

Insurance

NOVEMBER
2011



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Contents

- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
- ❖ Success stories: Tata AIG
- ❖ Opportunities
- ❖ Useful information

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Advantage India

Strong demand

- Growing interest towards insurance among people; innovative products and distribution channels aiding growth
- Increasing demand for insurance offshoring

Attractive opportunities

- Life insurance in low-income urban areas
- Health insurance, pension segment
- Strong growth potential for microinsurance, especially from rural areas

FY15E

Market size:
USD139
billion

Advantage India

Increasing investments

- Growing participation of the private sector with market shares of 30-40 per cent in 2010 as against 2 per cent in 2000
- Government's proposed increase in FDI limit to 49 per cent from 26 per cent will further fuel investments

FY10

Market size:
USD67 billion

Policy support

- Tax incentives on insurance products
- Passing of Insurance Bill gives IRDA flexibility to frame regulations
- Relaxed rules for insurance IPOs which will infuse liquidity into the industry

Notes: 2015E – Expected value for 2015; estimate according to BMI;
IRDA – Insurance Regulatory and Development Authority
IPOs – Initial Public Offering; FDI – Foreign Direct Investment

Insurance

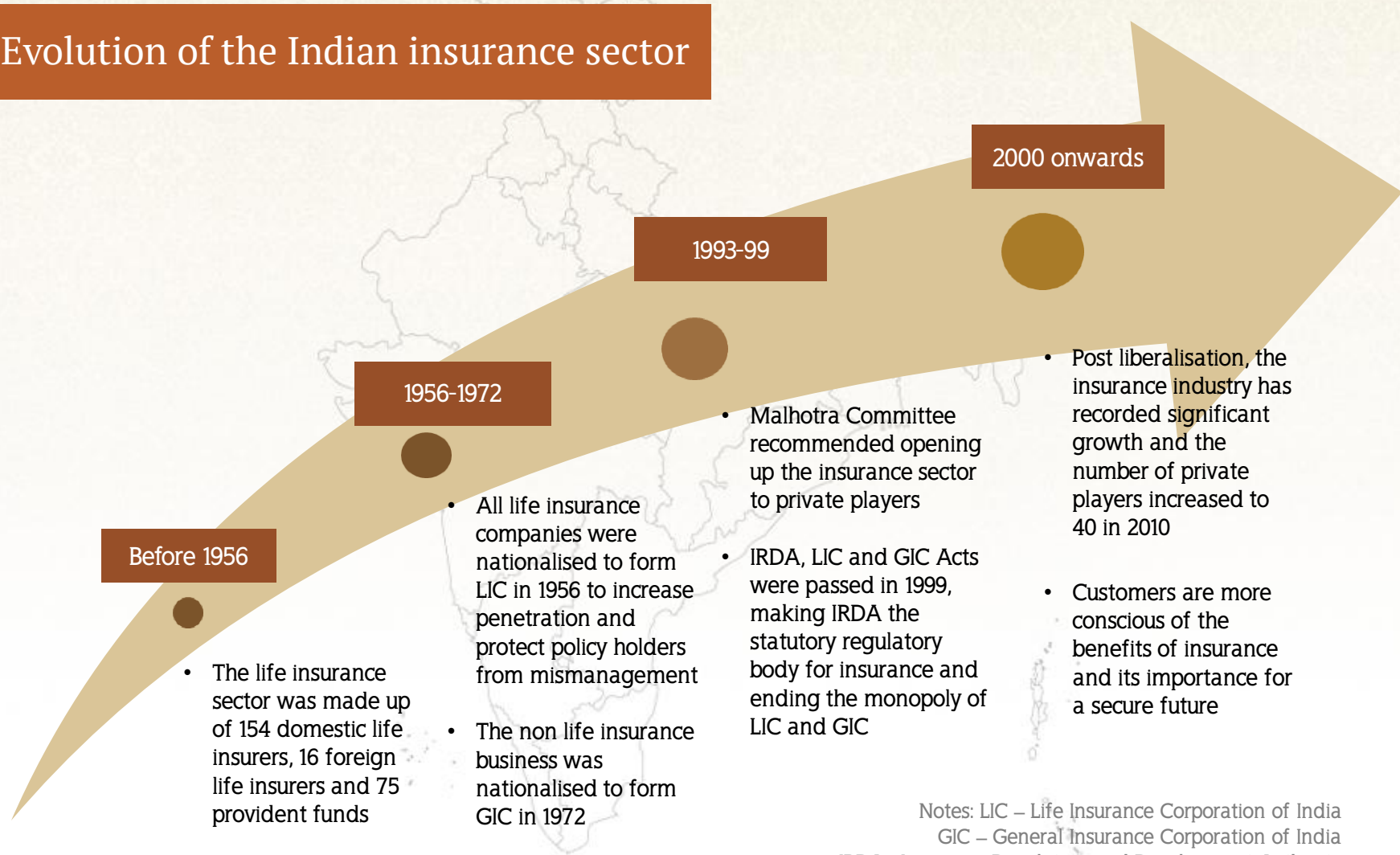
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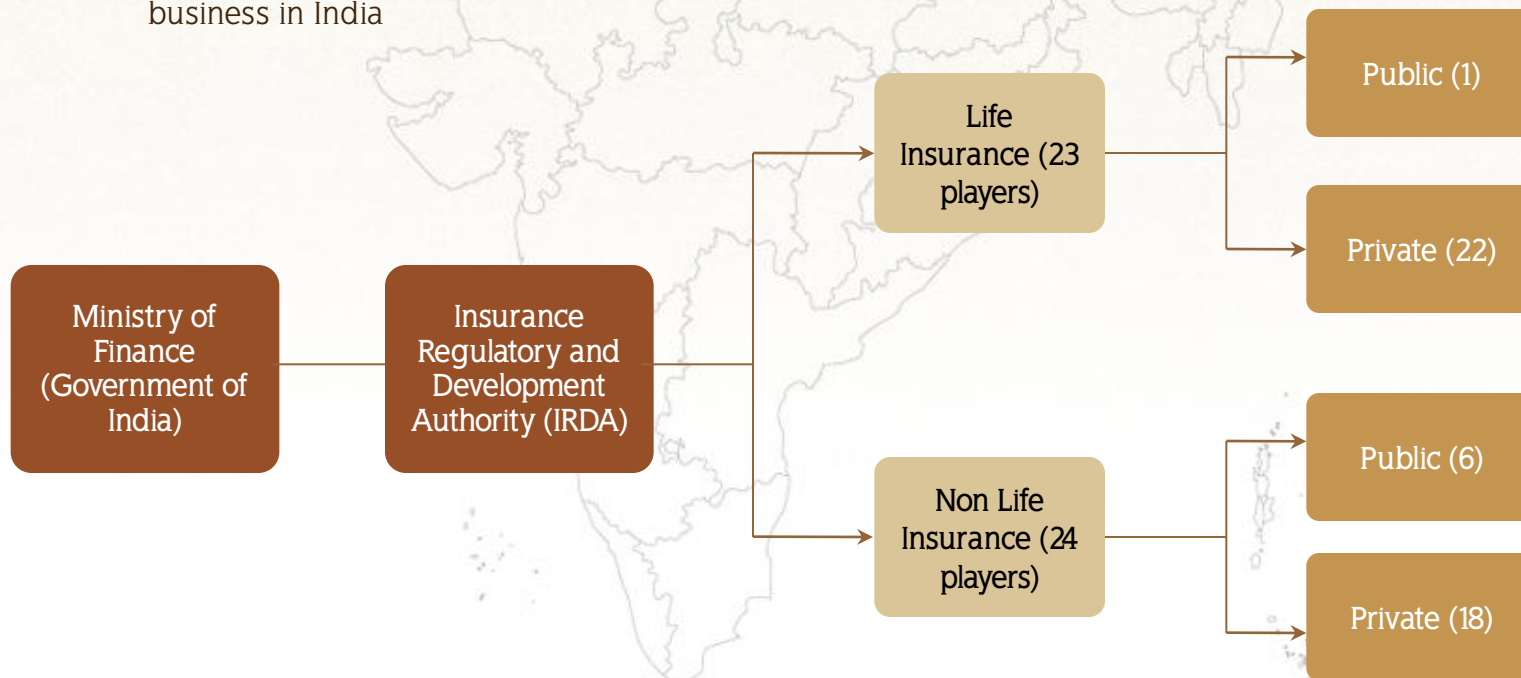
Evolution of the Indian insurance sector



