Bajaj Allianz

Newstrack

Corporate Newsletter
December 2010

An insurance for **everyone** & every need...

Every life stage has distinct needs and a specific kind of insurance

BAJAJ | Allianz

Contents

There is a specific insurance solution for every life stage and requirement.

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Foreword

Make Your Car Insurance Policy **More Flexible and Powerful**

Kamesh Goyal

India is one of the hottest markets for private cars in the world. Sales are increasing month by month and we are witnessing the launch of new models almost every week. Most people are quite optimistic about the growth of this industry. Insurance is an intrinsic part of enjoying the car experience. However, hardly anyone pays attention to the insurance cover while purchasing a new car. Year after year the policy keeps getting renewed without any changes to the coverage.

In my view one should devote some time to understand the insurance coverage under a car insurance policy, how to reduce cost of repairs in case of accident etc. Let me explain this in some more detail.

In last two years the traditional car insurance has become more flexible. A policy owner can now add coverage like 24X7 spot assistance services, depreciation shield, flat tyre assistance, and medical coordination.

The Depreciation Cover Explained

In case of accident the cost of metal parts damaged are reimbursed net of depreciation. The rate of depreciation applied varies from 5% to 50%. The rubber parts have 50% depreciation. This means that a customer owning a two year old car ends up paying approximately 10-20% of the cost of overall repairs. The depreciation coverage can be quite useful. Similarly, when giving a car for repairs, one should insist for repairs rather than replacement of parts as insurance company pays for full repairs, while in case of replacement of parts the depreciation has to be borne by the customer. Besides, one can imagine the harm to the environment that is caused by excessive replacement of parts of an automobile. Thus, thinking green while getting your car repaired is environment friendly and economically beneficial.

The pricing for the Depreciation cover varies with age of the vehicle. Similarly, other covers are available that provide assistance and also reimburse expenses like medical coordination. These are typically useful for people who like to drive the car outside their city as well.

It may be a good idea to extend your car insurance policy with these additional covers as your vehicle ages and different members of your family begin driving.

Other things one should do while buying car insurance:

- **Fill in the proposal form yourself** with as many details as possible. With free pricing most insurance companies have started tracking customer profile. Thus a good customer in all probability will get a much better price. Without filling in the information, you are letting go an opportunity to get the best deal.
- **One can transfer 'No claim bonus' (NCB) from one car to another.** The NCB always goes with the owner and not with the car. Thus, if you have enjoyed a no claim bonus, please ensure that you transfer it to the new car that you are buying. The vehicle and the insurance policy should be in the same name.
- **Never give your car to anyone else to drive if they don't hold a valid driving license.** This can be a huge problem at time of claim whether the car is damaged or the car injures someone in an accident. The cost of the negligence can be very steep.
- **Never sign the claim form blank,** please fill in as much details as possible and correctly declare all information about the accident. Not doing so could jeopardize the claim.
- **Look for cars which have installed anti-theft device.** Vehicle theft contributes a lot to the losses in motor insurance. It is always good to install an anti-theft device in your car.
- **Avoid lodging small claims** as it is much better to keep building no claim bonus. Continuously sending the car for repairs of small dents and scratches can be very expensive.

On an average almost every third car insured meets with an accident in a year. Thus the cost of repairs, loss for the customers and insurance companies is huge. While some losses are unavoidable, we should do our best to minimise the losses to us and to the environment. All it takes it a few minutes when buying a policy or when lodging a claim.

Kamesh Goyal
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MD & CEO, Bajaj Allianz Life Insurance
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Special Feature

An insurance for **everyone...**

ARNAV PANDYA

Every individual passes through different life stages with their distinct characteristics. Each of these stages requires a specific kind of insurance cover and it is the role of a financial planner to suggest the relevant options. While every individual will be different in some way, there are some features that will require similar choices.

In all the workings, the individual insurance cover for a person will differ based on their conditions but an indicative position has been outlined for easy understanding.

Young age

This is the stage of life when an individual has just started their work life. Some individuals would be single while others would have been recently married. The key point that has to be considered at this stage is whether a person has dependants. It is not necessary that the dependents have to be either a spouse or a child; even aged parents are considered as dependants. It is important for a person with dependants to have an insurance cover.

At this age, a life cover is more important and hence a term insurance policy would be suitable for the individual as they will be able to get a large amount of cover at a lower cost. Since the person is young, the premium will also be low and affordable in case of those who have started their careers.

For example, a 28 year old male individual who wants a term insurance for ₹5 lakh for a period of 30 years will have to pay a premium between ₹700 and ₹1100 per year for the cover. Even those who are married but do not have any children should ensure that the requirement of a basic cover is met by a term insurance policy.

The responsibilities for a married person are higher so they would have to look for a slightly higher cover. Just to give an indication, a ₹10 lakh cover for a 30 year old for a 30 year time period will have a premium of anywhere between ₹3,100-4,000 a year. A large part of the premium for an individual at this stage should be going toward a term cover.

Women should also look for options and should look for some women specific benefits in the policy. The premium for women is lesser. For a term cover, this would be around ₹200-300 less for a ₹10 lakh cover as compared to a male of the same age. The other option is to add specific features that can be included critical illness, congenital disability or pregnancy related benefits.

This is also the time to start thinking about the retirement process and start contribution to a pension policy. They will need to seek a deferred annuity that will help them accumulate amounts for retirement. The benefit of starting early for pension requirements is that the contributions can be small but the long time period will provide the required benefit of compounding. A simple way of estimating the amount for retirement would be to look at various expenses that would be required at the time of retirement and then work backwards. A person who is 26 years of age and who is looking to save ₹8,000 per month till he is 60 years would end up with a corpus of over ₹4 crore if the earnings rate is 12% compounded annually. This figure by itself is meaningless unless considered in respect to the prices prevalent at that point due to the impact of inflation.

Married with children

The next stage in life for an individual comes when they have children and this would require a reworking of their insurance calculation. This is also the time period in life when the individual has settled down in their career and earnings have increased as they have gained in terms of responsibility/experience at work. This is the time when the family will have to plan for meeting the future expenses for the purpose of education and other costs for their children. One way to ensure protection for children is by looking at children's policies that ensure that their education and future is protected.
Children's education can be either an annual amount ranging from ₹ 20,000 to ₹2 lakh a year for their schooling or it could be for a large investment that could be ₹4 lakh a year during college. In case a foreign education is planned then this can run into ₹20-30 lakh a year.
Children's plans are useful for meeting long term needs but the premium here can be high. So it would not be uncommon to find that the premium for a ₹ 2.5 lakh policy for 16 years for your 5-year old child could be around ₹11,000 to ₹12,500 per year. You can also use money back policies to meet their requirement as this will pay out specified amounts at fixed time durations. Here too the premium costs would be high and an indicative cost of a 20 year term for a 35 year old person for a sum of around ₹ 2 lakh is likely to be in the range of ₹6,500 to ₹7,500 per year.
The basic requirement of insurance should be completed using term policies but for individuals having high amounts of savings and able to take risks can look at some unit linked policies as an option. Low costs as well as effective structure of the policies will remain key points that will decide the choice of unit linked as an option. For those who do not want to take risk they can consider endowment policies that suit them. A 35 year person is likely to find that a ₹3 lakh cover for 25 years will come at a premium of ₹10,000 to ₹13,000 but the payout at the end of the period is likely to be around ₹12-13 lakh. In case the retirement planning procedure has not been started then this is the time to initiate a pension policy.

Grown up children

This is usually the time of life when a person has moved into senior management roles and earnings are high. At this stage, one should review their overall financial situation to see their existing position and the future steps. Now is the time when security starts becoming a priority. In this situation, a whole life policy will ensure that there is a certainty of a receipt of income for the dependant family members. The cost for such plans is higher. For example, a 45 year old person looking at a ₹20 lakh cover that will run till 100 years of age will have to pay an annual premium of around ₹80,000- ₹110,000 for a premium paying policy term of 15 years.
The premium of whole life policies are generally high due to the various benefits offered like return of premium or return of a part of the sum assured at the end of the premium paying term.
If there are larger cash surpluses available with the individual then it would also be appropriate to look at single premium policies that can provide the desired benefit by just a single payment, rather than a regular payment over a period of time. In this respect if there are some assured return options then they would also suit the needs for many individuals. Retirement planning efforts also need to be reviewed and if this has not been started then the first priority has to go towards this area by considering a pension policy. If the process has already been initiated, then the adequacy of this aspect should be considered. Amounts that would go towards such policies would only be the surplus money available with the individual.

