

**IFCO-TOKIO**

# Director's Report

## To the Members,

1.0 Your Directors have pleasure in presenting the Seventh Annual Report on the activities of your Company together with the audited financial results for the year ended 31st March, 2007 along with the Auditors' Report thereon.

## 2.0 Economic Environment and Industrial Scenario

2.1 India has been the growing economy for the past few years and the average growth rate of GDP which was 7.5% in 2004-05 is expected to reach 9.2% in 2006-07. Although, the industrial sector has been the main driver for the growth in the fiscal year 2006-07, the service sector continues to maintain impressive growth which is expected to be 11% at the end of March, 2007. The agricultural sector has suffered a set back in its growth due to erratic weather conditions. The external trade of India is also showing persistent buoyancy. The improved performance in the services and the manufacturing Sectors and the strong measures being taken to augment agriculture production are expected to support continuing economic growth in future.

## 3.0 Industry Scenario of General Insurance

3.1 The Insurance Industry for the major part of the year (April-December, 2006) was operating under a controlled market. The industry has recorded a growth rate of approximately 20% over the same period last year. As a part of liberalization process, IRDA dismantled the tariff

regime with effect from 1st January, 2007. The Members will be happy to note that the industry had surpassed market expectations and has pleasantly surprised those who expected the premiums to fall or the growth rate to slide downwards due to pressure of competitive bidding for rates. The overall growth of the market is estimated at 20% at the end of March, 2007 as against the growth rate of 16.24% achieved in the previous year. The market share of ITGI at the end of March, 2007 is 4.56% compared to 4.40% at the end of the previous year.

3.2 As per the present indications, the spirit of competition in its fierceness is likely to intensify than diminish in the ensuing year. It would take quite sometime to inspire the insurers not to let rating strings loose indiscreetly. Although IRDA announced some increases in Motor premium rates, it has also mandated that all non-life insurers may contribute third party premium in respect of commercial vehicles to the Pool which will be administered by General Insurance Corporation. Insurance market is expected to under go a sea-change and many new challenges are likely to emerge in the detariffed scenario. It will be a unique experience for the entire insurance industry in India and your Company being young and upcoming who has prepared itself to meet the challenges.

## 4.1 Detariff Market

4.2 Pursuant to dismantling of the tariff regime with effect from 1st January, 2007, all Non-life insurance Companies are free

to charge their own premium subject to their retaining the wordings, terms and conditions of the insurance covers as applicable prior to the effective date of detariff. Members will be happy to learn that your Company has set up systems and procedures for meeting the requirements and challenges of the changing market in accordance with the directions issued by IRDA from time to time.

## 5.0 Financial Highlights

5.1 Your Company has successfully completed yet another year of its operations and earned a profit before tax of Rs.42.46 Crores as against the profit of Rs.24.10 Crores during the previous year. Despite the difficult market conditions, your Company has underwritten Gross premium of Rs.1152 Crores as compared to Rs.896 Crores achieved in the previous year, representing an increase of 28.57% over the previous year. The underwriting results however, show a loss of Rs.14.13 Crores mainly due to the increased claim liability on account of rain/floods in the states of Gujarat during the months of August, 2006. The financial highlights of the year's operations are summarized below.

## 6.0. Dividend

6.1 The distributable profits after making suitable provision towards income-tax works out to Rs. 27.13 crores, accordingly, your Directors recommend a payment of dividend at the rate of 4% on the paid up capital of Rs.220 crores of the Company. In the audited Accounts a provision of Rs. 10.30 Crores including Rs. 1.50 Crores

towards Dividend Distribution Tax has been made towards payment of Dividend to the Members.

## 7.0 Investments

7.1 The total investments of your Company as on 31st March, 2007 were Rs.732.96 Crores as against Rs.607.27 Crores at the end of the previous year. Investments were made in Government Securities and other approved schemes prescribed in IRDA (Investment) Regulations 2000. The yield on these investments during the year worked out to 7.93% as against 7.34% earned in the previous year.