Notes: LIC – Life Insurance Corporation of India
GIC – General Insurance Corporation of India
IRDA – Insurance Regulatory and Development Authority

IRDA governs the Indian insurance sector

- Insurance Regulatory and Development Authority (IRDA)
 - Established in 1999 under the IRDA Act
 - Responsible for regulating, promoting and ensuring orderly growth of the insurance and re-insurance business in India

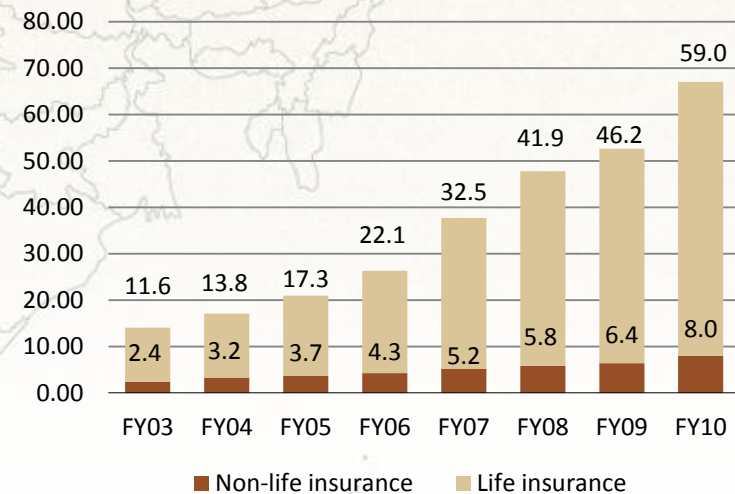


Source: IRDA, Aranca Research

Premiums: Healthy growth expected to continue ... (1/2)

- The total insurance market has grown from USD14 billion in 2003 to USD67 billion in FY10
- Over FY03-10, premiums have increased at a CAGR of 25 per cent

Gross premiums written in India (USD billion)

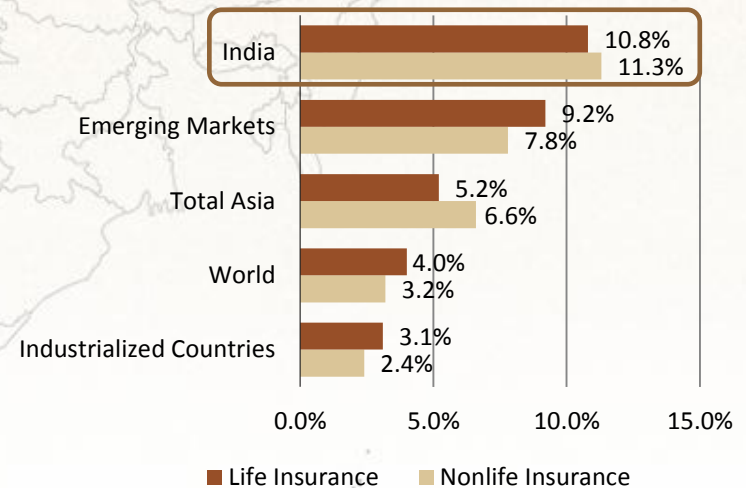


Source: IRDA, Aranca Research

Premiums: Healthy growth expected to continue ... (2/2)

