Non-life Insurance Industry Performance & Growth Potential

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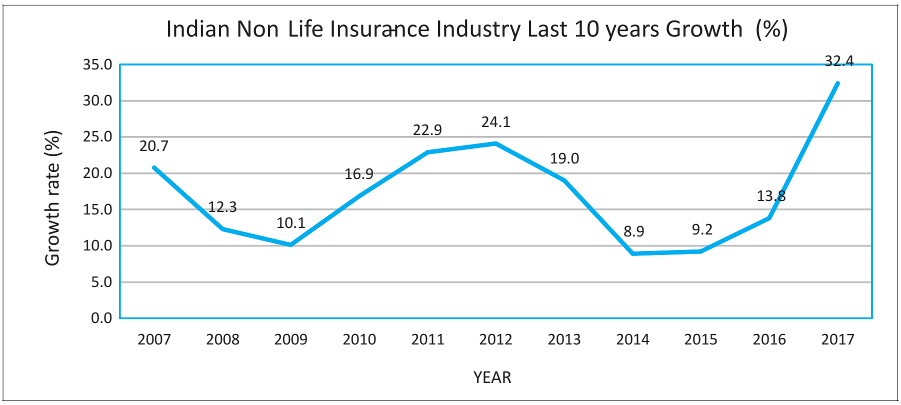
Since the opening of the insurance sector for private participation in FY 2001, non-life insurers have maintained a steady double digit growth whilst facing market competition, global economic meltdown as well as various changes to Regulatory stipulations relating to conduct of Business and Solvency margin.

1. Double digit growth:



2. Reaching Insurance (Penetration) benefit all over the Country

Market competition has dominated all lines of business other than Motor Third Party (TP) since April 2007 when the Regulator de-tariffed premium rates. Non-life insurance penetration in terms of percentage to GDP has been gradually moving up from 0.6 to 0.71. Whilst this figure would mislead many to think that non-life insurance industry has not grown, the volume of direct premium which has increased 10-fold since FY 2001. A glance at the comparative Heat maps of Non-life insurance premium generated from various States for FY 2010 and FY 2016 would encourage the well-wishers of non-life insurance industry in India

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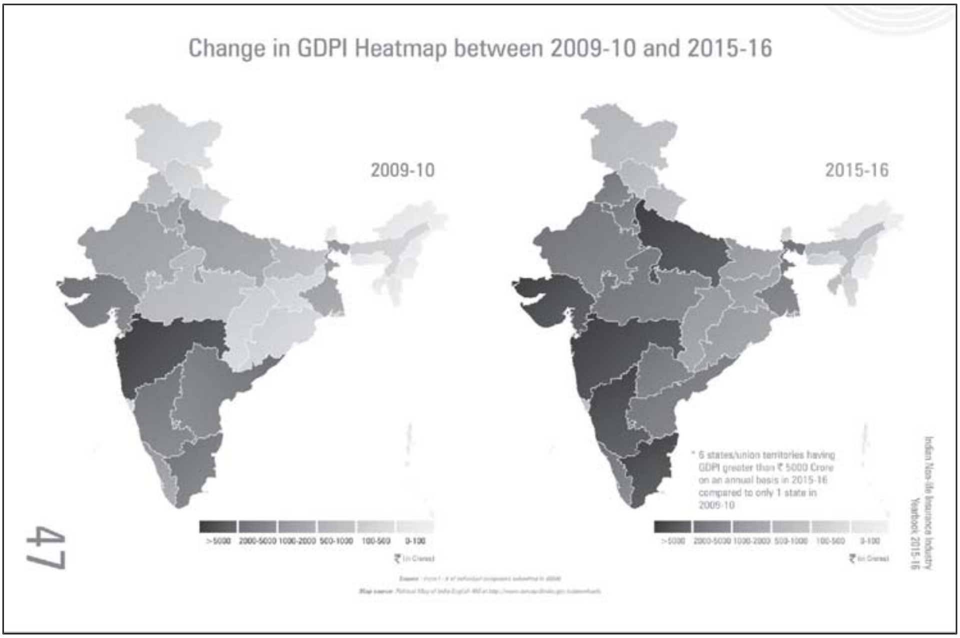
that the industry is on right tracks to reach the message of insurance through the length and breadth of our Country.