## 8.0 Corporate Governance

8.1 It has been the endeavor of your Company to adopt systems and procedures which would strengthen good corporate governance, transparency, accountability and full disclosure of information to its shareholders and other stakeholders.

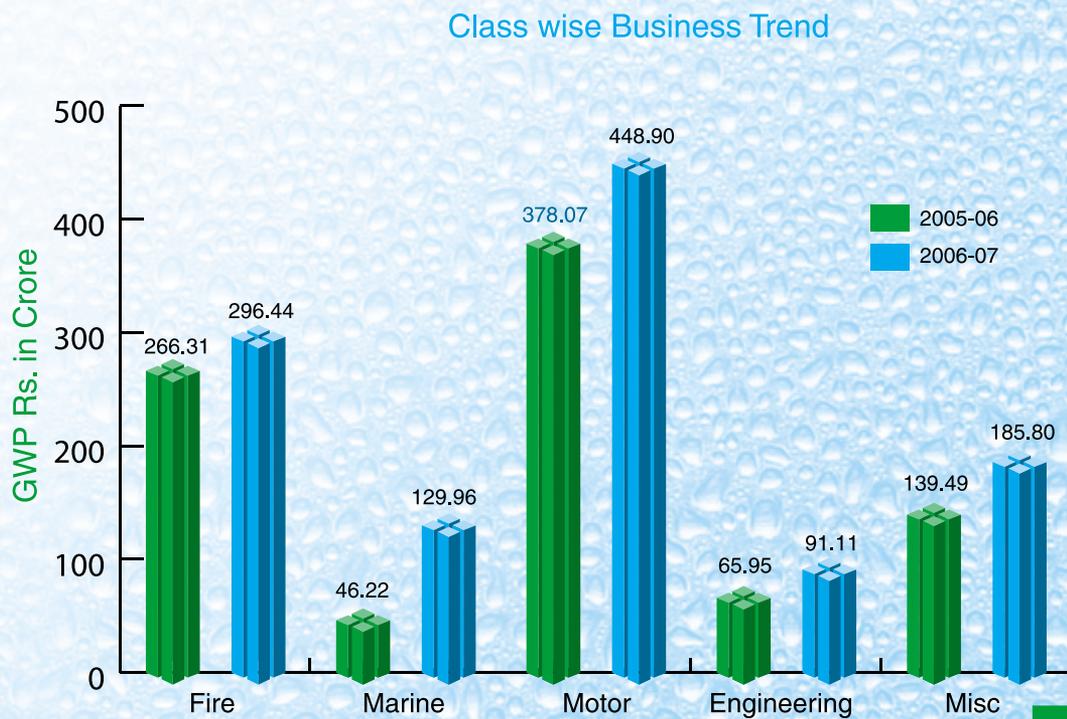
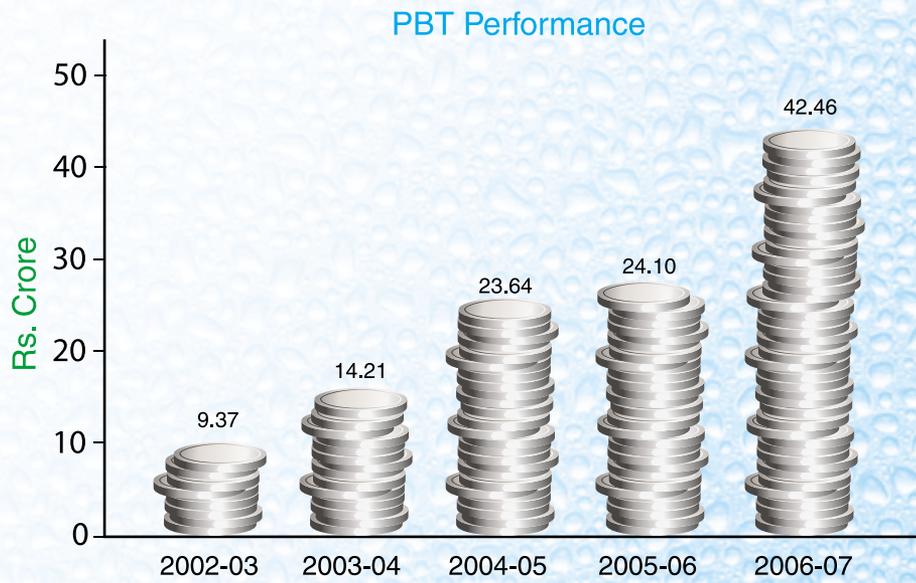
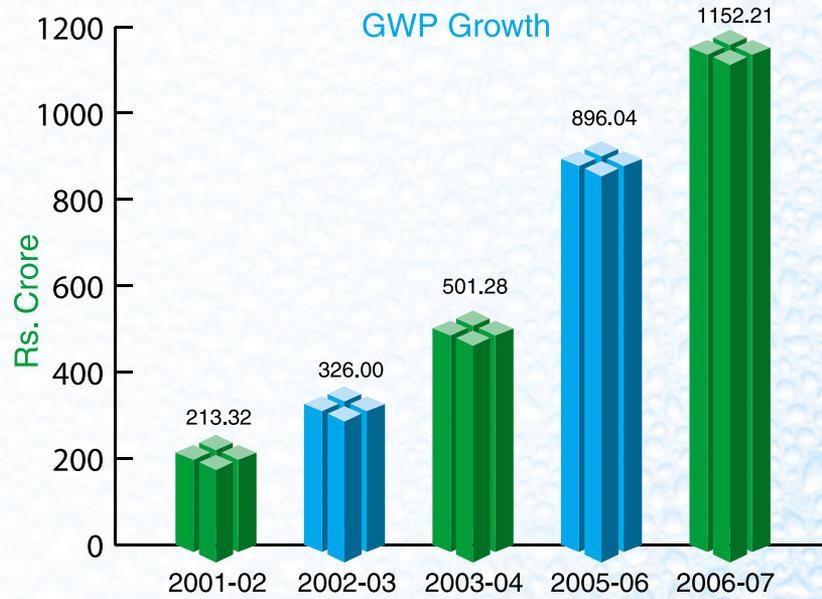
The Board of Directors had accordingly constituted the following Committees.

