MARKETING STRATEGIES OF 'ORIENTAL' AND OPINION SURVEY
IV. MARKETING STRATEGIES OF 'ORIENTAL'

AND

OPINION SURVEY

After analysing the performance and market share of 'Oriental' in the preceding pages, the marketing strategies adopted by 'Oriental' and the outcomes of the opinion survey are discussed in this chapter.

Marketing strategies are split up into seven types, viz., (1) Place oriented, (2) Product oriented, (3) Price oriented, (4) Promotion oriented, (5) People oriented, (6) Procedure/Process oriented and (7) Physical evidence oriented.

These strategies are analysed in the following pages.

1. PLACE ORIENTED STRATEGIES:

'Place' in marketing parlance denotes distribution channels. But in service industry, like insurance, 'Place' covers both location and distribution channels as well. As per the Chartered Insurance Institute of England, one of the premier insurance institutes in the world, the word 'Place' in insurance industry encompasses both location as well as distribution channels.

Along with distribution channels, the location of office also occupies an important role to play in insurance marketing. Considering this factor, 'Oriental' always looks for places, which are easily accessible to locate its offices. Though substantial chunk of business is brought by Development officers, agents and to some extent through tied-up business, clients or their representatives also directly visit the offices to take insurance policies. Hence easy accessibility to offices is a must and it plays a vital role when searching for office premises for opening new Branches and Divisions, where underwriting of business (i.e., selling of policies) is undertaken.
Some times, due to non-availability of required premises in good localities, offices may be opened in available areas and later, when opportunity arises, shifted to good localities which have easy accessibility not only to customers but also for employees and others who all have connections with and visit 'Oriental'.

Others include agents, insurance surveyors, (surveyors visit the office for getting papers of claims, which have been allotted to them for assessing the loss and to deliver the survey reports and render service to the company in claims related matters for all of which they get fees from the company), persons from courts who deliver notices regularly to 'Oriental' (due to increase in T.P. claims serving of notices almost becomes a daily routine these days), postman, tax collectors from municipality/corporation, salvage buyers, (salvage is old, damaged parts, surrendered to the insurance company by the insureds, who replaced the damaged parts in their accident met vehicles with new ones, for which they get reimbursed by the company or damaged items from other insured properties which were damaged in accidents, for example due to fire or breakdown) and of course, the friends and relatives of employees who visit them in the office, during office hours. (Visitors during office hours have grown to such a proportion, for example in Tiruchengode Branch office, as is in many other offices of 'Oriental', that it has become a nuisance to other employees, a hindrance for the smooth functioning of office, with their unquestioned free use of toilets and especially office telephones. This practice is to be curtailed with a heavy hand by the Branch/Division incharges without any partiality to enforce at least a minimum discipline among the employees).

Offices are situated in ground floors of buildings in some places, while in most of the places they are situated in first floor or in the upper floors of multi storeyed buildings. The reasons for preferring first or upper floors being low noise level, less disturbance and lower rent, comparing with ground floors.
While selecting office premises, it is ensured that the premises is well ventilated, well lit, have separate toilet facilities, with good running water and as far as possible there are no pillars in the middle of the hall to facilitate free movement of employees and customers. The chosen premises should have scope for expansion in future.

Though the carpet area (i.e., the main area, excluding the toilets, staircase, foyers and veranda of the premises) for a Branch office not to exceed 1250 square feet and for a Divisional office not to exceed 3000 square feet, the norm is relaxable in case-to-case basis and the authority for the relaxation rests with the Board of the 'Oriental'.

In some places, for example, Divisional office-I, at Broadway, Chennai, offices are located in the company owned premises. (In some cities, officers' quarters are owned by company and let out for officers who have been transferred to such areas from other places and the rent to be adjusted in their salaries as per the company rules).

In case of rented buildings, the company entered into an agreement with the landlord and the agreement is in a standard format throughout India, which provides for 15% increase in the rent if the agreement is for three years and 25% increase if the agreement is for five years. At the completion of the agreement period, if the landlord does not like to continue the arrangement, he may issue notice to the company for vacating the premises. The agreement provides for three months' rent as advance, which in some areas relaxed to six months' rent and the authority for relaxation again rests with the Board of the 'Oriental'.

Channels of Distribution:

The general insurance business has been traditionally classified into three categories, as far as sources of procurement of business are
concerned, viz., (1) Organised (market) business, (2) Tied-up business and (3) Public sector business.

Of the above three classes, only the organised business is canvassed and marketed by the Development officers. The tied-up business (so called because of certain corporate industrial houses and their units having their traditional tie-ups with particular insurers) and the public sector business (business of public sector undertakings) are mainly catered to by the company officials in the cadre of Class-I officers. Though the market business is mainly procured by Development officers, it is also complemented by Class-I officers in the cadre of A.A.Os.(D), A.Os.(D), Branch and Division incharges.

The following chart depicts the sources of and the persons responsible for canvassing and marketing the business

<table>
<thead>
<tr>
<th>Organised Business</th>
<th>Tied-up Business</th>
<th>Public Sector Business</th>
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<tbody>
<tr>
<td>marketed by</td>
<td>marketed by</td>
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<td>(1) Development officers</td>
<td>(1) A.A.Os.(D)</td>
<td>(1) A.A.Os.(D)</td>
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<td>(2) A.A.Os.(D)</td>
<td>(2) A.Os.(D)</td>
<td>(2) A.Os.(D)</td>
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<td>(3) A.Os.(D)</td>
<td>(3) Branch Incharges</td>
<td>(3) Branch Incharges</td>
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<tr>
<td>(4) Branch Incharges</td>
<td>(4) Division Incharges</td>
<td>(4) Division Incharges</td>
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<tr>
<td>(5) Division Incharges</td>
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</tbody>
</table>

Tied-up and public sector business segment is characterised by highly organised and demanding sector. Very often the clients in this segment employ their own insurance departments. This segment is located mostly in
urban and semi urban areas and there is no specific intermediaries involved except A.A.Os.(D), A.D.Ms.(D), B.Ms. and D.Ms. This results in the distribution machinery becomes top-heavy. This segment requires highly skilled people, wide product range, courteous service and sophisticated technology backed up by strong managerial systems.

So far as tied-up business is concerned, corporate industrial houses and their units tie up with one or more insurers who cater to all their insurance needs. When a huge premium is involved, all the four public sector insurance companies would compete with each other to get the entire premium for themselves or a major portion of it.

Once an arrangement is made by the industrial house, usually it remains as it is in the following years. If a single insurer is doing all the business of an industrial house, then they inspect the risk to be insured, quote the premium and issue policies after receiving the full premium. When an accident is reported which is covered under the policies issued, the property is surveyed by the qualified surveyor deputed by the insurance company for assessing the extent of loss and the claim is settled as per the policy conditions.

If an industrial house chooses to insure with more than one insurance company, then the whole business is divided into certain percentages by the industrial house and distributed among the insurance companies. In some cases the insurance companies themselves divide the business among them into certain percentages mutually agreed upon between them.

Usually an industrial house places its business with one or at the most two insurance companies and in very rare cases only it places the business with all the four insurance companies. For example, 'Oriental' cater to all the general insurance needs of Life Insurance Corporation (LIC) of India, the
reason being that the 'Oriental' and LIC were under the same management before their nationalisation, but now LIC's general insurance needs are served by other insurance companies also.

Likewise, Tatas, one of the largest industrial houses in India, places the whole of its insurance business with its 'baby' only, i.e., The New India Assurance Company Limited, which was floated and managed by them till the time the company was taken over by the Government of India in the year 1972, after the promulgation of General Insurance Business (Nationalisation) Act, 1972 (57 of 1972). (Now Tatas have floated again a new insurance company in the year 2001, for doing general insurance business, upon the Government of India's decision to allow private players in the general insurance field).

If more than one insurance company is involved in an arrangement, then one company would get at least one percent share more than the other insurance company/companies and the company which gets higher percentage of share in the premium involved is called the 'leader' and all the other companies in the arrangement are called 'co-insurers'.

It is the responsibility of the leader to inspect the risk, quote the premium, issue policies after receiving the full premium and servicing the policies through out the policy period including the arrangement of surveys and settlement of claims whenever they are reported and which are covered under the policies.

At the time of receiving the premium, it is the bounden duty of the leader to issue policies to the insured and the premium is divided into the percentages agreed upon previously and the cheques for the amounts will be sent to the respective co-insurers along with the policy copies, so that the co-insurers will have an idea of the risks involved and the coverage given.
Likewise, when a claim is reported under the policy, it is the duty of the leader to arrange for the survey, process the claim and settle it. After settling the claim, the claim amount with all the incidentals is divided by the leader in the same percentages as was done for the premium sharing, and informed to the co-insurers, who in turn will send cheques for their respective shares to the leader.

The leader will give copies of claim papers, if at all needed, to the co-insurers. Co-insurers will always follow the leader, and will not question the leader, unless they feel that there is any deviation from the observance of policy conditions or the provisions of the agreement made between them. Though the whole responsibility rests with the leader through out the policy period, the leader may seek the assistance of the co-insurers whenever there is a need for it.

Division and Branch incharges as well as A.Os.(D) and A.A.Os.(D) canvass and market business with small, medium or big companies which are based in their areas.

Officers at the top-management level are posted only in the Regional offices and Head office of the company, where there is no underwriting is done. Hence the premium procured due to their efforts is underwritten by any one of the Divisions under their control. So the Divisional office concerned, which underwrites the risk, is responsible for servicing such policies, to the satisfaction of the client and retaining them with the company. Hence Development officers have no material role to play in procuring and servicing such businesses, which are obtained through tie-up arrangements, except in rare cases where Development officers from influential families wield their clout to get business from big organisations.

Public sector business, like tied-up business, is also procured and serviced by the Class-I officers of the insurance company. All the four public
sector insurance companies would compete with each other to get the entire premium or major share of the premium for themselves from each public sector enterprise floated by Central/State Governments. All the political connections, which they may be having, are also freely used by the insurance companies in getting the premium to their respective companies.

Business canvassed from public sector enterprises by Class-I officers at the top-management level is underwritten in any one of the Divisional offices of the company, which render service through out the policy period.

If the premium from a public sector enterprise is shared by more than one insurance company, then one company gets higher share of premium and becomes the leader and render service to the client through out the policy period. The co-insurers will get their share of premium and pay their share of claim, if any, through the leader.

Even in the year 1998-99, at the end of the study period, there were no statistics readily available with the 'Oriental' as to the exact amount of total premium procured through tied-up business and from public sector enterprises, despite the fact that the computer software being used in all the underwriting offices, i.e., Branches and Divisions throughout India, has the provision for allotting client code.

It works like this. A code number is allotted for a client and whenever premium is received from a particular client it is put under this code and at the end of the year total premium, even department wise, could be taken from the computer. Thus premium from each underwriting office, classified as tied-up business and public sector business, could be consolidated and the total premium, company as a whole, can be found out. But it is not done properly at every level and thus the company is at a loss to find the exact amount of premium procured from each source of business.
Inefficiency on the part of the employees, lack of training, lethargic attitude, lack of responsibility and the attitude of the management also are to be blamed for all the ills of the company.

As far as organised (market) business is concerned, it is primarily done by the Development officers of the company. Agents do business next to Development officers and they are followed to a much lesser extent by the A.Os.(D), A.A.Os.(D), Branch and Division incharges.

It is Development officers who do the major part of the company's business. It is generally said that in the insurance industry it is Development officers who do business in general insurance while it is agents who do business in life insurance, since the commission structure in LIC is attractive to lure the agents to do more business.

Usually and predominantly it is the only direct marketing channel, which is employed in India for the distribution of general insurance business. The main constituents of this channel are Development officers - the full time company sales staff and agents. Development officers are recruited and trained by the insurance companies and their primary job is to market insurance company's whole range of policies, either through the agents appointed by them or directly to the public.

Agents are independent intermediaries introduced by the Development officers and appointed by the insurance companies whose main function is to procure general insurance business for the company. Normally they are under the supervision of Development officers, however, they can also report directly to the insurer's operating offices. There are also some Direct Agents Branches (DABs) for the 'Oriental', and in Tamil Nadu, there are two DABs, one in Chennai and another in Coimbatore, where there are only agents to procure business and there are no Development officers at all. Only the B.M.
or S.B.M. who is incharge of the Branch looks after the marketing aspect of the Branch office and agents in these DABs directly report to the officer-incharge.

The indirect channel includes Insurance Consultants, who are mainly the intermediaries between the large clients and insurance companies. Such intermediaries are principally former insurance personnel who cater to their clients for a fee only and not for any commission.

Implications of various sources of business:

Tied-up business and public sector business are canvassed and serviced by Class-I officers of the insurance company. Clients in this section of business are demanding and the officers who are servicing such clients must be technically sound and there must be continuity in the service rendered to such clients. For example if an officer servicing a corporate client is transferred, another officer in the office or the person who replaces the post of the transferred officer has to learn quickly the needs of the corporate clients and maintain continuity of service, which is practically lacking in insurance industry.

Due to competition from other players in the field, if an insurance company loses business, the outgo will be larger, which will make a dent in the overall growth of the Division concerned and of the Region and the company as a whole.

In case of organised (market) business, it is predominantly procured and serviced by the Development officers and to a much lesser extent by agents.

In case of Development officers, recurring expenditure, such as salary, incentives, perquisites like interest-free vehicle loans, residential telephone connections makes the cost of procuring the business high.
Though Development officers are needed to be knowledgeable, all the clients in the organised (market) business sector will not be as demanding as the clients in the other two business sectors. Till their promotion and transfer to other places, Development officers will be in the same places only and hence there will be continuity in the service to the clients. Moreover they know the business trend of their respective areas and even the mood and character of their clients, which will help them in conducting the business in a smooth way.

On the contrary, the cost incurred on agents in their procuring and servicing of business is much less compared to the cost incurred on Development officers. Agents are paid commission only for the business they procured and no other remuneration for them from the company. But in general insurance industry, since the commission structure is not attractive and not commensurate with the competition involved in procuring the business, the agency system is not prospering as in the life insurance industry, where commission structure is not only attractive but also the competition is not as fierce as in general insurance industry.

To encourage agents to do more business, the only way is the commission structure is to be made attractive. Agents may be given periodical training and rewards may be given for well performing agents. Suitable incentives may be introduced for the agents who bring in claim-free business or good quality business, which is less prone to claims.

OPINION SURVEY:

To clearly understand the market trend in the insurance industry an opinion survey was made. Totally four hundred persons were interviewed and two Interview Schedules were administered, one for the clients and one for the employees of 'Oriental'. The two interview schedules are given in the appendix.
There are totally 21 questions in the interview schedule meant for the clients and in the interview schedule administered for the employees there are 34 questions. Two hundred customers in the Erode Division of 'Oriental', which comprises three units namely, Erode, Tiruchengode and Gobichettipalayam, were interviewed and the clients enthusiastically answered the questions.

There are 25 Divisional offices in Tamil Nadu for 'Oriental', out of which 10 Divisions are situated in Madras (i.e., Chennai) city and 15 Divisions spread over Tamil Nadu State including the one in Pondicherry. Totally 200 employees, eight from each Division, comprising two from Class-I officers, two from Class-II Development officers, three from Class-III and one from Class-IV employees were interviewed. The total number of employees interviewed represents approximately 1% of the total employees of 'Oriental'.

In order to have the outcome of the interview representative, out of the Class-I officers interviewed, two in number, from each Division, one is from administrative side and the other is the one who looks after the marketing functions of the Division concerned. Likewise out of the Class-III employees interviewed, three in number, one is from the marketing department and the other two are selected from other departments like claims, personnel etc. In case of Class-IV employees, one sub-staff was interviewed.

In the interview schedule for the clients, two questions, viz., no.3 (Location of office is good) and no.4 (Layout of office is good) are related to 'Place', the first 'P' of the seven 'P's of marketing mix. Following is the response of clients for the two questions.
TABLE 4.1
OFFICE LOCATION AND LAYOUT: CLIENTS’ VIEW

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Location of office is good</td>
<td>154 (77%)</td>
</tr>
<tr>
<td>Layout of office is good</td>
<td>105 (52.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

154 clients (77%) say the location of office is good while 28 clients (14%) say in the negative. 9% of respondents, i.e., 18 clients have no idea about the quality of location of office. For the question about the layout of office, 105 clients (52.5%) have affirmative answer while 55 clients (27.5%) do not approve of the layout of office saying it requires improvement. Again 40 clients, representing 20% of the total respondents, have no idea about the layout of office.

77% of the respondents accept the location of office is good and it shows that the company gives priority in selecting locations to place its offices. 14% of the clients interviewed do not approve the location mainly because there is no enough parking space for their vehicles when they visit the office. It also shows that only a smaller percentage of clients themselves visit offices for their insurance requirements whenever they are in need of it while bulk of the business is brought in by the company representatives. Hence 'Oriental', at the time of searching for office premises to locate its offices, may give a thought of providing parking space for the clients' vehicles, to have them satisfied in this respect also.

Regarding layout of office, 52.5% of the clients interviewed accept the layout is good while 27.5% of the clients feel the need for improvement. A
considerable 20% of the clients have no idea about the layout of office. Since only 52.5% of the clients only satisfied with the present layout of the offices, 'Oriental' should give enough thought in improving the layout, which should be scientifically designed to ensure smooth and efficient functioning of offices, besides giving a good look to the visitors and providing convenience to the office employees to work in and optimum utilisation of available space.

Those two questions were asked to the employees also and their responses are incorporated in the Table 4.2.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Location of office is good</td>
<td>163 (81.5%)</td>
</tr>
<tr>
<td>Layout of office is good</td>
<td>131 (65.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

An overwhelming 81.5% of employees interviewed accept that the location of their office is good while 18% of them conveyed their dissatisfaction. About the layout of their offices, 31% of the employees showed their disapproval of the present layout of their offices whereas 131 employees out of the 200 interviewed, representing 65.5%, responded in the affirmative while 3.5% of those interviewed have no idea about the layout of their offices.

So when 'Oriental' plans to make a scientific layout of their offices, to maximise the utility of the available space and improve the efficiency of the overall office functioning, they may form a panel of experts, which may include at least one representative from the employees' side to air their views, so that
their useful ideas can be included in the final decision concerning the design of the layout.

2. PRODUCT ORIENTED STRATEGIES:

'Product' is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organisations and ideas.

The term product generally conjures up the vision of any thing that is tangible. The concept of a product has strongly held association with physical objects. It is rarely that one thinks of product in a service firm. A service product refers to an activity or activities that a marketer offers to perform, which results in satisfaction of a need or want of predetermined target customers.

A product has four levels, namely, generic, expected, augmented and potential. The generic product is the rudimentary substantive thing. It is the product at its basic level. The expected product is the customer's minimum set of expectations from a product or a service. The augmented product is offerings (product, benefit or services) in addition to what the customer expects. The potential product is doing everything potentially feasible to hold and attract the customer.

Most organisations stagnate around the generic product level. Cases in point are public sector banks, airlines, insurance companies etc. At this level of product delivery, the customer is not satisfied enough to be a hard-core loyalist. Therefore any competitor who opts to operate at a higher product level will be able to break into the service company's market share. While average companies hover around the generic level, successful ones enhance the customer's satisfaction by adding pleasant surprises into their service packages. When a product exceeds the expected benefits, it comes as a
pleasant surprise to the customer, leading to his loyalty. The winners of the
future in the realm of service products will be the ones who add that 'little
extra' of surprise to the service they sell.

In insurance industry product refers to policies. Policy is a legal
document, which sets forth in writing the contract agreed between the insured
and insurers. It describes, inter-alia, the property, perils covered and the
conditions of insurance.

As described earlier, the 'insured' is the person or body to whom
the insurers undertake to pay a sum of money or its equivalent on the
happening of a specified event in return for the payment of an agreed
consideration known as the premium.

The 'insurers' are companies who, in turn for the premium,
undertake to indemnify the insured in accordance with the contract agreed
between the parties as set forth in a legal document known as the policy. The
terms 'insurers', 'underwriters' and 'companies' are interchangeable.

Policies are broadly classified into three namely, Fire, Marine and
Miscellaneous. In the miscellaneous department there is a long list of policies
available from the company and only the features of major policies are
provided here while the names of all policies are given in the appendix.

FIRE POLICIES:

Fire policies are classified into three namely, 'A', 'B' and 'C'. 'A' and
'B' policies are issued for non-manufacturing risks like, dwelling, offices, shops
etc. Based on the extent of coverage, they are classified either as 'A' or 'B'
policies. 'C' policies are issued for industrial/manufacturing risks and
godowns and warehouses.
Fire policy consists of the following parts, namely, (a) recital clause, which introduces the parties i.e., the insurer and the insured to the contract, (b) operative clause, which defines the liability of the insurers under the contract; this clause specifies the risks covered, the methods of indemnity and the limits of liability, (c) attestation clause, which provides for the signature of the insurers, (d) conditions, which are designed to govern and regulate the cover granted and (e) schedule, which is the blank space provided for insertion of the individual details of the contract. All these five parts are common to all the three 'A','B' and 'C' policies.

Risks covered by fire policies 'A','B' and 'C':

Fire (fire means accidental ignition so far as the insured is concerned); lightning; explosion/implosion, but excluding loss of or damage to other domestic boilers, economisers or other vessels, machinery or apparatus in which steam is generated or their contents resulting from their own explosion/implosion. (This excluded risk can be covered under boiler explosion policy issued in the Engineering branch).

Riot, strike and malicious damage; impact by any rail/road vehicle or animals; air craft and other aerial and/or space devices and/or articles dropped there from, excluding destruction or damage occasioned by pressure waves causes by such devices.

In addition to the above the Fire policy 'A' covers storm, cyclone, typhoon, tempest, hurricane, tornado, flood and inundation; subsidence and landslide (including rock slide) damage and earthquake fire and shock.

There are some risks, which are excluded from the coverage of the three types of policies. They are:

Loss by theft during or after the occurrence of any insured peril. Loss or damage to property occasioned by its own undergoing any heating or
drying process, burning of property by order of any public authority and subterranean fire, (i.e., fire occurring under the earth's surface).

Loss or damage directly or indirectly caused by or arising from or in consequence of or contributed to by nuclear weapons material, by ionising radiations or contamination by radio activity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel.

Loss or damage to any electrical machine, apparatus, fixture or fitting (including electric fans, electric house-hold or domestic appliances, wireless sets, television sets and radios) or to any portion of the electrical installation arising from or occasioned by over running, excessive pressure, short circuiting, arcing, self heating or leakage of electricity, from what ever cause (lightning included), provided that this exemption shall apply only to the particular electrical machine, apparatus, fixture, fittings or portions of the electrical installations so affected and not to other machines, apparatus, fixture, fittings or portions of the electrical installation which may be destroyed or damaged by fire so set up.

Loss or damage occasioned by or through or in consequence directly or indirectly, of any of the following occurrences, namely war, invasion, act of foreign enemy, hostilities or war like operations (whether war be declared or not), civil war, mutiny, civil commotion, military or popular rising, insurrection, rebellion, revolution, military or usurped power, martial law or state of siege or any of the events or causes which determine the proclamation or maintenance of martial law or state of siege.

Loss or damage to goods held in trust and/or on commission, bullion or unset precious stones, any curios or work or art for any amount exceeding Rs.1,000/- for 'A' and 'B' policies and Rs.2,500/- for 'C' policies, manuscripts, plans, drawings or designs, patterns, models or moulds, securities, obligations or documents of any kind, stamps, coins or paper
money, cheques, books of accounts or other business books, computer systems records, explosives unless otherwise expressly stated in the policy.

These excluded properties can be covered subject to extra premium and special clauses. Goods held in trust and/or on commission can be covered without extra premium but by specifically mentioning in the policy.

Property insured if the same be removed to any building or place other than that in which it is herein stated to be insured, except machinery and equipment temporarily removed for repairs/reconditioning for a period not exceeding 60 days.

In addition to the above exclusions following risks are also excluded from the ambit of 'B' and 'C' policies, namely, (i) earthquake, volcanic eruption or other convulsions of nature and (ii) storm, cyclone, typhoon, tempest, hurricane, tornado, flood and inundation.

These two exclusions can be covered by payment of extra premium. In any action, suit or other proceedings, where the company alleges that by reason of the provisions of these exclusions any loss or damage not covered by this insurance, the burden of proving that such loss or damage is covered shall be upon the insured.

Fire policy 'C' has an excess provision which provides for the deduction of Rs.2,500/- from each and every claim under the policy. This excess clause is incorporated in 'C' policies in order to eliminate small claims of Rs.2,500/- or less.

Conditions of Fire policies 'A', 'B' and 'C':

Fire policies 'A', 'B' and 'C' are subject to certain conditions that are given below.
Fire policy shall be voidable in the event of misrepresentation, mis-description or non-disclosure of any material particular. All insurance under this policy shall cease on expiry of seven days from the date of fall or displacement of any building or part thereof, provided such a fall or displacement is not caused by insured perils. However, the company, subject to an express notice being given as soon as possible but not later than 7 days of any such fall or displacement, may agree to continue the insurance subject to revised rates, terms and conditions as may be decided by it and confirmed in writing to this effect.

If the trade or manufacture carried on be altered or if the nature of the occupation of the building is changed in such a way as to increase the risk of loss or damage by the insured perils, the insurance ceases to attach as regards the property affected unless the insured, before the occurrence of any loss or damage, obtains the sanction of the company signified by endorsement.

In the same way the insurance ceases to attach if the building insured or containing the insured property becomes unoccupied and so remains for a period of more than 30 days.

If the interest in the property insured passes from the insured otherwise than by will or operation of law again, the insurance ceases to attach. However, on the death of the insured, the legal heirs automatically become the insured.

If there is a marine policy covering the loss, the fire policy will pay only the excess over the amount payable under the marine policy. This condition is necessary because marine policy also covers the risk of fire, for example, goods in dock premises. In such situations the marine cargo policy has to pay the loss. The balance loss, if any, will be payable under the fire policy.
The policy can be cancelled by either of the party to the contract by giving prior notice. If the cancellation is done by the insured, then the premium is retained by the company on short period basis. The insurance company can also cancel the policy by giving 15 days notice to the insured and in such a case the premium will be refunded on pro-rata basis.

Short period rate means, a fixed percentage of premium rates for periods not exceeding 10 days, 1 month, 2 months and so on. For example, for a period of not exceeding 10 days, 10% of the annual rate is charged, and this percentage of rate progressively increases for longer periods.

Pro-rata means, the annual rate will be divided by 365 days and the rate for one day will be found our and that rate will be multiplied by the number of remaining days of the policy and this amount will be refunded to the insured in case of cancellation of policy by the insurance company. Naturally the short-period rates will be higher than the pro-rata premium.

When there is a claim, notice of loss/damage should be given to the insurance company forthwith and within 15 days or further time as allowed by the insurance company submit claim statement giving item-wise details of amount of loss not including profit of any kind. Particulars of other insurances should also be submitted. Non-compliance of this condition will make the claim untenable.

The insurer is not liable for any loss after the expiry of 12 months from the date of loss unless the claim is the subject of pending action or arbitration. If liability is disclaimed by the insurer and the insured has not filed a suit in a court of law, within 12 months of the date of disclaimer, the claim is deemed to have been abandoned by the insured. It is not recoverable thereafter.
In the event of a claim, the insurers can enter and take possession of the building or premises where the loss has occurred, take possession of any insured property that was in the building during the loss/damage, remove, sort, arrange or salvage the property, sell or dispose off the damaged property as they deem fit, for account of whom it may concern.

The insurer can exercise the above rights until the claim is closed or withdrawn by the insured in writing. Further the insurer will not incur any liability on account of this action for payment of the claim, which will depend upon the terms and conditions of the policy. If the insured or any person on his behalf does not co-operate or hinders the process in any way, then all benefits under this policy shall be forfeited. The insured does not have any right to abandon the damaged property whether the insurer takes possession or not.

If the claim is fraudulent or any false evidences are produced by the insured to avail of a benefit under the policy, then the insured loses all benefits under the policy. Similarly if the loss or damage is caused wilfully by the insured or with his connivance then all benefits under the policy will be forfeited.

The insurer has the right of option to reinstate or replace the property that is lost or damaged instead of paying the amount of claim to the insured. This condition may be invoked when the insured is claiming a highly exaggerated amount of loss.

An insured is expected to insure his property for its full value. In the event of claim if it is found that he has not covered the property for its full value, then he has to bear a portion of the claim for his own account. This condition states that the adequacy of sum insured will be checked against sum insured under each item as well as on the total sum insured.
In the event of more than one policy covering the loss all policies will contribute towards the claim amount in the proportion that the particular policy's sum insured bears to the total sum insured under all the policies.

If the loss is caused by a third party the insured is required to give assistance to the insurers to enable them to recover the loss from the third party responsible for the loss. The insured's rights of recovery against the third party are subrogated to the insurers, and this transfer of rights takes place even before the insurers pay the loss.

Any dispute regarding the amount of claim payable (otherwise liability having been admitted by the insurers) shall be referred to arbitration as per the provisions of the Arbitration Act, 1940. Arbitration is a private method of dispute resolution and is faster and cheaper than the process of litigation.

Every notice and other communication to the company required by these conditions must be written or printed. Upon settlement of any loss under this policy, pro-rata premium for the unexpired period from the date of such loss to the expiry period of insurance for the amount of such loss shall be payable by the insured to the company.

The additional premium referred above shall be deducted from the net claim payable under the policy. However, the sum insured shall stand reduced by the amount of loss in case the insured immediately on occurrence of the loss exercises his option not to reinstate the sum insured as above.

'A', 'B' and 'C' policies are standard policies and there are special policies also, which are called Floating policies, Declaration policies and Reinstatement value policies. These special policies are issued on the policy 'C' form with respective memorandum incorporated therein.
Floating policies:

These policies are issued for covering stocks, which are floating from one location to another and a single sum insured cannot be specified for a single location. Floating policies can be issued under the following three circumstances.

For risks situated within the limits of one city/town/village:

It is permissible to issue a Floating policy, covering stock in one amount in more than one specified building or in open within the limits of one city/town/village by charging 25% loading (i.e., extra premium) over and above the highest rate applicable to any one risk.

The additional charge is not applicable in case of policies covering in one amount the stocks of more than one godown and/or stocks in the open provided all the risks covered in the policies are located in the same compound and are in the sole occupation of the insured and the highest rate applicable to any one of the godowns and/or stocks in the open is charged.

This exemption does not apply to policies covering in one-amount stocks in process blocks and compound or stocks in process blocks and godowns even if located in the same compound and are in the sole occupation of the insured.

For risks situated in more than one city/town/village but within one State:

It is permissible to issue a Floating policy, covering stocks in one amount for risks in specified building or in open situated in more than one city/town/village but within one State only by charging 50% loading over and above the highest rate applicable to any one risk. The maximum sum insured at any one location should not be more than 10% of the total sum insured under the policy.
For risks situated in more than 50 locations in various cities/towns/villages:

The maximum sum insured at any one location should not be more than 10% of the total sum insured under the policy. Locations where sum insured exceeds 10% of the total sum insured, the insured shall declare the amount of the excess sum insured for each location and the extra premium shall be applicable. The total sum insured under the policy in respect of all the locations should not be less than Rs.3 crores.

The addresses of the locations should be specifically declared at inception and changes advised as and when they occur. However, where there is a real problem of identifying locations or where the locations change frequently, the requirement of specifying the addresses of the locations may be relaxed by Regional offices of the insurers. However, the number of unspecified locations shall not exceed 10% of the total number of locations declared or 20 locations whichever is lower. The premium applicable is the rate for the highest rated commodity with a loading of 10%.

Following conditions are common to all the three types of floating policies: (i) the insured should have a good internal audit and accounting procedure under which the total amount at risk and the locations can be established at any particular time, if required, (ii) such policies should not be issued in respect of premises of transport contractors and forwarding and clearing agents whether in their own name or in the name of any other party, (iii) the pro-rata condition of average should be applied to the limit of sum insured at each location and not to the total sum insured under the policy and (iv) no floating policy can be issued in respect of immovable property.

Floating policies can be issued by insurers on declaration basis subject to compliance of rules of declaration policies except that the minimum retention premium will be 75% of the annual premium.
Immovable properties/fixed assets at several locations in various cities/towns/villages may be covered with specific addresses in one single policy, if necessary, with an attached schedule.

Declaration policies:

Following are the salient features of the declaration policies.

Declaration policy facilities may only be granted in respect of stocks, which are the sole property of the insured or which are in the insured's custody and for which the insured is responsible except stocks in the custody of transport contractors and clearing and forwarding agents. The stocks to be covered must be subject to marked fluctuations in quantity.

The minimum sum insured for which the declaration policy may be sanctioned is Rs.30 lakhs in one or more locations and not less than Rs.15 lakhs in at least one of these locations and it is necessary that the declared value should approximate to this figure at some time during the policy year.

Before renewing a declaration policy, if the insurer finds the stocks covered under the declaration policy in the past year have not measured up to the minimum standard at any stage, he may demand and obtain from the insured, any details necessary for continuing declaration facilities.

Under no circumstances may the sum insured under a declaration policy be reduced during the currency of the policy. Application for the declaration policies must be submitted to the Regional offices of insurers by the insured on the prescribed form.

Declaration policies will not be sanctioned in respect of (i) insurance required for a short period, (ii) stock-in-process, (iii) retail stores, (iv) stocks in the premises of cotton ginning and pressing factories, (v) stocks at railway siding and (vi) in respect of stocks floating over more than one location.
In respect of declaration policies containing more than one specified location, the insured should stipulate separate sum insured and separate declaration in respect of each separate location. The minimum premium retention clause should be applied to stocks lying at each location.

If other policies on a declaration basis cover the stocks hereby insured, the declarations shall be made so as to apportion to each policy a share of the value of the stocks insured under such declaration policies, pro-rata to the respective amounts named in the policies.

In the event of a declaration not being made within 30 days, then the insured shall be deemed to have declared the sum insured as the value at risk.

Premium paid in advance is provisional and is subject to adjustment on expiry of each period of insurance. On the expiry of each period of insurance the premium is to be calculated at the rate as provided in the tariff on the average sum insured namely, the total of the value declared or deemed to have been declared divided by the number of declarations deemed to have made. If the resultant premium is less than the provisional premium, the difference shall be paid to the insured but such repayment shall not exceed 65% of the provisional premium.

The basis of value for declarations shall be the market value and any loss hereunder shall be settled on the basis of the market value immediately anterior to the loss.

If at the time of any loss, there be any subsisting insurance or insurances on other than a declaration basis, whether effected by the insured or by any other person or persons, covering the stocks hereby insured, this policy shall apply only to the excess of the value of such stocks at the time of the loss over the sum insured by such other insurance or insurances, and the
company shall not be liable to pay or contribute more than that proportion of such loss which such excess (or, if there be other declaration insurances covering the same stocks, a rateable proportion of such excess), but not exceeding the sum insured hereby, bears to the total value of stocks.

If after occurrence of a loss it is found that the amount of the last declaration previous to the loss is less than the amount that ought to have been declared, then the amount which would have been recoverable by the insured shall be reduced in such proportion as the amount of the said last declaration bears to the amount that ought to have been declared.

Notwithstanding the occurrence of loss it is understood that the sum insured will be maintained at all times during the currency of the policy and the insured therefore undertakes to pay extra premium on the amount of any loss pro-rata from the date of such loss to the expiry of the period of insurance, the premium being calculated at the rate applicable to the stocks destroyed and such extra premium shall not be taken into account in, and shall be distinct from, the final adjustment of premium.

In the event of this policy being cancelled by the insured during its currency (whether stocks exist or not) the premium to be retained by the company shall be the appropriate short-period premium calculated on the average amount insured up to the date of cancellation or 35% of the provisional premium whichever is greater.

But if the policy is cancelled by the insured after a loss has occurred, the premium to be retained by the company shall be the pro-rata proportion of the premium calculated on the average amount issued up to the date of cancellation plus the pro-rata proportion of the premium from the date of loss to the expiry of the period of insurance on the amount of the loss paid or 35% of the provisional premium whichever is greater.
The maximum liability of the company shall not exceed the sum insured hereby and premium shall not be receivable on values in excess thereof. The sum insured may, however, be increased by prior agreement with the company in which event the new sum insured and the date from which it is effective will be recorded on the policy by endorsement. In the event of an increase in the sum insured being agreed to, the company shall charge on such increased sum an additional provisional premium on a basis proportionate to the unexpired period of the policy and upon expiry of each period of insurance the total provisional premium so paid shall be adjusted.

If during the currency of the policy, the rate for the class of risk to which the insurance applied is revised, and an increase in the sum insured under a declaration policy is agreed to, the company shall charge on such increased sum an additional provisional premium on a basis proportionate to the unexpired period of policy, at the rate at which the insurance was originally effected and upon expiry of each period of insurance the total provisional premium so paid shall be adjusted.

If the stocks insured shall at the time of loss be collectively of greater value than the sum insured thereon, then the insured shall be considered as being his own insurer for the difference and shall bear a rateable proportion of the loss accordingly. Every item, if more than one, on stocks shall be separately subject to this condition.

Every other policy on a declaration basis covering the stocks insured hereby shall be identical in wording with this policy.

The value at risk shall be declared on one of the following basis to be agreed before hand with insurers and specified in the policy, viz. (a) the average of the values at risk on each day of the month, (b) the average of the highest values at risk in each week of the month, (c) the average of the highest values at risk in each fortnight of the month, (d) the highest value at risk during
the month, (e) value of stocks on the last day of each month, (f) average of the values on a fixed day of each week, (g) value on a fixed day of each month and (h) the average of the values at risk on each day of the quarter. Thus subject to the above mentioned conditions declaration policies are issued to bonafide insureds.

Reinstatement value policies:

Another type of policy is reinstatement value policy which is issued on the policy 'C' form with a reinstatement value memorandum incorporated therein. This policy is issued in respect of building, plant, machinery, furniture, fixtures and fittings only. Under Fire policy 'C', claims are settled on the basis of the market value of the insured property immediately before the fire. This value is arrived at strictly according to the principle of indemnity, that is, by taking into account depreciation, wear and tear etc.

Under the reinstatement value policy the payment to be made is the cost of reinstatement of the building or the cost of replacement of the machinery to a condition equal to (but not better or more extensive than) its condition when new.

The damaged property is replaced by new property but not by new property, which is in any way better than the insured property when new. If due to technical improvements the replaced machinery is better than the damaged machinery, for example, output is increased with less consumption of power, the insured is obliged to bear a part of the cost of the new machinery to ensure that he does not derive any undue benefit.

The reinstatement clause incorporates the following special provisions, namely, reinstatement must be carried out by the insured in order to obtain the special basis of settlement agreed.
The work of reinstatement must be commenced and carried out with reasonable dispatch and in any case must be complete within 12 months after the destruction or damage, or within such extended time as may be allowed by insurers, failing which the loss will be settled on the normal indemnity basis, i.e., according to the Fire policy 'C'.

Until reinstatement is carried out, the liability under the policy remains on normal indemnity basis only. Average is applied by comparing the sum insured with the estimated cost of reinstatement of the entire property insured on this basis. If this comparison reveals under-insurance, the insured has to bear a rateable proportion of the loss.

The reinstatement basis of settlement will not apply in the following circumstances: (a) if the insured fails to intimate to the insurer within six months or any extended time his intention to replace the damaged property and (b) if the insured is unable or unwilling to replace the damaged property. In such cases, the loss will be settled on the normal basis of indemnity.

The work of reinstatement may be carried out upon another site and in any manner required by the insured provided the liability under the policy is not thereby increased.

These insurances are restricted to insureds whose bonafides are satisfactory and are generally issued only in respect of building plant and machinery in a comparatively new condition. The tariff prohibits the issue of these policies in respect of stock and merchandise.

Apart from the above policies there are some special clauses, which may be incorporated in the fire policies depending upon the requirement of the insureds.
Local authorities clause:

Reinstatement value policy may be extended to cover additional cost of reinstatement of the destroyed or damaged property insured as may be incurred solely by reason of the necessity to comply with the building or other regulations under any act of parliament or with bye-laws of any municipal or local authority.

Building in course of construction clause:

Insurance of buildings in course of construction and machinery, plant and equipment in course of installation in newly constructed buildings and materials on the site is to be effected by incorporating this clause to the fire policy.

Escalation clause:

This clause allows automatic regular increase up to 25% of the sum insured throughout the period of the policy in return for an additional premium to be paid in advance. The automatic increase applies from the date of inception of the fire, i.e., increase of full 25% will be available only on the last day of the policy. For example, if a fire occurs after 73 days from the inception of the policy, the escalation provision will be applicable at (73/365 X 25) i.e., 5% only.

Architects, surveyors and consulting engineers fees clause:

This extension provides that the amount insured on buildings, machinery, accessories and equipment is understood to include architect’s, surveyor’s and consulting engineer’s fees for plans, specifications, tenders, quantities and service in connection with the superintendence of the reinstatement of buildings, machinery, accessories and equipment insured.
The amount payable shall not exceed 7.5% on the amount paid for loss on the building, machinery, accessories and equipment insured by the policy. Any cost in connection with the preparation of the insured's claim or estimate of loss in the event of damage by the insured perils is not payable.

Debris removal clause:

This clause provides for the costs and expenses necessarily incurred by the insured in the removal of debris from the premises of the insured, dismantling or demolishing and shoring or propping up of the portion of the property insured destroyed or damaged by perils insured against. The cover may be given by a separate item in the policy for an amount not exceeding 10% of the sum insured.

