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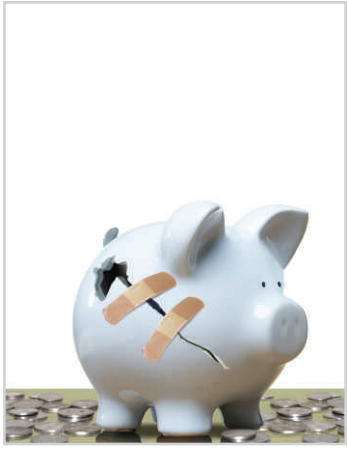
NEWSTRACK

Corporate Newsletter of Bajaj Allianz General Insurance

MARCH 2009



Front cover: Savings has been hit by the economic crisis and government world over have announced several stimulus packages as a healing touch to boost the saving sector

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Bajaj Allianz Newstrack, a quarterly news magazine of Bajaj Allianz General Insurance Company Limited, provides current information on the activities of Bajaj Allianz and its affiliates.

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Price or Service?

Swaraj Krishnan, CEO

Greetings,

The financial year 2008-09 has been a sort of roller coaster ride for all of us. We witnessed both an upswing and downswing in the same year. In the first half we rejoiced with the boom and the turbulence setting in the latter half of the year. The Government announced several stimulus packages to boost the economy. The new financial year 2009-10 may continue to suffer from the hangover of the previous year and experts predict that it will take at least one full calendar year for the economy to be revived back to a semblance of normality.

The post-Satyam era has left everyone questioning the very meaning of words like TRUST and CREDIBILITY. The role of auditors is coming under increasing scrutiny. We have Ketul Patel, our Head - Internal Audit discussing these issues in the following pages. The other fallout of the Satyam saga is the increase in demand from companies for a D & O cover and is explained in detail by our liability underwriter, Nikhil Modak as to why D & O cover has become a necessity for large as well as small corporates. This crisis combined with the economic slowdown has again put RISK MANAGEMENT in the forefront for any company to be evaluated and monitored. Vinod Jamar, our Chief Risk Officer, discusses how we at Bajaj Allianz look at Risk management. Our Head - Claims, Capt Sanjay Moholkar, discusses the benefits of receiving the ISO 9001 certification for our claims services. We can now proudly say that our Claims Services adhere to international standards and norms, which also helps in continuous improvements.

Meanwhile the insurance industry, still considered by many as a sunrise industry has attracted some new players and some have called off their engagement. The industry registered a modest growth of 9% as on February 2009, way below of over 15% in the heydays. The trend is expected to continue in the coming year also. We have to wait till the finalisation of accounts to declare our results for the financial year 2008-09.

The industry is pinning its hope on the new add-on covers which many feel can be a major growth trigger in the coming years. This is expected to be launched once the approvals are in place. But there seems to be a paradox here, since the insurers are not yet permitted to exploit the true meaning of "free pricing" as the old terms and conditions cannot be changed. This could be a possible spoilsport for the expected growth triggers. Bajaj Allianz has also filed few add-on covers in the fire and engineering insurance. We are tweaking our motor insurance offerings before it is filed and launched, as we want to make sure that these offerings reflect the needs of our consumers.

Currently pricing seems to hold sway over risk based pricing for many of the corporates. We had last year witnessed many instances where insurers cancelled some policies mid-way putting the insured at greater risk than they were without an insurance cover. The huge exposure written at minimum premium would be detrimental to the insurer in case of major catastrophic losses like floods or earthquake or some of the major fire incidents in the recent past.

Health Insurance is growing significantly and group health insurance has seen a correction with the property business being de-tariffed. As a responsible insurer we believe it is our duty to present before our clients a realistic cost and benefit analysis including covers and limits. We use our HAT capabilities to analyse, segment, control and design covers for each of our customers and thereby help them achieve the optimal cost / coverage trade-off without compromising either the risk or service levels.

I still strongly believe that service will continue to remain the key differentiator in the long run, even in a price sensitive market.

We had a minimal upsurge in the stock market in the middle of the last month reviving hopes of an upsurge in the coming months. The ensuing general elections – the most sacred ritual of vibrant democracy is set to be completed by mid May. All hopes are pinned on the new government (hopefully with a majority) to take some bold decisions and steer the country out of the troubled path. We expect everyone to diligently exercise their franchise.

Lets hope the new financial year brings joy and we get a good government.

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Risk Management - revisited

Vinod Kumar Jamar, AVP - Finance & Chief Risk Officer

In the wake of the current financial crisis, risk management has become a highly topical subject. Operational risks, reputation risks, business continuity risks and most importantly financial risks are being talked about more than ever. As a general insurer, we take on a substantial amount of risks off your balance sheet. Many of you would have wondered how insurance companies manage their risks. I would like to give you a flavour of how Enterprise Risk management works at Bajaj Allianz General Insurance.

Enterprise Risk Management

Bajaj Allianz sees Enterprise Risk Management as a means of value optimization. This is achieved through a better understanding of the balance between risk and return in the implementation and achievement of our objectives. Our market leadership position in terms of consistent insurance profitability and return on shareholders' capital, while maintaining top line growth above market growth is, by no small means, attributable to our Risk management framework.

The Basic component of a Risk management framework consists of:-

- Defining a risk strategy i.e. for each type of risk defining what is the level of risk acceptable? This can be set as any event which affects operating profit by more than, say - 2% or which affects capital requirement by more than, say- 5%. The term over which this is measured (one year for example) and statistical confidence levels (say-95%) could be set.
- Classification of risks like Market or Asset Liability management risk (includes equity price risk, interest rate risk etc), Credit Risk, Pricing or actuarial risk (risk of under or over pricing), Reserving risk (risk of under providing for claims reserves), Business Risk, Operational Risk, Business Continuity risk and Reputational risk.
- Setting risk limits for each type of risk in the form of a statement.
- Top risks identification and ranking by impact and likelihood analysis.
- Risk management structure i.e. Role of Chief Risk Officer, Risk Committee, Role of Board
- Monitoring and evaluation by type of information to be analyzed, frequency, responsibility for monitoring and initiating corrective action.

At Bajaj Allianz, we recognize the importance of internal controls and risk management in sustaining its business continuity endeavours to make risk management and control as an essential component of its business culture.

Risk Reporting

The Risk Committee (RiCo) is responsible for driving the risk management framework of Bajaj Alllianz . Heads of Department are identified as risk owners for their respective verticals. RiCo meetings are organized periodically to address strategic and corporate level risks and recommend strategies to manage these risks and ensure its implementations.

Solvency of an insurance company corresponds to its ability to pay claims. The Solvency Margin is the amount by which the total asset (policy holder & shareholder assets) of an insurer exceeds its liabilities.