### Executive Committee

The Executive Committee comprises of two non Executive Directors, Managing Director, Director (Operations) as its Members. This Committee is responsible for finalization of Business Plan, Annual Budgets, review of operations, review of performance of personnel, HRD issues, etc.

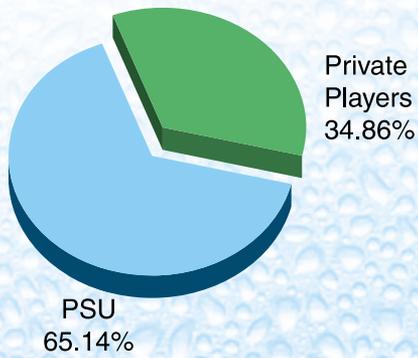
### Investment Committee

Pursuant to the provisions contained in the IRDA (Investment) Regulations, 2000, Your Board of Directors had constituted the Investment Committee comprising of two non Executive Directors, Managing Director, Financial Advisor and the Appointed Actuary of the Company.

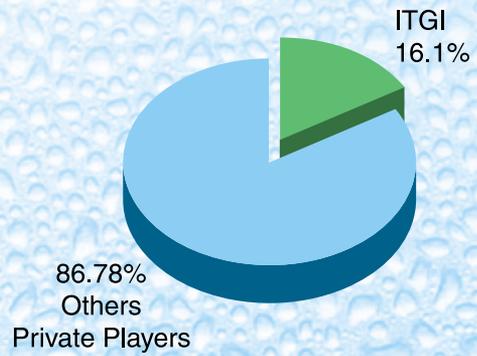


## ITGI AT A GLANCE

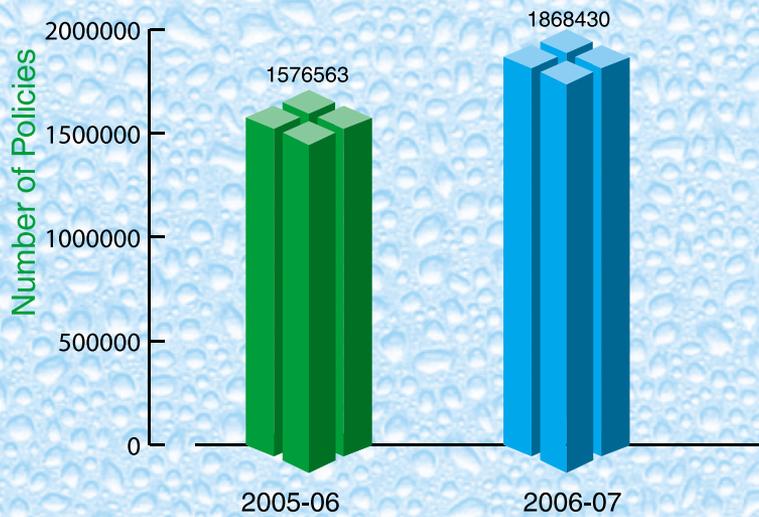
MARKET SHARE OF PRIVATE PLAYERS



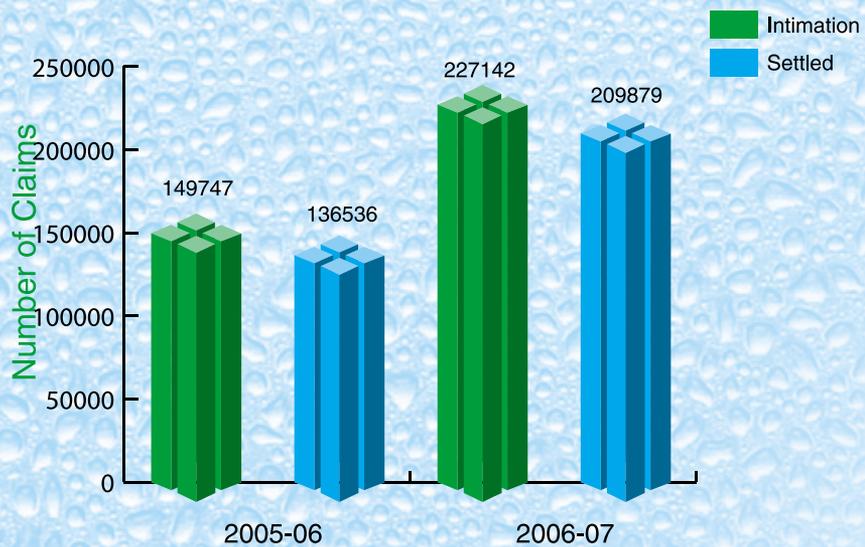
ITGI'S SHARE AMONG PRIVATE INSURERS



POLICY DOCUMENT GROWTH



CLAIM SETTLEMENT TREND



## Financial Results:

<b>Particulars</b>	<b>(Rs. In Crores)</b>	
	<b>Year 2006-07</b>	<b>Year 2005-06</b>
Gross Written premium	1152.21	896.04
Less Reinsurance premium	571.64	417.73
Net premium	580.57	478.31
Unexpired Risk Reserve	32.97	132.32
Earned premium	547.60	345.99
Commission earned (net)	41.52	40.11
Others	0.07	0.03
<b>Total underwriting Revenue</b>	<b>589.19</b>	<b>386.13</b>
Net incurred claims	398.59	244.07
Expenses of Management	204.40	152.60
Others	0.33	0.80
<b>Total underwriting expenses</b>	<b>603.32</b>	<b>397.47</b>
<b>Underwriting profit /(Loss)</b>	<b>(14.13)</b>	<b>(11.34)</b>
Investment Income:		
Allocated to Revenue A/c.	35.28	22.34
Allocated to P&L A/c.	<u>21.80</u>	<u>13.49</u> 35.83
Others	(0.49)	(0.39)
Net underwriting surplus	21.15	11.00
<b>Profit before Tax</b>	<b>42.46</b>	<b>24.10</b>

