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A Comprehensive Risk Management Framework for the Insurance Industry

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Evaluating the Impact of the New Tax Regime on Motor Accident Compensation Awards



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Interview

In medical Insurance, an extremely innovative product with the principle lock the clock is in place where the premium for the entry age remains locked till the time any hospitalization claim happens.

Samiran Lahiri
Executive Director & CEO
Preferred Partners Insurance Brokers Pvt. Ltd.

"In the insurance industry, risk is not merely a challenge to overcome; it is the very commodity we trade. Therefore, a robust and sophisticated risk management framework is not just a matter of good governance but a core strategic imperative."

Dr Sonjai Kumar
CFIRM, SIRM



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F.C.A, L.L.B, FIII, MBA,
DISA (ICAI), FRMAl,
MCom (BIM), PGJMC

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Editor-in-Chief's Desk



Ram Gopal Agarwala
B.Com, LLB, FCA.

The Indian insurance industry continues its transformation journey-driven by regulatory reforms, digital disruption, and a growing need to restore policyholder trust. Recent developments reflect a clear shift toward consumer-centricity, stricter governance, and systemic innovation.

The Insurance Regulatory and Development Authority of India (IRDAI) has made commendable moves—from capping health insurance premium hikes for seniors to pushing insurers to adopt risk-based capital and solvency standards. The approval of Axis Bank's acquisition of an additional stake in Max Life marks a maturing phase of bancassurance and insurance-led financial ecosystems.

However, some concerns remain. Cases of mis-selling—especially in tier-2 and rural markets—raise questions about product suitability and transparency. While Bima Sugam and Bima Vahak promise long-term improvements in access and literacy, implementation delays continue. Moreover, issues such as health insurance portability, clarity in claim settlement procedures, and accountability of intermediaries remain largely unaddressed.

On the product innovation front, initiatives like Bajaj Allianz's state-specific health policies and Bandhan Life's centenarian life plan showcase evolving customer targeting. Yet, the industry must balance innovation with affordability, particularly for middle-income households.

It is also critical that IRDAI and insurers intensify efforts to promote insurance awareness beyond occasional campaigns. A 45-year-old publication like The Insurance Times has consistently championed education and discourse in this sector—and we urge all stakeholders to step up this collective mission.

As the insurance industry aspires toward the "Insurance for All by 2047" vision, trust—not just technology—will be its most important capital. Regulatory reforms must be matched by operational integrity, agent training, and customer-centric culture. Only then can the promise of inclusive, efficient, and ethical insurance truly be realized.

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A Timely Framework to Combat Insurance Fraud



Dr. Rakesh Agarwal

Insurance fraud is a silent but severe threat to the integrity, sustainability, and growth of the insurance sector in India. The Insurance Regulatory and Development Authority of India (IRDAI) has recently rolled out the Insurance Fraud Monitoring Framework (IFMF) Guidelines, 2025 - a much-needed initiative to strengthen fraud detection, prevention, and control mechanisms across life, general, and health insurance businesses.

Under the new guidelines, all insurers are required to classify frauds into three categories: policyholder fraud, intermediary fraud, and insurer fraud. Each insurer must formulate a Board-approved Anti-Fraud Policy, designate a Nodal Officer, and establish a dedicated fraud monitoring function. Notably, insurers must develop early warning systems, leverage technology-based surveillance, and report frauds exceeding ₹1 lakh to the IRDAI's centralised Fraud Monitoring Portal within 30 days. The guidelines also emphasise the creation of a fraud database, employee awareness programs, and external stakeholder collaboration - especially with law enforcement agencies and regulators.

This structured approach is a welcome move, especially at a time when digitalisation and increasing policy volumes are making frauds more sophisticated and difficult to detect. The directive to track not just financial losses but also attempted frauds is crucial for building long-term vigilance and resilience in systems.

This move is a paradigm shift from reactive to proactive regulation. With frauds estimated to cause losses of thousands of crores annually, implementation of these guidelines will improve claim settlement efficiency, lower premium leakage, and ultimately build consumer trust in the insurance ecosystem.

However, execution remains the key. Smaller insurers may struggle with resource constraints to implement advanced fraud analytics, and there may be inconsistencies in how "attempted frauds" are identified. IRDAI must ensure capacity building, facilitate industry-wide training, and encourage data-sharing among insurers, TPAs, and digital platforms.

Another area to watch is intermediary-level fraud - especially in health and motor insurance - where aggressive selling, mis-selling, and inflated claims often go unchecked. The guidelines appropriately cover this, but accountability frameworks must also be created for brokers, agents, and POSPs who are involved in malpractice.