Cost of re-escalation clause:

The insurance by specified item of this policy extends to include the cost of re-erection, fitting and fixing machinery and plant in consequence of destruction or damage by any of the perils insured.

Loss of rent clause:

Loss of rent caused by insured perils may be covered by incorporating the loss of rent clause in the policy. The insurance on rent applies only if the said building(s) or any part thereof is unfit for occupation in consequence of its destruction or damage by the perils insured against and then the amount payable shall not exceed such portion of the sum insured on rent as period necessary for reinstatement bears to the term of the rent insured. The rate chargeable for the cover is the rate applicable to the particular building concerned.
Additional expenses of rent clause:

Additional expenses of rent for an alternative accommodation, in respect of non-manufacturing risks only, may be covered by attaching this clause.

Contract price clause:

In case of insurance of imported goods only (and not for goods of local manufacture) which are sold under a contract, which is cancelled either wholly or to the extent of loss or damage, it is permissible to issue a policy on the basis of contract price. The liability of the company shall be based on the contract price.

Omission to insure additions, alterations or extensions clause:

The clause is to be incorporated at the time of issuing the policy, which provides extension of the policy to cover buildings and/or machinery, plant and other contents as defined in the policy, which the insured may erect or acquire or for which they may become responsible at the within described premises for use as factories. The liability under this extension shall not exceed in respect of 5% of the sum insured by each item.

Designation of property clause:

This clause provides for the purpose of determining, where necessary, the item under which any property is insured, the insurers agree to accept the designation under which the property has been entered in the insured’s books.

Identification clause:

Where an incomplete description of insured property is provided and to avoid the possibility of an insured, owning more than one property each
one of which would answer to the limited description, insuring only one of the properties and relying on such insurance in case of loss to apply to any of the said properties, this clause is applied, which reads as, 'warranted that the said property is the only property so situate and answering to the foregoing description in which the insured is interested'.

Temporary removal of stocks clause:

This clause provides that the stocks insured, not exceeding 10% of the total value of such stock, is covered while temporarily removed to any other premises for purposes of fabrication or processing or finishing or other similar purposes. The premium is to be loaded by 10% for attaching this clause to the policy.

Account books clause:

Account books are excluded from the scope of fire policy. When these books are required to be covered this clause is incorporated. The insurance company will only be liable in respect of the said account books for their value as stationery together with costs in writing up. Any value they may be to the insured owing to the information they contain is expressly excluded from the insurance.

Plans etc. clause:

Plans etc., which are excluded under the fire policy, are covered when this clause is incorporated in the policy. The company will be liable in case of destruction or damage only for the value of the paper and the sums expended in labour on each tracing, drawing or plan and not for any value for which they may be to the insured on account of the information they contain.
Agreed-bank clause:

All policies in which a bank has a partial interest are to be made out in the name of the bank and owner or mortgagor and the agreed-bank clause incorporated.

In cases where the name of any Central government or State government owned and/or sponsored Industrial financing or Rehabilitation financing corporation and/or Unit Trust of India or General Insurance Corporation of India and/or its subsidiaries or Life Insurance Corporation of India is included in the title of the fire policy as mortgagees, the agreed-bank clause may be incorporated in the policy substituting the name of such institution in the place of the word 'bank'.

Special perils:

Other than the special fire policies and the clauses, which can be incorporated in the fire policies, there are some special perils, which the fire policies can be extended with. Following are the special perils applicable to Fire policies 'A', 'B' and 'C'.

Bursting and overflowing:

Fire policies 'A', 'B' and 'C' may be extended to include bursting and/or overflowing of water tanks and pipes. This extension has two exclusions namely, (a) destruction or damage causes by the discharge or leakage from any sprinkler installation and (b) destruction or damage occurring whilst the premises are unoccupied for more than 15 days.

This extension has an excess, i.e., whenever there is a claim under this extension, Rs.2,500/- or 2.5% of the total sum insured by all policies in the name of the insured on such building and contents, which ever is less will not be paid.
Forest fire:

This special peril extension covers loss or damage to the property insured directly caused by burning, whether accidental or otherwise of forest bush and jungles and the clearing of lands by fire.

Leakage and contamination:

Physical loss of oil/chemical by leakage from its container by accidental means and all accidental contaminations by contact with foreign matter is covered under this extension.

This extension has an excess of 1% on each tank with a minimum of Rs.1,500/- each loss. This extension will apply to oils and chemicals only and will not apply to any other commodity.

Spoilage material damage:

The cover is extended to material damage, i.e., loss of stock-in-process and damage to machinery, containers and its equipment, including cost of removal of debris and cleaning and is provided by a separate item of the fire policy subject to the condition that the perils causing the spoilage should be the same as those covered under the fire policy.

Sprinkler leakage:

The fire policy may be extended to cover loss or damage to the property insured directly caused by water discharged or leaking from the automatic sprinkler installation in the premises, provided that such discharge or leakage of water is accidental and is not directly or indirectly caused by the following.

(a) Heat caused by fire, (b) repairs or alterations to the buildings or premises, (c) the order of the Government or by any municipal local or other
competent authority, (d) the sprinkler installation being either repaired, removed or extended, (e) volcanic eruption, earthquake, subterranean fire, riot, civil commotion, act of foreign enemy, military or usurped power, rebellion or insurrection, (f) explosion, the blowing up of buildings or blastings and (g) defects in construction or condition of which the insured is aware.

Subterranean fire:

Loss of or damage to the property insured directly caused by subterranean fire, i.e., fire occurring under the earth's surface, is covered under this extension.

Spontaneous combustion:

Loss or damage by fire only (and not by smoke or otherwise) of or to the property insured caused by its own fermentation, natural heating or spontaneous combustion. The commodities to be insured under this extension are classified into four categories based on their hazardous nature.

Commodities classified under the category-I are of low or non-hazardous in nature like copra and the category-II commodities, like hay and grass, are moderately hazardous. Commodities like dyes and chemicals, which are variable in their hazardous nature, are grouped in category-III while the highly hazardous commodities like groundnut are placed under category-IV. The premium rates vary according to the category of commodity listed in the tariff.

Terrorism:

Terrorism means the use of violence for political ends and includes any use of violence for the purpose of putting the public or any section of the public in fear.
The coverage under this extension is the loss of or damage to the property insured by explosion or otherwise directly caused by an act of terrorism committed by a person or persons acting on behalf of or in connection with any organisation and the action of any lawfully constituted authority in suppressing or attempting to suppress any such act or in minimising the consequences thereof.

Franchise limit:

The company is only liable under this policy for loss or damage, if the ascertained loss or damage, per event sustained by the insured in respect of one property hereby insured exceeds either 10% of the total sum insured or Rs.10,000/- whichever is less.

One must understand here the difference between the excess limit and franchise limit. For example if a policy has an excess limit of Rs.2,500/-, then for each and every claim this excess amount will be deducted from the claim amount and the balance only will be paid to the insured. If the assessed loss is Rs.2,500/- or less, then no claim will be paid.

In case of franchise limit, if a policy has a franchise limit of Rs.2,500/-, and if the assessed loss is Rs.2,500/- or less, then no claim will be paid. If the assessed loss is more than Rs.2,500/-, then the assessed loss will be paid in full without deducting even a single rupee.

Following special perils can be given as extension to Fire policy 'C' only namely, (i) earthquake, (ii) storm, flood etc. and (iii) deterioration of goods, which are explained below.
Earthquake:

Earthquake fire: Loss or damage by fire to any of the property insured by this policy occasioned by or through or in consequence of earthquake.

Earthquake fire and shock: Loss or damage (including loss or damage by fire) to any of the property insured by this policy occasioned by or through or in consequence of earthquake.

Earthquake shock: Loss or damage (other than loss or damage by fire) to any of the property insured by this policy occasioned by or through or in consequence of earthquake.

Exclusion applicable is loss or damage by flood or overflow of the sea, lakes, reservoirs and rivers caused by earthquake.

Earthquake fire and shock endorsement may be extended to include loss of or damage to the goods insured caused by change of temperature resulting from damage directly caused by a peril insured against under the said earthquake fire and shock endorsement to refrigeration plant, machinery or equipment located in the same premises, where the insured goods are stored.

This special peril extension has a franchise limit of 2.5% of the total sum insured by all policies in the name of the insured on such building, contents and rent or Rs.2,500/- whichever is less.

The whole of India has been divided into four earthquake zones, viz. zone-I, zone-II, zone-III and zone-IV based on their vulnerability to earthquake. Premium rate is high for risks situated in areas categorised as zone-I and progressively less for zone-II, zone-III and zone-IV.
Storm, flood etc.:

This extension covers the risk of loss of or damage to the property insured directly caused by storm, cyclone, tempest, typhoon, hurricane, tornado, flood and inundation.

This special peril cover can be granted only if the entire property in one complex/compound/location is extended to cover this risk and the sum insured for this extension is identical to the sum insured against the risk covered under Fire policy 'C'.

The excess limit, as regards any individual building, including its contents and any properties, (other than stocks in the open) is either 2.5% of the total sum insured by all policies in the name of the insured on such building and contents or Rs.25,000/- whichever is less.

The excess limit as regards stocks in the open is either 10% of the total sum insured on such stocks in the open by all policies in the name of the insured or Rs.50,000/- whichever is less.

Premium rates for buildings of and machinery/stocks in superior/class-I construction are lower than for buildings of and machinery/stocks in class-II construction. For machinery and stocks, the rates vary according to location. If located in basement the rates are higher. Separate rates are prescribed for stocks in the open.

Deterioration of goods:

This cover may be extended to include loss of or damage to the goods insured caused by change of temperature resulting from damage directly caused by a peril insured against under the storm, cyclone, tempest, typhoon, hurricane, tornado, flood and inundation endorsement to refrigeration plant,
machinery or equipment located in the same premises, where the insured goods are stored.

During the ten-year study period, from 1989-90 to 1998-99, the All India Fire Tariff was revised once and the premium rates were revised downwards with effect from 01.04.1994. Again the downward revision of the Fire tariff was made with effect from 01.05.2000 followed by another revision on 31.03.2001.

The practice of issuing Fire policies 'A', 'B' and 'C' was discontinued with and from 01.05.2000 the fire policies were issued with the name, 'standard fire and special perils policy' with the following coverage, namely, (i) fire, (ii) lightning, (iii) explosion/implosion, (iv) aircraft damage, (v) riot, strike, malicious and terrorism damage, (vi) storm, cyclone, typhoon, tempest, hurricane, tornado, flood and inundation, (vii) impact damage, (viii) subsidence and landslide including rock slide, (ix) bursting and/or overflowing of water tanks, apparatus and pipes, (x) missile testing operations, (xi) leakage from automatic sprinkler installations and (xii) bush fire.

Following 'add on' covers can be added to the standard fire and special perils policy by paying extra premium, namely, (i) architects consulting and engineers fees, (ii) debris removal, (iii) deterioration of stocks in cold storage premises, (iv) forest fire, (v) impact damage due to insured's own rail/road vehicles etc., (vi) spontaneous combustion, (vii) omission to insure additions etc., (viii) earthquake (fire and shock), (ix) spoilage material cover, (x) leakage and contamination, (xi) temporary removal of stocks, (xii) loss of rent, (xiii) additional expenses of rent for an alternate accommodation and (xiv) start-up expenses.

Though so many 'add on' covers are given in the proposal form, all these covers are not appearing in the computer systems given to the underwriting offices, which simply shows the communication gap, lack of co-
oordination between the technical and the information technology departments of the company.

MARINE POLICIES:

Marine insurance, which comprises cargo insurance and hull insurance is a highly technical subject and is the oldest branch of insurance practised world over. An attempt is made here to simplify the subject and present it so that the reader can have an easy grasp of this fascinating branch of insurance.

Cargo insurance policies:

Cargo insurance provides cover in respect of loss of or damage to goods during transit by rail, road, sea or air. Thus cargo insurance concerns the following, viz., (i) export and import shipments by ocean-going vessels of all types, (ii) coastal shipments by steamers, sailing vessels, mechanised boats etc., (iii) shipments by inland vessels or country craft and (iv) consignments by rail, road or air and articles sent by post.

Cargo insurance plays an important role in domestic as well as in international trade. Most contracts of sale require that the goods must be covered, either by the seller or by the buyer against loss or damage.

A contract of sale involves mainly a seller and a buyer, apart from other associated parties like carriers, banks, clearing agents etc. The question as to who is responsible for effecting insurance on the goods, which are the subject for sale, depends on the terms of the sale contract. The principal types of sale contracts, in so far as marine insurance is directly concerned, are as follows.
Free On Board (F.O.B.) contract: The seller is responsible till the goods are placed on board the steamer. The buyer is responsible thereafter. He can get the insurance wherever he likes.

Free On Rail (F.O.R.) contract: The seller is responsible till the goods are placed on the rail (i.e., train). The buyer is responsible thereafter. This is mainly relevant to internal transactions.

Cost and Freight (C & F) contract: The seller is responsible till the goods are placed on board. Here also, the buyer's responsibility normally attaches once the goods are placed on board. He has to take care of the insurance from that point onwards.

Cost and Insurance (C & I) contract: Here the seller is responsible for arranging the insurance. He includes the premium amount as part of the cost of the goods in the invoice.

Cost, Insurance and Freight (C.I.F.) contract: In this case also the seller is responsible for arranging the insurance. He includes the premium amount and freight as part of the cost of the goods in the invoice.

The normal practice in export/import trade is for the exporter to ask the importer to open a 'letter of credit' with a bank in favour of the exporter. As and when the goods are ready for shipment by the exporter, he hands over the documents of title to the bank and gets the bill of exchange drawn by him on the importer, discounted with the bank. In this process, the goods which are the subject of the sale are considered by the bank as physical security against the monies advanced by it to the exporter. A further security by way of an insurance policy is also required by the bank to protect its interests in the event of the goods suffering loss or damage in transit, in which case the importer may not make the payment. The type of insurance contract is specified in the letter of credit.
Marine Insurance Act, 1963 provides the legal framework for transaction of marine insurance - both cargo and hull. The act deals with basic principles, basis of valuation under the policies, basis of settlement of losses etc.

A contract of marine insurance is evidenced by the policy and the clauses attached to it. The policy form contains details such as name of the insured, details of shipment or consignment, sum insured etc. and it is the clauses which specify the risk covered, risk excluded and other terms and conditions of insurance.

For export/import policies, the Institute Cargo Clauses (ICC) are used. The 'Institute' clauses are drafted by the Technical and Clauses committee of the Institute of London underwriters and they are adapted for use the world over by all insurers including those in India. Doubtless, this type of uniformity is desirable when dealing with international trade, i.e., trade between countries all over the world involving different modes of transit.

On the other hand, where pure inland transit is concerned, i.e., transit within the country (not in conjunction with overseas voyage), Inland Transit Risks Clauses drafted by the Tariff Advisory Committee (TAC) are used by Indian insurers.

Marine policy form:

The marine policy form contains the following particulars, viz., name of the insured, policy number, sum insured, premium, stamp duty, steamer or other conveyance, voyage or journey, number and date of bill of lading, rail or lorry or registered post or air freight receipt (as the case may be), interest to be insured, clauses to which the insurance is subject, name and address of claim settling agents to whom notice of claim, if any, is to be given, place where claims are payable, place of issue of policy and date and
signature of the authorised person signing on behalf of the insurers. Every marine policy must be stamped in accordance with the provisions of the Indian Stamp Act, 1899.

There are three types of Institute Cargo Clauses, ICC(A), ICC(B) and ICC(C), which are attached to the marine policies based on the requirement of the coverages by the insureds.

Institute Cargo Clauses (A):

These clauses provide cover for 'all risks' of loss or damage to the subject matter insured. The loss or damage, in order to be recoverable, must have occurred fortuitously, i.e., which are causes by accidental circumstances only. Under ICC(B) and ICC(C), the risks covered are specified whereas under ICC(A) clauses, the risks covered are not specified and 'all risks' are covered.

Institute Cargo Clauses (B) and (C):

ICC(B) and ICC(C) clauses attached to the policy form cover the following risks, namely, (i) fire and explosion, (ii) vessel or craft being stranded, grounded, sunk or capsized, (iii) overturning or derailment of land conveyance, (iv) collision or contact of vessel, craft or conveyance with any external object other than water, (v) discharge of cargo at a 'port of distress', (vi) general average sacrifice, (vii) jettisoning, (viii) general average and salvage charges incurred to avoid loss from any causes except those excluded, (ix) liability under 'both to blame collision' clause of bill of lading, (x) charges reasonably and properly incurred to avert/minimise an insured loss and to preserve and pursue recovery rights, and (xi) in the event of termination of transit at a port or place other than destination port or place resulting from a risk covered, extra charges incurred in unloading, storing and forwarding insured cargo to destination.
In addition to the above risks, ICC(B) also covers the following, viz., (i) earthquake, volcanic eruption or lightning, (ii) washing overboard, (iii) entry of sea, lake or river water into vessel, craft, hold, conveyance, container, lift van or place of storage and (iv) total loss of any package lost overboard or dropped whilst loading on to or unloading from vessel or craft (this is known as 'sling loss')

A ship, which encountered trouble enroute and unable to complete its voyage, reaches the nearest port and discharges the cargo there. This intermediate port is called the 'port of distress'. The discharged cargo will be at the risk of the owners of the goods, who have to arrange for reloading the goods in another ship, to be sent to their destination. At times, the master of the ship may decide to sell the goods at the port of distress itself to prevent further deterioration and loss of the goods.

General average means general average loss or expenditure like jettisoning of cargo in an effort to re-float the vessel, expenses incurred on tugs employed to tow the vessel to safety etc.

While jettisoning means throwing away of cargo into the sea to re-float the vessel and to save other goods in the ship and complete the voyage, the term washing overboard indicates that goods in the overboard being washed away by the turbulent waves of the sea. Both to blame collision means collision of two ships in the sea and both are at fault for the collision.

Apart from the risks covered as above, cargo is also subject to many other risks, which are known as 'extraneous risks'. These risks, which can be added to ICC(B) on payment of extra premium are, (i) theft, pilferage and/or non-delivery, (ii) fresh water and rain water damage, (iii) hook and/or oil damage, (iv) heating and sweating, (v) damage by mud, acid and other extraneous substances, (vi) breakage, (vii) leakage, (viii) country damage and (ix) bursting and/or tearing of bags.
'Heating' means damage to goods by heat, which spreads from engine room or boilers. For example hides and skins dry out and become brittle through careless stowage, (stowage means, placing of cargo in proper place and order), especially in the vicinity of ship's engine room or boilers.

'Sweating' means damage caused by sweat. Variations of temperature in badly ventilated holds can cause condensation and consequent sweat damage to goods.

Cotton in fully pressed bales may be damaged by sand, grit, mud, oils, rain etc., when these heavy bales are rolled from place to place in course of normal handling. Such damage may also arise from exposure to weather when baled cotton is stacked in the open awaiting shipment and this type of damage is called 'country damage'.

Exclusions:

Following exclusions are common to all the three Institute Cargo Clauses, ICC(A), ICC(B) and ICC(C), namely, loss, damage or expense (i) attributable to the wilful misconduct of the assured, (ii) caused by ordinary leakage, ordinary loss in weight or volume or ordinary wear and tear; (these are normal 'trade' losses, which are inevitable and not accidental in nature), (iii) caused by inherent vice or nature of the subject matter insured (for example, perishable commodities like fruits, vegetables etc. may deteriorate without any accidental cause and this is known as inherent vice), (iv) caused by insufficient, unsuitable or defective packing or preparation of the subject matter insured, (v) proximately caused by delay, even if delay be caused by an insured risk.

Loss, damage or expense (vi) arising from insolvency or financial default of owners, managers, charterers or operators of the vessel, (many ship owners, especially 'tramp' vessel owners fail to perform the voyage due to
financial troubles with consequent loss or damage to cargo; this is not an accidental loss and the insured has to be cautious in selecting the vessel for shipment), (vii) arising from unseaworthiness of vessel or craft.

Loss, damage or expense (viii) caused by nuclear weapons, (ix) war and kindred perils and (x) caused by strikes, riots, lock-out, civil commotion and terrorism.

The risk of war and kindred perils and strikes, riots etc. can be covered on payment of extra premium. The Institute War Clauses and the Institute Strikes Clauses are attached to the policy.

Duration of cover:

As against 'time' policies issued in other classes of insurance, which cover the subject matter for a specified period, usually one year, cargo policies are issued for specified 'voyage' or 'transit' whatever the time taken. It is necessary to be clear as to when exactly risk commences and terminates under a voyage policy. The duration of cover is defined in the Transit Clause (popularly known as 'warehouse to warehouse' clause) of the ICC.

The cover commences from the time the goods leave the warehouse at the place named in the policy, continues during the ordinary course of transit and terminates either (i) on delivery to the consignee's or other final warehouse at the destination named or (ii) on delivery to any intermediate warehouse used by the insured for purposes of storage or distribution or (iii) on the expiry of 60 days after discharge from the vessel at the final port of discharge whichever shall first occur.

The time limit of 60 days is prescribed to ensure early clearance of goods by the consignee. Insurers extend this time limit, at extra premium, in genuine circumstances causing delay in clearance.
The duration of cover for war risks is restricted to the time when the goods are water-borne and not on land. War risk on land is not covered under insurance policies. If the vessel arrives at destination port, but unloading is delayed, the war risk cover is limited up to 15 days, counting from the midnight of the day of arrival of the vessel.

If the goods are transhipped, cover continues during the transhipment, but subject to a limit of 15 days, counting from the date of arrival of the vessel of the transhipment port. If the 15 days' limit expires before the goods are loaded on to the on-carrying vessel, the war cover is suspended until the goods are loaded on to the on-carrying where the cover reattaches. This extension during transhipment applies only whilst the goods remain within the port area of the transhipment port.

It may happen that the contract of carriage may be terminated and goods are discharged short of destination. If the goods are disposed off locally, the port of discharge is treated as the destination port and war cover ceases on discharge or 15 days after arrival, as the case may be.

The transit clause in the cargo strikes clauses is the same as the transit clause in ICC(A), (B) and (C). Cover is warehouse to warehouse with the customary 60 days time limit after discharge.

Institute Cargo Clauses (Air):

These Institute Cargo Clauses (Air) do not cover the sendings by post. The risks covered are on 'all risks' basis as in ICC(A) except that general average and salvage charges and both to blame collision clauses are omitted, these not being concerned with air transit.

The duration of the cover is the same as under ICC(A) except that the period of cover after unloading of cargo from the air craft at the final place of discharge is limited to 30 days, as against 60 days under ICC(A).
Exclusions are the same as for the ICC(A), (B) and (C), viz., loss, damage or expense caused by (i) wilful misconduct of the assured, (ii) ordinary/inevitable loss, (iii) insufficient, unsuitable packing or preparation of goods, (iv) inherent vice or nature of the subject matter, (v) arising from unfitness of the aircraft, (vi) proximately caused by delay, even if delay be caused by a risk insured against, (vii) nuclear weapons, (viii) war risks and (ix) strikes, riots and civil commotion (SRCC). War and SRCC risks can be covered at extra premium. Duration of coverage of war risks clauses is 15 days and strikes risks clauses 30 days as in ICC(A).

Inland Transit (Rail/Road):

Under inland transit also there are three clauses, viz., clause 'A', 'B' and 'C'. The risks covered under clause 'A' are all risks of loss or damage to the subject matter insured and the loss or damage to be recoverable must have occurred fortuitously.

Under clause 'B', physical loss or damage to the subject matter insured by the following causes are covered, namely, (i) fire, (ii) lightning, (iii) breakage of bridges, (iv) collision with or by the carrying vehicle, (v) overturning of the carrying vehicle and (vi) derailment or accidents of like nature to the carrying railway wagon or vehicle. Extraneous risks like theft, pilferage, non-delivery, SRCC and malicious damage can be added to the cover at extra premium.

Under clause 'C' cover, risks of physical loss or damage caused by fire and lightning only are covered.

Duration of cover:

Under clauses 'A' and 'B', the insurance attaches from the time the goods leave the warehouse for the commencement of the transit and continues during the ordinary course of transit including customary transhipment, if any,
(i) until delivery at the final warehouse at destination point or (ii) in respect of transit by rail only or by rail and road, until expiry of 7 days after arrival of railway wagon at final destination railway station or (iii) in respect of transit by road only, until expiry of 7 days after arrival of road vehicle at the destination town, whichever shall first occur. The period of 7 days is to be reckoned from the mid night of the day of arrival.

Under clause 'C' policies, the insurance attaches with the loading of each package into wagon/truck for the commencement of the transit and continues during the ordinary course of transit, including customary transhipments, if any, and ceases immediately on unloading at destination railway station in respect of rail transit or at destination point in respect of transit by road.

Exclusions:

Following exclusions are common to all the three Inland Transit (Rail/Road) clauses 'A', 'B' and 'C' policies, namely, (i) wilful misconduct of the assured, (ii) ordinary/inevitable loss or damage, (iii) insufficient or unsuitable packing or preparation, (iv) proximately caused by delay, even if delay be caused by a peril insured against, (v) inherent vice or nature of the subject matter insured, (vi) war and kindred perils and (vii) strikes, riots and civil commotion (SRCC). SRCC risks can be covered at extra premium.

Registered postal sendings:

There is no standard set of clauses for sendings by registered post. ICC or Inland Transit Clauses may be used. The cover attaches from the time of issue of the registered post receipt and terminates on delivery of parcel to the addressee (consignee). For interests, which are valuable, it is warranted that the parcel is insured with the postal authorities.
Following are the various types of policies available under marine insurance.

Specific policy:

A policy covering a single shipment or consignment is known as specific policy. The insured has to insure his each shipment/consignment individually whenever the goods are ready for sending.

Open cover:

An Open cover is issued to provide automatic and continuous insurance protection to a regular export/importer engaged in international trade.

It is not convenient for a business or trading concern whose turnover is considerable and shipments frequent, to arrange separately for insurance of individual shipments. Such a system would be costly, as it would involve much unnecessary labour, would be time-consuming and inconvenient to both the insurer and the assured alike. For these reasons Open covers are issued.

An Open cover is not a policy and is therefore not stamped. It is an agreement, binding in honour, whereby the insurer undertakes to insure all shipments declared by the insured and which come within the scope of the Open cover. Premium is payable on each declaration, against which specific stamped certificate/policy is issued covering each shipment declared.

Thus an Open cover is a convenient arrangement for clients engaged in substantial international trade and having considerable turnover. Once arranged, the insured is guaranteed of protection on the agreed basis for all shipments falling within its provisions, subject to declaration of full shipping details of each shipment. The client is relieved of the necessity to negotiate the
insurance for every shipment individually. The insurer obtains assured continuity of interest in the clients' global business activities.

Following are the advantages of an Open cover, viz., (i) as the agreement is automatic and continuous as provided for in its terms, the insured is not exposed to the risk of any shipment remaining uninsured due to oversight, inadvertent omission or delayed receipt of shipment advices from overseas, (ii) the necessity of buying specific policies for each individual shipment is obviated, resulting in savings in administrative costs both for insurers and their clients and (iii) the premium rates are agreed at inception and this assists the insured to identify his costs of insurance right at the outset, which he could include in his total costs for the goods under CIF contracts.

Open cover is issued usually for a period of 12 months and is renewable annually. It is subject to cancellation on either side, i.e., insurers or the insureds, by giving due notice. There is no sum insured in an Open cover. There are however, two limits, namely, limit per bottom and limit per location.

Limit per bottom means, limit of aggregate value of shipments/consignments per vessel or other conveyance at any one time, as per the requirements of the assured.

Limit per location clause seeks to limit the value of pre-shipment accumulation, which may take place, say, because of strikes or labour disturbances in the port area. Such accumulation of cargo in a particular location may create for the insurers a catastrophic exposure in the event of, say, a conflagration at the docks or a hurricane, widespread riots etc.

The location limit may be the same as the per bottom limit or it may be higher, say, 200%, as is quite common, of the limit per bottom, by agreement.
Following are some of the salient features of an Open cover.

Basis of valuation: The basis of valuation is the prime cost of the goods plus expenses to shipping, freight for which the assured is liable and cost of insurance plus 10% to cover profits.

Loss prior to declaration and/or shipment: In the event of loss or damage prior to declaration and/or shipment on board the vessel, the basis of valuation shall be the prime cost of the goods plus charges actually incurred and for which the assured is liable.

Declaration: The assured is bound to declare each and every shipment individually or in batches as they go forward and obtain a certificate of insurance from the insurer, as required, either for individual shipments or for groups of shipments.

Unintentional failure to report shipments will not void the Open cover and such shipments will be held covered. However, should the assured wilfully fail to report shipments (he may do so when shipments have arrived safely), the Open cover, at insurer's option, would become null and void as to all subsequent shipments.

Inspection of records: The insurer has the privilege, at any time during business hours, to inspect the records of the assured as respect shipments coming within the terms of the Open cover.

Under deck: A warranty in the Open cover stipulates that all goods are shipped under deck. On deck shipments held covered at rates and terms to be agreed upon.

Cancellation: Open cover may be cancelled by either party by giving 30 days' notice in writing for marine risks. For war and SRCC risks the period of notice is much shorter.
Vessel: The vessel in which the goods are sent must be mechanically self-propelled vessel of steel construction, as per Institute Classification Clause.

Period: Generally, Open covers are effected in the first instance for a period of 12 months and thereafter renewed annually.

Open policies:

An Open policy is a type of floating cover. Clients having substantial turnover and a large number of despatches can obtain continuous insurance cover under an Open policy.

An Open policy is issued, duly stamped, for an amount representing the insured's annual turnover in respect of a series of consignments, which may be declared against the Open policy, with the result that the sum insured will gradually diminish by the amount of each declaration until the total sum insured under the Open policy is finally exhausted.

An Open policy is commonly issued for insurance of goods despatched within the country by rail/road/air/registered post parcels. The cover under an Open policy ceases on expiry of one year from the date of its issue or exhaustion of the total sum insured prior to the expiry of the Open policy period of 12 months, whichever first occurs. If the sum insured is likely to be exhausted prior to the expiry of the Open policy period of 12 months, it may be increased by issuing an extra endorsement and charging appropriate additional premium.

Open policies are issued subject to the following conditions.

Declaration: It is a condition of this insurance that the assured is bound to declare each and every despatch coming under the scope of the Open policy within 24 hours, or as may be agreed, from the time of the issue of
railway receipt/lorry receipt/airway bill/postal registered receipt, as applicable.

- Basis of valuation: Invoice cost of goods, the freight for which the insured is liable and the cost of insurance plus 10%.

Inspection of records: The insurer will have the right at any time during business hours to inspect the insured's records of despatches made within the terms of the Open policy.

Notice of cancellation: The Open policy is subject to cancellation by either party giving 30 days' notice in writing for transit risk, and notice as per tariff for SRCC risks, without prejudice to any risk which has already attached.

Per conveyance limit: The limit of the insurer's liability in respect of any one accident or series of accidents arising from the same event is specified in the Open policy for each rail/road/air transit or registered post.

Location limit: Underwriter's liability in respect of any one accident or series of accidents from the same event in any one location is specified in the Open policy.

Policy period: The Open policy is to remain in force for a period of 12 months, unless the total sum insured is previously exhausted by declarations.

It is important to note that declarations received from the insured should be promptly entered in serial order in the Open policy control book after verifying that each declaration corresponds in all respects with the scope of the cover granted under the Open policy, viz., subject matter of insurance and packing, transit etc.; that the date of despatch is within the Open policy period; that there is adequate balance of the sum insured to cover the risk and that the sum insured under the declaration is within the 'per conveyance limit'.
Duty insurance:

This insurance is on the increased value of cargo by reason of payment of customs duty at destination and is subject to the same clauses and conditions as the insurance on cargo. The sum insured for Duty shall be adjusted on the basis of actual assessed duty. The rate of premium for insurance of Duty shall be 75% of the rate charged for covering the CIF value of the cargo itself.

This insurance shall be granted only if there exists insurance on CIF value of cargo itself and against the same risks as the basic cargo insurance and only on the basis of a signed proposal form. However, insurance on Duty may be granted on terms and conditions wider than overseas CIF insurance, where cargo is imported on CIF basis, because of an unavoidable contractual obligation to insure abroad.

Duty insurance shall be granted only to the party in whose favour the import licence has been issued or to the party in whose favour such import licence has been officially endorsed.

The policies may also be issued in favour of actual users who purchase from recognised export houses under the export promotion scheme, provided an allotment letter/certificate from the recognised export house is produced as proof. Alternatively, the policy issued in favour of the export house from which the goods have been purchased, may be assigned in favour of the actual users.

The scope and duration of the cover shall be identical to that of the original cargo policy and no insurance on Duty shall be granted after the arrival of the ship at the destination port. This however, shall not apply to such insurances granted under Open covers.
All extras on account of over-age of the ship, under-tonnage, non-classification etc. applicable under cargo policy shall be applied in respect of Duty insurance also. Duty policies are not assignable.

No claim shall be paid for Duty until the claim under the CIF value insurance policy is payable and proof of liability for loss under that policy shall be furnished to the insurer. This provision is not applied to cases where CIF value is insured overseas due to contractual obligations.

Increased value insurance:

This insurance is on increased value by reason of market value of the goods at destination on the date of landing being higher than the CIF and Duty value of the cargo and is subject to the same clauses and conditions as the insurance on CIF value of cargo and to pay 75% of the actual loss suffered in the market or realisable value of cargo not exceeding 75% of the sum insured because of the operation of any of the perils insured against, after taking credit for claims recovered under the basic cargo CIF and Duty insurance for the cargo. The assured will be required to bear 25% of the claim amount payable under the increased value component of the policy.

Increased value insurance shall not be granted for more than 100% of the CIF value of the cargo and the rate of premium shall be 100% of the normal rate applicable to CIF insurance. Increased value insurance on cargo in inland transit, where not in conjunction with overseas transit, shall not be granted.

Special declaration policy:

This is a form of floating policy issued to clients whose annual estimated despatches (i.e., turnover) by rail/road/inland waterways exceed Rs.2 crores. Declaration of despatches shall be made at periodical intervals
and premium is adjusted on expiry of the policy based on the total declared amount.

When the policy is issued, sum insured should be based on previous year's turnover or in case of fresh proposals, on a fair estimate of annual despatches. A discount in the rates of premium based on turnover amount (e.g., exceeding Rs.5 crores etc.) on a slab basis and on loss ratio.

Special storage risk insurance:

This insurance is granted in conjunction with an Open policy or a Special declaration policy. The purpose of this policy is to cover goods lying at the railway premises or carrier's godown after termination of cover under Open or Special declaration policies but pending clearance by the consignees. The cover terminates when delivery is taken by the consignee or payment is received by the consignor, whichever is earlier.

Annual policy:

This policy, issued for 12 months, cover goods belonging to the insured, which are not under contract of sale and which are in transit by rail or road from specified departments/processing units to other specified departments/processing units. Cover is provided in terms of Inland Transit (Rail/Road) Clauses as desired.

Tariff policy:

The Tariff Advisory Committee (TAC) has formulated package policies, which cover transit risks as well as storage risks incidental to transit for tea, coffee, cardamom and rubber.

The cover under Tea policy attaches from the time green leaf is plucked at the insured's estate and continues during processing at the factory and during further transit until delivered to buyers in India or abroad. The
cover is as per the Inland Transit Clauses (Rail/Road) and Institute Cargo Clauses. The cover for coffee, cardamom and rubber is along the same lines as for tea.

Hull insurance policies:

Hull insurance is concerned with the insurance of hull and machinery of ocean-going and other vessels like barges, trawlers, fishing and sailing vessels. It is also concerned with the ship owner's other insurable interests, known as subsidiary interests, like freight and disbursements.

Insurance of construction risks or builder's risks deal with hull insurance for vessels when they are under construction. Apart from these, there are certain special types of hull covers, like charterer's liability risks, ship repairer's liability risks, third party liability risks etc. which are underwritten on a very selective basis where specially needed by valued clients.

Being a much specialised class of business, main underwriting of hull insurance in India is done at Head office level, except for insurances of fishing vessels, trawlers, dredgers, inland and sailing vessels for which tariffs are available.

The subject matter of hull insurance is the vessel, i.e., ship. There are many types and designs of ships. Most of them are constructed of steel and welded and they are capable of sailing on the seas in ballast or with cargo. (Ballast means unladen ship i.e., ship without cargo. Heavy materials like sand, stone etc. are loaded in the ship to keep it steady in sea waters).

The other terms used in hull insurance are GRT (Gross Registered Tonnage) and NRT (Net Registered Tonnage). DWT (Dead Weight Tonnage) means the capacity in tons of the cargo required to load a ship to her load line level. (Every ship will have a line drawn on the outer side of her body, upto
which it can be immersed in water by loading cargo into it and this line is known as load line).

GRT is calculated by dividing the volume in cubic feet of the ship's hull by 100. NRT is the gross tonnage less certain spaces (viz., machinery, crew accommodation, ballasts spaces) and is intended to encompass only these spaces used for carriage of cargo.

After a ship has been built, she has to be registered and a certificate of registry must be obtained to comply with the requirements of the Merchant Shipping Act, 1958 and other government legislations.

In India, the Indian Registry of Shipping (IRS) is a recognised classification society. The classification certificate issued by IRS would confirm that a ship registered under it has been built according to its rules and that she has both structural and mechanical fitness for the intended service. After the ship has acquired class, she will be required to undergo a comprehensive series of surveys during her lifetime to retain that class.

There are basically four main types of sea going vessels, namely, (i) general cargo vessels, (ii) dry bulk carriers, (iii) liquid bulk carriers and (iv) passenger vessels. These can be further divided into ocean-going and coastal tonnage.

It may be of interest to the readers to know the various types of vessels built around the world, which are the subject matter of hull insurance, to have a clear understanding of what a particular type of vessel is.

Ocean-going vessels: The ocean-going general cargo vessel is usually in the 5000 to 15,000 GRT range. This category also includes specialised vessels, such as container ships, large carriers, LASH (lighter aboard ship), RO-RO (roll on, roll off) vessels, reefers (refrigerated vessels) etc.
Many general cargo vessels are built for specific purposes, e.g., car carriers, livestock carriers, log carriers, heavy lift vessels etc.

General cargo vessels may also be sub-divided into liners and tramps. The liner loads at an advertised berth and runs to an advertised schedule between her home port and her overseas terminus, calling enroute at a varying number of ports according to the particular service, in which she is engaged. The tramp, on the other hand, carries cargo whenever and wherever it is available, mostly bulk cargo, very often seasonal in character, for which she is usually chartered. For underwriting, liner is a better risk than a tramp.

Coastal tonnage: Coasters are generally smaller in size and many are engaged in the carriage of bulk cargoes. India has a long coastline and so coastal voyages are often of considerable length. Generally, coastal tonnage does not have to withstand the same strains as ocean-going vessels. Coastal vessels enter and leave ports more frequently than ocean-going vessels and they often operate in congested waters. Therefore the risk of collision and damage from contact with quays and piers is greater for coastal tonnage.

Dry bulk carriers: These are specially constructed vessels in the size range of a few thousand GRT used for coasters to over 70,000 GRT for ocean-going tonnage. The main bulk cargoes carried are iron and other ores, coal, grain, bauxite and phosphate. The main features of these vessels are the single weather deck and large holds with wide hatches to facilitate loading and discharge by mechanical means.

Liquid bulk carriers (tankers): Tankers are strongly constructed and are fitted out to carry bulk liquids (e.g. crude oil). The effect of liquid cargo on the stability of the vessel is considerable. Therefore tankers have wing tanks on either side of the centre tanks. The machinery space is situated at the aft (i.e., tail) end of the tanker in order to lessen the danger of igniting vapour from the oil cargo.
Super tankers: The terms super tankers, VLCC (very large crude carrier) and ULCC (ultra large crude carrier) are used for mammoth tankers of 75,000 to 1,50,000 DWT, 1,50,000 to 3,00,000 DWT and 3,00,000 DWT and over respectively. These giant tankers may face the problem of draught when fully loaded and would encounter limitations in approaches to harbours. They are unable to pass through the Suez Canal when fully laden. They cannot manoeuvre easily and may suffer from structural weakness during voyage.

Combination carriers: These vessels may be of two types, namely, OBOs (ore/bulk/oil) in 70,000 to 1,50,000 DWT range and oil/ore vessels in 1,50,000 to 2,50,000 DWT range. They are designed so that they can carry bulk dry cargoes as well as oil and thus provide greater flexibility in operation.

Lighter aboard ship (LASH): LASH and Sea Bee vessels are mother ships which carry floating containers in the form of barges up to 1000 tons displacement. Hoisted aboard such ships by massive cranes or elevators, the barges are transported to an overseas port area when they are lowered into the water and towed to their ultimate destination.

Roll on-Roll off (RO-RO) vessels: A RO-RO vessel is one having facility for shipping lorries, trailers etc. without need for cranes. Cargo is carried on trucks and trailers which travel direct from the shippers’ premises in the country of origin on to RO-RO vessels and delivered to the consignees’ premises at final destination point in the same vehicle. This is the mode of operation for ferries, which, also carry cars and buses and is also used by long-haul ocean-going vessels.

