Date: 29.08.2016	**Page number**: 2
Publication: Financial Chronicle	**Editions**: Hyderabad, Delhi, Bangalore, Mumbai

In times of pink slips, job-loss insurance can help

However, unemployment cover remains a nascent space for most insurance companies in India

MONEY PLANT

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JOB security is a myth during volatile times. If economic growth promises jobs, reversal of economic conditions can very well make one job-less. Of late, the oil crisis in West Asia, recessionary trends in the European economy, the yet-to-recover US economy and the civil unrest and acts of terrorism across the globe have rendered lakhs of non-resident Indians in precarious situations. In India, too, several debt-laden companies have been making their employees go through the pain of job-loss. We have also seen Indians packing their bags and returning after the oil crisis hit West Asia.

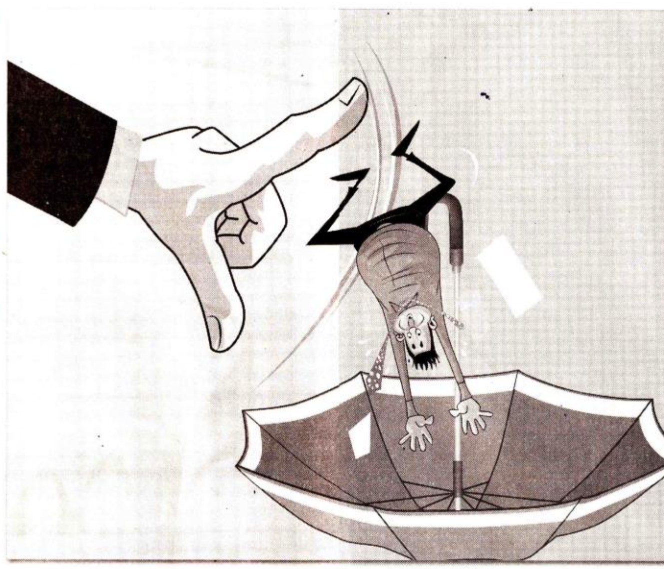
Those who are out of a job need some protection and help till they stabilise and manage to grab another job. Despite the growth in the insurance sector, it is still a bane that we do not have enough cover to help them. The little cover that is available is mostly inadequate to offer protection to the job-less. If companies are adequately protected against such eventualities, they can recoup fast and help individuals get back to their jobs. Unfortunately, there is no cover available for domestic companies to protect themselves against closure due to financial reasons. Political risk cover for Indian companies operating abroad is still in the nascent stage.

"Job loss can happen due to several factors. It can be voluntary in nature or the employee may be terminated by the company due to various reasons, including lay off, closure of a unit, benching in IT due to insufficient projects or due to non-performance or illness. Voluntary or involuntary, there are several financial implications. The main problems could be loan financing and sustenance," says R Suresh Nair, head, product development, Bajaj Allianz General Insurance.

Most insurance companies do not provide any protection if a person loses his job under any circumstance. Bajaj Allianz General Insurance is among the very few companies that have a limited equated monthly installment (EMI) payment option in its loan care policy. As per this policy, in the event of one becoming unemployed due to termination of services by employer, the insurer will pay three EMI payments of the loan. The three-month EMI relief is applicable also for Indians who are employed abroad and have availed a loan in the country.

However, there are several exclusions to this EMI payment option. Among them, the policy will not come into force if unemployment arises directly or indirectly from war, revolution, riot or any such similar event. It will also not get triggered if the employee resigns from his job.

"Due to the termination clause, people who resign from their job will not get the benefit. In many cases, the employer does not terminate the employee's services because that affects the future employability of the person. He may be asked to resign instead. As a result, we have been receiving very few claims. Banks and financial institutions have been asking us to do something about this clause," says Nair.



Budha Chandra

Further, the policy does not look into the sustenance part of job loss as it takes care of only loan financing due to critical illness, personal accident and job loss.