- India is one of the fastest growing insurance markets in the world
- Swiss Re expects India to beat other emerging markets in growth over 2010-12

Projected average real premium growth rate (2010-2012)

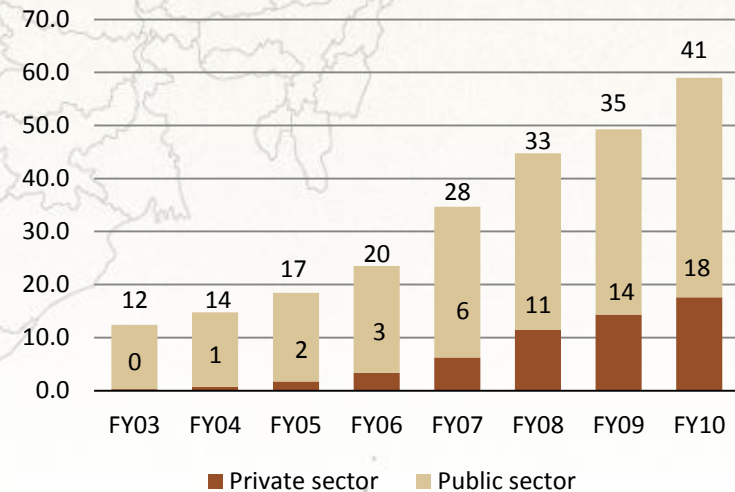


Source: Swiss Re Estimates, Aranca Research

Life insurance market appears particularly vibrant ... (1/2)

- The life insurance market has grown from USD12 billion in FY03 to USD59 billion in FY10
- Over FY03-10, life insurance premiums have increased at a CAGR of 25 per cent

High growth in life insurance premiums (USD billion)

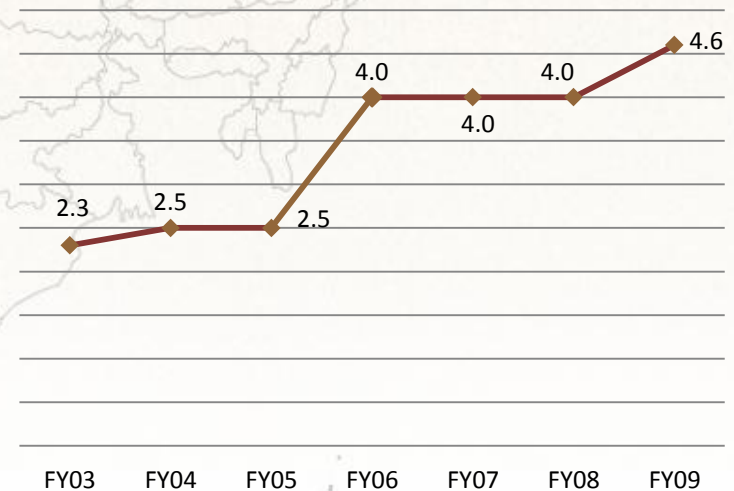


Source: IRDA, Aranca Research

Life insurance market appears particularly vibrant ... (2/2)

- Penetration rate has increased to 4.6 per cent in 2010 from 2.3 per cent in 2003
- This rate is above the global average of 4.0 per cent

Higher penetration rates (%) over years

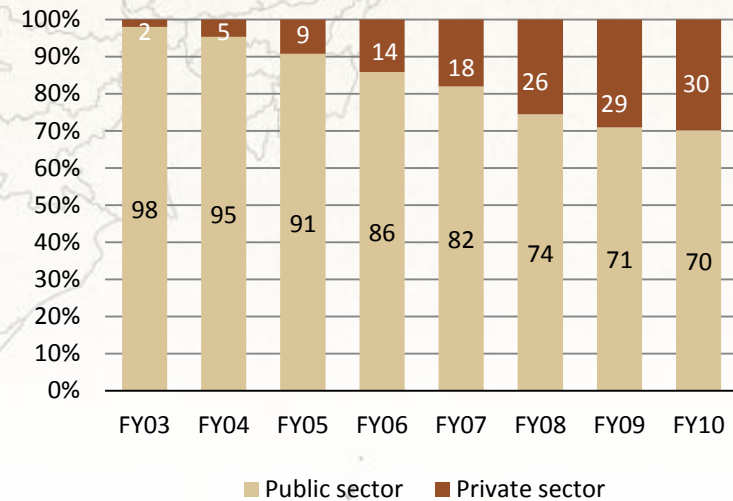


Source: IRDA, Aranca Research

Increasing private sector activity in life insurance segment ... (1/2)

- LIC enjoyed a market share of 98 per cent in FY03; this gradually came down over the years
- The private sector has however been eating into LIC's market share year over the years

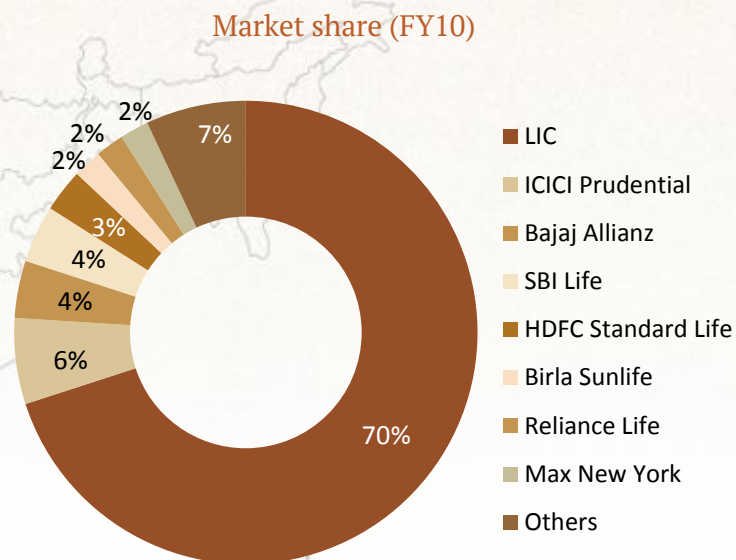
Greater private sector activity (% share) over the years



