Global Reinsurance Solutions

आपत्काले रक्षिष्यामि
GIC Re
Your Partner in Risk

GIC Re NEWS

Newsletter of GIC Re

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Highlights

Mr. R Gopalan, Secretary (Financial Services) visits GIC Re

Guest-of-Honour at 4th Micro-Insurance Round Table (MiRT), Singapore

Welcome to Ms. Alka R Bhardwaj, Principal Director of Commercial Audit & Ex-Officio Member, Audit Board-I

Welcome to Mr. G V Rao, Ex Chairman-cum-Managing Director, The Oriental Insurance Company Ltd.

Editor's Thoughts:

The greatest sporting event after Olympics -The World Cup Football - is under way and South Africa, the first African nation to host the event in its eighty years history can allow itself a moment of satisfaction and be truly proud of its achievement of preparing the nation for this great event. At GIC Re, we are proud to be a part of the insurance fraternity reinsuring this greatest sporting event and like millions worldwide, are glued to TV sets following the fortunes of the game.

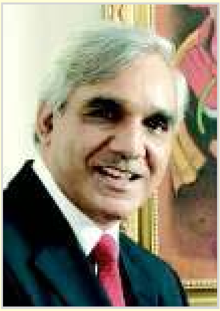
Unprecedented catastrophic losses in the first quarter of 2010 do not bode well for the general insurance market. If British Petroleum has literally lived-up to its old advertisement campaign of 'We are bringing oil to American shores' by causing the worst oil spill in US history, the earthquake and storm losses along with aviation and energy losses have only shaken the market further . While we hopefully look forward to a loss free year ahead, the industry is well advised to prepare for such high Cat losses, given their high volatility.

The ERM initiatives at GIC Re are in the final stages of completion providing an interesting cover story for this issue. It is very encouraging that the committed and dedicated team of GIC Re employees are united in their efforts of making GIC Re a world class reinsurance provider. In keeping with global trends and with the objective of electronic connectivity, project 'e-thru' is being initiated in GIC Re which will bring in automation in reinsurance business processes.

The Indian General Insurance sector recorded 13.4% growth in gross premium during 2009-10, collecting gross premium of Rs.34627 crore compared with Rs.30528 crore in 2008-09 with higher sales in auto retail health segments. While the public sector players posted a growth of 13.8%, the private players recorded 12.8% increase in gross premium. GIC Re has put up a good performance for 2009-10 with a gross premium income of Rs.9737 crore and growth of over 39% in foreign business. The financial figures of GIC-Re presented in this issue only highlight the strength and the resilience of the organisation to record high profits and growth. We sincerely hope that in this football season, GIC Re , in true team spirit, will cross higher milestones in the coming year.

(Alice Vaidyan G.)

Inside



From CMD'S Desk

All long journeys begin with a small steps. Annual financial results are one such small step in the life cycle of every organisation as it grows and develops. We too have just completed one more of such small step, albeit successfully, in our life cycle. Each of these steps, every year makes a material difference, between success and failure of the organisation. I am happy that this step of ours this year too has been successful like always in the past and results are heartening.

We are a service organisation and such an organisation can only thrive if its most tangible asset, the manpower, performs well. And yes, our excellent performance during 2009-10 speaks of the exceptional performance put up by this asset of ours. Here I would like to put on record my appreciation for the hard work put up by our colleagues to achieve another milestone.

Yet, we cannot rest on our laurels and need to innovate, institutionalize the innovations and garner our existing resources so that these are aligned to further maximize our strengths. As things change on the domestic and foreign horizons we need to adapt to the changing scenarios. If I can use a medical analogy here, the recent global economic downturn, the transitory issues like detariffication and rock bottom pricing in the Indian insurance sector, all of these should be seen as an inoculation to enable us to have a stronger immunity leading to a better chance of success in the times ahead. As we move towards our goal of an equal split in our domestic and foreign business, we have already achieved 56% and 44% respectively in 2009-10 so we will be there much before our target date of 2014. We now strive to join the group of 10 top global reinsurers and match the international benchmarks in our area of work.

Here I would like to recall the words of Lloyd C Blank, Chairman and CEO of Goldman Sachs: "In most other countries, trying to grow is like climbing the stairs one at a time. But in the case of India, it is like stepping onto an escalator". The International Monetary Fund (IMF) also has raised India's economic growth forecast for 2010 to 9.4%. This is the third consecutive quarterly upward revision since October 2009 by the Fund. This acts as a psychological booster for the economy as a whole. Given this optimistic and favourable outlook it is now upto us to spot opportunities, take calculated risks and be innovative to achieve greater heights.

Good Luck

Yogesh Lohiya

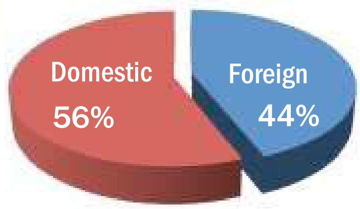
FINANCIAL HIGHLIGHTS- 2009-10

(in millions)	2009-10		2008-09	
	Rs.	US $	Rs.	US $
NET PREMIUM	87769	1959	74023	1448
NET INCURRED CLAIMS	68564	1530	62171	1216
PROFIT AFTER TAX	17746	396	14072	275
TOTAL ASSETS	438421	9786	300196	5872
SHARE CAPITAL	4300	96	4300	84
FREE RESERVES	85966	1919	73533	1438
TECHNICAL RESERVES	137526	3070	122897	2404

1 US $ = Rs.44.80 as on 31st March, 2010 1 US $ = Rs. 51.12 as on 31st March, 2009

Solely for the convenience of readers, performance highlights have been converted into U S Dollar with exchange rates as on 31st March, 2009 and 31st March 2010.

Business Mix

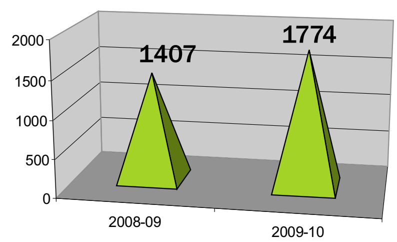


Dividend

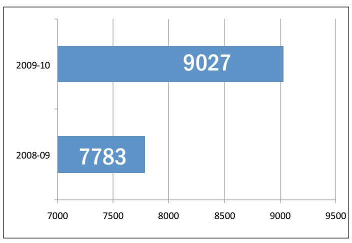
2008-09
65%

2009-10
82%

Profit After Tax (Rs. In Crores)



Net Worth (Rs. In Crores)



Solvency Margin

2009-10
3.71%

PERFORMANCE HIGHLIGHTS

1 Cr = 10 Mln (Rs in Crores)

	FIRE Year ended		MISCELLANEOUS Year ended		MARINE Year ended		LIFE Year ended		TOTAL Year ended	
	31.03.10	31.03.09	31.03.10	31.03.09	31.03.10	31.03.09	31.03.10	31.03.09	31.03.10	31.03.09
Gross Premium	3219.54	2293.26	5653.75	4921.2	849.61	834.93	14.03	11.73	9736.92	8061.13
Growth %	40.4	-10.5	14.9	-19.9	1.8	5.9	19.5	-55.7	20.8	-13.5
Net Premium	2696.65	2036.23	5302.99	4649.32	763.21	705.03	14.03	11.73	8776.87	7402.33
Growth %	32.4	-9.3	14.1	-19.9	8.3	5.4	19.5	-55.7	18.6	-10.9
Incurred Claims	1636.38	1668.53	4748.23	3855.96	464.95	688.71	6.83	3.93	6856.39	6217.14
% to Net Premium	60.7	81.9	89.5	82.9	60.9	97.7	48.7	33.5	78.1	84.0
Net Commission	716.98	540.91	1043.45	1039.54	167.69	167.37	2.12	1.35	1930.25	1749.18
% to Net Premium	26.6	26.6	19.7	22.4	22.0	23.7	15.2	11.5	22.0	23.6
Expenses of Management	24.57	17.86	39.97	38.33	4.54	4.88	0.09	0.09	69.17	61.15
% to Net Premium	0.9	0.9	0.8	0.8	0.6	0.7	0.7	0.8	0.8	0.8

Suchita Gupta

Domestic Renewals April 2010

The 2009/10 year continued to witness aggressive competition between domestic insurers. Following the de-tariffing of fire business the market continued its downward spiral. Consequently obligatory and treaty results were displaying negative trends.

