

Coming Alive

For India's non-life insurance sector, these are exciting days. Double-digit growth rates, a vast untapped market, both in the urban and rural areas, and the onset of a free-pricing era have drawn global insurance majors to the country. Interestingly, Indian companies are also making overseas forays, notes **Shraddha Sawhney**

India's non-life insurance sector is on an upswing. The industry has grown by over 16 per cent annually over the last five years. There is a vast, untapped business potential, especially in non-metro cities and semi-urban areas. The need for non-life insurance is also increasing across market segments.

Interestingly, the introduction of free pricing regime – where general insurance companies are free to fix premiums and offer discounts – promises to give a much-needed boost to the sector.

Not surprisingly, about half a dozen international general insurance companies are set to enter the market; a dozen non-life companies are currently in business and thanks to the enormous opportunities in the sector, all are reporting healthy growth.

The domestic non-life insurance industry grew at 22.37 per cent in 2006-07, with the total premium collection valued at \$6.17 billion as against \$5.04 billion in the previous year. While the share of public sector was \$4.02 billion (8.59 per cent growth over 2005-06), private player's share was \$2.15 billion (a huge, over 60 per cent growth over the previous fiscal).

Since the opening up of the industry in 1999, the private sector has raised its

share in the non-life insurance business significantly. It rose from 9.33 per cent in 2004-05 to 35 per cent in 2006-07 and further to 39 per cent in the first quarter of the current fiscal (April- June, 2007).

While motor insurance has dominated the non-life insurance business, health insurance is emerging at a rapid clip and will replace fire insurance over the next three years, to occupy the second place. Fire (property) insurance premiums added up to over a billion dollars in 2006-07, while health insurance premium was a little over \$800 million (up significantly, however, from just around \$170 million in 2001-02).

According to C.S. Rao, chairman, Insurance Regulatory and Development Authority (IRDA), the gradual removal of tariffs would give a boost to health insurance. "The premium from fire insurance is likely to drop while the premium from health will increase following the removal of tariffs," he says.

M. Ramadoss, chairman and managing director, Oriental Insurance Company Ltd points out that "the recent de-tariffing (free pricing) has had an impact on fire and engineering premium rates, which have fallen notably. Motor own damage premium, however, is fairly stable, while motor third party has scaled up substantially."

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As the Indian non-life insurance market expands rapidly, there is growing interest among international firms keen to enter the sector. Interestingly, even Indian non-life insurance companies are making international forays.

Recently, Chennai-based Shriram group picked up a 40 per cent stake in Monarch Insurance Company, a non-life player based in the Philippines for over \$1.75 million. R. Thyagarajan, chairman, says the group has global ambitions and has plans to pick up a 60 per cent stake in an Indonesian insurance company.



HEALTH INSURANCE: Soaring healthcare costs is leading a growing number of consumers to go in for medical policies



DOLLED UP FOR THE BIG EVENT: Many Indians are now opting for wedding insurance to cover a variety of risks

Shriram already has a life insurance venture in India in partnership with Sanlam of South Africa, and is awaiting a licence from IRDA for a non-life joint venture with a nationalised bank.

State-owned General Insurance Corporation (GIC) recently acquired a 14.76 per cent stake in Nairobi-based East African Reinsurance Company for over \$1.75 million. "We have received approval from the Kenyan regulator for the acquisition,"

says Yogesh Lohiya, chairman, GIC. The public sector giant's overseas business accounts for 22 per cent of its portfolio and Lohiya plans to raise this to 50 per cent over the next few years.

Another public sector non-life player, United India Insurance – the only state-owned insurer not having an international presence – is planning to open a branch or set up a joint venture in the Middle East. According to G. Srinivasan,

chairman and managing director, United India, the company will leverage its financial strength and explore the international markets, especially the Middle East.

The construction boom in the region, especially in the Gulf, is luring Indian insurers like United India. The largest non-insurance player in the country, New India Assurance, has a significant presence in the Middle East – where it has five branches – besides a score of other countries.

Srinivasan sees tremendous opportunities in the Gulf in the property insurance business; this includes coverage of risks including fire, weather and theft.

The four public sector non-life majors – New India Assurance, Oriental Insurance Company, National Insurance Company and United India Insurance – have also earned handsomely this year, by liquidating some of their equity holdings and booking large profits. These are being used to beef up their capital.

India's top mortgage firm Housing Development Finance Corporation (HDFC) has picked up Ergo International AG, the insurance arm of the world's second largest re-insurer Munich Re, as the new partner for its general insurance business. Ergo International will acquire a 26 per cent share in HDFC General Insurance Ltd. "I am convinced that Ergo will bring its vast insurance expertise, top quality technical and operational know-how that has made it a leading player in Germany and throughout Europe to the joint-venture company," says Deepak Parekh, chairman, HDFC. "There is a clause in our agreement that if and when the Government raises the foreign direct investment (FDI) limit, Ergo's stake can go up to 49 per cent."

