount is payable. The rest has to be borne by the insured.

Policy sum insured	15 lacs	Expenses not payable as per policy	Net amount received
Claim 1	10 lacs	2 lacs	8 lacs
Claim 2	10 lacs	Nil	7 lacs

Taking the Highest Sum Insured That is Desirable

Seeing that medical expenses are rising incessantly, the best strategy is to take the highest sum insured possible. However, this can require high premium. To avoid this, a person needs to plan for a proper sum insured. The factors that need to be considered are:

- **Location where the person lives:** this means that persons living in Metro cities need to take a much higher sum insured than someone living in class A cities, and less in class B and C cities, because more important the city is, the higher is the likely cost of hospitalisation.

- **Determine the kind of hospital preferred:** There are persons who want to go only to super specialty hospitals, but others may like to go to well-known charitable or less costly hospitals where the quality of care may be very good, but the cost lesser. Finally, there are government hospitals where the treatment can be free or near free. In case there are room charges in government hospitals etc. it is likely that it will be low. The cost of medicines will be mostly the same in all hospitals.
- **Age:** The chances of suffering from a medical condition increases as a people age. So, those in their 40s would surely need a higher sum insured as compared to a healthy individual in his/her 20s or 30s. However, it is risky to bet on increasing sum insured to a high amount all on a sudden, as insurers will feel there that there can be a selection against them. Such a type of moral hazard will not be allowed even by courts. Hence, it is better to increase the sum insured gradually both against the risk of aging and the risk of inflation, say 5% to 20% every year. Insurer are supposed to give guidance in the increase of sum insured.

- **Current Health Condition:** If medical conditions like diabetes, Blood Pressure, etc. run in the family, it is prudent to anticipate that such a condition may affect a person who wishes to insure. This means that as time goes on, there can be higher medical expenses, which means that such a person needs to have a higher sum insured than a person not likely to have such a condition. However, it may be noted that those suffering from such conditions can have a loading in their premium. It is very important that fearing higher premium, no person should hide such conditions from an insurer, as then not only a claim arising may not be paid, but even the premium paid may not be refunded.

- **Current Life Stage:** If a person is planning to get married or start a family, it is better to have higher sum insured to bring in an extra layer of safety and then as the spouse and family members come in select the sum insured for them also judiciously or take a family floater policy (see details below).

- **Lifestyle:** Demanding professional life, high-stress levels, and poor eating habits could seriously impact the health of anyone sooner or later. For such persons a high sum insured is advised as they could face sudden cardiac or other problems. One common issue with sedentary lifestyle today is the need for Bariatric Surgery. This is now covered for those with high BMI, where no other intervention to reduce weight is possible. All such types of surgeries come at a high cost.

- **Annual Income:** Percentage of Annual income can be linked to the sum insured for a health insurance cover. Insurers also see the income of an insured when they allow a sum insured of high levels.

- **Hospital Bed Charge:** The bed charges that the insured needs to have – whether single room, double bed room etc. is an important indicator when selecting some insured. This is because many policies have a limit of bed charges on per day basis, at usually 1% of the sum insured. In addition, insurers often deduct claims for other important and necessary expenses like surgery in the same proportion as the underinsurance for room rent. Hence if the person ill, takes a room which costs Rs. 10,000 per day and the policy is only for Rs. 5 lakhs, then there is an underinsurance for bed charges to the extent of 50%. All other expenses can have insurance limit of the same proportion and accordingly an insured will get only 50 of the expenses incurred reimbursed.

- **Examine All Exclusions and Conditions:** It is better to get advice on what else could be issues to avoid being underinsured. It is better to scan the exclusions and conditions of the policy. It is better to be sure about what the policy covers and for how much for each procedure or treatment as there can be ceilings in many places in the policy. There will help to avoid unpleasant surprises during the policy period.

Various Types of Sum Insured

- **1.Individual Sum Insured:** This is the sum insured that is allocated to the individual who is insured and the sum insured is valid for a year.

- **Family floater Sum Insured:** A family floater policy is a policy that covers the entire family on the payment of a single annual premium. The sum insured covers the entire family and can be used in case of multiple hospitalizations in the family. Family floater policies save on average individual premium, that is the premium for all will be lesser than under separate individual policies. The real advantage of a family floater is sharing of the sum assured on a floater basis.

