

Highlights



CMD Receives The Industry Catalyst Award 2011.



Shri. J Hari Narayan, Chairman IRDA with CMD, during his visit to GIC Re



CMD addresses Asian Re Management Board meeting.



Mr. Sujay Banarji, General Manager addresses Asia Insurance Post Conference

Editor's Thoughts:

The Arab Spring, inspired by democracy, united by Face book and excited by the lofty ideal of freedom is being watched by the entire world as it continues to inspire disenchanted people in regions outside the Arab world, amidst chantings of 'Ash-sha'byurid isqat an-nizam' (The people want to bring down the regime). While this political unrest is certainly a matter of concern to the property casualty underwriter with exposure in these regions, in a larger political context one is reminded of Nelson Mandela's statement – "It is never an easy walk to freedom. Let freedom reign. The sun never set on so glorious a human achievement."

A recent Standard & Poor's Report states that the Indian Non life Insurance sector is a gold mine of growth potential and is expected to see significant changes in its dynamics in the next five years. The upcoming developments indicated include the potential increase in foreign direct investment and initiatives for public awareness and transparency. The challenges facing the industry, apart from the low penetration levels, relate to underwriting discipline, growth policies and risk management. Incidentally, it may also be of interest to note that S&P has downgraded the business outlook of India's general insurance companies from stable to negative as they believe there will be significant downward pressure on the companies' bottom-line due to underwriting losses.

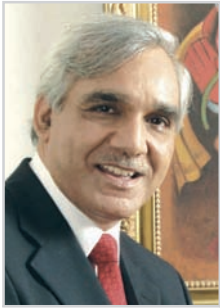
The Indian Regulator (IRDA) has announced that Insurance companies that have completed 10 years are eligible to make initial public offer. Paving the way for risk based decision making, all non life insurance companies have been asked to calculate their economic capital requirements for their business by September this year, in line with the trends in developed markets.

GIC Re has performed exceedingly well in the last financial year with a gross premium of US\$2624 Mn. In the cover story of this issue we examine in detail the portfolio analysis of our financials. Despite the soft market conditions that challenge any reinsurer, it is a matter of pride to us that we have grown by 20%, with a foreign portfolio book of over 41%. We are confident to retain our position as a major player and a leading reinsurer in the Afro-Asian region, while moving into a quoting market in the international market as well.



(Alice Vaidyan G.)

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From CMD'S Desk

This month marks two decades of beginning of the era of liberalisation of the Indian economy. Liberalisation in the insurance sector in real terms was ushered in only a decade ago and during this period the sector has been a real gainer; from just 5 insurance companies to 48 is indeed a remarkable achievement.

The first decade of liberalised insurance sector has seen it achieve several milestones including setting up of Terrorism Insurance Pool, Indian Motor Third Party Insurance Pool, introduction of new products and detariffication among others. During the decade, the industry also had some anxious moments. During such times GIC Re, rose to the occasion and supported the industry to sail through the turbulent times. Now IPOs and M&As' are on the anvil. These would be the litmus test of the health and strength of the industry.

IFRS, Solvency II and now a global framework by International Association of Insurance Supervisors (IAIS) to foster cooperation among local regulators are all efforts to establish better supervisory collaboration. These would ensure global convergence of regulatory measures and stabilise insurance markets the world over. This becomes all the more important because insurance is an industry with cross border ramifications and global economic woes show little signs of abetting.

World over the spotlight has been on going global but in case of Indian insurance industry the home turf itself has enough to offer for a long time to come and potential to grow at an even faster rate. Indian insurance industry has been lucky even in case of its human assets. The manpower inherited from the pre-liberalisation era has served the industry well during the last decade not only in the country but also in several other emerging markets.

Now as we expand we need a fresh bunch of professionals to deliver the targets and to match the demands of the growing industry. We have remarkably positive demographic features and should be able to encash that to our advantage by investing on professional education and training in Insurance.

The frequency and intensity of not only climate related disasters but also of man-made disasters has been increasing affecting the overall development of the country. This requires us to work for creating the required awareness about these issues and work in a more mature and prudent way to understand and respond to the new challenges that face us every new day.

My compliments to Team GIC Re for the excellent performance put up by the Corporation during 2010-11.

Good Luck.

Yogesh Lohiya

FINANCIAL HIGHLIGHTS FOR THE YEAR 2010-11

The year 2010-11 recorded an increase of 20% in the Gross premium which on 31st March 2011 stood at ₹ 11681 Crores compared to ₹ 9737 Crores on 31st March 2010. The Net Earned Premium recorded a growth of 18% which on 31st March 2011 stood at ₹ 9544 Crores compared to ₹ 8076 in 2009-10. Based on the net premium, Fire Insurance recorded a growth of 5 %, Marine cargo 26 %, Marine hull 18 %, Miscellaneous 27 % and Life 145 %. Net Incurred Claims stood at ₹ 8626 Crores in 2010-11 against ₹ 6856 in 2009-10. The net incurred claim as a percentage to net earned premium was 90% as compared to 85% in the previous year.

The income from investment was ₹ 2339 Crores in the fiscal 2010-11. The Profit before Tax for 2010-11 was computed at ₹ 1189 Crores as against ₹ 1290 in the previous year. There is a fall in the profit in the current year as an additional provision of ₹ 480 Crores for Motor Pool had to be made for earlier years as per IRDA directives. Profit after tax for the current year is ₹ 1033 Crores as against ₹ 1774 Crores in the previous year.

The Board of Directors of the Corporation has proposed a dividend of 48 %, amounting to ₹ 206.40 Crores, for the year under review. An amount of ₹ 34.28 Crores has also been provided as dividend distribution tax on the dividend declared during the year.

Total assets of the Corporation increased to ₹ 49729 Crores as on 31st March, 2010 from ₹ 43842 Crores as in the previous year. The Net Worth of the Corporation increased to ₹ 9820 Crores from ₹ 9027 Crores in the previous year. The Technical Reserves of the Corporation increased to ₹ 16637 Crores as against ₹ 13753 Crores in the previous year.

The total investments of the Corporation in India (representing investments, loans and deposits) amounted to ₹ 19778 Crores as on 31.3.2011 as against ₹ 17480 Crores in the previous year. The book value of the investment (excluding loans) as on 31.3.2011 increased to ₹ 19185.14 Crores from ₹ 16788.69 Crores and the realizable value is ₹ 38003 Crores showing an appreciation of 98 % over book cost. The mean yield on funds (with profit on sale of investments) stood at 12.56%. The net NPA % (Non Performing Assets) was at 1.23 %.

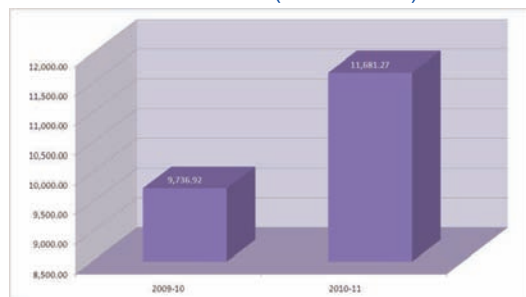
The ratio of total business expenses to the earned premium i.e. combined ratio stood at 111.6%. The Solvency Ratio of the Corporation was 3.35% which is higher than the required solvency ratio of 1.5%.

