Insuring Wealth
& Insuring Human Capital
Necessity for tomorrow...

Contents

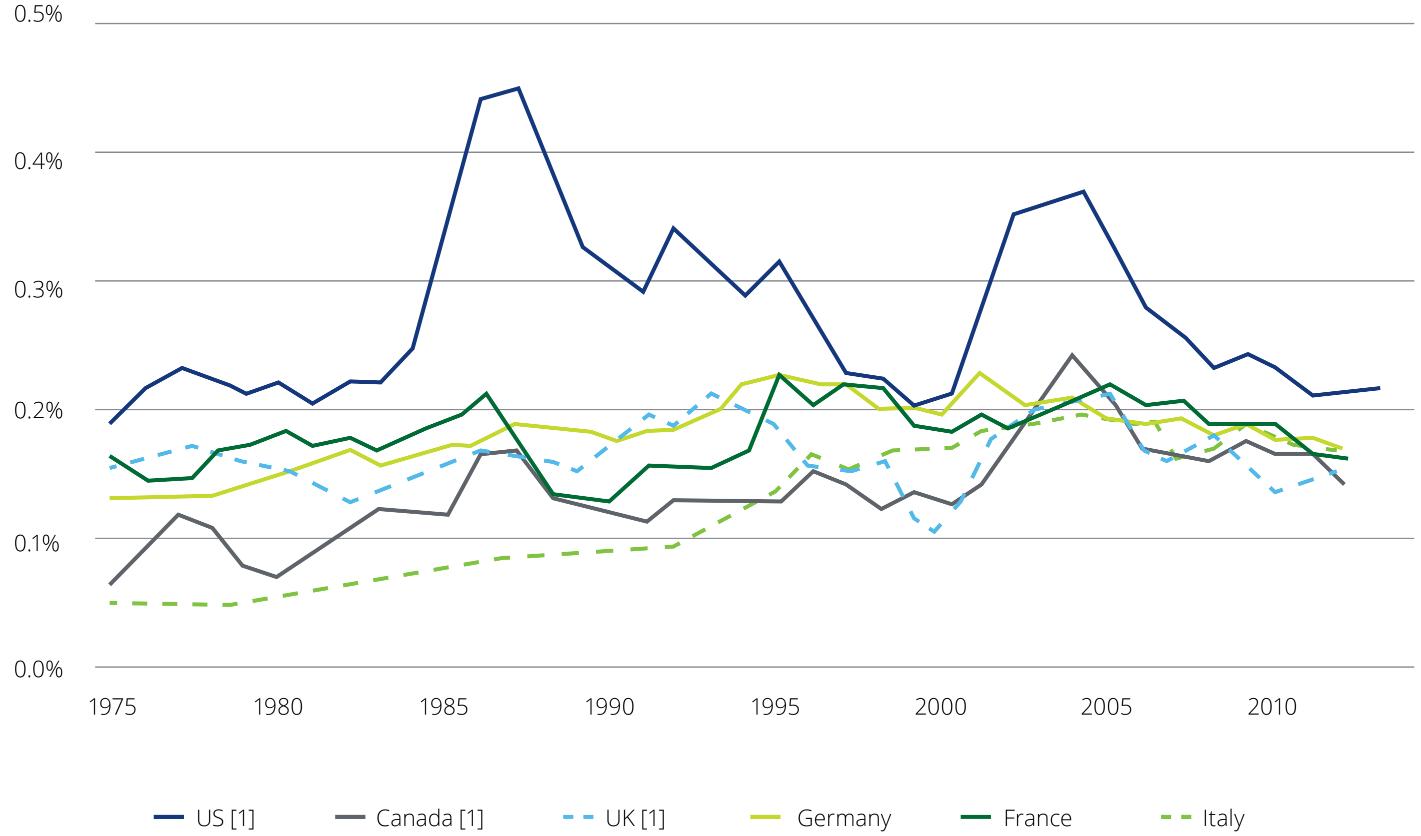
Liability Insurance

Why Do I Need Liability Insurance?
Insurance provides a financial guarantee for contractual or common law indemnities. Good liability risk management can reduce the chances that your business will be sued, but it can never eliminate the risk entirely. You or a member of your organization can make a mistake that injures someone or damages property. Your mistake could harm the reputation or interfere with the privacy of a customer, client, competitor or member of the general public. When such injuries occur, you may be legally liable to pay damages to someone who suffers a loss due to your actions or inaction.

Liability insurance initially provided defense and payment for claims related to bodily injury and/or property damage to third parties caused by the Named Insured. Through evolution, the scope of coverage was expanded to include other coverage related to losses, such as personal injury, contractual, products/completed operations and medical payments.