- **Group Policy Sum Insured:** A group health insurance policy covers a certain number of members who may belong to a same company or group. Group health insurance policies can also extend coverage to family members of the insured person as well. It can be on individual basis or floater basis. The real benefit of a group health insurance policy is that the premium can be negotiated with an insurer based on the risk load or the claims experience of the group. Group discount allows a person to take more insurance than an individual policy where no discount is available.

- **Group Floater Coverage:** In a group policy special group floater may be allowed for the group members for those who have to claim for a very high-cost surgery or illness. This amount is common to the group to be used by any member of the group who have the misfortune to require treatment for a named critical illness as listed in the floater benefit.

Mainstreaming Insurance in India

Insurance is a product which is sold. The famous Malhotra Committee Report acknowledged that insurance is needed by everybody, but stated that "left to themselves economic agents –whether individual or groups – would rather carry their risks than buy insurance." The intangibility of insurance, the asymmetry of information that both parties carry and the need to highlight the compelling the probability of risks etc. create difficulties for the customer to understand and buy insurance on their own. Thus, there is an onerous duty to sell, where the need is to convince the customer to buy a product that they badly need.

There is the need to examine carefully what prevents the widening and deepening of insurance penetration in the country. Today's regulatory focus has a few consumer 'rights':

CONSUMER RIGHTS IN THE INSURANCE SECTOR

1	Right to information and advice
2	Right to suitability of products
3	Right to fair terms in contracts
4	Right to fair treatment
5	Right to redressal of grievances
6	Right to privacy of personal information

Best practice insurance should be the key to future selling. Codes of best practices are available and can be further fine-tuned. Customer needs are to rediscovered. For instance, in general insurance it is customary to focus on fire insurance as the first protection for property losses. It may be interesting to note that a study in Australia found that an individual is likely to lose his/her home 50 times more due to a health or disability disaster than due to a fire disaster.

Intermediaries now need to be empowered to get related to customers with assured contract certainty, a robust culture of treating customers fairly and immediate rectification of failure in service.

The Insurance play rests on risk that may or may not happen in future, and hence must place highest value on trust or credence where conduct failures erase all selling efforts. Right conduct while selling, underwriting, renewing, settling claims and servicing should be nurtured by proper corporate governance policies, self-regulatory approaches and regulatory provisions.

Once the conduct issues are firmly in place, numbers look very alluring. Retail insurance in the general insurance sector looks highly promising. Visible wealth is growing in the country but the insurance convictions of the population needing insurance is lacking. The distribution industry has to rise to the challenge by demonstrating coverage of risks in real terms and payment in real time when a claim comes up.

Today's world is moving to the digital age and intermediries need to empower by online assistance also. A customer must be able to get information from an intermediary through websites, whatsapp etc. Interested customers should be able to get personalised advice online. Software can be used to illustrate risk scenarios and insurance options to inform and advice customers. Online assistance can be used to compare, fill and upload proposal forms, pay online and recive all documents online. Intermediaries must assist to ensure that claims are cashless, hassleless and electronically transacted to the extent possible. In property insurances the insured should be given the damage assessments and reports and explained why certain amounts/items are not payable.

Once the insurance industry templates of contract and service certainty are in place, there is an enormous opportunity to employ millions of persons in insurance as intermediaries and scale up insurance penetration. Skilling of intermediaries is an essential ingredient of creating trust, and the thrust on continuous training and upskilling of intermediaries must go on and on. Creating insurance awareness of products, processes, services, claims and their ramifications gives intermediaries the necessary micro-knowledge essential to give confidence to customers.

There is a need to make intermediaries visible and tangible before policyholders and be held accountable for services for which policyholders pay commissions through insurers. Thereafter insurers may make available a checklist for the performance of the intermediary using which the intermediary may be appraised by the policyholder. This is in line with policyholder rights and the responsibilities of the industry as to the suitability of products and other services to be rendered.

Insurance is necessary for the millions in India. Intermediaries only can ensure a surge towards insuring all, because only a dedicated distribution force properly equipped with customer empowering insurance solutions, can provide the necessary impetus. The country awaits accelerated economic development which cannot happen without robust risk management and insurance support.

Insurance in a sweet spot in the economy

Everyone lives with risk. Insurance is now a requirement to meet the rising expectations of individuals and families with regard to manage and mitigate risk in their lives.