Nearing retirement

This is the time when the focus has to be less on life insurance and more on ensuring that there are survival benefits that will take care of the finances in case the individual lives a long life. All the attention of the individual has to be focused on generating a regular flow of income after retirement, so there would be a focus on retirement products. An expense of ₹ 30,000 a month today would turn out to be just over ₹90,000 a month in a span of 20 years at an

inflation rate of 6 per cent so that is the kind of responsibility that has to be met. At the same time, amounts which are received from maturity of other policies would have to be invested in immediate annuities so that these also yield the required cash flow for the individual.
Overall there has to be a range of retirement options that can be chosen including those from the insurance field to get the desired outcome.

The author is a Certified Financial Planner and a columnist with leading publications in India. He has professional qualifications as a Chartered Accountant and a MBA from IIM Bangalore with specialisation in Finance. His columns have appeared in The Economic Times, Times of India, Hindustan Times and Business Standard. He has nearly a decade of experience in the financial planning field covering activities like training, creating study material, preparing practical user guides and conducting seminars.

Special Feature

Product **Recommendations**

Bajaj Allianz did an analysis of its various customer segments to understand their insurance needs. Based on the insights, we categorised our customers into seven categories. For each category, we then plotted relevant products from our product basket.
Here is a reckoner to find which Bajaj Allianz Product suits your needs.

Youngsters/ Gen X
(18-21 Yrs)

Savings - *It is advisable to start saving early.*
Invest Gain Platinum RP - An endowment plan that offers 4 times life cover.
Super Cash Gain - A money back plan that guarantees 100% payout plus bonuses

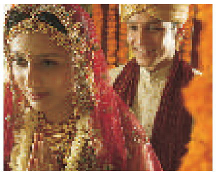
Loan Coverage - *Protection from the burden of repayment of your education loan*
Protector Plan - mortgage term plan to cover the outstanding principal amount of education loan in case of death

Health Insurance – *start early with a health insurance to enjoy lower premiums*
Family Care First - a hospital reimbursement plan

1st Jobber
(22-27 Yrs)

Savings - *should be a priority rather than life cover, as responsibilities are not many yet.*
Invest Gain Platinum RP* - An endowment plan that offers 4 times life cover
Super Cash Gain* - A money back plan that guarantees 100% payout plus bonuses
*Both these plans provide a **Family Income Benefit**, which is a unique feature wherein 1% of the sum assured is paid and all future premiums are waived off in case of death or accidental total permanent disability of insured.

Health Insurance - *start early with a health insurance to enjoy lower premiums*
Family Care First - a hospital reimbursement plan



Married Man / Woman
(28-32 Yrs)

Savings - *Investment objectives should consider future responsibilities of spouse and children*
InvestGain Platinum - An endowment plan that offers 4 times life cover. It is suggested to opt for regular premium paying mode.
Assured Protection - with Unit Linked Term and Family Income Benefit Rider and Wheel-of-life Portfolio Strategy
Smart Insurance Plan III with Term, Family Income Benefit and Waiver of Premiums Rider and Asset Allocation Fund - A ULIP with systematic investment option with variety of riders to choose from

Life Cover - *Secure your family's future in case of an unfortunate event to the main breadwinner. Premiums at this stage will be lower in comparison to if you were to initiate a cover in later years.*
New Risk Care II with Comprehensive Accidental Protection Rider and Critical Illness Benefit Rider - A term insurance plan which provides high insurance coverage at a low premium

Retirement Planning - *You should consider start planning your retirement since starting early will give you the benefit of lower premiums.*
Swarna Vishranti with Supplementary Death Benefit Rider

Health Insurance
Family Care First - a hospital reimbursement plan (Women can opt for women - specific riders)

Married with Kids
(33-55 years)

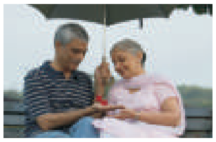
Savings - *Consider avenues which grow your money and secure your and your family's future*
Invest Gain Platinum + Limited premium payment Term - An endowment plan that gives you quadruple protection
Child Gain - Money back plan to help you secure your child's future
Wealth Insurance + Systematic Switching Option (SSO) - Single premium endowment ULIP
Shield Insurance with Shield Plus Fund III - single premium fixed-term ULIP that gives you guarantee of minimum unit price at maturity.
Smart Insurance Plan III with Asset Allocation Fund – A ULIP with systematic investment option with high flexibility
Over the years, you can increase your equity exposure and opt for **Max Advantage** with **Max Gain Fund II** (maximum NAV guaranteed over 10 years) in place of **Assured Protection.**

Life Cover - *As liabilities increase, ensure you have adequate life cover by reworking your current financial standing and future goals.*
New Risk Care II + Comprehensive Accidental Protection Rider and Critical Illness Benefit Rider - A term insurance plan which provides high insurance coverage at a low premium

Loan Coverage - *If you have taken a loan for building an asset like a house or property, it is advised to secure your family from the burden of loan repayment*
Protector Plan - A mortgage term plan to cover the outstanding principal amount of loan in case of early death. The plan can be taken on individual or joint life.

Retirement Planning - *This is the time to initiate a pension plan if not already done so far.*
Swarna Vishranti + Supplementary Death Benefit Rider

Health Insurance - *consider a plan that covers you and your family*
Family Care First - a medical expense reimbursement plan



Retirement
(56 Years and above)

Savings - *Focus less on life cover and more on building a corpus to help you maintain a regular income after retirement.*
Wealth Insurance + Systematic Switching Option (SSO) +sum assured reduced to minimum possible from 2nd policy year –Single premium endowment ULIP. Reduced sum assured would ensure lower mortality charges and higher savings component.
Shield Insurance with Shield Plus Fund III - single premium fixed-term ULIP that gives you guarantee of minimum unit price at maturity.

Retirement Planning - *Buying a retirement plan now would be costly. However, if you haven't taken one earlier, opt for a plan that gives you immediate annuity*
Pension Guarantee - ensures regular income after retirement

Traditional plans - **adapting to changing preferences**

RITURAJ BHATTACHARYA, AVP- PRODUCT DEVELOPMENT
BAJAJ ALLIANZ LIFE INSURANCE

Rituraj Bhattacharya

In India, life insurance was available only in the form of pure term insurance plan or an endowment plan or a combination of both. It was only in the early 2000s when the industry was opened up, that a new type of plan, more known by its acronym – ULIP, Unit Linked Insurance Plans came into being that provided market related returns. This led to a classification of life insurance plans as Traditional and ULIP. Traditional plans are those where the sum assured under the plan is paid on maturity of the plan or on earlier death. Apart from the sum assured, these plans offer bonus in the case of profit participating plans, or guaranteed additions in case of non-participating plan. A plan is said to be participating or non-participating (called par or non-par plan respectively) depending on whether the policyholder is eligible to receive a share of the profit arising out of the particular group of policies.

Traditional plans have an inherent characteristic of guarantee in the form of a minimum amount payable at maturity, which is the sum assured.

One more aspect of traditional plans is that they inherently offer higher coverage. Features like waiver of premium or income benefit (like Bajaj Allianz Family Income Benefit), ensure that one's financial objectives are realized even in case of eventualities. Apart from that, features like higher life cover of double, triple or quadruple sum assured paid in case of unfortunate death prior to maturity, they offer much needed financial security to the family of the life assured. Traditional plans can also be pledged as securities against loans in case of financial needs. Policy loans are offered by insurers in specific type of plans.

Adapting to Changes

Traditional plans have seen some changes due to change in the purchase pattern of consumer. Whole life plans, pension plans and term assurance plans have become very popular due to higher life expectancy and urge for long-term credit like home loan, education loans etc. So it seems that traditional plans have regained their place in the popularity charts.

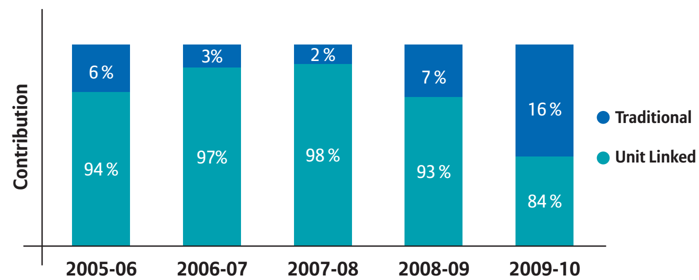
Innovations have started happening in Health Plans offered by Life Insurers. Though Health Insurance is a new opportunity for Life Insurers, they have started offering futuristic plans, like Family Care First by Bajaj Allianz Life which offers guaranteed renewability and option to extend the cover also to the parents-in-law of the insured.