PERFORMANCE HIGHLIGHTS

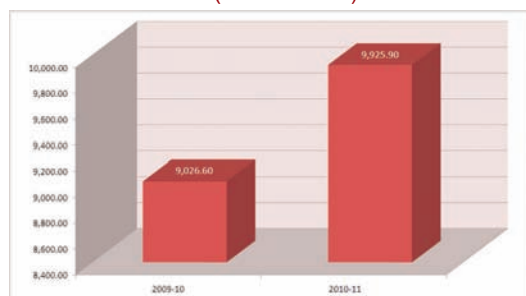
(₹ in Crores)

	FIRE		MISCELLANEOUS		MARINE		LIFE		TOTAL	
	Year ended		Year ended		Year ended		Year ended		Year ended	
	31.03.11	31.03.10	31.03.11	31.03.10	31.03.11	31.03.10	31.03.11	31.03.10	31.03.11	31.03.10
Gross Premium	3467.42	3219.54	7094.98	5653.75	1084.37	849.61	34.51	14.03	11681.27	9736.92
Growth %	7.7	40.4	25.5	14.9	27.6	1.8	146.1	19.5	20.0	20.8
Net Premium	2837.75	2696.65	6713.95	5302.99	926.52	763.21	34.35	14.03	10512.57	8776.87
Growth %	5.2	32.4	26.6	14.1	21.4	8.3	144.9	19.5	19.8	18.6
Earned Premium	2737.33	2361.09	6013.96	4982.9	768.56	719.57	24.19	12.88	9544.03	8076.43
Incurred Claims	2200.49	1636.38	5863.61	4748.23	543.79	464.95	17.89	6.83	8625.78	6856.39
% to Net Earned Premium	80.4	69.3	97.5	95.3	70.8	64.6	52.1	48.7	82.1	78.1
Net Commission	650.91	716.98	1067.54	1043.45	204.22	167.69	3.68	2.12	1926.35	1930.25
% to Net Premium	22.9	26.6	15.9	19.7	22.0	22.0	10.7	15.2	18.3	22.0
Expenses of Management	25.19	24.57	45.45	39.97	5.17	4.54	0.21	0.09	76.03	69.17
% to Net Premium	0.9	0.9	0.7	0.8	0.6	0.6	0.6	0.7	0.7	0.8

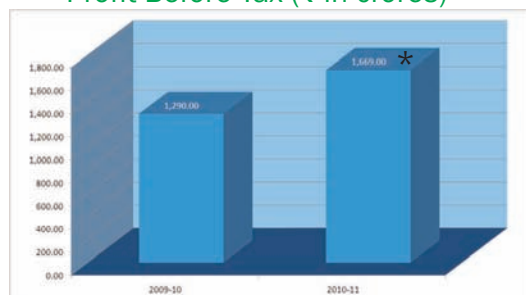
Gross Premium (₹ in crores)



Net Worth (₹ in crores)



Profit Before Tax (₹ in crores)



* (Excluding additional IBNR claim provision for Motor Pool)

(₹ & US\$ in millions)

	2010-11		2009-10	
	Rs.	US \$	Rs.	US \$
NET EARNED PREMIUM	95440	2144	80764	1803
NET INCURRED CLAIMS	86258	1938	68564	1530
PROFIT BEFORE TAX	11893	267	12902	288
PROFIT AFTER TAX	10334	232	17746	396
TOTAL ASSETS	497286	11170	438421	9786
SHARE CAPITAL	4300	97	4300	96
FREE RESERVES	93902	2109	85966	1919
TECHNICAL RESERVES	16,637.0	3737	137526	3070

1 US \$ = ₹ 44.52 as on 31st March, 2011

1 US \$ = ₹ 44.80 as on 31st March, 2010

Solely for the convenience of readers, performance highlights have been converted into U S Dollar with exchange rates as on 31st March, 2010 and 31st March 2011.

Suchita Gupta

KRISHNA ON THE DANUBE

We are going to Bratislava” –when CMD made an announcement, what struck me most was –where the heck is this place? Courtesy the former Soviet Union’s collapse and the similar disintegrations in Europe, the headcount in UN General Assembly has gone up dramatically. As a result sometimes. it is extremely difficult to relate to names of places/countries, unless of course, either their Head of the Nation becomes the Chief Guest in our Republic Day parade (Burkina Faso for example) or a major catastrophe hits the place (like the Eyjafjallajökull Volcano erupting in Iceland in 2010).

Well, the place in question happens to be the Capital of Slovakia ,and as the name implies, was part of Czechoslovakia and dissected into two, leaving the Czech Republic as the other part. Bratislava is a riparian city spread across either side of the great river Danube and has the unique distinction of being the only National capital sandwiched between two neighboring nations- Austria and Czech Republic. Vienna 60 km to the West and Prague 200 kms to the East!

The Tourism Board claims Bratislava as ‘the Small Big Town -smaller in size but bigger in what it has to offer .If you take a walk, which we did indeed ,you can cover the main places of interest – the inner circle in two hours and the outer in three hours. The drive from Vienna Airport took exactly 30 minutes on a Sunday morning –less than what it takes you to reach Mumbai Airport from your home! The city was previously known as ‘Pressburg’ during the Prussian empire days and was the seat of coronation in the Austrian –Hungarian reign.

The city is full of castles, Churches, historic old buildings all clustered in a 5-mile radius on one side of the mighty Danube and matchbox stacks of mass housing –the legacy of the former Communist regime - juxtaposed with modern Office Complexes on the other bank. The Main Square is host to concerts, festivals and the city as a whole is proud of hosting the Ice Hockey World championship. The house with the ‘smallest entrance “-150 cms wide is now a part of a Kebab restaurant. But the most astonishing thing is the UFO- a roof top restaurant at a height of 95 meters atop one of the pylons of the modern bridge across the Danube .The access is through an elevator which moves inside the columns of the pylon hardly helping you to realize that you are moving up at an angle to the horizontal bridge’s cable stayed causeway! Once you reach the top, you get a breathtaking 360 degree panoramic view of Bratislava as well as a peep into Austria



CMD and GM on the Top of the UFO restaurant

on a clear day’s sky.

We were attending the 27th Annual Assembly of the Nuclear Pools Forum hosted by the Slovak Nuclear Pool. The Forum consists of 29 members representing countries as varied as Britain and Brazil and new kids on the bloc like China. We were invited in view of the upcoming Indian Nuclear Insurance Pool which GIC Re is endeavoring to form in our country. The proceedings were a showcase of the organizing skills of the host Pool –amazingly a compact team of just three lady members –and were a clockwork to the last minute detail! It was a huge revelation for us – as to how far the world has moved ahead of us in terms of exploitation of Nuclear Energy for peaceful purposes –particularly generation of Electricity. Even countries with just one plant – one location, have their own pool.

After a welcome dinner at the UFO, the conference kick started in the Kempinsky Hotel – a befitting modern venue abutting the Danube- the latest addition to the hospitality profile of Bratislava.

The proceedings began with the welcome address by the Chairperson Ms. Elena Majekova and were followed by an update since the last Forum Conference. There were presentations on specific topics by experts which were very relevant in view of the emerging scenario in Nuclear Power Industry. The entire anxiety, of course was on the much awaited presentation by the Japanese Pool on the Fuikushima–Daichi plants which was impacted by the Tohoku EQ on 11th March of this year. The

Japanese team made a passionate acknowledgment of the sympathy and assistance the global community bestowed on the nation post the calamity and went on to give details of the scheme of nuclear compensation regime in Japan as also the mitigation efforts undertaken. Similarly very relevant in the context of the Jaithapur syndrome was the presentation of the Nordic Pool which highlighted the relative harmlessness of operational (not accidental) radiation levels of Nuclear Plants when compared to the cosmic radiations humans are exposed to in the normal course on any sunny day.

We, from GIC Re received an overwhelming and enthusiastic reception as would be



UFO Restaurant on top of the Bridge

Shri. J Hari Narayan, Chairman, IRDA visits GIC Re

'22nd' July 2011 would be a memorable day for all of us at GIC Re.

The day saw us welcoming Shri. J Hari Narayan, Chairman of Insurance Regulatory & Development Authority, of India to GIC Re.

This was perhaps the first visit by the regulator to GIC Re.

CMD, Mr. Lohiya welcomed the honoured guest and very briefly introduced him to the senior executives of the Corporation present on the occasion.

Subsequently, in a crisp and comprehensive presentation was made about GIC Re's profile, structure, financial performance, comparison with peers, new initiatives in IT and other matters detailing all round growth & progress of GIC Re. Highlights of the presentation were on Corporate Governance, transparency in decision making, new initiatives like ERM

and E-thru in the area of IT. The presentation ended with the measures that GIC Re as an Indian reinsurer has adopted to stabilise, streamline and support the Indian non-life insurance market.