As wealth and assets increases in the economy along with education, insurance applications have been well accepted by all sections of the economy, with the government itself promoting it in areas such as agriculture and health. Along with this, the increasingly asset owning middle class, and the poor and marginalised are getting the attention of insurers and intermediaries. Similarly, the adoption of insurance has moved from large organisations to medium and now to village level artisans and micro-organisations. From trade and manufacturing, the service industry is getting into the risk management mode and insurance for them has been rise. The portfolio shift is clearly visible from fire and marine which are now growing more slowly compared to miscellaneous including motor. Agriculture insurance for instance is growing rapidly worldwide.

Insurance has been noted for tailoring its applications to meet diverse needs. Thus, even for a simple cover such as personal accident, there can be many applications. It is sold both by life and non-life insurers. It can be offered as a standalone cover, or in combination with other relevant covers in a package. Personal accident can be taken by the individual, family or as a group cover, it can be purchased or gifted, or given as an incentive. It can be taken by employers to meet their liability, or as an incentive those working in high-risk sectors. It can be collateral for loans and other liabilities.

Insurance covers are known for their capability to be flexible and relevant to serve the manifold requirements of customers. The traditional coverage concepts can be moulded so as to be adapted to the requirements of various life situations. The other aspect of insurances adaptation is to expand insurance domain to remove as many of the restrictions and exclusions as possible. There is a continuous social and legal pressure to expand coverage. As the percentage of population that is covered increases it becomes possible to widen coverage without significant increase in premium. Across all policies there has been betterment in offering value to the consumer as consumer expectations rise and affordability increases.

Insurance is replete with concerns for consumer needs and the future needs of the economic sectors. Thus, insurance covers have moved from single peril covers to multiple peril policies, from single risk policy to package policies and from covering one facet of a risk to offering end to end solutions and holistic covers. Thus, multimodal transport insurance has followed the warehouse-to-warehouse cover in marine insurance which was an end-to-end solution to a large trail of risks involving various types of transits and storage at various points. Similarly, a full project insurance can be an amalgam of various other all-risk insurance covers (all risk) and all the parties concerned and for multiple years. Exclusions are now limited to non-fortuity losses that can happen such as inherent vice, wear and tear and so on.

Insurance is a public good. Developmental economics show that there is a health-wealth connection. A healthy workforce is the key to higher productivity, less absenteeism, less expenditure on curative care and so on. Worldwide, it has been seen that ill health disproportionately affect the poor, and they bear a higher burden of both morbidity and mortality. Ill health or accident triggers a chain of adversities for the poor, which may consist of loss of work, deprivation of earnings, expenditure for medical treatment, sale of essential assets to defray the costs of treatment and falling prey to loan sharks leading to unaffordable borrowings and indebtedness. Health insurance has now become an essential insurance to promote good health and wellness among the population.

The essence of insurance is to transfer of risk in society through the sharing of risks. Risk sharing is a diversification exercise by which the risk is spread across the many, and the uncertainty faced by many in an individualised manner is subsumed to become an actuarially sound means of providing indemnity to the few who sustain the losses. Thus, the insurance mechanisms convert the uncertain to the certain and obtain a measure of mastery over the risk faced.

Risks looming over individuals, organisations and the society can bring about underinvestment in the economy unless credible institutions exist to handle risks that are extrinsic to the core competence of those facing the risk. Institutions like insurers exist to take on the risks that bring in unforeseen losses and, in this exercise, they provide necessary comfort to the various players and stakeholders in the economy.

Thus, one can envisage insurance as an increasingly growing sweet spot in the economy, as it can it bring a win-win paradigm to all concerned. The insurance concept not only brings succour directly to the insured, but creates a virtuous cycle for all in the economy who may be directly or indirectly linked to the investments made, especially if such linkages are also suitably covered. Through reinsurance, risk is also shared and redistributed across the world creating confidence and capacity across the world. An increasing virtuous cycle is evident as the mutuality concept through pooling is expanded continuously and is allowed to transcend all sectors of the economy and all geographical boundaries to become a globally relevant public good.

The Missing Piece in the Puzzle for Insurance Brokers

Ramprasad Sanjeevi,
Co-founder & Executive Director,
iNube Software Solutions

iNube

With over 70% of the commercial insurance business sourced through brokers, without any doubt, brokers are the most preferred channel for purchasing a commercial insurance policy for Indian consumers. The T&Cs in commercial insurance policies can be quite elaborate and confusing, and the brokers have mastered interpreting them and are advising consumers to pick the right policy.