Since its inception, ULIPs have been the investor's popular choice. But traditional plans have also evolved to offer flexibilities like limited premium payment option and auto cover in case of failure to pay premiums.

Why Traditional Plans?

While selecting a traditional plan one needs to look at the need one wants to fulfill – like a safe way to build a long term corpus, education fund, intermediate liquidity, etc. Depending on the same, one can look for an endowment plan, money-back plan or whole-life plan. In case one is comparing par plans, look at the bonus that a company has declared in the past. One needs to compare if a par plan will cost less than a plan with guaranteed additions. A plan with guaranteed addition will have the cost of guarantee loaded in it by the insurer, where as no such cost is involved in a par plan, where bonus is paid out of profit arising from pool of policies. Terminal bonus is also payable in case of a par policy.

Bajaj Allianz Product Type Contribution to New Business



They are ideal for young people in the early years of their career, since with a lower premium they can have higher protection. Traditional plans are also suitable for risk-averse people. It should be noted that traditional plans should form a reasonable part of one's portfolio as they help in hedging your risk.

The VIP avatar

Some insurers tried to offer a variant in the traditional products by launching Universal Life Plans (ULPs). However the regulator has introduced some new guidelines and renamed the products as Variable Insurance Plans or VIPs. The recent IRDA guidelines on VIPs have paved the way for more transparent traditional plans. These plans allow the policyholder to know and choose the cost of insurance and saving proportion in the plan. Another highlight is that the policyholder will not have to bear the cost for guaranteed benefits as the investment returns are linked to performance of the controlled fund on year-on-year basis. However the disadvantages of such plans are that insurers cannot offer riders and payment options like limited premium or single premium.

The Future

It's not yet time to write the epitaph for traditional products. The downslide in the stock market during the peak of the financial crisis of 2009 has weaned away customers from ULIPs to Traditional products. As customers are more sensitive to capital preservation than wealth creation in any financial instrument, traditional plans will continue to be demanded for. Further, as ULIP in recent times have very little scope for innovation, insurers will look for differentiating their offerings through traditional plans.

Special Feature

Is Single the way to go ?

BIJU SIMON, AVP-ACTUARIAL,
BAJAJ ALLIANZ LIFE INSURANCE

Biju Simon

You have taken the first step in deciding to buy a life insurance cover. While you “battle” with the decision of which term plan to buy; or if you should mix your insurance with savings with/without investment return, which traditional plan or ULIP to buy, there is another critical decision that you may need to make - the decision of choosing the premium paying frequency.

The question that needs to be answered is how to pay the premium - whether the entire amount should be paid at the outset (in a single premium) or should you pay at regular intervals for a particular period of time (by regular premium payments)? Both these options bring their own set of pros and cons. Let's take a look at them.

Suitability

The Single premium option is suitable for a person with irregular incomes or bulk money receipts like bonuses, and has no problem in putting away a lump sum amount for a long period of time. They, however, will be able to pay the premium only when they have sufficient funds in hand.

Regular premiums, on the other hand, are suitable for people with a regular income and/or cannot afford to block a big sum at one go. Rather, such individuals would/should have the capacity to pay premiums regularly for years to come, which can be yearly, half-yearly, quarterly or monthly frequency. Then again, it can be for the full term of the policy or a limited period during the policy term.

Single premium plans being a one-time payment; which will take away the fear of forgetting to pay future renewal premiums and the resultant lapse of policy, and thus are suitable for those seeking peace of mind of having the suitable insurance through-out, without the 'hassle' of paying any more premiums. So, pay just once, but the insurance policy continues providing the required life cover and savings, similar to the old Hero Honda Bike ad, “Apply, Pay & Forget” until the event/need arises.

On the other hand, although regular premiums need to be paid consistently if the policy has to continue, it can offer you the option to discontinue the policy, if needed. This is the case, especially, in a term cover policy, where the amount of premiums paid may not be too large. Consequently, the loss on discontinuance may not much. The premium rates for term cover plans, in the present market, have been coming down.

Affordability

Single premium plans in the market, usually, carry larger minimum premium sizes than a regular premium for the same plan. So, the single premium payable can be substantially large amounts for a reasonable cover.

But in a regular premium case, the amount of each premium will be small and this will not pinch your pocket much.

Also, when pricing of the Premium/Charges of a plan, insurance companies, usually, cost-in for any uncertainties of the future in the calculation. The main difference between a single premium and a regular premium plan can be in lapse, expenses and investment return. Since single premium will not have to factor for discontinuation of premium, renewal commissions & expenses with respect to renewal activity, the overall premium payable can be lower.

Risk Exposure

Insurance plans are basically long-term products. If the investor stays invested for at least 10 years, the returns can be larger. However, since the entire sum is invested at one go, it may expose you to market volatility. But you can overcome this issue by opting for a ULIP product that comes, mostly, with free switches. A switch can help you move your money across asset classes. Usually, you are entitled to a certain number of free switches and any number of paid switches.

For instance, Bajaj Allianz Wealth Insurance Plan offers a systematic switching option wherein your entire money first goes into a liquid fund and, then, every month, a part of it goes into the funds of your choice. Thus protecting yourselves from market fluctuations.

Again, in Bajaj Allianz Life, you can also choose “Wheel of Life” portfolio strategy of investment to optimize your returns. Also, in Bajaj Allianz Life, ULIPs come with unlimited free switches.

On the other hand, a regular premium product will cover the risk of the volatilities of the market. Take for instance; you are investing at a point when the markets are about to peak. How one can decide this is a completely different question!!. It is very difficult to ascertain the state of the market tomorrow. In such circumstances, a more frequent payment of premium can save you against such market fluctuations.

Flexibility

In a single premium product, you can access your money only through a policy loan or by surrendering the policy. However, the applicable loan interest and surrender fee/charges can be onerous, but the quantum of loan in a single premium can be bigger. Most companies do not offer riders on single premium options, whereas a range of riders are available on regular premium such as critical illness, accidental death, waiver of premium etc.

Tax Benefit

Single premium plans are eligible for deduction under Section 80C and section 10(10D) that makes withdrawals tax-free (subject to life cover being five times the premium). However the deduction under Section 80C can be availed only once. On the other hand, in a regular premium plan the IT benefit can be availed throughout the premium paying term.

In a nutshell

In quantum, the total regular premium over the policy term can be higher than single premium for the same benefit. However, in ULIPs if there is not much difference between the minimum single premium and regular premium in a plan offering similar benefits, the lower sum assured multiple can be taken with a single premium plan.

Instead of blocking a large amount, a fixed lump-sum can also be paid as a regular premium using the ECS facility.

So, is single premium the way to go? The choice for the premium payment frequency depends on your paying capacity and the kind of flexibility that you want from your insurance plan.

So, as the Germans say, “glückliche Beschlussfassung”, i.e. “Happy decision-making”!

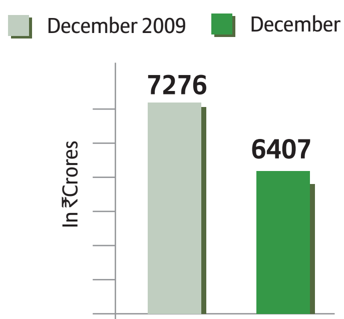
Financial Results

April-December 2010

Bajaj Allianz has announced its financial results. Highlights of the period April-December 2010 are as below:

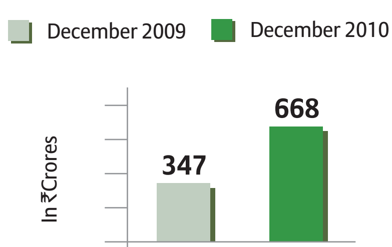
Bajaj Allianz Life Insurance

Gross Written Premium



GWP down by 12 % as business as a whole saw a dip in the industry

Total Surplus



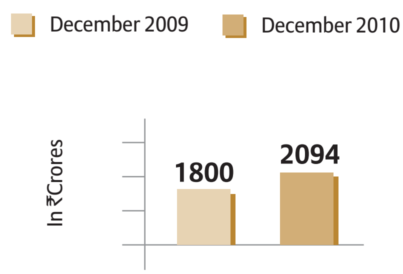
Profits grew by 92 %

Highlights

- Solvency ratio was 338% as against regulatory requirement of 150%
- Strong capitalized company
- AUM was ₹39180cr, growth of 17% since 1st April 2010
- Strict cost control measures led to lowering ratio of total commission expenses to GWP and ratio of operating expenses to GWP