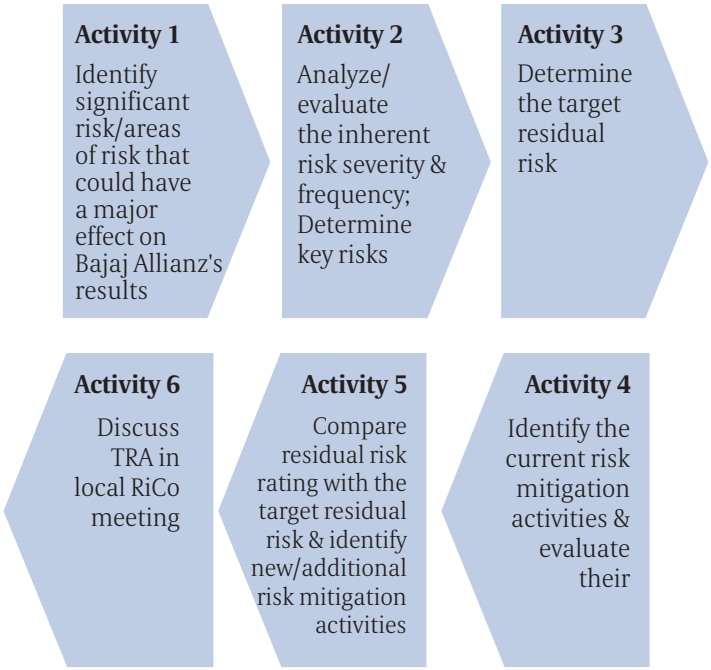
IRDA stipulates solvency ratios of 150%, which an insurer must maintain at all times.

Solvency Stress Test takes into account the impact of pre-determined stress events on Bajaj Allianz's solvency margin. An internal model has been developed to identify major stress events likely to have an impact on regulatory capital requirement. The basis on these stress tests calculations is always the latest quarterly balance sheets and newest available planning/forecast data.

Top Risk Assessment

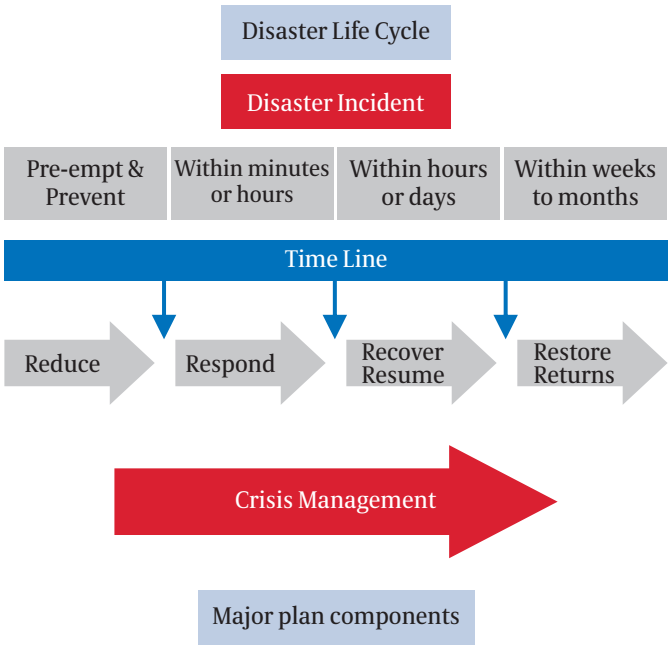
Bajaj Allianz does a periodical Top Risk Assessment (TRA). The TRA intends to identify and evaluate the key risks and their respective risk mitigation activities. Therefore the TRA provides a structured platform for the comparison of quality of risk and risk mitigation across Bajaj Allianz.

The TRA is not static but a continuous and iterative process that permeates through the entire business. Therefore the TRA is provided on a quarterly basis. The Risk Committee reviews the Top Risk Assessment and presents the results as well as the Target Residual Risk for each defined key risk.



Business Continuity Management

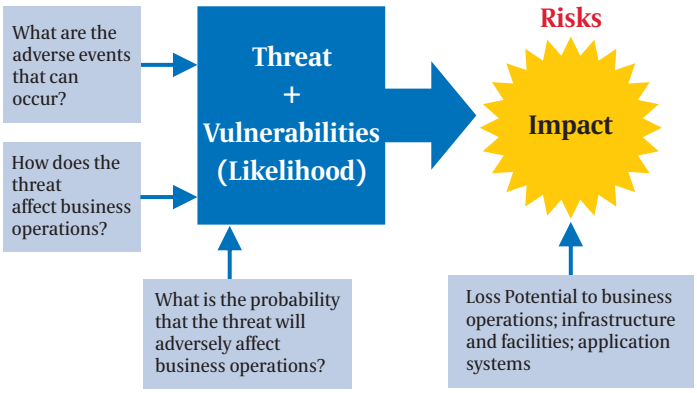
The Risk Management department is in the process of documenting a Business Continuity Plan, which is logistical in nature to enable us to recover and restore partially or completely, critical operations, within a predetermined time after a disaster or extended disruption. Incidents include external & internal hazards such as Natural Disasters, Malicious Activity & Technical Disasters that have the potential to paralyze or cripple our routine as well as critical operations.



The aim of this exercise is to ensure:

1. The recovery, resumption, and maintenance of all identified processes
2. Minimization of financial losses
3. Mitigation of factors that would affect customer service
4. Protection of our critical assets (Physical, Financial and Human)

Components of Risks



Business Impact Analysis is the first step in the business continuity planning process. The analysis takes into account the negative impact of the non-availability of critical processes/sub-processes on factors such as premium income, customer service standards, compliance to regulations, losses & expenses, accuracy of information and safety of human resource.

Critical Resource Analysis helps us to rank the importance of critical resources such as general infrastructure, company human resource, building, information service, local software data, telecommunication, physical documentation and third party services for our vital processes/sub-processes.

Risk Identification & Assessment involves evaluation of the Business Impact/Critical Resource Analysis and enables us to prioritize potential business disruptions based upon their severity. The risk assessment step ensures the viability and success of the business continuity plan.

In the ultimate analysis, Risk management is a matter of corporate will. When things go wrong, people start panicking and the Risk managers come to the fore. However, the biggest danger is when people forget that things can easily go wrong in good times. All major failures of financial services companies worldwide in general and insurance companies in particular can be related to either the lack of or the failure of their risk management. Selection of the right insurer depends a lot on understanding how the insurer manages the risks in its portfolio.