Passenger vessels: These are cruise vessels or passenger liners which sail on voyages to distant areas of scenically beautiful but rocky or shallow coasts or near the icy waters of the Arctic and Antarctic. Most of these vessels possess modern navigational systems, for example, satellite navigation. Risk of fire perhaps remains the greatest hazard.
Fishing vessels: Whilst wood was traditionally the principal material for construction, this is rapidly becoming less so, and fishing vessels built of steel and fibre glass are much more prevalent. Types of craft differ according to the sort of fishing pursued and the waters in which the fishing takes place.

Off shore oil/gas exploration and production units: These units are employed in connection with either exploration or for commercial production of oil from the ocean beds. The comprehensive cover given covers not only the operations at site but also the transport of plant and equipment to the drilling sites which may be hundreds of kilometres away in mid sea, as in the case of North sea platforms or within hundred kilometres as in the case of Bombay High off shore.

There are various types of policies to cover the ship owner's insurable interests and they are given below.

Hull and Machinery insurance:

This policy covers the hull, machinery and equipment and stores etc. on board but does not cover cargo. The cover granted meets the requirements of the individual ship owner and protects him against partial loss, total loss (actual or constructive), ship's proportion of general average and salvage charges, sue and labour expenses and ship owner's liability towards other vessels arising from collisions. Normally, only three-fourths of the collision liability is covered under the Hull and machinery policy and the remaining one-fourth may be covered with the Protection and Indemnity (P&I) clubs. Under certain circumstances, the Hull and machinery policy is extended to cover ship owner's liabilities towards port authorities for removal of wreck of the vessel and damage done to jetties, wharves, docks etc.
Some of the terms used here may need some explanation so that the reader can have a clear understanding of the intricacies involved in the subject.

An actual total loss means where the subject matter is entirely destroyed or damaged to such an extent that it is no longer a thing of the kind insured.

As against actual total loss, a constructive total loss, which is a commercial total loss, takes place where the subject matter insured is abandoned on account of the actual total loss being inevitable, or where the expenditure to be incurred for repairs or recovery would exceed the value of the subject matter after the repairs or recovery.

General average is a loss caused by a general average act. An act is referred to as general average act when an extraordinary sacrifice or expenditure is made. Such an act should be voluntary and the expenditure reasonable. It should be undertaken with the sole idea of preserving the property imperilled in an adventure. Whenever there is a general average, the party on whom it falls, gets a rateable contribution known as general average contribution from the other parties, who are interested in the adventure and who have benefited by the voluntary sacrifice or expenditure. General average is shared proportionately by all the interests at risk at the time of the general average act, i.e., ship, cargo and freight. Examples of general average act are cargo jettisoned in an effort to re-float the vessel and tugs employed to tow the vessel to safety.

Particular average means partial losses caused by marine perils. Particular average losses occur when there is a total loss of part of the goods covered, for example, a consignment may consist of 100 packages, of which 5 packages may be lost completely. Another way in which particular average
loss occurs is when there is damage to the goods, where whole or any part of the goods insured is delivered damaged at destination.

When the goods insured are damaged during transit, and the nature of the goods is such that they would deteriorate further and would be worthless by the time the vessel arrives at destination, it would be a prudent and sensible way of dealing with the situation by disposing of the same at an intermediate port for the best price obtained. The terms 'salvage charge' refers to the amount payable which is the difference between the insured value and the net proceeds of the sale.

Insurers expect that the insured should at all time act as if he was uninsured and take such steps as a prudent person would normally take. In view of this, if there be any expenses incurred by the insured or his agents to minimise the loss or damage payable under the policy, the same are reimbursed by insurers. Examples of such charges, known as Sue and Labour charges, are landing, warehousing, re-conditioning, re-forwarding and similar charges.

Protection and Indemnity (P&I) club is a mutual association operated on behalf of its members in which ship owners should have their vessels entered. Each member contributes an initial premium based on the tonnage of the vessels he has entered in the club and may be called upon to pay further premiums to meet its liabilities and expenses without incurring a deficit balance at the end of the policy year since the club is a non-profit making organisation. There are no P&I clubs in India and hence a ship owner must enter into a P&I club abroad.

The cover offered by a P&I club related to liabilities incurred by the member, which may arise in any one of the following three ways.
Statutory obligations: Objections and responsibilities towards the master, officers and crew as provided by the Merchant Shipping Act, 1958 and other statutes concerned with employees.

Contractual liabilities: Responsibilities in relation to the issue of bills of lading whereby the member may become liable to cargo owners.

Third party liabilities: The main liabilities embraced in this section relate to loss of life and personal injury to members of the crew, passengers, dock workers and others 'on board or near the entered ship'. The one-fourth collision liability not covered by the insurance policy and the perils excluded from the scope of the Collision Liability Clause, for example, pollution are also brought within the ambit of the P&I clubs. Oil pollution clean-up costs are often considerable; the P&I clubs usually limit their liability in this respect.

Damage to harbours, wharves, piers, bridges, docks, buoys, beacons and other property may give rise to liabilities falling upon the member, all of which can be borne by his P&I club.

Insurance of Freight:

The earnings of a vessel described as freight for time can be insured up to 25% of the hull value, provided no additional insurances on disbursements are placed. Freight for specific voyages or anticipated freight when a vessel is in ballast may also be insured provided that the total of all freight insurances does not exceed 25% of the hull value. The policy, subject to Institute Time Clauses-Freight, provides an indemnity for loss of freight but not exceeding the gross freight lost.

Disbursement and Increased Value Insurance:

These are ship owner's expenses incurred in fitting out and provisioning the vessel and other items not included in the hull valuation. An
amount up to 25% of the hull value may be insured, provided no freight insurances are placed.

Insurance on premiums:

Since the cost of all insurances can be considerable, it is permitted to insure these premiums.

Insurance on Returns of Premium:

Returns of premium for lay-up or whilst under repair are recoverable only at the expiry of the policy period. As the returns are only payable provided the vessel has not been a total loss within the policy period, it is permitted to insure the prospective returns on Total Loss only conditions.

Loss of Hire insurance:

This covers loss of hire suffered by the ship owner, if the vessel which is given on charter, is laid-up for repairs following a casualty covered under the terms of the hull and machinery policy. The conditions applicable are those covered by Institute Time Clauses-Hulls, but excluding total loss. It is usual to stipulate that repairs must be commenced within 12 months of the expiry of the policy.

Loss of Profit Insurance:

This policy covers the charterer's loss of profits over the period of the charter if the vessel is time chartered; or during the voyage charter if the vessel is chartered for a voyage, following total loss of the vessel.

Ship Repairers' Liability:

This policy covers liabilities of ship repairers towards the owners of the vessels repaired by them. The careless use of welding torches or gases in
areas where oily waste is lying or near fuel lines has been a major cause of many serious fires.

**Builders' Risks policy:**

This policy covers vessels under construction from the time of laying the keel until the time of delivery (including trials) to the buyers. The conditions are those contained in the Institute Clauses for Builders' Risks.

**Charterers' Liability policy:**

This policy covers damage sustained by the vessel during the period of the charter for which the charterers are held legally liable. Demurrage is also covered if the vessel is delayed in order to carry out repairs for which the charterers are held legally liable.

**War and Strikes Risks:**

The war and strikes risks in respect of hull and machinery and subsidiary interests, i.e., Freight, Disbursements etc. are concerned under the Government War Risks Scheme in India. War risks on other interests such as Loss of hire, Loss of profits are excluded from the Government Scheme.

Following are the perils covered for the loss or damage to the subject matter insured, by hull insurance policy as provided by Institute Time Clauses-Hulls, namely, (i) perils of the seas, rivers, lakes or other navigable waters, (ii) fire, explosion, (iii) violent theft by person outside the vessel, (iv) jettisoning, (v) piracy, (vi) breakdown of or accident to nuclear installations or reactors, (vii) contact with aircraft or similar objects, or objects falling there from, land conveyance, dock, or harbour equipment or installation and (viii) earthquake, volcanic eruption or lightning.

The insurance also covers loss/damage to the subject matter insured caused by, (i) accidents in loading, discharging or shifting cargo or fuel,
(ii) bursting of boilers, breakage of shafts or any latent defect in the machinery or hull, (iii) negligence of master, officers, crew or pilots, (iv) negligence of repairers or charterers, provided such repairers or charterers are not the assured under the policy and (v) barratry of master, officers or crew, provided such loss/damage has not resulted from want of due diligence by the assured, owners or managers.

Master, officers, crew or pilots are not to be considered owners, within the meaning of this clause, should they hold shares in the vessel.

Pollution Hazard: This clause provides cover, if the vessel is damaged or destroyed by a Government authority in order to avoid or mitigate pollution, for example when a badly damaged tanker is deliberately set on fire. The act of the Government must flow directly from the casualty, which is covered by the insurance, and the assured must have used his best endeavours to prevent pollution.

3/4th Collision Liability: The underwriters agree to indemnify the assured for three-fourth of any sum paid by the assured to any other person or persons by reason of the assured becoming legally liable by way of damages, where such payment by the assured is in consequence of the vessel coming into collision with any other vessel.

MISCELLANEOUS INSURANCE POLICIES:

Miscellaneous department offers a number of policies and the names of all policies are given in the appendix since it is not possible to go in detail about all the policies while the details of Motor policies are discussed here, as motor is the only subject matter of insurance which is widely and compulsorily insured than all other subject matters of insurance put together.

When the researcher put the question to the 400 respondents of the type of insurance they have taken, motor insurance was the first answer and
then only other types of insurance came in, if at all they have taken any other policies. Motor has pervaded the lives of people from all walks of life. Hence it will be more appropriate to go through in detail the motor policies here.

Motor policies:

Motor insurance accounts for a major portion of the miscellaneous premium income of insurance companies. This class of business is governed by the India Motor Tariff.

For purpose of insurance, motor vehicles are classified into three broad categories, namely, (i) private cars, (ii) motor cycles/motor scooters and (iii) commercial vehicles. Commercial vehicles are further classified into (i) goods carrying vehicles, (ii) passenger carrying vehicles and (iii) miscellaneous types of vehicles.

Motorised rickshaws, taxis, buses come under passenger carrying vehicles while miscellaneous types of vehicles include ambulances, drilling rigs, mobile canteens, road rollers, excavators etc.

Vehicles in each category may be covered under two types of policies, namely, (i) 'Act only' policy and (ii) 'Comprehensive' policy.

Two other covers are available to certain categories of vehicles (e.g. private cars); (i) fire and/or theft risks; both or either of these risks can be covered under a policy while the car is in garage and out of use, (ii) act liability and fire and or theft risks; the liability to public risks only (commonly called Act Liability policy) may be extended to cover both or either of fire/theft risks whilst the car is running and/or in garage.

In the old days, many of the pedestrians who were knocked down by motor vehicles and who were killed or injured, did not get any compensation because the motorists did not have the resources to pay the
compensation and were not also insured. In order to safeguard the interests of pedestrians, therefore, the Motor Vehicles Act, 1939 introduced compulsory insurance.

The insurance of motor vehicles against its own damage is not made compulsory, but the insurance of third party liability arising out of the use of motor vehicles in public places is made compulsory. No motor vehicle can ply in a public place without such insurance.

The liabilities, which require compulsory insurance, are as follow: (i) any liability incurred by the insured in respect of death or bodily injury of any person including owner of the goods or his authorised representative carried in the carriage, (ii) liability incurred in respect of damage to any property of third party, (iii) liability incurred in respect of death or bodily injury of any passenger of a public service vehicle, (iv) liability arising under Workmen’s Compensation Act, 1923 in respect of death or bodily injury of: (a) paid driver of the vehicle, (b) conductor or ticket examiner in case of public service vehicle, (c) workers carried in a goods vehicle and (d) liability in respect of death or bodily injury of passengers who are carried for hire or reward or by reason of or in pursuance of contract of employment.

The insurance policy covers the liability incurred in respect of any one accident as follows: (i) in respect of death of or bodily injury to any person, the actual amount of liability incurred, without any limit and (ii) in respect of damage to any property of third party, a limit of Rs.6,000/-.  

The liability in respect of death of or bodily injury to any passenger of a public service vehicle in a public place is the amount of liability incurred, without any limit.

Section 140 of the Motor Vehicles Act, 1988 (the amended version of the Motor Vehicles Act, 1939) provides for liability of the owner of the motor
vehicle to pay compensation in certain cases, on the principle of no fault. The amount of compensation, so payable, is Rs.50,000/- for death, and Rs.25,000/- for permanent disablement of any person resulting from an accident arising out of the use of the motor vehicles. The principle of 'no fault' means the claimant need not prove negligence on the part of the motorist and the liability is automatic.

For all classes of vehicles, there are two types of policies, Form 'A' to cover Act Liability and Form 'B' to cover Own Damage losses and Act Liability. 'B' policies can also be extended to cover additional liabilities as provided in the tariff.

Policy 'B':

This policy provides the so-called 'comprehensive' cover and the structure of the policy form is the same for all vehicles with some differences as to their usage.

The risks covered as to the own damages portion of the vehicle are (i) fire, explosion, self ignition or lightning, (ii) burglary, housebreaking or theft, (iii) riot and strike, (iv) earthquake (fire and shock damage), (v) flood, typhoon, hurricane, storm, tempest, inundation, cyclone, hailstorm, frost, (vi) accidental external means, (vii) malicious act, (viii) terrorist activity, (ix) transit by road, rail, inland waterway, lift, elevator or air and (x) landslide/rockslide.

Motor policy 'B' has some exclusions, namely, (i) consequential loss, (ii) depreciation, (iii) wear and tear, (iv) mechanical or electrical breakdowns, failures or breakages, (v) damage to tyres, unless the vehicle is damaged at the same time. (Then 50% of cost of replacement is payable), (vi) loss when the vehicle is driven under the influence of intoxicating liquor or drugs.

For commercial vehicles, the insured has to bear Rs.1,500/- in respect of each accident. Further, loss/damage to lamps, tyres, mudguards
and/or bonnet side parts, bumper and/or paintwork is not payable except in case of a total loss of vehicle.

In motorcycle and commercial vehicles policy there is an additional exclusion, namely, loss of or damage to accessories by burglary, house breaking or theft unless the vehicle is stolen at the same time and in commercial vehicle policy, there is a further exclusion, namely, damage caused by overloading or strain of the vehicle.

The insurers indemnify the insured against all sums, which he may become legally liable to any person including occupants carried in the motor car, provided that they are not carried for hire or reward, by reason of death or bodily injuries caused to such third parties or by reason of damage to the property of third parties caused by or arising our of the use of the motor car. The insured's liability for damage to property of third parties is limited to Rs.6,000/-, whilst liability for death of or bodily injury to third party is unlimited.

The legal costs and expenses incurred by such third parties are reimbursed in addition. The legal costs and expenses incurred by the insured are also reimbursed provided that they were incurred with the insurer's written consent.

The insurers are liable for the death of or bodily injury arising out of and in the course of employment, but only to the extent necessary to meet the requirements of the Motor Vehicles Act. The damage to property is not paid for, if the damaged property belonged to the insured or was held in trust by him or was in the custody or control of the insured.

In case of motorcycles, death or bodily injury to the pillion rider as well as driver is covered, provided they are not carried/driving the vehicle for hire or reward. In commercial (passenger carrying) vehicles, passengers are
covered, while in commercial (goods carrying) vehicles the non-fare paying passengers, for example, the representative of the owner of the goods is held covered, but to the extent provided in the tariff.

One exclusive section appears in commercial vehicles only and this section provides that whilst the insured vehicle is being used for the purpose of towing any one disabled mechanically propelled vehicle, the cover provided by the policy remains operative and indemnity will also be provided for the liability in connection with such towed vehicle. This, however, is subject to the following two conditions, namely, the towed should not be towed for hire or reward and no cover is available under the policy for the damage to the towed vehicle or the property conveyed thereby.

General exclusions:

These provide that the insurer shall not be liable in respect of (i) any accident outside the geographical area specified in the policy, (ii) contractual liability, (iii) any accident when the vehicle is not used in accordance with the Limitations as to use clause, (iv) any accident when the vehicle is driven without an effective driving licence and (v) war, nuclear and kindred perils.

Conditions:

Apart from the usual conditions such as notice of loss, cancellation of policy, arbitration etc., there are two conditions, which are specific to motor policies.

The insured is required to safeguard the vehicle from loss or damage and maintain it in efficient condition. In the event of an accident, the insured shall take precautions to prevent further damage. If the vehicle is driven before repairs any further damage is at insured's risk.
The insurer has the option to repair or replace the vehicle or parts or pay in cash the amount of damage or loss. The insurer's liability cannot exceed the insured's estimated value (IEV) of the vehicle (specified in the policy) or the value of the vehicle at the time of loss whichever is less.

Rating:

The proposal form elicits all information necessary for rating and underwriting. For private cars, rates are based upon the cubic capacity (cc) as given by manufacturers, IEV and the zone of operation. The cc of the car indicates the power of the engine. Separate rates apply for below 1500 cc and over 1500 cc cars, both for Comprehensive and Act only policies.

There are two zones of operation, zone-A and zone-B. Zone-A consists of Madras region and Mumbai region excluding Mumbai, while zone-B includes rest of India, i.e., Calcutta region, Delhi region and Mumbai.

Mumbai would comprise all areas coming under Municipal Corporation of greater Mumbai and all areas up to and including municipal/panchayat limits of (i) Thane, (ii) Panvel, (iii) Dombivili, (iv) Kalyan, (v) Bhiwandi, (vi) Virar, (vii) Basein, (viii) New Mumbai including areas under City and Industrial Development Corporation (CIDCO).

For motorcycles and scooters, the rates depend upon cc and IEV. There are three categories of motorcycles, viz., up to 150 cc, above 150 cc but up to 250 cc and above 250 cc.

For passenger carrying vehicles, the rates are based on IEV and the permitted carrying capacity of passengers, which are classified into four categories, namely, up to 18 passengers, exceeding 18 but not exceeding 36, exceeding 36 but not exceeding 60 and exceeding 60 passengers.
For goods carrying vehicles, the premium rates are based on gross vehicle weight (GVW) which means the total weight of the vehicle and load certified by the registering authority as permissible for that vehicle and LEV. The classified categories are, vehicles up to the GVW of 2,000 kgs., between 2,001 kgs. and 5,500 kgs., 5,501 kgs. to 12,000 kgs. and for the vehicles with above 12,000 kgs. of GVW; for each 100 kgs. or part thereof, a unit of rate is charged.

The third party property damage limit of Rs.6,000/- can be increased by payment of an additional premium and wider legal liability to persons, e.g., paid drivers, employed in operation and/or maintenance of the vehicle under Workmen’s Compensation Act, 1923 and at Common law can be added to the policy coverage at an extra premium.

The same way, at an extra premium, extra fittings like radios, tape-recorders, air conditioners etc. and reliability trials and rallies in India can be covered.

Deletion of Riot and Strike, Flood, Earthquake covers entails the insured for a specified percentage of reduction in premium. Also a discount of premium is allowed in case of cars and motorcycles, if the insured is a member of a recognised automobiles association and another type of discount is offered to the insured, who voluntarily accepts an excess called voluntary excess. Whenever there is a claim, this amount of voluntary excess will be deducted from the claim amount.

Another discount, called No Claim Bonus (NCB) is allowed at renewal if there is no claim during the policy year. Later this rule was altered to include a provision for loading in the premium, called Malus, if there is a claim. Separate scales of bonus/malus rates are provided in the tariff for private cars and taxis and other vehicles.
With effect from 01.07.2002, the India Motor Tariff was revised and a uniform rate of NCB has been introduced while the application of malus was altogether scrapped.

For the first time, under the revised tariff, the age of the vehicle has been taken into account as one of the points in determining the rate of premium for the vehicle concerned. As the age progresses, the premium increases. For private cars, for example, age of the vehicle, cc, geographical area and Insured’s Declared Value (IDV) are the criteria for determining the premium.

The two types of policies available as per the revised tariff are Liability only policy and Package policy. Liability only policy covers third party liability for bodily injury and/or death and property damage. Personal accident cover for owner-driver is also included. Package policy covers loss or damage to the vehicle insured (i.e., own damage - O.D.) and third party (T.P.) liability as per the Liability only policy.

As per the new tariff, the geographical area of motor policy may be extended to include, Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka and Maldives.

Vintage car: Any car manufactured prior to 31.12.1940 and duly certified by the Vintage and Classic Car club of India can be considered as a vintage car for the purpose of this tariff.

Classic car: Any car manufactured after 31.12.1940 but before 31.12.1970 and duly certified by the Vintage and Classic Car club of India is considered as classic car. There is, however, no provision for special rating or special cover for such vehicles under this tariff.

Valued policies: Under an agreed value policy a specified sum agreed as the insured value of the vehicle is paid as compensation in case of Total Loss/Constructive Total Loss of the vehicle without any deduction for
depreciation. It is not permitted to issue Agreed Value policies under this tariff, except for policies covering vintage cars.

Private cars certified by the Vintage and Classic Car club of India, as vintage cars will be eligible for 25% discount on O.D. premium (and no discount on Liability premium).

Geographical zones: For the purpose of rating, the whole of India has been divided into the following zones depending upon the location of the office of registration of the vehicle concerned. (i) For private cars/motorised two wheelers, zone-A consists of Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, Mumbai, New Delhi and Pune and rest of India is classified as zone-B. (ii) For commercial vehicles there are three zones, namely, zone-A, which consists of Chennai, Delhi/New Delhi, Kolkata, Mumbai; zone-B, which includes all State capitals and rest of India is classified as zone-C.

Cover for vehicles imported without customs duty: Policies issued to cover imported vehicles belonging to Embassies, Consulates etc. where the 'import duty' element is not included in the IDV, the O.D. premium chargeable shall be loaded by 30%.

Vehicles requisitioned by the Government: Vehicles requisitioned by the Government are automatically held covered during the period of requisition without any additional premium. In the event of a loss/damage occurring during the period of such requisition, the insurer shall pay losses/liabilities if any, in excess of the amount made good by the Government.

Use of CNG/LPG fuel: In case of vehicles fitted with bi-fuel system, such as petrol/diesel and compressed natural gas/liquefied petroleum gas, permitted by the Regional Transport Authority (RTA) concerned, the CNG/LPG kit fitted to the vehicle is to be insured separately at an additional premium on the value of such kit, to be specifically declared by the insured.
Vehicles used for driving tuitions: Vehicles used by driving schools recognised by the RTA for giving tuition, having double clutches and double brakes with professional tutor accompanying the trainee can be covered at an extra premium as specified in the tariff.

For covering vehicles, which are driven solely by non-conventional source of power, like battery etc. (e.g. vehicles running in Agra to carry passengers to Taj Mahal) and permitted by RTA, reference may be made to TAC.

Level of innovation:

Innovation in 'Oriental' and so also in insurance industry in India is at its low ebb and it can be even said that there is no innovation at all when comparing with other industries. If the insurance companies insist that there is innovation, it is only a cosmetic change performed on the existing product (i.e., policy).

For example, Ambassador cars are the oldest brand of cars being manufactured in India for the past several decades and the Indians who aspire to buy a car did not have any other option but to buy it or the other brand of the Fiat cars, which were also manufactured in India. What the manufacturer of the Ambassador cars doing was that they would modify the side indicators of the car and mark the car as Ambassador Mark-II. After few years, again they changed the style of the bumper and shape of the tail lights and gave it a new name as Ambassador Mark-III. There is no change in the basics, i.e., in the engine or the design of the body. There were only cosmetic changes, which the manufacturer could do. Indians got the option of choosing from a variety of cars only when the Indian automobile market was opened up to the foreign automobile manufacturers.
Indian insurance companies are in the same position only and if at all there is innovation (as claimed by the insurance companies) there are only cosmetic changes on the existing products and there is no real product development to suit the market needs.

This researcher has interviewed an industrialist, a client of 'Oriental', in the course of administering the interview schedule meant for the clients. The entrepreneur interviewed likes to take a policy with a set of features, which are at present partly covered by one policy (Personal Accident insurance policy) and partly covered by another policy (Mediclaim insurance policy), which are currently being offered by 'Oriental'. But the industrialist insists for a single policy with a set of features to suit his needs and does not like to take two type of policies with two sets of features and lose premium on unnecessary risks offered by the two type of policies, which do not have any relevance to his industrial needs. But till date the insurance company is unable to fulfil his requirement.

After the establishment of Insurance Regulatory and Development Authority (IRDA), the insurance companies in India have to apply to and get the approval of IRDA for any newly named product if they want to market it.

Suggestions:

If any organisation wants to prosper in its line of business, it must have sound principles, based on past experience and accurate planning for the future. It equally applies to an insurance company, for which it requires a good data base from their past underwriting and claim experience. Despite wider use of computers in all the underwriting offices of 'Oriental', at a given point of time, exact premium and claim figures from a particular department or particular segment of a business could not be ascertained.
Computers in Branch offices are not properly programmed to extract the premium details of a particular type of business, for example, premium from underwriting motorcycles and scooters in a particular month and the personnel handling the computers are not properly trained. In many offices, the back-up is not taken daily, which is a must in all the underwriting offices. (Back-up means, daily transactions done in the computers will be recorded in a floppy/disc and stored separately to save the data from any damage/loss even if any untoward incident happens).

For example, in Tiruchengode Branch of 'Oriental', due to mishandling of computers by the employees concerned, the hard disc, an important part in the computer, got damaged thrice since the installation of computers in the office and all the data stored in them got erased while the data, which were in the back-up system only were saved.

At times, all of a sudden, a fax message will come from H.O. to all R.Os., seeking a premium figure or claim statistic for a particular type of business pertains to a particular period. R.Os. in turn will flash this through faxes to all the D.Os. in their control and which in turn send the messages to B.Os., asking for the requirement. Even the well performing B.Os./D.Os. will not be able to give these figures, that too in a very short span of time, but they have to comply with the higher offices' orders, hence they will provide a figure which will be approximate only and in some instances these approximate figures will in no way near to the actual figures.

Besides accurate statistics, equally important is feed back from the field force, which is totally lacking in the insurance industry. Unless there is feed back, the top-management will not be making correct decisions, which are market driven and will have a direct bearing in developing and marketing of products.
This researcher has met the officer, an Asst. Manager, at New Delhi who is in charge of the Research and Development department of 'Oriental' at its H.O., who lamented that he was the only person in the department even without a subordinate staff and no support from the top-management. Such is the state of product innovation and development in a nationalised insurance company in India.

To overcome these troubles, there should be a full-fledged department for product research and development, manned by dedicated personnel and there should be accurate statistics of premium procured and claims paid for all the segments of business and there should be constant flow of feedback from the marketing force of the company.

Employees and agents should be encouraged to make valuable suggestions for product development and the persons who provide useful suggestions should be amply rewarded with suitable monetary benefits and proper publicity for their contribution, to boost their morale and their continuous future involvement.

OPINION SURVEY:

When the clients were asked about the type of insurance they have taken, all the respondents (100%) replied that they have taken motor insurance policy for their vehicles. The clients interviewed were those doing business as well as those in jobs. Persons in service have two wheelers and four wheelers while persons in business have, along with these two and four wheelers, commercial vehicles like taxis, buses, lories, drilling rigs etc. for their business. Motor insurance has become an inseparable part in the lives of persons who own motor vehicles.

Hence the insurance company has to give due weightage to motor insurance, for both underwriting as well as claims. Motor insurance has
become a loss-making portfolio, due to T.P. claims, for all the insurance companies. Since the motor insurance is a tariff business, i.e., premium rates are governed by the India Motor Tariff, charging higher rates than specified in the tariff will attract penal action by IRDA.

Now in insurance industry there is a talk of removing the tariff for motor insurance and it is expected that not later than the year 2006, all tariffs, including motor tariff, will be removed and the insurance companies will have a free hand to charge such rate of premium, which will enable them to wipe out the losses and to earn a reasonable profit. To arrive at the rate of premium, which will have to be both competitive and profit making, the insurance companies require a sound base of statistics for both underwriting and claims and then only they can thrive in the market.

In the interview schedule administered to clients, a question (No.5) is included to know the views of the clients whether the insurance company has policies to fulfil all the requirements of the clients concerned while another question (No.12) is incorporated to enquire the clients whether they are aware of all the features of the policies they have taken. The responses elicited from the clients are given in the Table 4.3.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
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<tbody>
<tr>
<td>Whether the company has policies to fulfil all your requirements</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>160</td>
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<tr>
<td></td>
<td>(80%)</td>
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<tr>
<td>Are you aware of all the features of the policies you have taken</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>46</td>
</tr>
<tr>
<td></td>
<td>(23%)</td>
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</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).
80% of the clients interviewed say the 'Oriental' has all types of policies to fulfil their requirements, while 14.5% of them expect the company has to introduce new policies and market them in an effective manner. 5.5% of the clients interviewed have no idea at all about the availability of policies to fulfil their requirements and the company can, with good advertising, publicity and effective marketing techniques, overcome this lacuna.

Regarding the level of awareness of the policy features, 4.5% of the clients do not have any idea at all as to the features of the policies they have taken while only 23% of the clients say in the affirmative.

An overwhelming 72.5% of the clients interviewed responded with the answer 'no', that they do not aware of all the features of the policies they have taken. For their requirements, they fully depend on the marketing personnel of the company or the agents through whom they have taken the policies. They do not read the policies and the proposal forms.

Here the concept of customer education comes in, i.e., educating the customers about the availability of various policies to fulfil their needs and the features of those policies, which they intend to buy. The marketing personnel of the company and the agents must themselves first aware of the various types of policies available from the company and their features, then only they will be in a position to educate the customers.

For this, the agents and the persons in the marketing department must be given periodical training to refresh their knowledge of the products offered by the company, so that they will get their knowledge updated and will compete in the market with their thorough knowledge of the products, which they sell to the customers.
'Oriental' must give enough thought of giving periodical training to the marketing force of the company so that the company can expect of being in the forefront with qualitative service.

Another question (No.5) in the interview schedule relates to policy conditions and this question is included to ascertain the views of the clients whether the policy conditions are rigid or flexible. Table 4.4 given below depicts the views of the clients interviewed.

**TABLE 4.4**
**POLICY CONDITIONS: CLIENTS' VIEW**

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rigid</td>
</tr>
<tr>
<td>Policy conditions are</td>
<td>73 (36.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

36.5% of the interviewed clients say that the conditions of the policies are rigid and require flexibility, while 34% of the clients are of the view that the existing policy conditions are flexible enough. The clients who do not have any idea at all about the rigidity or flexibility of the policy conditions form 29.5% of the total clients interviewed.

In India literacy level is low and here again the customers are to be educated of the policy conditions, so that they will have a clear understanding of the insurance products, which they intend to buy. Understanding the policy conditions, of their rigidity or flexibility, will help the customers to have satisfaction on the selection of right product.

The same question, about the rigidity/flexibility of the policy conditions, was putforth to the employees of 'Oriental' and their responses are given in the Table 4.5.
48.5% of the employees interviewed say that the policy conditions are rigid while 39.5% of the respondents view that there is flexibility in the conditions of the policies. Employees representing 12% of the respondents have no idea about the policy conditions. The level of ignorance!

Nearly half of the respondents accept that the policy conditions are rigid and require flexibility. Hence the technical department of 'Oriental', based on the feedback received from the marketing force and also from the employees who are on the administrative side, should have a thorough re-look of all the policy conditions so as to make them customer-friendly. For a question concerning policy features, (No.16), six options were given to employees. Their responses are tabulated in the Table 4.6.

### Table 4.5
**Policy Conditions: Employees' View**

<table>
<thead>
<tr>
<th>Question</th>
<th>Rigid (48.5%)</th>
<th>Flexible (39.5%)</th>
<th>No idea (12%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy conditions</td>
<td>97</td>
<td>79</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

### Table 4.6
**Awareness of Policy Features: Employees' View**

<table>
<thead>
<tr>
<th>Question</th>
<th>All policies</th>
<th>Prominent policies</th>
<th>Few policies</th>
<th>Very few policies</th>
<th>None</th>
<th>No idea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are you aware of the features of...</td>
<td>38 (19%)</td>
<td>87 (43.5%)</td>
<td>49 (24.5%)</td>
<td>13 (6.5%)</td>
<td>4 (2%)</td>
<td>9 (4.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).
19% of the employees interviewed said that they knew the features of 'all' the policies offered by 'Oriental', but to the astonishment of the researcher none among them was able to name all the policies offered by their company. They are under the illusion that they knew the features of all the policies but in reality they don't. Hence it is taken as that none of the respondents of the sample survey are aware of the features of 'all' the policies offered by the company.

Majority of the respondents, i.e., 43.5% of the employees interviewed say that they know the features of prominent policies only. While the features of few policies are known to 24.5% of the employees, 6.5% of the employees acknowledged that they know the features of very few policies only.

Four employees, representing 2% of the persons interviewed said that they do not know the features of any policies offered by the company and these four persons are Class-IV employees. 4.5% of the respondents do not have any idea of the policies sold and serviced by 'Oriental'. From these figures, it is evident that most of the employees are ignorant of the policies offered by the company.

To save the company from this situation, every employee in the company should be educated and trained, commensurate with their cadre requirements, to stand up to the expectations of the clients and each one of them should be able to serve the clients.

3. PRICE ORIENTED STRATEGIES:

Price is one, which is paid for buying a product or service. Unlike in manufactured goods, where price has one common name across a wide range, cutting across all goods classification, price in services goes by different names. The services are diverse and the extent of their diversity can be
gauged by the names by which the price is called in services. Almost every service has its own price terminology.

In advertising industry the price is called 'commission', while the price is named as 'fee' for consultancy services rendered. For financial services, it is 'interest/charge/commission' and for health care services, 'fee' is charged. The price paid is known by the name 'fare' in transport industry while for property/accommodation it is 'rent'. 'Toll' is collected for using the roads while 'fee' is paid for educational/tutorial services. For share/stock services it is 'brokerage/commission', for legal services - 'fee', recreational services - 'ticket/admission charge', executive/office services - 'salary', guest speaker - 'honorarium' and in insurance industry the price is known as 'premium'.

In insurance parlance, right price (i.e., premium) is one, which makes the company financially viable even after covering the risks; of course the quantum of risks to be covered is uncertain.

Insurance may be described, in broad terms, as a method of sharing of financial losses of a 'few' from a common fund formed out of contribution of the 'many', who are equally exposed to the same loss. It is a system of spreading the losses of an individual over a group of individuals.

The concept of distribution of losses may be illustrated with the following simple examples. (i) If a thousand motor cars all equally valued at Rs.1,00,000/- each of the same make are observed over a period of say, five years, it will be seen that on an average five are total losses by accident every year and the total annual loss would be Rs.5 lakhs. This loss may be shared by all car owners equally by each paying an amount of Rs.500/- per annum and forming a fund of Rs.5 lakhs.
It is not certain which car will be involved in an accident but by observation of past experience it could be assumed that five losses every year will be a certainty. What is uncertain for an individual becomes a certainty for a group. This is the basis of all insurance operations.

(ii) If a similar study of past loss experience is made in respect of motor taxis, the results will probably show that out of a thousand such vehicles, on an average ten will be total loss, the total annual loss being Rs.10 lakhs and the annual contribution Rs.1,000/- each. The loss experience in respect of motor vehicles, it will be seen, will vary according to the type of vehicles.

Secondly, an examination of past loss experience will also establish that in respect of the same type of vehicle (e.g., motor cars) the experience may vary according to the geographical area in which the vehicles are used, some areas with a greater density of traffic showing greater losses.

From the above examples some broad principles emerge; firstly, the rate of contribution i.e., the premium varies according to the degree of hazard or exposure to loss or damage of the property concerned.

Secondly, to assess the variation in the degree of hazard, it is necessary to classify various types of properties according to the hazards involved.

Thirdly, the rate of premium is arrived at on the basis of past loss experience. In the following paragraphs, these principles are explained.

Degree of hazard:

The first principle says that greater the risk, the higher should be the premium. The more probable the loss and the more severe it is likely to be, the higher should be the premium.
There is a greater likelihood of fire in a building of wooden construction than in a concrete building. Hence, the former is charged higher premium and the latter lesser premium. Motor taxis are more exposed to accidental loss or damage than private cars. Hence the former attract higher premium and the latter lower premium.

The rate of premium charged by an insurer for any risk should be commensurate with the hazard involved in the risk; the greater the hazard, higher the rate of premium.

The term 'hazard' in insurance language refers to those conditions or features or characteristics, which create or increase the chance of loss arising from a given peril. A thorough knowledge of various hazards to which property and persons are exposed is most essential for successful underwriting.

Hazards can be classified into 'physical' and 'moral'. Physical hazard refers to the risk arising from material features of the subject matter of insurance, whereas moral hazard may arise from human weaknesses (e.g., dishonesty, carelessness etc.) or from general economic and social conditions.

Physical hazard:

Physical hazard can be assessed from the information given in a proposal form. It can be better ascertained by a survey or inspection of the risk. The following are some examples of physical hazard in various classes of insurance.

Fire:

Construction: Construction refers to the building materials used in walls and roof. A concrete building is superior to a timber building.
The height: The greater the number of storeys, the greater the hazard, because of difficulties of fire extinguishments. Besides, the greater number of floors involves the risk of collapse of the upper floors causing heavy impact damage.

Nature of flooring: Wooden floors add fuel to fire. Besides, wooden floors collapse easily in the event of fire, causing damage to property on lower floors through falling machinery or goods from upper floors.

Occupancy: The occupancy of a building is the purpose for which it is used. Three types of hazards arise from occupancy. Buildings in which chemicals are produced or used in large quantity involve a considerable ignition hazard. A timber yard presents a high combustibility hazard, because once a fire starts, timber burns quickly. The contents may be highly susceptible to damage in the event of fire. For example, paper, cloth etc. are susceptible not only to fire damage but also to damage by water, heat etc.

The process of manufacture: The process of manufacture, involving the use of electricity increases the risk of fire. If work is carried during the night, the hazard is increased due to the use of artificial lights, continuous use of machinery leading to friction and the likely carelessness of workers due to fatigue.

Situation: The locations in a congested area, exposure to more hazardous adjacent premises and distance from the fire brigades are examples of locational physical hazard.

Marine:

The age and condition of the vehicle: Old vehicles or vessels are inferior risks.
The voyage to be undertaken: The routes of the voyage, loading and unloading conditions and warehousing facilities at the ports are factors affecting physical hazard.

The nature of stocks: Articles of high value, once damaged, will bring large amount of claims to the insurance companies.

The method of packing: Cargo packed in bales is considered to be better than cargo in bags. Again, double bags are safer than single bags. Liquid cargo in second-hand drums constitute bad physical hazard.

Miscellaneous: Motor:

The age and condition of the vehicle: Old vehicles are more prone to accidents.

The type of vehicle: Sports cars involve greater physical hazard.

The use of vehicle: Public carriers, because of their greater usage over long distances involve a higher accident exposure than private carriers.

Burglary:

The nature of the stocks: Articles of high value in small bulk (e.g., jewellery), which are easily disposable in nature, are considered to be bad risk. Small size items with high values, which are claim-prone, once damaged or lost, will bring large amount of claim to the insurers and hence these items are considered as bad risks.

Situation: Ground floor risks are worse than upper floor risks; private dwellings situated in isolated areas are hazardous.

Constructional hazard: Too many doors and windows constitute bad physical hazard.
Personal accident:

The age of the person: Very old persons are accident-prone; besides they will take longer to recover in the event of an accident.

Nature of occupation: Jockeys, mining engineers, manual workers are examples of bad physical hazard.

Health and physical condition: A person suffering from diabetes may not respond to surgical treatment in the event of accidental bodily injury.

The above examples indicate the variety of physical hazards involved in insurance underwriting as well as that each class of business has its own special hazards.

Moral hazard:

Moral hazard arises from individual moral weaknesses or from general social and economic conditions. It is more intangible than physical hazard and therefore more difficult to ascertain. Nevertheless, insurers endeavour, on the basis of their experience, to estimate moral hazard from the details given in the proposal form, inspection report or other enquiries made by them from their general knowledge of the prevailing conditions. Moral hazard could arise in the following ways.

Dishonesty: An extreme example of bad moral hazard is that arising from an insured taking insurance with the deliberate intention of creating or taking a loss to collect a claim. Even, an honest insured may be tempted to 'stage' a loss if he happens to be in financial difficulties.

Carelessness: Indifference towards loss is an example of carelessness. Because of the existence of insurance, the insured may tend to adopt a careless attitude towards the insured property. If the insured does not take the same care of the property as a prudent and reasonable man would if
he were uninsured, the moral hazard is unsatisfactory. Poor maintenance of motor vehicles, poor housekeeping in manufacturing risks, laxity in control and supervision in fidelity risks are examples of bad moral hazards.

Poor housekeeping in manufacturing risks may be explained with an example. In power loom factories, where weaving of cloth is done, due to the constant movement of shuttle and the frame of the looms will release a type of soft cotton like waste, which will settle throughout the factory, especially in the roof of the factory and around electrical installations like motors, electrical bulbs, main switches etc. and which will expose the factory to fire hazard. Short circuit in electrical line and even a lightning could ignite a fire and this soft cotton like waste clusters settled around will spread the fire instantly. These wastes are to be cleaned on a daily basis and in many factories one can see these accumulated wastes hanging everywhere like cobwebs and the cleaning pole with a mop fastened to its top end will stand in a corner waiting to be used and these show the poor housekeeping of the factories.