Additionally, consumer education will play a critical role. If customers are made aware of common fraud red flags - and have easy-to-use reporting mechanisms - the fight against insurance fraud becomes collaborative, not just regulatory.

The Insurance Times has always been a vocal proponent of robust governance and ethical conduct in the insurance sector. The IFMF Guidelines, 2025, if implemented in spirit, have the potential to transform how India manages insurance fraud - from a patchwork of controls to a unified, intelligent, and transparent surveillance ecosystem.

We urge all stakeholders to embrace these reforms not as a compliance burden but as an opportunity to rebuild confidence, strengthen risk culture, and protect the very foundations of the insurance promise. □

Insurance Demystified

Newton's Law - Another interpretation of Proximate Cause



Dr Abhijit K. Chatteraj
Chartered Insurer

The fire policy we know doesn't cover any loss or damage occasioned by, through, or in consequence of, directly or indirectly, an earthquake, volcanic eruption, or other convulsions of nature. An earthquake is an excluded peril, but loss by theft is an uninsured peril(other than as provided in the RSMDT clause).

In my last article, 'The Dilemma of Proximate Cause in view of the Varying Interpretations,' I referred to two laws, Bacon's Rule (immediate cause) and Newton's Rule (initial cause), that the courts often resort to in solving issues related to Proximate cause.

Look at this Scenario -A Classical Example of Newton's Law- Leyland Shipping Company owned a ship called The Ikaria (insured against perils of the sea) that was carrying gold from Southampton to the Port of Le Havre. A German U-Boat torpedoed it. The crew took the ship to Le Havre for repairs. The Harbour Master ordered that the vessel be moored at open sea. The vessel remained at open sea but sank due to a strong gale, becoming a total loss.

So what was the proximate cause of the loss of the ship in this case?

- ❖ The torpedoing by the submarine
- ❖ The subsequent storm (a marine peril, under the policy)?

The House of Lords, in this case, held that to determine the proximate cause, one must apply common sense, affirming that the proximate cause was not necessarily the last event

before the loss occurred, but rather the event that constituted the dominant cause of the loss. The Court dismissed the notion held till that time that the peril closest in time to the loss should always be considered the proximate cause. In other words, the proximate cause has to be determined in terms of the efficiency of the cause. Causation is to be understood in its ordinary meaning, and not, for example, by its strict scientific meaning.

One should take a holistic (consider all facts in totality) view of the facts involved in causing the loss. An isolated view will prejudice the decision. There can be cases of a new intervening cause that prevents the originating peril from producing the result that it would otherwise have produced. The point considered above, based on 'Balance of Probabilities', was to decide whether the loss of the vessel was the natural consequence of the torpedo attack or whether any intervening cause came into play. Which, in that case, was more efficient- the initial or the intervening cause?

Concurrent Causes

The fire policy we know doesn't cover any loss or damage occasioned by, through, or in consequence of, directly or

indirectly, an earthquake, volcanic eruption, or other convulsions of nature. An earthquake is an excluded peril, but loss by theft is an uninsured peril (other than as provided in the RSMDT clause)

When more than one interdependent event causes the loss, it becomes challenging to ascertain which of the various causes was the most efficient in qualifying as the proximate cause. One must apply the balance of probabilities test to determine which cause is most likely to have caused the loss.

When events occur concurrently in that scenario, presuming one insured and one uninsured cause worked together and are competing, the insured cause is deemed to have caused the loss, and the insurer must admit liability. On the other hand, if one excluded peril or cause and one insured peril work in tandem, the excluded peril dominates, and the insurer may disown liability. When independent perils, such as fire and earthquake, operate together to cause a loss, each peril contributed to the loss to some degree; the onus of proof is on the insured to prove that the insured peril was the proximate cause of the loss.

In cases where interdependent perils work together to cause a loss, each peril played a role in causing the loss, and one peril is insured while, the other is excluded, there is no liability for the insurer. But the interpretation changes if one peril is insured and the other is uninsured. The claim must be admitted and paid, as the insured peril prevails over the uninsured peril.

Novus Actus interveniens

Novus actus interveniens - in Latin, it means "a new intervening act" - plays a crucial role in determining causation. It is a scenario in which a new, independent, unforeseen event occurs, **breaking the chain of causation** between the insured peril and the loss or damage. The chain of causation is disrupted when the intervening act is sufficiently independent from that of the original insured peril.

If the intervening peril is not insured, the insurer is freed of their liability from this point of intervention (if it could be segregated). In addition, reasonable foreseeability constitutes the main test of remoteness (i.e., that which is not reasonably foreseeable is considered remote); even then, the issue of causation is essential. Where the 'chain of causation' leading from the initial peril is broken by a 'novus actus interveniens' ('new intervening cause'), the insurer will not be liable.