Source: IRDA, Aranca Research

Increasing private sector activity in life insurance segment ... (2/2)

- LIC is still the market leader, with a share of 70 per cent
- The share of private sector players has increased to 30 per cent from 2 per cent over FY03-10



Source: IRDA, Aranca Research
HHI* Index = 0.50

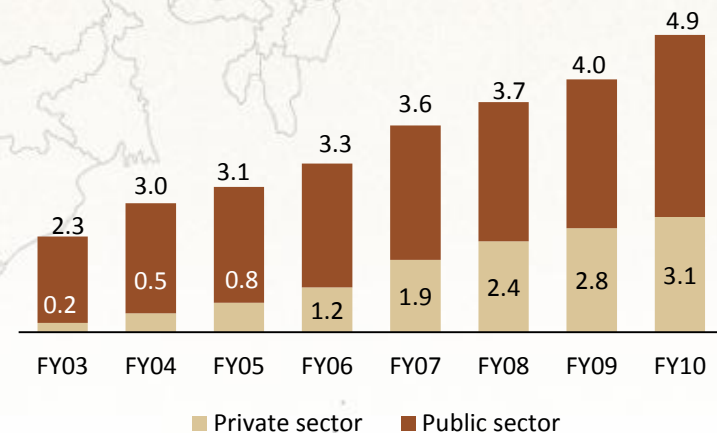
HHI* Index (among private players) = 0.11

* Herfindahl-Hirschman Index measures market concentration. An index value between 0 and 0.10 denotes low concentration level, between 0.10 and 0.18 moderate concentration level, and more than 0.18 high concentration level.

Non life insurance market has also grown over the years ... (1/2)

- The non life insurance market has grown from USD2.5 billion in FY03 to USD8 billion in FY10
- Over FY03-10, non life insurance premiums have increased at a CAGR of 18 per cent

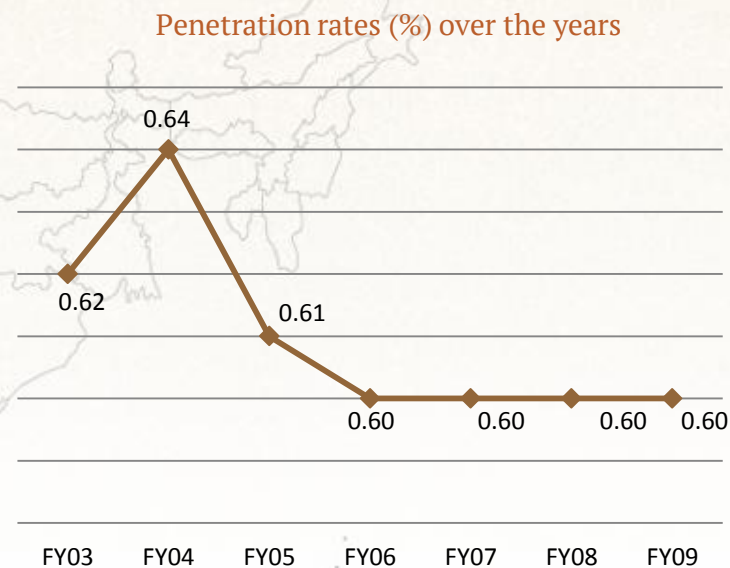
Healthy growth in non life insurance premiums (USD billion)



Source: IRDA, Aranca Research

Non life insurance market has also grown over the years ... (2/2)

- Penetration rate has been in the 0.60-0.64 per cent range over FY03-10
- Strong potential for growth apparent from comparison with the global average (3 per cent)

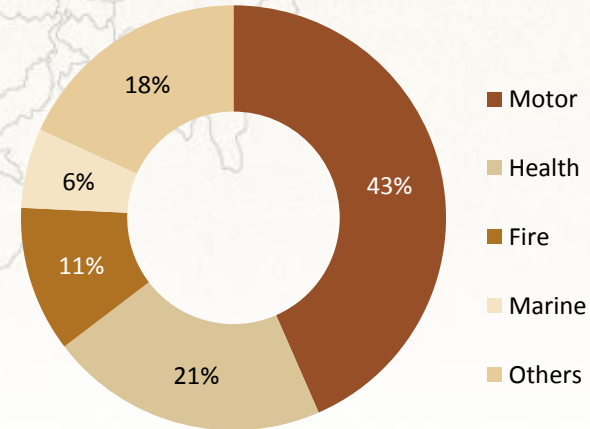


Source: IRDA, Aranca Research

Private sector participation is higher in the non-life segment ... (1/2)

- Motor insurance forms the largest non life segment with a share of 43 per cent
- Health insurance is the fastest growing segment and currently accounts for 21 per cent of the total

Segment wise breakup (% , FY10)

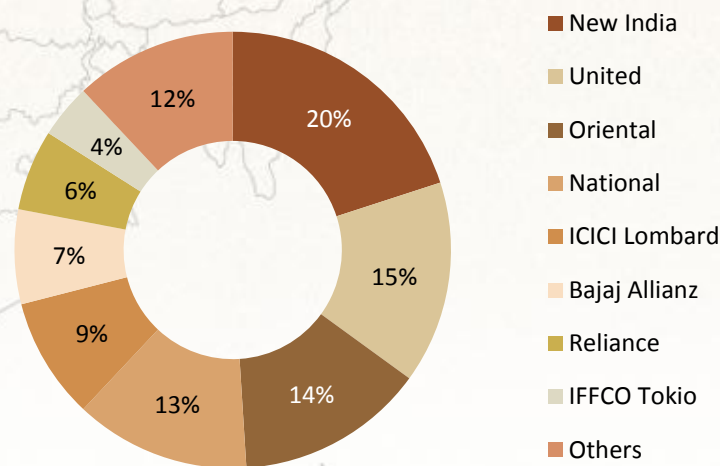


Source: IRDA, Aranca Research

Private sector participation is higher in the non-life segment ... (2/2)