The Investment Committee is responsible for formulating the Annual Investment Policy, laying down guidelines for investment of surplus funds, approval of investment decisions, monitoring the implementation of approved investment policy and guidelines and also compliance of IRDA (Investment) Regulations.

### **Audit Committee**

Pursuant to the provisions of Section 292A of the Companies Amendment Act, 2000, your Board of Directors had constituted an Audit Committee. Mr. Surinder Kumar Jakhar an independent Director is the Chairman of the Audit Committee. Two non- Executive Directors and Managing Director are the Members of the Committee. The terms of reference of the Audit Committee inter alia include-

- (i) Review of Financial and Accounting policies and practices of the Company.
- (ii) Review the efficiency of the internal control; mechanism of the Company.
- (iii) Review the reports furnished by the internal and statutory auditors.
- (iv) Review the periodical and annual financial statements before submission to the Board.

During the year four meetings of the Board of Directors, eight meetings of the Executive Committee, four meetings of the Audit Committee and four meetings of the Investment Committee were held. All the meetings were well attended.

## **9.0 Customer Service**

9.1 Members would recall that with the objective of providing prompt services to our customers and optimize utilization of resources; your company had set up

Customers Service Centers located at Mumbai, Kolkata, Vadodra, Bangalore and New Delhi. These Centers apart from handling financial accounting in respect of branches under their respective control have significantly reduced the turnaround time in respect of claims preferred by the customers. The centers handled approximately 2.14 lakh claims during the year and were able to achieve a settlement ratio of 92.4% on an average.

9.2 In addition to setting up of Centers for servicing of Customers in respect of Claims, your Company has also set up Underwriting HUBs in Mumbai and Delhi. The Underwriting Hubs are mainly responsible for timely issuance of error free policy documents, standardization of documentation, optimum utilization of core resources etc. With the constant increase in retail lines of business and growing number of customers, implementation of Customers Relationship Management (CRM) has been initiated which is expected to be completed in phased manner for claim processing, underwriting etc.

## **10.0 Spread of Operations**

10.1. Your Company has expanded its operations in several potential market areas by opening its branches in a planned manner and has a net work of 56 offices across the country. Members would be happy to know that all the Branches across the country are on line on the IT system. Your Company has

plans to further strengthen its operations by expanding its business in potential market areas and in rural segments so as to make its services easily accessible to its customers across the country.

- 10.2 During the year under review, the foreign Promoter M/s Millea Asia Pte Limited informed that the name of the Company was changed from M/s Millea Asia Pte Limited to M/s Tokio Marine Asia Pte Limited effective from June, 2006.

### 11.0 Information Technology

- 11.1. Your Directors recognize the importance of Technology in the conduct of business and the need for investing in new technology. As in all industries, adapting new technology has become absolute necessity in Insurance Industry to achieve the desired effect. With the ever increasing numbers of policies and claims, communication infrastructure has been strengthened by upgrading the systems between Corporate Office and the Branch Offices and new technology is introduced to meet the same.

### 12.0 Business Plan 2007-08

- 12.1. Your Company has achieved GWP of Rs.1152 Crores during the year as against Rs.1090 Crores envisaged in the revised budget. The Company has set a target of Rs.1200 Crores of GWP for the year 2007-08 comprising of Rs.450 Crores of commercial lines and Rs.750 Crores of retail lines. Since insurance market in the Country has been detariffed with effect from 1st January, 2007 there would be a shift in

the product mix i.e. from the Commercial portfolio to Retail portfolio.