Religare Enterprises Ltd, part of the \$1.4 billion Ranbaxy pharmaceutical group, is also looking at the possibility of a foray into the non-life insurance sector. The company, which has partnered Aegon NV, a Dutch insurer, for its life insurance business, has also joined hands with Australia's leading bank, Macquarie, points out Malvinder Mohan Singh, the company chairman. Singh sees tremendous potential for the health insurance business in the country.

One of the major factors driving growth in the non-life sector is the gradual

COVERING EVERY CONTINGENCY

INNOVATION is the buzz word in the liberalised insurance industry in India today. Non-life insurers are making the most of the reforms in the sector, introducing novel policies to cover a wide range of risks, eventualities and potential disasters. And consumers are grabbing the policies, even willing to pay hefty premiums for the risk coverage.

One of the most interesting policies to have been introduced in recent months is the wedding insurance policy. Many urban Indians spend over \$12,500 on a wedding, which is one of the most important social and religious events in a family. There are several emergencies that can crop up, resulting in hefty losses.

Weddings are often held in other cities, and the bride or the groom – and their relatives – have to travel long distances, along with huge amounts of cash, ornaments and expensive clothes. Besides the risk of being waylaid en route to a different city, there is also the possibility of some of the stuff being stolen from the venue.

Insurance companies now provide coverage for robberies, and even for fire or some natural disaster at the wedding hall. Similarly, the wedding could be postponed or cancelled for a variety of reasons including riots, strikes and accidents. Insurance companies have worked out policies that cover these contingencies as well.

The insurance company will reimburse costs of printing invitation cards, the advance payments made to the hotel or wedding hall, money paid to caterers and decorators, besides advance payments made to hotels. Insurance companies also provide coverage against public liability cases, as for instance, when guests are hospitalised following food poisoning, or a fire or some other accident at the wedding venue. Of course, these are early days and the few insurance companies — Bajaj Allianz, ICICI Lombard — that have introduced wedding insurance say that it has not caught the popular imagination. Non Resident Indians (NRIs) from the

West, who organise weddings in India are also being targetted by insurance firms; wedding insurance is popular in the West, and it is felt that NRIs would be comfortable with the concept.

But the segment is expected to grow rapidly over the coming years, with some analysts expecting a 50 per cent annual growth. Indians spend about \$15 billion every year on weddings, so the potential for growth is huge.

Another sub-segment in the non-life business that is witnessing frenzied growth is travel-related products. With millions of Indians travelling abroad — on business, for education, or for leisure — there is growing demand for policies covering overseas medical aid, hospitalisation, cancelled flights, baggage loss and other contingencies.

Weather insurance is another segment that offers tremendous potential for growth. State-owned Agriculture Insurance Company of India Ltd offers weather-based crop insurance schemes, and is now trying to get international re-insurers — including Lloyds of London, Munich Re and Swiss Re — to back their policies. Weather insurance provides risk coverage against excess or scarce rainfall to farmers. Other private insurers, including ICICI Lombard, are also planning to enhance coverage of weather risk.

In many Western countries, kidnap and ransom (K&R) insurance is quite popular, especially in the corporate sector. Indian insurance companies are introducing K&R policies, and many corporates are going in for these packages. Both public and private sector insurance companies are introducing these policies.

The success of the 'bancassurance' model — where banks distribute insurance policies — has also led to the creation of a 'shopassurance' channel, where insurance firms hawk policies at the burgeoning number of shopping malls in the country. Indeed, with growing competition, insurance players in India are willing to experiment with new concepts in product design and distribution.

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introduction of a free-pricing regime. A Tariff Advisory Committee used to specify tariffs for products offered by various companies. This was done to rule out the possibility of unhealthy undercutting of premiums between the companies.

The IRDA withdrew the administered pricing mechanism (effectively de-tariffing the regime) in respect of fire and engineering along with motor insurance in 2007. And from April 1, general insurance companies will be able to design their own products. The General Insurance Council, which represents non-life firms, has drafted standard market terms (wordings) for motor, fire and engineering portfolios.

Insurers say the free-price regime has led to a reduction in cross-subsidisation between tariffed and profitable portfolios like fire and non-tariffed lines like health insurance. With the drop in premium, customers are opting for larger covers. The hike in the third party premium on motor insurance has partially helped insurance companies check their losses.

The new regime has encouraged insurers to design suitable products for different sets of customers. The focus has now shifted to retail sales, including through newer channels, especially the Internet. All of this is likely to result in an exponential growth in business, even as the new players venture into semi-urban markets. 