- The top 4 players are public corporations and account for 62 per cent of the total market
- Private players are not far behind and compete better in the non life insurance segment

Market Share (FY10)



Source: IRDA, Aranca Research

HHI* Index = 0.12

HHI* Index (among private players) = 0.14

* Herfindahl-Hirschman Index measures market concentration. An index value between 0 and 0.10 denotes low concentration level, between 0.10 and 0.18 moderate concentration level, and more than 0.18 high concentration level.

Notable trends in the insurance sector

Emergence of new distribution channels

- New distribution channels like bancassurance, online distribution and NBFCs have widened the reach and reduced costs
- Firms have tied up with local NGOs to target lucrative rural markets

Growing market share of private players

- In the life insurance segment, share of the private sector in total premiums increased to 30 per cent in FY10 from 2 per cent in FY03
- In the non-life insurance segment, share of the private sector increased to 39 per cent from 9.5 per cent over the same period

Launch of Innovative products

- The life insurance sector has witnessed the launch of innovative products such as Unit Linked Insurance Plans (ULIPs)
- Other traditional products have also been customised to meet specific needs of Indian consumers

Mounting focus on EV over profitability

- Large insurers are continuing to expand, focusing on cost rationalisation and aligning business models to realise reported embedded value (EV), and generate value from future business rather than focus on present profits

Notes: EV – Embedded Value

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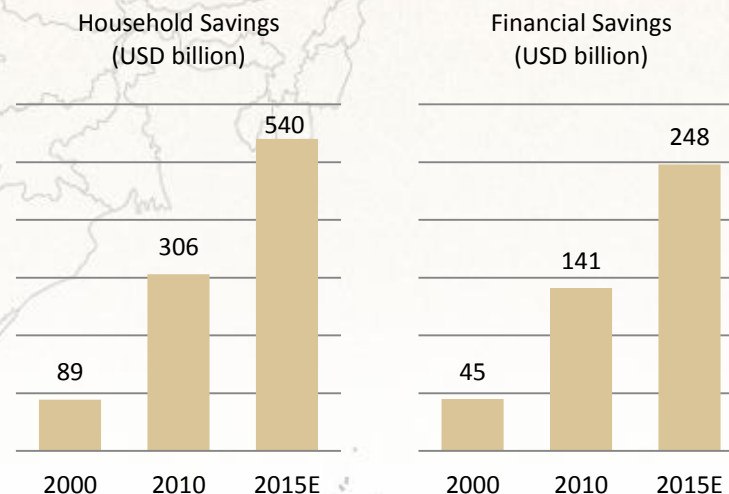
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Demand growth for insurance products is set to accelerate ... (1/2)

- Increasing savings drive insurance
- India's robust economy is expected to sustain the growth in insurance premiums written. Higher personal disposable incomes would result in higher household savings that will be channeled into different financial savings instruments like insurance and pension policies

Notes: Financial savings denote investment in equity and debt instruments

Household and financial savings projections for 2015

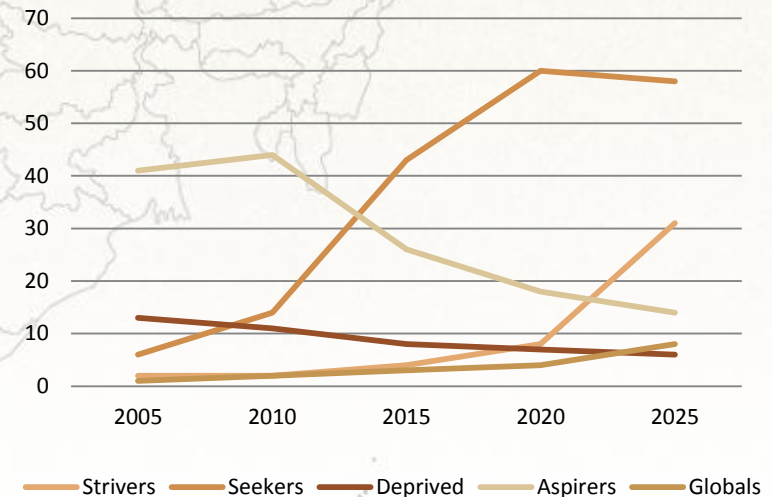


Source: ICICI, Aranca Research

Demand growth for insurance products is set to accelerate ... (2/2)

- Growing affluent middle class
 - The emergence of an affluent middle class is triggering demand for both life and non-life personal insurance lines
 - A rising number of young professionals are opting for health insurance, motor insurance and unit-linked insurance products (ULIPs)

Indian residents shifting from low- to high-income groups



Source: McKinsey Quarterly, Aranca Research

Favourable policy measures have aided the sector

Tax incentives

- Insurance products are covered under the EEE (exempt, exempt, exempt) method of taxation. This translates to an effective tax benefit of approximately 30 per cent on select investments (including life insurance premiums) every financial year

Union Budget 2011–2012








- The proposed Insurance Bill would empower IRDA to introduce forward-looking regulations to promote sustainable growth as it would give IRDA flexibility to frame regulations
- Passing of the Pension Fund Regulatory and Development Authority Bill would bring in a full-fledged regulator for the pension sector, which was regulated by an interim authority until now; this will open up pension market for private players

