INSURANCE

EXECUTIVE SUMMARY

Rapidly growing insurance segments

• The domestic life insurance industry registered 22.55 per cent growth for new business premium in financial year 2015-16, generating a revenue of USD20.34 billion largely due to the high growth in the group single premium policy.

• The non-life insurance premium market grew at a CAGR of 12.1 per cent over FY04-16(1), from USD3.4 billion in FY04 to USD13.35 billion in FY16(1)

Increasing private sector contribution

• The market share of private sector companies in the non-life insurance premium market rose from 13.12 per cent in FY03 to 45.4 per cent in FY16(1)

Crop, health and motor insurance to drive growth

• In 2015, crop insurance market in India is the largest in the world and covers around 32 million farmers; which accounted for nearly 19 per cent of the total farmers in the country

• Strong growth in the automotive industry over the next decade to be a key driver of motor insurance

Source: Swiss-Re, IRDA Annual Report, Mckinsey estimates
Notes: CAGR - Compound Annual Growth Rate,
(1): Upto March 2016, Provisional;
Figures are as per latest data available

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APRIL 2017

Advantage India

Strong demand
- Growing interest in insurance among people; innovative products & distribution channels aiding growth
- Increasing demand for insurance offshoring
- Growing use of internet has started increasing demand

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

Increasing investments
- As of March 2016, rising participation by private players led to increase in their market share in the life insurance market, with the market share reaching 29.6 per cent in FY16 from 2 per cent in FY03
- Increase in FDI limit to 49 per cent from 26 per cent, as proposed in 2012, will further fuel investments

Policy support
- Tax incentives on insurance products
- Passing of Insurance Bill gives IRDA flexibility to frame regulations
- Clarity on rules for insurance IPOs would infuse liquidity in the industry
- Repeated attempts to make the sector more lucrative for foreign participants

Source: IRDA

Notes: 2020E - Expected value for 2020; Estimate according to BCG, IRDA - Insurance Regulatory and Development Authority, IPO - Initial Public Offering, FDI - Foreign Direct Investment

FY16
- Market size: USD79.14 billion

FY20E
- Market size: USD280 billion

Advantage India
INSURANCE

MARKET OVERVIEW AND TRENDS
The life insurance sector was made up of 154 domestic life insurers, 16 foreign life insurers & 75 provident funds.

All life insurance companies were nationalized to form LIC in 1956 to increase penetration and protect policy holders from mismanagement.

The non-life insurance business was nationalized to form GIC in 1972.

Malhotra Committee recommended opening up the insurance sector to private players.

IRDA, LIC and GIC Acts were passed in 1999, making IRDA the statutory regulatory body for insurance & ending the monopoly of LIC and GIC.

Post liberalisation, the insurance industry recorded significant growth; the number of private players increased to 44 in 2012(1).

The industry has been spurred by product innovation, vibrant distribution channels, coupled with targeted publicity & promotional campaigns by the insurers.

In December 2014, Government approved the ordinance increasing FDI limit in Insurance sector from 26 per cent to 49 per cent. This would likely to attract investment of USD7-8 billion.


Government introduced Atal Pension Yojana & Health insurance in 2015.

As per Union Budget 2016-17, new health insurance scheme under the National Health Protection Scheme has been introduced.

Source: IRDA

Notes: (1) As of September 2012, LIC - Life Insurance Corporation of India, GIC - General Insurance Corporation of India, IRDA - Insurance Regulatory and Development Authority

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IRDA GOVERSNS 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

Ministry of Finance (Government of India) → Insurance Regulatory and Development Authority (IRDA) → Life insurance (24 players) → Public (1) → Private (23)

Life insurance (24 players) → Non-life insurance (28 players) → Public (6) → Private (22)

Non-life insurance (28 players) → Re-insurance (1 player) → Public (1)

Source: IRDA, TechSci Research

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INDIA’S INSURANCE MARKET CONTINUES TO BE STRONG

- Growth of non life insurance premium experienced a slowdown in FY15 but premiums are expected to grow in emerging economies by 10.7 per cent in 2016 and 2017. Global premium increased by 3.3 per cent in 2015.

- The insurance industry is expected to reach USD280 billion by 2020. In 2016, around 46 private players were operating in the industry, while Life Insurance Corporation accounted for 72.61 per cent of the country’s insurance market.

- Individual single premiums received increased from USD0.16 billion in 2015 to around USD1.02 billion in 2016.

- Indian Government announced its plans to divest USD1.63 billion worth of stakes in PSU general insurance companies to execute the steep disinvestment target of USD10.78 billion in FY17.
The total insurance market expanded from USD23 billion in FY05 to USD79.14 billion in FY16.

Over FY02–FY16, total gross written premiums increased at a CAGR of 11.89 per cent.

Gross premium written in India for non life insurance sector for FY16 is USD24.56 billion and in FY16, the gross premium written in India for life insurance sector stood at USD54.58 billion.