In business concerns the employees handling cash and godowns are to be under strict monitoring and close supervision of the superiors, otherwise there may be possibility for embezzlement of cash or clandestine sale of stocks from godowns. This shows infidelity of the employees concerned and it is an example for the bad moral hazard related to fidelity risks.

Difficult insured: An insured may not deliberately bring about a loss but once a loss occurs, he would attempt to demand unreasonably high amount of compensation, in total disregard of the principle of indemnity. It will be difficult to convince them by telling the rules and regulations of the policy. He will be adamant with utter disregard for the principle of indemnity, which the policy prescribes. Hence the term difficult insured arises. This kind of moral hazard arises when claims occur.
In motor claims such a hazard would arise when the insured unreasonably insists on replacement of new parts whereas the damage could be satisfactorily repaired or attempts to carry out certain repairs or replacements, which are not related to accidental damage.

**Industrial relations:** Employer-employee relationship may involve an element of bad moral hazard. Lack of understanding between employers and workers would result in labour unrest, which leads to carelessness, malicious damage and even to acts of arson and sabotage.

**General economic conditions:** During times of economic depression, insured owners of property would be tempted to cause deliberate losses in order to realise the cash value of their property. Conditions of unemployment would result in an increase of burglaries. Similarly, during times of war, scarcity of certain types of goods would lead to increased number of thefts.

A proposal involving bad physical hazard is dealt with in a variety of ways. There are degrees and types of physical hazard and the existence of bad physical hazard does not render the risk uninsurable.

**Insurers recommend measures to improve the risk i.e., to reduce the possibility of loss or damage occurring or liability arising from the hazard.** In fire insurance, installation of sprinklers and fire extinguishing appliances reduces the risk of fire damage. Other measures suggested include segregation of hazardous processes and construction of 'perfect party walls' to provide effective firebreaks. (Perfect party walls are those walls constructed in specified thickness, as suggested by the insurers, between processing sections to prevent fire from spreading from in processing section to another). In burglary insurance, improvements are effected by the fitting of additional locks and bolts.
Besides, imposition of warranties, incorporation of clauses, survey before acceptance, loading of premium, restriction of cover and imposition of excess/franchise limits are other ways through which the effect of physical hazards are checked by the insurers. If the physical hazard involved is considerably bad, the risk become uninsurable and is declined.

Moral hazard cannot be assessed in the same way as physical hazard and the underwriting techniques described above cannot really take care of moral hazard. Usually nothing can be done to improve a bad moral hazard and the risk simply becomes uninsurable. However, moral hazard arising out of carelessness can be dealt with, for example, by imposition of excess, i.e., a specified amount will be imposed as excess, up to which amount the claim will not be paid. This excess is imposed in case of motor vehicles insurance and in case of burglary insurance, restrictive warranties, like requirement of watchman for 24 hours, are imposed.

Classification of risks:

This second principle says that rates of premium should be equitable and fair as between different individual insureds. Strictly speaking, each individual shall be charged a premium according to the hazards to which he is exposed. But this is not feasible. Therefore, a system of classification of risk in broad categories is adopted.

In classifying the risks, it is ensured that each class of risk will be of a 'homogeneous' character, that is to say, it is more or less exposed to common hazards. Thus, the similarity of hazard is the basis of classification.

Accordingly, for purposes of premium rating, motor vehicles are classified into private cars, motorcycles and scooters and commercial vehicles. For fire insurance, risks are categorised into dwellings, shops, godowns, manufacturing risks etc., on the basis of occupancy. Risks are also classified
on the basis of construction (e.g., concrete construction, wooden construction etc.) of the building.

In personal accident insurance, risks are classified into two categories, on the basis of occupation of the insured. Thus accountants, lawyers, doctors, architects, consulting engineers, teachers, bankers, persons primarily engaged in administrative, secretarial and management functions, builders, contractors and engineers engaged in superintending functions only, veterinary doctors, drivers of private motor cars and light vans, garage and motor mechanics, drivers of trucks and other heavy vehicles fall under the normal category.

Persons working in underground mines, magazines (i.e., store for explosives), workers engaged in electrical installations with high-tension supply, jockeys, circus personnel and persons engaged in racing on horse back or wheels, big-game hunting (i.e., hunting of wild animals), mountaineering, winter sports, skiing, ice hockey etc. would come under the category of heavy risks.

Within the broad groups, further sub-division, according to the hazards involved, is attempted. Thus, under commercial vehicles, goods carrying vehicles are further classified into private carriers and public carriers. The former are less vulnerable to accidental loss or damage because of limited usage and generally better maintenance and therefore attract lower premium.

The principle adopted is to classify the risks on the basis of similarity of risks and then assess the premium in such a manner that each class of risk is self-supporting, i.e., losses of that class are absorbed by premium of that class only. Thus equity and fairness is maintained in as much as individuals in each class pay premium strictly in proportion to the hazards involved.
Thus, through classification of risks, a certain degree of equity in premium rating is achieved. Complete equity is impossible in practice. No two insureds have the same loss probability or loss exposure. But each individual cannot be placed in a different class with a different premium. This would make the insurance system un-workable because the fundamental basis of insurance is spreading of the losses of the 'few' over the 'many'.

Again, there is a limit to the number of classifications that could be made. More classifications might produce classes with so few members that the fundamental basis of insurance is again violated.

Past loss experience:

The third principle says that the rate of premium is arrived at on the basis of past loss experience. Therefore, statistical data regarding past losses is not essential for purposes of calculating rates.

To fix the rates, it is necessary to give a 'mathematical value' to the risks. For example, if the loss experience of a large number of private cars is collected for a period of say 10 years, the result will indicate the sum total of the losses resulting from damage to the vehicles.

If this amount of loss is expressed as percentage the total value of motorcars we are in a position to fix the mathematical value of the risk. This may be expressed in the formula, \( L / V \times 100 \), where \( L \) refers to the sum total of the losses and \( V \) to the total values.

This may be illustrated with the following example. 
\[ L = Rs.5,00,000/-, \quad V = Rs.10,00,00,000/- \]. Therefore \( Rs.5,00,000 \div Rs.10,00,00,000 \times 100 = 0.5\% \).

Therefore the rate of individual premium that a car owner pays is 0.5\% of Rs.1,00,000/-, i.e., Rs.500/- per year. This is called the 'pure'
premium. The pure premium arrived at as above will constitute a fund which will be sufficient only to pay for losses. At the rate of Rs.500/- per car, Rs.5 lakhs are collected which are paid out in claims on total losses of 5 vehicles. There is no surplus left.

But insurance operations involve costs of administration (expenses of management) and costs of procuration of business (agency commission). It is also necessary to provide a margin for unexpected heavy losses. Besides, insurance is transacted on a commercial basis, like any other business, it is necessary to provide for a margin of profit which is a return on the capital invested in the business.

Therefore, the pure premium is suitably loaded or increased by adding percentages to provide for expenses, reserves and profits. Thus the final rate of premium will consist of the following components, namely, (i) loss payments, (ii) loss expenses (e.g., survey fees), (iii) agency commission, (iv) expenses of management, (v) margin for reserves and (vi) margin for profits.

The law of probability:

In the example mentioned earlier, it is assumed that five private cars will be total losses in a year. But this assumption is made to provide a simple illustration of how the insurance system works.

But in actual situation, the number of total losses may vary from year to year. For example, in one year, the number of total losses may be 20, in another year 5 and in the third year 40. But insurers cannot collect or adjust premium after the losses occur; they have to arrive at the premium in advance too take care of losses which occur in the future. Therefore, they have to be in a position to predict or forecast future losses, as accurately as possible. This, they are able to do because of the 'law of probability'.
This 'law', (which is also called the 'law of large numbers' or the 'law of average') provides a good basis for forecasting future loss experience. According to this law, the greater the number of instances considered and longer the period examined, the more probable it will be that past experience will be repeated in the future also. In other words, the law of probability enables the insurers to estimate or forecast future loss experience with greater reliability.

In the example, loss experience of only 1,000 cars over a period of five years was examined. If the loss experience of, say, 10,000 cars was examined over a period of say, 10 years, the pattern of total losses per year would probably be 20 in one year, 10 in another year and 30 in the third year.

If the number of cars examined is increased to 1,00,000 and the period to 15 years, then the pattern of total losses per year would probably be 20 in one year, 15 in another year and 25 in the third year. If the number of cars examined and the period are further increased, then the loss pattern would probably be 20 in one year, 18 in another year and 22 in the third year.

Thus, it will be observed that with increase in the number of cases examined, the difference between the actual future losses and the estimated future losses becomes less and less. Thus, insurers are able to predict future losses accurately and fix the rate of premium.

This is the reason why it is said that for successful operation of the insurance system, a large number risks should be available for insurance. Motor insurance cannot be transacted successfully by insuring 100 or 1,000 cars only, because that is too limited a number. With so few risks, the difference between actual losses and expected losses can be very high.

This law emphasises the vital importance of statistics in insurance operations. In fire, motor, workmen's compensation and other tariff classes of
insurances, past loss experience of insurers is collected by the Tariff Advisory Committee (TAC) and rates of premium determined on the basis of the statistics thus obtained.

The TAC was established in the year 1968, when the Insurance Act, 1938 was amended in 1968. The broad functions of TAC are to control and regulate the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business.

When an insurer is guilty of breach of any rate, term or condition fixed by the advisory committee, he will be deemed to have contravened the provisions of the Act. TAC has four Regional Committees, at Mumbai, Delhi, Kolkata and Chennai, to oversee the operations in various States falling in their respective regions.

The TAC can require any insurer to supply to it any information to enable it to discharge its functions. The TAC can also depute any person to make a personal inspection of books and documents of the insurer to verify the accuracy of information supplied by the insurer.

These powers enable the TAC to have adequate and reliable data on the experience of the insurers so that the rates fixed may be appropriate to the conditions in the Indian market. The database is extremely important for rate fixing. The TAC does not have any data of its own. It depends on the insurers to supply it with accurate, reliable and complete information on the experience.

If no statistics are available, the level of premium, of necessity, has to be estimated in the first instance and subsequently revised from time to time in the light of loss experience.

Nevertheless measurement of risks is most important for successful transaction of insurance operations. Within the limitations set by the nature of
the risks, insurers endeavour to ensure that rates of premium are fixed in as scientific and equitable manner as is possible.

The law of probability says that past experience tends to repeat in the future. But this is subject to the qualification that conditions remain the same. Motor accidents are caused by several factors, such as road conditions, traffic density, population, enforcement of traffic regulations etc. If these factors change significantly, these future loss experiences may also change.

Increase in the number of vehicles, pedestrian population, deterioration of roads, laxity in the enforcement of traffic regulations etc. may increase the number of accidents. These trends will have to be taken suitably into account. Thus fixing of premium rates not only calls for mathematical calculation based on past experience but also a great deal of judgement and foresight.

To summarise, the rate of premium should be adequate, i.e., it should be sufficient to cover the losses, leaving margin for expenses, reserves and profits; should be equitable, i.e., not discriminating between insureds exposed to the same hazard and reasonable, i.e., within the reach of the insuring public.

Short period scales:

Normally, premium rates are quoted for a period of twelve months. If a policy is taken for a short period, the premium is charged according to a special scale, known as 'short period' scale. According to the scale, the premium chargeable for short period insurance is not on proportionate basis.

For example, the Fire Tariff provides for short period rates as follows. For a period not exceeding 15 days, 10% of the annual rate, 1 month – 15% of the annual rate and so on and for a period not exceeding 9 months,
85% of the annual rate is charged. For a period exceeding 9 months, the full annual rate is charged.

Likewise, under Motor Tariff, the short period rates provided are, 10% of the annual rate for a period not exceeding 1 week, 25% of the annual rate for a period not exceeding 1 month and so on and 85% of the annual rate is charged for a period not exceeding 8 months. For periods exceeding 8 months, the full annual premium is charged.

It will be observed that the premium chargeable for short period insurance is not on a proportionate basis. This is so because the expenses involved in the issue of the policy, whether for a 12 months period or a shorter period, are almost the same.

Further, an annual policy requires renewal procedure only once during a year, whereas short period insurances involve more frequent renewals. If a proportionate premium were allowed, there would be a tendency on the part of the insured to go on taking short period policies and thereby, in effect, pay premiums in instalments.

Besides, some insurances are seasonal in character and the risk is greater during that season. Insurances are sometimes taken during such periods when the risk is greatest and thereby selection takes place against the insurers. Short period scales are evolved to prevent such selections against the insurers. Short period scales are also applicable when annual insurance policy is cancelled by the insured. Minimum premium for a policy is Rs.100/-, except in case of few policies like policies issued for tiny sector etc.

Section 64 VB of Insurance Act, 1938 provides that no insurer shall assume any risk unless and until the premium is received in advance. It is also provided that the risk might be assumed only from the date on which the premium has been paid in cash or by cheque/draft.
When the premium is tendered by postal or money order or cheques/drafts sent by post, the risk may be assumed on the date on which the money order is booked or the cheque/draft is posted, as the case may be.

When an insurance agent collects a premium on a policy of insurance on behalf of an insurer, he shall deposit with or despatch by post to the insurer the premium so collected in full without deduction of his commission within twenty-four hours of the collection excluding bank and postal holidays.

Discounts offered:

Discounts are offered under various policies for the improvement of the risks covered under the policies.

Under Fire policies, for example, FEA (fire extinguishing appliances) discount if offered. In manufacturing units, e.g., cotton mills, doing spinning and weaving, fire extinguishing appliances are installed to put out fire in case of fire accident. Another discount, offered under Fire policies, is electrical installation discount. When the wiring is done as per the norms laid down by TAC, this includes non-provision of electricity to cotton godowns, a discount is allowed from the premium as specified in the Fire Tariff.

Under Motor policies, for each claim-free year, a slab rate of discount, called No Claim Bonus (NCB) is allowed up to 50% of the Own Damage (OD) premium. (Before 01.07.2002, for private cars, the maximum NCB allowed was 65% of the OD premium).

If the owner of a car or motorcycle is a member of a recognised Automobile Association (e.g., Automobile Association of India), then he is allowed a specified rate of discount from the OD premium.
Under Personal Accident insurance policies and Mediclaim policies, a discount, called family discount, is allowed where a family is held covered under the policy.

In case of Group Personal Accident insurance policies, a slab rate of group discount is allowed when the number of persons covered as a group crosses a certain number as specified in the tariff.

Commission structure:

There is provision for allowing commission up to 15% of the premium collected under a policy. 'Oriental', as also the other insurance companies, allows commission from 5% to 15% for various policies. For example, 5% commission is allowed for Marine cargo policies while the maximum 15% is given for Personal Accident insurance policies.

Agents are not allowed to deduct their commission and remit the premium to the company. They have to remit the premium in full. Every agent is given a code number and the premium paid by them are put under their respective code number and for each month a commission bill is released, which is to be duly signed by the agents and returned to the company for facilitating the release of cheque for the commission amount. Income tax and surcharge thereon as applicable will be deducted from the commission amount and the net amount of commission will be released to the agent.

Though the commission amount is to be released every month, it is not so in practice. In many offices of 'Oriental', as also in other nationalised insurance companies, commission is not released for months together and thereby making hardship to the agents.

But the Branch and Division incharges, who are responsible for releasing the commission in time, have other opinions to say. They consider that almost all the agents are 'dummies' only and not genuine agents.
('Dummy' agents are those agents who are 'benamies' for the employees of insurance companies). It is said that in metropolitan cities like Mumbai, some Divisional Managers have even Development officers as their dummys.

This practice of keeping dummy agents should have started first by persons who would have been vested with marketing functions. When a Development officer is posted in a place, he will appoint agents to do business. Besides agents, they themselves develop business in which commissionable business will also be there. So they do not want to lose this commission and hence they will put the business in one of the agents' code that is under his control.

Another point in this is some clients insist for special discount when they pay premium for their vehicles (e.g., for hypothecated motor vehicles, a discount of 5% of the premium could be allowed). But when there is no hypothecation, no special discount could be allowed. Even then the client could persist for getting back the amount, equivalent to the special discount. In such cases, the Development officer will not find any other way but to route the business through an agent.

Yet another point here to take into account is that there are some classes of business, like poultry, cattle insurance, which are classified as Non-Traditional Business (NTB), for which the agency commission is 15% and the Development officers are given double credit for this business. Every Development officer has to do a minimum percentage of NTB business, subject to a specified minimum amount, based on their total business they have done in the preceding year.

When a Development officer does more NTB business than the required percentage, then he will be given double credit for the whole of the NTB business he has done. This will help him in the form of increase in his conveyance and telephone allowances. This NTB also carries sizeable marks.
in the promotion consideration of a Development officer. Hence almost all the Development officers, barring only few, are clamouring around for the NTB premiums. If a Development officer's NTB business is less than the required percentage, then the amount equivalent to the short fall will be deducted from his total business, which again will reflect in his allowances.

So the competition for procuring the NTB premium will be more, thus making the Development officers to offer incentives to the clients for getting the premium for themselves, by way of giving money or in the form of compliments in its various 'avatars'. Due to competition, Development officers themselves disclose these factors to the clients, some of whom in turn claim a share of the benefit or even more from the Development officers than what they could get from the company. This also forced the Development officers to route the business through agents to earn commission, which will help them to minimise or offset the outgo from their pockets.

Nowadays, what is more alarming is the keeping of dummy agents by some of the employees on the administrative side. They put the business, which they canvass or the business of the clients who directly come to office or the business, which are already under a Development officer's control and who is not in the office at that time when the client visits the office, in some agents code and get the commission through the agents concerned. In this practice, also involved are officers and in some places Branch and Divisional Managers as well. This leads the staff to concentrate on getting commission only, leaving servicing of policies in lurch. In some areas, the whole office (not only of 'Oriental' but of other companies as well) is involved in this type of unpalatable activities. This affects the marketing personnel of the company in servicing the clients and customers are the ultimate sufferers by all these practices.

To curtail and to stop these types of nefarious activities, the only way is to transfer all the staff members with in two years or at the most three
years from a place. For Branch and Divisional Managers, the maximum tenure in a place should be two years only.

For Development officers, the existing Development officers' scheme should be altered so as to give them relaxation in their cost norms, providing them attractive incentives for procuring profitable business with growth and then they should also be transferred to other places within a specified period and then only all the employees, including the Development officers, will be at the service of the clients.

To discourage from canvassing motor insurance, which is generally a loss-making segment of insurance, 'Oriental' has decided not to give commission for the premium of commercial vehicles with effect from 17.06.2002, except for the new vehicles in their first year of registration.

By going one step further of this, Divisional office of 'Oriental' at Erode has stopped altogether giving of commission for commercial vehicles premium, whether the vehicles are new or old.

United India followed suit and implemented this policy of not giving commission for commercial vehicles premium except for the new vehicles in their first year of registration. National and New India, with effect from 01.04.2003 and 01.07.2003 respectively, implemented the same policy.

Thus all the public sector insurance companies are taking measures to limit the outgo from the companies so far as the motor insurance segment is concerned.

For many policies, for example, motor, janatha personal accident, poultry and other policies introduced at the instance of the Central Government as a populist measure, the price, i.e., premium, is very low and unscientific. Basis of insurance is spreading the risk of few to the many. The contribution of the many by way of premium should be adequate enough to cover the losses
of the few, besides giving a reasonable profit to the insurance company, which in practice is not so. Hence all the insurance companies suffer loss only, especially in miscellaneous department, which encompasses all the loss making policies, especially the motor. (Motor T.P. claims are the main cause of concern for all the insurance companies).

'Oriental', a few years back, introduced a policy, by the name, Nagarik Suraksha policy. For a meagre premium of Rs.90/-, this policy provides a sum insured of Rs.1 lakh (Rs.80,000/- for loss of limbs or death due to accident; Rs.20,000/- for medical expenditure for treating injuries that arises due to accident). Even for paying a single death claim of Rs.80,000/-, the company has to collect premium from 889 persons, which is not a good proposition. This portfolio makes loss only for the company.

In the same way, a couple of years back, 'long term janatha personal accident policy' was introduced by 'Oriental' as also the other three nationalised insurance companies and for a meagre premium of Rs.1,500/-, Rs.5 lakhs was provided as sum insured for loss of limbs or death arising out of accident and this cover was given for twelve years. For a premium of Rs.3,000/-, Rs.10 lakhs was the coverage and the period of cover was twelve years.

Gobichettipalayam Branch office of 'Oriental' issued a policy for a group of persons, who are members of Perundurai Lorry Owners' Association, for a sum insured of Rs.5 lakhs for each person, for a period of twelve years and after allowing group and other discounts, a total premium of nearly Rs.3 lakhs was collected. Within six months of issuing the policy, two death claims were reported for a total amount of Rs.10 lakhs. And in the next six months another death claim was reported for Rs.5 lakhs, besides the reporting of two other bogus claims. (Investigation was made with the help of independent investigators and proved that the last reported two claims were
bogus). Hence the policy was cancelled citing the bogus nature of the last reported two claims and a pro-rata premium, pertaining to the unexpired policy period, was refunded.

Other instances were also reported, where alleged suicides were committed after taking policies from all the four companies, so that their family members would enjoy the benefit of the large claim amounts, while the insurance premium would only be trivial when comparing with the sum insured.

This policy inflicted a heavy loss on all the four insurance companies. Hence 'Oriental' and another company, (New India), citing the cancellation clause incorporated in the policy, cancelled all the policies issued throughout India and made pro-rata refund of the premium, pertaining to the remaining unexpired period of the policy, to the respective insureds. Cancellation of policies by the other two insurance companies is awaited.

This simply shows that there is no scientific approach in pricing a product and in the case of long term janatha personal accident insurance policy, like many other policies, the pricing is not done based on the past experience.

After IRDA came into vogue, premium for fire policies were reduced twice, stating that there should not be any cross subsidisation between various departments. Fire department is a profit-earning department and the surplus earned from this is used to reduce the loss suffered from miscellaneous insurance departments, especially the loss suffered by underwriting motor insurance.

While the IRDA does not allow cross subsidisation, telling that every department should be self sustaining, it does not allow the insurance companies to increase the motor insurance premium to off set the losses, which
the companies continuously suffer for the past many years due to increase in the number of T.P. claims and higher quantum of compensation awarded by the courts.

Insurance companies cannot increase the premium on their own and in some cases the higher amount of premium collected over and above the tariff rate, for the commercial motor vehicles, were refunded to the insureds at the intervention of IRDA. Now what IRDA says is that all the tariffs will be abolished within a year or so and the insurance companies will be free to charge the premium commensurate with the risks covered and to suit the market conditions. Hence all the insurance companies have to wait, till the time the tariffs are abolished, to wipe out their losses.

Insurance companies should increase their actuarial efficiency so that they can survive well in this competitive market and 'Oriental' is the first public sector insurance company to appoint an independent professional actuary, who is based in Kolkata, to advise the company on various actuarial matters. Hence one can expect that in future 'Oriental' will stay ahead in all the actuarial related matters, with the able guidance of the appointed actuary.

OPINION SURVEY:

To assess the view of the clients about the level of premium rates, a question (No.7) is included in the interview schedule and their responses are given in the Table 4.7.

### TABLE 4.7
LEVEL OF PREMIUM RATES: CLIENTS' VIEW

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Reasonable</td>
<td>Low</td>
<td>No idea</td>
</tr>
<tr>
<td>Premium rates are</td>
<td>107</td>
<td>77</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>(53.5%)</td>
<td>(38.5%)</td>
<td>(3%)</td>
<td>(5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).
107 clients, representing 53.5% of those interviewed, say that the premium rates charged by the company are high, while 3% of the clients accept that the premium rates are low. Only clients, constituting 38.5% of those interviewed, feel that the premium rates at present charged by the company are reasonable. 5% of the clients do not have any idea at all about the level of premium charged by the companies and they are ignorant of the prevailing market conditions. They just pay the premium what the insurance company asks for without any thought of whether the premium is high, low or reasonable.

The clients, who say that the premium rates are high, are unaware of the conditions existing in the so called Western countries, where the insurance companies collect a premium many fold than the rates prevailing in India. When the responding clients are apprised of this fact, they replied that it might be possible in those countries due to their high per-capita income, good exchange value of their currencies and their high standard of living. In general, they feel that it might be possible in those developed countries simply due to their affluence and affordability.

They feel that the existing premium rates could be reduced to some extent at least, so as to make it a reasonable one and this may be achieved especially by reducing the number of employees, reducing wasteful expenditure and a strict vigilance on the claims. Necessary amendments should be made in the relevant Acts by the Central Government, so that the enormous payments of T.P. claims could be restricted, which also include bogus claims. Lawyers, who institute claims, with false police and/or medical reports and the police and medical officers who issue false/exaggerated reports should be dealt with severely, who are now go scot-free, without the fear of getting punished even if they are caught.
The responding clients, representing 3% of those interviewed, feel that the premium rates are low but they do not agree for a flat increase in premium for all the departments and agree for an increase selectively in departments where loss occurs. Besides, they are very particular that the Central Government and the company concerned should take corrective steps to stop the losses so that at least the existing level of premium could be maintained preventing further increases.

Two questions (No.13 and No.14), which related to the above question, are included in the interview schedule to elicit the views of the clients on whether the premium can be increased or decreased and that too in all, some or none of the departments or don't they have any idea at all about it. The views ascertained from the clients are given in the Table 4.8.

**TABLE 4.8**

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premium rates can be increased in ... depts.</strong></td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>(2%)</td>
</tr>
<tr>
<td><strong>Premium rates can be decreased in ... depts.</strong></td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>(17.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

Only 2% of the respondents agree for an increase of premium in all the departments while an overwhelming 71% of the interviewed clients do not agree for increasing the premium in any of the departments, since, they feel, that the present rate of premium itself is high.

Thirty-four clients, representing 17% of the respondents, say that the existing rates of premium need not be decreased and also opine that the existing level may be maintained discarding any further increases. The insurance company should do whatever possible to maintain this level.
From these responses one can ascertain that majority of the clients, i.e., 71%, say that the premium rates should not be increased in any of the departments while 54% of the clients even feel that the premium rates can be selectively reduced in some of the departments. Hence the insurance company can take a cue from this and try to maintain this level of premium and if possible to reduce it in select departments wherever and whenever possible. To do this, the 'Oriental' should curtail expenditure and to reduce the quantum of claims, enforce strict monitoring in claims outgo and enforce discipline among its work force so that the desired results may be achieved.

Question (No.15) in the interview schedule, administered to clients, is included to ascertain whether freedom in pricing would result in better performance by the insurance companies. This is one of the hypotheses of this research project, taken to prove or disprove, based on the responses of the clients, which are tabulated in the Table 4.9.

### TABLE 4.9
**FREEDOM IN PRICING: CLIENTS' VIEW**

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freedom in pricing results in better performance by insurance companies</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>47</td>
</tr>
<tr>
<td></td>
<td>(23.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

Fearing giving of freedom to insurance companies to fix their own rates would escalate the premium in the market, a thumping majority of clients, i.e., 72% of the respondents, give the answer 'no', indicating that freedom in pricing would result in jeopardising the interest of the customers, which will ultimately affect the performance of the company.

Whereas 23.5% of the clients welcome the idea of giving freedom to insurance companies to fix their own rates of premium since every company
knows its strengths and weaknesses and they are the better judges of their own performance. These clients, who opt for giving freedom to insurance companies, hope that they can negotiate well with the insurance companies to their advantage. But for all those clients who advocate freedom, it will not be possible for all of them to negotiate advantageously with the companies.

Those clients, who are not for freedom to insurance companies to fix their own rates, advocate the point that whenever freedom is given, the companies would tend to increase the premium en masse. With the conditions prevailing in India, it is true that whenever freedom is given, the companies would form 'cartels' and increase the prices altogether, which would adversely affect the interest of the customers.

Even in such a situation, few of them may reduce the premium to attract the customers, which will be followed suit by other companies as well and thus ignite a price war in the market. Some companies may not withstand the pressure of this unhealthy price war for a long time and may go out of the market, which will affect both the clients and the companies. Hence they feel that full freedom should not be given to insurance companies.

Question (No.18) in the interview schedule, administered to the employees of 'Oriental' from 25 Divisions, spread over Tamil Nadu and Pondicherry, is to ascertain their views on the level of premium rates and their replies are given in the Table 4.10.

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium rates are</td>
<td>High</td>
<td>Reasonable</td>
<td>Low</td>
<td>No idea</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>107</td>
<td>78</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>(4%)</td>
<td>(53.5%)</td>
<td>(39%)</td>
<td>(3.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

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Majority of the respondents representing 53.5% accept that the existing rates of premiums are reasonable, while 39% of the employees interviewed say that the existing rates are low and can be increased at the available opportunity.

Even 8% of the employees feel that the premium level is high, which can be reduced to at least some extent and 3.5% of them are blissfully ignorant of the level of premium rates charged by the company.

Questions (Nos. 19 and 20) are included to elicit the views of the employees, about whether the existing premium rates can be increased or decreased and the opinions obtained from them are tabulated in the Table 4.11.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium rates can be increased in ... depts.</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>59 (29.5%)</td>
</tr>
<tr>
<td>Premium rates can be decreased in ... depts.</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>6 (3%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

Employees, constituting 65% of the interviewed, opined that the premium rates can be increased in some departments, while 29.5% of them demand increase of rates in all the departments and 1% of the respondents feel that the existing premium rates can be maintained at this level itself and the rates need not be increased in any of the departments.

Regarding decrease of premium rates, 60.5% of the employees establish that the existing premium rates should not be decreased in any of the departments, whereas 31% of the respondents agree for a reduction in select departments. Even though it is a low percentage, 3% of those interviewed take
a more sympathetic view of the clients and support for reduction in premium and that too in all the departments.

Like clients, employees were also asked about whether freedom could be given to the insurance companies in fixing premium rates on their own. Their responses for this question (No.21) are given in the Table 4.12.

**TABLE 4.12**
**FREEDOM IN PRICING: EMPLOYEES' VIEW**

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freedom in pricing results in better performance by insurance companies</td>
<td>Yes (98 (49%))</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

Employees, representing 49% of the interviewed, say in the affirmative for giving freedom to insurance companies to fix their own premium rates, since the companies can better decide on their own the quantum of increase or decrease and the rates to be charged for various risks.

Even while 10% of the employees do not have any idea at all about the implications of the question, 41% of them say in the negative and confirm that the companies should not be given freedom in pricing their products on their own. Otherwise, they feel that, there will be bias on the part of the companies against the clients. They fear that the freedom in pricing would certainly result in the increase only and not in decrease.

Employees, who favour insurance companies for their freedom in pricing their products, argue that once freedom is given, the premium rates in various departments could be adjusted in such a way that the companies will no longer have to suffer from losses. Hence, 49% of the employees, i.e., majority of the respondents with their answers to this question, which is one of
the hypotheses of this research project, 'proved' that freedom in pricing results in better performance by the companies.

The researcher has the following views on this matter of freedom in pricing for the better performance of the companies. When the clients say that if the companies were given freedom in pricing, they will increase the price of the products and thus jeopardise the interest of the clients and hence they do not want the companies to be given freedom in pricing. Employees also feel that when the companies are given freedom to fix the price of the products on their own, the premium rates could be increased.

Both, the service provider and the receiver, have the same line of thinking, i.e., they think of increase in premium only and they never thought of decrease in premium, when they think of freedom in pricing. Though to a considerable extent it is true that the companies will only increase the premium whenever freedom is given, there were also instances when the Fire Tariff was revised downwards.

Except fire, all other tariff rates were revised only upwards and that too with the permission of and as suggested by the Tariff Advisory Committee (TAC) only. For marine cargo policies, the tariff was abolished and a set of guidelines was provided to the insurance companies to fix the rate of premium. In case of personal accident insurance policies also, freedom was given, so as to fix the rate as per the market conditions. For example, in Tiruchengode Branch of 'Oriental', the rate for GPA (group personal accident) insurance was revised upward by 25% from the financial year 2002-2003, so as to reduce the losses encountered in this portfolio. Likewise in many offices of 'Oriental', this rate might have been increased or kept at the existing level based on their claim experience.

Every company likes to continue to do business and hence when freedom is given to them, certainly they will fix the price of their products so as
to save them from the losses and to continue the existing customer base, which is also need to grow. They will not increase the premium just like that, which will ultimately affect their interest also.

When the clients say that the companies should not be given freedom in pricing their products, they say it only out of the fear that the companies would increase the prices when they are given freedom. They never have thought of the companies about whether they could function continuously under financial burden through accumulated losses, which is soaring with the every completed financial year.

Employees also think of increase in premium only when they think of freedom in pricing. Under Indian conditions, when full freedom is given, the operators form 'cartels' and start fleecing the customers and cement industry can be quoted as an example of this.

In India, whenever there is no control, the companies start doing all types of malpractices, with the sole aim of making profit and enormous profit. They never think of servicing the customers along with their earning of profit. They always try to make hay as much as possible when the sun shines.

On the other hand, one must also think of the financial position of the insurance companies. Only when a company is financially viable, it could render better service to its clients. So the companies are to be free to fix the right price, which makes the company financially viable even after covering the risks, of course the quantum of the risk to be covered is uncertain.

Since the risk to be covered is uncertain and the principle of insurance is spreading the risk of the few to the many, the insurance companies must be given the freedom of pricing their products, since the quantum of loss may vary from year to year.
Indian public sector insurance companies had been under strict regulations for the past three decades and they may not be mature enough to handle the situation of full freedom if they are given a free hand at once. Introduction and later cancellation of long term janatha personal accident insurance policy may be quoted as an example of their inadequate exposure. It only shows the companies' eagerness to issue a new policy, without an iota of thought that what impact it could make on the financial viability of the company.

But one can hope that the 'Oriental', with its newly appointed independent professional actuary, could do well in future. The freedom mechanism must have effective checks, so that the companies will be able to fix the prices reasonably, based on scientific methods, which will also make them financially viable and at the same time affordable to the clients.

Now, one of the main talks of the insurance industry is abolishing of tariffs, which the Chairman of Insurance Regulatory and Development Authority (IRDA) also talked about. As per the indications from IRDA, all the tariffs will be abolished within a year or two and the insurance companies will be free to fix their own prices for their products.

In the mean time, a vice-president of a recently floated private general insurance company, in his interview to a newspaper, has said that it is too early in India to abolish tariffs and his company requires some more time to build data so that they could scientifically fix the premium to suit the prevailing market conditions.

Comparing with the private companies, the 'Oriental', as also the three other public sector companies, is well placed with so many years of experience in the market. One can expect that the 'Oriental', with good data base, reduction of excess work force and curtailing of wasteful expenditure,
could surge ahead of others in future, to play a well defined, vital role in the tariff-less regime.

4. PROMOTION ORIENTED STRATEGIES:

Direct marketing, i.e., personal selling, is the main channel, which is employed by 'Oriental', as also by other insurance companies in India for the distribution of general insurance products. The two arms of this distribution channel are the company people and the agents.

Company people in the distribution channel are Class-II Development officers and in Class-I officers cadre, Assistant Administrative Officers-Development (A.A.Os.-D), Administrative Officers-Development (A.Os.-D)/Assistant Divisional Managers-Development (A.D.Ms.-D), Branch Managers (B.Ms.)/Senior Branch Managers (S.B.Ms.) and Divisional Managers (D.Ms.)/Senior Divisional Managers (S.D.Ms.). These are the people designated for looking after the marketing requirements of the company. Pursuing business growth and doing profitable business are the responsibilities of these people.

Due to suffering of underwriting losses for the past many years and on account of accelerated competition in the field, where competitors are doing only claim-free business leaving the risky and loss-prone business, the public sector insurance companies, especially 'Oriental', now lay the emphasis on earning of profit, a clear shift from their previous stress on growth.

All these years, 'Oriental' and the other public sector insurance companies were concentrating on growth only. But after suffering of loss continuously for the past many years, now 'growth with profit' has become the main criterion for doing business. But achieving profitable growth all of a sudden will not be possible, since the switching over of loss making business
to other companies which are in their own books for a long time may not be possible, as switching over of business to other companies purely lies with the insured only. More over, other companies will also refuse to accept the loss making/loss-prone business.

Premium from friends and relatives of or business canvassed by company people, other than those mentioned above, are at insignificant level when comparing with the volume of business done by the marketing people.

The general insurance business has been traditionally classified into three categories, as far as sources of procurement of business is concerned, namely, (i) organised (market) business, (ii) tied-up business and (iii) public sector business.

Of the above three classes, only the organised (market) business is canvassed and marketed by the Development officers. The tied-up business and the public sector business are mainly catered to by the marketing people other than Development officers. Though the market business is mainly procured by Development officers, it is also complemented by Class-I officers mentioned above.

Personal selling is the main way of marketing the policies of the company. Marketing people of 'Oriental' approach each and every person/institution that has business potential. Company representatives will approach the prospective clients on their own, which is the normal practice now in this competitive environment or those, who are in need of insurance coverage may also approach the representatives of the company or directly the underwriting office of the company for getting their needs fulfilled.

Like organised (market) business, tied-up business as also the public sector business are canvassed and marketed by the company people,
especially by the Class-I officers, who are responsible for underwriting and servicing of such policies.

Development officers constitute the major class of salaried intermediaries for the distribution of general insurance business in India. There were 3,577 Development officers in the rolls of 'Oriental' in the year 1989-90, i.e., at the beginning of the study period and their number was continuously declining, except for a slight increase in the years 1994-95 and 1996-97, to end up at 3,108 in the year 1998-99, the end of the study period.

They constitute a 20.19% of the total work force of the company in the year 1989-90 and it is 15.20% in the year 1998-99. On an average, for the ten-year period, they constitute 16.53% of the total workforce of the company.

To ensure constant growth and as an encouragement to Development officers to do more business, 'Oriental', as also the other public sector insurance companies, has incentive schemes. There are three types of incentives, viz., (i) cost based growth incentive, (ii) profit incentive and (iii) cost saved production incentive. Development officers who perform well and fulfil all the conditions stipulated for getting each incentive may get all the three incentives or one or two incentives and no incentive at all based on their performance.

Normally incentive is paid for persons whose performance is good. But in insurance industry the payment of incentives to those Development officers who perform exceedingly well is also restricted by two ways, one is the restriction on the percentage of cost saved and the other is the restriction on the quantum of incentive.

Hence Development officers, who can outperform the level specified in the scheme, restrict themselves to this level so as to get the maximum

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incentive that can be received in a performance year and give the excess business to other Development officers in the same office/company or even in other companies. In the next performance year they will get back this business and put it in their own portfolio. This practice prevails in all the four insurance companies and thus the insurance companies become the losers rather than gaining by imposing so many restrictions on the system of incentive payment.

All the three incentives are being paid only to Development officers who fulfil the required norms. Some Development officers perform well and used to get all the three incentives and even though there are restrictions, the total incentive amount will be sizeable, especially when the Development officers have put in a number of years of service and their basic pay is in the higher end of their pay structure.

Some Development officers would get two incentives while some may get one incentive. For those Development officers who have been posted in areas where the business potential is not good and who could not fulfil the required norms, the incentives are always a mirage.

Though the performance year ends with the 31st March of the year, the incentives are always paid for the Development officers in the second or even in the third quarter of the year only. It has never been paid in the month of April, i.e., immediately after completion of the previous performance year. Nobody in the office is interested in paying the incentives to Development officers who have to go on nudging the Divisional Manager and officers incharge of marketing department of the Division concerned for early payment of incentives.

The system of paying incentives is marred by short-sightedness. The system treats the good performing Development officers at par with the Development officers whose performance is not so good and actually it works as a disincentive rather than an incentive.
Marketing people in Class-I cadre, whatever may be their volume of business, are not given any incentive at all but allowances, especially conveyance allowance and telephone allowance, are provided with. While A.A.Os.(D) and A.Os.(D)/A.D.Ms.(D) are assigned with individual targets to accomplish, the total business earmarked for a Branch/Division is taken as the target for the Branch/Division incharge concerned.

Though there is institutional selling, it has not widely picked up in India so far. Agreement entered into by The New India Assurance Company Limited with Tamilnad Mercantile Bank Limited (TMB) could be quoted as an example for institutional selling. As per the agreement, all the branches of TMB in Tamil Nadu will send drafts for the premium amounts (of the risks to which they have provided advances with) to the designated Divisional office (D.O.) of New India at Madurai, which in turn will send the policies to the respective branches of the bank. This system is infested with practical difficulties and a number of branches of the bank started insuring for their requirement with local Branches/Divisions of any of the insurance companies and not specifically with New India only. Tiruchengode Branch office of 'Oriental' gets premium from few branches of TMB situated in this area.

After private companies came into being (from the year 2000) and after the promulgation of IRDA Act, 1999, few of the companies (both general and life insurance) have entered into agreements with some banks for fulfilling their insurance needs. Recently, Bajaj Allianz General Insurance Company Limited has entered into an agreement with The Karur Vysya Bank Limited and for example, Tiruchengode branch of the bank has been sending the premium amounts by way of drafts to the Coimbatore branch of the Bajaj Allianz.

Though institutional selling does take place, even now the personal/direct selling is the main mode of marketing of general insurance.
products in India. While direct selling, no doubt, is expected to be an important
distribution channel in India, the retailing of insurance by banks, called 'bancassurance' is an emerging business model. In Western countries, bancassurance is a primary system of distribution for insurance products. Low penetration of insurance in emerging markets reflects a failure of the distribution system. It is here that the bancassurance model can be leveraged appropriately to widen the reach and improve insurance penetration.

