Together We Serve

GENERAL INSURANCE COUNCIL

Newsletter

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Message

Dear Readers

Wish you all a very Happy New Year

Every new year brings new hopes and resolutions for improvement over last year. I am happy to share with you that the growth story of general insurance industry continues unabated. The growth of premium over last year for the period up to December 2019 is 14.5%.

Many underwriters are however increasingly looking forward to enforcing strict underwriting discipline in the market. Aim is to have a viable portfolio and sustainable pricing of their products since most of the insurers have combined ratio exceeding 100% for last couple of years.

Property underwriters have arrived at most of the risk occupancy rates based on IIB loss cost data and it has contributed to not only growth but also to improvement in the operational results of this line of business.

A similar exercise needs to be taken up for all other lines of business showing negative results so that insurers charge proper and reasonable rates, develop sufficient reserves and meet their commitments at the time of claims quickly and adequately.

Loss prevention is another area where industry needs to focus. IRDAI has formed a working group drawn from experts from the industry to suggest measures for loss prevention of entire general insurance industry and this certainly is a good initiative. A reliable institution is the need of the hour to advise industry and insurers on loss control and risk management at micro and macro levels which can supplement their in- house loss prevention and share the learning from large losses or catastrophic events.

In some market, loss prevention is a well-developed mindset, whilst in others it is still developing. The effective use of data analytics, improved risk assessment, pricing and application of loss learnings to avoid and reduce losses are vital. Reduction in losses will result in better pricing for the benefit of customers.

Let us hope that the new year brings new opportunities, prosperity and best of health to the people of the country as well as to all of us in the general insurance industry.

With best wishes.

MN Sarma

Secretary General, General Insurance Council

Regulatory Sandbox: An Ally to the New Insurance Paradigm

Tapan Singhel
MD & CEO, Bajaj Allianz General Insurance

Insurance business has been there in India since centuries. Even the modern form of insurance, with its specialty lines of business has been around for a few decades now. Post privatization of the sector, new players showed up and the industry witnessed a phase of newer business models, tech infusion led innovative solutions primarily centered around customer delight. Right from issuing policies online, to harnessing social media, to developing apps for easy claims settlement – the industry has come a long way - all thanks to its tryst with technology. Technology has enabled this otherwise traditional, paper intensive and office centric industry to becoming omni present – even in the remotest corners of the country. Today a representative of the insurance business, an employee or an intermediary, can source clients and facilitate insurance services sans any physical documentation through his/her mobile or tab. This is the supreme power that digitization has bestowed up on us.

Despite this, insurance even today remains largely a push based industry. Our penetration is less than 1%, even after taking into account all the cotemporary Govt schemes on Health, Agri, PA, railway transportation insurance to name a few. Inspite of it being a protection tool of unparalleled financial credibility, people are still unaware of its benefits and for those who are aware, the process to buy the services of the insurance industry is yet to be made

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Inside

Regulatory Sandbox: An Ally to the New Insurance Paradigm

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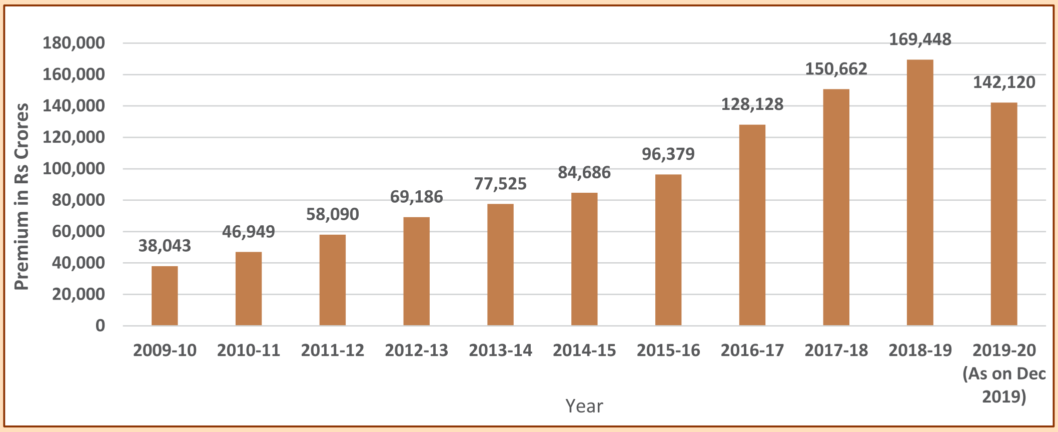
simpler, more interactive and motivating. Coupled with this is the emerging area of digital disruption in almost all the industries that we underwrite. The next decade will be all about EVs and autonomous cars, AI, IoT, blockchain based processes, and as insurers we have to inevitably adapt, rather succumb, to these changes happening around us. Add to it the changing climatic conditions – the world and the Indian subcontinent especially is under a deluge of global warming kindled catastrophes; and as an industry that aids and rescues one from "Acts of God" induced financial loses, we have to predict fast and act faster, in the wake of calamities. This calls for further innovation in the entire process, in the entire range of our product offerings, in our claims settling methodologies and in the way we collaborate and operate with our various stakeholders.