Shri. Hari Narayan, evinced keen interest in the Project E-thru which was launched by GIC Re earlier this month. The highlights of the project E-thru (detailed below) evoked enthusiastic response from the regulator. Shri. Hari Narayan raised some very pertinent questions about implementation of E-thru project, its acceptability, the probability of more producers being brought under its ambit and its scope being widened to include more parameters in it. He appreciated the steps being taken by the Corporation to bring in transparency and efficiency in the system.

- ⊙ Automation between business partners
- ⊙ Reduction of Processing inefficiencies

- ⊙ Lower Operational Cost
 - ⊙ Ability to handle more business
 - ⊙ Integrate with Global Markets, Channels
 - ⊙ End-to-end integration of business processes, Straight Through Processing
- Chairman IRDA also gave us valuable inputs about the role that GIC Re would have to play in the years to come for the development of the Indian insurance industry. He emphasized on the importance that should be attached to an organisation's vision, mission and core values. He mentioned that this helps the organisation always remain on its toes and chart out a bright future for itself.

Visit of the Regulator was certainly a high-point for us and we cherish moments spent with him. We thank Shri Hari Narayan for his visit to GIC Re and guiding us forward to achieve greater successes in the days ahead.



Shri. J Hari Narayan, Chairman IRDA interacts with GIC Re management during his visit to GIC Re

Continued from page 4



River Danube

showered on a long awaited new baby of the family. When Mr. Mark Tetley, the Secretary General quizzed ahead of the tour-de-papers of the concluding session (this session offers the update of the state of affairs of various pool member countries,

highlighting the developments in Insurance markets, Regulatory changes, Nuclear matters etc), whether GIC Re had anything to say, we resounded with an emphatic 'Yes'. We went on to make a detailed presentation on the entire landscape of the

Nuclear Power evolution in India, our sensitivity about our indigenous technology, the 'untouchable status' we were 'exiled' into post 'Pokhran', the George Bush led initiative to get us on the Nuclear Supply band wagon and finally how GIC Re is gearing up to the challenge of setting up a virgin Nuclear Insurance Pool for India.

The briefing by GIC Re was indeed an eye opener for the Forum participants and we were doused in the enormous volunteering of many members, willing to hold our hand in our efforts. We realized that 'India is no longer alone'. The participation reinforced our conviction to labour towards the birth of the Indian Nuclear Insurance Pool and contribute to the inclusive growth of Indian Nuclear Power Industry in the broad base of the global Nuclear Risk transfer.

And of course, can you afford not to have anything even remotely 'Indian' anywhere in the World? There was this 'Yoga' kiosk of one Smt. Srivastava, bang in the Main Square walkway, offering a motley suite of Asanas including 'Hata Yoga' and ultimately, 'Krishna', the only Indian Restaurant in Bratislava, unnoticeably tucked inside a huge houseboat on the Danube! A huge relief for your taste buds benumbed by the bland European cuisine!

R Raghavan

MalaPROPism

It is interesting to note human behaviour in the absence of laws when our baser instincts take over propriety. The abolition of tariff and the introduction of free pricing have brought about a sea change in the way risks were underwritten in the Indian market. While direct insurance companies under intense top line pressure succumb to the price devil, the reinsurer on the other hand plays a more stabilising role by maintaining some element of rate quoting commensurate with the risk and exposures.

A major difference between reinsurance and primary insurance is that a reinsurance programme is generally tailored more closely to the buyer; there is no such thing as the “average” reinsured or the “average” reinsurance price. Each contract must be individually priced to meet the particular needs and risk level of the reinsured.

This leads to what might be called the pricing paradox:

If you can precisely price a given contract, the ceding company will not want to buy it.

That is to say, if the historical experience is stable enough to provide data to make a precise expected loss estimate, then the reinsured would be willing to retain that risk. As such, the “basic” pricing tools are usually only a starting point in determining an adequate premium.

Insurance companies seek surplus treaties for the capacity it provides. Companies move from quota share to proportional to finally excess of loss programmes to protect their portfolio. It is said that surplus treaties may soon walk into the sunset given the proclivity of reinsurers worldwide to write XL treaties only.

However, Surplus still rules the roost in the Indian market and here we take a look at some basic steps involved in its pricing.

Step 1: Compile the historical experience on the treaty.

Assemble the historical premium and incurred losses on the treaty for five or more years. If this is not available, the gross experience (i.e. prior to the reinsurance treaty) should be adjusted “as if” the surplus share terms had been in place, to produce the hypothetical treaty experience. Because a surplus share treaty focusses on large risks, its experience may be different than the gross experience.

Step 2: Exclude catastrophe and shock losses.

Catastrophe losses are due to a single event, such as a hurricane or earthquake, which may affect a large number of risks. Shock losses are any other losses, usually affecting a single policy, which may distort the overall results. For property contracts,

catastrophes are generally defined on a per occurrence (multiple risk) basis, whereas shock losses are large losses due to a single risk. For casualty contracts, catastrophes may include certain types of claims impacting many insureds (e.g. environmental liability), whereas shock losses would represent a single large settlement on a single policy.

Step 3: Adjust experience to ultimate level and project to future period.

The first step is to develop the historical losses to an ultimate basis. If the treaty experience is insufficient to estimate loss development factors, data from other sources may need to be used. Depending on the source of these factors, adjustments for the reporting lag to the reinsurer or the accident year / policy year differences may need to be made.

The next step is to adjust historical premiums to the future level. The starting point is historical changes in rates and average pricing factors.

If the premium base is insured value (for property), or some other inflation sensitive base, then an exposure inflation factor should also be included in the adjustment of historical premium.

Finally, the losses need to be trended to the future period. Extrapolation of past data is a simplistic method to come to a rough approximation.

Step 4: Select the expected non-catastrophe loss ratio for the treaty.

If the data used in Step 3 is reliable, the expected loss ratio is simply equal to the average of the historical loss ratios adjusted to the future level. It is worthwhile comparing this amount to the ceding company’s gross calendar year experience, available in their Annual Statement, and to industry averages.

Step 5: Load the expected non-catastrophe loss ratio for catastrophes.

Typically, there will be insufficient credibility in the historical loss experience to price a loading for catastrophe potential. However, this amount is critical to the evaluation of property treaties. A few approaches are used:

a) Average catastrophe loads based on the ceding company’s projected distribution of premium by state. These loadings may be based simply on the default selections made by the reinsurer.

b) If there is an occurrence limit on the treaty, estimate the average number of times it is likely to be exhausted in a year. For example, if the treaty has a \$25,000,000 occurrence limit which is expected to be hit once every five years,

then a \$5,000,000 catastrophe load should be added.

c) “Spread” historical catastrophe losses over a longer period. For example, if the ceding company’s experience shows a large amount for Bombay floods, then that amount should be adjusted to the current cost and exposure level and then spread over, say, ten years instead of five years.

The historical catastrophes may need to be adjusted to the current exposure and cost level.

These examples are, of course, intended for property proportional treaties. For casualty proportional treaties, a loading may still be needed to reflect the potential for large losses not reflected in the historical experience.

Step 6: Estimate the combined ratio given ceding commission and other expenses. After the total expected loss ratio is estimated, the other features of the treaty must be evaluated. These include:

1. Ceding Commission - preferably on a “sliding scale” basis
2. Reinsurer’s general expenses and overhead
3. Brokerage fees (where applicable)

If the reinsurer’s business is produced through a broker, there is typically a fee paid by the reinsurer as a percent of treaty premium. If the reinsurer markets the business directly to the ceding company, there is no brokerage fee, but the general expense loading may be higher to take care of the extra administrative expenses.

Finally, the reinsurer must evaluate whether or not the projected combined ratio on the treaty is acceptable. The evaluation of treaty terms should take into account potential investment income and the risk level of the exposures to determine if they meet the target return standard of the reinsurer.

The Indian market sees a large number of companies, both PSUs and in the private sector seeking surplus treaties. Surprisingly, even PSUs with their strong balance sheet prefer not to go on an exclusively non-proportional manner but have a mixture of both. Only one company has had the heart to go completely non-proportional.