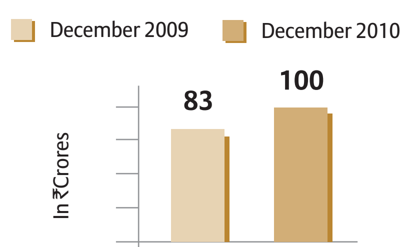
Bajaj Allianz General Insurance

Gross Written Premium



GWP grew by 16.3 % because of the industry picking up

Profit after tax



Profits grew by 21.6 %

Highlights

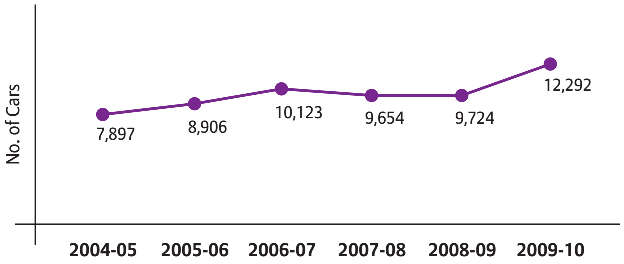
- Combined ratio for Q3 was 101.6%
- Focus on more profitable segments
- Improvement in claim ratio and higher investment income
- Continues to be 2nd largest insurer

Motor Insurance

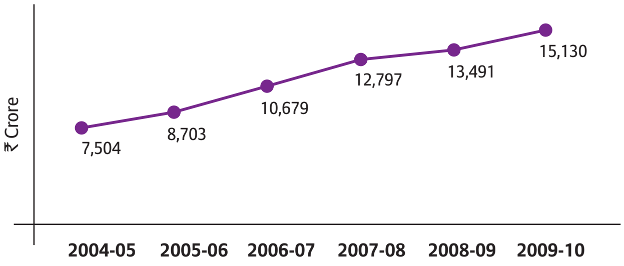
"Customer segmentation is the **need of the hour**"

A buoyant economy, fiscal incentives in 2009, growing purchasing power of the Indian middle class contributed to resurgence of the Indian automobile sector. It was one of the most vibrant, modern and upbeat automobile markets in the world. Manufacturers have been introducing new variants in the low-end as well as high-end segments. If it was the Tata Nano with the famous price tag of ₹1lakh, then there was Bugatti Veyron with an eye-popping ₹16 crore - a price equivalent of buying 1600 Nanos. NEWSTRACK spoke to **Vijay Kumar, Head – Motor Insurance,** Bajaj Allianz General Insurance about the trends in automobile sector and the impact on the insurance industry.

Growth in Vehicle Sales (in '000s)



Motor Premium (in ₹ crores)



The auto sector has been on a roll and is often touted as the second growing market after China. What has been its impact on the insurance industry?

The general insurance industry which rides on the growth path of the automobile sector, as motor insurance contributes nearly 40% - 50% of the GWP. It is natural that any significant shift taking place in the automobile sector may have a favaourable or an adverse impact on the insurance sector. This growth has admittedly had a positive impact. But the proportion is not the same.

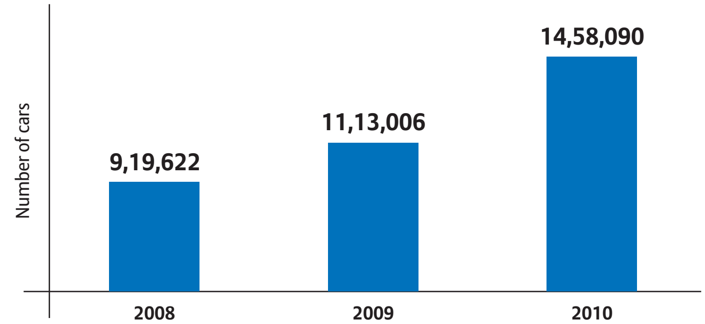
We have seen significant growth in the small car segment. There was a spate of launches in the recent the ₹ 2 lakh – ₹ 5 lakh price segment. Is there a significant impact on the insurance industry?

Small cars- high claim costs! That's how I would like to describe the trend. What is intriguing is that most of them have adopted an aggressive pricing strategy to pull customers on their vehicle. The competitive rates may give the manufacturer an advantage due to large volumes, but disregard the high input cost of spares that the consumer may have to spend on in the long run.

While insuring the vehicle, the consumer may enjoy a low premium as it depends on the ex-showroom price of the car. However, if a claim arises in case of repair on the car, the claim cost would be higher due to high spare


Vijay Kumar

Sale of Small End Cars



part pricing as a result of high import contents. Higher claim costs in turn may lead to higher insurance premium in the subsequent years. Additionally the customer has to bear high depreciation cost on spare parts.

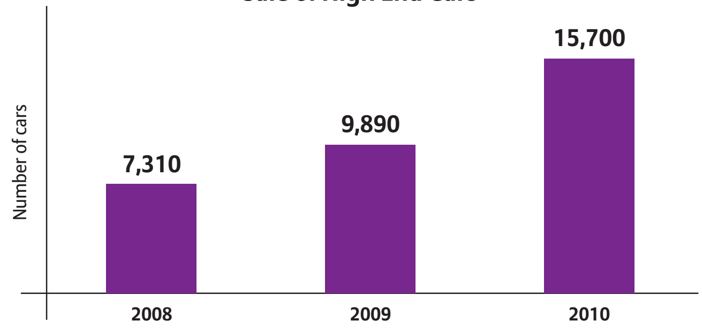
Thus, although the segment of small cars is growing at a very fast pace, it may not be beneficial for customers in the long run unless manufacturers reduce the spare part cost and labor.

However, we only hope that with the passage of time as the volume grows, manufacturers would start looking at more and more localization to reduce the spare part and repair cost, so that cost of ownership is minimized for customers.

Another emerging trend has been the growth in high end cars. This segment is also becoming equally big and set to grow in the coming years. Is this of any worry for the insurance sector?

A lot of high end cars are visible in the city roads. This trend will have significant impact on the insurance industry. With increased purchasing power, more and more customers in the middle-income segment today are upgrading to high-end vehicles, even if it involves stretching themselves financially. Earlier, high-end vehicles were purely a monopoly of the upper segment only who could easily afford the vehicle. On the other hand, the 'nouveau rich' segment is highly price sensitive. Earlier the owners of high-end cars kept a low profile. Now these high end vehicles are increasingly being used on the city roads for daily commuting in contrast to the trends few years back where high-end vehicle were sparingly used. As a result, these vehicles are more prone to accidental damages leading to higher burden on the customer and insurer.

Sale of High End Cars



One can also see that diesel cars are gaining popularity among buyers. Earlier diesel was preferred only by commercial operators but now even private car owners have shown a liking to the diesel variant. Does it have affect the insurance sector?

If small cars were the big opportunity for manufacturers, diesel vehicles also were the new trend. This is obviously due to the differential pricing of fuels prevalent in India. Diesel vehicles may be cost effective from a fuel pricing point of view, but does have high ownership costs for the customer in terms of maintenance and repair cost. As a result, these variants experience high claim ratios for insurers and higher depreciation liability for the customer. Now more and more insurers have started using fuel as a parameter for deciding the insurance premium.

Should buyers be wary of these emerging trends? What is the road ahead for the insurance industry?

Insurers will have to segment customers in order to offer best price advantage to customers while keeping control on claim costs. So one can conclude that the way the automobile sector is growing, the benefits may not percolate down to the insurance sector in similar proportion.

To gain from these new developments, the industry needs to look at deeper customer segmentation. It would not be enough to use simply the make-model of the vehicle for evaluating the risk, but the future would be in evaluating each customer profile and each variant of the vehicle.

Anurag Rastogi

Motor Insurance Pricing - **More information, less premium**

Motor insurance continues to be the generic description of non-life insurance. It is also the most visible form of insurance in the retail segment with many stakeholders. For most of the insurers motor insurance continues to be the major premium contributor. So it is natural that pricing in motor insurance is a bit sensitive for all the stakeholders. NEWSTRACK spoke to **Anurag Rastogi, VP – Actuarial, Bajaj Allianz General Insurance**, to understand how pricing in motor insurance has changed over the years from a mere four variables to as many as ten variables.

How has the pricing regime changed from the detariff to the free pricing regime?

In the tariff regime in the 80's, I remember that the only factors being used for motor insurance pricing were the type of vehicle (private car, two-wheeler, commercial vehicle etc), engine capacity, price and zone or area of registration. It was only in the 2002 revision of the tariff, vehicle age was included as another pricing factor. However in the de-tariff era from 2007, many additional variables such as make and model of vehicle, driver age, driver gender, driver occupation, vehicle age, usage, place of parking, vehicle capacity, area of use, vehicle colour etc. are being considered.