I have often wondered, with such deep domain knowledge and advisory skills why are brokers not able to tap into the retail insurance business as successfully as they have done in the commercial insurance business. I see two potential reasons for this – one, limited human resources to reach consumers and two, lack of affordable technology to achieve the scale in the retail business. Let me elaborate a little on this.

Traditionally, brokers are used to meeting customers face-to-face and advising them on the right insurance policy to purchase. While this might be feasible for large commercial risks where the numbers are few and the ticket sizes are large, it is practically impossible to do the same in retail insurance where the numbers are large, and the ticket sizes are small. Brokers might have to deploy an army of people to replicate the model in the retail insurance business. But will the revenue they earn be commensurate with expenses incurred on human resources?! Might not be.

On the technology front, the retail insurance business demands a software application which can integrate with multiple insurance companies for quotes/policies on one side and sustain the concurrency load and traffic on the other side. Clearly, brokers would need an enterprise-grade software application and not just any software application. For building and maintaining such enterprise-grade applications, brokers will need to make huge investments towards hiring expensive IT talent with adequate technical and domain knowledge, and towards procuring hardware infrastructure for hosting. Needless to say, it would require considerable time to build, test and start using such applications. Licensing such software from product companies is another option, however, there is a limited number of large, reputed companies which have such an offering for insurance brokers in India.

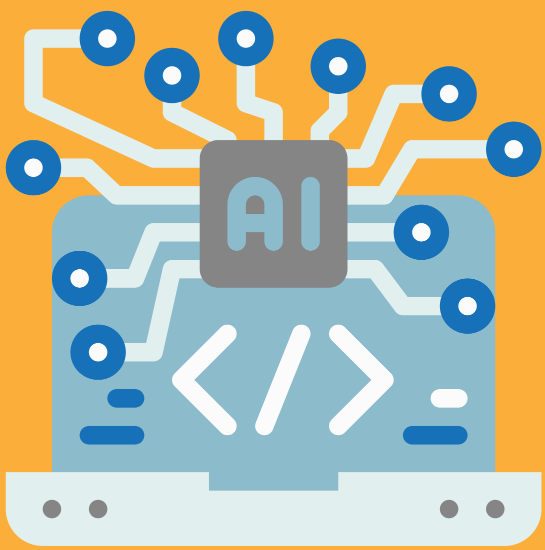
Yes, with the introduction PoSP (Point-of-Sales Persons) category of insurance distributors by the regulator, the challenge of human resources and associated expenses incurred by brokers towards sourcing of retail insurance business is largely addressed. Brokers can now put some energy behind identifying PoSPs who can follow their ideology, recruiting them and onboarding them. These PoSPs can become their champions to drive the retail insurance business for them. The PoSPs can also help in expanding the broker's business canvas - from being a regional player to a pan India player, and from being a commercial insurance player to a retail insurance player. Brokers can now aim to reach every nook and corner of our large populous country with PoSPs. But will be possible for brokers to recruit and onboard PoSPs manually, without any system support? What about managing performance PoSPs? What about tracking their business, calculating commissions payable, reconciliations, regulatory reporting, compliance to ISNP, etc? Will the brokers be able to manage all this without a software system supporting it? No way! It is possible to manage without an insurance broker software initially but as the volumes increase it would certainly get very chaotic and become unmanageable for brokers. So, what can a broker do?

All business entities including insurance brokers aspire to grow, run profitably, and increase their ROI for their investors! Isn't it? Specifically, from insurance brokers' point of view, the business environment is extremely conducive to growth. First of all, brokers have an extremely supportive insurance regulator with its new chairman who is on a mission to drive insurance penetration in India. Secondly, COVID 19 pandemic has helped people realize the importance of insurance, especially health insurance and life insurance. Thirdly, thanks to the digital drive across the country, there is widespread availability of mobile devices and access to the internet even in rural areas of the country which is, in turn, driving digitalization and online adoption.

Fourthly, with the revolution in the banking industry and the advent of UPI, financial transactions are highly simplified. Be it the purchase of insurance products online, payment of premium or settlement of claims, everything is simplified. Finally, insurers too have realized that they can accelerate their growth through meaningful partnerships with insurance brokers and have started investing in software systems which can API-enable transactions. With API-enablement of transactions, brokers can use their own brand to sell insurance products online. Also, many insurers have already moved to the cloud-based environment to support the elasticity and scalability required for the growth of their business. There is no doubt that other insurers too will take this path soon.