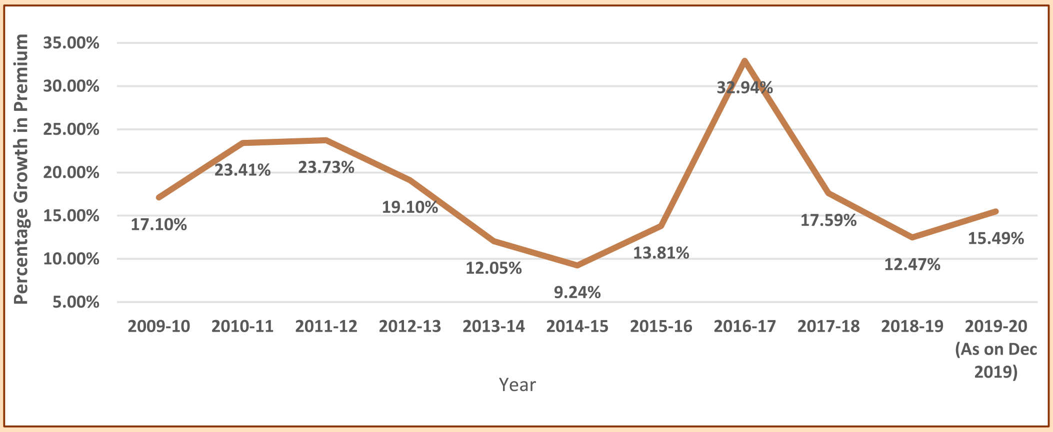
Since the entire nature of risk that we insure is being transformed due to technology, albeit at a much faster rate than we ever contemplated, we have to brace ourselves and enable the launch of new products, services and channels. I believe the recent move by IRDAI on the regulatory sandbox is hence the need of the hour and a very welcome move. A sandbox approach means experimenting and learning before finally adopting a technology or system in its entirety, thus controlling the impact of possible failures. In its core, the sandbox structure is meant to facilitate an ecosystem for the roll-out of experimental "out of the box" ideas. Such an atmosphere shall foster the growth of innovative ideas and aid the companies to come up with innovative solutions that are backed by the regulator, while ensuring policyholder protection. The regulatory sandbox shall thus help incumbents and new players both, to manage risk during the testing phase in the marketplace. This gives companies a wider horizon to experiment and implement innovations, which earlier was hampered because of regulatory uncertainty resulting in abandoning of certain innovations at infancy, never seeing the light of the day. With sandbox regulations we can maintain a healthy balance between growth in the industry and protecting the customers by leveraging the headroom to develop and implement the latest innovations.

A key outcome of the sandbox regulation will be digital adoption led disruption. To enable this, cross-sector convergence will become a necessity, which will require us to redesign our traditional value chains to forge new types of partnerships. Hence, it would encourage us participating in digitally connected ecosystem "partnerships" which otherwise is not natural and requires very different approaches as compared to the existing ways of conducting insurance business. This would urge us to strengthen analytics and explore data monetization of the data mines we already have with us. This will lead to us improving our advanced analytics and predictive capabilities, which can then enable dynamic pricing, risk mitigation and product innovation, something a lot of our peers in the service industry are already offering. To redefine customer relationships, to create value and to transform this wonderful financial protection tool from a push product to a pull product – we as insurers must take this opportunity of taking calculated risks to broaden our horizons.

Gross Direct Premium Income - Indian Business



Growth Rate in Premium



Note: The data given for December 2019 is unaudited

Insurance of RPAS / Drones (Circumstances and Challenges)

"Drones overall will be more impactful than I think people recognize, in positive ways to help society" ***Bill Gates***

"As a pilot, I can tell you drones may be a lot of things; airplanes they are not" ***Robin Hayes***

What is a Drone/RPAS/UAV?

An aircraft and its associated elements, which are operated with no pilot on board is called as Unmanned Aircraft System (UAS). Remotely Piloted Aircraft System (RPAS) is one subset of UAS. UAV is Unmanned Aerial Vehicle

UAVs are classified into five segments based on their weight inclusive of payload.