Liability claims are growing stronger than GDP (1)

General liability claims incurred as a % of GDP



[1] net of reinsurance
Source: Swiss ReEconomic Research & Consulting

Development of Coverage
Over time, the liability policy was amended to clarify the scope of coverage afforded to the Named Insured. Claim payments outside the original intent of liability programs, and rulings against insurance carriers necessitated revisions to the standard policy form, as well as amendatory endorsements to limit and clarify the exposures insurance carriers faced. These form revisions and endorsements helped ensure that the Insured and the carrier understood the protections provided by insurance coverage. Loss history on these initial liability policies identified exposures that were best suited for coverage under a separate program. These included coverage for loss due to failure to perform, as well as coverage for errors and omissions in the provision of professional services.

A distinguishing factor between the professions and other trades was the emphasis on intellectual judgment and expertise which characterized their work. The act or service must be such as exacts the use or application of special learning or attainments of some kind. The term "professional" in the context used in the policy provision means something more than mere proficiency in the performance of the task and implies intellectual skill as contrasted with that used in an occupation for production or sale of commodities. A "professional" act or service is one arising out of a vocation, calling, occupation, or employment involving specialized knowledge, labor, or skill, and the labor or skill involved is predominantly mental or intellectual, rather than physical or manual.

In tort law, a professional possesses a special form of competence which is not part of the ordinary equipment of the reasonable man, but which is the result of acquired learning and aptitude developed by special training and experience. These two factors provided the impetus for the segregation of insurance coverage into a separate line specifically developed for the professional.

Professions most closely associated with professional liability, including malpractice claims, are doctors, accountants, lawyers and engineers. The definition of "professional," however, has been expanded to include a host of other services, such as planners and statisticians. Another factor in the exclusion of coverage for professionals in traditional commercial general liability policies was the dramatic rise in claims related to professional liability exposures. As the number of professionals increased, so did the number of actions instituted against them.

Market Offerings
Depending on the nature of the business and its risk exposures a company may need one or more of the following types of liability coverages:

- Umbrella Liability Insurance
- Errors and Omissions Liability Coverage/ Professional Liability Insurance
- Directors and Officers (D&O) Liability Insurance
- Data breach
- Public Offering And Security Insurance
- Public liability
- Product liability
- Workmen's compensation

Umbrella Liability Insurance: A big difference between property and liability risks is that you can put a value on the property you have at risk, but there is no way to predict the amount of damages you could be required to pay as the result of a catastrophic accident. If, for example, you were found liable in a school bus accident that injured children, the damages could be in millions.

Umbrella Liability—also known as Excess Liability Insurance—provides extra protection for catastrophic events. The primary policies are called "underlying" policies and are specifically listed, along with their limits, on the umbrella policy. Typically, the underlying policies are your primary general liability, auto liability

and the employer's liability section of your workers comp policy. The umbrella coverage starts to pay when a covered loss exhausts the primary policy's per occurrence limit.

Most umbrella policies exclude employment practices liability, professional liability, product recall coverage, workers compensation and coverage for asbestos-related claims, pollution, war and terrorism.

Errors and Omissions Liability Coverage/Professional Liability Insurance: If you provide any type of advice, expertise or professional service, you risk being sued by a customer, client or other party who claims he or she was injured due to your negligent act, error or omission. This type of negligence is sometimes referred to as "malpractice." Professional Liability Insurance, also called Errors and Omissions Liability Insurance, pays the cost of your defense and any damages awarded, up to policy limits. Insurance companies have developed many specialized policy forms that respond to the individual risks characteristic of particular professions and services.

Directors and Officers Liability Insurance (D&O): D&O Insurance protects past, present and future directors and officers of a for-profit or nonprofit corporation from damages arising out of alleged or actual wrongful acts committed in their capacity as directors and officers. Some policies extend the same coverage to employees. The policies provide protection in the event of any actual or alleged error, omission, misstatement, misleading statement or breach of duty.

Many policies will also cover the corporate entity for claims involving the sale or purchase of the company's securities. A D&O policy does not cover exposures properly covered under other policies, such as bodily injury or property damage, which are covered under general liability.

Data Breach: If the business stores sensitive or non-public information about employees or clients on their computers, servers or in paper files they are responsible for protecting that information. If a breach occurs either electronically or from a paper file a Data Breach policy will provide protection against the loss.

Public Offering and Security Insurance: The capital market in India is witnessing a consistent boom as a result of which more and more companies are in the process of raising funds through IPO or secondary offerings. Public Offering and Security Insurance (POSI) policy is designed to protect companies and their directors and officers from liabilities associated with such offerings. POSI is a policy which is designed specifically for the transaction and therefore ensures suitable coverage and can be customized to provide coverage for upto 3 years.

Public Liability: This policy covers claims, which the insured becomes legally liable to pay to third parties as a result of bodily injury or property damage arising out of his own business operations. Type of policies includes –

- Public Liability Non Industrial Risk - For non-manufacturing units such as offices, hotels, cinema houses, hospitals, schools etc.
- Public Liability Industrial Risk - For manufacturing units such as factories, godowns, warehouses, etc.