In Marine, whilst adequate pricing has always been a matter of concern, what is particularly alarming is the 'casualness' towards technical underwriting and risk management.

Possible reasons for this disconcerting situation for all lines of business are:

-Co-Sharing of large risks between domestic insurers.

-Adequate automatic treaty capacity available with the established insurers.

This avoids or limits reinsurance requirements and thereby skips reinsurers rating and related underwriting controls.

GIC Re as the national reinsurer has sizeable exposure through obligatory cessions and on treaties, therefore the above situation is a matter of concern. The 1st April 2010 domestic renewal provided an opportunity for GIC Re to take corrective steps for improving the market.

Some of the steps initiated were:

Marine and Non Marine

- Market Surplus Treaties were discontinued – thus bringing down the available automatic capacity.
- Co-insurance Limitation Clause Inserted (Property risks with SI > Rs. 2500 crores) (Marine risks with sending limits > Rs. 150 Crores). The clause was applied on a grading basis essentially to bring about a balance between the cedents' co-insurance share and utilization of the treaty limit.
- Claims co-operation clause applied for the large losses with a view to permit GIC Re take an active part in the claims process.
- Obligatory Commissions for each class was based on individual companies' results.
- On the non-proportional side wherever overseas lead quote terms were found to be cheap, GIC Re restricted participation.

Non-Marine Specific

- Treaty commission levels were stream-lined strictly on results with differential commission level being applied for cession relating to domestic facultative business and Indian interest abroad.
- Conditions and clauses were inserted in the treaties to regulate the underwriting ensuring that the treaties did not suffer huge losses.
- Loss Participation clause was introduced where treaty results were exceptionally poor.
- On the Non-proportional treaties, rating was done more on an exposure basis. Companies were also advised to increase their deductible.

Marine Specific

Cargo Specific Conditions

- Minimum 0.50% excess to be applied for bulk cargoes; Nil excess not permitted for general cargoes.
- Marine consequential loss/delay in start-up to be ceded only in conjunction with marine transits and subject to the given GIC Re guidelines for such covers.
- Sales turnover polices only to insureds listed on the stock exchange.
- Limited storage extension.
- Hull Specific Conditions
- Singletons not exceeding 20 years to be excluded.
- Vessels above 25 years part of fleet to be referred to GIC Re
- P&I limited to the Hull & Machinery values and only for Inland coastal vessels.

Companies were quite appreciative of the steps taken by GIC Re for improving the domestic market; however, a few companies expressed practical difficulties.

GIC's intention is not to restrict companies from doing business, instead with these measures it is hoped that preventable and even fortuitous losses can be reduced. If this is achieved, all stakeholders including the economy as a whole would benefit.

Ramaswamy Narayanan & Savio Fernandes

GIC Re and Enterprise Risk Management (ERM)

International Financial Crisis in year 2008-09 and subsequent fall of many well known entities in banking, merchant banking and insurance have demonstrated that nobody is too big to fail and a comprehensive Enterprise Risk Management (ERM) is a "sine qua non" for an organization in financial services. Reinsurance / Insurance companies are in the business of risk, hence their risk management practices should be "state of the art" than the organizations in other sectors. Applying State of the Art Enterprise Risk Management (ERM) Solution is one of the stated missions of GIC Re. The inclusion of ERM in the mission statement shows the importance GIC Re is attaches to this program.

Need for ERM Program in GIC Re:

Peer "pressure":

- GIC Re will face increasing competition both domestically and internationally
- There is a new focus on managing risks from an enterprise perspective
- Many reinsurance companies have created new ERM function and are redesigning their risk governance approaches

Highly Risky and complex exposures :

- Rapidly emerging new risks (nano tech, oil spills, climate change etc.)
- Recognition that risks are increasingly correlated with each other (e.g., market risk and terrorism risk) and across businesses
- Robust risk governance and organisation 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.

Rating agencies

- Risk management is now formally considered as a major factor in assessment by rating agencies (e.g., S&P found ERM has negatively affected 5% and positively about 30% of rated insurers)
- Generally, rating agencies are trying to "assess the relationship between the firm's risk appetite and its risk control capacity"

Regulatory pressure

- A sea change in regulations is under way (e.g., Solvency II in European Insurance)
- The focal point of new regulations is better estimation of capital calculation parameters, rating process oversight, capital allocation processes, and disclosure/reporting requirements.

As stated above a leading reinsurer like GIC Re requires a robust ERM process and as a leader in Afro-Asian region GIC Re is one of the few insurance / reinsurance companies implementing a full fledged ERM process.

Benefits of ERM process:

Avoid surprises

- Identify & manage potential issues before they become serious business problems

Better governance

- Clear risk roles & responsibilities
- Clear risk communication
- Clear risk reporting

Better decision making

- Considering the business impact of a broader range of scenarios and "what ifs" to improve quality of decisions

Efficiencies

- More effective risk functions
- Better coordination
- Less overlap in risk coverage
- Fewer gaps in risk coverage

Stages of implementing ERM process in GIC Re:

To initiate the ERM process an ERM Committee (ERMC) comprising of three General Managers was formed.

Preliminary discussions were held by ERMC and ERM Team with consultants both domestic and foreign operating in the area of Risk Consultancy and also with reinsurers having established ERM process.

After understanding the process, GIC Re's ERM requirements were crystallized and a Request For Proposal (RFP) was prepared and a three stage open tender process was adopted to select the consultant by Combined Quality cum Cost based selection.

Accordingly M/s Ernst & Young Pvt. Ltd. was selected and appointed as consultants for ERM process in GIC Re.

ERM Process

Process Flow of ERM Assignment in GIC Re

The ERM Consultants M/s E&Y and ERM Team at GIC Re followed the following process on this assignment:

- Conducted kick-off presentation to brief the senior management (GM/DGM) about the approach and objective of the ERM assignment.
- Conducted kick-off presentation to brief the key individuals (AGM/CM) about the approach and objective of the ERM assignment.
- Obtained an understanding of the objectives, strategy of the Company and areas of operation through discussions with GIC Re executives.
- Conducted discussions with AGM, CM/Sr. Manager for understanding the different businesses, risks within the businesses, areas of concerns and existing Risk Management practices.
- Based on the discussions, identified and documented the risks applicable at the enterprise wide level as well as for each

department. Also identified the control gaps applicable to each risk.
- Conducted discussions with GM, DGM for understanding the risks within the businesses and areas of concerns. This helped to ensure the comprehensiveness of the risks.
- Based on the risk universe (Strategic, Operational, Financial and Compliance), documented a risk library and classified risks as per Main Themes (entity level risk category) and Sub-Themes (entity level risks).
- Also prepared consequence and probability matrix for computing the Inherent risk.
- Conducted a one day workshop at Radisson, Alibaug with GM and DGM for identifying risks that matter and priortisation of the risks. Based on the consequence and probability matrix the

inherent risk was computed. The results of the voting pool were discussed and then the Top 10 risks for GIC Re were identified.

- Prepared the Enterprise Risk Management policy and sent it to the ERM committee for their comments.
- Prepared the Enterprise Risk Assessment framework and sent it to the ERM committee for their comments.
- Prepared the Enterprise Risk Appetite framework and sent it to the ERM committee for their comments.
- Prepared the Enterprise Risk MIS dashboards and framework and sent it to the ERM committee for their comments.
- Discussed the control gaps with the GM and DGM to obtain their perspective on the same.
- EY team prepared the draft mitigation plans for all the control gaps identified. A one day workshop was held in GIC Re with the GM and DGM to agree on the mitigation plan for the control gaps.
- EY team is currently in the process of preparing the Training presentations and Vendor Evaluation for ERM software.

ERM Risk Assessment & Prioritization Workshop at Alibaug:

The “GIC Re Risk Universe” consists of all risks applicable to GIC Re and it is designed to promote a common risk language and risk culture, improved understanding of risks, and to consolidate risk information across the organisation.

It is important to prioritise the identified risk events to focus on those risks that have the most significant impact.

Based on the indicative limits, risks will be rated for:

Impact – is the level of impact that the potential risk can have on the achievement of business/functional objectives.

Probability – is the likelihood of occurrence of the potential risk that may lead to the assessed consequences.

Senior Executives of GIC Re in ERM Workshop at Alibaug

Mr.R.Raghavan, GM, In charge of ERM implementation briefing Senior Executives of GIC Re on impact and probability voting.

Mitigation Effectiveness (‘ME’) – is the effectiveness and / or existence of risk mitigants with respect to the assessed risk in the existing business process.