Hopefully, in the years to come more and more companies will go the non-prop way and proportional treaties will become text book relics.

We look forward to that day as well.

Devesh Srivastava

Reference: *Basics of Reinsurance Pricing*, David R. Clark, FCAS

PIRACY AND K&R (KIDNAP AND RANSOM)

Piracy and pirates are prevalent in the maritime industry from times immemorial since the time mercantile trade took shape. Pirates operate usually in deep seas or Oceans/lagoons/gulfs/channels/ straits. Acts of violence by pirates have been steadily on the rise since 2006. The number of attacks reported to the International Maritime Bureau (IMB) in 2006 was 239, by 2008 the number had risen to 293. Of the 293 attacks in 2008, no fewer than 189 took place off the coast of Africa. In the first six months of 2009, 240 attacks were recorded worldwide, more than half of these off the coast of Somalia and in the Gulf of Aden. The region has now overtaken the Straits of Malacca in terms of the number of attacks, becoming the most dangerous waters in the world today. This is mainly attributed to the politically disturbed nations of African continent like Somalia, Tanzania, Nigeria and Gulf of Guinea.

Piracy defined as, "An act of boarding or attempting to board any ship with apparent intent to commit theft or any other crime and with the apparent intent and capability to use force in furtherance of that act". - International Maritime Bureau.

Kidnap and Ransom is a recent development and is the consequence of Piracy. It involves kidnapping of the Crew & passengers and holding them hostage for financial gains. The IMB recorded 111 attacks in 2008. A total of 815 crew were taken hostage and 42 vessels hijacked. Kidnapping and ransom is today's "big business". While 292 crew members were taken hostage worldwide in 2007, the number soared to 837 in 2009. When pirates strike, most companies make it a priority to save the lives of the Crew members and Passengers by paying the Ransom, usually the only option.

There are some positive trends to be noted in the fight against piracy. The Straits of Malacca, for example, have become much safer. The number of attacks has declined significantly as a result of coordinated patrols by the coastal states: only 26 attacks were recorded in 2008, as opposed to 126 in 2003. Despite this, however,

extreme care must still be exercised in this region.

Piracy is not the same as terrorism, as the piracy is an act done purely for personal gain, where as terrorism entails political and religious motivations. Both legally and in marine insurance, piracy is treated very differently from terrorism.

New developments – New risks

Naval patrols promise greater security for shipping, but they also prompt pirates to develop new strategies of attack and to target new regions. A further negative aspect associated with the use of military force is the risk of escalation. All parties now agree that arming the crews of merchant ships would be inappropriate.

Indeed, security experts assume that the active use of force by US and French naval units could lead to a tendency for pirates to take a distinctly tougher line against ships flying these two countries' flags in future and to injure or kill their crews.

Larger operating range

In our 2006, a distance of 200 nautical miles from the coast of Somalia was presumed to be safe, but that is no longer sufficient. Today's pirates operate right up to the passage to the Red Sea in the west, the Seychelles in the east and far into the Indian Ocean. Even maintaining a distance of 400 nautical miles from the coast is no longer considered safe today, as the case of the "Sirius Star" showed. The pirates' larger operating range is also attributable to their increasing use of "mother ships". Naval units are now combing the seas for such ships from which the pirates launch their attacks in smaller boats.

Risk of collision

Some ships are blacked out and run without navigating lights to avoid being spotted by pirates from miles away at night. Unfortunately not much use, for the majority of pirate attacks take place by day or at dusk. Nevertheless, the risk of colliding with another ship due to running without lights is no doubt greater than that of being attacked by pirates.

Sailing in convoys through the security corridor south of the Yemeni coast is also associated with a high risk of collisions.

Even just forming a convoy can lead to collisions, as merchant crews lack the routine needed for such manoeuvres.

New measures to combat piracy

Specific measures to combat Piracy-The governments of the countries concerned to step up their efforts to introduce new legislation and campaigns to combat the threat at sea.

First steps have indeed been taken, such as the agreement to patrol the Straits of Malacca, which has proved highly successful. Following the spectacular attacks in the Gulf of Aden, the European Union launched Operation Atalanta with roughly 20 EU ships. Other ships from non-EU nations, such as China and Russia, are also operating in the area. In addition to military activities in the region, over US\$ 200m was made available to help Somalia set up a functioning government and restore stability in the country.

Where legal systems fall short

- ⊙ International efforts to curb piracy can only succeed if the offenders must expect to be punished for their crimes. The media regularly report that pirates have simply been fended off or that those who have been detained are at large again. This may be due to a number of reasons:
- ⊙ No jurisdiction for prosecution / Lack of appropriate penal standards
- ⊙ Release on the grounds of the (procedural) rights of the accused persons
- ⊙ Lack of evidence
- ⊙ The attacks qualify as "minor offences" which do not justify prosecution
- ⊙ Cost of proceedings

Insurance aspects

Million dollar ransom demands, vessels being detained for months and claims for compensation from ship owners by released crew members put pressure on vessel and cargo owners, as well as charterers and ultimately the insurance industry. In response, there is an ongoing debate about the necessity for clear definitions as to what is being covered under which policy and about the need for new coverage concepts.

Who contributes?

With increasing ransom amounts, the sharing burden between all interests concerned has naturally been raised, especially where there was no K&R policy in place. Initially, the release of a hijacked vessel was seen as the owner's problem alone, with cargo interest keeping in the background until the matter was resolved by the owner, possibly with discretionary P&I assistance, and until the vessel could continue the scheduled voyage after its release. Throughout 2008, owners increasingly began to declare General Average and to claim hull and cargo contribution. Whilst the academic debate over the legitimacy of a General Average declaration in the case of hijacking is still ongoing in mid-2009 due to the absence of established case law, hull and cargo insurers have themselves begun to raise the question of regular P&I contribution if GA is accepted or a ransom payment is shared on an as-if GA basis. Especially with the Somalian situation in mind, the question of the key target for the pirates is raised: is it the crew, the ship or the cargo? If the answer is yes for the crew, it is argued that P&I should contribute,

Who's making money out of all this?

Obviously, the pirates are profiting. But with so many parties in the mix, ultimately the insurers actually losing money on Piracy. Assuming General Average is declared in most instances with contributions denied by neither by the three key interests (Hull, Cargo & freight) nor their insurers, the following list represent the parties paying the bill, ranked by who's paying the most.

1. Kidnap & Ransom underwriters
2. Cargo Interests
3. War & Strikes/Hull underwriters
4. P&I underwriters
5. Sometime the government/ their representatives.

Insurance coverage in the market:

Piracy a regular hull peril or a hull war peril?

- ⊙ For the Japanese and Norwegian hull markets, the physical loss or damage to the insured vessel caused by a pirate attack is covered under their war risks policies.

- ⊙ For the London market, the unabated incidents in the first quarter of 2009 have encouraged underwriters to insist more heavily on transferring the piracy risk from the hull to the war policies at renewal.

Until 1982, piracy was a war risk under English hull clauses. Under the 1982 ITC Hull policy wording, it was adopted as a regular hull risk. In 2005, optional clauses were introduced by the Joint Hull Committee which excluded piracy from the hull policy, together with a corresponding write-back clause for the risk under the war policies. War hull policies allow underwriters to exclude or cancel certain high risk areas from automatic coverage and to charge additional premium for cover in these areas on a per transit basis. The Gulf of Aden has been one of these named high risk areas for war underwriters since mid-2008. Munich Re endorses this risk transfer as a means to more effective risk control and better risk-related premium allocation.

The current version of the widely used London market clauses (Institute Time Clauses Hulls) provides an option to cover piracy under hull or war policies.

Cargo insurance: Covers cargo in transit against physical loss or damage. Most marine cargo markets provide optional named perils and all-risks policies. Piracy is predominantly covered as a regular marine peril. Recent attempts to introduce a special cancellation clause for piracy have not been very successful so far.