One must look for lessons from global bancassurance experiences while adopting the model in India. Some of the important features of this model are cost advantages to the insurers, increase in fee-based income for the banks and potential source for cross selling of banking, financial products along with insurance products.

In addition to leveraging on customers reach, the asset management skills of the bank and the customers' trust enjoyed by the bank are added advantages enjoyed by the bank and which are to the advantages of the insurance companies as well. The bancassurance in India is at present in a very nascent and conceptual stage. The regulatory environment for realisation of the full potential for bancassurance is yet to be put in place.

The regulatory environment has to be conducive, should be an enabler for the growth of the industry, both in terms of depth and breadth, for it holds tremendous promise to reach the insurance products to a far wider reach as also foster healthy competition with the consumer being the ultimate beneficiary.

Agents are the other marketing arm of 'Oriental', who does personal selling of insurance products. Agents approach every person/institution, which have business potential and canvass business from them for a commission, which ranges from 5% to 15% depending on the type of premium. For example, 15% commission is given to the agent for the personal accident
insurance policy premium he has canvassed, while 5% is given for a private car premium. With effect from 17.06.2002, in 'Oriental', 15% commission is given for private car and motorcycle premium in their first year of registration of the vehicle and 5% is the allowed rate of commission for the subsequent years. For commercial vehicles, 5% commission is permitted in the first year of registration of the vehicle concerned and for subsequent years no commission is allowed. But the Divisional office at Erode stopped giving commission for commercial vehicles even in their first year of registration. This is because the Erode D.O., like many other D.Os., has been suffering underwriting losses continuously for the past many years and the D.M. has taken steps to reduce and stop the losses in all possible ways, though it results in the resentment of agents. The main reason is to discourage the agents from doing loss-prone motor business.

Before 01.07.2000, agency licences were issued by the Controller of insurance, who was having his headquarters in Shimla. Agency licence application forms, received from the prospective agents, would be forwarded to the respective Regional offices of 'Oriental' and the Regional Manager, the incharge of the Region, would sign the licences on behalf of the Controller and would send the consolidated stamp fees, the fees for issuing licences, to the controller.

The agency licence fee was Rs.15/- only, which was the same for the renewal of the licence also, if the renewal application was made well in time, i.e., one month before the expiry of the licence. Rs.25/- was collected as renewal fee if the application was received within a month of its expiry, while the fee was Rs.90/- if the renewal application was made after its expiry. Originally, while no educational qualification was prescribed, later it was preferred that agents could have studied up to 8th standard level.
After IRDA came into vogue, with effect from 01.07.2000, the minimum qualification prescribed for a person to become an agent was S.S.L.C. and the agents have to undergo training for 100 hours and pass the test being conducted by the Insurance Institute of India to become a qualified agent. If an agent wants to become a composite agent, i.e., for both a general and a life insurer, he has to undergo training for 150 hours. The prescribed licence/renewal fee is Rs.250/-, Rs.350/- and Rs.1,000/- in place of Rs.15/-, Rs.25/- and Rs.90/- respectively.

The Designated Person (D.P.) for issuing/renewing agency licence in the Regional office of 'Oriental' is the Manager-marketing. The consolidated licence fee is sent to IRDA after issuing of licences by the D.P.

Agents are working for commission only while the company incurs recurring expenditure such as salary, allowances, perquisites etc. on its marketing people. Hence the cost of procuring business is far less in case of agents when comparing with company people.

To reduce the cost of procuring business by reducing the number of Development officers and increase the number of agents and thereby to strengthen the agency force, 'Oriental', as also the other three public sector insurance companies, has floated a new Scheme as decided by GIPSA (General Insurers Public Sector Association), in which the four public sector insurance companies are members, with the approval of the Central Government, for Development officers, the primary wing of the marketing people of the company.

As per the Scheme, Development officers were given three options, namely, (i) to go in for Voluntary Retirement Scheme (VRS) or (ii) to get conversion to administration or (iii) to continue as Development officer and all the Development officers have to exercise any one of the options given and the features of the Scheme would come into force with effect from 01.04.2003.
The Scheme was open for exercise from January 2003 and closed on 03.03.2003. Options once exercised were final and could not be changed/withdrawn. Before the Scheme came into operation, there were 191 Development officers for 'Oriental' in all the 25 Divisions spread over Tamil Nadu and Pondicherry. Out of this, 24 Development officers (12.57%) opted for VRS, who were relieved from duty at the close of business hours on 31.03.2003, as the new Scheme came into force with effect from 01.04.2003.

71 Development officers chose to take conversion to administration and they constitute 37.17% of the total Development officers in Chennai Region. Those Development officers who took conversion would be assigned with administrative duties and they would not be getting conveyance and telephone allowances from 01.04.2003. These convertees would be subject to transfer to other places as per the Transfer Mobility Policy (TMP) of the company.

The TMP says that an employee can continue in an office for a maximum of 5 years and can continue in a location (e.g., Chennai, Madurai etc. where there are more than one office) up to a maximum period of 10 years. Employees who are in an office/locality for a longer period will be considered first for transfer. Transfer zone will be the respective tariff zone. Tariff Advisory Committee (TAC) has four zones, namely, North, South, East and West and the Development officers - Administration, may be transferred to any State covered by the respective tariff zone, in which they presently work.

Out of the total 171 Development officers, 96 of them (i.e., 50.26%) chose to remain as Development officers only. The TMP equally applies to these Development officers as well and those who are transferred to other places have to do the required business in a balanced portfolio as decided by the company, to continue to receive the allowances and perquisites. It will not be possible for a transferred Development officer to maintain the same level of
business that too in a balanced portfolio, where premium from a single
department will not have to cross 50% of the total business done. In a new
place, in this competitive environment, doing business to maintain the cost
itself will become difficult leave alone the balanced portfolio. Hence the
Development officers who are unable to perform within the stipulated cost will
have no other option but to quit the job.

All these changes have taken place simply because the companies
have decided to dispense with the post of Development officers and to develop
the agency force, so as to reduce the cost of procuring business. More over, as
in the Western countries, a new category of intermediaries called 'brokers', who
will also do personal selling, will be given 'broker licence' to market the
insurance companies' products. IRDA is the authority to issue the broker
licence.

These brokers will do business through their own network, for a
commission and they can place this business with any of the insurers whose
service is good. It may be possible for a broker to negotiate the dealings to his
advantage when he does a profitable business and the insurance companies
themselves will accept only the business, which will give them a profit margin.
Hence, in future, profitability will play a key role in doing business either with
the insurers own network or through brokers.

Now brokerage system is in its introductory stage and one could
expect IRDA will shortly pronounce the rules and regulations for the running of
this system. Once the brokerage system develops, the method of underwriting
by the insurance companies will see a vast change.

IRDA has suggested for giving brokers 12.5% commission for tariff
business, such as motor, fire etc. and 17.5% for non-tariff business, such as
personal line of insurance. Besides these prescribed percentages, brokers,
who are capable of doing business which will give higher profit margin, may
negotiate with insurers for more commission, which the insurers may also be ready to give them, of course out of the way, to secure the profitable business.

Brokers on the other hand, may also be willing to share a part of their commission with the agents or for that matter with any person who ever can provide them with good business. Even now some private companies are giving in cash 15% of the fire premium amount as discount to the insureds, which the public sector insurance companies are unable to do it and thereby lose profitable fire premium at the passing of each day.

Insurance companies, again can restrict themselves with giving of commission only to brokers as in the case of agents and need not incur recurring expenditure such as salaries, allowances etc. as it necessarily incurs on its own marketing people. Thus the insurance companies can promote business with less expenditure on procuration of business.

More over 'Oriental', as also the other public sector insurance companies, has to trim its size of the work force and enhance its efficiency so as to compete with the private companies and to thrive well in this competitive open market, which was till recently a protected one from the assault of the private players.

Public Relations:

The status of public relations should be at its prime level for any company to survive in the market. A good public relationship always pays its share of growth to the company concerned. One can say with certainty that good public relationship does not exist at all in 'Oriental' and for that matter in any of the public sector insurance companies in India and the existing clients of 'Oriental' themselves, leave alone the public at large, will vouch for this fact.

Clients did not have any option at all but to approach the public sector insurance companies despite the non-existence of good public
relationship. After the opening up of the insurance sector to private companies, 'Oriental' has felt the need for good public relationship and has opened new counters in every underwriting office to receive the public/clients, to answer their queries and to fulfil their insurance needs.

Usually a Class-I officer, either an A.A.O.(D) or A.D.M.(D) will man the 'may I help you' counters in the offices. Separate enclosures are made in the offices for the visiting clients. Chairs, sofas, fans, teapoy with newspapers and magazines are provided with, so that they can relax in this cozy atmosphere when they wait for their work to be completed by the employees.

At the instruction of Head office of 'Oriental' to all the Regional offices, Chennai R.O., in its letter dt.10.03.2003, to all the offices under its jurisdiction, has instructed that one A.D.M. in each D.O. and one A.A.O. in each B.O. (in addition to the office-in-charge) dealing with underwriting and claims, should be nominated as Grievance Officer, who is made responsible for this purpose and whose name, designation and telephone number should be displayed at the entrance of the office concerned. Grievance Redressal Day, a day earmarked for redressing grievances of the customers, with timings should also be mentioned in the display board.

The R.O. has also instructed that a complaint/suggestion box should be installed at the proper place to be opened twice a week, i.e., every Monday and Thursday by the officer in charge/officer designated for this purpose and 'may I help you' counters at D.O. and B.O. level, opened to give assistance to the visiting customers, should be manned by trained persons.

R.O. in its letter has also advised the D.Os. and B.Os. as well to give them immediately the names of Grievance Officers so nominated. Normally B.Os. are neither expected nor allowed to correspond/contact with the R.O. bye passing D.O. But in this case, R.O. has advised all the B.Os. as well, to inform them immediately the names of the nominated Grievance Officers which every
office complied with utmost sincerity. By this action of 'Oriental', one may be
given to understand the urgency and sincerity of the attempt made by it in
redressing the grievances of its customers. But in fact, as with such other
cases in the past, this also lies in the paper only and not followed up in
practice to its letter and spirit.

If at all is there any public relation in 'Oriental', as also in the other
public sector insurance companies, it is purely due to the efforts of the
marketing people of the company. Administrative employees, on the other
hand, have conveniently cut themselves off from the outside world, rather
insensitive to the happenings in the industry and behave like monarchs living
in their own empires, without having any courtesy to or service mindedness
towards customers. Some of them are rather ignorant of what is going on in
the industry, especially the threat posed by the private sector general
insurance companies, which erode the profitable premium base of 'Oriental' as
also the other public sector insurance companies and some of them hope that
the company will be saved from and the Government will protect them from
unfortunate happenings in the future.

Already the 'Oriental' and the three other public sector insurance
companies were detached from GIC, shedding their subsidiary company status
and made independent companies to fend for themselves. It is evident that if
they earn profit they will survive otherwise they will perish. Hence the
employees cannot expect that the Central Government will interfere to save the
companies from falling into oblivion and the employees themselves have to
change their mindset, which they have been having all these years, from the
time of nationalisation of the insurance companies, so as to have good public
relation with and to render better service to customers, which only could save
them from being left out of the race.
Customer service:

It is the word to be chanted and followed to its true meaning by all the employees of ‘Oriental’, but which is very much lacking not only in ‘Oriental’ but in the whole of insurance industry in India. Employees do not realise the importance of customer service and they continue to ignore this, despite the fact that private sector general insurance companies came into the picture, which are eroding the profitable business base of ‘Oriental’ (the same is the case with the other three public sector insurance companies as well) with every passing day, leaving the loss-prone motor - commercial vehicle - insurance untouched, which are continued to be insured with ‘Oriental’ and the other three companies.

Even with the absence of customer service, the base for any business to survive, the insuring public did not have any other alternative but to insure with the public sector insurance companies, who are changing now with the advent of private companies into the arena.

Customer service is expected to be rendered specifically at three stages, viz., before taking the policy, while taking the policy and after taking the policy, especially at the time of claim settlement.

One may wonder what service could be rendered before taking the policy, since after taking the policy only one will become a customer to the company, while the fact remains that the service rendered before taking the policy only brings the clients to the company and this service only results in having a lasting impression in the minds of the customers, which makes them loyal to the company in the years to come.

Representatives of ‘Oriental’ will approach the prospective clients to enlighten them with the details of policies, which they require and with their convincing approach they will be able to rope them in into their fold.
Likewise, persons/institutions who are in need of insurance may also call on the underwriting office or the representative of 'Oriental' for fulfilling their insurance needs.

While giving details orally is sufficient for individual and some institutional clients, few co-operative societies and clients having large premiums may call for quotations in the insurance companies' letterheads signed by authorised officials, which is promptly attended to. Some clients may need leaflets about the policies, which they intend to take from the company, while some of them even need a specimen copy of a similar policy, with all its conditions incorporated therein, to have a clear understanding of the policy coverage and exclusions.

Some clients will have their own insurance departments and the officials working in these departments and/or the executives of these institutions will invite the officials of 'Oriental' to have discussions on their insurance needs and to negotiate with them to their advantage, which the insurance company officials will do with every promptness.

Once they are satisfied with the service of 'Oriental', then they will become customers to the company. Hence the service rendered before taking the policy plays a vital role in getting them as customers to the company concerned.

The next stage of rendering service is while taking the policy. Representatives of 'Oriental', who visit clients' premises, after receiving the premium, issue acknowledgement in the company's printed form meant for this purpose (which practice has long been discontinued with) or issue cover note, which is a temporary receipt cum risk covering document, pending issuance of certificate of insurance and/or policy.
It is the bounden duty of the company representative, i.e., Development officer or A.A.O.(D), A.O.(D)., A.D.M. (D), B.M. or D.M. as the case may be, to remit the premium so received to the company, get the official receipt for the premium paid immediately and at the most within 24 hours from the time of issuing the cover note, excluding the intervening holidays. Certificate and/or policy are to be prepared and these documents along with the receipt are to be hand delivered to or send through post or courier service to the address of the insured.

But it is where delay started occurring. Barring few cases under unavoidable circumstances, all the collected premiums are remitted to the company within the stipulated time and receipts made. After receipts are made, policies are to be prepared as a continuous process, but in practice it is not so.

Preparation of policies often gets delayed and in some cases it is delayed even for about a year, during which period the insured himself will forget about the policy. One may be amazed to know that such non-issued policies are also renewed promptly when it is due for renewal. At the time of renewal, the company representative will give the insured all the known and unknown excuses that all available under the reign of his imagination and the insured, knowing fully well the happenings in the company, after some scolding and reprimanding, give the premium to the company man, hoping that at least the renewal policy would be issued. There were also instances when some disgruntled clients have switched over to other insurance companies at the time of renewal.

When the clients directly come to the underwriting office of 'Oriental', the required proposal form will have to be filled up and signed by the insured/representative of the insured. Usually it is the Development officer or the other marketing people of the company who fill up the forms and some of
them even go to the extent of signing the proposal form for themselves in the name of the insured or his representative or with some one's name, which blunder they should desist from doing, but which some of them are continuously doing to this day.

The details of the duly filled up form are entered into the computer (before computerisation these details are entered manually in the respective department registers) after which the proposal is passed on to the cashier who, after receiving the premium amount, either in cash or as instrument, will issue receipt for the amount. (Under section 64VB of the Insurance Act, 1938, full premium is to be received in advance and then only the insurance coverage will commence).

While the receipt is made, the machine will allot the policy number and after this the policy print out is taken out from the printer. Carbon papers in between the printed forms will be removed, necessary policy forms attached and folders attached to the motor insurance certificates, policy stamps for the required amount affixed on the policy, then entered into the policy stamp register and after the authorised officer singed the policy and/or certificate of insurance they are issued to the insureds.

To complete this process, from the receipt of premium to the delivery of policy by the Development officer, ten stages are involved and since the hands involved in the process are more, the delay automatically tends to creep in. Nobody in the process works continuously to complete the process. By analysing scientifically, the management has to reduce the number of stages involved in the process, so that the possibility of delay in the process may be reduced to the extent possible.

Now what the cashier in Tiruchengode Branch of 'Oriental' is doing is, he would receive the proposal form and the premium and send out the insureds/their representatives telling them that they could receive the receipt
in the evening. When they come in the evening they will be given the receipt if it was already made otherwise they will be asked to come again or will have to wait till it is made.

For policy/certificate they will have to come again or the marketing employee, at whose efforts the clients came to the company, will take responsibility of handing over in person or sending the policy by post/courier as soon as it gets ready.

If the receipt and policy are issued without any delay, not only the customer will be satisfied but the company will also be saved from the wastage of money that would be incurred on post/courier. Tiruchengode Branch office experience is quoted here as an example and that is the practice going on in many offices of 'Oriental' as well as in the other public sector insurance companies, it is learnt.

In another instance in a D.O., all or most of the premiums received in the afternoon are marked as 'late cash', (i.e., cash received after 'cash' hours, i.e., after 4.30 pm) and put in the cash box to underwrite them only in the next day morning. The reason they putforth is heavy workload and insufficient manpower. But this is not true and this simply shows the laxity on the part of the employees and the inefficiency on the part of the management to discipline the employees concerned.

The Chairman-cum-Managing Director of 'Oriental', in his letter, dt. 20.09.1999, to all the employees on 'implementation and operationalisation of Citizen's Charter' about the issuance of policy says, "... although we have committed to issue policies within 7 days (as per the Citizen's Charter released earlier), we have to ensure that policies are issued on a day to day basis; this is an absolute must; many of our offices are already doing this and others need to emulate". These nice words are remaining till date in paper only waiting to be emulated. Even after computerisation of all the underwriting
offices of 'Oriental', the issuance of policies on a day to day basis still remains as dream only and what is more worse is the situation still remains as it is even after the private companies came into operation, which are planning to achieve a target figure in five years, which the Government companies took 20 years to reach at.

The third stage of rendering service is after taking the policy. This third stage is the longest period of a policy, requiring the service of an insurance company. Every change, to be carried out in the policy, is carried out by way of endorsements. For example, in a motor policy, change of ownership, change of registration number and/or address are required to be made in the policy concerned by way of passing endorsements at the request of the insured. A fresh proposal or a letter to that effect from the insured is a prerequisite for making an endorsement in the policy. Issuing a duplicate certificate of insurance to an insured, under a motor policy, also requires a requisition letter from him.

Insurance companies can show its quality of service especially at two instances, once at the time of issuing the policy and next at the time of claim settlement. All the clients, i.e., one hundred percent of them, are required to be issued with policies and therefore all of them are in need of service at the first instance. Moreover, it is the time when the clients pay (premium) to the company. Therefore it is natural for the company people to render service to the clients so as to receive the payment from them. But in practice, in most of the cases, the interest of the employee concerned of the insurance company, immediately after receiving the premium, wanes instead of the interest being maintained at the same level not to speak of waxing interests.

In the second instance, i.e., at the time of claim settlement, it is the insurance company that pays to the clients and the real sense of the word 'service' will be known at this time only. Moreover, all the clients will not
require this service, since only few of them will come across claims under their policies. The percentage of clients, who claim from 'Oriental', when comparing with the total number of clients, will be minimal only. This is based on the insurance theory of spreading the risk of the few to many. Even though this percentage of clients requiring service is low, it is where the 'Oriental' and the other three public sector insurance companies miserably fail.

'Oriental', in its Citizen's Charter, specifies a time limit for settling claims in various departments – personal line insurance claims (e.g., personal accident insurance claims) within 30 days on completion of all requirements; property claims (e.g., fire claims) within 60 days on completion of all requirements and liability claims (e.g., workmen compensation claims) within 30 days on completion of process of law.

With all the underwriting offices, including the claims department, computerised and with the manpower in abundance, (the correct word one should use here is excess manpower), 'Oriental' should have quoted a lesser time limit for the settlement of various types of claims. One must note the words 'on completion of all requirements' after the number of days given as the maximum time limit. It means that the client should complete all the requirements and the time limit given is reckoned with the date of completion of all the requirements and not the date of accident.

To be on the safe side, 'Oriental' has quoted a comfortable time limit in its Citizen's Charter. But in practice, even this time limit is more followed in its non-adherence than its observance. Even small claims, which could be settled within a day or two, are also usually dragged on and delayed beyond one's comprehension and especially to the understanding and discomfiture of the clients concerned.

Insurance company employees working in claims department asking from clients the required papers in piecemeal and not in toto for claim
settlement is very common in insurance industry, which is one of the causes of concern to the clients. The next thing is asking for more than relevant particulars from the clients, by the surveyor concerned who was deputed by the company to assess the loss or damage sustained by the clients.

In such cases the surveyor, without realising that he should restrict his role as surveyor only, he would also don himself the role of investigator, much to the annoyance of the insured. Investigations are arranged by the insurance company with the help of independent investigators, to verify the genuineness of the claim, only when there is any doubt about it.

Though time limit is prescribed by the company for the surveyor to submit his survey report, the timely submission of reports are neither followed by the surveyor nor pressed for by the company. All these lead to delays and in some cases inordinate delays much to the hardship of the clients who are already suffering from loss or damage due to the accident.

A lot is needed to be done to satisfy the clients and 70.5% of the interviewed clients, have said that the customer service is poor in the Indian general insurance industry (as given in the Table 4.15) and 70% of them have given a clear mandate that privatisation of general insurance business is a way to improve customer service. Hence employees of 'Oriental', as also the employees of the other three public sector insurance companies, have to sensitise themselves to the situation prevailing in the market and make themselves adept at the changing scenario of general insurance industry in India.

Customers meet:

Customers meets are formal meetings arranged by the 'Oriental', for customers to air their views, both bouquets and brickbats. For customers meet,
oral or printed invitations are sent to customers, inviting them for the meet, which will be attended by higher officials from controlling office.

If the meet takes place at the Branch office level, the Divisional Manager will attend the meet and one Deputy Manager or Manager from Regional office may come to the meet. If the meet is arranged at the D.O. level, then an official from R.O. may attend the meet. Sometimes the meet may be arranged so as to coincide the visit of a higher official from R.O., who may be coming to the D.O./B.O. for some other purposes.

Customers, who are soft or moderate in their nature and feel indebted for the biscuits and tea served in the meet may be using soft to moderate words when they are invited to express their views, while the customers, who were aggrieved by a recent claim or of tough natured, would air their views vociferously.

It's a long time since customers meets were arranged by 'Oriental' because of few reasons. Of late, in customers meets, only brickbats were received and not appreciation of their service at all, which simply shows the level of service rendered by the company. Another thing is the risk of spreading of displeasure against the company of one client to many at the meet itself.

In places like Tiruchengode, which is a small town with motor insurance as the main source of business for 'Oriental' and the other three companies, with two associations, meant for lorry and rig owners, having largest number of membership, spreading of news is not at all a problem and any thing happened to a client in any of the four companies would spread in no time like wildfire and no customers meet needs to be arranged to spread the news.
But in big towns and cities like Chennai, customers meet may bring in the risk of spreading the displeasure expressed by one client to many. And in these meets, the words of appreciation from atleast few clients will submerge in the ocean of complaints from those many. Besides, the reporters from newspapers, who might have come to the meet at the behest of the marketing people of the office concerned, who have fancy for publicity, will certainly include in their news reports a word or two about the complaints expressed in the meet along with the words of appreciation for his friends who have invited them and for the company and these reports will be read by thousands of people in the city - an easy way of spreading the news.

Normally, no employee present in the meet would dare to open his mouth for the fear of overpowering voices from the aggrieved clients. Incharge of the office concerned, and the higher officials, out of sheer necessity, speaks to pacify the clients and assure them that they will be provided with impeccable service in future. R.O. officials, to save themselves from this delicate, embarrassing situation, will always try to avoid attending customers meets.

So everybody, including customers, seems to have lost interest in customers meets and 'Oriental' stopped arranging customers meets long time back itself. Employees of 'Oriental' must remind themselves of the dictum, 'a satisfied customer is a good advertisement for a firm' and strive to satisfy every customer of the company so that the satisfied customers will spread the news of their satisfaction over the service rendered by the company, resulting in no need for customers meets to air their views. Thus customers meets, instead of promoting company's interests, worked in the negative and resulted in their abandonment.
Social obligations:

Insurance companies are commercial organisations. They have to offer better products (i.e., policies) at competitive rates to attract customers; render them best service possible to retain them and earn profit by their operations to survive in the market.

But in India, since the 'Oriental' and the other three companies are wholly owned by the Government of India, they are saddled with social obligations to discharge, as propagated by the Central Government. The companies are not given free hand in their operations, which are to be performed strictly as per the rules laid down for them.

Before nationalisation of general insurance business in 1972, private companies were free to operate, of course, within the rules and regulations as laid down by the Government and all the private companies were earning profit since they were running as commercial organisations.

But after all the companies were taken over by the Government and grouped them into the four existing companies, their outlook was considerably changed. The stress, which was laid centred on profit making, was shifted to one of fulfilling of social obligations as set forth by the Central Government.

It was said by the Government that the main purpose of nationalising the insurance companies was to serve the public and the fruits of nationalisation should reach the public in its entirety and should not revolve around select people only for the sole purpose of earning profit. Hence the four nationalised insurance companies, including 'Oriental', have introduced a number of policies for the benefit of the poor and the general insuring public.

Janatha Personal Accident (JPA) insurance policy was one such policy introduced for the benefit of and to be within easy reach of the people. For a mere premium of Rs.12/-, Rs.15,000/- was provided as sum insured and
if an insured happens to die in an accident, the person who was nominated in the policy as his nominee would receive the sum insured, i.e., Rs.15,000/-, as compensation.

If the insured happens to lose one limb or one eye, he would receive 50% of the sum insured, i.e., Rs.7,500/-, as compensation. If the insured happens to lose two limbs or one eye and one limb or permanently disabled in the accident, then he will be paid the full sum insured, i.e., Rs.15,000/-, as compensation. To pay out Rs.15,000/- as compensation for a single claim, the company has to collect premium, at the rate of Rs.12/- per person, from 1250 persons. The premium and the sum insured were later revised to Rs.15/- and Rs.25,000/- respectively.

Obligation of insurers to rural sector:

Under the provisions of sections 32B and 32C of the Insurance Act, 1938, insurers are obliged to provide such percentages of business as may be specified by the Central Government for persons in rural sector or social sector, workers in the unorganised or informal sector, for economically vulnerable or backward classes of the society and other categories of persons, as may be specified by the Government of India.

The rural sector has been defined as any place, which, as per the last census, has a population of not more than five thousand, density of population of not more than 400 per square kilometre and at least 75% of the male working population engaged in agriculture.

The Government of India has launched various programmes for the benefit of small farmers, marginal farmers and agricultural labourers. Since 1980, all these programmes have been integrated into Integrated Rural Development Programme (IRDP), which is funded by the Central and State Governments on 50:50 basis. The objective of the programme is to provide, to
the target group of rural families, a package of assistance comprising of income generating assets, working capital etc. through subsidy, institutional credit etc.

Special insurance schemes are framed to protect the beneficiaries of IRDP projects. Under these policies, the rates of premium are lower and claims procedure is simplified. Rural policies devised by the companies comprise the insurance of various livestock, e.g., cattle, sheep, goat etc.; small animals, e.g., silkworm, honey bee etc.; plantation and horticultural crops, e.g., rubber, grapes etc.; property, e.g., agricultural pump sets etc.; persons, e.g., gramin personal accident insurance. (Under this policy the sum insured is Rs.10,000/- for death, loss of two eyes/two limbs or one eye and one limb or permanent total disablement and Rs.5,000/- for loss of one eye or one limb. The premium fixed is Rs.5/- per policy).

Hut insurance: Dwelling huts in rural areas constructed with financial aid from banks/co-operatives/Government institutions are covered for a maximum agreed sum insured of Rs.6,000/-, comprising Rs.5,000/- for structure and Rs.1,000/- for contents. Maximum 200 huts, situated in one cluster, are covered. Huts have to be identified by description and number allotted. The premium rate is Rs.3/- per mille (i.e., per thousand rupees of sum insured).

Obligation of insurers to social sector:

The social sector has been defined to include the unorganised sector, informal sector, economically vulnerable or backward classes and other categories, both in the urban and rural areas.

Unorganised sector is one, which includes self-employed workers such as agricultural labourers, bidi workers, brick kiln workers, carpenters, cobbler, construction workers, fishermen, handicraft artisans, handloom and khadi workers, leather and tannery workers, milk producers, papad makers,
power loom workers, physically handicapped self-employed persons, rickshaw pullers, salt growers, sericulture workers, sugarcane cutters, tendu leaf collectors, toddy tappers, vegetable vendors or such other categories of persons.

Economically vulnerable or backward class means people who are below the poverty line. Other categories of persons include persons with disability as defined in the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 and who may not be gainfully employed and also includes guardians who need insurance to protect spastic persons or persons with disability.

National agricultural insurance scheme:

This scheme, known as Rashtriya Krishi Bima Yojana, was brought into force by the Central Government and has its primary objective of providing insurance coverage and financial support to the farmers in the event of failure of crops as a result of natural calamities, pests and diseases. This scheme extends to all States and Union Territories. Fifty percent subsidy in premium is allowed to small and marginal farmers.

Solatium scheme:

The solatium scheme under the Motor Vehicles Act, 1988 has been made by the Central Government for the payment of compensation to the victims of 'hit and run' motor accident. The scheme came into force from 01.07.1989. Hit and run accident is an accident arising out of the use of a motor vehicle or motor vehicles, the identity whereof cannot be ascertained in spite of reasonable efforts for the purpose.

The compensation payable for death claims is fixed at Rs.25,000/- and in respect of grievous hurt Rs.12,500/- after the amendment to Motor Vehicles Act, 1988. (Earlier to amendment, it was Rs.8,500/- for death and
Rs.2,000/- for grievous hurt). The solatium fund consists of contributions from the general insurance industry, the Central Government and the State Governments.

Personal accident social security scheme:

This scheme was introduced in the year 1985 for the benefit of poor families. Poor families are defined in the policy as to include landless labour households, families of traditional craftsmen etc., whose total annual income does not exceed Rs.7,200/-.

The scheme provides for payment of Rs.3,000/- in the event of accidental death of any person in the age group of 18 to 60 who is an earning member of poor family. Accidental deaths include such deaths due to snakebite, drowning, food poisoning, lightning, fall from a tree and killing by armed criminals or wild animals. The cases specified here are illustrative and not exhaustive.

The beneficiaries are serving spouse or if there is no surviving spouse, the payment be made to all dependent children jointly who will share equally. If there are no surviving children, the payment can be made to dependent surviving parents.

Hut insurance scheme:

This insurance scheme was introduced with effect from 01.05.1988. The scheme provides for payment of compensation of Rs.1,000/- for huts and Rs.500/- for belongings, to very poor families in rural areas when their huts and/or belongings are destroyed by fire. Very poor families are defined in the scheme and include landless labourers, small farmers etc., whose annual family income does not exceed Rs.4,800/-. 
Thus the 'Oriental' and other public sector insurance companies have been vested with social obligations to be fulfilled in the interest of the Indian public.

After Insurance Regulatory and Development Authority (IRDA) came into operation, it has passed regulations, called, Obligations of Insurers to Rural or Social Sectors Regulations, 2000, which lay down that every insurer transacting general insurance business, shall underwrite business in the rural sector, to the extent of at least 2% of total gross premium in the first financial year, at least 3% of gross premium in the second financial year and 5% of the gross premium in the third and further financial years. The obligations include insurance for crops.

Other than fulfilling these social obligations, the 'Oriental' has to invest its funds in Government securities as per the Government of India regulations. 'Oriental' has two type of income, one is underwriting income, i.e., income by way of premium and the other is investment income. The money received as premium is invested in profitable ventures so that the loss suffered from underwriting is compensated to some extent with the income received from investments.

To earn from investments, the 'Oriental' cannot invest all of its funds in risky ventures and the Central Government has prescribed norms for the public sector insurance companies for investing their funds. This is to safeguard the interest of the companies and also to fulfil the social obligations, which the insurance companies are vested with.

At the beginning of the ten-year study period, i.e., in 1989-90, 'Oriental' had invested 60.95%¹ of its total investible funds of Rs.639.79 crores in public sector undertakings. This figure rose to 62.14%² and Rs.2,689.15

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crores respectively in the year 1998-99, i.e., at the end of this ten-year study period.

Investments in public sector undertakings include Government of India securities, State Governments securities, loans to State Governments for housing and fire fighting equipments, electricity board bonds, share and bonds of statutory corporations at State and all India level, HUDCO bonds and debentures, bonds of ICICI, investment in Government companies in the form of loans, debentures and equity shares, investment in mutual funds like Unit Trust of India, GIC Mutual fund, loans to nationalised banks and institutions, statutory bodies like HUDCO, GIC Housing Finance Ltd. and special deposit scheme of Government of India.

Besides these, 'Oriental' also invest in co-operative sector in the form of shares of co-operative societies, loans etc. Though investing in private sector gives more income, 'Oriental' and also the other three public sector insurance companies, have been prohibited from investing whole of its funds in private sector companies though it gives more return in investments, just because to safeguard the interest of the companies from investing in risky ventures and to utilise the funds for the welfare of the public at large.

Thus 'Oriental' and other public sector insurance companies are though commercial organisations, they have to fulfil social obligations as set forth by the Government of India and they could function only within the framework as laid down for them.

Advertisement:

The importance of advertisement for a business concern can be summed up in the following sentence. 'Doing business without advertisement is like a youth winking at a girl in the dark; nobody knows, except himself,
what he is doing'. One can understand the importance and necessity of advertising from this example.

If any one wants to sell his product, wants to earn from his business, he has to come out of his cocoon and must advertise for his survival in the market. Insurance companies are no exception to this.

Realising the importance of advertising, 'Oriental' has been advertising about its products in various media. During the year 1998-99, i.e., at the end of this ten-year study period, 'Oriental' has spent an amount of Rs.10.30 crores¹ for advertising against its spending of Rs.5.43 crores in the year 1997-98. A quantum jump in spending on advertisement over the previous year is noticeable here.

Moreover, 'Oriental', at the end of the financial year 1997-98, has estimated to spend Rs.15 crores on advertisement in the following year, i.e., 1998-99, but its actual spending in that year was Rs.10.30 crores only, a shortfall of 31.33% from its original estimate. The original estimate for and the actual spending in the year1998-99 show the seriousness of and the importance laid on advertisement by 'Oriental'.

After the promulgation of Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), the authority, realising the importance of advertisement in the insurance industry has made regulations, called the Insurance Regulatory and Development Authority (Insurance Advertisements and Disclosure) Regulations, 2000. Insurance companies operating in India have to follow these regulations, failing which will attract penalties from the authority.

Insurance advertisement means and includes any communication directly or indirectly related to a policy and intended to result in the eventual

¹ Performance appraisal, 1998-99, of The Oriental Insurance Co. Ltd.
sale or solicitation of a policy from the members of public and shall include all forms of printed and published materials or any material using the print and/or electronic medium for public communication.

Following are the communication media, through which insurance advertisements could be made, viz., (i) newspapers, magazines, (ii) billboards, hoardings, panels, (iii) radio, television, website, e-mail, (iv) representations by intermediaries, (v) leaflets, (vi) descriptive literature, (vii) sales aids flyers, (viii) letters, (ix) telephone solicitations, (x) business cards, (xi) videos, (xii) faxes or (xiii) any other communication with a prospect or a policy holder that urges him to purchase, renew, increase, retain or modify a policy of insurance.

The following materials shall not be considered to be an advertisement provided they are not used to induce the purchase, increase, modification or retention of a policy of insurance, namely, (i) materials used by an insurance company within its own organisation and not meant for distribution to the public, (ii) communication with policy holders other than materials urging them to purchase, increase, modify, surrender or retain a policy, (iii) materials used solely for training, recruitment and education of an insurer's personnel, intermediaries (such as agents, brokers etc.), and (iv) any general announcement sent by a group of policy holders to members of the eligible group that a policy has been written or arranged.

Whenever there is advertisement, there is a possibility for unfair or misleading advertisement, which will attract penal action by the authority concerned. Unfair and misleading advertisement will mean and include any advertisement that fails to clearly identify the product as insurance, makes claims beyond the ability of the policy to deliver or beyond the reasonable expectation of performance, describes benefits that do not match the policy provisions.
Using words or phrases in a way which hides or minimises the costs of the hazard insured against or the risks inherent in the policy; omitting to disclose or discloses insufficiently important exclusions, limitations and conditions of the contract; giving information in a misleading way; illustrating future benefits or assumptions which are not realistic nor realisable in the light of the insurer's current performance; implying a group or other relationship like sponsorship, affiliation or approval that does not exist and making unfair or incomplete comparisons with products which are not comparable or disparages competitors are also considered as unfair or misleading advertisement.

Compliance and control:

Every insurer shall have a compliance officer, whose name and official position in the organisation shall be communicated to the authority concerned and shall be responsible to oversee the advertising programme; maintain an advertising register at its corporate office; maintain a specimen of all advertisements for minimum period of three years; file a copy of each advertisement with the authority concerned as soon as it is first issued. Any change in an advertisement will be considered as a new advertisement.

Every insurance company shall be required to prominently disclose in the advertisement the full particulars of the insurance company and not merely any trade name or monogram or logo. Every advertisement by an insurance agent that affects an insurer must be approved by the insurer in writing prior to its issue. Only properly licensed intermediaries may advertise or solicit insurance through advertisements.

Advertisement on Internet:

Every insurer or intermediary's website shall include disclosure statements which outline the site's specific policies vis-à-vis the privacy of personal information for the protection of both their own business and the
consumers they serve and they should display their registration/licence numbers on their websites.

**Endorsements and other third-party involvement:**

A third party, group or association shall not distribute information about an insurance policy, intermediary or insurer on its letterhead; shall not allow an insurance intermediary or insurer to distribute information about an insurance policy or insurance company on its letter head; shall not distribute information about an individual insurance policy or about an intermediary or insurer in its envelopes, unless the third party is providing only a distribution service for the insurance advertisement and is not itself soliciting the coverage.

A third party, group or association also shall not recommend that its members purchase specific insurance products; shall not imply that a person must become a member of its organisation in order to purchase the policy and shall not imply that a purchaser of a policy by becoming a member of a limited group of persons shall receive special advantages from the insurer not provided for in the policy.

Provided that a third party, group or association may endorse an insurance company or insurance intermediary's product and provide truthful statements, quotes and testimonials endorsing the insurance products to the insurance company for use in the company's advertisements, so long as the language does not convey directly or indirectly a recommendation that members of the organisation purchase the products and provide an insurance company with information about its membership and collect compensation based upon sales for that information.

**Managing complaints:**

If an advertisement is not in accordance with these regulations, the authority concerned may issue a letter to the advertiser seeking information
within a specific time, not being more than ten days from the date of issue of the letter.

The authority may also direct the advertiser to correct or modify the advertisement already issued in a manner suggested by the authority with a stipulation that the corrected or modified advertisement shall receive the same type of publicity as the one sought to be corrected or modified.

The authority may also direct the advertiser to discontinue the advertisement forthwith or may take any other action deemed fit, keeping in view the circumstances of the case, to ensure that the interests of the public are protected.

Adherence to advertisement code:

In India, every insurer or intermediary shall follow recognised standards or professional conduct as prescribed by the Advertisement Standards Council of India and discharge its functions in the interest of the policy holders, contravening of which will result in penal action by the council.

The number of advertisements in various media simply shows the importance of advertisement in the business world and the impact it make on marketing of products and the 'Oriental' is no exception to the 'pull' under the present scenario of liberalisation, privatisation and globalisation of Indian economy. ‘Oriental’ should only to see, that its advertisements in various media are well conceptualised, so that they will receive maximum attention from the public, resulting in increased sales of its policies.

Publicity:

Both advertising and publicity perform the job of promotional communication using the same media applying different strategies and performing somewhat different roles.
The term 'publicity' is defined as 'non-personal stimulation of demand for product, service or business unit by planting commercially significant news about it in a published medium or obtaining favourable presentation of it upon radio, television or stage that is not paid for by the sponsor'.

Publicity is also being defined as 'securing editorial space, as divorced from paid space, in all media read, viewed or heard by a company's customers or prospects, for the specific purpose of assisting in the meeting of sales goal'.

From both these definitions, it can be seen that publicity primarily consists of supplying news to the media, which may be of editorial interest or news value for the subscribers of the media and commercial significance to the organisation from the marketing angle or supplying relevant facts to significant outsiders who can make use of them in their own communications to stakeholders.

Publicity is concerned with only informative messages, as against advertising, which communicates to persuade, solicit or appeal in addition to inform. There is no ambiguity about the source from which an advertisement emanates, whereas publicity will lose its value, if it was felt by those exposed to its messages that it was sponsored or motivated.

Though for both advertising and publicity the same media, viz., press, radio, television etc. are used, the mechanics of using them differ significantly. Following may be considered as the main publicity tools.

Press release:

On the occurrence of important events, the department concerned of the organisation prepares a brief factual account and circulates it to the media. Events, which are appropriate for issue of press releases, include publication of
annual accounts or progress made in a given year, opening of new offices, launching of new products etc.

Press conferences:

A press conference is normally addressed by one of the top executives of the company, provides an opportunity to the media representatives to seek information through questions, thus exposing the company and its working to the public at a mass level.

Audio-visual presentations:

The company may arrange for an audio-visual presentation based on films, slide projector, VCR showing its achievements, progress or any other aspects of working.