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Allianz Group achieved operating profit of 7.4 billion Euros in 2008

In fiscal year 2008, based on preliminary figures, the Allianz Group posted a robust operating profit and a solvency ratio remains at a high level, despite the difficult economic environment. The operating profit of 7.4 billion Euros compared to 10.3 billion Euros in the record year 2007. Net income from continued business amounted to 4 billion Euros following 7.3 billion Euros in the previous year. Discontinued operations, comprising the results of Dresdner Bank, and its sale to Commerzbank, impacted Allianz Group's net income in fiscal 2008 by 6.4 billion Euros. This yields a net loss of 2.4 billion Euros for the Allianz Group in 2008.

The financial crisis also affected the core business of Allianz. While Property and Casualty insurance proved to be largely unaffected, the Life Insurance and Asset Management business saw hits on revenues and profits.

Michael Diekmann, CEO of Allianz SE: "Allianz remains solid, a financially stable partner for customers, shareholders and employees. Our result of 7.4 billion Euros deserves recognition considering the challenging environment. Our efforts in 2009 will continue to focus on operating efficiency and offering our customers products that provide security over the long term – that is our core business."

Property and Casualty insurance, the largest business segment for Allianz, presented a stable profile last year. Premium income increased slightly from 43.2 billion Euros to 43.4 billion Euros (adjusted for the transfer of AGF's health insurance business to the Life/Health segment). The combined ratio reached 95.1 percent in 2008, compared to 93.6 percent in the previous year. As a result of successful efficiency programs and despite negative price effects, the increase in the combined ratio of 1.5 percentage points remains lower than the rate of claims inflation.

"Under the prevailing market conditions, Property and Casualty insurance generated a good result and maintained a stable combined ratio. Once more this reflected the positive result of our consistent underwriting policy, price discipline and improved efficiency," explained Helmut Perlet, Chief Financial Officer of Allianz SE.

In **Life and Health insurance**, premium income for 2008 fell by 9.7 percent from 49.4 billion Euros to 45.6 billion Euros. While the demand for traditional life insurance policies increased slightly, unit-linked products and distribution through the bancassurance channel were especially heavily impacted. The operating profit decreased from the record level of 3 billion Euros in 2007 to 1.2 billion Euros in 2008.

Besides a downward investment result this is also attributed to a difficult market environment in the USA.

Asset Management had to battle with extremely difficult and unpredictable capital market developments during 2008, which became even more pronounced during the course of the fourth quarter. The operating profit decreased by 32 percent to 926 million Euros in 2008 compared with 1.4 billion Euros in the previous year. This development is mainly attributed to the reduced market value of assets under management and respectively lower net fee and commission income as well as to investments in distribution.

Outlook

"The difficult conditions in the capital markets will continue throughout 2009. We are in the midst of the toughest economic downturn for decades. Reliable profit forecasts for 2009 are not possible in this environment," commented Michael Diekmann.

Allianz wins insurance awards in Asia

Allianz won the Euromoney insurance awards in the categories -

- Best Insurer for Claims Resolution in Asia
- Best Consultant for Insurance Risk Transfer, Asia

Euromoney the financial magazine based in London announced this after its annual Insurance Survey among CFO's, Risk Managers and other Direct Buyers of insurance at large corporations

Future of D & O Liability Insurance

Nikhil Modak, Sr. Manager - Underwriting

"It was like riding a tiger, not knowing how to get off without being eaten" confessed the beleaguered Chairman, B. Ramalinga Raju, of Satyam Computer Services Limited, just before setting of a cascading effect in the history of Indian Corporate.

Some of the first reactions from the Indian Inc biggies were-

"It's like Ripley's Believe it or Not", expressed Mohandas Pai of Infosys.

"There will be a lot of repercussions on the industry and the market', declared Sajjan Jindal, President, ASSOCHAM.

Some of the other extreme or rather bizzare reactions were:

- Were the Independent Directors, really Independent?
- What was the Auditors Role?
- Did the three Corporate Monkeys'(CEO,COO and CFO) not know what was happening?
- It was an egg on the face of India Inc.!

The Satyam Saga, however had an enlightening effect on the Indian Corporates, as several directors on the company's Board started running for cover. This was also evident from the number of enquiries that we received for the Directors & Officers Liability Insurance (D & O).

So, what do we learn from this event? Is India Inc in a position to fight it out in the Court of Law for the 'Wrongful Acts' of its Directors and Officers?

While Boards are not expected to function as detectives, they could, like judges, ask probing questions to keep the management on its toes.

The provision of Section 201 of the Indian Companies Act, mentions that the Company will not indemnify its Directors for their wrong doings for breach of duty, breach of trust etc., has caught attention of many Corporates, although proving such an 'Act' revolves around the intention of those committing this 'Act'. Moreover regardless of the stipulations of company's Act in the event of insolvency there will be no prospect of the company indemnifying its Directors & Officers.

Moreover, the proposed New Companies Amendment Bill which is waiting to be passed in the Parliament, makes a specific mention of 'Class Action Law Suits' in India, which if implemented will see good Corporate Legal Firms venturing into India as we expect to see increased transparency in the Corporate Legal Affairs and also Fast Redressals, since there will be more people joining the Law Suit (s), thus also leading to less pressure on Judiciary. Since Satyam is listed on NYSE(ADR), two class action suits have been filed against the organization and its officers. As Satyam faces suits running into millions if not billions of Dollars on its ADR class actions, we see a surge in awareness of D & O cover from Indian corporates.

The Directors and Officers liability insurance also commonly known in the corporate world as the 'Executive Liability' is still the best known cover for corporations, large and small against such perennial threats. In addition to such huge litigation damages, expenses and reputational damages, the exposure fears can inhibit decision-making and result in the loss of significant growth opportunities for the company.

The fundamental objective of D & O insurance is to ensure protection to company executives so that they can take sensible and independent decisions with relative peace of mind. They need not bother about the potential for second-guessing and perhaps claims by related parties (share holders, employees, regulators, competitors, creditors, customers etc.) adversely affected by their actions and decisions (Acts). Once that mindset is created, the executives will naturally apply commonsense caution, which is the single most important element of any loss control program.

Superior Corporate Governance occurs only if there is a company-wide commitment to excellence and discipline. Board Members and Senior Officials must be ever mindful that their job is to serve the interests of the corporation and its various offshoots. Executive decisions should be thoughtful, informed, made by disinterested persons, and fully documented. When appropriate, outside expertise should be sought.

Good Corporate Governance also makes good business sense. Although investment of time, energy and resources is necessary to achieve an exemplary corporate governance program, the tangible and intangible rewards from a successful program will far exceed that modest investment.

Why should one consider a D & O Cover?