Product Liability: This policy covers claims, which the insured becomes legally liable to pay to third parties as a result of bodily injury or property damage arising out of the products sold by the Insured. For example a claim could be triggered under the policy in the event of bodily injury / property damage to third party as a result of defective packaging of the product sold to him.

Workmen's compensation: Workmen's compensation provides insurance to employees who are injured on the job. This type of insurance provides wage replacement and medical benefits to those who are injured while working. This will cover medical treatment, disability and

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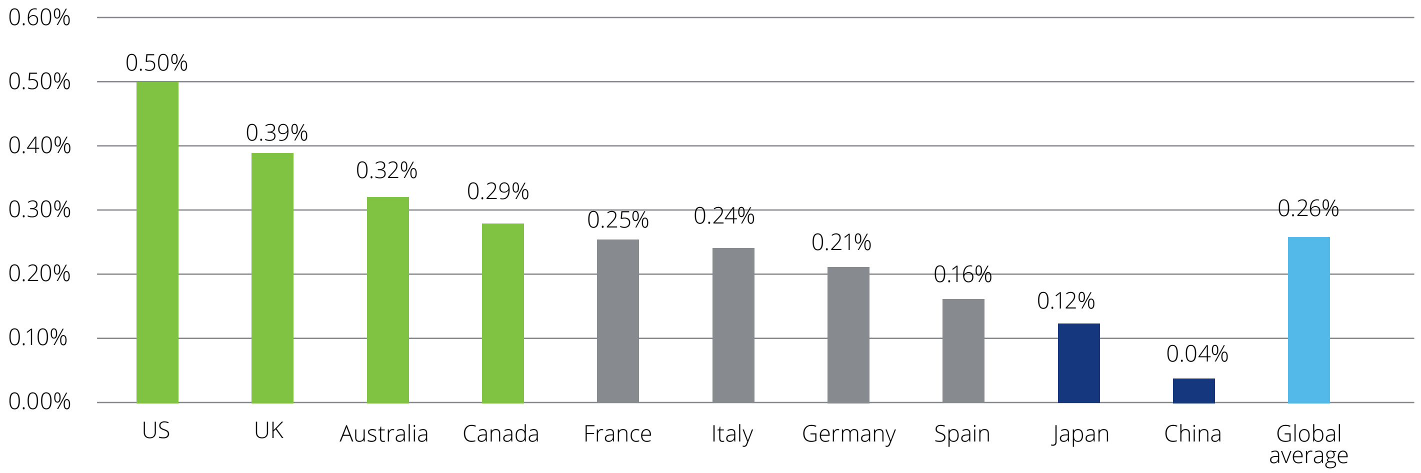
death benefits in the event an employee is injured or dies as a result of his work with that business. In exchange for these benefits, the employee gives up his rights to sue his employer for the incident. As a business owner, it is very important to have worker's compensation insurance because it protects yourself and your company from legal complications

Summary

Liability exposures and the insurance coverage designed to address those exposures are constantly evolving. The non-standardized nature of liability policies require that insured carefully review and select the policy language to ensure that all probable exposures are appropriately addressed.

Anglo-american countries with the highest liability insurance penetration – Asian countries with the lowest

Liability premiums 2013, as % of GDP



Source: Liability Claims Trends: Emerging Risks and Rebounding Economic Drivers – Conference Paper by Roman Lechne

Currently insured faces challenges in understanding the benefits and identifying an appropriate product to adequately cover the liability. To mention few:

- Lack of clarity on benefits from General Insurance Companies
- Lack of trust in terms of claims settlement
- Unaware of full bouquet of product offerings that can meet their specific needs
- SME purchase primarily due to bank push for asset cover on collateral

Health Insurance

Health is a human right. It's accessibility and affordability has to be ensured. The escalating cost of medical treatment is beyond the reach of common man. While well to do segment of the population both in Rural and Urban areas have accessibility and affordability towards medical care, the same cannot be said about the people who belong to the poor segment of the society. Health care has always been a problem area for India, a nation with a large population and larger percentage of this population living in urban slums and in rural area, below the poverty line. The government and people have started exploring various health financing options to manage problem arising out of increasing cost of care and changing epidemiological pattern of diseases.