Kidnap & ransom (K&R) insurance

Covers ransom money paid for insured crew and provides extensive loss prevention

Consultancy plus a service package after a kidnapping. Shift in consumer perception from

sleep-easy cover to a genuine service product:

- ⊙ Increasing focus on loss prevention (ship security, crew emergency drills and riding guards in danger zone)
- ⊙ Professional handling of negotiations with kidnapers
- ⊙ Providing the ransom money up to the insured amount
- ⊙ Delivery and drop-off of ransom money

- ⊙ Arranging and paying for professional help for traumatized crews

Protection and indemnity (P&I)

Covers a shipowner's or charterer's third-party liability and a variety of other interests including workmen's compensation for the crew on board. A major issue for P&I insurers in 2008 was the growing demand for discretionary reimbursement of otherwise uninsured ransom payments. Marine hull and cargo insurers also suggested that P&I Clubs share in the payment of ransom under GA-type settlements. Currently, the Clubs are facing potential claims from hijacked crew members against ship-owners. The claimants demand damages for the period they were held captive.

Loss of Hire (LoH)

Covers a shipowner's or charterer's loss of income due to physical damage to the ship, caused by machinery breakdown or a collision. The trigger is usually an insured loss under the hull policy. New LoH insurance products launched in 2008 also cover loss of income or obligation to pay charter hire without a physical damage trigger if the vessel is held by pirates.

Conclusion

Virtually all experts and governments now agree that the problem of piracy off Somalia and in the Gulf of Aden can only be solved "on land", i.e. by political means. Well-founded reports in the media have meanwhile led to governments seeking long term solutions. These include a declaration of intent by the international community to support Somalia with more than US\$ 200m and the setting up of the UN Contact Group on Piracy. Only recently, the Djibouti Agreement was signed. Its objective is to help Somalia out of the crisis with sophisticated long-term strategies.

In the light of all this, the international community should act decisively against piracy – with the aim of increasing the safety of shipping and crews and protecting trade on the world's oceans. We as reinsurers see it as our responsibility to create awareness of the current situation at all levels, for making shipping business safe and peaceful.

Saroj Kumar Rath

INDUSTRY NEWS APRIL –JUNE 2011

Economic scene continues to present challenge to the economists, governments and policy makers worldwide with economic woes facing some and worries for the rest. Worries and woes on the sovereign default and its contagion effects, ballooning government debt in some advanced economies, soaring oil prices apart from rising commodity prices persist. It is expected that commodity prices may rise further before moderating. Closer home, worries on inflation (and inflation expectations) front and the trade off between inflation and growth remain at the centre of public policy discourse.

The Reserve Bank of India (RBI) has recently increased various policy rates about once every month and a half during last year or so, which will go some way towards containing inflation and inflation expectations while adversely affecting growth and growth expectations. The RBI Governor D. Subbarao in the annual policy statement said: "An environment of price stability is a pre-condition for sustaining growth in the medium-term. Reining in inflation should, therefore, take precedence, even if there are some short-term costs by way of lower growth." While increase in interest rates may hurt growth in a short term, it creates less uncertainty for investors, and thus tames inflation expectations in medium term.

Centre for Monitoring Indian Economy remains bullish with its forecast at an 8.7% increase in real GDP in 2011-12. The bullish forecast is underpinned by a sizable increase in the commissioning of projects of nearly Rs. 8 lakh crore, the highest ever. This figure outdoes the earlier figure of Rs. 4.3 lakh crore seen in FY 10 by a very wide margin.

Just like previous years, a lot depends upon a normal monsoon. Significant policy rate increases reflecting anti-inflationary stance of RBI is expected to bring down private consumption, particularly demand in real estate and automobile sectors, thus dampening growth expectations. However a good

monsoon and rewarding minimum support prices may be able to sustain consumption and resultant growth from rural areas lending buoyancy to the economy in general. Increase in interest rates is going to impact real estate sector and will have a ripple effect. RBI has pegged the growth for FY12 at 8% as against 8.6% during FY11. Thus, despite tight monetary policy, it is a matter of marginal paring of growth rate rather than stagnation or de-growth scenario.

India has registered 8.5% growth in GDP during 2010-11, propped up by growth at 7.8% in the quarter ended March 2011. Performance indicators for 2010-11 for the insurance industry are now available. Market premium for non-life segment has increased to INR 42,568.52 crore from INR 34,984.08 crore in the previous year, registering a growth of 21.7%. About 38% (39% during 2009-10) of the market premium growth has been contributed by the motor segment with health contributing another 31% (27% for 2009-10) and fire 9.2% (12% for 2009-10). Liability grew about 18%, health over 31% and marine cargo growing at 22.2%, (all year on year), showing robust trade scenario. Public sector players booked a premium of INR 25,027.89 as compared to INR 20,623.687 crore in the previous year, resulting in y-o-y growth of 21.4%. Private players have by comparison grown y-o-y at a rate of 22.5% from INR 14,341.40 crore to INR 17,566.92 crore. Market share of public players and private players thus has is now stable.

On the life side, the premium for 2010-11 has grown to INR 125,826 crore from INR 109,290 crore in the previous year registering a growth of over 15%. Market share of Life Insurance Corporation has grown from 64.9% to 68.7% during the year.

Accommodative fiscal and monetary policy stance of the governments world over in the aftermath of slowdown is giving way to conservative and restrictive policies where fiscal and monetary discipline is being increasingly seen as a moral, fiscal, and national security

imperative. Liquidity has dried up quickly. The world is facing liquidity shortage resulting in a situation wherein most sovereign governments cannot obtain the loans at affordable interest rates. Global liquidity conditions and investor confidence are bound to affect financial markets in general, and (re)insurance markets in particular.

Insurance companies which have completed 10 years of operations are eligible to make initial public offer. The Insurance Regulatory and Development Authority (IRDA) have announced draft guidelines on Issues of Capital and Disclosure Requirements for life insurance companies. Recognizing the need for consolidation in the non-life insurance sector which was opened to private sector 10 years back, the IRDA in a proactive step released guidelines for mergers and acquisitions for non-life insurance companies. Insurance companies wanting to merge will need the approval of the relevant high court as also the insurance regulator. These guidelines will be applicable only to private companies.

Catastrophe risk management and capital management functions remain at the heart of any insurance company. IRDA has asked all non-life insurance companies (including health insurance companies) to calculate their economic capital requirements for their business as on 31.03.2011 and submit by September 30, 2011. In line with the trends in the developed markets, this will set the stage for moving from formula based solvency regulation to model and analytics based regime. This will also pave the way for risk based business decision making.

Integrated Grievance Management System - an online grievance portal has been launched affording a centralised and online access to the policyholder and to IRDA for monitoring grievance disposal by insurance companies.

Hitesh Joshi

ENTERPRISE RISK MANAGEMENT - WAY FORWARD

In today's volatile business environment and the growing volume and complexity of national and global regulatory mandates, we need an enterprise-wide view into the business risk associated with all lines of business and geographies. At the same time, it is essential to understand the relationship between business risk and corporate strategy for better decision making. The better understanding of the business risk helps us to sustain growth and increase our business profits. The success now depends on striking a balance between enhancing profits and managing risk. An effective risk management framework increases the probability of success and reduces the uncertainty of achieving the enterprise's overall business objectives.

Enterprise Risk Management (ERM) in business includes the methods and processes used by organizations to manage risks and seize opportunities related to the achievement of their objectives. ERM provides a framework for risk management, which typically involves identifying particular events or circumstances relevant to the organization's objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, determining a response strategy, and monitoring progress.

Need for ERM Program in GIC Re:

- ⦿ Integrating risk management with business & strategic decision-making.
- ⦿ Increasing competition both domestically and internationally.
- ⦿ To match industry standards in risk management as many reinsurance companies are

implementing ERM practices worldwide.

- ⦿ Complex exposures due to rapidly emerging new risks (nano tech., oil spills, natural disasters)
- ⦿ Increase in correlation of different risks e.g. market risk and terrorism risk.
- ⦿ Robust risk governance and organization to manage risks across multiple geographies to make sure that risk exposures are kept within the set tolerance limits as GIC Re is planning to expand foreign operations.
- ⦿ Risk management is now formally considered as a major factor in assessment by rating agencies.
- ⦿ Regulators are increasingly looking at ERM to combat risks in the markets they oversee.