The recent events like Satyam crisis where the fingers are

pointed to the acts and omissions of directors are an eye-opener to what the directors are or can be exposed to in the recent times. Some other compelling reasons are -

- Stricter Regulations & Compliance
- Protect the personal fortunes of the directors in case of a claim event
- Section 201 of Indian Companies Act 1956 & the proposed "Class Action Law Suit" provision in the New Companies Amendment Bill, which allows minority share holder to file law suit against the company listed in Indian Stock Exchange (s)
- Huge defence cost
- Big claim size as compensation can run into millions or billions
- Indian companies going global and so it would require adequate protection against global risk exposures
- Helps a company to attract and retain independent directors.
- Increasing Merger and Acquisitions
- If a company has its office in USA, legal system is complex
- High concentration of lawyers and high volume of litigation (Ambulance Chasers)
- High 'Awards' largely due to 'Deep Pocket Principle'

How to choose the optimum D & O Liability Cover

Basically a D & O cover needs to be tailored on a case-to-case basis. Some salient factors to be considered while choosing an optimum D & O cover are -

- Asset size (for large enterprise) and sales turnover (small & medium enterprise)
- Whether the company is Listed (BSE, NSE, ADR, GDR) / Unlisted as this will determine th e potential of risk exposure from shareholders at respective exchanges
- Corporate Governance and Board configuration. If there are independent Directors who represent shareholders and performing a decisive role in the affairs of the company would be liable
- Geographical spread of the company (Number of subsidiaries, their location, number of employees & their classification in terms of Nationality) so that they can assess the risks associated with related parties
- Any past, present, future Merger / Acquisitions to assess the risk exposure from employees, regulators etc.
- Financial analysis like key ratios, stock performance vis-a-vis benchmark index etc.
- Insurers expertise in underwriting such covers
- Reinsurance arrangements vis-a-vis Reinsurer's stability & expertise in terms of legal backup worldwide
- Claims management and ability of the insurers
- Joint Property and Estates, Legal heirs related issues which may prolong for years
- Whistle Blower claims protection. Most of the organisations have a 'Whistle Blower' policy commonly known to its employees, which may be made use of to 'Expose' the 'Wrongful Acts' of the D's & O's

Hope this can be a guideline to choose an optimum D & O cover.

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New Tie-ups

Oliver Schmid, MD, Volkswagen Finance Pvt. Ltd. & Swaraj Krishnan, CEO, Bajaj Allianz exchanging the co-operation agreement

Volkswagen Finance Pvt. Ltd. & Bajaj Allianz General Insurance has signed a co-operation agreement to provide innovative and customised insurance solutions to all Volkswagen Group brand vehicles like Audi, Volkswagen & Skoda.

Auditors - A Watchdog or ....

Ketul Patel, Head - Internal Audit

The role of auditors has come under close scrutiny especially after the Satyam crisis. The auditors are supposed to be an independent body in giving opinion on state of affairs of companies. However, the matter is sub-judice. I would like to limit my views on role of auditors with specific facts which are in public domain on Satyam fiasco.

If one traces to what happened at Satyam, it is evident from their Chairman' s letter to the Board, where he confessed about the inflated figures and overstatement on cash flow positions. The media reacted in a belligerent manner with fingers directly pointing to auditors as a party to the fraud.

The real extent of fraud has not yet been established but the role of auditors have come under scanner with the arrest of auditors of Satyam. Prima-facie it appears that the extent of fraud committed required meticulous planning and execution. This however, does not mean that only auditors are to blame, because every other regulatory mechanism - Independent directors on Board, Audit committee, SEBI etc. also failed to detect the early warnings.

Lets begin with what the audit community is largely expected to do while conducting an audit. Auditing is defined as an independent examination of financial information of an entity, whether profit oriented or not, and irrespective of size or legal form, when such an examination is conducted with a view to expressing and opinion thereon. Auditors however, could be external or internal.

Audit today is more of three-tier structure viz. Internal Audit, External Audit and Review Committee called Audit Committee. Each one has its own role to play such that the health and wealth of any company can be measured fairly.

External Auditors are the ones who have been appointed under various statutes of the country and report on matter pertaining to that act. But in general, they are presumed to be statutory auditors under the Companies Act who are concerned with financial reporting on a periodic basis. Their role in general is to give an opinion on true and fair view of financial statements.

Internal Auditors are however appointed by the company and their activity is primarily directed at improving internal controls. Under the COSO Framework, internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following internal control categories:

a) Effectiveness and efficiency of operations. b) Reliability of financial reporting. c) Compliance with laws and regulations.

Audit Committee and role: The Companies Act requires that every public company with paid-up capital of not less than Rs 5 crore should constitute an audit committee of the board. It is not necessary that the company should be listed. Clause 49 of the Listing Agreement also requires a listed company to form an audit committee of the board. Both regulations detail the constitution, powers and responsibilities of the audit committee.

The role of the audit committee includes: Oversight of the company's financial reporting process and the disclosure of its financial information to ensure the financial statement is correct and credible; Recommending to the board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees; Reviewing, with the management, performance of statutory and internal auditors, adequacy of the

internal control systems; reporting structure coverage and frequency of internal audit, among others.The powers of the audit committee include: To investigate activity within its terms of reference; seek information from any employee; obtain outside legal or other professional advice; secure attendance of outsiders with expertise, if it considers necessary.

Now let us understand certain key concepts which auditors follow in their approach towards auditing which incidentally also fixes / determines their liability towards stakeholders.

True and Fair: The concept of true and fair is a fundamental concept in auditing. It signifies that the auditor is required to express an opinion. What constitutes true and fair is nowhere defined in the act. It must be added that detection of errors and frauds is the not the primary aim of audit but to establish the degree of reliability on the annual statement of the accounts.

Reasonable Care and skill: Whilst giving an opinion on true and fair view, the auditor must exercise reasonable care and skill according to standard auditing practices. In the famous Kingston Cotton Mill Case (1896) and later in Tri-Sure India Ltd vs A.F.Ferguson & Co, 1986, the Hon High Court of Mumbai held that auditors must not be made liable for not tracking our ingenious and carefully-laid schemes of fraud when there is nothing to arouse their suspicion and when these frauds are perpetrated by the tried servants of the company and are undetected for years by the directors. The auditor does a sample checking of invoices and documents after assessing how effective are the internal risk controls in the firm. Based on that, he makes an inference about the authenticity of other similar documents. Regarding the duties, the court held - "*The auditor is required to employ reasonable care and skill but he is not required to begin with suspicion and to proceed in a manner to detect fraud unless some information has reached which excites or ought to excite suspicion in a professional man of reasonable competence. However, what is reasonable care and skill must depend on facts of each case. The auditor is not supposed to perform functions of a detective.* This led to crowning of a very famous statement – An auditor is a 'Watchdog' and not a 'Blood hound' ".