Evolution of India's Benefits System

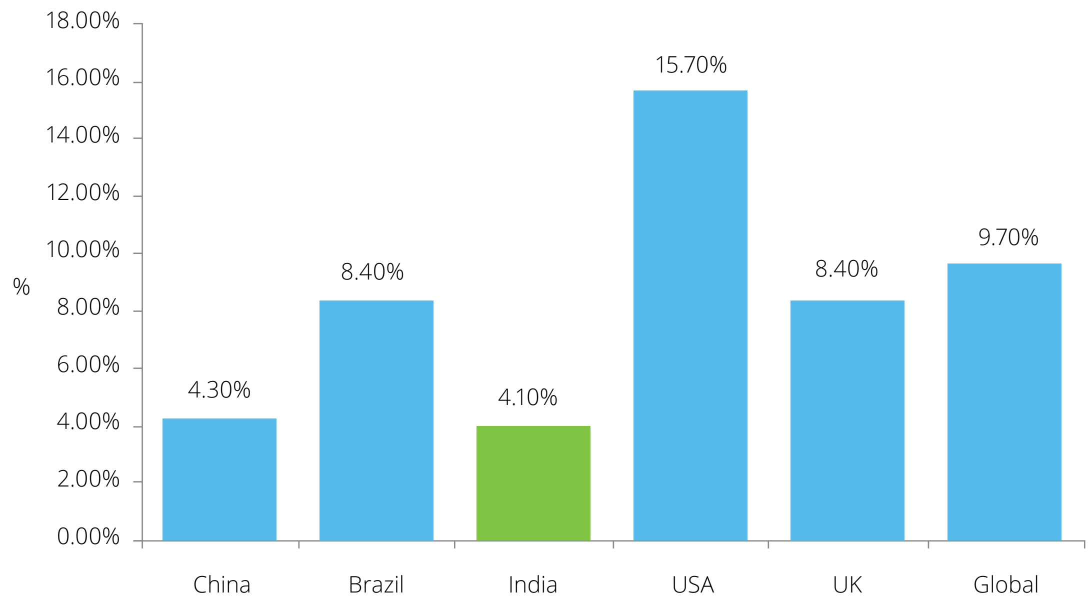
1950s	1970s	1980s	1990s	2000s	2008	2020
Government employee health insurance	Defined benefits (gratutity)	Urban employee basic medical insurance scheme (individual mediclaim)	Budgetary support to rural medical infrastructure	Liberalization of insurance industry: expansion of group medical plan to Corporate India	Introduction of stand-alone health insurers to expand urban and rural schemes	Cover for the whole urban population
Employer and employee statutory contribution (EPF)	Rural schemes: a) below the poverty line b) labour health insurance					

Source: Employee Benefit Trends in India – challenges and opportunities by Naveen Kumar Midha

The control of government expenditure to manage fiscal deficits in early 1990s has let to severe resource constraints in the health sector. Under this situation, one of the ways for the government to reduce under funding and augment the resources in the health sector was to encourage the development of health insurance.

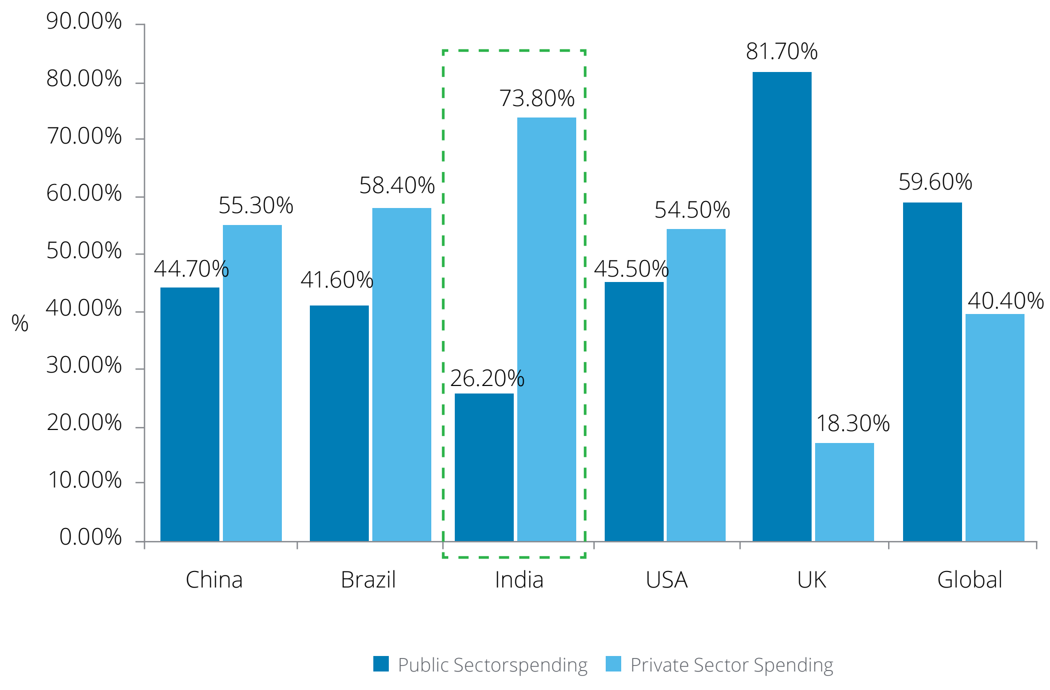
Spending on health care in India was an estimated five percent of gross domestic product (GDP) in 2013 and is expected to remain at that level through 2016. Total health care spending in local-currency terms is projected to rise at an annual rate of over 12 percent, from an estimated \$96.3 billion in 2013 to \$195.7 billion in 2018. While this rapid growth rate will reflect high inflation, it will also be driven by increasing public and private expenditures on health. India's public health care system is patchy, with underfunded and overcrowded hospitals and clinics, and inadequate rural coverage. Reduced funding by the Indian Government has been attributed to historic failures on the part of the Ministry of Health and Family Welfare (MHFW) to spend its allocated budget fully. This is despite increasing demand, due, in part, to growing incidence of age- and lifestyle-related chronic diseases resulting from urbanization, sedentary lifestyles, changing diets, rising obesity levels, and widespread availability of tobacco products. India's health care sector witnesses close to 50 percent spend on in-patient beds for lifestyle diseases, especially in urban and semi-urban pockets. In addition, India has one the world's highest numbers of diabetes sufferers, at more than 65 million individuals. This trend has resulted in the mushrooming of super specialty hospitals to combat lifestyle diseases.