Common Challenges in ERM Implementation

- ⦿ Establishing a common risk language or glossary.
- ⦿ Describing the entity's risk appetite (i.e. risk it will and will not take).
- ⦿ Identifying and describing the risks in a "risk register".
- ⦿ Establishing ownership for particular risks and responses
- ⦿ Demonstrating the cost-benefit of the risk management practice
- ⦿ Ensuring efficient risk coverage by internal auditors, consulting teams and other evaluating entities

- ⦿ Non-seriousness of people within the Company other than those who are part of the risk team

Business continuity Plan in ERM:

Business Continuity Planning is the ability and readiness to manage business interruptions in order to provide continuity of services at a minimum acceptable level and to safeguard the financial and competitive position in the short and the longer term.

Objectives of Business Continuity Plan:

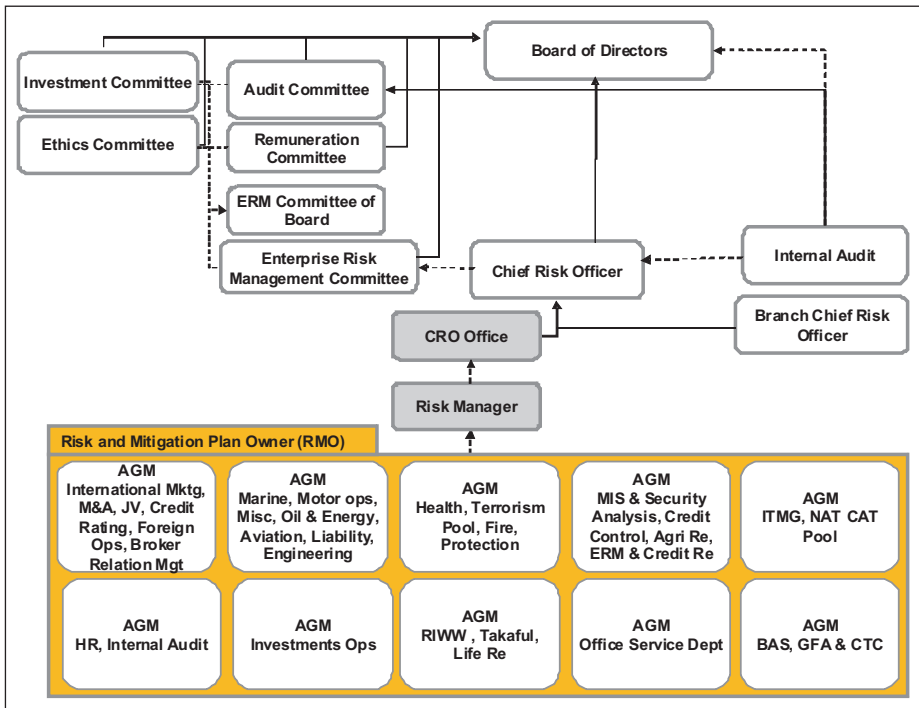
- ⦿ Protecting Human Life
- ⦿ Addressing Potential Threats
- ⦿ Minimizing downtime
- ⦿ Providing continuous service
- ⦿ Maintaining customer and stake holder confidence
- ⦿ Limiting liability.

Applying Enterprise Risk Management solution is part of GIC Re's mission statement and after a serious fact finding exercise ERM Policy is in place at GIC Re.

ERM Team at GIC Re:

GIC Re has a board level Enterprise Risk Management Committee comprising of Board Directors Mr. Yogesh Lohiya, CMD, Mr. Tarun Bajaj and Mr. S L Mohan. Also there is a management level ERM Committee consisting of three General Managers, Mr. R. Raghavan (Convener), Mr. AK Roy (Member) and Mr. Sujay Banarji (Member). The ERM team is headed by Mr. R. Sundaram, DGM & Chief Risk Officer, and includes Mr. N. Ramaswamy, AGM, Mr. Anoop Khanna, CM, Miss. Anuradha Koundal, AM, and

ERM Structure at GIC Re:



Mr. Varun Bhardwaj, AM.

Current Practices of ERM in GIC Re:

- ERM Team is in the process of getting the risk values fixed by the concerned departments for top risks that matter. This will enable monitoring of various risks identified.

- Procurement of ERM software to enable online monitoring of the risks identified. Proof of Concept exercises were conducted with vendors of proven expertise on the subject.
- IRDA has desired that GIC Re should conduct a stress test to ascertain whether its current practice and protection are good enough to handle

any catastrophe or unexpected events. GIC Re is in the process of short listing a consultant who will partner us on this exercise.

- Fire fighting training is being given to all employees as per Business continuity Plan (BCP). This will be a precursor to conducting a mock fire drill.
- Emergency Kit has been procured to effectively conduct life saving activities during a disaster and it is kept at the security area at the ground floor.

Conclusion:

Although the industry is generally making progress on ERM, the ERM journey will not be an easy one and the challenges should not be underestimated. Market leaders of the future will be those companies that have developed a strong risk-based culture that is fully aligned and actively engaged in their business processes. ERM is an emerging concept and needs the involvement of each employee of GIC Re to make it a success.

Varun Bhardwaj

ICICI Prudential Life Insurance Company Signs Reinsurance Agreement with GIC Re



ICICI Prudential Life Insurance Company, the largest private life insurer in India, has finalized a reinsurance arrangement with GIC Re / Hannover Life Re for their Individual Life Unit-linked policies. The reinsurance treaty documenting this arrangement was signed on 27th July, 2011 by Shri Sandeep Bakshi, Managing Director & C.E.O, ICICI Prudential and Shri R. Raghavan, General Manager, GIC Re.

Shri G.L.N.Sarma, M.D., Hannover Life Re Services, India, Shri Madhivanan Balakrishnan, E.D., ICICI Prudential, and Shri Avijit Chatterjee, Appointed Actuary, ICICI Prudential, were also present on the occasion.

S.Farrukh Shah,

AFRO ASIAN CLAIM AWARENESS CONFERENCE-MALDIVES MAY 9th & 10th, 2011.

It is correctly said that FAIR and GIC Re have an emotional connect. As a founding member, GIC Re has always given its whole hearted support to all FAIR Seminars. We were the platinum sponsors at the conference organized by FAIR along with Allied Insurance Company of Maldives.

The selected theme of the Seminar, "Increasing Claims Awareness particularly for Liabilities and impact on the Afro-Asian Market" was aimed at building up and promoting liability awareness. In the west, a major chunk of the premium comes from liability insurance. For us in the Afro-Asian Region, being less litigious in nature, the concept of liability insurance has just started picking up. Good growth in this line of business is envisaged and the conference aimed at sharing the claim experiences under this class. There is no gainsaying the fact that it is eventually the claims that help an underwriter hone his skills and approach a risk and its rating thereof in a more holistic manner.

The various topics touched upon during the two day seminar were:

- Role of Liability Insurances in Economic Protection,

- Changing face of Directors & Officers' Liability Insurance,

- Emerging IT Risks and Cyber Liability Insurance,

- Challenges in Product Liability, Product Recall, Excess Product Liability Insurances,

- Changing face of Liability exposures for resort based tourism – The Maldivian context,

- Insurance Brokers – Exposures & Possibilities of capping liability.

The conference was inaugurated by His Excellency Dr. Mohammed Waheed Hassan, the Vice President of the Republic of Maldives and was extremely well received with participants from many Afro-Asian countries. The new Chairman of FAIR, Mr. Hammam Badr was also present and shared his immense experience with the participants.



(From L-R) Mr. Hammam Badr, Secretary General Fair, He Vice President of Republic of Maldives De. Mohamed Waheed Hassan & Devesh H Srivastava GIC Re.

Finally, one must also comment on the breath taking beauty of the island nation of Maldives, which truly is the jewel of the Indian Ocean. A word is also necessary to praise the excellent organizing capabilities of the Allied Insurance, Maldives personnel who came together in a big way to ensure the success of the seminar. My compliments to the team.