Though this is a recent phenomena, things had begun to change gradually with the entry of private sector companies in 2001 and even before the de-tariff regime set in. Post 2001 and before 2007, some of the key variables started affecting the pricing of motor insurance like –

- **Make-model -** Although the price was fixed, insurers started selecting the risks. The first parameter for this selection was the vehicle make-model, which was not a pricing factor till then. But insurers discovered that it was a great differentiator as some private car make-models were highly profitable while some were loss making.
- **Zone -** The zone definition given under the motor tariff was too broad and the whole of India was divided in to just two zones compared to Italy, with a size comparable to Maharashtra or UP, had 76 zones. However in reality, the cities within the same zone had very different claims experience. For example, most insurers discovered that although Delhi, Mumbai, Chennai and Kolkata are in the same zone, their claims experience was vastly different. Soon insurers started using the location of policyholders also as a selection parameter, which also became a parameter for pricing post de-tariffication.

Beyond these two additional variables, there was very little risk selection as insurance prices were fixed by Tariff Advisory Committee (TAC). Thereafter, insurers started experimenting with several other factors.

Several new variables came into fore for pricing like, vehicle fuel, policyholder vintage with the company, age, gender and occupation, marital status, claims history, Kilometer running of the vehicle etc. Some insurers have been even talking about pricing on the basis of actual kilometer running of the vehicle popularly known as "Pay as you drive", where a GPS device fitted in the vehicle will track the running of the vehicle and the vehicle insurance premium will be proportional to the kilometers clocked by it.

Is there any benefit to the consumers from this differential pricing or is it a myth?

The Indian industry is moving towards this form or pricing at a fast pace and insurers are making an attempt to capture some or all of the above information from their customers. This is going to ultimately benefit the policyholders. Insurance pricing is all about relating the policyholder information with the likelihood of his making a claim and the likely size of that claim. If an insurer has several policyholder attributes available, it will use all those or some to fix the price and will be able to differentiate in the premium rates for different groups of policyholders.

However, if the information available is very little, all policyholders will pay an average price for insuring their vehicle and good ones will cross-subsidize the bad ones similar to what prevailed in the tariff era. However, in most of the developed markets age, gender and profession of the driver is also considered. Women pay smaller premium for their car insurance than men. In addition to this, several parameters are also considered, like:

- Place of residence, as it is considered as a proxy to policyholder's social and financial status.
- Marital Status as it has been found that married people are much safer drivers
- Number of drivers i.e. if a car is driven by only one person, he pays a much smaller premium than if it will be driven by others in the family.
- Several insurers in mature markets also use policyholders' credit history and have found that people with good credit history are safer drivers. This brings in more equity amongst the disparate groups of policyholders who are not alike in their driving habits.

Are there any difficulties in implementing such a differential pricing in India?

The current system of car insurance pricing in India is not perfect and for sure, is not customer friendly as there is very little distinction between a good driver and bad driver. The problem is partly due to very little customer segmentation. Insurers never collected any details from the customers apart from the vehicle details and place of vehicle registration. At times the proposal forms contained several questions that were most often left blank. This spawned a culture where neither an agent nor the policyholder was willing to provide any additional information that can be used for better pricing. Now even when the insurers want to collect additional information about the customers, they face strong opposition from the insurance distributors coupled with policyholder apathy. To be able to implement customer profile based differential pricing, insurers need customer data for a significantly long period to ascertain the driving risk of different segments of policyholders. But this cannot be forced by any one insurance company on the policyholders. The industry as a whole needs to encourage policyholders to voluntarily provide the information, through insurance distributors convincing their clients to part with the information for the sake of their own benefit.

How can customers lower their premium under the current system?

Though the current pricing for private car has several anomalies, there are opportunities for policyholders to reduce their premium:

- **More information leads to lower premium as insurers are now considering various parameters.**
- Check your No Claim Bonus status and ensure that you get the correct NCB on your car insurance renewal.
- Even if you are buying a new car after selling your old car, you can transfer the No Claim Bonus of your old car on the newly purchased car's insurance policy.
- Check your car's insurance value (known as Insured's Declared Value). It should approximately reflect the resale price of your car at the time of insurance.
- Make sure that you are buying the Add on Covers that you want to buy rather than what your insurance agent wants to sell to you.
- By providing a little more information the policyholders can significantly reduce their car insurance premium. Bajaj Allianz has already started encouraging more information to lower premiums. Policy holders can visit the website **www.bajajallianz.com** and click on "Quick Quote" or "Buy/Renew Online".

Any which way, the change ushered by de-tariffication is irreversible and with each passing year we will see insurers using more and more policyholder information to price each risk. Those customers, who are willing to provide more and more information, will benefit by way of reduced insurance premium while others will pay the average higher price.

Motor claims -An analysis

Bajaj Allianz has paid over ₹ 1912 crores as motor insurance claims over the years. A study of motor claims paid reveals that there are three main categories viz. – **Own Damage (OD), Third Party (TP) and Theft.** We bring you an analysis of the claims handled by Bajaj Allianz.

Own Damage (OD) Claims

Majority of motor insurance claims, nearly 86% pertain to own damage. A break-down of the most common parts damaged and their assessed claim amounts are shown below.

- Frontal damages constitute 85% of motor claims, out of which bumper and fender is the most commonly damaged, followed by indicator and tail light, windshield, hood, headlight.
- Number of claims arising due to windshield damage is low (8.6%) but the claims are high value (16.8%)

Number of claims | Assessed Amount

Take care of your Windshield

Here are some tips on how to take care of your windshield.

- While driving on broken or damaged roads, slow down and keep sufficient distance from the vehicle in front of you.
- Do not park your car where welding is being done. The welding material can cause spots on the glass.
- Bird droppings can also spoil the windshield as it contains some chemicals which can be reactive to poor quality glass and cause damage.
- To clean your windshield, use a mild detergent and soft cloth free of dust. The container for windshield should be filled with clean water and manufacturer-recommended soap solutions.
- Do not operate the wipers if the windshield is dusty or dirty. Wipe the glass first with a soft dust-free cloth and then use the wipers.

For a safe bumper

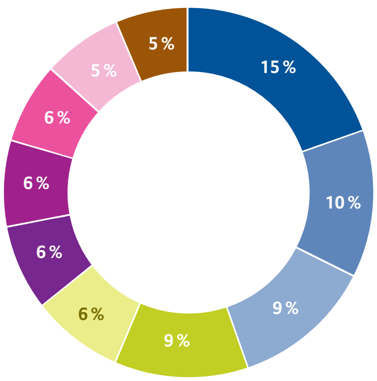
Most accidents are known to happen in the rainy season, at night or in traffic congested areas. Here are some tips to keep you and your car safe:

- Avoid driving at night and in low visibility.
- While traveling in the rainy season, check wiper motor & blade, brakes, windshield glass, tyres etc for proper functioning
- Check tyre pressure regularly throughout the year
- Maintain appropriate breakable distance between vehicles
- Use signals while turning well in advance

Third Party (TP) Claims

TP claims arise when damage has been caused to a third person, vehicle or property by the insured vehicle. Such claims comprise of 8% of total claims handled by Bajaj Allianz. These are more frequent in certain parts of India due to high traffic density and poor infrastructure. Here is an analysis of the top 10 states where number of TP claims are most common on the basis of Bajaj Allianz experience.

- Madhya Pradesh (15%), Chhatisgarh (10%) and Kerala & Tamil Nadu (9%) report the maximum number of TP claims.



State	TP Claim
Madhya Pradesh	15%
Chattisgarh	10%
Tamil Nadu	9%
Kerala	9%
Karnataka	6%
Gujarat	6%
Uttar Pradesh	6%
Assam	6%
Rajasthan	5%
Orissa	5%

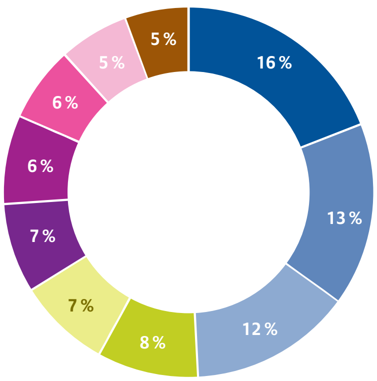
What to do in a Third Party Accident

- Intimate the police immediately and narrate the manner of accident
- Intimate the insurance company immediately in case there has been any damage to third party vehicle, property or injury or death of third party
- The insured should guide the victim to approach the insurance company for recourse directly, and avoid being misguided by the police or other advocates. This will ensure faster resolution of dispute and immediate disbursal of claim, without any expenditure on legal advice or bribes to the police.
- Preserve all documents related to medical assistance expenditure to the victim. Ensure you have details of the victim such as age, gender, nature of injuries, residential address, contact number, driver's license number and registration number of vehicle involved.
- If you receive a court notice, ensure that you appear in the court on the stipulated date along with the notice, copy of the vehicle fitness certificate, proof of medical expenses to the victim and your driver's license which have been submitted to the insurance company.