Denning LJ observed in Candler v. Crane Christmas & Co. (1951), whose opinion was later upheld in the famous Hedley Byrne case [Hedley Byrne & Co. v. Heller and Partners Ltd. (1963)], which reads. "*Their duty is not merely a duty to use care in their reports. They have also duty to use care in their work which results in their reports*".

Independence: It need not be overemphasised that the concept of independence is the keystone upon which respect and dignity of a profession is based. Independence of auditor must not only exist in fact but should also appear to exist to all reasonable persons. A very interesting remark as an extension to the famous statement given above was made by Justice P T Raman Nair in The Official Liquidator, Palai Central Bank Case – "*So far as the auditor is concerned, very lengthy arguments have been addressed regarding the duties of an auditor on the familiar bloodhound as opposed to watchdog lines. But this much I suppose no one would deny…….. that even the tamest of watchdogs has a duty not to connive with the thief.*"

In light of this, lets analyse as to what has happened and the future role of the audit community.

Where Auditors failed?

From the reports that are available in the public domain it seems that the auditors at Satyam failed to work and discharge their duties diligently i.e exercise reasonable care and skill, independently, honestly and faithfully towards all interested parties who would rely on there work.

Role of Auditor

- To give an opinion on true and fair view of financial statements. For this he should obtain sufficient appropriate audit evidence.
- Should understand the business and the external and internal environment in which it functions.
- Should obtain understanding of operation of internal controls, its sufficiency and applicability over entire audit period.
- Should exercise reasonable care and skill in selection of procedures, techniques and programme for audit.
- Wherever possible, outside evidence should be given importance which can be gathered by way of audit rather than rely solely on management representations.
- Sampling as a technique of audit should be judiciously used.
- Co-ordination with experts in case of technical issues and internal auditors is important.
- Audit procedures should be decided on evaluation of internal controls, sufficiency of internal audit department on the basis of quality of staff, work done, independence and quality of reports.
- Auditors whether External or Internal should act independently.
- Internal Auditors should not limit there role to reporting but to contribute in a positive manner in day to day operations i.e a report without recommendations for improvement is useless.
- Audit reports should be practical, recommendations implementable.

Were the laws, regulations, professional standards enough?

I think yes, but the operative part failed to be put in motion. The reason is evident as we have stringent norms like -

a) The Securities and Exchange Board of India and the Department of Corporate Affairs have made it mandatory to have audit committees where independent directors are in a majority and whose chairman has to be an independent director; they would be obliged to review and implement internal controls; observe accounting standards; review and approve accounts; review financial management and; appoint internal auditors and recommend statutory auditors.

b) The Institute of Chartered Accountants of India and Institute of Company Secretaries of India have been strongly supportive of moves for quality improvement and quality controls. ICAI issued 32 Accounting Standards, 34 Auditing Standards, 6 Internal Audit Standards and several External Quality Control Standards. It has moved for harmonisation of standards with the International Federation of Accountants. It also has its own standards of independence preventing auditors to do audit of related parties etc.

c) The Ministry of Corporate Affairs, first enlarged the scope of work (and hence responsibility and liability) of statutory auditors vide MAOCARO Order, 1975. making internal audit compulsory and the statutory auditor was bound to comment on the efficacy and extent of internal controls and review the internal audit.

However the penal provisions are still pathetic and not stringent. White collar crimes of such magnitude should be made criminal offence punishable with imprisonment besides debaring from profession for life.

How can we prevent frauds of such magnitude?

I feel we can make an attempt to prevent such frauds by -

a) the audit committee to be more active and vigilant and strong in discharging duties.

b) increasing substantially the coverage and intensity of internal audit;

c) an investigative audit by internal auditors whenever major weakness in internal controls or their implementation are found.

d) forcing the statutory auditors to rely much more on external evidence directly obtained by them;

e) mandatory rotation of partners

f) mandatory joint audits with both of them responsible for entire balance sheet.

g) strengthening and deepening peer reviews in audit firms

h) Change in audit approach - Today most of the audit firms are doing and expected to do a sampling audit. One must not forget that frauds are committed by humans and it is very difficult to judge human minds. Hence a blind application of available audit tools to create documentation in support of an opinion is not a correct practice. It is essential that the auditors know and understand the business of company, regulatory framework, challenges affecting the business, skills/integrity of employees and the management, economy, industry, information flow, transparency etc. The auditor has to have courage and conviction to disqualify wherever required or change accounting estimates and not worry about continuity of audit engagement. Planning of audit is a must not only be at the MACRO LEVEL but also at the MICRO level. Half yearly or quarterly reporting must not be reduced to only analytical reviews i.e. P&L analysis.

Awards and Certificates

There are many awards and certificates instituted for recognising best practices by independent authorities for the audit community. But I feel that Certificates and Awards are not a permanent seal. Sometimes, quality is person specific and not process specific.

Future role of Internal Auditors:

Internal auditors' unique full-time focus on risks and controls is vital to sound governance process and sound financial reporting. The larger and more complex the company, the more difficult it is for external auditors, management, and boards to have an accurate picture of risks and controls. Today's internal auditors must play a strong and visible role in governance, risk management, and internal control processes. Internal auditors must maintain independence, but they must also go beyond just pointing out what is wrong; they need to be part of the solution. Therefore they must understand the business and its challenges.

Finally in my opinion, the auditor is a watchdog and not a bloodhound BUT He should not stop sniffing…… And when he find anything wrong…He should not hesitate to use his barking skills..

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HDFC Bank, promoted by the housing finance major – HDFC Limited, was Incorporated in August 1994 and is today one of the leading private sector banks in India. It has an nationwide network of 1412 Branches and 3275 ATM's in 528 Indian towns and cities. HDFC bank provides a wide range of financial products and services to its over 10 million customers using multiple distribution channels including a pan-India network of branches, ATMs, phone banking, net banking and mobile banking.It has the second largest clearing / cheque processing bank in india and is listed in New York Stock Exchange (NYSE).

HDFC Bank has a bancassurance pact with Bajaj Allianz General Insurance.

Mr. Pralay Mondal, Country Head – (Retail Assets and Credit Cards), HDFC Bank Ltd.

Q 1. How the slowdown has impacted the financial sector and other services?

A 1. There is a Global Economic crisis. Some call it recession, some fear that it will be depression. Whatever be the nomenclature, there is an impact globally in a big way on entire economy, Financial sector being an integral part of the economy cannot remain isolated. Fortunately for India, the impact on the whole economy is much lesser and the entire financial sector is well regulated and lot lesser leveraged which has insulated us significantly from the global meltdown.

Q 2. When can we expect a turnaround or stabilization in the slowdown?