To prioritize the risks on the basis of impact & probability, a workshop was held for GM and DGMs at Alibaug. During the workshop each risk was displayed and the participants were asked to vote electronically once for impact and once for probability in the scale of five.

Based on the impact and probability voting the risks were prioritized and top 10 risks were identified.

The identified risks were compared with the risk library of GIC Re and certain risks which were voted low but unanimously agreed for scaling up were ranked accordingly.

Risk Evaluation Framework

Inherent Risk Rating Scale

Probability				
Highly Likely	Critical	Critical	High	Moderate
Likely	Critical	Critical	High	Moderate
Possible	Critical	High	Moderate	Low
Unlikely	High	Moderate	Moderate	Low
Highly Unlikely	Moderate	Moderate	Low	Low
Impact	Critical	High	Moderate	Low

ERM Risk mitigation Workshop at Mumbai:

Having identified the risks and prioritized the same, a risk mitigation workshop was held for senior executives at Mumbai. Each risk according to the priority was presented and mitigation plan was discussed in detail. The Consultant’s mitigation plans were amended where required as suggested by the senior executives.

Training on ERM:

ERM exercise is dynamic in nature and the process will be carried on by the ERM team and the risk register will be updated in an ongoing process by conducting annual Risk Assessment exercise. The consultant will train the ERM team and representatives of core departments on the ERM process.

Senior Executives of GIC Re in the Risk Mitigation Workshop at Mumbai. Shri A.K.Mittal, CRO (First from right) is leading the workshop.

Business Continuity Planning (BCP) :

Parallel to ERM consultancy a BCP exercise is also being carried out by Ernst & Young and ERM team.

BCP is the ability and readiness to combat identified disasters to ensure continuity of critical business processes at an acceptable level and limit the impact of the disaster on people, processes and infrastructure.

Need for BCP:

- Any downtime of operations can cause significant revenue loss
- Delivery through multiple channels poses significant challenges for ensuring business continuity on account of complexity of operations
- Inability to continue business operations may affect customer loyalty and brand image

- Inability to continue business operations may affect shareholder confidence and may severely affect market capitalisation in case of listed companies.
- Inadequate emergency procedures may lead to loss of lives

Why BCP?

- Minimize downtime of critical Operations
- Business units will know how to quickly react to disaster
- Mitigate potential losses
- Re-assurance to clients on ability to provide continuity of services
- Maintain customer and shareholder confidence
- Limit liability on executives, financial commitments, legal and compliance requirements
- Compliance with Business Continuity Management Guidelines issued through legislation

Scope of BCP:

- Phase I - Business Impact Analysis (BIA)- The existing BCP of GIC Re is reviewed with the assistance of the key personnel and areas of improvement in the existing BCP are identified. Then critical business processes and supporting systems are prioritized and key risks are identified in GIC Re's operating environment and risk assessment or potential threats that could lead to business continuity issues are carried out.
- Phase II - Business Continuity Strategy- potential alternative continuity strategies and rough order-of-magnitude costs for alternatives are so developed.
- Phase III - Business Continuity Plan– 1) Enterprise Crisis Management Program (CMP), 2) Emergency Response program, 3) BCP Crisis Management Team and 4) Business Recovery Teams are co-developed.
- Phase IV – Business Continuity Training & Testing–Once the BCP is planned as per above steps, then workshops on BCP are conducted and plan testing guidelines / templates are developed.

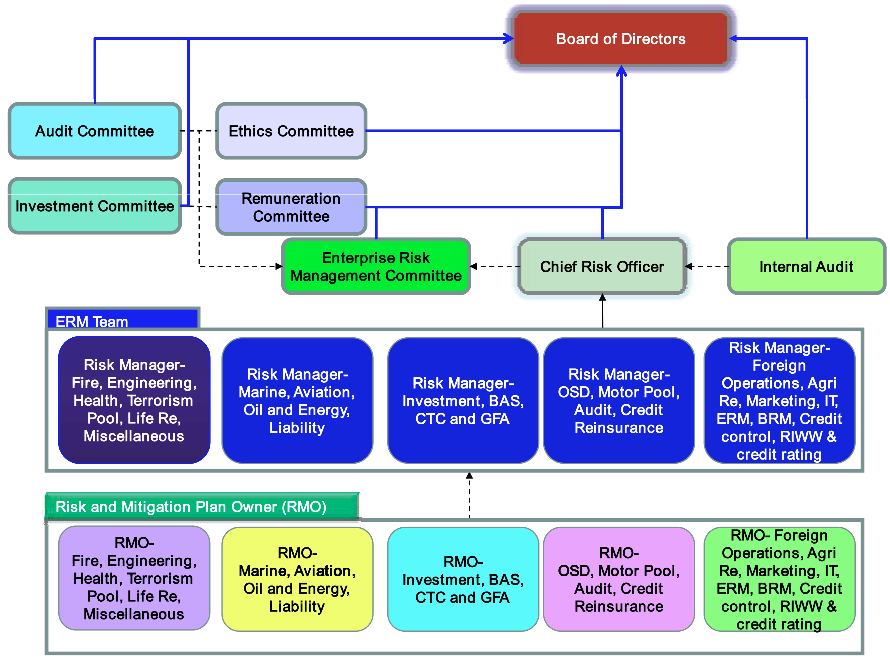
GIC Re should ensure that BCP plan is regularly updated and improved periodically.

BCP is encompassing of people, processes & technology. The key requirements within these are:

People:

- Emergency response procedures and Evacuation drills
- Knowledge of life saving procedures
- Availability of life saving equipment
- Availability of contact information – emergency response authorities
- Knowledge management procedures
- Employee profiling and Crisis counseling

The proposed Enterprise Risk Management structure for GIC Re is illustrated below.



Processes:

- Availability of documented processes and Prioritization of business processes
- Cross-functional training and Empowerment - second chain of command
- Alternate business flows including communication channels defined for business partners
- Non-dependence on a single source for services
- Definition of update triggers and testing of work around procedures

Infrastructure:

- Identification of infrastructure supporting critical business processes
- Ensure disaster recovery and backup arrangements for critical systems
- Identification of minimum infrastructure including IT resources and office automation equipment
- Arrangements for restoring / sourcing assets
- Alternative office arrangements and Adequate insurance coverage for all assets

The Enterprise Risk Management Committee consists of three General Managers, namely Mr M. Ramaprasad, Mr AK Roy and Mr R Raghavan. Mr. AK Mittal DGM has been designated as Chief Risk Officer for GIC Re. The efforts on ERM are duly assisted by the team consisting of Shri Charles Asirvatham, AGM, Shri Paul Lobo, CM and Miss. Anuradha Koundal, AM.

Conclusion:

Thus, ERM program considers risks on an enterprise-wide basis and it is a regular process and not a one time event. We have to also note that all risks are not material and the focus of ERM is on those risks that make significant impact with high probability to the value of the corporation commonly known as "Risk That Matters". Risks also must be quantified as for as possible and interdependencies and correlations are also need to be quantified. Risk mitigation plans and strategies are to be developed to minimize the effect of identified risks.

With strong foundation having laid on implementation of ERM in GIC Re, we are sure that GIC Re will have the model ERM program in Afro-Asian region.

Charles Asirvatham

Public Liability Insurance (Act) Policy, 1991

Industrial development is one of the inevitable activities of progress in any country. Manufacturing and use of hazardous substances is increasing. Adequate care in handling and disposing of such hazardous substances is essential or else, it may result in accidents, many a time fatal ones.

To take utmost care and avoid accidents is 'easier said than done'. The world has seen major man made /chemical disasters inspite of the best efforts taken for safety.

The Armley asbestos disaster is an ongoing health issue originating in Armley, England. Described as a "social disaster", it involved the contamination with asbestos dust of an area consisting of around 1,000 houses in the Armley area of the city. The contamination was the result of the activities of a local asbestos factory, part of the Turner & Newall group in 1959. At least 300 employees are believed to have died from asbestos related illnesses including cancer. Residents of the area were also affected. As the interval between exposure and diagnosis could be up to 50 years, the number of further fatalities due to the emissions or residual dust cannot be predicted.

Federal-Mogul is a large automotive parts manufacturer in the USA. The company had to file for bankruptcy in 2001 due to the liability it was facing from asbestos claims made by workers who came into contact with the substance whilst handling it. Most of these claims were made to cover liability associated with asbestos related sickness including cancer. The effects are being evidenced even now.