Theft Claims

Theft claims comprise 6 % of claims handled by Bajaj Allianz. Some geographical areas are more prone to theft claims than others. Here is a list of the top ten states where thefts are common.

- Bihar (16%), Delhi (13%) and Jharkhand (12%) report the maximum number of thefts.



State	Theft
Bihar	16%
Delhi	13%
Jharkhand	12%
Chattisgarh	8%
Punjab	7%
Assam	7%
Madhya Pradesh	6%
Uttar Pradesh	6%
Rajasthan	5%
Jammu & Kashmir	5%

Theft proof your car

- Park the car at a parking place, busy area, and well-lit area
- Do not handover keys to strangers, garage persons or unknown parking lot attendants
- Do not leave your key in the vehicle, even if for a few minutes
- Never leave your vehicle with the engine running
- Keep your vehicle properly locked
- Replace locks set on loss of keys
- Fit engine immobilizer and an anti-theft device to secure your car. This can also fetch you a discount in your insurance premium

Exclusive **Claim services by Bajaj Allianz**

Here's a glimpse of the services that Bajaj Allianz offers exclusively to its Motor Insurance customers. These services have enabled faster claim settlement.

Cashless motor repair

Bajaj Allianz pioneered the cashless model in motor repair claims by tying up with over 1800 garages / workshops across India. This enables our customers to simply drive-in and drive-out of the garage after paying the nominal difference of admissible claims. For a list of network garages, call toll-free 1800-209-5858.

SMS alerts

Bajaj Allianz pioneered and is still the only company to automate SMS alerts on the progress of the claims status to its customers. Nearly 4-5 SMS alerts are sent from the time the claim is registered to the final claim cheque. This unique service is being offered to all motor insurance clients provided they have registered their cell numbers. This ensures total transparency on the whole process.

Instant Claim services

Bajaj Allianz offers to services which put the customer at an advantageous position as they get the claim instantly. Besides, they have the liberty to bargain the best price with a workshop or garage of their choice.

- **Bajaj Allianz Mobile Settlement (BAMS)**
  The claim assessment and payment is made at the customer's doorstep. The process followed is simple – the customer intimates a claim, the in-house service engineer then armed with all necessary accessories reaches the customer's doorstep and pays the claim cheque on-the-spot. In addition to this, suitable advise is given for the good workshop / garage and try to resolve the problem then and there itself. This shortens the claim settlement process and also emotionally addresses the problem. Call toll-free number 1800-209-5858.
- **Bajaj Allianz Drive-In Centre (BADIC)**
  Here the customer has to drive the vehicle to the designated office and the in-house service engineer assesses the claim and the claim cheque is paid.

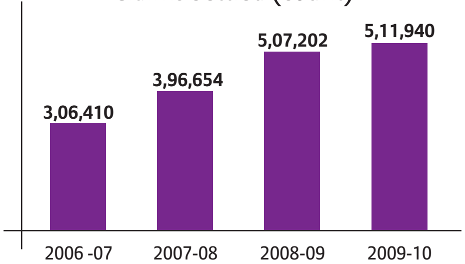
Transparency in claims settlement

Total transparency in the claim settlement procedure in essential. In case of a cashless settlement, a Claim Amount Assessment sheet is sent to the customer to inform the rates charged under various heads. This is to ensure that the customer is not conned by the workshop/garage. In case the workshop/garage refuses cashless mode, then we make an upfront payment of at least 75% of the admissible claim and the balance is paid after the survey is completed.

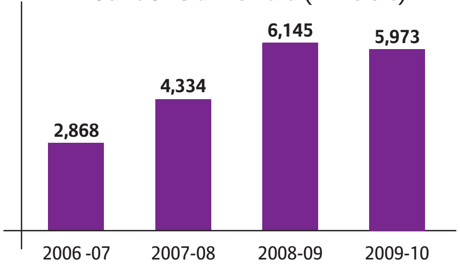
Assistance services

When a customer experiences a claim, they can call the 24x7 call centre at any time and depending on the claim on-the spot assistance is provided in terms of legal, medical and claim procedures.

Claims Settled (count)



Amount of Claims Paid (in ₹ Crore)



A quarterly review of claims handled

Life

Claims Settlement | October to December-2010

	Claims Outstanding as on 1 Oct 2010	Claims intimated	Claims settled	Claims repudiated	Claims Outstanding as on 31 Dec 2010
Death	2546	6476	6261	462	2299
Riders	17	122	47	60	32
Health care	2	16	13	4	1
Total number	**2565**	**6614**	**6321**	**526**	**2332**
Total amount*	**48.3**	**93.4**	**87.8**	**9.7**	**44.3**

Claims Settlement Ratio - 92%

*in ₹ crores

Claims Paid Analysis - Turn-around-time (TAT) | October to December-2010

	Count of days					Total no. of claims decided
	0 - 15	16 - 30	31 - 45	46 - 60	> 60	
Number of claims	2303	2171	1020	443	910	6847

Claims paid within 45 days - 80%

Cases referred to Consumer Forum & Ombudsman | October to December-2010

Total no. for Cases received	Bajaj Allianz Won	Bajaj Allianz Lost	No. of cases pending
77	13	18	46

"At the end of 3rd quarter we could bring down pendency of claims by 233 claims. While settlement ratio is being maintained at the same level at 92%, we have shown drastic improvement in settlement TAT from 75% to 80% (quarter on quarter) and expecting further improvement on this count during the last quarter."

P Ravi Kutumbrao, Sr. VP - Claims
Bajaj Allianz life Insurance

Non Life

Paid Analysis - Turn-around-time (TAT) | October - December 2010

	Count of claims				Total no. of claims	Total amount paid in ₹ crores
	0 - 30	31 - 90	91 - 180	> 180		
Motor (OD)	74	109	224	2,745	3,152	43.5
Motor (TP)	84,500	13,497	2,814	1,053	101,864	28.3
Property & Engineering	16,642	5,657	1,649	600	24,548	176.8
Health	693	462	348	289	1,792	47.9
Miscellaneous & Others	2,700	1,085	609	323	4,717	55
Total	104,609	20,810	5,644	5,010	136,073	351.5

Claims paid within 90 days (excluding TP claims) - 92%

Claims Settlement | January - December 2010

	Outstanding as on 31st Dec '09	Registered from 1 Jan'10 to 31 Dec'10	Paid from 1 Jan'10 to 31 Dec'10	Outstanding as on 31st Dec'10
Motor (OD)	16,483	414,201	420,144	18,345
Property & Engineering	2,119	7,165	7,732	1,944
Health	7,000	90,306	91,873	7,535
Miscellaneous and others	2,935	29,592	31,528	3,590
Total	28,537	541,264	551,277	31,414
Motor (TP)	45,694	22,292	14,995	53,342

Claims settlement ratio (excluding TP Claims) - 97%

Cases referred to Consumer Forum & Ombudsman | October - December 2010

Total no. of cases received	No. of cases settled	Bajaj Allianz won	Bajaj Allianz lost
385	246	160	86

"Inspite of a higher inflow of claims, we have improved our settlement ratio to 97%."

Capt. Sanjay Moholkar, Sr. VP - Claims
Bajaj Allianz General Insurance

FUNDamental

2011: Need to be cautious

SAMPATH REDDY, CIO EQUITY
BAJAJ ALLIANZ LIFE INSURANCE

The year 2010 was a good year for equities. Equity markets rallied 15% in the year after having rallied over 75% in 2009. The strong returns in the equities over the past two years were driven by rebound in the Indian economy and as well strong inflows from Foreign Institutional investors. The performance was driven by wider number of sectors- Financials, Automobiles, Software and Healthcare sectors. The sectors that dragged the overall index are Metals, Capital goods and infrastructure and Oil & Gas sectors. Overall, the year that ended has seen lot of caution.