Spending as a % of GDP



Source: WHO World Health Statistics 2010

Comparison of Healthcare Spend



Source: WHO World Health Statistics 2010

In the light of escalating health care costs, coupled with demand for health care services, lack of easy access of people from low income group to quality health care, health insurance is emerging as an alternative mechanism for financing health care.

Indian health financing scene raises number of challenges, which are:

- Increase in health care costs
- High financial burden on poor eroding their incomes
- Need for long term and nursing care for senior citizens because of increasing nuclear family system
- Increasing burden of new diseases and health risks
- Due to under-funding of government health care, preventive and primary care and public health functions have been neglected

Various Health Insurance Products available in India

The existing health insurance schemes available in India can be broadly categorized as:

01. Voluntary health insurance schemes or private-for-profit schemes
02. Mandatory health insurance schemes or government run schemes (namely ESIS, Pradhan Mantri Swasthya Bima Yojana)
03. Insurance offered by NGOs/Community based health insurance
04. Employer based schemes

A comparison between Health Insurance offered by a Life and General Insurer

Nature of the contract	Life Insurer	General Insurer
Period of coverage	Contracts are usually made for a long period.	Contracts are usually, though not invariably, made for a short period of one year or less and at the end of that period are renewable by mutual consent of the insurer and the insured.
Obligation of the insured	Once the contract has been made, the insured is generally under no obligation to report any changes of circumstances affecting the risk insured unless a change in the actual nature of the contract is requested by the insured.	At each renewal there is an onus on the insured to observe utmost good faith in informing the insurer of any changes in circumstances which may affect assessment of the cost of the risk borne by the insurer.
Premiums	The premiums for a life assurance contract remain fixed over the term of the contract	The premiums may vary at each renewal to reflect changes in individual circumstances
Benefit payout	Pays a lump sum, irrespective of whether the policyholder has incurred those expenses on his hospital stay	Pays claims according to the hospital expenses that a person incurs, depending, of course, on the amount of cover that a policyholder has taken.

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Employee Benefits

Employee benefits and/or benefits in kind (also called fringe benefits, perquisites or perks) include various types of non-wage compensation provided to employees in addition to their normal wages or salaries. In instances where an employee exchanges (cash) wages for some other form of benefit is generally referred to as a 'salary packaging' or 'salary exchange' arrangement. In most countries, most kinds of employee benefits are taxable to at least some degree. Examples of these benefits include: housing (employer-provided or employer-paid), group insurance (health, dental, life etc.), disability income protection, retirement benefits, day-care, tuition reimbursement, sick leave, vacation (paid and non-paid), social security, profit sharing, funding of education, and other specialized benefits. The purpose of employee benefits is to increase the economic security of staff members, and in doing so, improve worker retention across the organization. As such, it is one component of reward management.

Since these benefits have to be provided by the employer they will involve an extra cost (over and above the salary paid) to the company which will have to be accounted for in accordance with the laws and regulatory requirements of the country the company is based in. Hence these costs/ liabilities are to be valued and appropriately managed. There are a plethora of benefits served in the buffet spread of these benefits from which the company can choose which benefits they want to offer.

Employee benefits in India can be categorized in two parts:

Mandatory Benefits

- India does not have a social security system. However, there are statutory employee benefits controlled by legislature. Under the Employees' Provident Fund and Miscellaneous Provisions Act (EPFMP), employers are obligated to provide provident fund benefits. It is mandatory for the employer and employee to each contribute 12% of basic salary to the central Employees' Provident Fund Scheme (EPFS) on which interest is credited. Of these contributions, 8.33% of the employer's contribution is diverted to the Employees' Pension Scheme (EPS), provided the company has more than 20 employees.
- All employees to whom the Employee's Provident Fund and Miscellaneous Provision Act, 1952 applies, have a statutory liability to subscribe to Employee's Deposit Linked Insurance Scheme (EDLI) 1976, in order to provide for the benefit of life insurance to all their employees. The insurance cover under EDLI is variable and it is based on the employee's average balance in his/ her Provident Fund account over the last 12 months subject to a maximum of INR 3.6 lakh. The employer contributes 0.5% of the employee's basic salary as premium for the EDLI insurance scheme. However, the employer may be exempted from contributing to this scheme, if he or she has provided for better insurance benefits through an alternative scheme.
- Employees' State Insurance Act (ESI), 1948 provides for an integrated need-based social insurance scheme that would protect the interest of workers in contingencies such as sickness, maternity, temporary or permanent physical disablement, injury, occupational disease and death due to employment resulting in loss of wages or earning capacity. The social security measures in the ESI Act aim at upholding human dignity in times of crises through protection from deprivation, destitution and social degradation while enabling the society the retention and continuity of a socially useful and productive manpower.
- The Employees Compensation Act,1923 (formerly known as Workmen's