Ease of rules for insurance IPO




- IRDA reduced the number of years after which companies can raise capital through an initial public offering (IPO) to 5 years from 10 years
- The Securities & Exchanges Board of India has relaxed rules to allow more life insurers to launch public offers

Major foreign investment in insurance was done in 2000-01 ... (1/2)

- The IRDA Act, 1999 allowed an FDI of up to 26 per cent in the insurance sector on automatic route subject to obtaining license from IRDA
- Authorities are now considering an increase of FDI limit to 49 per cent through the Insurance Laws Amendment Bill

Top Life Insurance Co	Foreign partner	Domestic partner	Year
	Prudential plc (26%)	ICICI Bank Ltd (74%)	2000
	Allianz AG (26%)	Bajaj Finserv Ltd (74%)	2001
	BNP Paribas Assurance (26%)	SBI (74%)	2001
	Standard Life (26%)	HDFC Bank (72.4%)	2000
	Sun Life Financial Inc (26%)	Aditya Birla Group (74%)	2000
	Nippon Life Insurance (26%)	Reliance Capital (74%)	2011
	New York Life International (26%)	Max India (74%)	2000

Major foreign investment in insurance was done in 2000-01 ... (2/2)

Top General Insurance Co	Foreign partner	Domestic partner	Year
	Fairfax Financial Holdings Ltd (26%)	ICICI Bank Ltd (74%)	2001
	Allianz AG (26%)	Bajaj Finserv Ltd (74%)	2001
	Tokio Marine & Nichido Fire Insurance Group (26%)	IFFCO (74%)	2000

Source: Aranca Research

Private sector investment in insurance is rising

Investments from the private sector are increasing as they see a huge opportunity in the growing insurance sector of the country

- Most of the existing players are tying up with banks to expand their distribution network
- Few players like HDFC Life are planning to go public; others are selling stakes in order to generate the funds

IndiaFirst Life Insurance	• USD28 million in 2010; plans to invest USD45 million in 2011
Aviva Life	• USD26 million in 2010
Reliance Life	• USD58 million in 2011
Canara HSBC Life	• USD22 million in 2011
Bharti AXA Life	• Plans to inject USD100 million in 2011
AEGON Religare Life	• USD71 million in 2010; plans to invest USD445 million through 2016
ING Vysya Life	• USD53 million in 2010
HDFC Life	• Going public by the end of 2011

Source: Towers Watson, Aranca Research

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Success of Tata-AIG microinsurance ... (1/3)

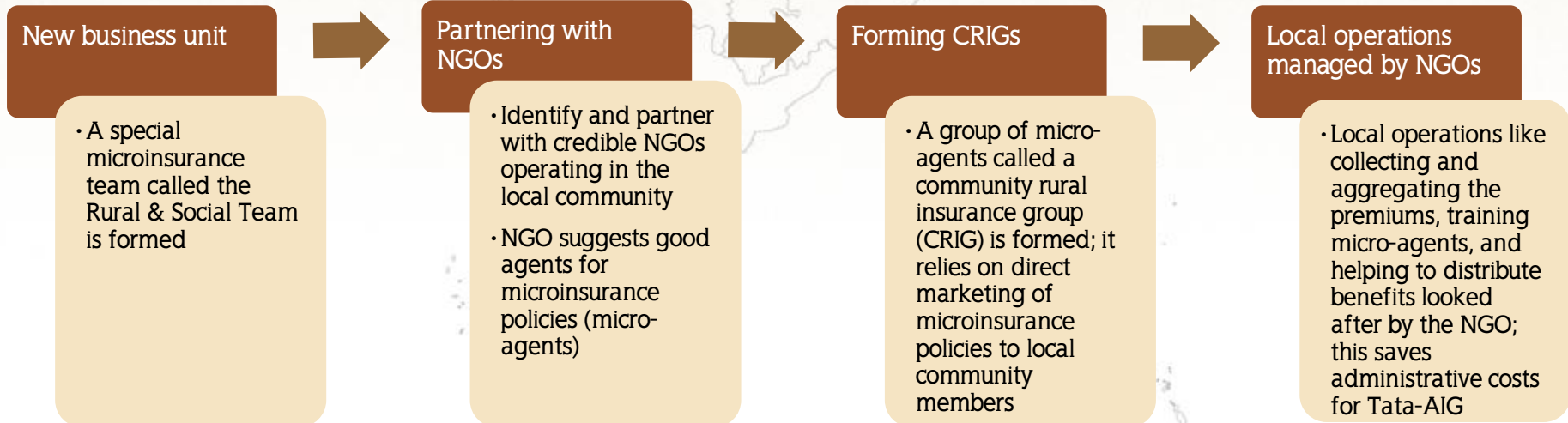
Objective for establishing microinsurance

- Fulfilment of corporate social responsibility
- Increase brand recognition to boost market entry – today's micro clients maybe tomorrow's high-premium clients

Key strategic decision

- The microinsurance business model must be separated from the regular insurance business model
- Selling microinsurance would require new, alternate distribution mechanisms

The microinsurance business model



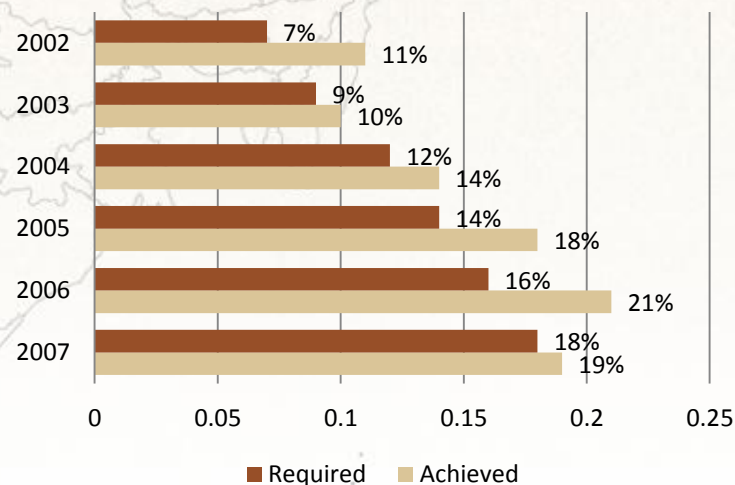
Source: Company website, Aranca Analysis

