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Monitoring and Supervision in Insurance

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Alternatives to Monitoring & Supervision

Difficult, not Impossible

'THE BEST LONG TERM SOLUTION TO ENSURE COMPLIANCE AND HEALTHY PRACTICES WOULD BE TO EMPOWER AND EDUCATE CONSUMERS OF ALL SEGMENTS ON WHAT THEY SHOULD EXPECT FROM THE PLAYERS AND WHAT CONSTITUTES BEST PRACTICES' WRITES **RADHAKRISHNA C.**

In the mid twentieth century, Douglas Mc Gregor put forward his path-breaking hypothesis on Human Resource Management - known popularly as **Theory X** and **Theory Y**. In brief, Theory X & Y were two different and diametrically opposite viewpoints on how workers could be motivated to perform at their peak potential. While Theory X believed in the "Stick" (*workers always need to be closely supervised*); Theory Y prefers the "Carrot" (*workers are normally self-motivated and will perform best when barriers are removed*). The debate on which is the better motivator still continues and can never probably be settled, because in the final analysis, all human interaction is contextual and there is no "one size" that "fits all".

The debate on whether industry players (in any industry, for that matter) can function in an orderly manner on their own initiative (Theory Y??) or whether they need to be monitored and supervised by an external authority, with attendant penalties etc (Theory X??) runs on similar lines.

A Case for Initial Supervision

To begin with, let us assume that Monitoring & Supervision is required for an industry to function in an orderly manner so that the various stakeholders can feel confident in dealing with the industry players. This is especially true of fledgling industries which are in the midst of massive upheaval and high growth. The Non Life insurance industry – encompassing not just the insurers, but the other major players like brokers, agents, bancassurance channels, Third Party Administrators, and Surveyors – having been recently liberalized is witnessing turbulence and growth together and qualifies for the above assumption. (The Banking sector in India is an example of how close supervision by the RBI over the decades has generated substantial goodwill among customer segments - both retail and commercial.) The turbulence and the attendant confusion can best be handled through an alert and watchful authority which writes the rule-book for the players to abide by; and executes it in a fair and objective manner. There are bound to be issues of understanding and

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interpretation and the sheer size; and diversity of the market will pose various challenges forcing the authority to perhaps modify and update the rules of the game on quite a few occasions. It is in this period that supervision is most important. New participants would have entered the market and there would always be a couple of 'short-run' players who could be testing the limits (much like a child testing the patience of a teacher or parent through willful defiance). It is during this evolutionary stage that examples would need to be made out of gross and willful defaulters and violators through stringent action against them. Needless to say, the emphasis here should be on "wilful" violations and not on bona fide failures to keep in step with the law due to interpretation or execution issues. Through objective and firm action, the authority can send the right message to industry, thus preventing any further temptation for anybody to circumvent the rule-book.

A Case for Self-Supervision

Having made a case for close Supervision in the initial growth stages, let us also recognize that this model is not sustainable for the long term growth of any industry. No regulator is equipped to keep track of, review, and punish every small bit of violation in the functioning of each player in the market. In the long run, the industry will have to be driven by better corporate governance and clean track record of the players. Healthy business practices (best practices) will go a longer way in creating confidence among the insuring public than the spectre of a tough and no-nonsense regulator. It is widely recognized that the growth of the Capital market in recent years has more to do with cleaner balance sheets and better corporate governance than with the manner in which the authorities handled the Harshad Mehta or the Ketan Parekh scams.

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There is therefore a strong case for Self-Regulation and supervision among the industry players. And the timing is perfect too. The industry has been re-born, if you will, and several new categories have come up virtually out of thin air – Brokers, Corporate Agents, TPAs, Bancassurance – all of which were unheard of just around six years ago. Most of these players are still wet cement and we can write what we want on them (and create the right culture and habits) – before they become hard & rigid.

Let us examine some measures which can be taken in the near future:

Ensure quality at entry

- Prevention is better than cure. Licensing of new players should become stricter. Track record (including qualifications and experience in successfully running other businesses, if any), and not rosy projections alone, should become the dominant parameter for eligibility. The regulator should keep in mind that every new entrant who commences operations at this stage has the potential to make or mar our industry.
- While I am aware this borders on subjective judgment, a panel of eminent people should be put together to judge every promoter and top management team over a couple of sessions on whether they are likely to add value to the industry or otherwise. The emphasis should be on attitude and ethics and willingness to invest for the long term and not on insurance knowledge.

Self-Regulate

- We already have industry associations for the major components of the Non Life industry – the GIPSA, General Insurance Council, the IBAI and the TPA Association.
- We could consider setting up compliance cells in each of these bodies which could keep an eye on their members and gently nudge them where necessary. They could also encourage compliance by instituting annual awards for their members.

Encourage cross pollination among Industry associations

- The insurance industry will do well to learn lessons from the erstwhile-NBFC industry. Back in the nineties, a flourishing NBFC sector suddenly meandered and lost its way. Among several reasons, what one remembers strongly is the lack of unity and collaboration among the industry players. Borrowers with arrest warrants against them would raise money from multiple lenders against the same asset and lenders would vie

with each other to oblige. Normally hard-nosed lenders ended up doling out large chunks of money to borrowers who were already defaulters with other NBFCs.

- The industry associations should encourage exchange of useful information among members. The regulator could encourage setting up of a separate advisory body to discuss problems being faced and suggesting best practices for the industry to follow. The body would have nominated (not elected) members from across all segments (insurers, brokers, agents, bancassurance, TPAs, surveyors etc. **NASSCOM** is an outstanding example of a Self-Regulatory Non-Statutory body pro-actively helping to build an industry virtually from scratch into a world-beater today.

Introduce Standardisation

- One way to assist the supervision exercise is to Standardise as many components and sub components of the Insurance activity as possible. A concept akin to the Acord standards should be introduced so that everything from Proposal forms to claim forms to Survey Reports to TPA MIS Reports could be standardized to the minimum extent possible. Data capture and analysis would be far easier and anomalies and deviations would be easier to detect.

Invest in Training & Development

- There just isn't enough investment happening in training, especially in the Non-Life segment. This is primarily due to the lack of training infrastructure. There are just a handful of institutes imparting broker training across the country (in fact there are none in Bangalore and Hyderabad).
- IRDA and NIA would do well to set up (as a public-private partnership) satellite institutes in every major city in India offering capsule-courses in various technical areas and soft skills. There should be evening classes for working people.
- It is such an irony that, while Brokers are required to field ONLY trained and qualified employees in the market, insurers have no such obligation. With manpower attrition rates being where they are, it's not unusual to see fresh, young, "green-behind-the-ears" Insurance executives (representing Insurers) sitting with seasoned CFOs discussing the intricacies of MBD insurance or Errors & Omissions Insurance.

Educate Consumers on the duties of various Insurance players

In the final analysis, the person or entity who suffers most due to malpractices in the market are the customers. In this context, the best long term solution to ensure compliance and healthy practices would be to empower and educate consumers of all segments on what they should expect from the players and what constitutes best practices as defined by industry bodies and/or the regulator.

The customer could then judge for himself whether he is getting a fair deal or not – and vote with his feet if he finds he is getting deficient service or a mala fide transaction.

Conclusion

A lot of what has been said above is utopian and difficult to implement in the short run. Self-regulation and self-supervision are easier said than done. For every shining example of a NASSCOM, we also have examples of a badly run Health care sector, which is notorious for malpractices.

This should however not deter us from dreaming at least. Maybe, if there are enough dreamers around, the sheer positive energy created by them may help build the momentum for change.

Maybe then the horse will fly, after all.

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