Nano: up to 250 grams, Micro: above 250 grams but less than 2 kg, Small: more than 2 kg but less than 25 kg, Medium more than 25 kg but less than 150 kg. Large more than 150 kg.

All drones (other than nano drones) are required to have a unique identification number (UIN).

All drone operators (except for nano and micro drones) are required to obtain an Unmanned Aircraft Operator Permit (UAOP). There are strict guidelines by DGCA for imports and UIN and UAOP clearances. Requirement of third-party insurance is one of the major requirements for permitting drone operations.

Workshop on drone at IRDAI Hyderabad on 17.10.2019

DGCA norms

All UAVs will have to be registered and provided with a Unique Identification Number (UIN) before they can be operated. There will be a set of rules referred to as Civil Aviation Requirements (CAR) that all UAVs will have to adhere to depending on their classification. All UAVs can only be flown by trained pilots, training requirements for whom have been detailed.

However According to an Economic Times report there are 6 lacs drones which are not even reported

Insurance of Drones

There is little or no effort by any company to develop specific product for Drones. Some companies use Aviation forms and underwriting guidelines to issue liability policies for drones whereas others have used special contingency provisions. Product still in development stage and currently there is no loss and underwriting data to base premium charges.

Underwriting Challenges: A risk understood little

As civilian and commercial use of drones rapidly increases and continues to evolve, advances in technology are inevitably accompanied by a host of new and little understood risks. Globally there have already been enough incidents and near misses to date involving drones to generate concern that the likelihood of collisions and other loss events will grow as UAS numbers multiply. However, there is little data to assess the risks in Indian market.

Experience of pilots and users, New companies with innovative products/use but no history, Cyber liability (shared platforms and networks, cloud computing, data transfer, etc.)

Implications of data collection. The ability to house advanced technology including high-powered cameras, facial recognition technology and audio sensors allows drones to collect a large spectrum of data.

Insurance Costing considerations

There is little clarity on which rating elements to use. Should it be type of drone (altitude, weight, speed) or type of use (complexity of operation) or flight within or beyond visual line of sight, payload (technical sophistication of video, sensing and data equipment) operator's experience operating environment/flight area or what is/is not covered, whether for own use or for hire? Some or all of these will have to be considered for pricing depending on risk.

Risks covered:

A) Loss of or damage to the drone, Reasonable expenses for wreck removal, Reasonable trespassers costs, Loss of or damage to drone spares and equipment, Loss of or damage to the payload, Reconstitution of data

B) Public liability, Premises liability, Products liability, War and allied perils liability , Defense costs and expenses

General Exclusions:

Excess, Loss of use of the Drone, Wear and tear, deterioration, depreciation, freezing, breakdown, defect or failure howsoever caused in the Drone, Claims arising whilst the Drone is being used for any illegal purpose or for any purpose other than those stated in the Policy Schedule.

whilst the Drone is being used for Recreational Flying., whilst the Drone is participating in any racing or competition Flying, whilst the Drone is outside the geographical limits stated in the Policy Schedule., whilst the Drone is being operated by any person other than the Authorized Operator stated in the Policy Schedule., Radioactive Contamination

The Insured and any Authorized Operator must comply with all air navigation and airworthiness orders and requirements issued by any competent authority affecting the safe operation of a Drone.

Other challenges

Inevitably claims will be made for events not intended to be covered such as trespass, nuisance and privacy. Insureds will likely expect coverage for these. Managing expectations will be challenging.

More challenges will come in the nature of Fly-aways (software glitches, lost connections, wind, etc.) Command & Control deficiencies Sense & Avoid deficiencies, Spoofing (someone successfully masquerades as another), GPS Jamming transmitters that block lawful communications), RFS Interference (radio frequency) Security and Privacy concerns and the human Factor (particularly the rise in novice users)

It will be challenging to combine these into clear risk categories. Need specific coverage language.

In view of the fact that no previous experience is available both for the product, exposures, nature of losses, underwriting considerations as well as claims support for this product, insurers might look to provide such cover as a reinsurance driven product as provided for in the IRDAI Regulations.

And this is what some insurers are working on presently to provide specific cover for Drones/RPAS.

Live demo of drone during workshop

Long Term Impact of IIB pricing

Post de-tariffing in 2007, most of the insurers in Indian market started charging a premium rate in Fire department which was not commensurate to the exposure involved. With the addition of new insurers, more capacity was available hence competition became fiercer. Pressure started mounting on underwriters from external and internal sources. External Pressures were from Customers who were taking advantage of competition and started to get the cover at almost zero FLEXA premium and they became relentlessly price focused. Large number of small brokers having very little domain knowledge and rely on networking and deal-making skills, started showing more aggression. Bigger traditional insurers were fighting to retain market shares and Smaller new players were fighting to get foothold. Imprudent practices (esp. on pricing) by insurers leading to a spiraling domino effect on all insurers. Practice of offering "accommodative terms" to facilitate bringing down the price also started happening. Internal pressures were to maintain Top Line where incremental growth was under severe strain and also pressure to maintain/increase market share was another factor which forced underwriters to accept the risk at any price.