Success of Tata-AIG microinsurance ... (2/3)

Key Takeaway

- Partnerships with NGOs have been instrumental in the success of Tata-AIG microinsurance. They have helped select agents and reduced the costs of front-end administrative services. Most crucially, their local know-how and connections have helped build trust for the insurance products in low-income rural areas

Rural obligations specified by IRDA exceeded

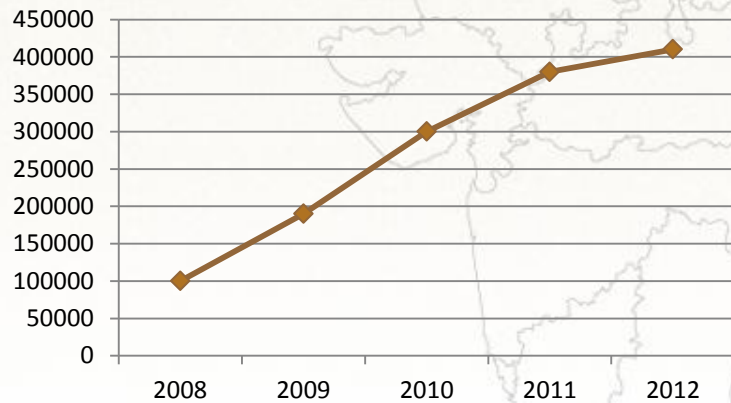


Source: Company website, Aranca Analysis

Success of Tata-AIG microinsurance ... (3/3)

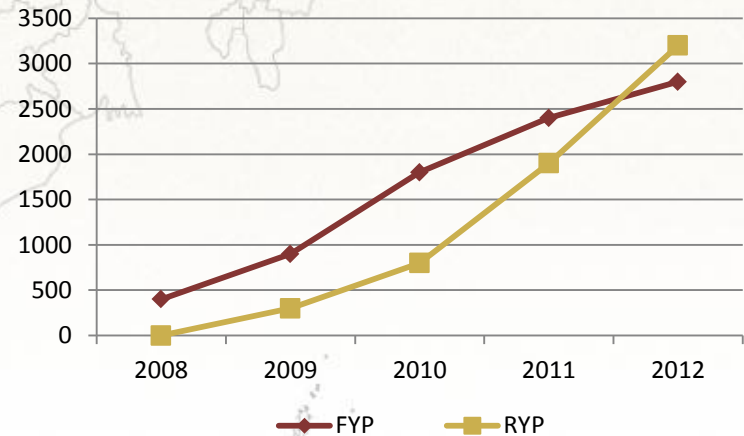
Robust growth of microinsurance expected

Number of policies



Source: Company website, Aranca Analysis

Premium – First year (FYP) and Renewals (RYP)



Source: Company website, Aranca Analysis

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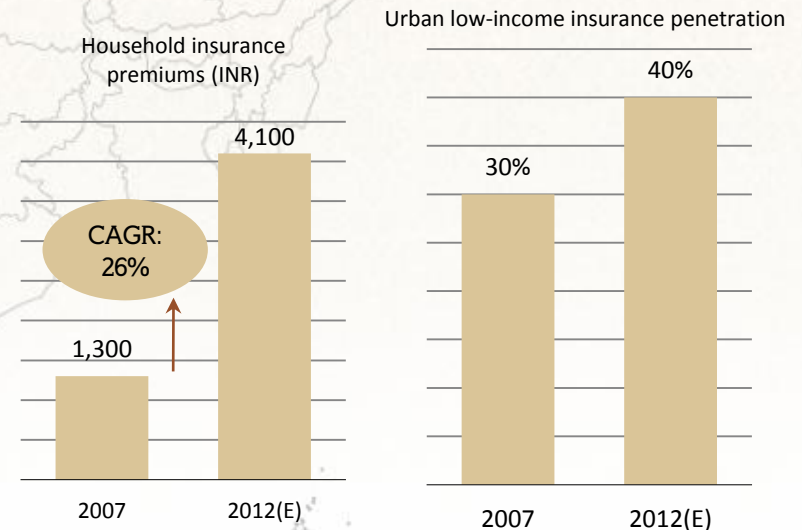
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Life insurers: Low-income urban and pension markets ... (1/2)

- Rapid development in Tier II and Tier III cities and growth in new bankable households have led to the emergence of a large insurable class with an appetite for sophisticated life insurance products
- Business models would need to be customised accordingly, to maintain cost effectiveness as most low-income customers would be small-ticket accounts though huge in numbers

Notes: E in the axis for the above figures refer to estimates

The low-income urban opportunity in India



Source: Asia Insurance Review, Aranca Research

Notes: E in the axis for the figures above refer to estimates

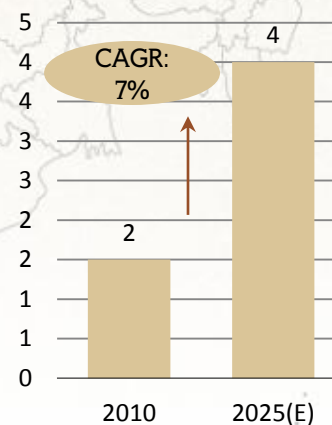
Life insurers: Low-income urban and pension markets ... (2/2)

- Increasing life expectancy, greater employment in the private sector will fuel demand for pension plans
- The opening of the pension market with the passing of the PFRDA Bill 2011 will make the pension market more conducive for private life insurers
- There is scope to introduce new-generation pension products such as Variable Annuity and Inflation Indexed Annuity