Devesh Srivastava

We bid Adieu to our colleagues who have superannuated from the services of the Corporation

January 2011-July 2011

We wish them Good Luck

Mrs. D. K. Hansotia, Senior Manager

Shri R. S. Walve, Senior Assistant

Shri N. N. Shah, Senior Manager

Shri R. R. Pandey, Record Clerk

HOMAGE

GIC Re family condoles the passing away of Umed Singh, Senior Assistant of our Delhi Office.

May his soul rest in peace.

Our heartfelt condolences to the bereaved family.

RUSSIA- GLIMPSES THROUGH MY MOSCOW VISIT

Russian economy after being hit hard by the global financial crisis is now picking up and is on path to recovery. It grew more than 4 percent in 2010 after tumbling almost 8 percent in 2009. Russia's unemployment rate has been on decline and inflation situation is also improving. Russian economy mainly depends on natural resources, in particular oil. The pace of recovery will again depend on fluctuations in global oil and gas prices, since the Russian economy remains heavily dependent on energy exports. With the world economy moving into a higher gear, Russian economy also will achieve faster growth. Foreign investments are likely to pick up with easing of regulations and steps taken towards making the overall business environment friendlier. The result of the upcoming Presidential election in Russia could also have a positive bearing on foreign investment in Russia.

GIC Re has a representative office at Moscow that caters to Russia and former Soviet Union countries. A visit to meet GIC Re's valued clients in Moscow was undertaken in May 2011.

In May, after a very cold winter, nature was taking a colourful turn. Trees with fresh leaves and bushes with colourful flowers were seen all around. Moscow is a busy city. It offers a visitor, travel options of pre-

booked taxis, buses and trams for the city commuters. There is one more option available in specified areas of Moscow, known as 'Marshutka', a private owned minibus service, usually in yellow colour and that follows a fixed route. No printed ticket, money to be handed over to the driver while entering the minibus. When your destination is reached, you have to request the driver to stop and he will let you get down! For newcomers to the city, commuting without local support is challenging for want of knowledge of written & spoken Russian. Like most other cities in the world, roads in Moscow also have the problem of peak hour rush and traffic jams. However, the city has an excellent underground metro, old, but elegant.

Inaugurated in 1935 and expanded thereafter, Moscow underground metro today, has a network of over 11 lines and over 160 stations, transporting a huge load of commuters every day. Many of Moscow's metro stations are architectural masterpieces with sculptures and paintings featuring Soviet era architecture & design. Use of Marble, Mosaic and illumination by imposing chandeliers makes this a very different underground, compared to even some of the latest underground metros in Far Eastern countries. Despite carrying



'Moscow metro map' for a handy guide, navigating Moscow's metro would not be easy, for those who are unfamiliar with the Russian alphabet and the spoken language. Traveling by metro becomes indispensable in Moscow, as finding a metered taxi on the roads is very difficult.

The very idea of a GIC Re official coming all the way from India to meet the business partners was highly appreciated by clients in Moscow.

The business tours are very short & tightly scheduled and, GIC Re's list of valued clients in Moscow is long. Naturally, it would not permit visiting all the companies in one visit. But Moscow would be calling again, so, see you again sometime soon!

Deepak Godbole

NUCLEAR INSURANCE POOLS-A BACKGROUNDER

Nuclear Insurance Pools were established by the major insurance markets of the world during the mid to late 1950s in response to pressure from both Governments and the nuclear industry and have continued to develop in new markets since then.

The reasons for their establishment may be summarised as follows:

- i. The risk was unknown and potentially catastrophic and, therefore, would have discouraged most individual insurers from insuring it on their own
- ii. The risks were few in number and neither allowed a sufficient spread to provide a balanced portfolio nor warranted the establishment of individual underwriting departments by each insurance entity wishing to operate in this sphere of business.
- iii. The catastrophe nature of the business would have rendered individual insurers vulnerable to unknown accumulations had the business been placed in a conventional manner using normal reinsurance and retrocession treaties.
- iv. However unlikely a nuclear catastrophe, should such an event occur, claims handling and settlement procedures

would require the support of the whole national insurance market - or, indeed, international markets.

- v. The exchange of common account reinsurance between national pools provides access to the worldwide insurance capacity to those national markets which wish to participate.

When insurers originally agreed to pool their resources to provide cover for the developing nuclear industry in the 1950's the provision of cover was little short of an article of faith.

The risks involved were largely unknown and accumulated risk experience was nil. However, some 50 years of operation have served to justify that expression of faith and, as a result of its excellent safety record, the nuclear industry enjoys as wide an insurance coverage as any other major industry at premium rates as good or better than for any other class of business. This reflects the confidence of insurers in the pooling system, the security of the reinsurance arrangements effected on an inter-Pool basis and the cost-effectiveness of the system: premiums paid by operators to the nuclear Pools are, in effect, virtually pure-premium, since only a very small

percentage is utilised to defray operating and administrative expenses.

Channelling of all nuclear liability to the operator installation has emerged as a fundamental principle and has been mirrored in the national liability legislation of non-Convention countries by either legal or economic channelling. Rapid compensation and provision of maximum capacity demand the assurance that only one insurance policy must respond to all claims arising from a nuclear incident in order to avoid the costly and time-consuming investigation and possible litigation on the question of who is ultimately liable for damages.

From the start, Nuclear Pools have liaised very closely with Governments and with the agencies responsible for the Nuclear Liability Conventions - the IAEA in Vienna for the Vienna Convention and the OECD Nuclear Energy Agency for the Paris and Brussels Supplementary Conventions. The recent amendments to these Conventions to incorporate far higher limits of indemnity into an expanded scope of cover makes this relationship as important today as when the Conventions were originally drafted and the demands for additional capacity equally acute.

INTERNATIONAL UNION OF AEROSPACE INSURERS (IUAI)

The devout must make a pilgrimage to further their devotion. The 77th annual pilgrimage of Aviation Insurers was held at the historic city of St Petersburg. Russians themselves feel that the city is only about two centuries young and therefore lacks history. However, to a visitor the perspective is very different. More on that later.

The International Union of Aerospace Insurers (IUAI) is the voice of the aerospace insurance industry worldwide. IUAI is actively engaged as an international organisation and has 56 members in 32 countries throughout the world. The members are the Insurers and Reinsurers who between them provide cover for every aspect of aerospace business:

- from privately-owned ultralights to entire airline jet fleets
- from maintenance shops to airframe and engine manufacturers
- from small general aviation airfields to major airports
- from micro-satellites to commercial space launchers.

Some 90% of the worldwide aerospace insurance cover is written by IUAI members.

The concept of the International Union of Aerospace Insurers evolved in September 1933, when the International Union of Marine Insurance (IUMI - which was already a well established organisation) was meeting in Switzerland. At that time commercial aviation was comparatively new and the insurance of aviation risks was regarded with some apprehension.

Although IUMI had formed an aviation sub-committee, it was not concerned with the accident and liability side of the insurance, and so an international aviation pool was formed of those underwriters who were actually writing aviation risks.

The first IUAI meeting was held in 1934 in London, with eight founder members and, with the exception of the war years 1939 to 1945, IUAI has served the interests of aviation insurers ever since.

In the mid-1980s the Union recognised that

a number of members had established space risks accounts. Accordingly the scope of IUAI's activities was expanded to include the study of space risks matters.

This year's agenda was packed with topics covering diverse and oft missed issues like Pilot concerns, Fatigue, Airport Liability, Manufacturers issues etc. The important topic of General Aviation was also taken up giving GA loss statistics and trends.

The Aviation Policies give wide coverage given the nature of running an Airline Business which has to take into account the interest of the financiers as well. Hidden insureds, sometimes missed even by seasoned underwriters and unusual threats were presented in a very interesting manner.

Since Space forms an integral part of any Aviation portfolio, much time was also devoted to it and the hazard associated with it like solar flares etc.