As on Dec 2010				
Name	3 month % chg	6 month % chg	1 year % chg	2 year % chg
NSE S&P CNX NIFTY INDEX	-0.4%	14.1%	16.1%	109.9%
BSE SENSEX 30 INDEX	-0.4%	14.0%	15.4%	114.7%
NSE NIFTY MIDCAP 50 INDX	-5.9%	4.3%	9.0%	126.8%
Key Sectors				
BSE METAL INDEX	0.3%	14.6%	-1.6%	244.6%
BSE OIL & GAS INDEX	-1.2%	0.0%	1.8%	79.5%
BSE HEALTHCARE INDEX	10.1%	14.7%	29.6%	129.2%
BOMBAY STOCK EX IT IDX	12.9%	26.1%	29.7%	212.2%
BSE CAPITAL GOODS INDEX	-4.6%	4.9%	8.3%	130.1%
BSE AUTO INDEX	4.7%	21.9%	36.0%	323.3%
BANK NIFTY INDEX	-6.4%	21.4%	27.9%	139.5%

Real GDP	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
GDP growth %	6.1	5.8	6.3	8.7	6.5	8.6	8.9	8.9

We are cautious on the outlook for equity markets at the current levels. We continue to believe that equity returns for next year could be muted. The risk reward now is not as favorable as it was in the past couple of years. Market is factoring in very good growth in earnings FY 2011 and as well as FY2012 with a CAGR of around 22%p.a. At these earnings estimate, market is already trading at 17x to the FY2012 earnings estimates, which leaves limited upside potential. Also we believe the risk to these earnings estimates exist. Domestic liquidity is tight and interest rates have inched up which would put pressure on credit growth and as well as corporate earnings growth.

We have seen large inflows from Foreign institutional investors into the Indian equity markets over the last two years. They have pumped in about USD 45bn in the last two years. This trend was driven by both, sharp rebound in Indian GDP growth and as well as global excess liquidity. We believe, 2011 may not see a strong support of buying from the foreign institutional investors as we believe the global excess liquidity has peaked in the current year. Also, if we look at the latest trend, the foreign flows are reducing.

Sectorally speaking, we believe the health care and FMCG would continue to do well for this year inspite of their good performance of the last year, due to their steady growth and good cash flows. Financials have a had a good run last year on the back of good credit growth. We believe, for the current year they may not outperform due to tighter liquidity and rising deposit costs. Also we believe the credit growth and higher NPAs could disappoint the street. Cement sector has been facing excess capacity issue, thereby impacting the prices. Natural resources such as crude, coal, mineral ore prices have been moving up along with the finished metal prices. We could see a good year for metals this year. Rising input costs and higher interest would put the breaks on automobile sector growth for the

current year. Our channel checks on the software demand continue to indicate strong growth ahead for the software companies.
During the last budget government has initiated steps to roll back some of the fiscal incentives that came into existence during the global credit crisis. We believe the trend would continue in this year's budget and expect an increase in the excise duties by about 2% across most sectors. Government has disappointed last year on infrastructure spending. We are hopeful that government would allocate larger funds to the infrastructure sector. Given that the few states are going into the election in the next 4 months, there exists a risk that the forthcoming budget to be more populist.

Bank credit growth on year on year basis continues to look good, but the base effect will catch up in the second half. Year to date, credit growth stands at 11%, while the market expectations for the full year FY11 is in the region of 18-20%. We believe the credit growth is likely to disappoint due to the ongoing corruption issues and slow-down in implementation of the projects on account of environmental issues. We have been hearing that credit disbursement has slowed down due to the corruption issue. There have been delays in power & steel and infrastructure sectors due to the problems in land acquisition.

₹ In crores	30 Apr10	18 Jun10	27 Aug10	29 Oct10	3 Dec 10
Bank Credit ₹ Crores	32,37,600	33,10,417	33,51,396	35,23,428	35,94,559
Credit growth YoY %	18%	20%	19%	22%	23%
Credit growth YTD %	0%	2%	3%	9%	11%

Crude oil continues to rise. It has moved past USD90/ barrel and expectations are that it would surpass USD100 /barrel soon as most analysts are bullish on crude due to both low inventories, higher speculative interest due to global surplus liquidity lead by US government Quantitative easing measures. The higher crude prices will have an impact on overall cost push for most Indian corporates, in addition to putting pressure on current account deficit. India imports over 70% of its crude requirement and Fuel oil consumption accounts for about 10% of our GDP.

Name	3 month % chg	6 month % chg	1 year % chg	2 year % chg	52 W high
Crude $/bbl	19.1%	15.5%	16.7%	141.6%	92

At Bajaj Allianz

In this backdrop we are cautious on the equity market outlook for 2011 and estimate the returns to be in the region of around 10-12% for the year. Interest rates have moved up in the past couple of months 1 year certificate of deposit is now yielding 9% plus return. Some of the banks are also paying 9% plus interest for 1 year on bulk deposits. Thus the risk reward on equities is not very encouraging. We are maintaining higher cash levels in our equity funds. In our asset allocation fund we are parking funds at around 9% plus return in fixed deposits and bank CDs, by reducing exposure to equities.

Fund performance

21 funds of Bajaj Allianz have out-performed market indices such as Crisil, and CNX NSE Nifty. Fund performance as on 31st Dec 2010 is given below:

As on 31st Dec 2010	1 Year
Cash Plan	5.2%
Cash Plus	6.7%
Cash Plus Pension	7.2%
Liquid Fund	6.5%
Liquid Pension Fund	6.8%
Crisil Composite Liquid Index	4.7%
Debt Plan	6.0%
Debt Plus	7.5%
Debt Plus Pension	7.8%
Premier Debt Fund	6.1%
Life Long Gain	4.2%
Bond Fund	7.0%
Premier Bond Fund	5.3%
Bond Pension Fund	7.0%
Crisil Composite Bond Index	4.5%
Equity Gain	17.7%
Equity Plus	18.6%
Equity Plus Pension	27.5%
Premier Equity Gain	26.9%
Equity Growth Fund	18.4%
Premier Equity Growth Fund	22.3%
Equity Growth Pension Fund	25.7%
Unit Gain Mid Cap	20.5%
Unit Gain Mid Cap Plus	29.9%
Unit Gain Mid Cap Plus Pension	30.0%
Accelerator Mid cap Fund	28.3%
Accelerator Mid Cap Pension Fund	28.3%
Pure Equity Fund	16.6%
Pure Stock Fund	16.3%
Pure Stock Pension Fund	23.6%
CNX NSE Nifty Index	16.5%
Asset Allocation Fund	9.7%
Asset Allocation Pension Fund	9.0%

Interest rate **changes and its impact**

ASHISH GOYAL
CHIEF INVESTMENT OFFICER,
BAJAJ ALLIANZ GENERAL INSURANCE

All investors face a dilemma about investment options. Each investment has its own risk and return profile. While equities are considered high risk high return investments, investments in bond funds are considered low risk steady return option. As an investor, it is imperative to understand about bond funds and how it works.

What is bond fund

Bond funds are mandated to invest in fixed income securities, which earn interest and capital gain over a period of time, to provide the steady and regular source of income. They invest in government securities, corporate bonds, debentures etc. The fixed income market, just like equity markets, provide platform to buy and sell these securities.

Bond funds provide a good alternative investment opportunity to fixed deposits. These are open ended funds hence; there is no need to renew the investments periodically. The bond funds normally generate returns which are better than the returns on fixed deposits. The bond funds can be characterized as a medium to long term low risk steady income option.

Bond fund returns can be volatile in the short term due to changes in market interest rates and the returns could even be negative in short term due to a rise in interest rates. Over a medium to long term horizon, however, the chances of generating negative return are very low. The changes in interest rates could happen due to macroeconomic factors like inflation, economic growth etc. High inflation requires higher interest rates to compensate the saver and maintain the real value of money.

Impact of change in interest rates on Bond funds

The returns of a bond fund are impacted by change in interest rates and the extent of the impact will depend on the duration of the portfolio. The value of the bond increases with fall in interest rates and the value of a long maturity bond will increase more than the value of short maturity bond, for the same fall in interest rates. The portfolio returns of a high duration portfolio will be higher than the portfolio returns of a low duration portfolio when the interest rates fall. The reverse would be true if interest rates were to rise.