Source: *General Insurance Council Year book 2015-16*

3. *Personal Lines of Insurance fuelling volume growth*

Present growth of non-life insurance business is characterized by significant growth in personal lines of business such as Motor, Health & Personal Accident (accounting for 75% of the total through retail policies and several Government sponsored / supported insurance schemes at affordable premium levels for mass population).

Simplified and rationale Personal Accident, Health and Crop insurance schemes supported / sponsored by Government (Pradhan Mantri Suraksha Bima Yojana (2015), Rashtriya Swasthya Bima Yojana and Pradhan Mantri Fasal Bima Yojana (2016) have brought about enormous insurance awareness amongst the rural, social and agricultural sectors. With the introduction of mandated quota for Motor TP liability policy in the Insurance Act amendment 2015, even this segment is seeing an increased thrust and focus from the insurance companies to target uninsured vehicles.

Motor Insurance business (comprising of both Own Damage and Third Party covers) accounts for the highest share of 44.1% of GDPI followed by health and accident insurance at 27.8%

and property insurance business at 12.2%. It is pertinent to know that the health and accident segment has grown at a CAGR of 23.9% over the period FY 2007 to FY 2016.

During the current year (2016-17), the industry has been growing at a faster pace and has already recorded Rs. 91,531 crores as on 31st December 2016 and achieved over Rs. 127,631 crores by 31st March 2017.

4. *Improving Service Quality:*

Customer grievance is a barometer of service quality. The number of Customer complaints has come down by one-third from 186,615 in FY 2010 to 59,083 in FY 2016, while on a relative measure of complaints to number of policies issued, the percentage has come down from 0.21% in FY 2010 to 0.05% in FY 2016 (decline of over 75% over the period).

5. *Office Productivity Gains:*

Office Productivity gains (both per employee and per office) has been very significant. Insurance Intermediaries have gained almost two thirds market share of the business.

6. *Increase in Capital Deployed and Investments:*

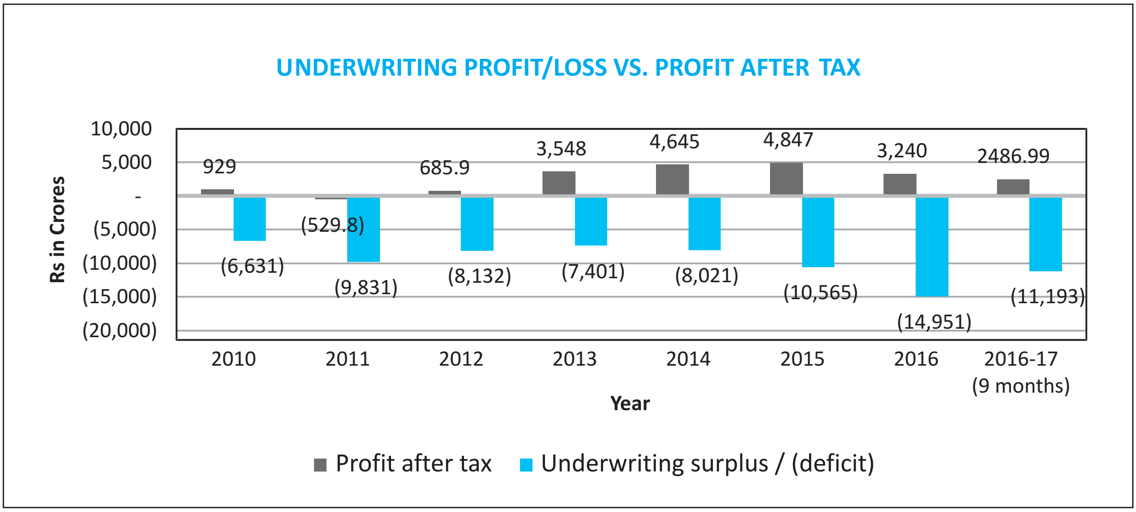
A three-fold increase in capital deployed and a four-fold increase in the investments is a decent indicator of the growth and performance of the non-life insurance sector since de-tariffication from FY 2007.