So, what is the missing piece in the puzzle which can help insurance brokers catapult their business into a different league? This is a no-brainer – it is a software system which can consume the APIs provided by insurance companies/enable online journeys on one side and tie all the back-end operations together through well-defined system processes on the other side! But getting the right software in place is easier said than done! Where can brokers get modern-day insurance broker software without any compromises on their own branding, customer data security, performance, and scalability?

Even if brokers have found an answer to this question, there are other bigger questions that the brokers will have to find answers to before they proceed with the purchase of the software – Will such a system dig a hole in the broker's pocket? How much will it cost for procuring the license? How much will it cost to host the software on cloud? How much will cost to maintain the system and keep it up to date with the APIs provided by insurers? How many years has the company offering the product been in business? What kind of customers is the company serving today? Does the company understand the insurance business and nuances involved well enough? Brokers also need to be aware that switching systems or changing vendors frequently is never a wise choice – right from new system implementation, user adoption, and system usage to data migration everything is likely to be painful and would have an impact on their business.



In order to find the missing piece in the puzzle, the brokers can do the following: -

1. Look for a software system which is pre-integrated with insurance company APIs. Integration is a complex activity and involves multiple sub-activities like understanding API structure, master data mapping, data transformation to match the structure, etc. By selecting a pre-integrated system, the risk of a non-functioning system and delayed go-live can be eliminated.
2. Go for a system which offers an independent database, not a shared one. Ensure customer data and policy data which are your business assets are never compromised.
3. Get a digital footprint but do not compromise on brand identity. Insist on the inclusion of brand logo on the portals, especially the front-facing portals given to customers and PoSPs. Brand identity is extremely important in this digital world.
4. Do not go for part solutions, go for an end-to-end solution especially if there is no IT expertise available in-house. It is ideal to sign-up for a managed services model where the right software to host, and everything is managed by the vendor.
5. Look for a vendor who understands the insurance broking business well and is ready to offer the software solution on a pay-as-you-earn commercial model (SaaS model). Let the vendor have the skin in the game and carry some risk.

iNube

Nube Software Solutions is software products company founded in 2010. iNube offers multiple software products for insurance sector, each solving different problems across the value chain of insurance. iNube was recently included in the top 100 global Insurtech companies by Fintech Global in their Insurtech100 list.

LIFE INSURANCE

An approach to Life Insurance Business for Brokers

K R Subramanian

Let me start this article with an ancient prayer "Mrityor maa Amritum Gamaya" (Lead me from Death to Immortality). Life Insurance leads us from Physical Death to Financial Immortality.

In India, in 2020-21, whereas the broker channel's share of Individual Life Insurance (private sector) New Business was just 2.83% and its share of Group Life was slightly better at 3.92%, its share of General Insurance business was a whopping 37.3%! As the figures show, unfortunately, Brokers have either not shown much interest or did not achieve significant traction in Life Insurance and preferred to concentrate on Non-Life.

Historically, in India, Insurance has been a push product rather than a pull product. At least for General Insurance, there are statutory compulsions for insurance or insistence by lenders for insurance of collaterals or insurance requirements of Letter of Credits in trade. In the absence of any such compulsions, Life Insurance sales required tremendous relentless pushing by agents. The number of agents leaving the system is almost equal to the number of new joinee agents each year! So frustrating!!

While Non-Life deals essentially with fortuitous events which may or may not occur, Life insurance deals with a certainty (Death) but whose exact timing is not known. Non-Life contracts are usually contracts of Indemnity where as Life Insurance contracts are benefit contracts. In Non-Life, the proximate cause of the loss has to be the "Insured Peril" for claim admission, whereas in Life Insurance, death due to any cause is the insured event. Non-Life contracts are usually for one year while Life Insurance contracts are long term. The performance of General Insurance business becomes visible in just one year where as it takes several years to properly evaluate the performance of Life Insurance business.

Life Insurance Sales can be broadly divided into two categories

1. Life Insurance for the individual consumer - Retail
2. Life Insurance for the Business/Organisation – Commercial

Brokers are a great combination of risk management expertise and commercial acumen. That is why they are so adept at selling General Insurance products. With this mindset, they can effortlessly orchestrate sale of Commercial variety of Life Insurance, which in the current times is termed as B2B!