A New Dimension of Proximate Cause - New India

Assurance Co. Ltd. Vs Zuari Industries Ltd. and Ors.. Supreme Court (India)

Background:- 1. Zuari Industries Ltd. had taken two Insurance Policies from the New India Assurance Co. Ltd on 1.4.1998 for its factory situated in Jauhri Nagar, Goa. One policy was a Standard Fire and Special Perils policy, and the other was a consequential loss (Fire) insurance policy.

On January 8, 1999, at approximately 3:20 p.m., a short circuit in the main switchboard caused a flashover, resulting in extreme heat and soot. This led to substantial damage to the boiler and other equipment, as well as a significant loss of profits due to the plant's interruption.

Zuari Industries preferred two claims- one under the SFSP for Rs 1,35,17,709 (material damage) and the second under a consequential loss (Fire) insurance policy for Rs 19,11,10,000. After surveying the loss, New India Assurance Company rejected the claim, asserting that the damage resulted from a short-circuit-induced thermal shock rather than a fire vide letter dated 4-9-2000. Zuari Industries sought redressal from the National Consumer Disputes Redressal Commission, which allowed the claim.

Point of view of New India while rejecting the claim :

The fire did not cause the loss of the boiler and other equipment; the loss was caused by the stoppage of the electric supply due to a short circuit in the switchboard.

The cause of the loss to the boiler and to the equipment was thermal shock from the stoppage of electricity, not due to any fire.

It invoked the principle of proximate cause, which, in the case mentioned above, was thermal shock caused by the stoppage of electricity, not by fire.

However, the National Commission, when approached by Zuari Industries Ltd, rejected the insurer's repudiation of the claim and allowed the claim.

New India Assurance Co. Ltd moved the Supreme Court against the order of the National Commission in 2004.

Issues of contention :

1. Does flashover constitute "fire" as per the Standard Fire and Special Perils Policy?
2. What was the proximate cause of the loss - flashover or fire?

-
3. What is the bearing of this exclusion "Loss, destruction or damage to any electrical machine, apparatus, fixture or fitting arising from or occasioned by over-running, excessive pressure, short circuiting, arcing, self heating or leakage of electricity from whatever cause (lightning included) provided that this exclusion shall apply only to the particular electrical machine, apparatus, fixture or fitting so affected and not to other machines, apparatus, fixtures or fittings which may be destroyed or damaged by fire so set up".

The issue the Hon'ble Judges of the Supreme Court focused on was the definition of Fire. A short circuit caused a flashover. The Supreme Court alluded to Wikipedia definition of flashover. According to it "A flashover is the near simultaneous ignition of all combustible material in an enclosed area. When certain materials are heated they undergo thermal decomposition and release flammable gases. Flashover occurs when the majority of surfaces in a space are heated to the autoignition temperature of the flammable gases." In this connection, it is acknowledged that the short circuit in the main switchboard caused a flashover.

In this context, the conventional definition of Fire as actual ignition under accidental circumstances in fire insurance has bearing.

The Surveyor, Shri M.N Khandeparkar, maintained that "Flashover, can be defined as a phenomenon of a developing fire (or radiant heat source) radiant energy at wall and ceiling surfaces within a compartment.... In the present case, the paint had burnt due to the said flashover.... Such high energy levels, would undoubtedly have resulted in a fire, causing melting of the panel board. The other Surveyor, P.C Gandhi Associates stated that "Fire of such a short duration cannot be called a 'sustained fire' as contemplated under the policy."

The view of the second surveyor was erroneous. The Hon'ble judges observed that the duration of the fire was not relevant. As long as a fire caused the damage, the claim is maintainable, even if the fire lasted for a fraction of a second. The term "fire" in Clause (1) of Fire Policy is not qualified by the word "sustained".

The Hon'ble Judges also observed that "It is well settled that the court cannot add words to a statute or to a document and must read it as it is. Hence, repudiation of the policy on the ground that there was no "sustained fire" in our opinion is not justified".

As an explanation to the exclusion mentioned in point -3 ,

the Hon'ble judges observed as under: "If, for example, the short-circuiting results in damage in a television set through fire created by short-circuiting in it, the claim for it is excluded under the fire policy. However, if from the same fire there is a damage to the rest of the house or other appliances, the same is included within the scope of the fire policy by virtue of the proviso.