Erin Brockovich-Elliis is an American environmental activist who was instrumental in constructing a case against the Pacific Gas & Electric (PG& E) of California in 1993. This is a case of alleged contamination of drinking water with hexavalent chromium in California, USA. Between 1952 and 1966, PG&E used hexavalent chromium to fight corrosion in cooling towers. The wastewater dissolved the hexavalent chromium from the cooling towers and was discharged into ponds at the site. Some of the wastewater percolated into the groundwater, affecting an area near the plant approximately two miles long and nearly a mile wide. The case was settled in 1996 for US$333 million, the largest settlement ever paid in a direct action lawsuit in US history.

Closer home, in India, one of the the world's worst industrial disasters occurred in Bhopal at the **Union Carbide** factory. On December 2, 1984 a large amount of water entered a tank which contained 42 tonnes of Methyl Isocyanate (MIC), used in making a pesticide (the same gas used in gas chambers during the World War!). Due to the chemical reaction between the two, gases emitted resulting in catastrophic losses and death of thousands of human beings, maimed thousands and killed a number of animals.

Official records state that there were 3,787 immediate deaths. Within 72 hours around 10,000 more persons died and 25,000 have since died from gas-related diseases. Even now women are facing gynecological problems, children are being born deformed. Half a dozen officials who were involved with the relief operations are also said to have suffered from different types of cancers.

This is only a sample list of examples of negligence on the part of owners of manufacturing units. The physical and mental trauma undergone by the victims as also their family members is not only due to physical disabilities but also in obtaining suitable compensation and financial assistance.

Against the backdrop of the Bhopal gas tragedy, the Government of India tried to put in place regulatory norms which would compensate victims for the physical and mental trauma which they would undergo in similar situations, if they arise in future.

- An offshoot of this was the enactment of the Public Liability Act in 1991. The Act mandated Public Liability insurance for the purpose of providing immediate financial relief to people affected by accidents occurring while handling hazardous substances.
- The Act makes provision for strict liability / no fault liability, where the claimant shall not be required to plead and establish that the death, injury or damage was due to any wrongful act, neglect or default of any person.
- The Act makes it mandatory for anyone handling any hazardous substances to buy this insurance cover.

Salient Features

- Covers statutory liability arising out of accidents occurring due to handling of hazardous substances as provided for in the Act
- All third parties including employees (except covered under Workmen's Compensation Act, 1923) can claim compensation
- In case an accident occurs, this policy ensures immediate financial relief to the people affected by the accident due to death, injury or property damage
- Covers transportation by mode of surface transport (other than railways)
- Claim award / settlement amount is decided by the District Magistrate / Collector
- Amount equal to the premium is contributed toward ERF (Environmental Relief Fund) of Ministry of Environment
- The PLI Act policies taken out by the owners will first honour the claims and balance, if any, will be paid out of the ERF fund

Who Should Buy Public Liability Insurance

- Companies or persons "handling" / dealing with "hazardous substances" that are part of notification issued by Ministry of Environment & Forests

What happens if this policy is not taken -

- For first time offenders – imprisonment between 12 & 18 months or a fine not less than INR 100,000 or both
- For repeat offenders – imprisonment between 2 & 7 years or a fine not less than INR 200,000 or both
- Along with above mentioned fine, the manufacturer is exposed to unexpected financial loss arising out of legal liability

What is not covered under the policy -

- War & Terrorism
- Nuclear radiation
- Non-compliance of any statutory requirements
- Fines, penalties, punitive and / or exemplary damages
- Damage to Insured's property
- Ionizing radiation or contamination by radioactivity from any nuclear fuel / waste
- Damages in respect of losses / liability arising outside India

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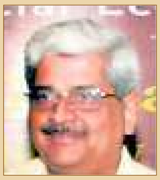
Secretary (Financial Services) visits GIC Re

It was a morale booster for all of us at GIC Re when Mr. R Gopalan, Secretary to Government of India, Department of Financial Services visited the Corporation on the 8th of June 2010.

Mr. R Gopalan addressed a meeting of the senior executives of the Corporation on this occasion. The meeting began with Chairman-cum-Managing Director Mr. Yogesh Lohiya welcoming the visiting dignitary. Mr. Lohiya in his introductory remarks outlined various measures adopted by the management to improve the performance of the Corporation. He also highlighted the future plans of the Corporation.

This was followed by a presentation by General Manager (Reinsurance), Mr. M Ramaprasad about GIC Re and its performance during 2009-10.

Later addressing the meeting, Mr. Gopalan suggested that the management should work to an action plan to ensure that the Indian Reinsurer joins the Class of top 10 global reinsurers. He said we should revisit our policy of largely excluding USA and Canada for thepurpose of writing business. He was of the opinion that ample opportunities exist in those areas and can be made use of prudently to scale up our position and profits globally. Mr. Gopalan further added that GIC Re should draw up a business plan for the next 5 years.



Mr. R Gopalan,
IAS,
Secretary to Government of India,
Department of Financial Services,
Ministry of Finance, IAS Officer of Tamil Nadu cadre of 1976 Batch

Mr. Gopalan did his Post Graduation from Boston University and holds a Masters degree in Public Administration from Harvard University. R Gopalan brings with him a rich experience on economic matters from his long tenure in the Ministry of Commerce and Industries beginning in the year 2000 and ending in December 2009 till he was posted to his current position.

Mr. R Gopalan, Secretary (DFS) in a meeting with GIC Re Executives

The Secretary (FS) was informed that the Corporation has drawn up a Vision 2025 that envisages GIC Re as a Global Reinsurance Solutions Provider. This Vision 2025 has a well defined and spelled out Vision and Mission for the Corporation. This has been worked out in consultation with employees and Consultants.

The highly motivating address of the Secretary (FS) will serve as a catalyst for all of us at GIC Re to achieve even higher and loftier targets.

Editorial Desk

contd from page 7

What should be the Limit of Liability -

- Minimum coverage / liability limit should not be less than the amount of paid up capital of the business dealing with hazardous substances
- Maximum coverage can be any one accident (AOA) limit INR 50 Mln. & any one year limit (AOY) INR 150 Mln.

Premium

- The premium for this policy is charged on the limit of indemnity for any one accident and also on the turnover of such hazardous substances handled by the insured.

The Public Liability (Act) policy was launched under the auspices of GIC and its subsidiaries.

It may be noted that based on the turnover, any manufacturer desirous of going for a limit higher than INR 50 Mln. / INR 150 Mln. AOA/AOY, can avail enhancement of limits under Public Liability (Industrial) policy.

Incidentally, the Bhopal gas tragedy has been making the news for the past few weeks. Even though the Government of India had claimed $ 3.3 billion from Union Carbide, a settlement was effected in 1989 under which Union Carbide agreed to pay US$ 470 Mln. in settlement of its civil and criminal liability. Thanks to the enactment of PLI Act, 1991, affected third parties will not have to rely on the government for relief, in case a similar disaster shapes up in future. Insurance Industry will take care of compensation via the Public Liability Insurance (Act) policy.

Shaila S Baindur

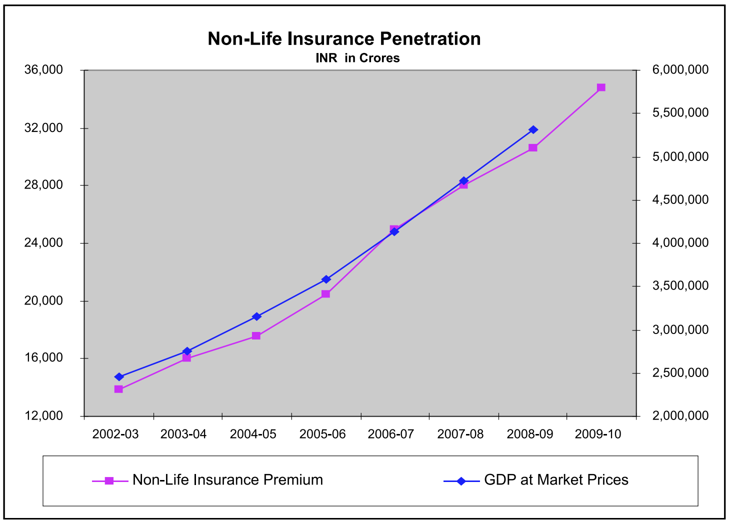
Industry News

Vuvuzelas are out and blaring, at full blast. Football fans from world over are puffing at their bugles in mischief and merriment, in deification and derision, in camaraderie and competition, in censure and celebration. Not to be left behind, the sports enthusiasts on the sub-continent, chiefly following (only) cricket and cricketing icons are fast catching up with football events in all their fascinating details.