### 12.2. Market Strategy

Your Company, after considering the anticipated impact of shift from the regulated market to detariff market has drawn a Marketing strategy to achieve its Business Plan. Since the Company has set an enhanced target for retail lines, it would endeavor to enter into suitable understanding with various intermediaries, introduce new products, enter into tie up arrangements with dealers, Banks etc. Pursuant to the liberalization of the Insurance market, the threat of premiums being reduced to induce customers and the role of intermediaries playing increase role in buying and selling of insurance, your Company would take a cautious approach in mobilizing business. Since the emphasis in the Business Plan is to augment retail lines of business, your Company would encourage Cooperative Model, Bancassurance tie ups and agents with proven loyalty to be Distribution Channels. Commercial lines of business as far as possible would be solicited directly.

### 12.3 Product Development

Hon'ble Members are aware that your Company presently sells various products customized to suit the needs of target market segments like art lovers, industries and corporate, International travelers, semi urban and rural segments of the Indian market. Your company has also introduced products like 'Pravashi Bhartiya Bima Yojna', for the benefit of the Indian traveling abroad for work and generic weather insurance to protect the farmers against the vagaries of weather i.e. heat, frost and unseasoned rainfall. The 'Fine art Insurance

Policy' provided cover for the art lovers like art dealers, collectors and museums/galleries. In addition, your Company has also launched a "Combined group liability cover", which is a combination of public and product liability and addresses the identified need of the corporate and industry at large.

#### **12.4 Reinsurance**

Your Company formulated its reinsurance programme in line with the guidelines laid down by Insurance Regulatory and Development Authority (IRDA). The reinsurance programme finalized aims at –

- (a) Optimum retention within the country consistent with prudent risk retentions to reduce foreign exchange outgo.
- (b) Develop adequate automatic reinsurance capacity within the Indian Insurance market to maximize the market retention as also to create sufficient automatic capacity to absorb mega risks and
- (c) To secure the best possible protection with top class securities at economical cost.

Further in order to mitigate the risk arising out of single large loss and /or catastrophe affecting company's net retentions, your Company has also taken excess of loss and catastrophe cover.

#### **12.5 Risk Management**

Risk is fundamental to life-both human and corporate. Insurance being the business of transfer of risks from client to insurer, its viability depends on underwriter's ability to precisely assess the risk. As Members are aware, your Company has formed a Risk Management Team which is proficient in qualitative evaluation of risk, providing safety consultancy for loss

reduction and suggesting measures for risk mitigation to the client. In preparation of a detariffed market scenario this team is striving to develop expertise in areas like risk pricing, business continuity planning, earthquake hazard simulation, consequence analysis and Marine loss reduction which will help us in offering a bouquet of services to the clients. The strength of the Team has been increased keeping in view the detariff scenario and the challenges anticipated to be faced by your Company in the new environment.

#### **12.6 Rural Business**

Members are kindly aware that your Company in fulfillment of its commitments to serve the rural masses introduced innovative products like SANKAT HARAN, BARISH BIMA YOJANA, etc in the past. Your Company has prepared a Mass strategy Business Plan for Rural Sector and during the year 2006-07 in order to service the farming community introduced an innovative product under the name Gehun Mausam Bima Policy for the benefit of the wheat growing farmers to cover various risks. This product was launched in the rain fed areas of the states of Rajasthan, Madhya Pradesh and Uttar Pradesh. The Company marketed the products in rural areas through IFFCO Area Offices, Cooperative Societies and bancassurance tie ups.