In November 2016, the total growth in life insurance premium was around USD 2.38 billion as compared to USD 1.12 billion in November 2015, witnessing a growth of 113 per cent. Similarly during the same period, the individual single premium grew by USD 995 million as compared to USD 164.06 million in 2015, recorded a growth of more than 500 per cent.

Source: Insurance Regulatory and Development Authority, TechSci Research
Note: CAGR - Compound Annual Growth Rate
The life insurance market grew from USD10.5 billion in FY02 to USD56.05 billion in FY16.

Over FY02–FY16, life insurance premiums expanded at a CAGR of 13.10 per cent.

The life insurance industry has the potential to grow 2-2.5 times by 2020 in spite of multiple challenges supported by long-term trends & fundamentals underlying household savings.

The life insurance premium market expanded at a CAGR of 11.93 per cent, from USD14.5 billion in FY04 to USD56.05 billion in FY16.

During the 1st half of financial year 2016-17, Life Insurance industry reported a 20 per cent growth in overall Annual Premium Equivalent (APE).

Source: Swiss Re, BCG, Insurance Regulatory and Development Authority, TechSci Research
Note: CAGR - Compound Annual Growth Rate; Figures are as per latest data available
Insurance density in India increased from 3.57 in FY05 to 11.23 in FY15 at a CAGR of 12.1 per cent

Insurance penetration reached 3.4 per cent in FY16

Notes: Life insurance density* is defined as the ratio of premium underwritten to the total population in a given year, CAGR - Compound Annual Growth Rate.

Source: Insurance Regulatory and Development Authority (IRDA), TechSci Research
INCREASING PRIVATE SECTOR ACTIVITY IN LIFE INSURANCE SEGMENT

Over the years, share of private sector in life insurance segment has grown from around 2 per cent in FY03 to 29.6 per cent in FY16.

Source: Insurance Regulatory and Development Authority, TechSci Research
Note: Figures are as per latest data available
LIC CONTINUES TO DOMINATE LIFE INSURANCE SEGMENT

* As of 2016, life insurance sector has 46 private players in comparison to only 4 in FY02
* With 72.16 per cent share market share in FY16, LIC continues to be the market leader, followed by ICICI Prudential.

Source: TechSci Research
LIC - Life Insurance Corporation of India
**SHIFT TOWARDS NON-LINKED INSURANCE PLANS**

* The industry is witnessing a shift towards the traditional non-linked insurance plans

* The share of non-linked insurance increased from 59.1 per cent in FY09 to 87 per cent in FY16

<table>
<thead>
<tr>
<th>Year</th>
<th>Linked Premium</th>
<th>Non-linked Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY09</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>FY10</td>
<td>42%</td>
<td>58%</td>
</tr>
<tr>
<td>FY11</td>
<td>37%</td>
<td>63%</td>
</tr>
<tr>
<td>FY12</td>
<td>24%</td>
<td>76%</td>
</tr>
<tr>
<td>FY13</td>
<td>17%</td>
<td>83%</td>
</tr>
<tr>
<td>FY14</td>
<td>15%</td>
<td>85%</td>
</tr>
<tr>
<td>FY15</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>FY16</td>
<td>13%</td>
<td>87%</td>
</tr>
</tbody>
</table>

Source: IRDA Annual Report, KPMG Analysis

Notes: *Growth rate in INR terms, Linked Plans - In linked plans, a part of the investment goes towards providing you life cover while the residual portion is invested in a fund which in turn invests in stocks or bonds; the value of investments alters with the performance of the underlying fund. In Non-Linked plans, a major chunk of investible funds are in debt instruments, giving steady and almost assured returns over the long term*
STRONG GROWTH IN NON-LIFE INSURANCE MARKET

* The non-life insurance market grew from USD2.6 billion in FY02 to USD13.4 billion in FY16
* Over FY06–16, non-life insurance premiums increased at a CAGR of 7.48 per cent
* The number of policies issued increased from 51.1 million in FY06 to 122 million in FY15, at a CAGR of 9.09 per cent

Growth in non-life insurance premium (USD billion)

Number of non-life insurance policies (million)

Source: IRDA, TechSci Research

Notes: CAGR - Compound Annual Growth Rate
FY16: Till November 2015

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The non-life insurance penetration rate is in the range of 0.64–0.7 per cent over 2004–15

Non life insurance density increased from USD4.0 in FY04 to USD10.42 in FY15 at a CAGR of 9.09 per cent

As per IRDA, in order to increase the market penetration in health insurance people are needed to be educated about the benefits of health insurance along with providing incentives and free check-ups

Source: IRDA Annual Report, Swiss Re, TechSci Research
Note: CAGR - Compound Annual Growth Rate; IRDA Chairman, Mr. T S Vijayan
In FY17\(^{(1)}\), motor insurance accounted for 39.04 per cent of non-life insurance premiums earned in India (down from 41 per cent in FY06), and was valued at USD4.87 billion till November 2016.

At USD2.95 billion (till November 2016), the health segment seized 23.63 per cent share in gross direct premiums earned in the country.