In contrast, the mood on the economic side continues to be a cause for concern. While the economic crisis is well past, the recovery was progressing slowly. Just when it was thought that the US financial crisis was over and we could go through long and slow recovery, sovereign debt crisis in the Eurozone has surfaced and by various accounts, it is of larger proportions than the US crisis.

It is noteworthy how the shoe is on the other foot and the preferred prescription of world financial institutions for emerging economies in problems to enforce fiscal discipline, now is applicable to developed economies. Emerging economies enjoy more leeway thanks to their robust economic growth rates.

Global macro-economic imbalances in terms of savings and consumption continue to pose challenges. China has agreed to do its bit by ending Yuan's peg to the dollar but it is not certain how committed China is to the goal of helping correct global imbalances. The dilemma before economic regulators is to or not to withdraw the fiscal stimulus, to run the risk of inflation or deflation. It is expected that divergent views will be aired at G-20 summit at Toronto. Against this backdrop, India has registered 7.4% growth in GDP during 2009-10, propped up by growth at 8.6% in the quarter ended March 2010.



Business Written 2009-10-Non-Life Insurance:

Performance indicators for 2009-10 for the industry are published. Market premium for non-life segment has increased to INR 34,817.17 crore from INR 30,637.68 crore in the previous year, registering a growth of 13.6%. About 39% of the market premium growth has been contributed by the motor segment with health contributing another 27% and fire 12%. Liability grew over 20% and health over 18% with fire also growing at 14.5%.

Public sector players booked a premium of INR 20,590.43 as compared to INR 18,031.77 crore in the previous year, resulting in y-o-y growth of 14.2%. Private players have by comparison grown y-o-y at a rate of 13.2% from INR 12,571.76 crore to INR 14,226.74 crore. Market share of public players thus has grown from 58.9% to 59.1%, a gain of 0.2% to public players. This compares with loss of market share by public players of 1.1% in 2008-09, 5% during 2007-08, 8.3% during 2006-07 and 6.3% during 2005-06. Market thus remained stable.

Insurance Penetration:

Insurance penetration for non-life insurance remained between 0.56-0.60% of GDP for the period 2002-03 to 2008-09 despite healthy growth rates.

Business Written 2009-10- Life Insurance:

On the Life insurance side, the premium (first year premium) went up by 25.5% from INR 87,107.62 crore to INR 109,209.40 crore. Public sector market share for 2009-10 stood at 64.9% as against 60.8%, a gain of 4.1% from private sector over last year. This compares with private sector gaining 2.9% during 2008-09. LIC grew by 33.9% while private sector premium volume grew by 12.4%. Among the types of policies, group policies grew by over 50%.

Unit Linked Insurance Plan is an important product for the life insurance industry and it has grown in importance with market share of 54.8% (51.0% in the previous year). With significant investment component in ULIP products, Securities and Exchange Board of India, capital market regulator sought to ban life insurance companies from continuing to engage in ULIP space till they obtain the requisite certificate of registration from SEBI. In order to avoid upsetting the markets and to protect policyholders' interest, IRDA directed insurance companies to ignore SEBI Order. Finally, the government through the Securities & Insurance Laws (Amendment & Validation) Ordinance 2010, amending the RBI Act 1934, Insurance Act 1938, SEBI Act 1992 and Securities Contract Regulations Act 1956, clarified that Life Insurance business shall include any Unit Linked Insurance Policy or scripts or any such instruments and thus sought to reaffirm the exclusive jurisdiction of IRDA in regard to ULIP products.

Further, for addressing issues of jurisdiction regarding hybrid products, a high level Committee under Chairmanship of Union Finance Minister has been constituted. Growing financialisation and sophistication of financial products alongside increasing complexity in risk management needs, hybrid products can only increase in future posing regulatory challenges.

Financial sector reform is underway in US following the 2007-09 crisis, touted as the most comprehensive overhaul since the Great Depression. Changes in trading practices, regulatory approaches and more capital requirements are going to force structural changes at some of the financial conglomerates. These changes may influence financial regulation the world over. Protecting consumers of financial services against systemic risk and detecting asset bubbles in their formation stages will remain the challenges for the regulators in the foreseeable future.

Hitesh Joshi

Eruption of EYJAFJALLAJÖKULL and Aviation

General Manager Mr. M. Ramaprasad and Deputy General Manager Mr. P. K. Bhagat visited London in Mid-April, 2010 for meetings with the brokers / reinsurers for renewing the domestic reinsurance protection of GIC Re. The day before their scheduled departure for home, the news of the volcanic ash spreading across the Northern European skies, shutting down airports across the area including the UK airspace hit the headlines.

Air passengers were stranded at airports all over the world. All the flights were cancelled creating uncertainty over when the air traffic would finally resume. GM and DGM who wanted to get back into action in Mumbai to follow-up on what they had accomplished in London were left with no other alternative but to function from the Branch. The Branch thus had the fortune to become "Head Quarters" for reinsurance operations and reinsurance protection departments. Our 'stranded' executives made use of this opportunity to meet a couple of more reinsurers/ brokers, some of them those, with whom we had not scheduled any meetings as per the original plan.

The Volcano

The root cause for paralyzing the air travel industry in UK and across Europe was the Icelandic Volcano's eruption and which has virtually an unpronounceable name. It is spelled as EYJAFJALLAJÖKULL. Even the news readers on various electronic media channels appeared to be reluctant to name the volcano repeatedly for obvious reasons. The pronunciation of the name is best conveyed using devnagri script as ?????????. To save the readers from reading (and pronouncing) the difficult name, the volcano is referred to as Icelandic Volcano in the rest of the story.

The Icelandic volcano is situated to the north of Skógar village and to the west of Mýrdalsjökull (apologies for not providing a guide for pronouncing these) glacier in Iceland. This location falls directly below 'Jet Stream'. Jet streams are fast flowing, narrow air currents located near the tropopause - the transition between the troposphere and the stratosphere. The major jet streams on earth flow from west to east. The volcanic eruption which began in March 2010 is considered to be a 'single eruption' divided into different phases. The first eruption phase was a benign as the ash ejection from this phase of the eruption was small, rising to no more than 4 kilometres (within the troposphere) into the atmosphere. However, on 14 April 2010, the eruption entered an explosive phase and ejected fine, glass-rich ash to over 8 kilometres into the atmosphere. The direction of the Jet Stream was unusually stable during this phase of eruption resulting in south easterly flow of the ash. The second eruptive phase took place under 200 m of glacial ice resulting in the ash cloud being glass-rich. Further, the volcano's explosive power was sufficient to inject ash directly into the Jet Stream disrupting the air traffic across western and northern Europe. Subsequent localized disruptions continued during May 2010. The air travel disruption as a consequence of the eruption is supposed to the highest post second world war.

Mr. Ramaprasad and Mr. Bhagat at the Main Hall of Lloyd's at London. In the background is the Lloyd's Rostrum that houses the famous Lutine Bell. The Bell is rung to herald important announcements : once for good news and twice for bad news.

The Ash

Volcanic ash is created during explosive eruption activity and consists of small granular particles of pulverized rock and glass. The size of the particles may vary in size from as tiny as a grain of talcum powder to as big as a grain of sand. The very fine particles may be carried for many miles, settling out as a dust-like layer across the landscape. This is known as an ashfall. Ashfall breaks down over time, forming highly fertile soil, which has made many volcanic regions densely cultivated and inhabited despite the inherent dangers. If liquid magma is ejected as a spray, the particles will solidify in the air as small fragments of volcanic glass. Unlike the ash that forms from burning wood or other combustible materials, volcanic ash is hard and abrasive. It does not dissolve in water, and it conducts electricity, especially when it is wet. The ash is capable of causing devastating effects on ecosystem, human health, properties, ecosystems, aircraft etc. If the ash is ejected high enough, it can reach the high winds where the jet aircrafts cruise.

Impact on the aircraft

Volcanic ash can harm an aircraft in various ways. It can 'sandblast' the windscreen resulting in blinding of the pilots. It can coat the landing lights. The ash can clog the aircraft sensors. It can block pitot tubes which are the speed indicators. The charged particles of the volcanic ash can disturb the radio communication of the aircraft. Most importantly, the ash can damage the engines. The glass-rich particles are sucked in to the engines during combustion operation and melt at high temperatures inside the engines and fuse onto the blades and other parts of the turbine which may result in jamming of the rotating machinery. The fusing may also starve the combustion process of the very vital oxygen resulting in engine failure.