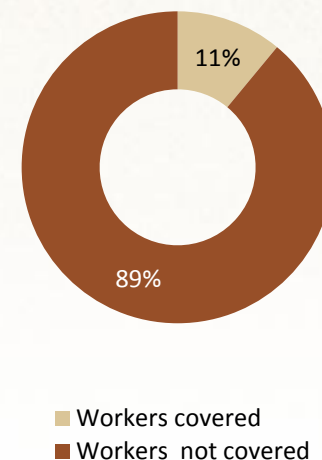
Notes: PFRDA – Pension Fund Regulatory and Development Authority

Opportunity in the Indian pension and annuity market

Indian retirement market (INR trillion)



Formal pension system penetration

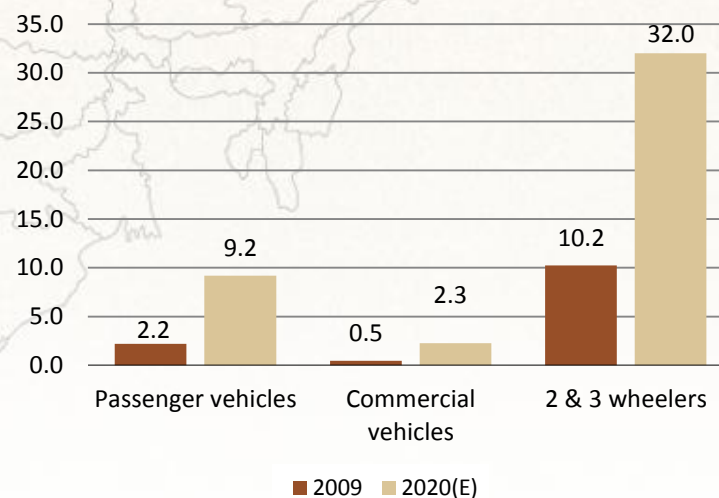


Source: McKinsey Quarterly, Aranca Research

Non-life insurers: Motor and health insurance markets ... (1/2)

- Motor insurance accounted for 43 per cent (the largest share) of the non-life insurance market in 2010
- Strong growth in the automotive industry over the next decade will be a key driver of motor insurance
- Proposed IRDA draft envisages a 10-80 per cent rise in premium rates for the erstwhile loss making third-party motor insurance

Vehicle production in India* (million units)



Source: *ACMA Estimates, Aranca Research

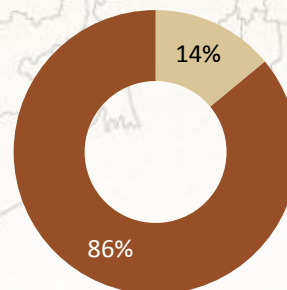
Notes: E in the axis for the figures above refer to estimates

Non-life insurers: Motor and health insurance markets ... (2/2)

- Only 1.5-2 per cent of total healthcare expenditure in India is currently covered by insurance providers
- Absence of government-funded health insurance makes the market attractive for private players
- IRDA recommended the government to bring down capital requirements for standalone health insurance companies from USD21 million to USD10 million

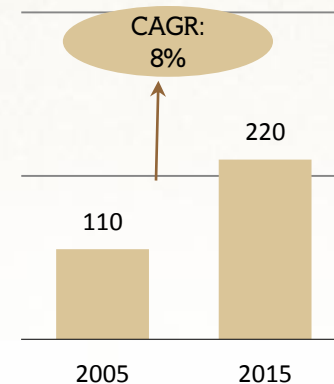
Health Insurance Penetration

Health insurance penetration



- Population covered
- Population not covered

Health insurance (million policies)



Source: McKinsey Quarterly, Aranca Research

Microinsurance: Tapping India's rural wealth

The business environment in India's microinsurance sector supports healthy growth

Macro level
(The enabling environment)

- IRDA drafted microinsurance guidelines in 2010 which contain a number of favourable measures such as
 - Lower threshold limits for agents' commissions
 - Rural areas must account for 7 per cent of new life insurance policies in 1st year of firm's operation and rise to 20 per cent over the next 10 years

Intermediate level
(Support infrastructure)

- In order to reduce microinsurance distribution costs, IRDA proposed microinsurance schemes to supplement existing government insurance schemes
- The number of regional rural banks and NGOs operating in the rural sector will aid distribution of microinsurance products

Micro level
(Policy holders)

- The annual income growth rate in rural India is expected to increase to 3.6 per cent over 2010-30 from 2.8 per cent over 1990-2010
- About 5 million people currently have microinsurance while the entire market is expected to be in the range of 140-300 million

Source: IRDA, McKinsey, Aranca Research

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4th Floor, Jeevan Seva Annexe Bldg. S. V. Road, Santacruz (W),
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Phone: 91-22-26103303, 26103306

E-mail: ninad.narwilkar@lifeinscouncil.org

General Insurance Council

5th Floor, Royal Insurance Building, 14, Jamshedji TATA Road,
Churchgate, Mumbai-400020

Phone: 91-22-22817511, 22817512

Fax: 91-22-22817515

E-mail: gicouncil@gicouncil.in

Glossary

- **ACMA:** Automotive Component Manufacturers Association of India
- **EV:** Embedded Value
- **FDI:** Foreign Direct Investment
- **FY:** Indian financial year (April to March)
 - So FY10 implies April 2009 to March 2010
- **GOI:** Government of India
- **INR:** Indian Rupee
- **OEM:** Original Equipment Manufacturers
- **NATRiP:** National Automotive Testing and R&D Infrastructure Project
- **SEZ:** Special Economic Zone
- **USD:** US Dollar
 - Conversion rate used: USD1= INR 48
- Wherever applicable, numbers have been rounded off to the nearest whole number

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