"We are in the process of coming out with a standalone product which will cover EMI for a longer duration of six, nine or even 12 months. Further, we also plan to bring in some sort of sustenance feature into it. For that, we need to collect data and look into the statistics for a realistic pricing," says Nair.

A scheme worth mentioning is the Mahatma Gandhi Pravasi Suraksha Yojana (MPSY) - a pension plan and life insurance scheme for Indian citizens living abroad -- launched by the government in October 2013. Its objective is to protect Indian migrant workers, especially those who migrate to West Asia in search of work opportunities. The MPSY was specifically designed for the blue-collar Indian workers in UAE. It helps these workers build a corpus for post-retirement income and also to cover the expenses involved in returning to India and restarting their lives again. It also provides life insurance with death benefit in case of natural death for the duration of coverage.

The contributions that have to be made by workers is Rs 400 per annum for return or resettlement fund and Rs 1,000-12,000 per annum for the pension fund. The government makes a contribution of Rs 2000 for a male worker and Rs 3000 for a female worker for the first five years.

"The scheme was launched in a few Middle East countries. But the current status of this scheme is not available," says A V Girija Kumar, director and general manager, United India Insurance.

According to Easwara Narayanan, chief operating officer, Future Generali India Insurance, insurance companies have their own limitations while insuring job loss. "If it is civil unrest or economic crisis, job loss can be catastrophic. People may be coming back home, not in thousands, but in lakhs," he says.

Companies that had employed them can come back with a helping hand if they are well-protected themselves. The existing policies that protect companies from financial losses or physical losses do not mandate any compensation to the employees in the event of a claim settlement. But, if they are compensated, there are chances of them being compassionate to the employees. Further, faster the company recoups, more the employee's chances of getting re-employed.

Indian companies that take the risk of setting up operations overseas can now get themselves secured by Political Risk Insurance (PRI). PRI is a risk management tool for corporate clients having exposures in difficult and / or challenging geographies. Typically, this coverage is availed for investments and projects in overseas markets, says Sushant Sarin, senior vice president - commercial lines, Tata AIG General Insurance.

"Many Indian companies have significant presence in certain African, Middle Eastern and Asian countries which they need to protect against uncertainties such as political violence, cancellation of contracts, change in government policy and military coups. Though the dip in oil prices has generally benefitted the Indian economy, it has adversely impacted Indian exporters having receivables from countries largely dependent on revenues from oil exports. PRI addresses future geo-political uncertainties, provides strong balance sheet protection and increases the risk-taking ability of Indian corporates. PRI also shields against macro-economic risks of long-term loans and advances where repayment depends on future and uncertain cash flows," adds Sarin.

HDFC Ergo is amongst India's first few private sector companies to launch such a policy. "Unpredictable political events can have an adverse impact on businesses' overseas operations and can destroy the value of the investment. Risks associated with such events are not covered under a standard commercial policy. So we introduced political risk insurance policy," says Ritesh Kumar, CEO and managing director, HDFC Ergo General Insurance.

HDFC Ergo's policy protects against losses due to various acts of expropriation such as confiscation, nationalisation or seizure of plant, property, equipment or funds and termination of a fundamental agreement by the host government. It also protects against losses resulting due to imposition of any law, order, decree or regulation by the host government, applied selectively against the project. It provides cover for forced abandonment of the project by the host country or forced divestiture and currency inconvertibility.

But such a protection is not available for companies operating within Indian territory. No insurance company has thought about protecting them from expropriation by the home government or due to selective regulation and forced abandonment.

"The companies which go overseas are very few and they go to different geographies. This makes it less risky for the insurance company to underwrite them. They are also selective while underwriting risks in turbulent geographies. But, underwriting a large number of domestic companies is not viable for insurers. Further, underwriting financial losses is a very complicated affair," says Narayanan of Future Generali.

However, physical damage to businesses and their assets are covered under different insurance policies, including fire, terrorism and commercial lines. Of late, the number of companies opting for political violence cover is on the rise. India also has a terrorism risk insurance pool to protect losses due to acts of violence, terror and civil strikes.

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