#### **13.0 Iffco-Tokio Insurance Services Limited – A Wholly Owned Subsidiary.**

13.1. Members are kindly aware that your Company with a view to penetrate deeper into the SME and retail market and to create inroads in rural markets created



a dedicated channel for marketing ITGI products and also service its esteemed customers had formed a wholly owned Subsidiary under the name of IFFCO-TOKIO Insurance Services Limited. The Company during its operations for the year ended on 31st March, 2007 contributed business valuing Rs.208.35 Crores as against Rs.160.35 Crores during the previous year to ITGI and earned a profit before tax of Rs. 37.19 lakhs as against Rs.27.07 lakhs during the previous year. ITIS has served the semi-urban and Rural segments of India with innovative products of ITGI and serviced several customers. As required under section 212(1) of the Companies Act, 1956, the audited accounts and other particulars of the Subsidiary Company are appended.

#### 14.0. AWARDS

14.1. We are glad to inform the Members that once again during the Top Management Conference of M/s Tokio Marine Asia Pte Ltd., ITGI was awarded the First Prize for “Explorer – Challenge” for its remarkable achievement in terms of volume of business, business model and sustainability in this category. This

is the fourth consecutive year that your Company received award from its foreign promoter for excellent performance among its group companies.

#### 15.0 Human Resource Development

15.1 Human resources is an invaluable asset of an Organization. Suitable strategies were evolved during the year to achieve the vision of the Company viz., winning the trust of the Customer through fairness, transparency and quick response. In order to empower and motivate the employees at all levels other compensation package is linked to their own performance as well as the Company.

15.2 Induction and refresher training schemes covering functional and behavioral areas were conducted during the year and employees at all levels were exposed to various training programmes.

#### Information Under Section 217(2a) of The Companies Act, 1956

Information as per the provisions contained Under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 for the year ended 31st March, 2007 is placed at Annexure –A.

## 16.0 Conservation of Energy and Technology

As your Company does not carry out any manufacturing activity, the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 are not applicable in this regard and accordingly the information is not provided.

## Foreign Exchange Earning and Outgo

The particulars of Foreign Exchange earnings/outgo as required by the Companies Act, 1956 are given below.

### Earnings

Rs 3460 Lakhs  
(Previous year 12045 lakhs)

### Outgo

Rs. 8654 Lakhs  
Previous year Rs.13263 lakhs.

## 17.0 Public Deposits

17.1 Your Company has not accepted any Public deposits during the year under review.

## 18.0 Auditors' Observations

### 18.1 Auditors Report

The Report of the Auditors to the Shareholders of the Company is annexed to the financial statements for the year ended 31st March, 2007. There are no specific observations in the report of the Auditors which require clarification.

## 19.0 Board of Directors

19.1 Pursuant to Articles 102, 103 and 104 of the Articles of Association of your Company, Mr. B.S. Vishwanathan and Mr.S.K. Jakhar, Directors retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

19.2. During the year under review, M/s. Millea Asia Pte Limited have nominated Mr. Hiroshi Endo as Director on the Board of Directors of the Company in place of Mr.Takaaki Tamai. Mr. Endo succeeds Mr. Tamai as Vice Chairman of the Company. Your Directors place on record the appreciation of services rendered by Mr. Takaaki Tamai as Vice Chairman of your Company.

19.3. The tenure of appointment of Mr. Ajit Narain, Managing Director expired on 31st October, 2006. The Board of Directors recommended reappointment of Mr. Ajit Narain as Managing Director of the Company for a further period of three years commencing from 1st November, 2006 and the same was approved by the Members in the Annual General Meeting held on 31st July, 2006. The appointment of Mr. Ajit Narain was also approved by the competent Government Authorities.

## 20.0 Auditors

20.1 M/s S.P. Chopra & Co, and M/s Raghu Nath Rai & Co. were appointed as Joint Statutory Auditors of your Company for the financial year 2006-07 and they will continue in the office till the conclusion of the ensuing Annual General Meeting. They retire at the ensuing Annual General Meeting of the Company and are eligible for reappointment. The Company has received communications from M/s S.P. Chopra & Co. and M/s Raghu Nath Rai & Co. confirming their willingness to accept the audit of the Company in the event of their appointment. .