A 2. Though we have been impacted lesser than the other economies, there is a significant impact on exports, capital inflow, huge oil bill before the crude crashed 35-30 $ and consequently slow industrial growth and market sentiment. In Oct/ Nov 2008, there was a huge liquidity pressure which has eased off thanks to the coordinated action taken by the government and regulators. As the commodity prices cooled off, we expect continued lower inflation (there are talks eve of deflation in the next quarter) and interest easing off - leading to credit growth and better margins for the corporate. It is a cycle and hence difficult to predict and lot depends on global cues from USA, Europe and Japan which are all still looking very depressing. Once the sentiment improves and there is more free flow of credit to productive sector and coupled with government investment in infrastructure, agriculture etc, we should see India doing lot better than the rest of the world. India and China has a significant savings to GDP and that will help us tide over this crisis better than the more credit leveraged countries. There are questions on Fiscal deficit, Exchange rates and Exports and also there will be some pain in some sectors through job losses etc which creates a negative spiral in the consumer sentiment leading to demand destruction. In short, there are complex dependencies internally and direct impact on Global cues - however seems that we are seeing some demands and positive sentiments we will see the real positive impact in India - it can take 12-15 months in the least, however with GDP expected to be between 5.5% - 6% in next fiscal year, clearly we will see a turn around much faster than the rest of the world.

Q 3. How the low sentiment has impacted the insurance sector as it is a crucial risk mitigation instrument?

A 3. You will be able to answer this question better. Still let me try - but I could go horribly wrong on this as its completely unknown territory for me.

In general Insurance, some demands like Auto, Home Loans or Credit Shield (an exclusive Auto Loan Product for HDFC Bank) kind of products, its a function of demand of those sectors. As most durables and unsecured loans businesses are down, we are seeing some negative impact here. Though indications are that the worst is over on demands in the durable sector as we are seeing some turn around in Auto, Two Wheeler etc. Commercial Vehicles segment will take some more time so will the real estate sector.

Medical Insurance has very low penetration in India. so the opportunity to grow is there - though it depends on sentiments and as it turns positive and people feel more secured on their day to day life, we should see some growth. With more investment on education etc, this demand will grow in the long run.

On Life, a lot of growth has happened based on capital market linked products in past. Clearly we see a complete demand destruction there.

Large ticket size Insurance which are linked to such strings, will go down - though in a low penetrated country like us, no. of policies should not bea problem. Another way of looking at it is, with Mutual Funds and Capital Market being low on priority, HNW customer has limited options - for safe and long term investments which are Bank FDs and Insurance.

In summary, I think there will be some impact - but not big enough to raise concern in the industry. Even if there is , it is short term and could affect Bank Assusrance business partially - but not the pure Retail Agency business.

Q 4. How do you perceive risk management in a crisis situation like this?

A 4. One has to be very analytical as well as pragmatic while approaching risk in the current scenario. One of the biggest credit risk is over leveraging and one has to use all tools and information available to mitigate this risk. One has to be industry focused and not have larger exposure to difficult segments, have a judicious mix between Retail, Corporate and SME and have the right balance between pricing and risk reward. In a situation like this, the curve on risk reward is skewed and one has to be careful. One also have to be long term focused as short term adjustments and corrections can build significant long term pains and it becomes a gamble on timing the turn around. Stop Loss Management, constant review of portfolio, taking tough calls on existing portfolio as well on new acquisitions/ build up, exposure mix to segments and industry and having constant dialogue with the end customer to understand their business - all forms part of good risk management practice - specially at such times. Inspite of the stress in economy, it is important to grow the portfolio - hence it becomes important to do significant risk analytics to decide the financial institution's appetite on the right segment (as the institution defines) and ensure focus in getting that defined business through right distribution - be it Branch, Channels, geography or Industry.

Q 5. Your advise to risk managers in the current scenario?

A 5. Be cautious, understand the business and the segment well, know your customer more than ever before, use technology and analytics (for Retail) and do lot more in-depth analysis of business, demand, cash flow and supply chain (for Corporate and SME) and keep evaluating and correcting the portfolio with constant dialogue with the customer. In these times, we have to work closely with the customer and not against the customer's interest keeping the right balance of exposure and relationship. In the end, risk managers have to grow the portfolio as I believe that the crisis in India is shorter than the other developed economies - at the same time one has to remain with the boundary of the risk appetite as defined by his institution.

Add On Covers

Bajaj Allianz has filed add-on covers in the Standard Fire & Special Perils Policy and is awaiting approval. Some of the add-on covers offered are -

1. Replacement of Obsolete Machinery (specifically identified) Extension
3. Expediting Expenses Cover
4. Leakage and Overflowing of Storage Tank (other than Water Storage Tanks) Extension
5. Underinsurance Waiver Clause
6. Loss of Rent due to Damage to Building and Contents Including Machinery for Dwellings, Offices & other Simple Risks

CLAIMSTRACK

Claims Settlement Record

Jan 08 - Jan 09

Line of Business	O/s as on 31 st Dec 08	Registered from Jan 08 - Jan 09	Paid from Jan 08 - Jan 09	O/s as on 31st Jan 09
Motor OD	17292	367978	369094	16176
Motor TP	28526	22996	21718	29804
Property & Engineering	2603	9220	9407	2416
Health	6108	96367	97417	5058
Miscellaneous & Others	8234	37986	38229	7991
Total	**62763**	**534547**	**535865**	**61445**

▲ Claims Settlement Record (excluding Motor TP) - **94%**

Claims Paid Analysis - Ageing

Jan 09 - 15th Mar 09

Line of Business	No. of claims paid				Total no. of claims	Total amount paid in Rs.
	0-30 days	31-90 days	91-180 days	>180 days		
Motor (Including TP)	56117	8788	2675	1395	69035	1,488,750,386
Property & Engineering	389	472	392	479	1732	283,804,865
Health	16916	354	148	142	17560	391,356,059
Miscellaneous & Others	2261	14356	915	915	18292	394,389,970
Total	**75743**	**23970**	**4130**	**4130**	**106619**	**2,558,301,280**

▲ Claims paid within 90 days - 94%

Cases referred to Consumer Forum & Ombudsman

As on 31st March 09

Total no. for Cases received	No. of cases settled	Bajaj Allianz Won	Bajaj Allianz Lost
3115	1556	919	637

This article by Michael Heise was first published in the "Wall Street Journal"

Europe Can Only Lead By Example

Michael Heise, Chief Economist, Allianz SE

The financial crisis has plunged Europe, and the rest of the world, into what looks like the most savage recession since 1929. Germany is being hit particularly hard, with its former strength, exports, now proving to be a major weakness as global trade is collapsing.

The focus at present is understandably still very much on short-term crisis management -- fixing the mess on the financial markets -- and on revitalizing economies with demand management. EU leaders met last week to thrash out a joint approach to the G-20 summit in London on April 2. The size of the stimulus packages, the unprecedented low interest-rate environment and, most importantly, tumbling commodity and energy prices make a recovery likely in due course. But at the same time formidable challenges loom.