This competition was happening at the cost of the Reinsurers who were supporting the proportional treaty of the insurers in the Indian Market. Regulators were also having concerns about the falling prices in the Indian market and were knowing that underwriters are ignoring the pricing mechanism which they should follow for property. Top line was the mantra for all underwriters and CEO's were also involved with the message that if others can do why can't we. For the benefit of the market, Regulator asked IIB in the year 2014 to find out the loss cost for industry in Fire segment based on the data available form insurers. IIB based on available data, severity and frequency, came out Loss cost rates for 89 occupancies. Regulator circulated this data to all insurers (as industry data) with the rider that insurer should charge either the industry loss cost published by the IIB or their own loss cost or even they can charge lower than their own loss cost subject to approval by their Board. Similarly, IIB published their second loss cot in 2017 for 109 occupancies and third in 2019 for 291 occupancies.

Reinsurer on the other hand were trying to make market correction for charging the proper rate to use the treaty but were not successful. They started reducing the treaty commission forcing the underwriters to charge a proper rate so that treaty may show some positive result but that also did not work. Finally, in 2019, for 8 occupancies, they decided that if insurer wish to use their treaty, they have to charge the industry burning cost published by IIB, which has further been increased to all occupancies published by IIB in 2019. This was subject to various legal scrutiny, but all court awards were in favor of Reinsurers.

This pricing mechanism will have a positive impact on the performance of the proportional treaty of insurers and it may show a positive balance in favor of reinsurers and they may increase the treaty commission in near future. Placement of proportional treaty which till two years back was a problem may be placed easily. Insurer may think of increasing their net retention if profitability increases. This will lead to more retention in the Indian market and saving in the dollar outflow.

Customer may not feel happy because of no competition in the market and every one offering the same rate for a particular occupancy. It should be realized that insurance is not a product which should be rated based on competitive pricing. Exposure in a particular risk remains the same for all insurers whether big or small hence price should also remain same. Customer should understand that protection of risk lies with the existence of insurers only and any management may not run any business on a long term loss basis. However, insured's concern that loss making units are also paying the same premium as the profit making units, for that underwriters have to necessarily impose some loading formula so that two may be distinguished. Giving discount on Burning cost may not work because this is a floor price.

This pricing mechanism will certainly help the Indian insurance industry to remain strong in Fire segment to support the customers at the time of loss when they really need it.

*by **Mr Sunil Singh,** Deputy General Manager, New India Assurance*

Editor's Note

"Change will not come if we wait for some other person, or if we wait for some other time. We are the ones we've been waiting for. We are the change that we seek."

- Barack Obama

Change has always been in the wind for the insurance industry. But two trends are distinctly visible. One is use of technology and the other is hardening of premium rates. While latest technology aims at better customer service and improvement in insurance penetration the price regime is now aiming at sustainiblity.

The two article that this editions carries focus on these two trends

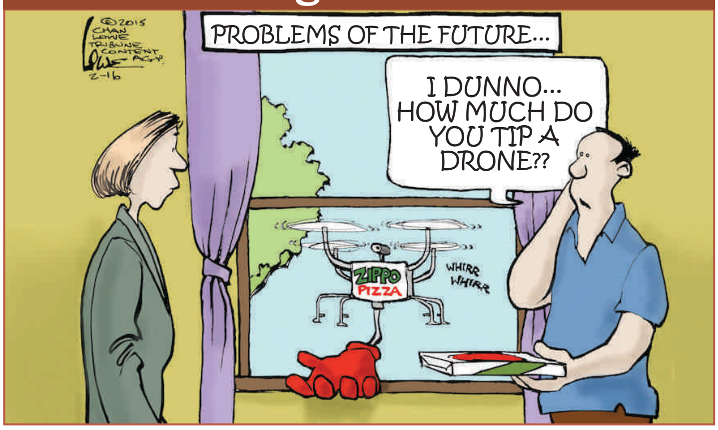
Regulatory sand box has been in news for quite some time. In this edition we carry an article from Mr Tapan Singhel CEO and MD of Bajaj Allianz. Another article from Mr Sunil Singh of New India assurance points out to hardening of rates and stringent underwriting discipline in view of mounting losses.

Will be happy to have your feedback.

Wish you all a very happy new year.

Sanjiv Singh

In lighter vein



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