Yearly Returns	Bajaj Allianz Debt Plus	Bajaj Allianz Bond Fund	SBI One year Deposit rate*	CRISIL Bond Index
01 Jan 07 - 31 Dec 07	9.57 %	9.71 %	7.50 %	6.96 %
01 Jan 08 - 31 Dec 08	16.25 %	15.19 %	8.25 %	9.06 %
01 Jan 09 - 31 Dec 09	5.85 %	5.53 %	9.00 %	3.50 %
01 Jan 10 - 31 Dec 10	8.10 %	7.40 %	6.00 %	4.96 %
Average yearly return	9.94 %	9.46 %	7.69 %	6.12 %

** rate on 1st January for less than ₹15 lacs term deposit under 1 yr - 3 yr bucket*

Why investors will benefit from investing in bond funds

The bond funds provide an excellent investment avenue to ensure steady source of income with low volatility.

For tax payers investing in Bajaj Allianz Bond funds and opting for 5 times of premium as sum assured, the returns become tax free which is added advantage of investing in these funds.

We, at Bajaj Allianz, believe in providing consistent return over a medium term with low volatility. We actively analyze macroeconomic data to assess the potential movement in interest rates and accordingly adjust the duration of the portfolio so as to generate additional return or reduce risk.

Expectation on interest rate and bond portfolio

In the current fiscal year, the RBI has raised the reverse repo and repo rates by 175 bps and 125 bps respectively. It also raised CRR by 25 bps. The above actions were guided by high persistent inflation in the economy. The central government has also raised significant funds from the market. All these have led to a significant increase in interest rates. We expect RBI to continue to tighten monetary conditions. However, given that interest rates have already moved up significantly, we may not see significant movement in interest rates. We are accordingly maintaining the portfolio duration in our bond funds to ensure consistent returns with low volatility.

Bajaj Allianz fund performance

	Annualised Return			CAGR			
Fund Names	3 month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year
Debt Plus	6.7%	6.4%	8.1%	6.9%	10.1%	9.9%	8.8%
Debt Plus Pension	5.9%	6.2%	8.3%	7.0%	10.0%	9.9%	9.0%
Bond Fund	5.2%	5.6%	7.4%	6.4%	9.4%	9.4%	
Bond Pension Fund	5.6%	6.1%	7.3%	6.5%	10.0%	10.1%	
Group Debt Fund	5.6%	6.5%	9.4%	7.2%			
Crisil Composite Bond Index	4.0%	3.7%	5.0%	4.2%	5.8%	6.1%	5.7%

One can see that in the short term the returns could be impacted by the change in interest rate but over a medium term, it has generated steady returns. We believe the bond fund provide a better investment opportunity for the people who are looking for steady source of income.

Kamesh Goyal

V. Philip

Organisational changes @ **Bajaj Allianz**

Kamesh Goyal, MD & CEO, Bajaj Allianz and Country Manager, Allianz has been appointed CEO of Allianz Asia Pacific at Singapore.

V Philip, currently COO, Bajaj Allianz will be the new CEO effective from 1st February 2011

Discovering India with **Anupam Kher**

Bajaj Allianz Discover India is a new initiative promoted by Bajaj Allianz nationally in association with renowned actor Anupam Kher and supported by the Ministry of Tourism, Govt. of India. The quiz contest provides children of today with a great platform to showcase their passion and knowledge for the rich culture and diversity of our great nation.

The contest was kick-started in the month of November. Over 30,000 children in the ages of 9-14 years took part in the first round of the contest which was an online test conducted in 1100 Bajaj Allianz offices nationally in 10 days.

The grand finale with 8 finalists was held at Pune, which was attended by Anupam Kher and V.Philip, COO, Bajaj Allianz Life Insurance. The two winners of this round have been selected as wild card entries to the finals of Bajaj Allianz Discover India, which will be aired on Star Plus.

An App for **your Tax**

Bajaj Allianz has introduced a hi-tech way to calculate and plan your tax at your fingertips. Bajaj Allianz has introduced a Mobile App Tax Calculator that enables users to calculate their tax liability instantly. The app is compatible with all Java enabled mobile handsets like Nokia, Samsung and Blackberry, including Android-supported handsets.

The application is available in the following ways:

- **GPRS based download –** The application can be downloaded from Bajaj Allianz mobile site http://lifeonmobile.in
- **SMS –** type TAX and send it to 56070 to receive a link to download the mobile app
- **Referral –** the application can be shared with your friends by just sending a SMS through 'Refer a Friend' button

Early December, the application was also made available through Bluecasting at 3000+ Blue-fi zones in the country like Malls, select corporate offices and IT parks and other Hot-Spot outlets across 90+ cities in the country.

Within 2 months of launch, the app has been downloaded by over 5000 people.

Calculate Motor Premium in **15 sec**

Everything around us has become instantly available. Why not calculation of motor premium? This is the idea behind the furiously fast car insurance premium calculator. The calculator provides a quick estimate of the premium in an easy to use method, all in a matter of seconds. All you have to do is select the vehicle details from the options provided & the premium estimate is generated in approx 15 seconds.

Check it out for yourself at **www.bajajallianz.com**

Yogesh Gupta of Bajaj Allianz Life Insurance (left) receives the trophy from KC Chakraborty, Deputy Governor, Reserve Bank of India

Bajaj Allianz wins **SKOCH Financial Inclusion Award**

Bajaj Allianz Life Insurance has been awarded the SKOCH Financial Inclusion Award 2011 for their execution of the Financial Inclusion initiatives through life insurance across the country. The award recognizes Bajaj Allianz's micro-insurance product, Sarve/Swayam Shakti Suraksha (SSS), which is an affordable insurance product with a systematic savings option catering to rural markets. Yogesh Gupta, Senior Vice President and Head-Business Procurement, Bajaj Allianz Life Insurance received the award from KC Chakraborty, Deputy Governor, Reserve Bank of India.

The project SSS which started in 2008 today serves over 3 million customers spanning 19 Indian states. Under this project, Bajaj Allianz today offers this life insurance product to customers across 5000 consumer touch points spread across its countrywide network of rural distributors.

Targeting Rural segment **reach with PSB**

AS Narayanan of Bajaj Allianz Life Insurance (right) and Vijay Srivastava of PSB exchange MoUs

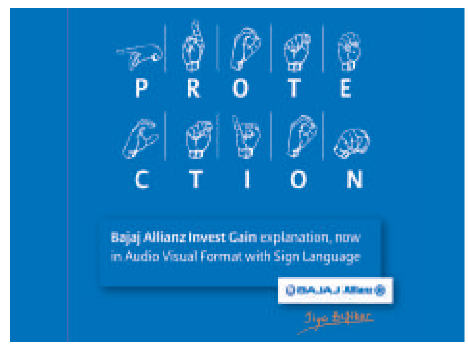
Punjab & Sind Bank (PSB), one of the leading PSU Banks has inked a pact by signing an MoU with Bajaj Allianz Life Insurance. This pact is to distribute a group term cum savings product, Sarv Shakti Suraksha (SSS) customized for PSB's customers by Bajaj Allianz Life Insurance. The MoU was signed by Mr Vijay Srivastava, General Manager – Priority Sector and Mr. A. S. Narayanan, President – Institutional Business, Bajaj Allianz Life Insurance. Mr. P K Anand, Executive Director, PSB was also present.

Policy Issuance goes **online at J&K Bank**

Hemant Kaul (left) and Mushtaq Ahmad launch online policy issuance facility at J & K Bank

J&K Bank has launched India's first online policy issuance facility at a bank for Bajaj Allianz General Insurance. This is the first time in the industry that a Bank will be issuing non-life insurance policies at their Bank Branches using their intranet. The facility is available for Motor and Travel policies and customers can get the policy in just three minutes, even at a place like Leh, which is the highest point in the country. The facility was launched in Srinagar by Mushtaq Ahmad, Chairman and CEO, J&K Bank; Hemant Kaul, MD & CEO and Tapan Singhel, Chief Marketing Officer, Bajaj Allianz General Insurance. A K Mehta, Executive Director; Ajit Singh, Executive President and Tafazal Hussein, President, , J&K Bank were also present on the occasion.

Enabling Insurance for the **Specially-Abled**



Product description available in sign language for Ability Insurance range of products

Bajaj Allianz has introduced a unique range of products under the name of Ability Insurance for the specially-abled. These products are a result of liberalized underwriting guidelines to include the specially-abled under the purview of insurance. Ability Insurance comprises of five life insurance products and motor insurance and health insurance under non-life insurance. These policies seek to treat the physically-challenged at par with others in the society. In order to cater to all kinds of physical disabilities and simplify the process of buying Ability Insurance, features of the products are explained in audio-visual format with sign language as well as in Braille for the visually-impaired.


Bajaj Allianz
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Added benefits for you.
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