Informal briefings:

Chief executive of a company may invite a few, say senior editors from the press or top executive from radio or television, not more than three or four at a time, for lunch or dinner and answers all their questions candidly through discussions, which help educating such senior personalities of communication industry about the company, its problems, achievements, future plans etc.

Sponsored articles:

If one of the top executives written a balanced article about the industry's or company's performance, problems, outlook etc., newspapers are normally glad to publish such articles.

All the above mentioned publicity tools are widely used in Western countries and not to an appreciable extent in India and especially by the public sector insurance companies, including 'Oriental'. Even the information of
opening of new offices and shifting of existing offices to new convenient premises by insurance companies are given as advertisements only by the company concerned and not as news items. The management of newspapers also thinks of its increased revenue only by way of procuring advertisements and is reluctant to publish such items as news in their columns, barring few occasions.

Once in a while the newspapers publish news items of insurance companies, of their business completion, target achievement, profit earned/loss suffered during the year, their future plans etc.

But, since the insurance companies in India are fully owned by Central Government, they are not bothered at all about publicity. Settlement of large claims, and especially cattle and gramin personal accident insurance claims in rural areas may be publicised to the advantage of insurance companies.

The following incident may be quoted as an example for publicity, done without any sponsorship. A scholarly professor cum head of the department of a reputed university, who often used to write articles of current interests to newspapers, after visiting a local fair, in which one of the nationalised insurance companies had a stall to market their policies, had written an article in a widely published and read newspaper praising the insurance company for having a stall in the fair, which was visited by thousands of people, and apprising the visitors of their various schemes, especially rural policies. The learned professor had completed the article with a question that when it was possible for a particular insurance company why not other companies could do it.

(The Divisional Manager of the company concerned who had jurisdiction over the Branch office in that area, having read the article in the newspaper, had deputed his Branch Manager and two of the staff to meet the
professor to convey him their heartfelt thanks was a different story that followed after the publication of the article, which was acclaimed by one and all in their company).

Such type of articles, that too written by recognised persons in the society, will always increase the image of the company in the minds of the public and no doubt that whenever they are in need of insurance, the name of the company which was featured in the article will automatically come up to their mind.

Publicity is very much underutilised by insurance companies and they are not clear in their mind about the purpose publicity can serve and the role it can play in their marketing. A separate department should be created and entrusted with the responsibility of looking for and preparing publicity articles and stories, and to keep liaison with the media and get them published.

Insurance companies tend to undermine publicity or use it as an after thought. A well thought out publicity campaign coordinated with other promotion mix elements can be extremely effective.

The following types of activities, events etc. can be profitably projected through publicity campaigns, namely, newsworthy events like expansion of activities, opening of new offices, introduction of new products, achievement of individual employees, officers on professional as well as sports fields, winning national or international honours, appointments on important national or regional committees and periodical reports about progress and profits.

Besides, socially significant activities like blood donation drives, planting of trees, improvement of ecology, children's health or similar drives, donation for social causes, consumer benefit activities like price reduction,
appointment of special officers for attending to customers problems etc. can be advantageously projected through publicity campaigns.

But in India, while some of the commercial organisations utilise these types of activities for publicity for the promotion of their companies' interests, public sector insurance companies are totally away from the concerted publicity campaigns. They must realise the power of publicity and the 'Oriental' should pursue to do publicity, both at local and national levels, so as to tap this source to its advantage to the full extent possible.

OPINION SURVEY:

To ascertain the views of the clients on the sales promotional measures taken by the company, a question (No.8) was included in the interview schedule and their responses are given in the Table 4.13.

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales promotional measures taken by the company are ...</td>
<td>Adequate</td>
</tr>
<tr>
<td></td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>(22.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

Advertising, publicity and such other sales promotional measures taken by the 'Oriental' are inadequate as per 70% of the respondents. 22.5% of the interviewed clients say that sales promotional measures taken by the company are adequate while 7.5% of them have no idea at all.

While administering the interview schedule, specifically two clients from Tiruchengode had told this researcher that the 'Oriental' need not waste money unnecessarily in advertising and instead the amount could be saved and the premium rates could be reduced. Moreover, if the staffs of the company render better service, that itself would have more effect than that of
advertising. They also added that if a customer was satisfied, then he himself would canvass his relatives, friends and acquaintances for the company.

The point they put forth was that a satisfied customer would become a goodwill ambassador of the company. And one of those two interviewed has also gone to the extent of advising this researcher to inform the people who are at the helm of affairs of 'Oriental' to stop forthwith the wasteful expenditure on advertising. The client was not convinced fully when this researcher told him that advertising would help the company to canvass prospective clients also besides helping in retaining the existing ones, and even then he stucked to his viewpoint that the employees should do better service and all expenditure on advertisements be stopped.

One can understand the reasoning in this client's point of view but even then no one can deny the advantages, which advertising can bring to an organisation and the management of 'Oriental' should realise this and act accordingly.

One of the hypotheses of this thesis, i.e., 'insurance marketing requires less efforts in India' is included as one of the questions (No.11) in the interview schedule administered to the clients to assess their views and their responses are tabulated in the Table 4.14.

**TABLE 4.14**

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Insurance marketing requires less efforts in India</td>
<td>45 (22.5%)</td>
<td>147 (73.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).
Clients, who constitute 22.5% of those interviewed, are of the opinion that with little efforts insurance products can be marketed in India. 4% of the respondents do not have any idea at all about the level of efforts needed for insurance marketing, while an overwhelming 73.5% of the clients, with their 'no' answer, have categorically said that insurance products cannot be marketed with less efforts, that means insurance marketing do need adequate or much efforts in India and thus they have 'disproved' the hypothesis, 'insurance marketing requires less efforts in India'.

Two questions, (Nos.20 and 21), are relating to the other hypotheses of this thesis and they are included in the interview schedule administered to the clients to assess their views on these two vital points, which are more relevant in these days of liberalisation, privatisation and globalisation. Question No.21, (i.e., privatisation of general insurance business is a way to improve customer service), is a corollary of question No.20, (i.e., customer service is poor in the Indian general insurance business). All their responses for these two questions are tabulated in the Table 4.15.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Customer service is poor in the Indian general insurance business</td>
<td>141</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>(70.5%)</td>
<td>(27%)</td>
</tr>
<tr>
<td>Privatisation of general insurance business is a way to improve customer service</td>
<td>140</td>
<td>42</td>
</tr>
<tr>
<td></td>
<td>(70%)</td>
<td>(21%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).
For the question, (No.20), 2.5% of the respondents choose the answer 'no idea', i.e., they have no idea at all about the level of service. 27% of the clients responded with the answer 'no', i.e., they think that customer service is not poor while 70.5% of the interviewed clients give the affirmative answer and proved the hypothesis, 'customer service is poor in the Indian general insurance business'.

For the question (No.21), a thumping majority of the interviewed clients, i.e., 70% of them, have given the answer 'yes' to the question and proved the hypothesis, 'privatisation of general insurance business is a way to improve customer service'. They feel that only privatisation will bring in improvement in customer service.

21% of the respondents say in the negative, i.e., they feel that, to improve customer service, general insurance business need not be privatised and the government owned insurance companies could continue to remain as public sector companies and improve their customer service. 9% of the clients who replied to the question do not have any idea about the question and its implication on customer service.

Table 4.16 shows the responses of employees of 'Oriental' for the question (No.10), which is also one of the hypotheses of this thesis, viz., 'lack of training in promotion is one of the causes for the poor performance in insurance marketing', is included in the interview schedule administered to them.

TABLE 4.16
LACK OF TRAINING: EMPLOYEES' VIEW

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of training in promotion is one of the causes for the poor performance in insurance marketing</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>147</td>
</tr>
<tr>
<td></td>
<td>(73.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).
18.5% of the employees responded with the 'no' answer saying that lack of training in promotion is not one of the causes for the poor performance in insurance marketing, while 8% of the respondents do not have any idea at all about it. An overwhelming majority of employees, i.e., 73.5%, responded with the affirmative answer for the question and 'proved' the hypothesis that 'lack of training in promotion is one of the causes for the poor performance in insurance marketing'.

Another question (No.11), which is also a hypothesis, 'insurance marketing requires less efforts in India' was also administered to the employees and their responses are tabulated in the Table 4.17.

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance marketing requires less efforts in India</td>
<td>Yes: 57 (28.5%)</td>
</tr>
<tr>
<td></td>
<td>No: 128 (64%)</td>
</tr>
<tr>
<td></td>
<td>No idea: 15 (7.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

Employees constituting 28.5% of those interviewed believe that with little efforts insurance products could be marketed in India, while 7.5% of those respondents have no idea at all about the level of efforts needed for insurance marketing. 64% of the employees, i.e., majority of those interviewed, are of the opinion that in India insurance products cannot be marketed with fewer efforts and thus 'disproved' the hypothesis.

The employees feel that in general insurance, policies fall for renewal each year and there is every chance for renewing the policies with other insurers by the insureds. Even if a company loses a particular premium in a year, that will be pursued for renewal in the coming year by that company and thus the competition for getting the premium will always be there and
hence the employees opined that general insurance marketing requires much efforts.

Question (No.22) is included in the interview schedule to assess the views of the employees on whether 'Oriental' earns underwriting profit. Their responses are given in the Table 4.18.

**TABLE 4.18**
**EARNING OF UNDERWRITING PROFIT: EMPLOYEES' VIEW**

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Your company earns underwriting profit</td>
<td>Yes</td>
<td>40</td>
<td>(20%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>153</td>
<td>(76.5%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No idea</td>
<td>7</td>
<td>(3.5%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

20% of the employees say that 'Oriental' earns underwriting profit while 3.5% of them convey that they do not have any idea about company's profit earning from underwriting. These 3.5% of the respondents are somewhat better, since they have accepted that they do not have any idea about the company's earning of underwriting profit, than the 20% of respondents, who believe that 'Oriental' earns underwriting profit, while the fact is not so.

During the ten-year study period, from 1989-90 to 1998-99, except for the two years, i.e., 1990-91 and 1993-94, 'Oriental' had continuously been suffering from underwriting loss and this could be understood from the Table 2.17 and Graph-28. Even after this study period, the company had been continuously suffering underwriting loss only and not earning underwriting profit, which is evident from the company's annual reports for the financial years from 1999-2000 to 2002-03.
Hence 'Oriental' should educate its employees and the employees must learn first about their company, which pays to them. It is gratifying to note that 76.5% of the respondent employees knew that their company was not earning any underwriting profit and has been continuously suffering underwriting loss only.

For another question (No.26), about the sales promotional measures taken by the company, the responses of the employees are tabulated in the Table 4.19.

<table>
<thead>
<tr>
<th>Question</th>
<th>Adequate</th>
<th>Inadequate</th>
<th>No idea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales promotional measures taken by the company are ...</td>
<td>22 (11%)</td>
<td>157 (78.5%)</td>
<td>21 (10.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

 Employees, representing 78.5% of the respondents say that the sales promotional measures taken by 'Oriental' are inadequate, while 11% of the interviewed are of the opinion that the sales promotional measures taken by the company are adequate enough. The remaining 10.5% of the interviewed employees have no idea about the promotional measures taken by the company.

Similarly, 70% of the clients (Table 4.13) who were responded to the same question were also of the opinion that the sales promotional measures taken by the company are inadequate. Hence 'Oriental' should give enough thought over its sales promotional measures and revamp it so as to be most effective to win over the competition in the field.

Questions (Nos.33 and 34), 'customer service is poor in the Indian general insurance business' and 'privatisation of general insurance business is
a way to improve customer service' respectively are two of the hypotheses, included in the interview schedule administered to the employees and their responses are tabulated in the Table 4.20.

Table 4.20
CUSTOMER SERVICE AND PRIVATISATION: EMPLOYEES' VIEW

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>No idea</td>
</tr>
<tr>
<td>Customer service is poor in the Indian general insurance business</td>
<td>92</td>
<td>94</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>(46%)</td>
<td>(47%)</td>
<td>(7%)</td>
</tr>
<tr>
<td>Privatisation of general insurance business is a way to improve customer service</td>
<td>65%</td>
<td>128</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>(32.5%)</td>
<td>(64%)</td>
<td>(3.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

Question (No.34) is corollary of question (No.33). 46% of the respondents accept that customer service is poor in the Indian general insurance business, while 47% of the employees do not accept this and say that the customer service is good in the Indian general insurance business and 'disproved' the hypothesis. When the same question was asked, 7% of the employees displayed their ignorance and said that they did not have any idea about it.

When the question (No.34) was asked, 32.5% of the employees accepted that privatisation of general insurance business is a way to improve customer service, while 64% of the respondents did not accept this contention by saying that without privatising the general insurance business the customer service could be improved and thus 'disproved' the hypothesis. Employees
representing 3.5% of the interviewed have no idea about the question and they remain neutral.

Researcher's view:

Hypotheses of the study are, (i) freedom in pricing results in better performance by the companies, (ii) lack of training for marketing staff is one of the causes for poor marketing, (iii) insurance marketing requires less efforts in India, (iv) customer service is poor in the Indian general insurance business and (v) privatisation of general insurance business is a way to improve customer service.

These five hypotheses, in the form of questions, were included in the interview schedules administered to the clients and employees. Except the second hypothesis, i.e., 'lack of training for marketing staff is one of the causes for poor marketing', opinion about which was obtained from employees only, the opinions were collected for all the other four hypotheses from both the clients and employees.

The first mentioned hypothesis, namely, 'freedom in pricing results in better performance by the companies', related to price oriented strategies, whereas all the other four hypotheses are related to this part of the thesis, viz., promotion oriented strategies. While the first hypothesis was discussed in the previous part of the thesis, the remaining four hypotheses are dealt with in detail in the following paragraphs.

Since the subject of staff training is more related to the employees than the clients, the question related to training was administered to the employees only, for getting their views.

It is discernible from the Table 4.16, that 73.5% of the employees gave the opinion that 'lack of training for marketing staff is one of the causes for poor marketing' and thus 'proved' the hypothesis beyond any doubt.
Personnel looking after the marketing functions are Class-II Development officers and in Class-I cadre those who look after the marketing functions are Assistant Administrative Officers - Development (A.A.Os.-D), Administrative Officers - Development (A.Os.-D), Branch and Division incharges. Development officers are the only cadre recruited from outside while all other Class-I officers who are looking after the marketing functions are promoted from lower cadres. Development officers are the main constituents of the marketing personnel who bring in majority of business to the company.

During 1970s, after the nationalisation of general insurance companies, Development officers were recruited from outside with the name Trainee Inspectors, whose services would be confirmed as Inspectors on completion of the given target and passing of the Licentiate examination conducted by the Federation of Insurance Institute of India (which name was later changed to Insurance Institute of India), Mumbai.

Many Development officers, who could complete the business targets, were unable to pass the Licentiate examination, the passing of which required lot of efforts and hence their services were prolonged under probation. Then in the year 1980, a separate examination was created exclusively for the Development officers (i.e., Trainee Inspectors) by the name Inspector examination. Trainee Inspectors who passed the Inspector examination and completed the premium target were confirmed in their services.

Development officers who were recruited during 1970s were sent to the field on the very first day itself without giving them any formal training. Management of the company never thought that the fresh recruits need training and guidance to thrive and succeed in the market.

Now this researcher could vividly remember how he was sent to the field, without any guidance or training, to do business when he joined the
company on 23.04.1979. He had to toil around to have quick grasp of the nuances of marketing, besides passing both the Licentiate and Inspector examinations, for getting theoretical foundation of the subjects, within the stipulated time.

Then in 1980s, the prospective Development officers were given training for four weeks at the end of which period they had to write the Inspector examination. After passing the examination they were given appointment under one year probation and before the end of the year they had to complete the premium targets assigned to them. Then only they would be confirmed in their services. Except this pre-recruitment training, no other training was imparted to them. Development officers recruited in 1980s were somewhat luckier than those Development officers recruited in the 1970s, who had no training at all.

In 1990, all the four nationalised companies put together were conducting a two weeks training programme in Trichy for all the Development officers, working in Tamil Nadu under the four companies. This training programme was going on for few years since all the four companies were involved in it and the number of Development officers was considerable. Such programmes were conducted all over the country for all the Development officers of the four companies. For conducting this programme 'Oriental' was responsible for all the States in Northern India while New India, United India and National were responsible for Western, Southern and Eastern States respectively.

During 1993-94, a two days programme, by the name 'striving for excellence', was conducted for all the staff and officers of 'Oriental' including Development officers. This was not related to marketing aspects of the company but pertains to human relationship. Other than this, no other training was given to Development officers.
'Oriental' has its full-fledged staff training college at Faridabad, in the State of Haryana, where almost only officers are called for to impart training in handling their respective departments. And only on rare occasions Senior Assistants, who are Class-III employees, would be called for training and no Development officers training programme has been conducted so far.

In every region, 'Oriental' has regional training centres and in Chennai one of such centres is located under the supervision of a Deputy Manager. And no programme is conducted exclusively for Development officers, the primary wing of the marketing department of the company.

Development officers, to excel in their field, have necessarily to be imparted training periodically about the insurance products, marketing aspects and other related matters. And often refresher courses of short duration should be conducted. To economise such training programmes, the trainers who would usually be few in numbers, could travel to few centres in the States, where the Development officers from those Divisions around such centres could assemble there and be imparted training instead of all the Development officers travelling to the respective regional training centres. Refresher courses, which should be of short duration and periodical in nature, would certainly brush up and enliven the memories of Development officers and enhance their business potential.

Likewise, for A.A.Os.(D) and A.Os.(D) also there are no specific training programmes. Refresher courses about insurance products, marketing aspects etc. should be conducted for them also so that they could be well placed in their respective positions to thwart competition from other companies.

Apart from giving periodical training for Development officers, it should be ensured that all the circulars from Head office and respective Regional offices are circulated among the marketing personnel of the Divisional and Branch office concerned, so that they could update their knowledge.
In reality, even important circulars, like informing the upward revision of premium or revised policy conditions, are not brought to the knowledge of all the Development officers except for the very few, who could have accidentally come across such circulars or who are in the office at the time when the circulars are received. The Development officers would know about the changes only when they bring new/renewal business under old policy conditions and being informed by the Class-I officer and/or Class-III employees concerned who handle the respective underwriting departments.

Even in Class-I cadre, A.Os.(D) and A.A.Os.(D) are not got the opportunity to go through all the circulars while their counterparts in the administrative side are able to lay their hands on all the reports and circulars received from their controlling offices. It is the officers on the administrative side, who are always large in numbers in each Divisional office when comparing with the number of officers who look after the marketing functions, rule the roost. This is because the persons looking after the marketing functions are almost outside the office, visiting clients and canvassing business and may not have any interest in the administrative duties and also may not be willing to take additional responsibilities. They do not have any fixed working hours, though they are expected to visit office.

The other point is the envy of administrative staff over the facilities like residential telephone, conveyance etc. enjoyed by the marketing personnel. These facilities are provided to the field staff who are looking after the marketing functions like Development officers, A.A.Os.(D), A.Os.(D), Branch and Division incharges and not to the Class-III employees who are assigned the work of marketing department inside the office. In some Divisions where there are no A.A.Os.(D) or A.Os.(D) posted, a Class-I officer from the administrative side will look after the marketing department and in such cases also these officers are not provided with residential telephone or conveyance facilities.
These facilities are provided to the marketing staff with a sole purpose of maximising their business potential and thereby increase the premium income of the company. But in practice these facilities make the marketing staff to think that they are a distinctive class of the company and act as a hindrance in their mingling with the rest of the company. Except for those few, who can always mingle easily with others by both physically and mentally, for most of the marketing personnel these facilities have been acting as a strong stimulus to think that they are a special breed in the company. These thoughts got buried deep in their minds reveal its face often much to the annoyance of the officers and staff on the administrative side who respond accordingly.

So marketing personnel should behave themselves and never think that they are a special cadre of the company just because of these facilities, which are provided to them not for their personal comforts but for the sole purpose of facilitating doing business and to increase the premium income of the company.

Even if the administrative staffs are indifferent to them, the marketing staff should take initiative to know of the changes by reading circulars on a daily basis. Branch/Division incharge must take initiative to have discussion with the marketing personnel at least once in a week by arranging informal meetings, about the changes taken place in that week. All circulars must be discussed in the meeting and the field staff must be given a copy of important circulars to have them filed in their own files and impart them in their minds by going through them often.

But in practice, in most of the offices, the incharges, when receive the circulars/reports, put their initials on them and pass them on to the respective departments. On receipt of the circulars from the incharge, the officers who look after the department concerned would read the circulars if
they are interested and advised the staff working in the department accordingly or simply hand them over to the sub-staff to file them in the respective files. Officers and employees of 'Oriental' should change their mindset to suit the changing environment of the industry for their survival.

Therefore to tone up the tenor of the marketing staff, the 'Oriental' should take corrective steps by giving periodical training to the marketing staff to update their knowledge besides ensuring that the circulars sent to the offices are reached to their hands so as to make themselves adapt to and succeed in the changing scenario of the Indian general insurance industry.

Now take the hypothesis, 'insurance marketing requires less efforts in India'. For this hypothesis, which was administered in the form of question to both the clients and employees to ascertain their views, 73.5% of the clients (Table 4.14) and 64% of the employees (Table 4.17) said 'no' and thus 'disproved' this hypothesis. That means, insurance marketing in India requires adequate/much efforts and with less efforts, as suggested by this hypothesis, no marketing staff could succeed in their endeavour.

Before nationalisation, there were more than one hundred companies, both of Indian and foreign origin, were operating in India and the competition was fierce that the companies were fighting for each and every premium. All the companies were functioning with the sole aim of earning profit and hence to achieve that end all types of practices were going on in the industry.

To avoid the use of unethical practices, to avoid amassing of profits in the hands of few and especially the benefits of insurance to reach the masses, all the general insurance companies were nationalised and taken over in the year 1972 by the Government of India by grouping them into the four existing companies, instead of grouping them into one, to foster healthy competition between them so that the insuring public would get better service.
The four nationalised companies are competing with each other to achieve their targeted annual growth and thus competition is persisting till date. During the ten-year study period, i.e., from 1989-90 to 1998-99, these four Government owned companies only were in the market. All the four companies, each one of them was vying with each other for business, maintained competition in the market.

Again this competition became fierce and to certain extent worse when the Central Government allowed the private companies to operate in the market from the year 2000. So every member of the marketing staff is always required to be on his toes to procure the premium and to retain each one of them with him, which requires much effort on his part. Any let up in their effort would result in their losing of business to the competitor who is also always on the prowl. Hence the clients and employees are right when they 'disprove' the hypothesis, 'insurance marketing requires less efforts in India'.

The question, 'customer service is poor in the Indian general insurance business', which is also one of the hypotheses of this thesis, was administered to both the clients and employees. When this question was asked to clients, an overwhelming majority of 70.5% of them (Table 4.15) said 'yes' and 'proved' this hypothesis. For the same question 47% of the employees of 'Oriental' (Table 4.20) chose the answer 'no' and 'disproved' the hypothesis. For the readers, it may look contrary, conflicting and even may be confusing to some extent, since the clients and employees give diversified answer for the same question and thus proved and disproved the hypothesis. But in reality it is not so and if it is analysed thoroughly, one could get a crystal clear picture of it.

Clients are in the receiving end. When the service is good they will benefit from it and if the service is not up to the standard or worse that will result in their suffering. Customers are not only in the receiving end and it is
they who pay for the service. Hence the customers' decision will be more meaningful and binding. Customers will last with a company only when the service is good and normally they compare the standard of service rendered by various service providers, not only in insurance industry but also in any field. So when they say that the customer service is poor in the Indian general insurance business, they really mean it.

On the other hand, 47% of the employees (Table 4.20) with their 'no' answer say that the customer service is not poor in the Indian general insurance business, while 46% of them say 'yes' and accept the fact that the customer service is poor in the Indian general insurance business. They almost equally divided in their opinion (the difference is only one percent) and it is good that atleast 46% of the employees know that their service is poor.

The employees who say 'no' are under the illusion and do not know the ground realities and what is going on in the industry. They will perish in this competitive environment unless they change their mindset and equip themselves for rendering better service to the customers.

For any business enterprise, customer is the king and as Gandhiji said customer is the master for any business concern. It is the customer who decides the fate and prosperity of any business, who will switch over to another service provider in the very next available opportunity seeking better service. Hence the clients undoubtedly have supremacy over the employees in deciding the quality of service and thus it is taken that the hypothesis, 'customer service is poor in the Indian general insurance business' as 'proved'.

The next hypothesis and the last one out of the five taken for this thesis is 'privatisation of general insurance business is a way to improve customer service'. To get the opinion of both sides, it is administered to both the clients and employees and a thumping majority of 70% of the clients
(Table 4.15) said in the affirmative and 'proved' the hypothesis beyond any doubt.

Here 21% of the clients do not accept this contention. They say that the existing Government companies could be revamped and rejuvenated to render better service to the customers and privatisation need not be the only solution for the maladies. They say it out of the fear that once private companies entered the market or the existing companies are privatised they will tend to increase the premium wherever and whenever possible. There will be favouritism and selection of clients and risks.

This fear is true when one witness the happenings in the industry after the private companies entered the market during the year 2000. They do not underwrite loss-prone motor insurance, which they do it in a selective manner. While they insure the private cars and motorcycles, they are reluctant and refuse to insure the commercial vehicles like buses, lorries etc., which are till date continued to be insured with the four public sector insurance companies. They are more willing and pursuing to do fire and other profit making insurances only while leaving the loss-making portfolio to the nationalised insurance companies.

Even if a big manufacturing enterprise have both fire and motor insurance requirements, the private sector insurance companies, by giving out of the record incentives to the insured, get the profit making fire insurance for themselves and request the insured to have their vehicles insured with the four public sector insurance companies, for which the insureds are also accepting because of the pecuniary interests involved in their doing fire insurance with the private insurance companies.

The private players may be willing to insure commercial motor vehicles, which bring in the maximum number of Third Party (T.P.) claims to the insurance companies to drain their sources, if the roads infrastructure facilities
are improved, legislative changes in the existing laws to limit the T.P. liabilities are brought in and the rules and regulations are impartially enforced to discipline the road users. Otherwise, without these changes, if the private companies started insuring commercial vehicles, their limited resources will vanish into thin air within a short period of time and the people who have been insured by them will also suffer. So it is the responsibility of the Central and State Governments to bring in necessary changes so as to provide a level playing field for all the players in the insurance industry.

Though the fear of 21% of the interviewed clients is true to a certain extent, one cannot deny the advantages what the privatisation could bring in. When competition is infused into the market, the clients are the ones who will enjoy the benefits out of it. The private companies, no doubt, will always choosy in doing their business with the ultimate aim of earning profit. But to achieve this end, with their efficient, compact workforce, they will render better service to the clients, to have them satisfied so that they could be retained with them in the years to come.

On the other hand, the nationalised insurance companies, including the 'Oriental', which are lacking practical approach, with their redundant, excess work force which requires a lot of discipline, and outdated rules and regulations, are unable to deliver the goods. They are unable to compete with the private companies, which is evident from the fact that the profitable premiums which they are losing to private companies within a short span of time. In future, if they continue to function in the manner as they are doing now, one will not wonder if they totally vanish from the picture.

So 70% of the clients are right when they say that 'privatisation of general insurance business is a way to improve customer service'. One can take it to mean that the 'Oriental' and the other nationalised insurance companies can compete with the private companies by improving their
standard of service by taking effective steps like having practical approach to each problem, reduce the size of the work force and to train and discipline the remaining employees etc.

When the same question was asked to the employees of 'Oriental', 32.5% of them, (Table 4.20), with their affirmative answer, concur with the clients. These 32.5% of the respondents realised that the service should be improved and accept that privatisation is a way to improve it. Their stand reveals that they are willing to adapt the change to render better service to clients.

Whereas 64% of the employees, with their 'no' reply, 'disproved' the hypothesis. Out of fear of losing the premium to private companies and thereby ultimately losing out their jobs, they do not accept this hypothesis. By their stand, one could understand that with the existing set up they are comfortable with total impunity from punishment for their non-performance or misbehaviour, which they cannot expect in an atmosphere of privatisation.

They feel that the existing companies could be toned up with necessary changes brought in so as to ensure better service to the clients. But they forget the fact that it is they who render service to the clients and it is they who need to change.

Though the employees feel that with necessary corrective steps the existing companies could improve the standard of service, here one should remember the resistance they put forth for the introduction of computers for underwriting when the offices were first computerised a couple of years back. Though knowing well that computerisation of offices will certainly improve the standard of service, the employees vehemently opposed it. Then the 'Oriental' and also the other nationalised insurance companies had to shell out an increment to all the employees of the company to overcome their resistance.
It is also a fact that computerisation reduce the workload to a larger extent for the employees and a considerable percentage of the work force became redundant, which the 'Oriental' and the other three nationalised insurance companies were unable to shed easily due to the policies of the Central Government.

While the conditions remain so in the nationalised insurance companies, the private companies started their operation with latest computers. With all their offices inter connected through Internet and satellite connections, they started to conquer the public sector companies from the day one of their operation. With their highly motivated, compact and efficient work force, armed with latest techniques of marketing and servicing, the private companies find it easy to snatch away the premiums from the public sector insurance companies.

This could be understood from the statement of the Chairman of a private sector insurance company, which was started recently in the year 2000. He, in his interview to an English daily, has stated that his company has completed a total premium of Rs.184 crores for the financial year 2002-03, out of which 25% was the profit and they also aim to achieve a total premium of Rs.300 crores, an astounding 63% growth, for the financial year 2003-04, with a target to net in a minimum of 30% profit. To achieve this 30% profit, the Chairman has continued to elaborate that they are going to form a committee of experts specifically for this purpose, with the help of their collaborator from abroad, to oversee the claims reported to the company.

The employees of the 'Oriental' should realise that the private sector insurance companies not only fix their annual growth target, which they achieve with ease, but also resolve to achieve the fixed percentage of profit, which they accomplish with their meticulous planning and execution and which
are not only totally lacking in but also aliens to the public sector insurance companies.

With the absence of enforcement of disciplinary mechanism to correct the erring employees and officers and with so many lacunae in their functioning, the 'Oriental' and the other three public sector insurance companies will be apt to fail if they continue their present style of functioning.

Under these circumstances, though majority (i.e., 64%) of the employees say 'no' to privatisation, it will not stand the test of time. Again it is the customers who pay for the survival of employees and the decision they take will only stand and hence the hypothesis 'privatisation of general insurance business is a way to improve customer service' is taken as 'proved' with 70% of the customers say 'yes' for it.

5. PEOPLE ORIENTED STRATEGIES:

People comprise both clients and employees of the insurance company. The client of an insurance company may be a single moped owner who is in need of a motor cycle insurance policy or a house owner requiring a fire insurance policy for his house or a multi crore manufacturing enterprise requiring various insurance coverage for safeguarding their interests from any accidental loss.

'Oriental' has to cater to the needs of all types of clients, whose expectations are ever increasing as the life style is becoming more and more complex. Awareness level of clients has increased to a high level due to increase in the literacy level and the clients' exposure to various media. Media like newspapers, radio and television play a vital role in educating the clients along with their entertainment. (The role of the media can be understood from
development of a new word 'edutainment', which is the combination of both education and entertainment).

Clients, whether they are an owner of a moped or a multi activities company of high stature, are demanding nowadays, expecting a high level of service from the insurance company. If they are not satisfied with a particular insurance company, they will tend to switch over to other companies whose service is comparatively better.

Some clients always come to the insurance company in person for their insurance requirements while some of them will send their representatives to the company to get their insurance needs fulfilled. Some of the clients would always need the representatives of the insurance companies to visit them whenever they require insurance protection. Few of the big clients would have separate insurance departments of their own and the persons in charge of these departments would often interact with the insurance company personnel for their insurance requirements.

Special type of policies to suit the individual needs of big enterprises are not provided by the insurance companies in India while tailor made policies only are offered by them and the clients have to avail from these available policies only.

For the past three decades, in insurance industry it has been the sellers' market in India, which is now changing as a buyers' market after the private companies were allowed to operate since 2000. So the clients have now the freedom of choosing the best service provider to suit their needs, instead of fully depending on the public sector insurance companies, which are suffering from all their shortcomings. The ever increasing expectations of the clients are to be matched with the qualitative service rendered by the personnel of the insurance companies.
Employees:

Every organisation will accept the fact that the prime asset of an organisation is its employees. No doubt, a motivated, trained and disciplined workforce will do wonders for the organisation to which it belongs, whereas, the workforce of the 'Oriental' and other public sector insurance companies has become a burden.

Main deficiency lies in the discipline of the workforce followed by inefficiency, lack of training etc. Attitude of the management of the 'Oriental' and the other three companies is also to be blamed for these ills.

If action is taken against an erred employee, the union/association, in which he is a member, intervenes to save the employee concerned even if he has committed a grievous mistake, like misappropriation of company's money. Thus the erring employees go scot-free without any punishment for their heinous acts or let off with least punishment not commensurate with the degree of the crime committed.

There are also instances where the provisions of an Act, which was promulgated by the Government with good intention, were misused as a weapon against the officials and at times fellow employees of the company by the erring employees as shield to protect themselves from the possible punishment. The fall out of this is that almost no official is interested in taking disciplinary action against any erring employee, since they do not want themselves get entangled into any controversy or problem.

Thus ultimately the 'Oriental' and other public sector insurance companies have become the losers and because of absence of punishment the erring employees get encouraged to commit more crimes against the organisation for which they are working and which organisation pay for their survival.
Unless this prevailing trend is reversed and the erring employees are dealt with suitably, the public sector insurance companies will find it more difficult to survive in the competitive market since an undisciplined workforce itself will kill the organisation even before its competitors do it. Hence the management of 'Oriental' should tone up its regulatory mechanism to enforce discipline impartially among its workforce, if at all it wishes to survive in the market.

An attempt is made in the following pages to give a clear understanding on how the personnel of 'Oriental' is recruited, selected and placed in the right job followed by compensation package to them, motivation, training and development.

Recruitment:

When all the private insurance companies were taken over by the Central Government during 1972 and grouped them into the four existing companies, all the employees of those private companies were also absorbed into the respective existing companies.

A total of 22 private insurance companies (10 Indian and 12 foreign companies, which had their operations in India) were merged with 'Oriental' and the employees of all those private companies were absorbed into the 'Oriental'.

Thus, at the time of nationalisation, except for the existing employees of 'Oriental', the first set of employees of the company was not recruited on its own from outside but came along with nationalisation. It took many years for those employees to shed their individual company identity and mentally became the employees of 'Oriental'.
With the passing of each year, the premium income of 'Oriental' was increasing and to accomplish the work new personnel were recruited from outside for various cadres, viz., Class-I, Class-II, Class-III and Class-IV.

Class-I cadre consists of Assistant Administrative Officer (A.A.O.), Administrative Officer (A.O.), Assistant Manager (A.M.), Deputy Manager, Manager, Assistant General Manager (A.G.M.), General Manager (G.M.) and Chairman-cum-Managing Director (C.M.D.).

Persons from outside were recruited for the post of A.A.O. in the Class-I cadre and they have to ascend the ladder for higher posts by promotion only. Persons from other three public sector insurance companies and General Insurance Corporation of India were also posted to 'Oriental' (and also vice versa) for the cadre of G.M. and C.M.D.

Development officers, the primary arm of company's marketing wing, were recruited from outside in the Class-II cadre. Once during 1990s, the existing Class-III employees of the company were given an option of converting their service to function as Class-II Development officers for a period of one year, during which period they have to complete the target which they were given with. The Class-III employees who were given the opportunity for conversion were also given an option of reverting to their original cadre if they fail to achieve the target within the stipulated time of one year.

Class-III employees consist of (i) assistants, which include typists, clerks and cashiers, (ii) senior assistants (who are promoted from the cadre of assistants), (iii) computer programmers, (iv) stenographers, and (v) record clerks (who are promoted from Class-IV cadre). Recruitment from outside is made to the cadre of assistants only.

Sub-staff (i.e., peons) and part time sweepers (PTSs) form part of Class-IV cadre. Recruitment from outside is made for both the posts of
sub-staff and PTS. (PTSs were recruited from outside for doing sweeping and cleaning of office premises on part time basis). Now the 'Oriental' and other public sector insurance companies have been converting the PTSs as full time employees of the company and for example, in Tiruchengode Branch office of 'Oriental', from the month of September 2003 onwards, the service of PTS has been converted to full time basis.

During the ten-year study period, from 1989-90 to 1998-99, the number of Class-I officers was 3,206 (as given in the Table 2.15 and Graph-19) in the year 1989-90, which gradually rose to a peak of 3,759 in the year 1993-94. This number dipped to a level of 3,476 in the year 1996-97 to end up at 3,646 in the year 1998-99, i.e., at the end of the study period.

The number of Class-II Development officers in the year 1989-90 was 3,577 (please refer Table 2.15 and Graph-20), which figure gradually decreased to a final figure of 3,108 in the year 1998-99. The number of Development officers was continuously declining throughout the study period except for a slight increase in the years 1994-95 and 1996-97.

Class-III employees in the year 1989-90 were 8,307 in the pay rolls of 'Oriental' which figure gradually rose to its peak level at 10,649 during the year 1996-97, to end up at 10,299 in the year 1998-99 (Table 2.15 and Graph-21). Out of ten years in the study period, continuous eight years from 1989-90 registered growth only in the number of Class-III employees while there was a decline in their strength during the remaining last two years of the study period.

In case of Class-IV employees as depicted in the Table 2.15 and the Graph-22, their strength in the company was 2,623 in the year 1989-90 and it was in its peak in the year 1996-97 when it touched 3,447. During the ten-year study period, seven years registered growth in the number of Class-IV employees except for the three years, viz., 1994-95, 1997-98 and 1998-99.
Selection of personnel was made by conducting tests and interviews and the selected candidates were placed in the service of the company.

In any commercial organisation recruitment of personnel is made by conducting tests, interviews and group discussions for the applicants to select the cream of them for placing the right person for the right job. But in insurance industry, which is infested to the core with indiscipline and inefficiency, because of Government policies, it is neither possible to select the cream of people nor place the right person for the right job. 'Oriental' is not an exception to this, which also has to comply with the policies of the Central Government since it is fully owned by it and the Indian Government is to be blamed for having developed mediocrity in all its services because of its policies.

Here one must also remember the fact that the Government has only framed the policies and it does not in any way prohibit the insurance companies from enforcing discipline among its employees, which is the sole responsibility of the insurance companies. Thus the responsibility of enforcing discipline amongst its workforce squarely lies with the management of 'Oriental', which miserably failed in this respect.

Since it is a Government owned company, where there is no adequate control, the employees take liberty to do what they like to do and the management of the company is also not made accountable for its lapses. Usually when a person is selected, he will be given an appointment order with job profile, i.e., what the company is expected of him. The recruited person's duties and responsibilities are given in the job profile. These job profiles are given at the time of calling for application itself and one may come across it in such companies' advertisements in the newspapers.
But to one's astonishment there is no such job profile issued to any of the employees, including officers, of 'Oriental' when they are given appointment, not to speak of it at the time of calling for application itself. The only exception to this is the Class-II Development officers, in whose appointment letters a couple of items are mentioned as their duties and lastly added to it is 'and such other duties as and when assigned by the competent authority'. This undefined duty officially made them slaves to the Branch/Division incharges concerned and also to other higher officials from R.O. and H.O. The management of the company itself does not know clearly about what all the duties to be assigned for a particular class of employee.

In many offices, it is a common sight that an officer, who has to check and sign the policies, himself remove the carbons that are in between the policy printouts, staple folders to the certificates, sign them and hand them over to the insureds. In such offices, if any one asks the sub-staff or record clerk whose responsibility it is to remove the carbons, they will simply say that it is not their duty. Such is the pathetic condition that is prevailing in the public sector insurance companies in India.

Placement:

Placing the right person for the right job is a pipe dream in the 'Oriental' as well as in the other public sector insurance companies.

There are rules in the company like for each office atleast there must be three assistants and one senior assistant for every three assistants and one A.A.O. for every three senior assistants and so on. But these rules are in the books only which are not followed in practice and accommodation is the only policy followed by the management of the company.

There is a rule in the 'Oriental' that no transfer request from an employee will be considered, if he does not complete a minimum service of 3

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years in his present place of posting. But this rule was flouted on several occasions and there are many instances when persons, who were not even completed one year in their present place of posting, got transfer to places of their choice.

Now employees are trying to escape from the Transfer Mobility Policy (TMP) of the company. The TMP says, all employees, who put in five years of service will be considered for transfer to other places. In an office, the person who puts in a longer period of service will be considered first for transfer. The next senior will be considered second and so on.

So the employees, who put in a longer period of service by remaining in the same office, try to move to the nearby offices by getting transfer to the places of their choice. And in the next available opportunity they again come back to their original places. Thus they try to avoid their getting transferred to distant places, which will upset their establishment in their original places. Some of the employees achieve this with much ease when compared to others.

Nothing is moved in the interest of the company and everything is done to safeguard and promote the personal interest of the employee concerned. The employees who bear the brunt of these activities will vouch for it. This researcher, who has put in 25 years of service in the 'Oriental', does not write this out of any aversion towards any employee. The researcher's intention is to give a clear picture of the happenings that are going on in the company and in the industry.