The greatest task right now is to find the right balance between the state and financial markets, guaranteeing stability while strengthening the forces of market growth in the long term. Europe can make a major contribution to this global effort by working for the extension of regulation to sectors that have so far hardly been covered at all, such as "shadow banks" (structured investment vehicles and conduits), hedge funds and rating agencies. In order to limit regulatory arbitrage, the world's financial centers need to harmonize international standards and improve international supervision.

Given the European Union's experience with financial market integration, it has a good chance to shape this new global financial order.

But to seize that opportunity, it needs to accelerate its own financial market reform.

The proposals to the European Commission earlier this month in the "High-Level Report on Financial Supervision" headed by Jacques de Larosiere point the way. Specifically, the report recommends the establishment of two new bodies: a European System Risk Council to focus on macroprudential issues like credit bubbles and asset-price inflation, and a European System of Financial Supervisors -- a decentralized network of national supervisors that will be more powerful than the current grouping.

The stability of economic development, though, requires not only better regulators but also better regulation. The pro-cyclicality of accounting standards and capital requirements for banks was a key contributing factor in this financial crisis. The current rules have led to the availability of large amounts of excess capital have led to the availability of large amounts of excess capital during the boom, nourishing exuberance. Now, as recession bites, financial institutions are compelled to take massive impairments on their lending and security assets.

At the same time, they are forced to hold much more capital in relation to their assets as the ratings for companies and securities are downgraded en masse. But this only exacerbates the economic problem, prompting further downgrades of credit quality.

Despite lending cuts, risk-weighted assets continue to rise. In a knee-jerk reaction, lending policies become even more restrictive, escalating the downward spiral. In the upcoming revision of the rules, these pro-cyclical effects must be curbed -- for example by the inclusion of anticyclical provisions like those used in Spain, where the regulator demands that banks increase their capital in boom periods to create a risk buffer against times of recession.

What is more, at times of extreme market illiquidity, accounting should be based more on actual and expected payment streams from assets rather than on "market prices" that merely reflect isolated fire sales.

As necessary as a revision of the regulatory framework may be, we must not lose sight of the other aspects of our economy. Public coffers are stretched to the limit, unemployment is rising across our continent, and private-sector investment is plummeting. We urgently need to lay the foundation on which we can build tomorrow's growth, employment and prosperity.

With a shrinking and aging population, as well as substantial "deleveraging" needs in the private sector, this really is a challenge.

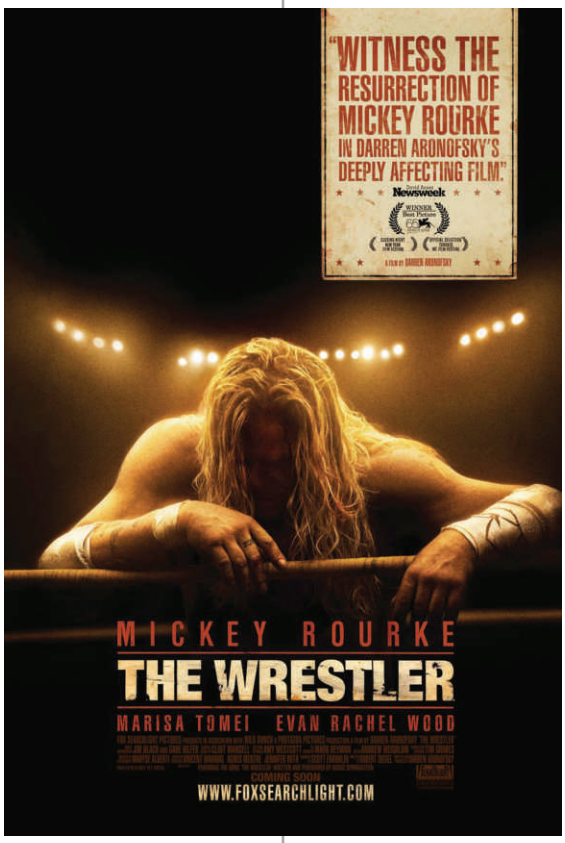
Even more than in the past, future growth will hinge on the pace of innovation and productivity. Investment conditions in Europe need to be improved, as physical capital is a carrier of technology and know-how.

Open markets are still the best guarantee for the efficient allocation of resources and hence of higher growth. The principles of competitive markets, the free movement of capital, freedom of establishment and the equal treatment of national and foreign-owned financial institutions must continue to apply. Backsliding into an era of nationally fragmented markets would be a disaster. If the EU wants to assume global responsibility at this time of crisis, it must ensure that such policies are shunned.

And the winner is...

If there was ever an Oscar nomination for the hardest-to-insure movie category, then Fireman's Fund Insurance Company, would have been the obvious choice .

If there was ever an Oscar nomination for the most riskiest movie, then honors go to "The Wrestler", an emotional drama about Randy "The Ram" Robinson, a once popular pro wrestling star, now aging and down on his luck, who battles both personal and health issues. As an insurance risk, the film wins "most risky production" primarily because lead actor Mickey Rourke did much of his own stunt work in the film.



Rourke executes extremely physical wrestling scenes – even deliberately cutting himself to draw blood during a fight. In one scene, Rourke has an especially brutal match accompanied by glass shards, staples and barbed wire.

Adequate precautions to mitigate the risk

"We considered it a major risk because of the factors related to the stunt work: the physicality and quantity of the stunts. Even young actors have difficulty with physically challenging stunts," said Joseph Finnegan, vice president of Fireman's Fund Entertainment division.

"As the lead actor in this film, if Rourke had a serious injury it could have resulted in a delay or even halted production. Fortunately, he trained and practiced for months, and we worked with the production company to make sure adequate precautions were in place to mitigate the risk," said Finnegan.

Among other insurance coverages for films, cast insurance covers a variety of possible scenarios that could happen to an actor where production would be affected. These can include illness, injury, medical issues – even death.

Dedicated to helping producers and studios Not all films present sizeable risk factors. The least troublesome movies among the nominees, according to Fireman's Fund, are "walk/talk" productions where the actors are shot in simple scenes and don't engage in activities much beyond dialogue. Of this year's nominees, "Frost/Nixon" fell into that category.

There were a total of 79 Oscar nominees this year and Fireman's Fund insured 46 – which is an accurate representation of the approximately two-thirds market share the company commands. Insured nominees include "Milk," "Frost/Nixon," "The Reader," "The Dark Knight," "Changeling," "Iron Man," "Defiance," "In Bruges," "The Visitor," "Frozen River," "Wanted" and "Hellboy II" in addition to "The Wrestler."