Compensation Act 1923) provides for compensation by employers to employees who die or who are totally or partially disabled from any accident arising out of or in course of the employment. The compensation amount is determined by applying the age of the employee and his wages, both at the time of the accident. Liability of employer is unlimited in case of hospitalization of employees.

- The Payment of Gratuity Act, 1972 is a social security statute aimed at providing Gratuity as a statutory benefit paid by the employer to the employees who have rendered continuous service to such employer for at least five years. Gratuity is a payment given by the employer to employee in gratitude of the employee's services to the employer, in the form of a lump sum amount paid based on the duration of the employee's total service to the employer. The employer shall pay gratuity to an employee at the rate of fifteen days' wages based on the rate of wages last drawn by the employee concerned, for every completed year of service or part thereof in excess of six months. The amount of gratuity payable to an employee shall not exceed INR 10 lakh. Gratuity is payable to an employee on cessation of employment (either by resignation, death, disablement, retirement, etc.) by taking the last drawn salary as the basis for the calculation. In case of death or disablement of employee, the condition that the employee should have worked for five continuous years with the employer is not applicable. It is a defined benefit plan and is one of the many retirement benefits offered by the employer.

Voluntary Benefits:

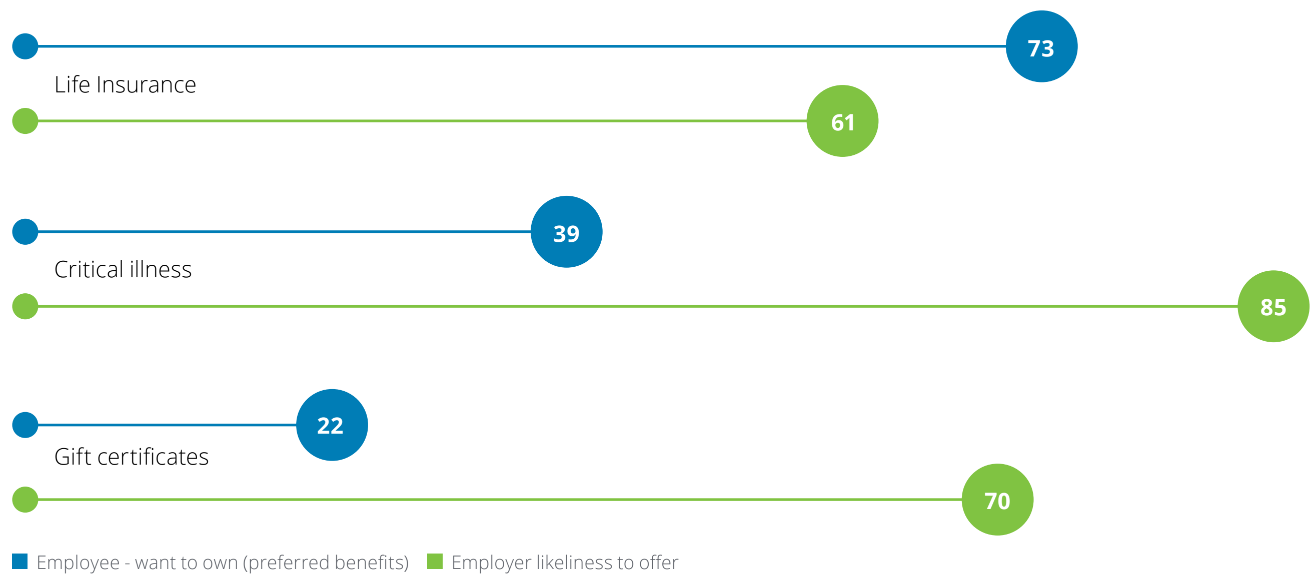
- **Group Term Life** is a highly convenient yearly renewable term life insurance product. This product facilitates payment of a pre-defined sum assured to the nominee of an employee in case of the unfortunate demise of the employee. The employer can structure this plan accordingly to the needs of his or her organization. These plans can be customized by adding further accidental and critical illness riders. Most organizations have started providing this benefit as part of the employee benefits offering. Today, companies are also looking to offer voluntary group life cover to their employees. This is the top-up cover that the employee can opt for over and above the company provided cover. The premium charged will be dependent on age and is paid by the employees through salary deduction.