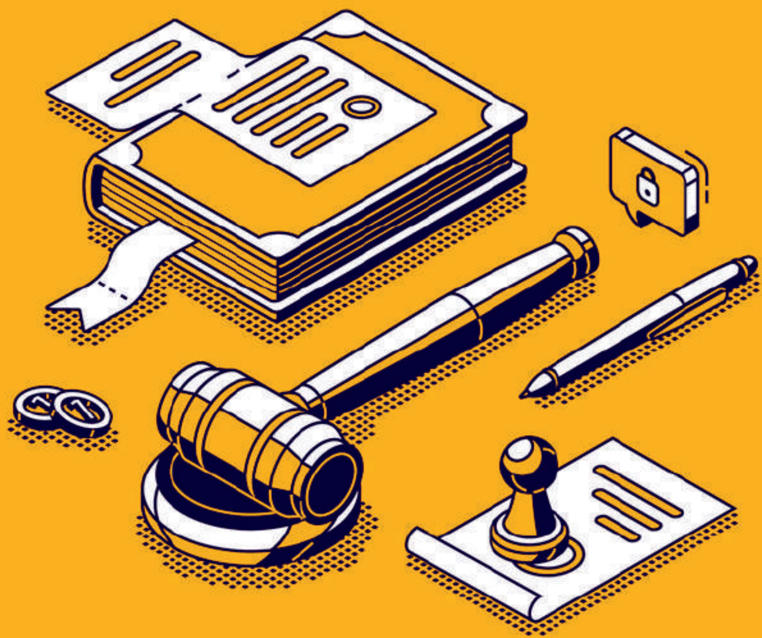
The commercial Life Insurance is transacted in many forms like

1. Group Life Insurance
2. Key Person Life Insurance
3. Employer-Employee insurance
4. Partnership Insurance: Buy-Sell agreements
5. Key employee retention insurance
6. Succession Planning Insurance
7. Estate Equalisation Insurance
8. Coverage for small business owner to provide for unpaid loans, payroll, vendor payments, utilities etc
9. Group Credit Life Insurance

Brokers by their very nature are comfortable in dealing with business owners for management of their risk management requirements and offering them General Insurance solutions. Hence, it should be a very natural extension for them to start pitching Commercial Life Insurance ideas for their customary customers.

I am stressing on this for two reasons. One is, this area of Life Insurance is highly underexplored. Secondly, this can provide the crucial missing pieces for finishing the jigsaw puzzle of comprehensive risk management of enterprises (both small & big), along with the customary General insurance offerings. So, please go ahead and become a Complete Broker!

Wilful & Reckless in Insurance – Does it negate coverage?



There is supposed to be a difference between accident, negligence and wilfulness/reckless acts. Insurers do not have any difficulty about claims arising out of accident, but do have issues relating to negligence and in no way wish to pay if the loss arose out of a wilful act. How does court interpret these terms in the context of claims?

In the case P (A Child) v Royal London Mutual Insurance Society Ltd [2006] EWCA Civ 421 (2006), England and Wales Court of Appeal examined the terms. The case related to the burning down of a big mill which was partly used for commercial purpose, but which also had a derelict part from where the fire got started. The policy had an exclusion: "(viii) any wilful, malicious or criminal acts."

The court said the following:

The legal dictionaries show that wilful is used in many contexts. One can safely say that it always means deliberate and that it will take any further meaning from the word or words which it qualifies and its context but beyond that one cannot go

So, unaided by authority or dictionary definitions, what is the proper construction of the liability extension in this policy? It provides indemnity to the insured against legal liability arising from incidents resulting in accidental damage to property. This wide cover is excluded if the incident giving rise to the liability involves any wilful, malicious or criminal act. The adjectives qualify or characterise the excluded acts and look to the quality of the act and the state of mind of the actor.

It is tolerably clear what malicious or criminal acts are and I think these words lend colour to what is meant by a wilful act. In this context it must be some act which is blameworthy. If so, something more than a deliberate or intentional act is contemplated. If that is all the word meant, the wide cover apparently provided by the extension would largely be taken away by the exclusion. Most acts, including negligent acts, are deliberate and intentional.

Obviously if the act is deliberate and intended to cause damage of the kind in question it will be within the exclusion. It will be wilful, as the judge held, and might also be malicious or criminal. But for an act to be wilful I do not think it is necessary to go as far as this. It will be enough to show that the insured was reckless as to the consequences of his act. Recklessness has been variously defined but if someone does something knowing that it is risky or not caring whether it is risky or not he is acting recklessly. Put more precisely for present purposes if the insured is aware that what he is about to do risks damage of the kind which gives rise to the claim or does not care whether there is such a risk or not, he will act recklessly if he goes ahead and does it. I think such conduct was intended to be included in the exclusion and I would equate a reckless act with a wilful act for this purpose. This approach focuses upon the state of the insured's mind when he does the act rather than its intended consequences. Defined in this way the exclusion does not require the insured to intend to cause damage of the kind in question.