With an over 80-year history of insuring Hollywood productions, Fireman's Fund Entertainment is dedicated to helping producers and studios achieve the artistic results they are seeking, yet also ensure they are filmed safely, finished on time and on budget. Its 40-member team includes specialized underwriters and loss control experts who each have about 20 years of experience in the entertainment field.

Fireman's Fund℠ Insurance Company
A company of Allianz

About Fireman's Fund

Based in Novato, California, Fireman's Fund Insurance Company is a premier property and casualty insurance company providing personal, commercial and specialty insurance products nationwide. It is rated 'AA-' by Standard & Poor's Rating Services. Fireman's Fund is a member of the Allianz Group (NYSE: AZ), one of the world's largest providers of insurance and financial services. For additional information, visit www.firemansfund.com

"Our Claims Services is now ISO 9001 Certified"

Captain Sanjay Moholkar, Head - Claims

Henry Ford has once said, "Quality means doing it right even when no one is looking." This has stood the test of the time and is more of an axiom now. Our initiation of ISO 9001:2000 in the claims department without any regulatory or client requirement epitomizes the above principle and is a clear testament of our unflinching commitment for improvement.

All of the claims services related offices based in Pune along with the support functions pertaining to it i.e Call Center and Customer Care Team (CCT) are covered under the scope of the certification. To be more specific, the Pune Regional Office claims team, Health Administration Team & Head office teams of Motor, Non Motor and Legal besides the department at HO is covered under this certification.

ISO 9001:2000 Certified Claims Services

What is ISO 9001?

For academic interest the International Organization for Standardization (Organisation internationale de normalisation), widely known as ISO is an international-standard-setting body composed of representatives from various national standards organizations. Founded on 23 February 1947, the organization promulgates worldwide proprietary industrial and commercial standards. ISO 9000 is a series of documents that define requirements for the Quality Management System Standard (QMS). ISO 9001 is one of the documents in this set; it contains the actual requirements an organization must be in compliance with to become ISO 9001 certified.

Quality Oriented Culture

Among the several benefits of the implementation, the quality oriented culture that has been acquired deserves a special mention. The following Quality phrases have now become the guiding force of our work culture.

- Non conformance

Nonconformity refers to a failure to comply with predefined requirements/specifications. A requirement is a need, expectation, or obligation which could have been explicitly stated or implied by an organisation, its customers or other interested parties.

They are looked as a springboard to bring in further improvements rather than punishable aberrations.

Every non conformity gives a new insight, a new thought process and a trigger for an innovative approach to solve not only the present problem but to better the performance and raise the bar further.

- Root Cause Analysis (RCA)

The practice of RCA is based on the principle that problems are best solved by attempting to correct or eliminate root causes, as opposed to merely addressing the immediately obvious symptoms. By directing corrective measures at root causes, the likelihood of problem recurrence will be minimized.

However, it is recognized that complete prevention of recurrence by a single intervention is not always possible. Thus, RCA is often considered to be an iterative process, and is frequently viewed as a tool of continuous improvement.

CAPA- Corrective and Preventive Action

- Corrective Action

Corrective actions are steps that are taken to remove the causes of an existing nonconformity or undesirable deviations. In simple words, a corrective action tries to make sure that existing nonconformities and discrepancies don't happen again.

Since they address actual problems, Corrective action can be considered as a problem solving process.

- Preventive Action

"Prevention is better than Cure"

Preventive actions are steps that are taken to remove the causes of potential non-conformities or potential deviations that are

undesirable. In simple words, a preventive action is to prevent the occurrence of non-conformities or situations that do not yet exist but might occur if not acted upon.

Since they address potential problems, ones that haven't yet occurred, Preventive action can be considered as a risk analysis process.

It is always good to avoid curative measures and to take preventive actions as the time and energy wasted in curative measures is far more than the preventive ones.

- Process Performance Indicators

The notion of periodical measuring of the key process performance parameters is essentially a derivate of the 'Management by Objectives (MBO)' concept initiated by the renowned Management guru Peter Drucker.

The expectation from the each of the sequence in a process is established and then monitored by the management. This quantification of process performance, especially the ones which are knowledge based and hard to quantify act as a barometer of the overall progress made towards organisation goals.

Benefits - Internal

The immediate benefits of setting and meeting these standards has contributed to the following benefits -

- Management control through periodic reviews
  - A process is established to assess the alignment of the operations with the business goals by the management with the statistical data on a periodical schedule. Using the statistical data as a basis rather than personal bias or opinions gives a clear indication of the necessary actions to be initiated to stay within the tolerance limit.
- Consistent Performance
  - Better documentation and control of processes leads to consistency in performance, and less rework.
- Constant measurement of quality
  - The quality parameters which get defined based on business requirements are constantly measured. This presents a true and fair picture of the service levels and supplementing it with a sprinkle of statistics sets out the ground reality in an unambiguous tone.
  - Parameters to be measured can be increased from time to time so that micro analysis is possible and this helps in further improvements at all the times.
  - Continual improvement is one of the major goal which we any organization would like to achieve for not only having consistency in performance but also to look for innovative ideas for overall improvement and achieving of goals.
- Training of new employee
  - The documented procedures act as a one stop guide for the new employees about the daily work to be performed. The clarity is brought to them not only about the tasks they are supposed do but also what they are not supposed to do. The trained resources are able to resolve the problems on their own rather than waiting for someone to dictate a three point plan as a solution to fix the problem.
  - This even helps us to find out the skill sets held by them visa vis the required ones for a particular grade and gives indication of the additional ones for helping in promotional avenues and growth path for them in the organization.
- Designing New Processes

  Constant review and monitoring helps in knowing new requirements drawn through the different processes which can help in reducing the dependency on persons and system driven reports and analysis should further help in improving the customer satisfaction.

Benefits - External

The likely benefits to our customers can be described as -

- Customer Satisfaction
  - The customer satisfaction improvement is now the prime driver of the entire claims process. This inclination transforms the Claims settlement from an administration intensive process to a value added process.
- Understanding of the Customer needs
  - Customer needs are better understood as customer feedback is sought, received and analyzed. Goals and objectives are adjusted based on the information and the organization becomes more customers driven. As goals focus on the customer, the organization spends less time focusing on individual goals of departments and more time working together to meet customer needs.
- International acceptance and recognition
  - The certification certifies the level of excellence of the process at an international level. This recognition assures the customer about the quality of services provided by the company.
- Customer grievances management

  The new and improved orientation towards the customer grievance management results in speedy resolution of customer complaints and reduction in the number of complaints received. Taking a step further, the root cause analysis of these complaints is grouped into distinct categories and are analysed for opportunities of improvement.

With inputs from G. Ravi Kishore, AM, IT

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