- **Superannuation** is a company initiated plan, designed to provide monthly annuities to employees post retirement / separation from company. All companies generally invest this money with an insurance company or as per Rule 67 (2) of Income Tax Rules 1962. Defined Benefit Schemes are administered as a pool fund like Gratuity. In Defined Contribution Schemes, individual member accounts are opened and contributions for each person are administered separately. In Defined Contribution Schemes, contributions over INR 1 lakh per member annually are taxable in the hands of the employee.
- **Leave Encashment** is an option that some employers give to employees who don't utilize their annual / earned leave completely. The rules for carry forward of these leaves vary and is usually encashable on separation from the company. Employers in India use the services of life insurance companies to create investment assets against this liability in the form of a Leave Encashment Policy.
- **Group Mediclaim** is an important part of various health benefits offered by employers. These benefits are in the form of indemnities where an employer agrees to pay premium to an insurance company for reimbursement of medical expenses of employees and /or their families, subject to a particular limit. These limits can be enhanced through a voluntary top-up option for which the premium is paid by the employees. Parent and spouse cover is a popular top-up facility offered.

Benefit structure design that the employee really wants

It's worth noting that there's a mismatch between employers and employees perception when it comes to the type of benefits that should be part of a package. The chart below demonstrates the problem. Many employers are offering benefits that aren't high up their employees' wish-lists. And, relatively speaking, they're ignoring some highly sought-after financial security options that might be a powerful tool in boosting employee commitment.

Huge perception gap between employers and employees when it comes to benefits offering



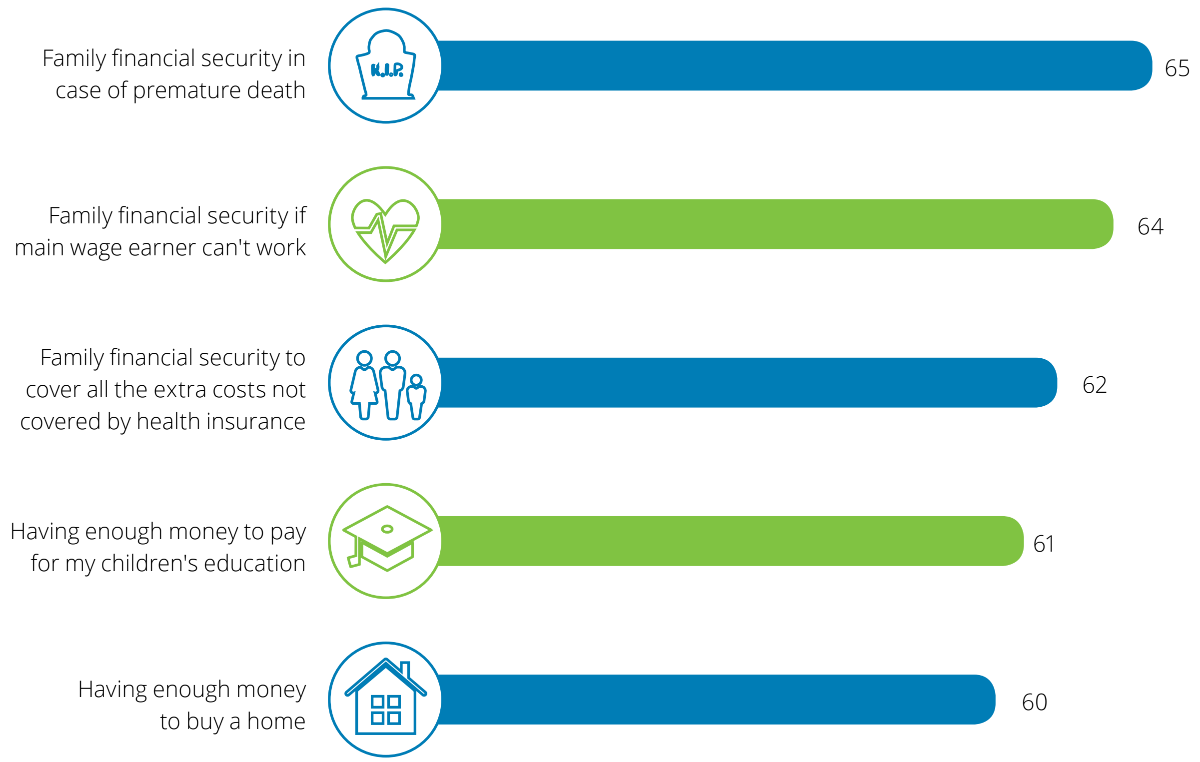
Unit of measurement is percentage out of 100

Source: Global Employee Benefit Trends Study – India by PNB Metlife

Financial Security is the Employee's First Priority

Employers who help and guide their employees to improve their overall financial security, not just their pay packet, can reap significant rewards in terms of workplace commitment. Employees who are confident about their families' security are happier, more productive and committed to their workplace.

What are employees worried about?