Equating wilfulness with recklessness is consistent with the dictionary definition of wilful which includes obstinate and headstrong conduct. That is the essence of recklessness as well. In the course of his submissions this morning Dr Jess maintained his primary submission which was that wilful simply meant deliberate, but conceded that if it meant something more, it might mean recklessness in the way I have explained. Mr Irvin was willing to accept this construction as well. It falls somewhere between that contended for by the insurers and that found by the judge. It deals satisfactorily with the example which troubled me most. If I light a bonfire in my garden which gets out of control and burns down my neighbour's house would I be covered by this policy? On the insurer's construction I would not because I had started the fire deliberately; on the judge's construction I would be covered because I had not intended to burn down my neighbour's house. But if I was reckless in the sense that I have explained, cover would be excluded and rightly so. My act could properly be characterised as wilful.

My conclusion about the proper construction of the policy does not however affect the result of this case. Having regard to his age and his statement, I do not think C's conduct could be described as reckless. It could be described as stupid but that is not enough. There could have been another result if his statement had been different, but taking it as it stands (as I must) he was unaware of the risk that his fire might burn down the mill and there is nothing to show that he did not care whether it might have done so or not.

For these reasons, I would dismiss this appeal."

Why Insurer mindsets still keep asking for needless documents at the time of claim.

The Supreme Court of India in the case the Oriental Insurance Company v. K. Narasimha Reddy, passed on order of 09.06.2022, relating to a motor claim as to why the insurer was not right in having insisted that the insured submit the Driving License.

As stated in the judgement, the insurer repudiated the claim on the ground that the DL was not produced. The SC pointed out that there were concurrent findings, and even the surveyor's report, that suggested that the Driving License was burnt in the accident. Still the insurer insisted for producing the DL, which was beyond the control of the insured (SC's words). The appeal by the insurer was accordingly dismissed and the decision of the District Forum and National Forum was upheld in allowing the claim.

There are points to ponder in this by the industry. There are ways to prove a claim by many methods, but traditionally claim officials have carved in their minds in stone, a blind list of documents. In motor claims, one such document is the DL. Traditionally, it was a joke that insurers used to insist on the DL even when the vehicle was stolen when properly parked including even if the DL was kept in the stolen vehicle.
It is quite strange that such a matter had to go up all the way to the Supreme Court. Proving a claim need to move from carved in stone document list to need-based list and even then, following the IRDAI Regulations documents in the public domain should be obtained by the insurer or the surveyor direct and this will be a more authentic way of assuring of the genuineness of the document.

Common man's understanding to be used to interpret the Policy

Courts appear to be clear that the common man's understanding of the loss is what counts in interpretation of a policy contract and not an abstruse or legally complicated explanation.

1. UK Supreme Court in the case Global Process Systems Inc and another (Respondents) v Syarikat Takaful Malaysia Berhad (Appellant) (2011):

"The matter that this is not the test for proximate cause, but that proximate cause is one that which is proximate in efficiency. However, what that means cannot be more clearly stated than in the UK case Bingham LJ put it in T M Noten BV v Harding [1990] Lloyd's Rep 283, 286-287 which ruled that: "Unchallenged and unchallengeable authority shows that this is a question to be answered applying the common sense of a business or seafaring man." The principle that common sense is the basis of understanding principles such as that of proximate cause is repeated across many court rulings."

2. Supreme Judicial Court of Massachusetts in the case New England Gas & Electric Ass'n v. Ocean Accident & Guarantee Corp. 1953, stated: The term accident, unlimited except by the word sudden, should be given its ordinary meaning as denoting an unexpected, undesigned, and unintended happening or a mishap and as including an event which, according to the common understanding of people in general, would rightly be considered as an accident. (Dow v. United States Fidelity & Guaranty Co. 297 Mass. 34, 38. Sheehan v. Goriansky, 321 Mass. 200, 205.) Indeed, under a policy phrased as the instant one was, it was held that "In determining the meaning of the term 'accident,' as used in this policy, the question is not what it might mean to a scientist or one skilled in the subject involved, but what it means to the average man ... the words 'accident' and 'accidental' should be given the meaning they impart in common speech." Ocean Accident & Guarantee Corp. Ltd. v. Penick & Ford Ltd. Inc. 101 Fed. (2d) 493, 497.