20.2 M/s S.P. Chopra & Co., and M/s Raghu Nath Rai & Co. comply to the guidelines issued by IRDA for appointment of Auditors. The company has received communications from them confirming their willingness and stating that their appointment if made will be in accordance with the limits specified under Section 224(1B) of the Companies Act, 1956. Notice of the ensuing Annual General Meeting provides for appointment of Auditors as per the provisions of the Companies Act, 1956.

### 21.0 Directors' Responsibility

21.1 The Board of Directors of your Company confirms:

- i. That in the preparation of the annual accounts, the applicable accounting standards have been followed and that there has been no material departure.
- ii. That the selected accounting policies were applied and the Directors made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March, 31, 2007 and of the profit of the Company for the period ended on that date;
- iii. That proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. That the annual Accounts have been prepared on a going concern basis.

### 22.0 SOCIAL RESPONSIBILITY

22.1 Members would be happy to know that your Company constructed four primary Schools in three Districts of Kanchipuram, Villupuram and Kudalur in the state of Tamil Nadu which were badly affected by Tsunami in fulfillment of its social responsibility. This activity was undertaken in partnership with an NGO "Round Table India".

### 23.0 ACKNOWLEDGEMENTS

23.1 Your Directors express their gratitude to all customers of Your Company for their valuable patronage, shareholders, the Insurance Regulatory & Development Authority, Tariff Advisory Committee, General Insurance Corporation of India, Reinsurers and other statutory authorities for their continued support and guidance to the Company. Your Directors also place on record their sincere thanks to its Statutory Auditors, Bankers, Insurance Agents, Brokers and other constituents for their continued support.

23.2 Your Directors also express their sincere appreciation for the unstinted support rendered by the employees of the Company at all levels for their hard work, dedication and commitment.  
for and on behalf of the Board,

**(K.SRINIVASA GOWDA)**

Chairman

Place: New Delhi

Dated: 25th April, 2007

## Annexure-A

**Statement under section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employee's) Rules 1975 for the year ended 31st March, 2007**

Sl. No.	Name of the Employee	Age (years)	Designation/ Nature of duties	Gross Remuneration (Rs. thousands)	Qualification	Experience (Years)	Date of Commencement of employment	Particulars of Previous employment
1	Mr. Ajit Narain	60	CEO and Mangaing Director	Rs. 7,526	Post Graduate	35	01.11.2001	The New India Assurance Company Ltd.
2	Mr. Masahiro Ogawa	52	Director Operations	3,904	Graduate	29	01.10.2004	Tokio Marine and Nichido Fire Insurance Co. Ltd.
2	Mr. N.K. Kedia	61	Executive Directors	2,791	B Sc Engg (Mech)	39	01.04.2001	Indian Farmers Fertiliser Cooperative Ltd.

Note 1. Gross Remuneration includes Salary, House Rent and other perquisites like Medical Reimbursement, Leave Travel Assistance and Company's contribution to Provident Fund etc.

# Statement of Interest

in the Subsidiary Company (ITIS)  
Under Section 212 of the Companies Act, 1956

1. The extent of Company's Interest in the subsidiary at the end of the financial year of the subsidiary company :  
Entire Equity Share Capital of the IFFCO-TOKIO Insurance Services Ltd. as on 31st March 2007 ( 5,00,000 shares of Rs. 10/- each fully paid ) are held by IFFCO-TOKIO General Insurance Company Limited.
2. The net aggregate amount of the subsidiary's profit so far as it concerns members of the company and is not dealt with in the company accounts:  
For the financial year of the subsidiary Profit of the subsidiary company for the period ended 31st March 2007 is Rs. 12,35,693. For the previous financial years of the subsidiary since it became holding company's subsidiary Rs.22,76,453.
3. The net aggregate amount of the subsidiary's profit after deducting its losses or vice versa so far as these are dealt with in the Company's accounts:
  - (i) For the financial year of the subsidiary – Nil.
  - (ii) For the previous years of the subsidiary since it became holding company's subsidiary – Nil.