The usual emergency procedure of increasing power when the engines begin to fail worsens the problem. Instead the engines are to be throttled back, engine and wing anti-ice devices are to be turned on and altitude is to be reduced so as to bring the aircraft below the ash cloud as quickly as possible. The clean air helps in unclogging of the engines resulting in higher probability of restart.

The aftermath

The shutting down of the airspace over UK and EU had a cascading effect. International Air Transport Association (IATA) has estimated the cost of disruption to the airline industry at $1.7bn. Various economies in the world were adversely affected in absence of air travel in, out of and over important nations of the world.

Several sectors that depend on air freighted imports and exports were badly affected by the flight disruptions. Millions of passengers were left stranded for days together.

The pressure on the governments grew immensely with every sector losing money in the aftermath of airspace shutdown. The test flights conducted by few airlines to study the impact of the ash on the engines seemed to suggest that the governments in their enthusiasm of preventive risk management had over-reacted to the situation by closing the 'affected' airspace.

There is a clear distinction between flight through an eruption plume and flight through the affected airspace. The density of the ash in the immediate vicinity of the eruption plume is much higher than the density of ash found in the downwind dispersal clouds which usually contain the finest grade of ash. It is difficult to establish the minimum level of 'ash-loading' which can impact engine operation of an aircraft.

A solution was needed without compromising the safety of air travel. The Authorities in the UK (CAA) and EU finally decided to change the guidelines regarding flying through volcanic ash, following six days of discussions between aviation engineers and experts. Air manufacturers, both engine and airframe, were asked to look at the scientific evidence from test flights and at the data to understand the tolerance of the jet engines to the volcanic ash. A concentration of ash of 0.002g per cubic meter of air was agreed as a new safe threshold. At or below this concentration, there would be no damage to the engines. At the time of this decision, the concentrations of ash in UK airspace were around 100 micrograms (or 0.0001g) per cubic meter. The airspace was then opened after a period of 6 days.

Aviation Insurance

The aviation re/insurers were not directly impacted by the closure of air traffic as there was no incident involving any aircraft and hence no claims could be made under aviation insurance. However, there would be an indirect impact in terms of lower passenger numbers, lower number of flights which is likely to result in final figures being lower than the estimated.

Blessing in Disguise for the Branch

The volcanic eruption did provide Branch team the occasion to have GM and DGM for few more days at the Branch. The eloquence of the GM coupled with ready wit of DGM livened up the atmosphere. The branch did bid adieu to GM and DGM after the partial resumption of flights.

Sanjay Mokashi

Aviation Underwriters Descend in Manchester

Manchester was the chosen venue for Annual General Meeting of International Union of Aerospace Insurers, a long established and well respected trade association of aviation and space underwriters, held during 7-9 June 2010. The Union with its establishment in 1934 completed its 76 years on 4th June 2010. The weather was typically British with cloudy cover and drizzle through all the three days.

Mr Sanjay Mokashi from London Branch and I represented GIC Re at the Meeting. During all three days, presentations were made by various study groups and few guests were also invited to make presentations. IUAI has various study groups on airlines, general aviation, space, manufacturers and airports and claims and legal issues. These study groups made presentation on their work during the year. Of topical interest was the presentation on Eyjafjallajökull volcanic eruption causing losses of about USD 1.7 Bln to the airline industry.

Among the presentations, of particular importance were the presentations on block exemption rules. These rules are likely to change the competitive practices in the reinsurance industry including aviation class.

On the evening of second day, a dinner was hosted at Manchester Airport's Runway Visitors Park where Concorde, the first supersonic airliner and British Airways' second Concorde G-BOAC (British Overseas Airways Corporation) is now up for display. It was a delight to watch Concorde, an epitome of aviation marvel, a pleasant disappointment in that the aircraft was smaller than may be anticipated, capable of carrying 100 passengers. In particular, the turbojet engines were smaller as compared to present day turbo-fan engines. It was bit of a surprise that Concorde had first flown in 1969 and development took place during late 1960s and early 1970s. It remained in service till 2003 from 1976. It is needle-like as can be seen from the photograph alongside. Concorde could accelerate from 0-225 mph in 30 seconds and travel faster than the earth's rotation.

With over 170 participants, the AGM was well attended. Even companies which did not write aviation extensively but wrote aviation accounts nationally were represented. Overall more than 80% of the members were represented, some by more than half a dozen representatives.

Meetings were scheduled by various underwriters with others from different companies. Being an Annual General Meeting of aviation underwriters, it was an exclusive underwriters' programme with no brokers.

Sanjay Mokashi & Hitesh Joshi savouring their moment under Concorde at the AGM of IUAI

Opportunity was seized to visit the John Rylands Library. Housed in a French style building on Deansgate, a stone's throw from the Deansgate Hilton Hotel where the AGM was held, the library founded by widow of John Rylands , an entrepreneur and Manchester's first multi-millionaire, has in its collections exquisite medieval manuscripts, examples of the earliest European printing, including the Gutenberg Bible, and the personal papers of notable local personalities. The most noteworthy is the so-called St John Fragment, believed to be the oldest extant New Testament document. The structure with its elegant arches is majestic.

Of course, the visit to Manchester was to culminate in a visit to Manchester United Football Club. An English professional football club, popularly known as ManU plays at Old Trafford in Greater Manchester. One of the most successful clubs in the history of English football and among the most widely followed football teams in the world, the Red Devils are eagerly watched by avid football fans.

There was a guided tour to the various parts of the stadium including the players' room. A veritable museum with facilities for revisiting past by selecting and watching matches based on teams, players and seasons on computer consoles, it housed various medals and medallions, trophies and decorations.

Not to be missed was the plaque in honour of their players who perished in the Munich air disaster, a tragedy that lay in ManU's glorious history. It was 6th February 1958. While attempting take off following re-fuelling in Munich from a slushy runway, an aircraft carrying ManU team on way home from European Cup quarter final victory, claimed 23 lives including those of eight players and officials and journalists.

Manchester has been successful in maintaining its pre-eminent position among the most visited cities after London in UK for a very long time.

Hitesh Joshi

Project e-Thru

Reinsurance business has always been transacted face to face and Brokers have been more than willing to approach their prospects with armful of papers. Gradually over the years, advances in the field of IT have pushed the industry towards doing away with some amount of paper. So now we have the broker emailing the proposals or statement of accounts and then following it up with a call at the underwriter's desk.

The electronic life of a Reinsurance transaction typically begins with a prospective cedant creating a proposal - an unstructured mix of text, pictures, graphs and any other such forms of communication aimed at explaining the nature of risk sought to be reinsured. This collage of 'electronic' documents is routed through intermediaries to a reinsurer. Depending on the merits of the proposal, the reinsurer would take a view on accepting the business that is offered. Accounting and Settlement messages then follow similar pathways. At every stage in the process, each entity would naturally be interested in capturing the details of the message flow in their own respective IT systems. This duplication of efforts in re-keying of the data has been universally recognized as an unproductive and costly component of the overall cost involved in the transaction. Straight through processing steps in here with the promise of routing the transaction directly from the system of one entity in the chain to another thus eliminating the mundane part of re-entering data.

Although the concept seems simple enough, system-to-system integration in the insurance sector is tough because the nature of business does not lend itself to commoditization or standardization like other financial transactions such as banking or security trading. Given the variances of each company's proprietary systems, exchange of data involves a process of cleansing, transforming, mapping every component of the data message to a globally accepted format. By and large, all major initiatives in this area have converged on the adoption of the ACORD insurance industry data standards for this purpose.

ACORD

ACORD (Association for Cooperative Operations Research and Development) is a global, nonprofit standards development organisation with a mission to facilitate the development of open consensus data standards and standard forms. It counts over 75% of the top 50 Property & Casualty carriers; and 70% of the top 10 Reinsurers as well as the top 5 Reinsurance brokers as its members.