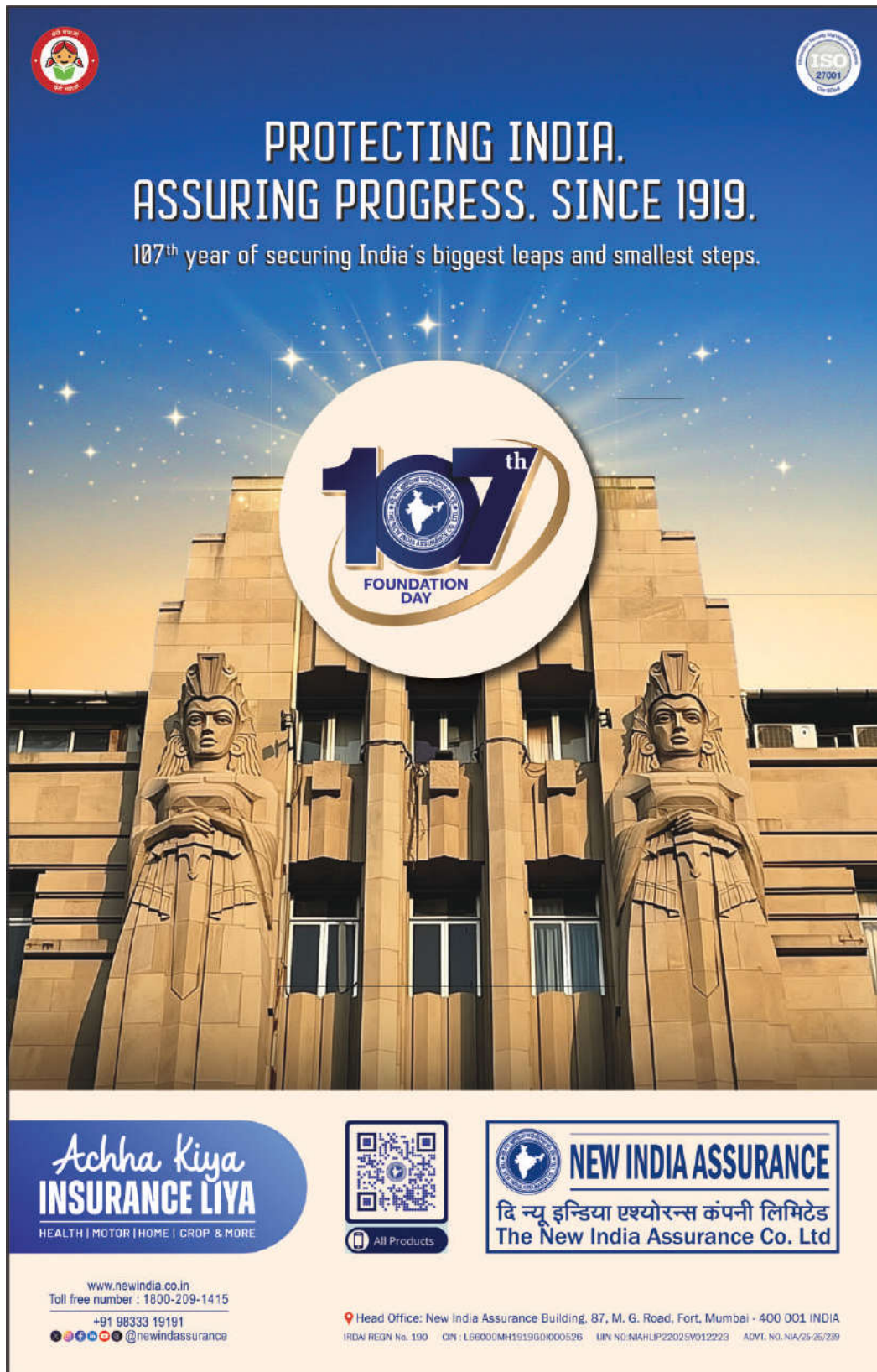
In other words, if the proximate cause of the loss or destruction to any other including other machines, apparatus, fixtures, fittings, etc. or part of the electrical installation is due to the fire which is started in an electrical machine or apparatus all such losses because of the fire in other machinery or apparatus are covered by the policy".

While deciding whether the flashover and fire were the proximate cause of the damage in question, New India Assurance Co. Ltd. stated in a written submission to the National Commission that it was the flashover/fire that started the chain of events resulting in the damage. The Hon'ble judges categorically observed that 'apparently there is no direct decision of this Court on this point as to the meaning of proximate cause, but there are decisions of foreign courts, and the predominant view appears to be that the proximate cause is not the cause which is nearest in time or place but the active and efficient cause that sets in motion a train or chain of events which brings about the ultimate result without the intervention of any other force working from an independent source.

The Hon'ble judges categorically observed that in the case described above, it was evident from the chain of events that the fire was the efficient and active cause of the damage. If the fire had not occurred, the damage would also not have taken place, and no intervening agency was an independent source of the damage. Hence, the Hon'ble judges disagreed with the surveyors' conclusion that the fire was not the cause of the damage to the claimant's machinery.

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