3. The Washington Supreme Court in the case Queen City Farms, Inc. v. Central Nat'l Ins. Co. of Omaha (1994) stated:

"Construction of an insurance policy is a question of law for the courts, the policy is construed as a whole, and the policy "'should be given a fair, reasonable, and sensible construction as would be given to the contract by the average person purchasing insurance.'"

4. In the case The Financial Conduct Authority v Arch Insurance (UK) Ltd and others [2021] UKSC 1 the SC stated: "In any event, the overriding question is how the words of the contract would be understood by a reasonable person. In the case of an insurance policy of the present kind, sold principally to SMEs, the person to whom the document should be taken to be addressed is not a pedantic lawyer who will subject the entire policy wording to a minute textual analysis (cf Jumbo King Ltd v Faithful Properties Ltd (1999) 2 HKCFAR 279, para 59). It is an ordinary policyholder who, on entering into the contract, is taken to have read through the policy conscientiously in order to understand what cover they were getting."

Hence, policyholders and intermediaries need not panic if insurers or their advisors give very esoteric interpretations so as to confuse the insured. The classic case is what the Supreme Court stated in the case New India Assurance Company Ltd vs M/S Zuari Industries Ltd. & Ors (2009): "13. The other surveyor P.C. Gandhi Associates has stated that "Fire of such a short duration cannot be called a 'sustained fire' as contemplated under the policy". 14. In our opinion the duration of the fire is not relevant. As long as there is a fire which caused the damage the claim is maintainable, even if the fire is for a fraction of a second. The term Fire' in clause (1) of the Fire Policy 'C' is not qualified by the word 'sustained'. It is well settled that the Court cannot add words to statute or to a document and must read it as it is. Hence repudiation of the policy on the ground that there was no 'sustained fire' in our opinion is not justified. 15. We have perused the fire policy in question which is annexure P-1 to this appeal. The word used therein is 'fire' and not 'sustained fire'. Hence the stand of the Insurance Company in this connection is not acceptable."

Underinsurance and the Floater Policy

Insurers may occasionally raise confusions about underinsurance in a claim. In the case of the floater policy in the SF & SP policy, the arguments of the insurer can be very confusing. Luckily, such a case went before the Madras High Court and their ruling in the case M/S. Oriental Insurance Co. Ltd vs M/S.Monotech Systems Ltd (2019), which explained the concept is as follows:

"11. The records were examined and the oral submissions of both sides were considered carefully. Upon perusal of the Award, I find that the findings with regard to under-insurance are based on a reasonable interpretation of clause 10 of the General Conditions of the Floater Policy as also the Floater Clause. In this regard, it should be borne in mind that the Floater Policy was drafted by the Petitioner/Insurance Company and, therefore, any ambiguity should be resolved in favour of the insured and not the insurer by applying the interpretive rule of contra proferentem, as held by the Hon'ble Supreme Court, in the context of an insurance contract, in paragraphs 9-13 of Industrial Promotion and Investment Corporation of Orissa Ltd. v. New India Assurance Company Ltd (2016) 15 SCC 315.

With specific reference to clause 10, as correctly contended by the learned senior counsel for the Respondent, the said clause would not be rendered otiose if it is interpreted as being applicable on a location-specific basis as regards the Floater Policy subject to the condition that it would be applied to all the locations wherein the contingency occurs and this is precisely how the Arbitral Tribunal interpreted it. Another important facet is that the Floater Policy does not stipulate that the sum insured should be apportioned across the 17 locations, proportionately, on the basis of the value of machinery at each location. In the absence of such stipulation, can such a term as to apportionment be implied? In my view, implying such term would be contrary to the Floater Clause, which indicates that a higher premium is paid for the Floater Policy, and more importantly, that the sum insured (SI) would be available in aggregate for one, more or all locations. In addition, the test of business efficacy, which is a test of necessity, is also not satisfied in this case because the Floater Policy is, undoubtedly, workable without implying such term.

IBroker

Editor : P.C. James
E-mail : Secretary@ibai.org

Insurance Brokers Association of India
A –Z Industrial Premises, 1st Floor, Unit no. 165, G.K. Marg. Lower Parel,

www.ibai.org

Secretary@ibai.org

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