Moreover, the posting of employees is not made on need based. For example, in Tiruchengode Branch office, where there is Rs.1.82 crore business in the year 2002-03, there is no Branch Manager and there are totally nine staff members including two officers and one who is the senior officer among them, looks after the Branch office.
Whereas in the Gobichettipalayam Branch office of 'Oriental', where they have done Rs.1.20 crore business for the year 2002-03, there are 16 staff members, which include an S.B.M., two A.Os. and one A.A.O. This is given here as an example only and it is the case with many offices of 'Oriental' and hence the company has to offset these imbalances so as to ensure a balanced growth.

Compensation:

Salary and perquisites for the employees of 'Oriental' was one of the best by any standard. But of late, this 'best' level was relegated to back seats by many other public sector undertakings. After private sector insurance companies came into operation, the compensation package of public sector insurance companies was pushed back still further.

Employees' unions of the public sector insurance companies would negotiate with General Insurance Corporation (GIC) of India before the four insurance companies were disconnected from it and made independent companies and GIC was made a reinsurance company and after this they negotiate with GIPSA (General Insurers Public Sector Association) which in turn get the approval of the Finance Ministry and release the salary increase.

Each wage settlement will be in force for five years after which period a new settlement has to be negotiated with and arrived at for the next five years. The last wage settlement which was arrived at during 1997 was over in the year 2002. Now it is more than a year since the expiry of the last settlement but the GIPSA and Government were not responsive for the early settlement.

Now it is learnt that a Voluntary Retirement Scheme (VRS) for all the employees, except for the Class-II Development officers to whom the VRS was already offered, which is pending for the past many months, would be
floated within a month or two and after the completion of VRS only the next wage settlement would come through. So it will not be a wonder if the wage negotiations are taken well into the second or third quarter of the year 2004 and the employees must wait till such time expecting a good rise in the level of their salary and perquisites. (It is now learnt that with effect from 01.01.2004, a special VRS has been floated by 'Oriental' and other three public sector insurance companies for their Class-I, Class-III and Class-IV employees and the scheme will be open for two months till 29.02.2004, before which date the employees have to exercise their options).

Motivation:

Every private company does it on a daily basis but it is totally lacking in the 'Oriental' and other public sector insurance companies. Motivation may be in the form of words of appreciation from superiors or in the form of incentives etc.

Incentives are given only to Development officers to motivate them to do more business and this incentive schemes are also more complicated with so many riders and restrictions incorporated therein. This poses many difficulties to Development officers to achieve the incentives. For all the employees from other cadres, these types of incentives are not paid.

Words of appreciation from superiors for the good work done will certainly motivate the employees concerned, but ironically good work has become scarce these days and still more scarcer is the superiors with such broad mindedness to notice and appreciate the good work of subordinates.

With changing life style and standard of living, every employee must be given incentive/monetary benefits which will certainly motivate them to do more rewarding work. But this is not possible in the public sector
insurance companies and the word motivation will always remain a distant dream only.

Training and development:

Just like overhauling a machine after the specified running hours to ensure its smooth functioning and to increase its efficiency, training of employees periodically is a must for updating their knowledge and to brush up their memory.

Training will certainly help for the development of the employee concerned and for the company. For directly recruited A.A.Os., the Oriental Staff Training College (OSTC) at Faridabad, in the State of Haryana cater to their training needs. They were given six months' training after which they were posted to various places throughout India. But it is a long time since the direct recruitment of A.A.Os. was altogether stopped.

Even a year back the A.A.Os. promoted from Class-II and Class-III cadres were given foundation training at OSTC for five weeks, which duration was reduced to two weeks for the batches of officers in 2003.

Other than this foundation training, various training programmes are going on through out the year and the duration of the programmes vary from few days to few weeks. At times senior assistants from Class-III cadre are also called for short period training programmes, in the related subjects of the departments which they are handling in their offices.

Other than OSTC, each Regional office (R.O.) of 'Oriental' has its own Regional Training Centre (RTC) in its headquarters and the Chennai R.O. has its RTC at Chennai, which is headed by a Deputy Manager. Here training programmes are conducted for various cadres of employees and at times only occasionally these programmes are held.
Other than OSTC and RTCs, there is one institution at Pune, called National Insurance Academy (NIA), which has been running at the behest of the four public sector insurance companies. NIA is funded by the four companies and the Central Government. NIA has a full time Director and committee members, who are eminent and experienced persons selected from the insurance industry.

Here in NIA various training programmes, spanning from few days to few weeks, are conducted for the officers, usually from the cadre of Assistant Manager of all the four companies and on rare occasions only A.Os. are called for training. Officers from other private companies in India and from other Asian countries are also participating in some of the programmes.

'Oriental' has to give intensive training periodically to all its employees if at all it wishes to compete in the market. What is pity in it is leave alone their competing in the market, many of the employees not even know about their company which pay for their survival and first they must be educated about their company, in which they spend their prime of life.

OPINION SURVEY:

To elicit opinion of the clients about the service being rendered by the marketing and administrative staff, two questions (Nos.9 and 10), i.e., service by the sales employees is good and the service by the administrative staff is good are included in the interview schedule administered to the clients and their opinions are incorporated in the Table 4.21.
TABLE 4.21
SERVICE BY THE EMPLOYEES: CLIENTS' VIEW

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>No idea</td>
</tr>
<tr>
<td>Service by the sales employees is good</td>
<td>162</td>
<td>36</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>(81%)</td>
<td>(18%)</td>
<td>(1%)</td>
</tr>
<tr>
<td>Service by the administrative staff is good</td>
<td>41</td>
<td>129</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>(20.5%)</td>
<td>(64.5%)</td>
<td>(15%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

When an experienced person watches the behaviour of sales persons, whom he does not know before, and their movement with others, he will simply say that they are from the marketing side. This is because, the marketing people have to convince others to take policies from their company and also service those clients who are in need of it. So they will have to have an attitude to suit these functions.

There will be a perceptible change in the behaviour of sales people when compared with others those who work in the office. This is the case with Branch/Division incharges also who come for the first time to take over the marketing functions. They will have to necessarily change their attitude so as to suit and survive in the competitive marketing field. Thus the salesperson will always be willing to mix with and easily move with others though there are exceptions to this.

Hence there is no surprise when an overwhelming majority of 81% of the interviewed clients say 'yes' when they were asked about whether the service by the sales employees is good. This is the highest score awarded by
the clients for a question out of the 21 questions totally presented in the interview schedule administered to them. By this, one can well imagine the level of satisfaction of the clients which they enjoyed by the service of the sales persons.

Here one must also remind themselves of the fact that 18% of the clients say 'no' for the same question conveying that the sales persons have to improve their standard of service. This is because of some of the marketing personnel, who forget about the clients immediately on receiving the premium from them. Such type of sales people must change their attitude and try to join the band of majority employees, who received the goodwill of the clients.

For the other question, majority of the clients, i.e., 64.5% of them, replied in the negative and do not accept the question, i.e., service by the administrative staff is good. There is no room for the employees to be complacent as 20.5% of respondents accept that the service rendered by them is good. When a client says that the service is not good, the employees must dwell upon the fact and strive hard to improve their service, since the customer is always right and whose decision will have a direct bearing on the prosperity of the company.

A considerable 15% of the clients have no idea at all about the service rendered by the administrative staff is good or not. This is because of their not having any connection with them, since all of their requirements are met with by the marketing staff of the company. Therefore the administrative staff should come forward willingly to serve the clients, so that these 15% of the clients will also join with the other clients who appreciate their service.

There are ten questions related to this part of the thesis, viz., people oriented strategies, that are included in the interview schedule administered to the employees of 'Oriental'.

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Question (No.6) is included to find out whether the job is quite pleasant to the employees or not. Their opinions are given in the Table 4.22.

### TABLE 4.22
PLEASANTNESS OF THE JOB: EMPLOYEES' VIEW

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Your job is quite pleasant</td>
<td>165 (82.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

It is really surprising to know that 82.5% of the employees consider their job is quite pleasant to work with. Though majority of employees say that their job is quite pleasant, in reality it may not be so, because when a job is a pleasant one for the employee who is doing it, it will certainly reflect upon the character of the employee and also the quality and quantity of the job done. But in reality it is not so as it is evident from the opinion of the clients, that are given in various Tables and whose opinion is always reigning the industry, decide the fate of the company concerned and ultimately the future of the employees.

Table 4.15 depicts the views of the clients about the customer service and on privatisation. 70.5% of the clients say that customer service is poor and 70% of them have preferred privatisation of general insurance business to improve customer service.

As given in Table 4.21, 64.5% of the clients say that the service rendered by the administrative staff is not up to their satisfaction and 18% of them have not approved of the service rendered by the marketing employees of the company.
Besides these opinions of the clients, Table 4.20 illustrates the opinions of the employees, where 46% of the employees themselves have given their opinion that customer service is poor and 32.5% of them even preferred privatisation of general insurance business to improve customer service.

Thus the facts remain so, the majority opinion of the employees that their job is quite pleasant could not be taken at its face value. If these employees were to work in private companies, they will not have so much of freedom, the opportunity to misbehave, the chance to misappropriate company's money and go scot-free without any punishment and enjoy such amount of impunity. They will not also be allowed to spread their tentacles, to establish in a particular place, to do their personal business.

Considering all these facts, the job may be quite pleasant personally for the employees but it is in no way beneficial to the company. Hence the employees must change their mindset and also the management of the company, which is basically responsible for all these ills, must take appropriate steps, to make the job a quite pleasant one to its real meaning so as to benefit the company and thereby ultimately resulting in the welfare of the employees, who are now dubiously consider their job is a quite pleasant one.

Table 4.23 gives the opinion of the employees about job rotation and to obtain their opinion, it is included in the form of question (No.7) in the interview schedule administered to them.
Employees of 'Oriental' who are satisfied with the job rotation consist of 53% of respondents, while 32% of them are a dissatisfied lot and as for every other question, here also 15% of the employees have no idea at all about job rotation, a strange phenomenon in insurance industry when compared with banks, where periodically, i.e., in every 3 or 6 or in some cases 12 months, the employees are put on job rotation.

The basic idea behind job rotation is, every employee in the organisation must have a thorough working knowledge of various work in the company and to ensure that the smooth functioning of the office concerned is not disturbed because of the absence of particular employee(s), since other employees who have experience in doing the job could be deputed to look after the department concerned.

Practically there is no job rotation at all in 'Oriental' and other public sector insurance companies, except once in a blue moon when the insisting, adamant senior assistants/assistants will get the department of their choice and no wonder, these departments will invariably be O.D. (Own Damage) or T.P. (Third Party) claims. This is because of O.D. claims
department is quite often visited by the insurance surveyors, insureds and the Development officers concerned.

Likewise the T.P. claims department will be visited by the lawyers and at times by the claimants. These all will add and gratify the ego of the employees concerned. The officers who handle T.P. claims will have to go out to courts, that too frequently during these days of increased number of T.P. claims, for which they get allowances and to one's astonishment, at times, these allowances paid to an officer in a month will be equivalent to or more than his net salary i.e., his take home pay.

Besides these, there is every chance of making money from handling these departments and who are prone to this will be more fascinated towards these departments. Not only employees, there are also officers who are choosy in selecting departments if they are given a chance.

Normally, an officer will continue to remain in the same department as long as he continues in the same office. Once he transferred to other office, he may be a given the same department in his new office, taking into account his experience in the department concerned or he may be given another department depending on the circumstances prevailing in the office.

The satisfied, 53% of the employees, may be well settled in their present departments due to the reasons mentioned above or it may be convenient for them to pursue their personal goals outside the office. The 32% of the employees, who are dissatisfied over job rotation, may be bored with their present work because of monotony of doing it for a longer period or may be vying for the lucrative departments.

The remaining 15% of the employees, who have no idea about job rotation, must be educated about it and especially the advantages it could bring in to the organisation and to the betterment of the employees themselves.
If an organisation is to compete in the market, job rotation is a must and 'Oriental' must enforce it, overcoming resistance from any corner, to make the employees more adept and knowledgeable and thereby benefiting both the company and the employees alike.

Questions (Nos.8 and 9) are related to training aspects of employees and their responses are provided in the Table 4.24.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Necessary training has been given to you for handling your department</td>
<td>Yes 117 (58.5%), No 80 (40%), No idea 3 (1.5%)</td>
</tr>
<tr>
<td>Periodical training is necessary</td>
<td>Yes 186 (93%), No 14 (7%), No idea Nil</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

A considerable 40% of the employees say that they have not been given necessary training for handling their department and in contrast to this 58.5% of the employees are of the opinion that they have been provided with necessary training for handling their respective departments.

In fact, there is no formal, thorough training for any of the employees before they have been allotted with any work. The employees, if they have interest, will learn on their own by doing the work, by committing mistakes and rectify them later and also from their superiors, who also learnt the same way.
This practice should be stopped and every employee must be given induction training before they are entrusted with the work, which will certainly avoid wastage of time, energy and money.

Regarding periodical training, an overwhelming 93% of the employees affirmed that they need periodical training to brush up their memory and to update their knowledge, while 7% of them say that there is no need for periodical training. As it is evident from the Table 4.24, for this question only all the respondents have chosen the answer 'yes' or 'no' and everybody has a clear perception of the question leaving 'nil' response for the third option 'no idea'.

A person can reply yes or no for a question only when he understands the problem and knows the options available for it. Hence all the employees of 'Oriental' must be educated to such an extent that they are able to select concrete answers, i.e., yes or no, for all the question put to them.

Regarding three questions (Nos.12, 13 and 14), about salary, incentive and promotion of employees, their views are given in the Table 4.25.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Salary level is good</td>
<td>154 (77%) 45 (22.5%) 1 (0.5%)</td>
</tr>
<tr>
<td>Existing incentive scheme is good</td>
<td>95 (47.5%) 78 (39%) 27 (13.5%)</td>
</tr>
<tr>
<td>Promotional avenues are good</td>
<td>57 (28.5%) 135 (67.5%) 8 (4%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).
Employees, representing 77% of the respondents, accept that the salary level is good while 22.5% of them are not satisfied with the present level of pay. It is really satisfying to learn that majority of the employees have realised that they are well paid by the company, to which they must show their gratitude by their sincere work.

22.5% of the responding employees feel that the existing salary level is not good and it requires to be improved. This may be true to some extent. When one compares the salary level with some of the other public sector enterprises of the Central Government he will be able to realise the disparities among them.

Moreover the compensation package is attractive for the employees in private sector insurance companies. But here one must also realise that the level of efficiency and the work culture of those employees working in the private sector insurance companies and hence there is no reasoning for comparison of the salary level existing in the 'Oriental' and other public sector insurance companies with those of the private sector insurance companies.

Moreover human wants are insatiable and all their requirements cannot be met with by the company. But one good suggestion here will be the 'Oriental' may introduce point system based on the output of each employee. Based on these points, salary and incentive could be fixed which may vary from employee to employee based on their output.

This point system exists in some of the high-tech private sector banks; for example in the ICICI bank the quantum of incentive and salary paid to each employee in the same cadre differ based on their output. This scheme is a sure way for enhancing the efficiency of the employees and each employee strives to achieve their maximum extent possible, which benefits the organisation to excel in the field.
Regarding the existing incentive scheme, 47.5% of the employees accept that it is good, while 39% of them do not accept it, asking for more improvements in the schemes. There are three incentive schemes for Development officers, viz., growth incentive, profit incentive and cost saved production incentive. These incentive schemes are marred by so many restrictions incorporated therein and for the well performing Development officers, these schemes are not attractive and also act as disincentive for their growth and for the company alike.

The incentive scheme meant for all the personnel of the company, including Development officers, is for the better document issuance, claim settlement and for their overall efficiency. The incentive payment will be a meagre one (only a few hundred rupees) and all the employees are paid equally making no difference between the well performing and non-performing employees. The difference in payment exists only between the cadres and within the cadre there is no difference at all.

What is pathetic here is invariably all the underwriting and claim settling offices give the document issuance and claim settlement ratio as very high, sometimes 100%, while the fact remains different. Moreover this incentive payment of few hundred rupees is also not paid every year and the employees are also not bothered about it since it is not an incentive in its real sense.

Next to the question of 'job rotation' (Table 4.23), this is the question to which a maximum number of 13.5% of the employees have chosen the answer 'no idea'. This shows that a considerable percentage of employees have no idea at all about the incentive scheme which the company is having. So the management of 'Oriental' must devise an incentive scheme, which will really work as an incentive, so as to induce the employees to perform well in all the fronts.
For the next question about promotional avenues, only 28.5% of the employees accept that it is good while a majority of 67.5% of the respondents feel that promotional avenues are not good. It is a fact that promotional avenues are not good for all the employees of the company. This resentment prevails within all the cadres of the company. Time-bound promotion may be introduced in the company which may enthuse the employees but it will certainly bring in a situation which will be worse than the one at the present.

Only efficiency and excellence should be encouraged if at all the company likes to compete in the market and the management of 'Oriental', without any favouritism, should give promotion to the employees who deserve it and it must make the job attractive for the employees to work with and then only the company can prosper.

Question (Nos.23 and 24) are included in the interview schedule to ascertain the view of the employees about the adequacy of the sales and administrative staff and their responses are given in the Table 4.26.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Your office has adequate sales force</td>
<td>90</td>
<td>97</td>
</tr>
<tr>
<td></td>
<td>(45%)</td>
<td>(48.5%)</td>
</tr>
<tr>
<td>Your office has adequate administrative staff</td>
<td>152</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>(76%)</td>
<td>(22%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

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Though 45% of the employees feel that the sales force is adequate, majority of the respondents, i.e., 48.5% of them, opine that the sales force is inadequate and it needs to be enlarged.

Nearly for a period of three decades, the insurance industry was under a controlled regime. Though there were four public sector insurance companies operating during that period, there was no real competition in the industry instead of what it was actually to be. Hence the insurance companies did not feel any need for an efficient sales force to thwart competition and the activities were going at snail's pace.

But this scenario has been changing at the advent of private sector insurance companies. 'Oriental' must have an adequate and efficient sales force at least to continue to maintain its market share of business.

During the month of March 2003, the 'Oriental' and the other public sector insurance companies offered voluntary retirement (VRS) to the Development officers, many of whom opted for it. Some of them opted for administration and thus the strength of Development officers reduced to a considerable extent.

The aim was to reduce the permanent sales employees of the company and to increase the number of agents so that the recurring expenditure on the permanent sales employees could be reduced, while the premium figures could be tried to be maintained. Moreover it was done at the introduction of brokerage system in India. But what the companies achieved was they were able to reduce the number of Development officers but could not increase the number of agents as was desired.

What an interesting point to be noted here is the Development officers, who opted for administration, out of the fear of losing their job if they continue as sales employees because of the entry of private sector insurance
companies, are asked/allowed and they also continue to do business along
with their small stint in administration in some of the offices, but without
allowances which they would have got had they continued to function as
Development officers.

This simply shows the manner in which the policy decisions are
taken by the public sector insurance companies and here the ultimate losers
are the Development officers who opted for administration but continue with
the marketing functions and above all they are also under the constant fear of
getting transferred to other places as per their VRS scheme.

Thus as per the opinion of majority of employees, the sales force of
'Oriental' should be increased and strengthened to maximise their performance
and to place the company in the forefront.

Regarding the adequacy of administrative staff, an overwhelming
majority, i.e., 76% of the employees, do accept that there is adequate
administrative staff. But in contrast to this opinion 22% of them still feel the
requirement of more administrative employees.

Actually there is excess workforce, the customers are not satisfied
with their service and as given in the Table 4.21, 64.5% of the clients are not
satisfied with the service of administrative staff of 'Oriental' and it reveals the
magnitude of inefficiency and indiscipline that prevails in the company. The
management of 'Oriental' must tighten its grip on the workforce to discipline it
and make it efficient so as to continue to thrive in the market.

There is a talk in the industry that the 'Oriental' and other public
sector insurance companies are going to offer VRS for the other three cadres of
employees, viz., Class-I, Class-III and Class-IV, during the last quarter of 2003
and it is expected that 10 to 15% of them will avail voluntary retirement. After
the completion of VRS only, wage revision will be implemented, which was
already due since the last quarter of 2002 and which may be followed by transfers based on the needs of individual offices. (As mentioned earlier, VRS has been floated by 'Oriental' and other public sector insurance companies with effect from 01.01.2004 and the scheme will be in force for two months and the employees who prefer to go on VRS have to exercise their options before the end of this period. The eligibility criteria prescribed in the scheme are a minimum completion of ten years of service in the company and completion of forty years of age. Those who have fulfilled these norms can apply for VRS).

Management expenditure is one of the important items in the expenses list of the company. (Various heads, which all constitute management expenditure, are given in the appendix). Section 40-C of the Insurance Act, 1938 and Rule 17-E of Insurance Rules, 1939 have prescribed a maximum limit of 19.5% of the net premium income in the respective year of the company.

But in practice the actual percentage exceeds this limit. Table 2.13 clearly illustrates this increasing trend. The average percentage of management expenses for the ten-year study period, from the year 1989-90 to 1998-99, is 28.23% while the maximum allowable limit remains at 19.5% only.

Hence question (No.25) is included in the interview schedule to ascertain whether the employees know the fact or not and their view is given in the Table 4.27
TABLE 4.27
MANAGEMENT EXPENDITURE: EMPLOYEES’ VIEW

<table>
<thead>
<tr>
<th>Question</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Management expenditure prescribed for the company is within limits</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>(37.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

Without knowing the trend, 37.5% of the employees say that management expenditure prescribed for the company is within limits. It is a consoling point to know that at least 51.5% of them, i.e., majority of the employees, know the fact and give the negative answer for the question, conveying that the company has crossed its prescribed limits, while 11% of the respondents blissfully ignorant of the fact and have no idea at all about it.

The employees must first come to know of the facts about their company and especially its financial position and at least then they may behave accordingly as one may expect of them. 'Oriental' must take all steps to educate its employees first about their company so that they may get involvement in the company's affairs.

And finally, to assess the relationship of the employees with the customers, question (No.15) is included in the interview schedule and their responses are tabulated in the Table 4.28.
Respondents, representing 13% of the employees accept that their relationship with customers is not good, while 3% of them have no idea about the status of their relationship. Majority of the employees maintain that they have good relationship with the customers, i.e., they think so, which in reality is not good.

Thus the fact remains so, as given in the Table 4.28, 84% of the employees are under the illusion that they have good relationship with the customers. The employees are in the delivering end and they may think whatever they like; their opinion will not stand in this competitive environment of the insurance industry.

Customers are in the receiving end of service rendering and their opinion only will keep a company in good stead or will let it down to crumble. Employees must come out of their illusion and realise the truth. They must change their mindset and improve their work culture to render best service, so that they will be able to not only retain the present customer base but will also be able to compete in this competitive environment of liberalisation, privatisation and globalisation.
6. PROCEDURE/PROCESS ORIENTED STRATEGIES:

Insurance company activities towards clients may be split up into three parts, viz., (i) issuance of insurance policy, (ii) servicing of the policy and (iii) claim settlement. The 'Oriental', as well as other public sector insurance companies follow same procedures in all the three stages.

Issuance of insurance policy:

For every single premium received by the company, necessary policy needs to be issued to the client concerned and all the customers, i.e., one hundred percent of them require this service. Hence the company requires to render service to all of its clients in the first stage while only a minimum percentage of them will be in need of service in the second and third stages, namely, servicing the policy and claim settlement.

When a Development officer or an A.A.O.(D), A.O.(D), A.D.M.(D), B.M. or D.M., whoever may be, gets a premium from a client, it has to necessarily pass through around ten stages before a policy is issued to the client. The various stages involved are (i) getting of premium from the client, (ii) underwriting, (iii) preparation of receipt, (iv) printing of policy, (v) removal of carbon in the policy printouts, (vi) attaching of policy forms, folders and accounting for policy stamps, (vii) affixing of policy stamps, (viii) signing of policy, (ix) taking out of policy from the docket and handing over to the marketing person concerned and (x) delivering of policy to the insured. In greater detail these stages are discussed in the following paragraphs.

What a Development officer or any marketing person should do first before getting the premium is to get a proposal form duly filled in and signed by the insured since the proposal form forms the basis of the contract between the insurer and the insured. Usually proposal forms run to few pages, incorporating numerous questions, which according to the insurers are
necessary for underwriting a proposal. Insureds find it difficult to fill in the proposal forms which are usually printed in English and/or Hindi and according to their view many questions in the proposal forms are irrelevant/unnecessary.

Hence it is the sales person who takes the responsibility of filling the proposal form and gets the signature of the insured/his representative. On several occasions the sales person not only takes the premium from the insured, comes to office, scribbles at for some of the questions in the proposal form, which he only knows and he also even goes to the extent of signing the proposal form for himself with the name of the insured or his representative or with some one else's name.

The marketing person, instead of taking the responsibility of filling up the proposal form, may guide the client to fill it up and in case of clients who do not know how to fill it up, he may help them by filling it up. But many of the clients are not inclined to do it. But in any case he should never sign the proposal form for himself, with the name of the insured or his representative or with some one else's name, which practice he should desist from doing in the interest of both the insured and the insurer but which some sales persons continue to do it till date.

This is because, if a sales person signs the proposal form and if a dispute arises later, when there is a claim under the policy, it is certain that the company will lose out to the insured since he could simply prove his innocence. To avoid this situation and to save the interest of both the insured and the insurer it is always better to get the proposal form filled in and signed by the insured himself or by his representative. In case of necessity, where the sales person fills the proposal form, all the questions must be explained to the insured or to his representative and the answers given by him only should be filled in and finally the insured or his representative only must sign the form. If
the sales persons follow this scrupulously many embarrassing and tense situations at a later stage could be avoided.

After the completion of proposal form, premium should be received in the form of cash or instrument. Instrument may be in the form of a demand draft or cheque or a banker's cheque, drawn in the name of 'Oriental' and payable at the place where the underwriting office is situated. In case where there is no underwriting office of 'Oriental', many years back, the 'Oriental' would usually have a collection account in a bank, at the place, where the Development officer had his headquarters.

In this collection account, the Development officer could only deposit the premium amounts on a daily basis and could not withdraw from it. The balance accumulated in the collection account will be transferred to the respective office of 'Oriental' which opened the account with the bank at the specified intervals as per the instructions given to the bank.

But this practice was discontinued and all the Development officers, who are having no Branch/Division in their headquarters have to send the instruments along with the proposal forms, within 24 hours of its collection, to their respective offices. In case of cash payments of premium, the Development officers have to purchase demand drafts for the full amounts, without deducting bank commission, within 24 hours of its collection and send to the offices concerned. At the end of every month, they can get reimbursed the drafts commission amounts and postal/courier charges they have incurred.

In case of payment of premium by cheque, the cheque must be of the insured and payable from his account only. But in practice, it is not followed in all the cases. It is not uncommon for the client to issue cheque to the company from some one else's account and 'Oriental' is also accepting these cheques in the normal course. But in such cases it is mandatory on the
part of the sales person of 'Oriental' to get an undertaking letter from the client to the effect that he assumes all the responsibilities arising out of such act.

This is because the company cannot hold the client responsible when such cheque gets dishonoured and a claim is reported under the policy during the intervening period, since the cheque is issued from some one else's account. But in practice these undertaking letters from the clients who issue third party cheques are not obtained in all such cases and the sales persons of 'Oriental' must be wary of this lapse on their part and play it safe to protect the interests and goodwill of both the parties to the contract, namely, the insurer and the insured.

Only local cheques should be accepted by the company, while in practice, outstation cheques are also accepted by 'Oriental' and thus incurring collection charges on such cheques, thus losing a part of the collected premium besides the time lag involved in crediting the company account with the collection proceeds. In some offices of 'Oriental', a nominal amount is collected from the client along with the premium as collection charges, whenever outstation cheques are issued by them and receipt is issued for such amount under a separate head of account, as different from that of premium collection account.

Hence the sales person of 'Oriental' must see, when accepting the premium cheque, whether it is a local cheque and it is of the insured. If not, he should act accordingly as explained earlier.

In the second instance, the cashier, when preparing receipt, should see that whether it is an outstation cheque and if so whether collection charge is included in the amount mentioned on the cheque and an undertaking letter is obtained from the insured. If not he should draw the attention of the sales person, who brings in the premium, to do the needful.
In the third instance, the officer who signs the policy should confirm these facts and if there is any deviation, he should also draw the attention of the sales person concerned to comply with the requirements and then only the policy should be released. The procedure explained above, followed in the cases where the sales persons visiting the places of the clients and getting premium, is also followed in the same way in the cases of clients who come directly to the office to take policies.

The second stage is underwriting. The sales person who brings in the premium hands over the proposal to the person in the underwriting department, who in turn feeds the details into the computer, which provides a reference number to each proposal fed into it, based on which the cashier will make a receipt.

The computer at the cashier's desk will only allot the policy number while the receipt is made. Before computerisation of offices, underwriting was done manually and the person at the underwriting department will allot a policy number for each proposal after entering all the details in the register and pass it on to the cashier, who will prepare the receipt for each policy number for the respective premium received. Usually one assistant will do the underwriting work in small offices while more than one person is needed in offices where the number of proposals and the premium received is larger.

Though the quantum of premium involved is taken into account in deciding the volume of work, the main criterion is the number of proposals only. For example, in Tiruchengode Branch of 'Oriental', per docket (i.e., per policy) premium is higher. Hence though the total premium of the Branch office is more, the number of policies is less and with the result the volume of work is less when comparing with other offices where the number of policies is more.

Thus in Tiruchengode Branch office of 'Oriental', the service of one assistant is enough for the underwriting department who feeds the details of
proposals into the computer. Even if there are more than one assistant to look after the underwriting as in some of the offices of 'Oriental', the cashier will invariably be one person only.

The underwriting department will usually be looked after by an A.A.O. or A.O. In some of the offices, each proposal has to be checked and initialled by the officer concerned before it is passed on to feed the details into the computer. This is to ensure the quality of business and correctness of classification of risk and charging of premium accordingly. Hence the officer handling the underwriting department needs to be well versed with various tariffs and procedures of underwriting.

In some of the offices, as it was the practice in Erode Divisional office of 'Oriental', all the proposals received in the afternoon would be kept as late cash, i.e., cash received after cash hours, i.e., after 16.30 pm (and up to 17.30 pm when the office is closed) and underwritten in the next day morning only. The reason, the assistants attribute to this, is insufficiency of man power. But the truth is indiscipline and dereliction of duty of the employees and inefficiency on the part of the management to discipline them.

In case of late cash, each proposal has to be entered in a separate register meant for this purpose, signed by two officers and the cash kept in the cash box with a clear entry in the cash received statement showing the amount of late cash received on that day. On the next working day this late cash is to be accounted first followed by other proposals received during the day.

But with the drastic reduction in acceptance of motor premium, thereby to contain the T.P. claims, the number of proposals have come down to a larger extent and the number of occasions of keeping late cash has also reduced in the Divisional office, Erode. The practice of keeping late cash should be stopped and all the proposals received during working hours should be underwritten on the same day.
In some of the offices, due to non-co-operation and dereliction of duty by the administrative staff, the sales persons themselves have to do the underwriting work. When this researcher visited the Divisional offices in Chennai city for administering the interview schedule meant for the employees, in one of the Divisional offices, he witnessed Development officers there, who often have to underwrite proposals and prepare policies for themselves as nobody in the office shows any interest, as if they (the Development officers) are doing the work only for their own welfare.

This state of affairs which prevails in many of the offices just shows how well the public sector insurance companies are equipped to thwart competition posed by private sector insurance companies. It is certain that if the employees follow the same style of functioning, the 'Oriental' and other public sector insurance companies are going to lose their entire premium within a short period of time even before the private companies plan to grab all of it.

The third stage in the process is receiving of premium and preparation of receipt by the cashier. Cashier, as soon as he receives the proposal, which is allotted with a reference number and premium, prepares the receipt while the computer allots the policy number to the proposal. Before computerisation, the manually underwritten proposal, allotted with a policy number, would be handed over to the cashier for preparation of receipt. After making the receipt and taking out a copy of the receipt for the accounts department, the cashier will pass on the proposal together with the receipt to the underwriter for taking policy printouts from the computer printer or for typing the policy manually, as the case may be.

Before printing the receipt, the cashier should feed the computer with correct details of cheque/cash and print it correctly which will be reflected in the daily cash received statement (which includes the daily balance of
cheque also). In case of mistake, it should be promptly corrected both in the receipt and in the statement.

The fourth step in the process is printing of policy. The assistant doing the underwriting work, as soon as he receives the proposal attached with the receipt, has to printout the policy from the printer by feeding the policy number into the computer. In case of manual underwriting, the assistant doing the underwriting work will pass on the papers to the typist for manually typing the policy in the manual typewriter.

The computer printer will print out the policy only with the details, which were previously fed into the computer by the assistant who does the underwriting work and hence it is of paramount importance to do the underwriting with correct details and without any mistake.

After taking the policy printouts, these are handed over to the sub-staff to remove the carbons in between the printouts which is the fifth stage of the process. Sub-staff attached to the underwriting department, after removing the carbons, hands over these to the record clerk.

In the sixth stage, the record clerk attaches folder to the insurance certificate, (the first copy of the policy printout), attaches policy schedule, which contains policy conditions, exclusions etc. to a carbon copy of the policy printout to make it a full-fledged policy and makes entry of the policy number in the policy stamp register, encloses policy docket (in which the proposal, copy of the receipt and the copy of the policy will be put and kept in the racks by their serial numbers) and hands them over to the sub-staff along with appropriate policy stamps to affix them on the policies. (Insurance policy stamps are affixed on various classes of insurance policies, which will be in accordance with the schedule of rates, as specified by the Indian Stamp Act, 1899).
Here the procedure slightly differs between 'Oriental' and other companies. National and United India print out three type of forms for motor insurance; one is for certificate, the second one is policy and the third is the policy schedule, while New India do not follow the docket system for keeping their records. They bind all the proposals, copies of receipts and policies as volumes in the order of policy numbers for future reference.

Now with short supply of policy schedules (which contain policy conditions, exclusions etc.) from Regional office, in most of the offices of 'Oriental', the policy stamp is affixed on one of the copies of policy printouts itself and given as policy.

Also, nowadays, in many of the offices of 'Oriental' and other public sector insurance companies, even no folders are attached to the motor insurance certificates. Folders, with issuing office address, phone and fax numbers, are attached to the certificates to protect them from damages. In New India's folders, even a complete list of addresses of offices in the respective regions and important addresses in other areas are also provided. Private sector insurance companies also follow this practice of not providing folders to save cost.

In case of renewal of existing policies, the copies of receipt and policy are to be enclosed in the old docket for having continuity of the policy, new policy number written on the docket and kept in the rack in serial by their new policy numbers. In case of changes in the risk covered under the existing policy, it is always better to get a new proposal at the time of renewal.

For example, in Tiruchengode Branch office of 'Oriental', the record clerk does not enclose renewal papers with the existing relevant policy dockets, instead puts the renewal papers in new dockets, writes policy numbers and puts them in the new serial meant for the current year. With the result, there is
no continuity of policy papers and the overall number of dockets also increases, incurring more expenditure and occupy more space in the racks.

This is the case with most of the underwriting offices and it should necessarily be changed with immediate effect for the better utilisation of money, space and time. This problem arises only in offices, where the docket system of keeping policy records exists and in case of New India, where they get bound all the policy records each year, this problem does not arise.

Sub-staff, after receiving the papers with stamps from the record clerk, affixes the stamps on the certificates/policies as the case may be and places them on the table of the officer, who looks after the underwriting department, for signing them and this is the seventh stage of the process.

In the next stage, i.e., eighth, of the policy issuing process, the officer signs the certificates and/or policies and releases them. This is an important stage in the process cycle. Before signing the policy he has to thoroughly check the policy for its correctness and completeness.

The important items one has to look into before signing a policy/certificate are name and address of the insured and the address where the insured property is situated, period of insurance, vehicle registration number in case of motor vehicle insurance, classification of risk and also to see whether correct rate of premium is charged. In case of any financier's involvement, their name and address are also to be included at the appropriate place in the policy.

The proposal is to be checked to see whether all the relevant details are given and the insured or his representative has duly signed it. Any mistakes in the policy should be corrected by way of passing endorsements or corrected manually where the officer has to sign under his official seal.
For any deviation or incomplete information, the officer has to get clarification from or get them fulfilled by the marketing personnel concerned who brought in the proposal before signing the document, since he will be held responsible for any lacuna in underwriting the policy, simply because he only has signed the policy, though it is a collective process and as a natural justice every body in the channel of policy issuance should be held responsible for any lapses. 'Oriental' should fix responsibility and accountability with every person working in the organisation.

After the policies having been signed, in the next (i.e., ninth) stage of the process, the receipt (if they were not already handed over to the insureds), certificate and/or policy are taken out from the docket by the record clerk, which will be handed over to the marketing person concerned. The copy of the receipt, policy copy, proposal and all other relevant papers like insured's letter, invoices for the insured property etc., if any, are put in the dockets, which are placed in the rack serially by their policy numbers.

In the tenth stage of the policy issuing process, the sales person hands over the policy in person or sends it through post/courier to the address of the insured concerned. If it is sent through the post or courier, details of the content of the envelope should be entered in separate registers meant for this purpose and the slip issued by the courier service should be tallied with the respective acknowledgement slip, received with the signature and/or seal of the addressee, and made sure that the envelope is delivered properly.

If the envelope, containing certificate and/or policy, which in the normal course will be sent by ordinary post, is sent by registered post with acknowledgement, the receipt, issued by the post office for the acceptance of the registered letter, should be tallied with the acknowledgement card received back with the signature of the insured, to make sure that the envelope has
reached its destination. It is the duty of the record clerk, but performing of which is lacking in almost all the offices.

Regarding policies which are sent by ordinary post, it is the bounden duty of the sales person to ensure that they reach safely the hands of the insured persons concerned, as it is he who faces the clients. In the policy issuing process, his responsibility is comparatively more, since he is instrumental in bringing the business to the company. He cannot shirk his responsibility, in case of issuance of a wrong policy or a policy with mistakes, by saying that the policy, signed by some one, was issued by the office only.

Issuance of correct policy, with correct and complete details, basically lies with the marketing person only. He has to ensure that every time a correct policy is issued to the insured. So he has to be not only product knowledgeable which is to be updated on daily basis, but also must have administrative efficiency with tact and knack, have good communication skill and excellent public relations to thrive and excel in this general insurance market, where the intensity of competition is growing on tougher, with every passing day with the advent of private sector insurance companies.

The number of stages involved in the policy issuing process may vary with increase or decrease of one or two stages. Though, by reading the above paragraphs, it may appear to the reader that the policy is issued with such an ease, passing on each stage without any hindrance in its passage from one stage to another, in reality it is not so. In each stage, the passage is hindered by the employee concerned by his own way of handling things.

In case of policies, which are to be issued urgently, the sales person who brings in the premium, who also takes the responsibility of delivering the policy immediately, has to run from pillar to post to get the policies readied and delivered.
Citizen's Charter released by the 'Oriental' says that all the policies must be released at the most within seven days, which till date remains as a dream only. It seems that it is a curse for the Indian general insurance industry, 'Oriental' no exception, that the administrative staff is insensitive to the needs of the marketing staff and they have miserably failed to stand up to the expectations of the clients. 'Oriental' must take effective steps to correct the deficiencies in its day to day functioning of its offices so that it could thrive in the market.

Servicing of policies:

One hundred percent, i.e., all of the clients need the service of the insurance company in the first stage, namely, issuance of insurance policy, while only a minimal percentage of them will require the service of the company during the currency of the policy.

Any change in the risk covered by the policy is to be promptly informed by the insured to the insurer by writing and the change is carried out in the policy by way of passing endorsements in the policy concerned.

For example, in motor insurance, the registration number of the insured vehicle and/or the address of the insured may be changed. This change is to be promptly carried out in the certificate of insurance, which all the time should be attached with the original Registration Certificate (R.C. book) and carried on in the respective vehicle. In the same way, change of ownership of the vehicle is also need to be effected and a fresh certificate of insurance issued to the new owner of the vehicle.

In case of fire insurance policies, the property covered under the policy may be shifted to a new location and this new location is to be assessed for its level of exposure to fire hazard and appropriate additional premium, if
any, should be charged along with specifying the address of the new location in the policy.

In case of marine open policies, each declaration from the insured have to be entered in the register/computer under the policy concerned and acknowledgement issued to the insured.

All the above cases are examples only and the insureds may need various other policy related services during the currency of their policies, which are all to be carried out promptly and appropriate acknowledgements given to the insureds. But even in issuing these endorsements, it is delayed unreasonably beyond one's comprehension and much to the discomfiture of the clients. 'Oriental' should see that its administrative machinery is toned up sufficiently to render better service to its clients so as to keep them in its fold in the years to come.

Claim settlement:

Claim settlement is the important activity for an insurance company to show its level of service to its clients. Unlike policy issuance, where one hundred percent of the clients need the service of the company, here a very low percentage of clients only require its service.

For issuing policies, the company receives premium. So in its interest in getting the premium, it may render service at the first instance. But at the time of claim settlement, it is the company, which pays to the clients. One can experience the real sense of service of an insurance company only during claim settlement. At the time of claim, the company has to pay along with its rendering of good service, which only will keep the clients with it. If the service is not good, the company may pay the claim sooner or later, but the client will go out from their fold. Better the service, the stronger will be the
binding between the company and the clients. Claim settlement plays a crucial role in the functioning of an insurance company.