The report would be incomplete without a mention of the presentation made by delegates from Japan on the effect of tsunami on Sendai and neighbouring airports. The applause indicating solidarity with the Japanese and expressing oneness with their tragedy lasted over a minute.

The Russian hosts excelled in their brief and took care of their guests treating them like royalty. Our sincere thanks to them. Its said that St Petersburg has never been conquered, but it did manage to conquer us all.

As necessary as creative destruction is for material standards of living to improve, its no coincidence that some of the world's most cherished places are those that have changed the least over centuries. To absorb a place one needs to wander around and do things spontaneously. While that was difficult given the packed agenda of IUAI, we did manage it in small measure ending with a visit to the Hermitage.

Like so many travellers to St Petersburg before me, we are yet to recover from its enchantment.

Hitesh Joshi

Devsh Srivastava

WELCOME



Shri Rakesh Singh
Additional Secretary
Department of Financial Services,
Ministry of Finance

GIC Re welcomes Shri Rakesh Singh, Additional Secretary, Department of Financial Services, on its Board of Directors. Shri Singh has been inducted as Government nominee Director on the Board of GIC Re with effect from 25th of July 2011. We extend a hearty welcome to the new Director on our Board.

Shri Rakesh Singh is a Graduate in Science and a Post Graduate in History from the University of Allahabad. He also holds a Post Graduate Degree in Economics and Social Sciences from the University of Manchester. Before joining the Indian Administrative Service (IAS) in 1978 he also taught History for about two years in the University of Allahabad.

During his career in the IAS of about 32 years, he has the experience of public sector management in the State of Punjab of about 13 years as the Chief Executive. He also has 7 years of experience in finance, having worked for two years as Finance Secretary of Chandigarh and for 5 years in the Ministry of Finance, Government of India. Apart from a long and rich experience of District Administration in the State of Punjab, Shri Singh has specialised in the fields of Industry Promotion, Housing & Urban Development, Environment and Power Sector.

INVESTMENT RISK

Having discussed the various types of risks in our previous issues, we will now focus on measuring risk and investment risk management.

Financial markets tend to be extremely competitive and highly efficient. Competitive in the sense that many buyers and sellers can freely enter and exit the market at the price and time convenient to them. It is also efficient because prices adjust very rapidly to information flow. Investors are rewarded for bearing systematic risk that cannot be diversified away. However, not all risk is rewarded. Given that risk can never be eliminated, there are some strategies that may help manage investment risk.

- Diversification to balance the overall risk
- Asset allocation to determine how much to invest in each asset class
- Professional management who makes investment decisions based on careful analysis and thorough research.

We will discuss these in detail.

Diversification:

Diversification is a very useful risk management method for a portfolio. A portfolio, which is diversified across various strategies, has less risk than a concentrated portfolio. Diversification as a tool becomes more relevant in time of fear & greed, when an investor gets biased towards a particular asset class forgetting this golden rule of risk management. This helps in providing stability and desired liquidity to a portfolio. Some important thoughts on diversification are given below:

- Effective diversification is not simply a matter of a large number of securities.
- The benefits of diversification are realized by combining in a portfolio assets having low correlation among them.
- The benefit of "time diversification" is expected to smoothen out the ups and downs of the market, if the

investor can withstand and resist the volatility.

Diversification can be across asset classes as also within an asset class, across geographies and so on. Based on the risk profile and understanding of different asset classes an investor can select equity, debt, real estate, commodities, precious metals, alternative investments like venture funds. Within the overall asset class of equity, one has various options like direct equity, equity mutual funds, private equity, portfolio management services(pms) each having different strategies and methods.

Recently, geographical diversification has been used by mutual funds to benefit out of growth opportunities in different countries. This is very useful as different economies will have different growth cycles and different times. This will provide the portfolio with required stability.

Time Diversification:

It is believed that if an equity investment is held over a longer duration, it will result in above average return for the investor by absorbing the negative volatility in short time.

Hedging:

Hedging is a strategy to reduce or control risk. This strategy is executed by taking an opposite position in the futures market to the one taken in a spot market or selling in a future market if holding physically with an objective of minimizing risks associated with the change in prices.

As hedging can be created by taking an opposite position, a profit or loss in the spot position because of changes in price will be set off by corresponding changes in the value of a future position. For eg. An investor can sell SBI share future to protect the value of his physical holding of SBI shares. If there is a fall in price, the loss in the holding will be countered by a gain in futures position and vice versa.

Hedging is mostly used as a tool to tide over volatile times when market direction is difficult to predict. The important step in portfolio hedging is the hedge ratio. This ratio tells how many contracts to buy or sell to create a perfect hedge. The hedging can be a perfect hedge if the two opposite

contract have the same investment or the resultant profit or loss can be set off in totality. It can be a partial or imperfect hedge if the investments are different or the resultant loss or profit is not equal.

For ex: Holding Infosys share and selling Infosys future is a perfect hedge. Where a holding Infosys share and selling index future is not a perfect hedge.

Satyajit Tripathy

WELCOME



Shri Arvind Kumar, IAS

Joint Secretary,
Department of Financial Services,
Ministry of Finance.

Shri Arvind Kumar, IAS is the new Joint Secretary, Department of Financial Services, Ministry of Finance, Government of India.

An Indian Administrative Service Officer of the 1991 batch Shri Kumar belongs to the Andhra Pradesh cadre.

He holds a post graduate diploma in Management from the Indian Institute of Management, Ahmedabad. He is also a post graduate in Public Policy from Woodrow Wilson School, Princeton University, USA. Mr. Arvind Kumar, after serving in various departments in Andhra Pradesh till May 2009, moved to the Centre and served as Director, Department of Food & Public Distribution in the Ministry of Consumer Affairs, Food & Public Distribution till May 2011. On promotion to the cadre of Joint Secretary in May this year Mr. Arvind Kumar took over as Joint Secretary, Department of Financial Services, Ministry of Finance, Government of India.

GIC Re WINS THE INDUSTRY CATALYST AWARD FOR 2011

Yet another accolade for the Corporation!

GIC Re was awarded The Industry Catalyst Award 2011 at "The Indian Insurance Awards 2011" held in Mumbai on the 7th of June 2011. India Insurance Review Journal, in association with Celent organized "The Indian Insurance Awards 2011"

The Industry Catalyst Award 2011. -Category Description:

This award seeks to honour an industry participant that has provided exemplary services to the insurance industry in the country. The awardee could be any player in the insurance value chain whose contribution to the industry is significant and services par excellence in its field. The awardee should be a partner of choice for insurers in India bringing to the industry complementary strengths and value.

The Citation:

The Industry Catalyst Award for 2011 goes to the General Insurance Corporation of India.

The only Indian reinsurance company, GIC of India, today celebrates a decade of service to the Indian insurance industry since its re-notification as a pure re-insurer in November 2000. The company has established its credentials as a quality service partner and responsive re-insurer to the Indian insurance industry. Today as GIC Re spreads its wings globally, Indian Insurance Awards celebrates its decade of growth and yeoman service to the Indian insurance industry.



An Appeal to Our Readers

We welcome your feedback on the layout, contents and presentation of GIC ReNEWS.

GIC Re employees are welcome to send in their write-ups for publication in the next issue of the newsletter.

Readers can send in their feedback to the mail id: gicnews@gicofindia.com

Team GIC ReNEWS	Editor	:	Alice Vaidyan G.
	Editorial Board	:	P. K. Bhagat, Deepak Godbole, Anoop Khanna
	Correspondents	:	Suchita Gupta, Devesh Srivastava, Satyajit Tripathy, J Paramasivan, Girija Subramanian, Rajesh Khadatare, Hitesh Joshi, K. Thangaraj



आपत्काले रक्षिष्यामि

GIC Re

भारतीय साधारण बीमा निगम

General Insurance Corporation of India

"Suraksha", 170, Jamshedji Tata Road, Churchgate, Mumbai - 400 020. India Tel. 91-022-2286 7000 Fax : 91-22-2289 9600

Email : info@gicofindia.com ■ www.gicofindia.in ■ Branch Offices : Dubai, London, Kuala Lumpur ■ Representative Office : Moscow

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