Past experiences

Bringing in automation in the reinsurance quotation and accounting processes has been a dream pursued by many with an eye on keeping costs down and providing faster response time to customers. However, there have been several failures too. The most notable of these has been 'Kinnect' – Lloyd's centrally-funded electronic connectivity platform. It took five years to develop but had to be scrapped by the end of 2006 as a huge failure costing about £ 75m. Learning from these experiences, in 2008 Lloyd's invited pre-qualification enquiry from 27 IT companies to help it develop a new electronic messaging hub. Rather than building in rich functionality, the objective of this project was to keep the process as simple as possible without trying to be all things to all people (which is where Kinnect failed). In January 2009, IBM was selected as the sole service provider for the new central trading hub. Over a period of next three years, the Market Reforms Group, which sets priorities for London's insurance industry, will be focusing on getting to full usage of 'Electronic Claims Filing' for all claims and moving to the use of structured, ACORD standard data for premium submissions.

Swiss Re is also leading another ambitious e-trading project – 'Rueschlikon'. The participants of this pilot project consist of Swiss Re, Munich Re, SCOR, AonBenfield and Willis together with SWIFT (banking industry's worldwide financial telecommunication platform) and ACORD (the insurance industry standards body). The focus of this group is to adapt the back office systems to use common data and message standards and a single accounting process. Latest reports indicate that the pilot project has been completed as a proof of concept. However it has concluded that the business case for the participants in terms of savings versus the required automation and systems investments do not currently warrant continued development of the platform. Implementations would proceed on a peer-to-peer basis and the initiative will be revisited in the future based on further market maturity and associated business case.

Straight-thru-Processing in GIC Re

In line with the global trend towards bringing in automation into the Reinsurance business processes, GIC Re has also been exploring options in this area. Detailed discussions have been held with reputed IT service providers in India. Proofs of Concepts were organized to demonstrate the feasibility of the project on a very limited scale. SAP India has been appointed as the implementation partner for this project which has been named 'e-Thru' – a name intended to convey the objective of electronic connectivity end to end across all the processes ranging from placement, accounting, settlement, and claims movement. GIC Re would simultaneously be updating its core SAP system through a technical upgrade.

The project is expected to offer tangible and intangible benefits like:

- Automation between business partners
- Reduction of Processing inefficiencies
- Lower Operational Cost
- Ability to handle more business
- Integration with Global Markets, Channels
- End-to-end integration of business processes, Straight Through Processing

The IT aspect of the project itself is expected to be completed rapidly. However, there is a substantial non-IT dimension involving changes in processes, data cleansing and mapping to globally accepted code lists. The ACORD standards, on which the project would rely heavily on, are themselves evolving continuously. In the long run however, it could prove to be a game-changer for all the participants.

Paul Lobo

Impact of Euro-Zone Crisis on India

(In two previous articles we had discussed the damaging effect on institutions because of the failure to manage operational risks. Is the current crisis in the Euro-zone any different? I think the reasons for failure remain the same, only the scale has increased manifold.)

The PIIGS countries (Portugal, Ireland, Italy, Greece and Spain) are in serious trouble. Greece currently has a fiscal deficit of 13.5% of GDP. Its public debt/GDP ratio is 115% and is expected to be around 140% by 2014. Despite being a relatively rich country with a per capita income of approximately US $28,000, the current state of economy of Greece raises issues as to how the country's finances could have deteriorated to this extent.

The reason was the scant regard for budgetary control, mishandling of public finances, ever increasing expenses in the public sector work force and tax evasion. In 2009 its fiscal deficit stood at a clearly unsustainable 12.9% of GDP. The limit set for European Union nations is 3%. With the overall economy failing to generate adequate revenue, increasing Govt. borrowings will only lead to a situation where payment of interest on such borrowings becomes difficult. Then the question of sovereign default arises which leads to rating downgrade. The situation in all the other countries mentioned above is same, except the quantum of deficit. These nations also do not have the luxury of printing currency (Euro) to wriggle out of the situation. Comprehensive rescue packages have been announced by European Central Bank (ECB) to protect the sovereign bond market and there by the affected economies. It remains o be seen whether funding through debt route to rescue an economy struggling to pay off its debts is successful. Devaluation of Euro will affect the northern European economies negatively, mainly Germany which has very stringent budgetary discipline and is the growth engine for Europe. In fact it is said that Euro is the de jure German Mark.

What are the implications for India:

International Trade

Europe (excluding UK) as a region accounts for around 20% of Indian trade exports and 6% of services export. Total export from India to Europe last year amounted to around US $ 39 billion. In terms of imports, Europe accounts for around 15% of trade imports and 5% of service imports which work out to US $43 billion.

Indian exports mainly comprise of textile, clothing, precious stones etc. As these are price elastic items their demand may decrease. Euro has also depreciated against the Indian Rupee by about 20%. This will make Indian exports more expensive. On imports the impact will not be more as products like machinery and tools comprise substantial part of the imports and will any case remain in demand because of rising capex here.

> **EUROZONE**
>
> The Eurozone, officially the Euro Area, is an economic and monetary union (EMU) of 16 European Union (EU) member states which have adopted the Euro currency as their sole legal tender. It currently consists of Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. Eight (not including Sweden, which has a de facto opt out) other states are obliged to join the zone once they fulfill the strict entry criteria.
>
> **Origin of the Acronym PIIGS**
>
> Some Bearish international investors coined a new term for the countries that they believe are the weak links of the euro zone: PIIGS — which stands for Portugal, Italy, Ireland, Greece and Spain. According to some observers Iceland has been excluded from this group even though it almost went bankrupt last year as it is not in the eurozone and is not even a part of the European Union (as yet).
>
> This follows on the heels of the oft-used term for the most important emerging markets — the BRIC countries of Brazil, Russia, India, and China.

Commodities

Commodity prices have started to fall because of muted demand and will be helpful in bringing down inflation. If Oil prices remain within US $70-75 per barrel, the effect on forex reserve will be positive for us. As per the latest data available, our net import of oil was US $65 billion at an average purchase price of US $82 per barrel for 2008-09. If oil prices remain within the above mentioned price limit the we will make a saving of around US $10 billion per year due to the crisis in Europe.

Capital Flows

Several eminent economists have viewed the Greek financial crisis as the closest equivalent of a sovereign collapse to that of Lehman Brothers that hit the global markets in September 2008. The larger risk to the Indian capital market comes from the potential fall in risk appetite and resultant flight of capital out of the country. Foreign Direct Investment from Europe to India averages to around US $5 billion per annum and has always remained volatile. However the fall in quantum may not be substantial and at best the existing deal flows may be delayed to some extent. This reasoning is based on the fact that asset prices are still far off from their peaks and India has the capacity to absorb inflows.

US $ in billions)

	Equity	Debt	Total	Average*
2006-07	9.3	1.0	10.3	27
2007-08	20.1	3.2	23.3	67
2008-09	-10.7	0.5	-10.2	-47
2009-10	26.0	7.0	33.0	126
Apr 2010	0.7	-0.2	0.5	25
May 2010	-2.0	0.5	-1.5	-75

* in millions Source: SEBI

It is well known that anywhere between a third to half of the foreign portfolio inflows into India over the last one year have been broad based India bets through ETFs financed by cheap dollars available on account of the near zero interest rate policy adopted by the US. Flows from Europe are through deal specific FDIs. Overall the Indian economy should not be affected to a great extent by the European Debt crisis. However if there is sovereign default at any point of time, flight of capital to safety will be fast. Though this has a low probability now, if it happens the effect would negatively impact GDP growth in India.

Satyaji Tripathy

MUSINGS OF A REINSURANCE PRACTITIONER

It was but with a twinge of regret of missing out on all the excitement and action of the direct insurance world, that I stepped into the world of reinsurance at GIC, almost two years ago. Little did I know that I was treading on a terrain fiercely guarded by reinsurance puritans, who would condescendingly look down and refuse to accept anyone other than a pure reinsurer as a reinsurance practitioner. Looking back, I feel they were right, for in the wide realm of insurance, reinsurance is certainly a unique brand, perfected only by years of practice.

Life has been exciting ever since, full of new revelations and a-ha moments, interspersed with intellectually stimulating discussions and brainstorming sessions. Over time, I have realised that to excel, one would require painstaking mastery of many things expected of a reinsurance practitioner. To be a good conversationalist and to be able to hold a conversation with a cross section of people who meet you–be it a direct client, a direct insurer, your peers in the reinsurance industry from across the globe, the brokers and even loss adjusters, would mean being up to date with what is happening in the insurance world and the outside world. After all, what you project mostly to your counterparts abroad is not the company's image alone, it is the image of the country as well.