The 'Oriental' and the other three public sector insurance companies in India follow the same procedure for processing and settlement of claims. Claims may arise from the three broad categories of departments, namely, fire, marine and miscellaneous.

Fire claims:

When a property insured under a fire policy is damaged or destroyed by fire, it has to be immediately reported to the insurance company by the insured or by his representative or by the financial institutions, like banks, which have interest over the property so damaged/destroyed. If the intimation is given to the company orally, it is to be followed by writing, based on which the insured will be issued with a claim form.

As soon as the intimation reaches the company, it will immediately arrange for the survey of the damaged property. In case of doubt, the company may also arrange for an investigation to confirm the genuineness of the claim. The insured will get prepared an estimate of the loss and present it to the company. The surveyor appointed by the company will assess the loss in the light of adequacy of the sum insured under the policy. Adjustments will be made for over/under insurance of the property.

After having discussions with the insured and assessing the loss, the surveyor will submit his report to the company. The insured will submit all the necessary bills, vouchers, invoices, copies of accounts, inward/outward stock registers, periodical statements submitted to banks, which have lien over the property damaged and all other relevant documents such as report from fire service, an F.I.R. from police etc.
After having received all the relevant papers, the claim will be processed and settled to the insured or to the financial institution, which have lien over the damaged property. Before settling the claim, the insured/financial institution has to submit to the company a fully discharged voucher for the claim amount. There are also instances, where the claim cheque is issued in the combined name of the insured and the bank.

Marine claims:

Claims arising from marine insurance may be for hull, cargo, freight and so on. When an event takes place, which will result in a claim, it should be immediately reported to the company for arranging survey. Under marine insurance, all the time, the surveyor need not be appointed by the insurance company. The insured may secure the service of an authorised surveyor and get the survey done by him. If the claim is payable under the policy then the survey fee paid by the insured will be reimbursed to him. After receiving all the relevant papers from the insured, the claim will be processed and settled.

For ocean going vessels/export cargo, in the event of a claim, the insured of the ship or the insured/consignee of the cargo will approach Lloyd’s agents, who have offices throughout the world, for getting the survey done. (Lloyd’s is the conglomerate of leading insurers of England, is the forerunner of doing insurance in the world, who have established customs, rules and regulations for every insurance needs. They have their own offices throughout the world besides having their authorised agents in every country). Survey reports submitted by the Lloyd’s agents are accepted by all the insurance companies, including ‘Oriental’, throughout the world.

Even some of the Lloyd’s agents are authorised by ‘Oriental’ to process and settle claims besides doing the survey work. Such authorised agents have been provided with funds by ‘Oriental’, who will send periodical statements to the company for the number of claims reported, settled and
balance of funds available with them, which will be replenished as and when required.

Miscellaneous claims:

Other than fire and marine insurance claims, all other claims come under miscellaneous department, including the motor insurance O.D. (own damage) and T.P. (third party) claims. Motor T.P. claims are the main cause of concern for all the insurance companies, including 'Oriental', for they bring in the maximum number of claims and thereby loss to the companies.

Now 'Oriental' has been taking steps in whatever way possible to contain losses. Previously all the underwriting offices were insisted for growth which only dominated the scene. But now the stress is on growth with profit. Despite their stress on growth with profit, 'Oriental' still suffered underwriting loss only for the financial year 2002-03 and investment profit only came to the rescue of the company, which stood at Rs.175\(^1\) crores, after adjusting for the underwriting loss, which ran about Rs.250 crores. But any step taken by the company to become fully fruitful, the Central Government has to amend the provisions of the relevant Acts, to limit the third party compensation levels.

Now, coming to the procedure followed by 'Oriental' regarding motor T.P. claims, the insured has to inform the company as soon as an accident occurs in which a (third party) person or property is involved. The accident is to be reported to the police and an F.I.R. (first information report) obtained by the insured.

As soon as the intimation is received by the company, the insured is issued with a claim form, which he has to fill up, sign and submit to the company along with the relevant original documents such as registration certificate of the vehicle, driving licence of the driver who was driving the

\(^1\) 2002-03 Annual report of The Oriental Insurance Co. Ltd.
vehicle at the time of accident, permit and trip sheet of the vehicle-if applicable, police report, vehicle inspector report, death certificate and post mortem report in case of death of deriver/workmen of the vehicle under workmen compensation claims etc.

The company will verify the original documents and return to the insured while keeping a xerox of them for its records. The insured has also to submit to the company a duly signed in 'vakalat', which was attested by an advocate, for attending the case in the court on his behalf. As soon as the case come up for hearing, the company will contest the case through an advocate, whose name has already been enrolled in the panel of advocates maintained by the Branch/Divisional office concerned, which looks after the case and which has jurisdiction over the area in which the court, which handles the proceedings, is situated.

A case may be instituted in a court of law, by the claimant, which is situated in his native district or in the district court, where the accident took place. The following example is given here to give the reader a clear understanding of it.

A native of Namakkal gets injured in a road accident at Salem, in which a commercial vehicle insured by Tiruchengode Branch office of ‘Oriental’ is involved. The injured person may file a case claiming compensation for the injuries sustained and for loss of earning, pain and sufferings, mental agony etc. in the MACT (Motor Accidents Claims Tribunal) court situated either at Salem, which is the place of accident or at the MACT court situated at Namakkal, which is his native district.

Same is the case with workmen compensation (W.C.) claims also. The workman injured in an accident while he is on duty can file a case in a W.C. court (also known as labour court), which is situated either at his native district or at the court in the district, where the accident took place. Each
district is having an MACT court and W.C. court for the convenience of the claimants.

In the above example, assume that the claimant files the case through an advocate in the court at Namakkal. The court will allot a number to the case filed and send petitions and summons to the nearest office of the insurance company, (which in this case is Branch office at Namakkal), to the insured (i.e., the owner of the vehicle, which involved in the accident) and to the driver (of the vehicle who was driving it at the material time of accident). The driver, on his own, has to pay the fine imposed on him by the court and the insurance company will not involve itself in his case.

Petition is one, which gives all the details of the case such as name and address of the court where the case has been filed, case number, names and addresses of the claimants and respondents, policy number and name and address of the office of the insurance company which has issued the policy under which compensation is claimed, time, date and place of accident, nature of injuries sustained or death out of it, treatment taken, amount of compensation claimed etc.

Summon is one, which is issued by the court to the respondents, which contains information, such as name of the court and place where it situates, case number, name of the claimants, the name and address of the owner of the vehicle/the name and address of the driver/the name and address of the insurance company and importantly the date of hearing of the case by which the respondent in person and/or through his advocate should attend the case. The insurance company, besides attending the case as one of the respondents to it, also attend the case of the insured (i.e., owner of the vehicle).

The insurance company will be able to contest the case and pay compensation, on insured's behalf, as awarded by the court, only if it has
received the duly filled in and signed claim form along with all other relevant documents from the insured. Hence it is obligatory on the part of the insured to get the requirements fulfilled as soon as an accident occurs or at the most, as soon as he receives the petition and summon from the court.

All the insureds will not be duty conscious and may not submit the claim form in time. Even in such cases, the company has to attend the case as it has been inflicted upon in the case as one of the parties to it and pay compensation as per the judgement given, not only on theirs but also on behalf of the insured.

The readers may be wondering to know that in one of the T.P. claim cases, the 'Oriental' has paid the claim even without receiving the premium for the policy. As per section 64 VB of the Insurance Act, 1938, unless full premium is received by the company in advance, the insurance coverage will not commence. So, for each and every claim, the claim attending office will contact the policy issuing office to get all the relevant documents with claim form and to get confirmed the compliance of section 64 VB under the policy in question.

In the above cited case, the owner of a commercial goods carrying vehicle gave a cheque to the company for the premium amount and got the certificate and policy. When the cheque was sent to the bank for collection, it got dishonoured due to insufficiency of funds in the insured's account. So the policy, which was issued based on the cheque, got automatically cancelled, but the company did not inform the cancellation of the policy to the owner of the vehicle who issued the cheque and to the R.T.O. (Regional Transport Officer) concerned.

In the mean time the vehicle met with an accident in which one (T.P.) person was injured and when the claim was filed, the 'Oriental' promptly rejected the claim. At last, after many stages and many years, the case was
heard by the Supreme Court of India, which gave the final verdict in the case. In its judgement the highest court has said that the insurance company could have informed the owner of the vehicle about the dishonour of the cheque and collected the premium even before the accident took place, but it did not do so and now it could not take umbrage at the fact that he, who issued the cheque, himself has to take care of it.

Moreover, the company is a public sector insurance company and it has been nationalised for the welfare of the public. Hence it is proper on the part of the company to pay the claim to the claimant and take steps to collect the premium from the owner of the vehicle. Thus 'Oriental' has paid the claim even without receiving the premium. This case has become an eye-opener for all the insurance companies in India.

After this case, the 'Oriental' has sent circulars to all its offices instructing them to send immediately registered letters with acknowledgement to the insureds concerned, informing them of cancellation and instructing them to surrender the policy and/or certificate, whenever the cheques issued by them got dishonoured for whatever reasons and thus ensure that the company is absolved from any legal tangles that may arise in future. But even now it is not followed in its letter and spirit in all the cases.

When a cheque issued by an insured gets dishonoured, the sub-staff will bring back the cheque from the bank, hands it over to the cashier, who will enter the cheque in the dishonoured cheque register, signs it and gets the signature of the officer who looks after the cash department. It will be brought to the knowledge of the marketing person concerned who brought in the cheque besides informing it to the underwriting department. The officer handling the underwriting department will instruct the assistant who does underwriting to cancel the policy. After the policy is cancelled by passing a
cancellation endorsement, it will be informed to all those concerned such as the insured, bank, R.T.O., etc. in writing through registered letters.

But in practice, after the cancellation of the policy, registered letters are not posted to all those concerned but it is stopped with the marketing person being informed. On many occasions, the policy concerned is not even cancelled immediately. The sales person once comes to know of dishonour will contact the client in person or through phone, inform him of dishonour of the cheque and requests for the payment of premium in cash.

Thus even now the laid down procedure in case of dishonoured cheque is not followed, paving the way for future litigations. Everybody involved in the process should scrupulously follow the laid down procedures to avert any litigation against and unnecessary losses to the company.

Another point to be noted here to reduce losses is the interest factor. When a claim is delayed, the court passes orders for payment of claim and also interest for the claim amount, calculated from the date of accident to the date of payment. The quantum of interest involved in the T.P. claim payment is enormous and drains the resources of the company at an alarming level. The seriousness about the magnitude of interest involved in the T.P. claim payment could be understood from the following examples.

A commercial goods carrying vehicle insured by the Branch office of 'Oriental' at Tiruchengode under their policy number 95/2142 met with an accident in the State of Kerala and two claim intimations were received by the company on 06.11.1995 and two cases were filed under the numbers 96/1742 and 96/1743 in the courts concerned in Kerala. Now the Cochin Regional office of 'Oriental' has intimated the Branch office, Tiruchengode by sending their computer generated inter office claims paid register, dt. 20.08.2003, that they have effected payment for these two cases, under their vouchers, dt. 05.06.2003, for Rs.34,289/- and Rs.5,20,071/- respectively.
The Cochin R.O. will debit the Chennai R.O. for the amounts paid under advice to it. Chennai R.O., in turn, will debit the Erode D.O., under which control the Tiruchengode B.O., the policy issuing office, comes, so that each D.O.'s Trial Balance will reflect its true level of financial standing. Amounts paid by one D.O. on behalf of other D.Os. within the same region are adjusted in the inter D.Os. reconciliation at meetings which are arranged at periodical intervals.

The above mentioned two claim amounts include interest also, which is calculated at a specified rate as pronounced by the court, from the date of accident to the date of payment of the claim amount. The claim of Rs.34,289/- includes an interest of Rs.13,289/- (i.e., Rs.21,000/- for claim + Rs.13,289/- as interest), which works out to 63.28% of the claim amount. In the same way, the claim of Rs.5,20,071/- also includes an interest of Rs.2,02,071/- (i.e., Rs.3,18,000/- for claim + Rs.2,02,071/- as interest), which works out to 63.54% of the actual claim. Thus the interest part forms a considerable portion of the T.P. claims payment.

The 'Oriental' should endeavour to reduce the interest payment by bringing in all the T.P. claims, wherever possible, to Lok Adalats for speedy settlement of claims. Lok Adalats are courts, where the insurance company and the claimants with their lawyers get passed final orders about the quantum of compensation, which both parties have already arrived at after discussion and mutual consent. Lok Adalats sit in each district of the State once in a while and settle a considerable volume of cases in a single sitting. In Lok Adalats, after going through the papers filed, the presiding judge will enquire both the parties whether they are agreeable to the amount of compensation arrived at and pass orders; and no elaborate arguments will take place in these courts.
Before arriving at the amount of compensation, the officers of the insurance company who handle the cases should take all the points into consideration and arrive at the quantum which should be reasonable and equitable. There were instances where the officials of the company with the connivance of claimants' lawyers (besides colluding with company's panel lawyers themselves) arrive at a compensation, which will be on the higher side, purely for their personal gains. Besides these, many unpalatable activities are going on in the company and in the industry which should be sternly dealt with if at all the company wants to survive in the market.

Besides Lok Adalats, Fast Track Courts have been formed in all districts of the State for speedy settlement of claims, which the 'Oriental' and other public sector insurance companies should make use of. Some lawyers of claimants will not show any interest in getting their cases settled through Lok Adalats, since with prolonging of the case they can get interest for the claim amount. In such cases, the officials of 'Oriental' should contact/write to the advocates/claimants concerned to bring in their cases under Lok Adalats through which both the company and the claimant could benefit.

With sustained efforts on the part of the company, T.P. claims could be curtailed and bogus claims eliminated to a considerable extent, thus saving the company from too much of losses. Officials, employees, panel lawyers and all others from the company side who have a role to play in T.P. claims dealing have to perform their roles effectively with honesty and integrity so that the 'Oriental' could be bailed out from its present situation.

Regarding O.D. (Own Damage) claims, the insured/his representative informs the nearby office of 'Oriental' and requests for 'spot survey', i.e., the preliminary survey done at the place of accident. The surveyor, appointed by the company, will visit the spot of accident, where the vehicle is kept as it is and note down all the damages which are all visible,
take photographs and verify the documents of the vehicle. He will submit the
sport survey report to the office, which deputed him for conducting the spot
survey and which in turn will send it to the office, which issued the policy for
the vehicle which met with an accident.

After the spot survey, the insured will take the vehicle to the
workshop of his choice, usually to his own (native) place, to get prepared an
estimate of the damaged items for replacement and labour charges for doing
the work. He will inform the underwriting office in writing, get claim form and
submit it after duly filled and signed it along with the estimate of repairs.

The company, on receipt of claim form and estimate, will arrange
for the final survey of the vehicle. The surveyor will visit the workshop where
he will discuss with the insured/his representative and/or with the repairer, in
the light of the sport survey report and based on the policy conditions and
finalise the claim. He will verify the documents and take photographs of
damaged parts of the vehicle to include them in the report, which he will
submit to the office, which deputed him for the survey work. Based on the
requirement, he will visit the workshop after dismantling the vehicle to take
photograph of each damaged item.

After completion of repair work, the insured/his
representative/repairer will approach the insurer and request for re-inspection.
The company will send another surveyor to do the re-inspection, which is done
in the light of the final survey report, to ensure that all the parts allowed and
repair work permitted under the final survey were carried out thoroughly and
to the satisfaction of insured, who will submit all the bills to the company. The
company will verify the original documents of the vehicle and compare it with
the particulars verified by the spot and final surveyors for any discrepancy.

On receipt of the re-inspection report and all the bills, the company
will process and finalise the claim as per the policy conditions. After getting
the duly discharged voucher, the claim will be paid to the insured/financial institution/repairer as the case may be, by way of a crossed (a/c payee) cheque.

Tiruchengode is famous for lorry body building and in the lorry market, lorries with bodies built by Tiruchengode body builders will always fetch a higher price than those lorries from other places. The body builders here also charge accordingly for the quality work. Hence some lorry operators from other places would come over to Tiruchengode for body building and also for repair work of their damaged vehicles.

Such of those lorry owners will approach the offices of the respective insurance companies requesting for final survey. In such cases, the Branch offices here will send the final survey reports to the respective offices, where the policies were issued from, which will process and finalise the claims and pay the cheques to the insureds.

In the same way, a new car insured by 'Oriental', Branch office at Tiruchengode may be damaged in an accident and the insured may like to get the car repaired by its authorised dealer at Salem. In such cases, the insured will approach the office of 'Oriental' at Salem requesting for final survey and the final survey report in such cases will be sent to the Branch office, Tiruchengode, the policy issuing office, for processing and finalising the claim.

After the IRDA came into being, all the surveyors in India are classified into three broad categories, viz., 'A', 'B' and 'C', based on their qualification, past experience etc. For example, in motor O.D. claims, the 'C' categorised surveyor can do the survey work where the submitted estimate does not exceed Rs.1,50,000/-. For the surveyors in 'B' category, the estimate limit is from Rs.1,50,000/- to Rs.3,00,000/-; the limit prescribed is above Rs.3,00,000/- for those surveyors in 'A' category.
In the same way, estimate limits have been prescribed for various departments for categorisation of surveyors. Insurers have been advised by IRDA, the overseeing body of insurance in India, to follow these classifications when utilise the services of surveyors. Insurance companies also arrange for investigations to confirm the genuineness of the O.D. claims where there are no spot surveys done.

Like these, for all claims from other sections of miscellaneous department, insureds have to follow the laid down rules and regulations of the company to get the claims settled. In insurance parlance, there are standard and non-standard claims and also ex-gratia payments. Standard claims are the ones, which are clearly within the terms and conditions of the policy and settlement of these claims presents no difficulty.

Non-standard claims are those claims where the insured has committed a breach of condition or warranty, which are specified in the policy concerned. The settlement of these claims is considered subject to certain rules and regulations framed by the insurance companies. For example, in motor O.D. claims, the insured may not be able to produce the goods vehicle record (G.V.R.)/trip sheet of the vehicle, which met with an accident, for processing and finalising the claim and the claim will be treated as non-standard and 75% of the claim amount only will be paid to the insured.

Ex-gratia payments are made in case of losses which fall outside the scope of cover under the policy and hence are not payable. However, in very special cases, to avoid hardship to the insured, settlement of these losses is considered as a matter of grace. For example, in fire insurance, due to genuine oversight, a certain item of property is not included in the insurance, although it was the intention of the insured to include it.

Ex-gratia settlements are never made on the basis of the full amount of the loss. A certain percentage only is paid. Also, such claims are
paid 'without precedent' so that the insurers do not have any obligation to meet similar claims in future. Although, there is no legal liability to pay for such losses, the courts have approved of such settlements.

For settlement of any claim, the insured has to co-operate and fulfil all the requirements as per the policy conditions. For example, in case of motor O.D. claims, where a mobile drilling rig is involved, the insured may, after completion of repair work, take his vehicle to the work spot in other States and may not turn up for months together and without his submitting bills, settlement of claim will get prolonged. On his return he will submit bills and urge for immediate settlement, saying that the claim was already getting prolonged as if the delay was due to the insurance company. In such cases the insured should be handled tactfully and the claim should be settled at the earliest.

In practice, the insured does not accept his responsibility for the delay, if any, on his part and any slight delay on the part of the company is caught the attention of all concerned. But in reality it is almost always the company which is responsible for the delayed settlement of claims, while the insureds comply with all the requirements immediately, since any delay on their part will ruin their interests only.

Asking for required papers from the insured in piecemeal is very common in insurance industry, which is the main reason for heart-burns in most of the cases and 'Oriental' is no exception to this. This practice is to be totally revamped and the persons handling various claims departments should, as soon as they receive papers from an insured, verify them and check for their correctness and completeness with checklists of requirements which they should maintain, but in practice which they don't.

'Oriental', in its Citizen's Charter, notifies a time limit for settling claims in various departments - personal line insurance claims (e.g., personal
accident insurance claims) within 30 days on completion of all requirements; property claims (e.g., fire and motor O.D. claims) within 60 days on completion of all requirements and liability claims (e.g., workmen compensation claims) within 30 days on completion of process of law.

One must notice the words 'on completion of all requirements' after the number of days given as the maximum limit. It means that the client should complete all the requirements and the time limit given is reckoned with the date of completion of all the requirements and not the date of accident.

For property claims, a time limit of 60 days is given and one should compare this with the practice of private companies that was prevailing before nationalisation, i.e., three decades before, when they settled motor O.D. claims on the spot. One may argue that before three decades, the number of vehicles was less and the reported O.D. claims were still lesser, hence they might have been in a position to settle the claims on the spot.

But here those who argue in these lines must also remember that after three decades of nationalisation, which period should have been replete with rich experience, with abundant manpower available within the companies and professional expertise available within and outside of the companies, with communication facilities expanded to an unimaginable level and with their wide network of computerised offices, the nationalised insurance companies, 'Oriental' includes, should be in a position to settle the claims at a short notice, leave alone spot settlements.

From these, one may arrive at the conclusion that 'Oriental' might have released its Citizen's Charter just for the sake of releasing it, without doing market research and realising the needs of the clients - the backbone of their business. With all its underwriting offices, including claims departments, computerised and with excess manpower, 'Oriental' should have quoted a lesser time limit for the settlement of various type of claims.
To be on the safe side, 'Oriental' might have quoted this time limit in its Citizen's Charter. But in practice, even this unrealistic time limit specified is more followed in its non-adherence than its observance. Even small claims, which could be settled within a short time, say within a day or two, are also dragged on, much to the inconvenience and resentment of the clients.

There is one mediclaim insurance policy available with 'Oriental' and a similar policy from other nationalised insurance companies under which a maximum selected amount is specified as sum insured up to which the insured can claim, subject to policy conditions, from the company for the treatment taken for his illness which may arise either naturally or through accidents in a year. The recent development in India regarding this, as per IRDA regulations, is the appointment of TPAs (Third Party Administrators) for processing and settling of claims under mediclaim policies.

What the 'Oriental' is doing is, after issuing the policy, a copy of the policy, receipt, proposal and two stamp size photographs of the insured are sent to the designated TPA office, which in turn will send an identification card, with the insured's photograph affixed and laminated, to the insured directly along with a pamphlet giving the conditions of the policy and contact phone numbers and addresses to which the insured has to get in touch with in case of claims.

When a claim arises under a policy, the insured has to send all the required papers such as doctor certificates, prescriptions, test reports, bills etc. directly to the TPA, which will process and settle the claim directly to the insured, under advice to the insurance company concerned. For the service of I.D. card issuance and claim settlement, the TPA is paid by the respective insurance company. For claim settlement, funds are provided to TPAs periodically for which they have to submit details to the insurance company.
The TPAs not only take a longer time to issue I.D. cards but take still longer time for settling claims and the reason one could attribute to this delay may be that they are in their initial stages, i.e., it is the teething trouble anybody will encounter in the beginning stages and once they become accustomed, it would be alright.

But what this researcher feels is that the main reason for the delay is insufficient, inexperienced manpower and lack of adequate network for servicing the policies. It is the habit of Indians to see and quote Westerners for all their maladies and copy them without realising the consequences and the creation of TPAs is also an outcome of this habit. It is like a cat casting stripes on its body to become a tiger.

One must analyse the fact that why the Westerners have TPAs in their countries for servicing their mediclaim policies. They have a compact, efficient, motivated and highly paid workforce and it may not be advisable to increase their workforce which will escalate their wage bill, instead it might be economical for them to entrust the responsibility of servicing the policies to outside agencies - the TPAs, which have the required expertise and which could render service for a fee.

But in India it is not so. With excess manpower already available with all the insurance companies, with wide net work of offices through out the country and with modern communication facilities available, it will not be a problem to serve the clients. But TPAs have been licensed to take on the work of the insurance companies and with the result the premium for mediclaim policies has been increased (approximately 10% of the existing premium) so as to pay for the TPAs and the customers are the ones who have been penalised for no fault of theirs and for the inefficiency on the part of the employees of the insurance companies and for the faulty policies of the Government.
Clients, despite their payment of increased premium, instead of getting speedy claim settlement, experience the same type of treatment in the hands of TPAs also. In some cases, the TPAs have even made the clients to think that the insurance companies are far better than them. When the clients approach the insurance companies concerned for help, they simply wash off their hands, which is usual and simple for them, by saying that it is the responsibility of TPAs to settle the claims for which they have been paid for and they (the insurance companies) have no role to play in the process. The clients have thus been made to run from pillar to post for getting their claims settled.

This researcher had recently came across a letter from a TPA at Coimbatore, Tamil Nadu addressed to an insured at Tiruchengode, who has taken a mediclaim policy from the 'Oriental' Branch office, at Tiruchengode and has lodged a claim with the TPA concerned at Coimbatore, the designated one for servicing the policy concerned. In that letter the TPA has asked the insured to produce two more reports from the attending doctor for processing the claim and added that for any further enquiries which the insured might have regarding the claim, he has to contact the TPA's office, which is situated few thousand kilometres away at Kolkata in the State of West Bengal. One may be able to just imagine the plight of the insured if he has any doubts to be clarified, leave alone the early settlement of the claim.

Thus the services of TPAs, the outside agencies, are far beyond the normal expectations of those concerned and they also fail to deliver the goods from their beginning, which simply shows their insensitivity towards better service to clients. The 'Oriental' and other insurance companies should step in and take effective measures to correct these maladies, so as to make them to render better service to the clients.
OPINION SURVEY:

In the interview schedule administered to the clients, to elicit their opinion, questions (Nos. 18 and 19) are included and their opinions are given in the Table 4.29

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Document issuance is speedier and good</td>
<td>103</td>
</tr>
<tr>
<td></td>
<td>(51.5%)</td>
</tr>
<tr>
<td>Claim settlement is speedier and good</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>(15%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

For the question, document issuance is speedier and good, 51.5% of the clients say 'yes', while 48% of them do not accept this, saying that much improvement is need in it. Nearly half of the respondents say in the negative which must make the 'Oriental' to think it over its service of policy issuance.

One hundred percent, i.e., all of the clients, need this service of policy issuance by the company and it is where the company can show its level of service rendering, but where, in the first instance itself, it has miserably failed. 'Oriental' must make the employees sensitised to the needs of the clients and stand up to the expectations of them.

For the next question, the claim settlement is speedier and good, the second instance when the 'Oriental' can really show its level of service, an
overwhelming 65% of the clients responded in the negative, while only 15% of them have accepted that their service is good. A considerable 20% of the responding clients have no idea about the level of service; this is because neither they may not have come across any claim nor they were exposed to any good service from anybody else.

The 'Oriental' must give serious consideration over the service they render and must take effective steps so as to thrive in the market, which is getting more competitive with every passing day by the advent of private insurance companies.

Out of the total 34 questions administered to the employees, four questions (Nos. 29, 30, 31 and 32) are related to this part of the thesis. The opinions of clients for the questions (Nos. 29 and 30) are given in the Table 4.30.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting procedures are simple and speedier</td>
<td>Yes</td>
<td>No</td>
<td>No idea</td>
<td></td>
</tr>
<tr>
<td></td>
<td>125</td>
<td>71</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(62.5%)</td>
<td>(35.5%)</td>
<td>(2%)</td>
<td></td>
</tr>
<tr>
<td>Claim settling procedures are simple and speedier</td>
<td>Yes</td>
<td>No</td>
<td>No idea</td>
<td></td>
</tr>
<tr>
<td></td>
<td>105</td>
<td>86</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(52.5%)</td>
<td>(43%)</td>
<td>(4.5%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

These two questions are about the procedures followed by 'Oriental' for underwriting and claim settlement. For the question, underwriting procedures are simple and speedier, 62.5% of the interviewed employees say 'yes', while 35.5% of them feel the need for improvement in the procedures and
2% of them have no idea about the procedures followed in the company. When 35.5% of the employees say in the negative, it shows that they feel the need for the underwriting procedures be simplified and sped-up.

In the same way, for the question of procedures followed for claim settlement, 52.5% of the employees accept that they are simple and speedier; whereas 43% of the respondents do not accept this, while 4.5% of them have no idea about it. When 43% of the employees say 'no' for the question, they are of the opinion that the procedures should be simplified and sped-up for claim settlement.

Since majority of the employees have said 'yes' for both of these questions, one cannot take that the underwriting and claim settling procedures are simple and speedier. The company has to mainly take into account the opinion of the employees who say 'no' for these questions, if at all it wants to thrive in the market by simplifying the procedures followed in the company.

For the two questions (Nos. 31 and 32), which are about document issuance and claim settlement, the opinions of the employees are tabulated in the Table 4.31.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Overall document issuance is good</td>
<td>161</td>
</tr>
<tr>
<td></td>
<td>(80.5%)</td>
</tr>
<tr>
<td>Overall claim settlement is good</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td>(75%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

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While 80.5% of the employees responded affirmatively saying that the document issuance is good, 17.5% of the employees has their answers in the negative. They are of the opinion that the overall document issuance from all the departments of 'Oriental' is much to be improved. For the question about the overall claim settlement in all the departments, 75% of the interviewed employees say it is good while 21.5% of them say it is not.

Since majority of the employees have said 'yes' for both of these questions, one cannot take that the overall document issuance and claim settlement by 'Oriental' is good. Here one must mainly take into account the opinions expressed by the clients for the two questions (Nos.18 and 19) which are given in the Table 4.29, where nearly half of the clients (i.e., 48%) opine that the document issuance need to be improved and not good as it is, while 65% of the clients are of the opinion that claim settlement by 'Oriental' should be toned and sped-up and the present state of affairs is not good.

Opinion of clients is always the deciding factor and also that will always supersede the opinion of others, including employees' and the company has to give importance to the opinion of the clients only, if at all it wishes to survive in the market.

Employees of 'Oriental' rate the service rendered by them as good without knowing or ignoring to know what is going on in the industry. They may be ignorantly blissful or choose to be insensitive to the needs of the clients or leading a life which they were having in the past when the four nationalised companies only were operating in India.

Now the scenario has been changing fast in the insurance sector in India and the private players are fast emerging as leaders to whom the
'Oriental' and other nationalised insurance companies are losing their profitable premium with every passing day.

While the private companies publish their business results with increased premium and not less than the already targeted profit margin, the public sector insurance companies continue to wallow in the underwriting loss, with the investment income comes to their rescue to offset the loss and show a little margin of profit and which they cannot take it as a permanent feature in the coming years if the present trend is of any indication.

Service is the driving force for the survival of any organisation and it is too important for the insurance company if at all it wishes to survive in this competitive market. While the employees on the marketing side of 'Oriental', who bear the brunt of competition in the field, are sensitive to the needs of the clients, the employees on the administrative side are needed to be sensitised forcefully so that they are awakened from their long slumber to the realities of the market.

Unless the employees come out voluntarily, which is the need of the hour, of their prejudiced notions and work for the clients to offer them the best service available under the sun, they may not one day get their salary which they are assured of and getting now even without their full contribution to the company. If they render best of the service to the clients, they can continue to survive well and may even excel in the market, otherwise they will perish like hay before this burning competition, which is getting hotter and hotter every day.

7. STRATEGIES RELATED TO PHYSICAL EVIDENCE:

Last in the line of strategies involved in marketing of a product or service is physical evidence. Physical evidence is the receipt of the product
physically by the buyer in return for his payment of its price. If a woman buys a saree from a shop, saree is the evidence which she receives physically from the shop for the price she pays for acquiring it. She derives pleasure and satisfaction in obtaining the saree and using it. Saree is the concrete physical evidence presents in this transaction.

In insurance industry, where only the service, an invisible product, is sold, policy is the only visible evidence, which the 'Oriental' could provide to the clients. The policy symbolises the service sold to the client concerned. A client can derive satisfaction of buying insurance only when he comes across a claim under the policy. The policy itself will not give the buyer as much of satisfaction as physical evidence as that of a saree.

The importance of a policy and the satisfaction it could provide to the buyer could be felt only at the time of claim. The claim will arise only in few of the policies issued and hence most of the clients will not be able to derive satisfaction of buying insurance by simply owning a policy. Thus, in insurance industry, where an invisible product, i.e., service, is sold, policy remains as the sole physical evidence, though owning of it does not give as much satisfaction as that of a visible product.

Physical evidence can be of essential evidence and peripheral evidence. For physical and peripheral evidences, hospital services can be quoted as an example. In the hospital, the treatment given to the patient is essential evidence, while the courteous staff at the reception, kindly approach of doctors, nurses and all other staff, cleanliness and other services there form part of peripheral evidence. The patient can directly gets benefited out of the treatment given to him, which is the essential evidence in the hospital services, which he can enjoy, while the peripheral evidence, viz., the overall cleanliness, courteous service etc., which he cannot own.
In insurance industry, essential evidence is the policy and 'Oriental' should make the policy a complete one which should make the client to have pride in owning it.

Before computerisation, all policies were manually typed in manual typewriters and issued to the clients. Later all the policies were printed in electronic printers after the computerisation of underwriting offices and the appearance of these policies look good comparing with those policies, which were types in manual typewriters.

In 'Oriental' they have simplified the format and for example, in motor insurance, policy printouts are taken in pre-designed (A4 size) forms, with an original and two copies, where the original is issued as certificate of insurance while a copy is issued as policy after stapling it to a policy schedule, which will be affixed with policy stamp and which contains all the policy conditions, exclusions etc. Nowadays, in 'Oriental', due to short supply of policy schedules from respective R.Os., the policy stamp is affixed on one of the copies of the printout itself and issued as policy along with the certificate of insurance.

In case of other insurance companies, for example in National, a wide, two large sized forms are issued as certificate and a copy of it as policy with a stamp affixed on it with no separate policy schedules. In United India, three types of forms are printed and issued to the clients as certificate, policy and policy schedule. In this policy schedule premium details are given and it is not like the policy schedule of 'Oriental'. In case of New India, three types of forms are issued as certificate, policy and policy schedule. To save cost, private sector insurance companies issue to the clients only an one page, A4 size, certificate cum policy form affixed it with a policy stamp.

Policies, issued for one year, are delivered to the insureds as it is or in paper envelopes. The long term janatha personal accident policies, once
issued for a period of twelve years, which were later cancelled after few years of its issue due to large number of claims, were delivered in transparent plastic folders to keep them safe for such a longer period. Those plastic folders gave a pleasing look for the policies, which the insureds also appreciated.

The essential evidence can be owned and enjoyed by the customers, whereas the peripheral evidence cannot be owned but can only be enjoyed. In insurance industry, while the policy remains as the essential evidence, the following can be given as peripheral evidence such as the layout of office, colour and design of furniture in the office etc.

The customers, who visit the offices of 'Oriental' can sit in the sofas/chairs provided in enclosures meant for them and read newspapers/magazines provided there in a cosy atmosphere while their need is attended to by the employees of the company. They can enjoy the atmosphere provided there while they are in the office but which they cannot own.

Likewise, in 'Oriental', the name boards have been standardised - white letters in a blue background with the emblem of the company depicted on one side of it - and when a customer sees a board of 'Oriental', he immediately recognises that it is his favourite company where he got his insurance needs fulfilled and just enjoys the thought of his association with the company and have pride in it.

Regarding layout of offices, 'Oriental', it seems, has no standardisation, which the customers can recognise it immediately and enjoy it. For example, TVS Motor company, the manufacturer of TVS Suzuki two-wheelers, has standardised the layout and the colours to be painted of its dealers' offices throughout India, and a customer of the company instantly recognises the dealership points, even without the necessity for reading their
name boards and enjoy his association with the company, which is having a wide net work of distribution throughout the country.

In the same way, the hi-tech banks, like ICICI Bank, has layout pattern and their new offices have no counters at all, which in the old offices of almost all the banks stand a barricade between the employees and customers, to enable them mentally mingle with each other so as to create a feeling of closeness and understanding. The non-existence of counters certainly helps the bank at least to some extent in its efforts to retain its customers.

'Oriental', especially after computerisation of its offices, has large counters set up in its offices to keep the customers at a distance from its employees, who do the underwriting work. No new offices of 'Oriental' has been opened for the past several years and at present the company could do nothing with the counters, except removing it, if at all it wishes to do so. At least in future, in case of shifting of existing offices to new premises, the company may follow a well thought out, a good designed system for its layout, so as to make an impression in the minds of its customers who could recognise it to whichever office of the company they go and enjoy this peripheral evidence, their association with the company, which has a wide net work of offices.

OPINION SURVEY:

In the interview schedule administered to the clients, there are two questions (Nos. 16 and 17), related to proposal and policy forms, pertain to this part of the thesis and the opinions elicited from them are given in the Table.4.32.
TABLE 4.32
PROPOSAL AND POLICY FORMS: CLIENTS' VIEW

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposal forms are user-friendly</td>
<td>Yes: 62</td>
</tr>
<tr>
<td></td>
<td>(31%)</td>
</tr>
<tr>
<td></td>
<td>No: 55</td>
</tr>
<tr>
<td></td>
<td>(27.5%)</td>
</tr>
<tr>
<td></td>
<td>No idea: 83</td>
</tr>
<tr>
<td></td>
<td>(41.5%)</td>
</tr>
<tr>
<td>Policy forms are simple and scientifically designed</td>
<td>Yes: 119</td>
</tr>
<tr>
<td></td>
<td>(59.5%)</td>
</tr>
<tr>
<td></td>
<td>No: 77</td>
</tr>
<tr>
<td></td>
<td>(38.5%)</td>
</tr>
<tr>
<td></td>
<td>No idea: 4</td>
</tr>
<tr>
<td></td>
<td>(2%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

Clients representing 31% affirmed that the proposal forms are user-friendly, while 27.5% of them do not accept this and opined that they are yet to be made so. Hence the 'Oriental' should give enough thought over it to make the proposal forms user-friendly.

A considerable 41.5% of the respondents gave the answer 'no idea' for this question and this is the question, out of the total number of 21 questions administered to the clients, which drew this reply from the highest percentage of clients. This is because, they do not fill up the proposal forms and the marketing persons take the responsibility of filling it up. This practice by the marketing persons is to be stopped for the betterment of both the clients and the company and they should encourage and guide the clients to fill up and sign the forms for themselves, which will save many an embarrassing and bitter situations at a later stage.
For the next question, a majority of 59.5% of the clients accept that the policy forms are simple and scientifically designed, while 38.5% of them do not accept this. The 'Oriental' cannot remain complacent saying that the majority of the respondents have said in the affirmative. The company has to give serious consideration and weight to the opinion of the clients who say 'no' and find out ways to improve the policy forms to make it more simple and scientific.

When the same two questions, (Nos. 27 and 28) in the interview schedule administered to the employees, they have given their opinions which are tabulated in the Table 4.33.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Proposal forms are user-friendly</td>
<td>96</td>
</tr>
<tr>
<td></td>
<td>(48%)</td>
</tr>
<tr>
<td>Policy forms are simple and scientifically designed</td>
<td>103</td>
</tr>
<tr>
<td></td>
<td>(51.5%)</td>
</tr>
</tbody>
</table>

Source: Primary data. (Figures in parentheses indicate percentage to total).

A majority of 49.5% of the employees say that the proposal forms are not user-friendly and they have to be improved upon, while 48% of them accept that they are user-friendly. The company has to give due consideration for employees' opinion about the improvements required to be carried on.
In the same way, 46% of the responding employees say that the policy forms are not simple and scientifically designed, while 51.5% of them say in the affirmative. Here also the company cannot remain complacent and must give due consideration and weight to the opinion of the employees and try to make the policy forms simple and scientific.

For example, the motor insurance proposal form, which is normally of four pages, where a lot of not so necessary questions are incorporated, needs to be simplified, not only to save cost but also to make it user-friendly. A simple form will certainly make the clients feel at home and they will get encouraged to fill up the forms on their own not feeling the need for any assistance from the marketing person.

The proposal form for the Universal Health Insurance, a new policy recently introduced by the four public sector insurance companies, at the instance of the Central Government, to cover the masses, is very simple with least number of questions, easy to fill it up by the clients and to underwrite by the employees. Proposal forms in all the departments should be simplified in such a manner to make them user-friendly.

The policy forms of the insurance companies are required to be simplified to a much larger extent, since as it is, a customer with an average experience and intelligence cannot understand the wordings of the policies. It requires legal experts to interpret them. The complex wordings, technical jargons with which the policies are issued and the problems of interpretation arise thereby can be understood by the number of cases lodged with the courts/forums throughout India which are waiting for their expert interpretation.

Though Indians are relieved from the shackles of British rule some 50 years ago, the Indian insurance companies are yet to be relieved from their legacy which they inherited from the British. That might have been suited to
issue policies in those days when insurance was only meant for the elite and the educated. But now the insurance has become the necessity for the masses and the nationalisation of insurance companies before 30 years by the Indian Government was to achieve this end only. Even now the private insurance companies are also aimed at reaching the masses to maximise their business and profit.

At least now, the 'Oriental' should initiate steps to ensure that all the policies are scientifically designed, issued with simple and unambiguous wordings, clearly giving in the policy the intention of both the parties to the contract, viz., the insurer and the insured, so as to make it understandable to a man of ordinary intelligence, requiring no other third party's intervention for interpreting it and also to avoid any disputes at a later stage for saving themselves and the insureds from any embarrassing situation and thereby to preserve the goodwill and competitiveness of the company.

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