Unit of measurement is percentage out of 100

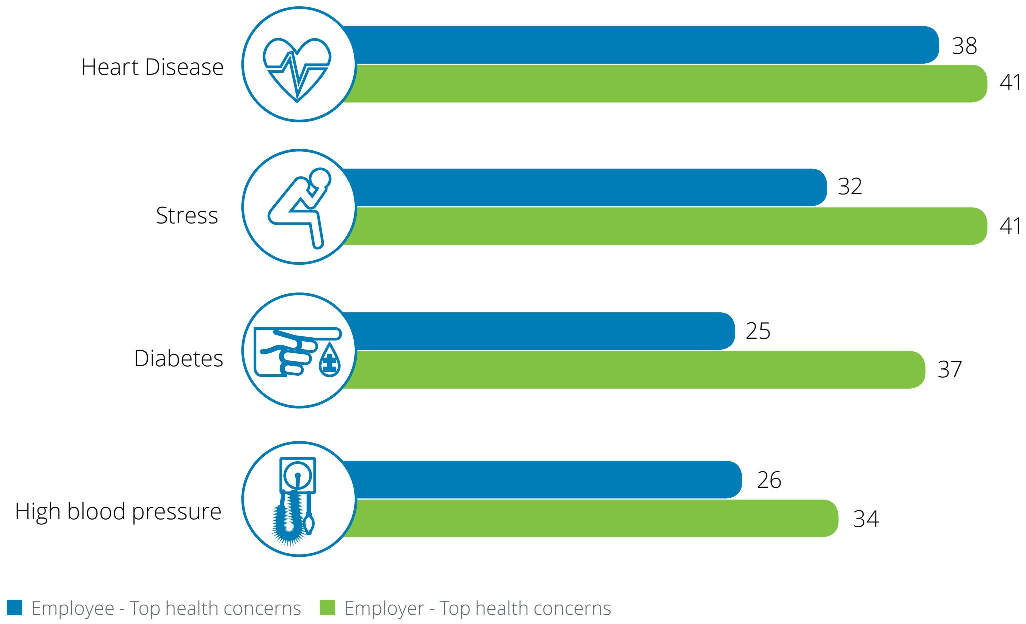
Source: Global Employee Benefit Trends Study – India by PNB Metlife

Wellness: The Big Opportunity for Employers

Stress management and employee fitness are no longer "nice to haves." Engagement and commitment rise when employees are healthy and happy. A structured program to boost employee wellness should also deliver higher productivity. Employee wellness is a fast-emerging benefit category around the world as organizations seek to address productivity, motivation and work-life balance issues. Stress, the availability of processed foods, more sedentary lifestyles and global competitiveness combine to harm employee health and ability to work. To raise awareness for World Heart Day, Vice President Hamid Ansari strongly favoured the need to develop a comprehensive approach to combat heart disease in India which is on its way to becoming an epidemic in the country. Latest statistics suggest that in India, there are roughly 30 million heart patients and two lakh surgeries are being performed every year. And a 2013 study by the Department of Food and Nutrition, Institute of Home Economics at Delhi University warned "India suffers a tremendous loss of productivity due to increased prevalence of cardio-vascular disease." However, a large portion of employees also seek 'work-life balance' and flexibility in working conditions. These help them manage their family lives – and are vital tools in reducing stress that affects their work.

Unsurprisingly, then, 93% of employers with a wellness program say it has a positive impact on the health of participating employees. However, employee interest in wellness programs is far higher than the current provision by employers. We found that more than twice as many employees are keen on wellness offerings and currently receive them in areas such as health information (38% have it available, 81% express a strong interest in receiving it), stress management (31% versus 80%) and nutrition & weight loss counseling (31% versus 76%).

Top health concerns in the workforce



Unit of measurement is percentage out of 100

Source: Global Employee Benefit Trends Study – India by PNB Metlife

To sum up, the advantages of availing above insurance products are numerous, some of which are listed below –

- By taking a liability cover, Company can insure the possible potential losses due to unforeseen events and can strategies the management of resources accordingly.
- Health and Employee benefit plan establish a competitive edge in the job market - You attract and retain employees, which helps minimize costs associated with high turnover.
- A cost effective method to protect employees – Increased productivity and higher morale by providing financial security and support to employees.
- Access to insurance at a reduced cost – Compared to most health and dental individual insurance plans. Group plans do not discriminate and are not anti-selective, offering all participants the same benefit plan.
- A tax effective form of compensation – Most premiums an employer pays are tax deductible as a business expense.

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About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 7600 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 100,000 enterprises from around 250 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

The CII theme for 2016-17, Building National Competitiveness, emphasizes Industry's role in partnering Government to accelerate competitiveness across sectors, with sustained global competitiveness as the goal. The focus is on six key enablers: Human Development; Corporate Integrity and Good Citizenship; Ease of Doing Business; Innovation and Technical Capability; Sustainability; and Integration with the World.

With 66 offices, including 9 Centres of Excellence, in India, and 7 overseas offices in Australia, China, Egypt, France, Singapore, UK, and USA, as well as institutional partnerships with 300 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.

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