7. *Challenges to Underwriting Profitability:*

Increasing pressure on premium due to competition as well as a series of natural disasters which affected the country during the last 3-4 years contributed to the Underwriting losses which are persistent since FY 2007. Motor TP premium rates administered by IRDAI continue to be inadequate. Increasing number of Motor accident victims and increase in severity of compensation awards by Courts cumulatively contribute to the overall Underwriting losses. Under the circumstances, achieving underwriting profitability continue to be a very big challenge for all non-life insurers.

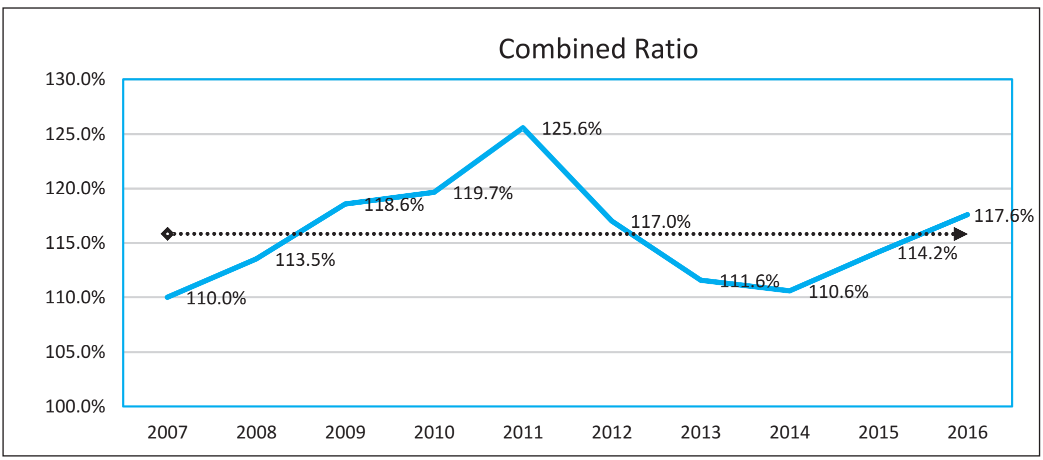
8. *Underwriting Deficit and very low return on Capital Employed:*

The Non-Life Insurance Industry has incurred underwriting losses since FY 2007. Underwriting losses increased substantially in FY 2016 due to deteriorating claims ratio in Medical Insurance and increase in Expenses of Management.



9. Combined Ratio more than 100%

The key index of profitability of insurance companies is the measure of combined ratio in which the numerator includes all acquisition costs, expenses of Management and claims incurred (Paid and Outstanding claims with added provision for claims incurred but not yet reported or not enough reported.) The denominator is the Premium earned (i.e. Gross premium less unearned premium reserves). The following graph clearly shows that the combined ratio of non-life insurance industry has been under pressure due to competition. In other words, while the policy holders could get competitive premium rates, which, by and large, has been below far break-even levels to meet the three cost components mentioned above.



The linear trend line shows that this ratio has been same at 115%. It is the investment income earned by insurance companies including profit of sale investments which has sustained the insurance companies to continue to operate at highly competitive premium rates.

Both volume (law of large numbers due to untapped potential) and the favourable investment returns are the hall mark of any fast-developing economy with huge insurance potential.

10. *Maturity and Resilience:*

In conclusion, it is seen that the non-life insurance industry has shown maturity and resilience during the last 10 years while facing many operational challenges since the removal of de-tariffication. Industry players are now well poised to take advantage of the favourable business climate emerging from various Government initiatives to tap the untapped potential in the years to come. At the present rate of growth, the non-life insurance premium is expected to be well over Rs. 250,000 crores by FY 2021 and might even cross Rs. 600,000 crores by FY 2026.

A stable Government fast tracking reforms to fulfil its social benefit promises through insurance schemes, GST role out, Revamped Insurance regulations, entry of Branches of Foreign reinsurers, increasing number of new entrants into Non-Life Insurance sector and above all a buoyancy in the economy would augur well for the Non-life insurance sector.

A golden era for Indian non-life insurance sector has just begun and beckons all stakeholders!