The art of negotiation in reinsurance is a vital tool that needs to be sharpened to serve its purpose in any reinsurance deal. It reminds me of the saying- Never get too close to the fire to feel the heat, nor too far to lose its warmth. Any reinsurance deal must neither be too highly priced that it fails to serve the user it is intended for, nor too competitive that it fails to find favour with the following markets and placement fails. Very often in speciality lines of business, where verticalisation is often the norm, the longer you hold on for better terms, the better your chances for achieving the same. Bouquet deals are generally the best negotiating trends in reinsurance.

Reinsurance is rightly considered by many as a mix of insurance and finance-true for most lines of reinsurance, especially speciality lines. The art of technically rating a treaty is as complex as designing one, what with towers and layers standing tall to each other or sitting above or below each other or even running into each other! If the burning cost method of rating appeals to an insurer, it may be the adjustable rate that goes down with another. Loss corridors are as much dreaded as the exclusions on the slips. A favourable treaty balance may not necessarily earn you the brownie points you were hoping for, because the reinsurer's concern would then be the exposure factor. If proportional treaties are popular with direct insurers, it is often the non –proportional treaties that appeal to a reinsurer.

The role of being an insurance ambassador of my country has a tremendous appeal for me. My heart swells with patriotic pride when I come across my reinsurance friends who are India savvy, and I go all out to convince them that they couldn't look for better business prospects in any other place, given the booming economy and business potential here. There are many who are as fascinated by the software intellectualism in the corporate world as by the riot of colours and flavours of the Indian cuisine. If some are floored by India's soft power in the context of culture and people talent, some others are blown over by the fact that Indians are more English savvy than any other country, despite English not being the official language.

My job has also taken me places and given me the opportunity to interact with people from diverse cultural, historical and religious backgrounds, thus unlocking the closed doors of my mind and throwing open new vistas of knowledge enabling me to view things with an open minded perspective, especially in matters of cultural and religious ideologies. It dawns on you that a Greek Orthodox Christian or a liberal Turkish Muslim is not very different from a practising Muslim from Teheran or a Buddhist from China because you realise that religion is only an accident of birth and religious tolerance can solve many of the problems of our troubled times. Snatching a little time during these visits for any historical monuments, though difficult, is very tempting to me, as I am fascinated by the magnificence and the silence of the place, once bustling with life and the aspirations and dreams of great minds. I am overwhelmed by awe as I realise that our lives are only specks in the vast expanse of humanity and time. The fulfilment of translating your childhood imaginations of history lessons to actual visual reality can not be described – it has to be experienced.

Where opportunities abound for comparative analysis in all lines of insurance, peer comparison is rare for the rare breed of reinsurers. It is for this very reason that meeting peers is so important in this relationship based industry. It is generally felt that specialisation is not a major thrust area for us as for our counterparts abroad, mainly due to the sheer volumes handled by us. Hence, it is indeed a pure delight meeting experienced underwriters from Lloyd's and major company markets and sharing notes with them on matters of mutual interest.

Many a time, a reinsurer is faced with the dilemma of finding intelligent and practical answers to a plethora of questions. Should the image projected be that of a flexible reinsurer to boost the top line or should it be that of a conservative but market savvy reinsurer who has his eyes on the bottom line? Is the rating of the company of any major consequence, considering its standing in the market? Is my role as a national reinsurer only to support the market, or do I also have a moral responsibility to help regulate the market for better market discipline? While I am still unravelling answers to all these questions, I must confess that this great dance of reinsurance is one I thoroughly enjoy and am grateful to be a part of, fully relishing its rhythm and music.

Alice Vaidyan

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'Catastrophe Micro-insurance – Bridging the Last Mile'

Catastrophe Micro-insurance – Bridging the Last Mile' the 4th Micro-Insurance Round Table (MiRT) was held at The Institute of Catastrophe Risk Management , Nanyang Technological University, Singapore from 8th to 10th April 2010. The focus of the Round Table was "The Empowerment of the People at the Bottom of the Pyramid in Developing Economies by the Process of Microinsurance". The Round Table hosted by Singapore- NTU Alliance for Micro-Insurance and Risk Management Solutions, Inc., USA, discussed the various avenues in bringing micro-insurance to those in the lower rungs of the pyramid and those in the developing countries who are affected by natural disasters.

Mr. Yogesh Lohiya, Chairman-cum-Managing Director, GIC Re addressed the Round Table as a guest-of-honour. He also made a presentation "Catastrophe Microinsurance & Empowerment of People at the Bottom of the Pyramid in Developing Economies-An Indian Perspective" at the Round Table. In his address and presentation he brought out many ideas to explore the Indian scene as also the handicaps and challenges that exist in this area in India. He also put up a number of suggestions that could be utilised to reach the lowest rung of the Society through the process of microinsurance not only in India but also in other parts of the globe where natural catastrophes, though rare, do cause immense social and economic losses besides of course loss of life. Mr. Lohiya's presentation was well appreciated and evoked suggestions for conducting a focused study of the risks for India and Asia.

Mr. Lohiya makes a point in the 4th Microinsurance Round Table

Singapore-NTU Alliance for Micro-insurance is an Association of individuals and organization partners who have the knowledge and interest in furthering the concept of using micro-insurance to assist those who need help after major man-made or natural disasters.

Anoop Khanna

Knowledge Initiative

It's oft said that the Balance Sheet of a Company showcases its accomplishments to the world. However, for most of us, so engulfed by routine, it is a document viewed as a baby of the Accounts department and best left to the Chartered Accountants of the Company. What we fail to realise is that it is a reflection of our own underwriting capabilities and related results.

Given this back drop, a workshop was recently arranged to make officers aware of this all important annual publication and therefore aptly titled "How to Read a Balance Sheet". The speaker was Mr. G. V. Rao, former Chairman-cum-Managing Director of The Oriental Insurance Company and one of the foremost thinkers and strategists in the Indian insurance industry today. How successive balance sheets studied over a period of time clearly demonstrate the strengths and weaknesses of a Company was brought out in a lucid manner. Held just before the finalisation of our own accounts, the timing was also perfect. It was a very informative workshop and was extremely well received by all present.

Mr. G V Rao conducts the workshop on 'How to Read a Balance sheet'

Devesh Srivastava

Success Story

Mr. Rajesh Pokhriyal, Assistant Manager- ITMG attended a 25 day-training in Bangalore for SAP Netweaver 7.0, Module - BASIS held from 07 April, 2010 - 7 May, 2010 and successfully cleared the certification exam. GIC ReNEWS congratulates Rajesh on his success.

Editorial Desk

Learning & Development

Reinsurance is "insurance for insurance companies" and though 'reinsurance' is said to be 'insurance', reinsurance has its own peculiarities as well.

The oldest known reinsurance contracts date back to the fourteenth century. International reinsurance has since developed into a highly specialised financial service. Reinsurers offer advice to insurers in underwriting, pricing, especially, during the development of new products.

Professional reinsurers have built up a high level of expertise in risk-appropriate underwriting for routine to most complex risks. Reinsurance business is changing fast. Beginning with the simplest forms of quota share arrangements, the business is now getting increasingly complex as reinsurance is linking itself with even financial products through bonds, securitisation and other Alternate Risk Transfers.

Selection of a reinsurer is also a very important decision for direct writers who look into the aspects such as solvency, financial status, net worth and credit rating by a reputed rating agency.

GIC Re has been sharing the knowledge base in the field of insurance & reinsurance, built up over last three decades, through organisation of training programmes for our business partners in India & abroad. Our valued clients from Afro Asian region have found the trainings organised by GIC Re very useful.

Responding to a specific suggestion from IRDA, GIC Re had organized a 3 day training programme in Mumbai, between 5th & 7th April 2010, basically to acquaint IRDA officials with reinsurance business, its modalities, world reinsurance scenario, global developments and the regulatory aspects.

17 officials from IRDA participated in the programme and, apart from listening to speakers on various subjects, had an opportunity to interact with officials from GIC Re and discuss issues of common interest. Mutually beneficial discussions was a highlight of the programme as there was an opportunity for operational experience of GIC Re officials to be shared and debated with the regulatory & supervisory outlook of the participants from IRDA.

This 3 day programme organised by GIC Re was very well received by IRDA officials, who said that they would be looking forward to some more such interactions. Believing strongly in the maxim "A well informed regulator is the best friend and guide", CMD GIC Re assured IRDA of all help and support in many areas including 'learning & development'.

Deepak Godbole

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: gicrenews@gicofindia.com

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