Private players accounted for a share of around 45.4 per cent in the overall revenue generated in non-life insurance sector while public companies garnering around 54.6 per cent share by March 2016.

Major private players are ICICI Lombard, Bajaj Allianz, IFFCO Tokio, HDFC Ergo, Tata-AIG, Reliance, Cholamandalam, Royal Sundaram and other regional insurers.

### Shares in Non-Life Insurance Market: Motor Insurance Leads

#### Break-up of non-life insurance market in India (FY17\(^{(1)}\))

- **Motor**: 39.04%
- **Health**: 23.63%
- **Fire**: 20.61%
- **Marine**: 7.68%
- **Engineering**: 0.36%
- **Aviation**: 1.80%
- **Others**: 2.50%

*Source: IRDA Annual Report, TechSci Research*

Note: \(^{(1)}\) P – Provisional, Till November 2016
The market share of private sector companies in non-life insurance segment rose from 15 per cent in FY04 to 45.4 per cent in FY16.

The Gross Direct Premium of private companies increased from USD0.8 billion in FY05 to USD6.1 billion in FY16, witnessing growth at a CAGR of 20.28 per cent during FY02-16.
The number of companies increased from 15 in FY04 to 28 in FY16; six of these companies are in the public sector.

The public sector companies accounted for a cumulative share of about 54.6 per cent of the total Gross Direct Premium in the non-life insurance segment in March 2016.

New India leads the market with almost 16 per cent share.

Private players are not far behind and compete better in the non-life insurance segment.

![Market share of major companies in terms of Gross Direct Premium collected (FY16)](chart)

- New India
- United India
- National
- Oriental
- ICICI-Lombard Oriental
- Bajaj Allianz

Total size: USD13.35 billion

*Source: IRDA Business Report, TechSci Research*
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 private sector in the total premium increased to 29.6 per cent in FY16 from 2.0 per cent in FY03
- In the non-life insurance segment, share of private sector increased to 41.2 per cent in FY16 from 14.5 per cent in FY04

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 continue 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: NBFC - Non Banking Financial Company, NGO - Non-Governmental Organisation, EV - Embedded Value,
PORTERS FIVE FORCES ANALYSIS

INSURANCE
## PORTER'S FIVE FORCES ANALYSIS

**Insurance Industry**

- **Competitive Rivalry**
  - Insurance industry is becoming highly competitive with 52 players operating in the industry
  - Companies are competing on price and also using low price and high returns strategy for customers to lure them

<table>
<thead>
<tr>
<th>Threat of New Entrants</th>
<th>Substitute Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Other financial companies can enter the industry</td>
<td>- Similarity in services makes switchover a potent threat</td>
</tr>
<tr>
<td>- Overall threat is medium given that entry is subject to license and regulations</td>
<td>- Investment oriented customers have switched to other avenues</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bargaining Power of Suppliers</th>
<th>Bargaining Power of Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Supplier being the distributor or agent have high bargaining power because they have customer database and can influence customers in making choices</td>
<td>- Bargaining power of customers especially corporate is very high because they pay huge amount of premium</td>
</tr>
</tbody>
</table>

Source: TechSci Research

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INSURANCE

STRATEGIES ADOPTED
Players in industry are trying to come up with innovative low cost products to achieve cost advantage.

They are investing in Information Technology to automate various processes and cut costs without affecting service delivery. It is estimated that digitisation will reduce 15-20 per cent of total cost for life insurance and 20-30 per cent for non-life insurance.

From October 2016, IRDAI has mandated having an E-insurance (electronic insurance) account to purchase insurance policies.

Companies are trying to differentiate themselves by providing wide range of products with unique features. For example, New India Assurance launched Farmers’ Package Insurance to covering farmer’s house, assets, cattle etc. United India launched Workmen Medicare Policy to cover hospitalisation expenses arising out of accidents during and in the course of employment. In March 2017, HDFC Life in collaboration with Haptik, has announced the launch of the country’s 1st life insurance chatbot which will help the customer as a financial guide to aid them to choose the most suitable plans befitting their needs.

Focus on providing one kind of service help insurance companies in differentiation. For example, SBI is concentrating on individual regular premium products as against single premium and group products.

The Insurance Law (Amendment) Bill, was passed in 2015 raises the foreign investment cap in the sector from 26 per cent to 49 per cent.
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.

Household savings reached USD388.20 billion in 2016 from USD89 billion in 2000.

Financial savings have reached USD202.36 billion by 2015 from USD45 billion in 2000.

In comparison with its position in October 2016, till February 2017, insurance sector witnessed growth at about 23 per cent.

**Household and financial savings projections**

<table>
<thead>
<tr>
<th>Year</th>
<th>Household Savings</th>
<th>Financial Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>89</td>
<td>45</td>
</tr>
<tr>
<td>2010</td>
<td>306</td>
<td>141</td>
</tr>
<tr>
<td>2013</td>
<td>373.67</td>
<td>188.42</td>
</tr>
<tr>
<td>2014</td>
<td>339.27</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>378.24</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>388.20</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** ICICI, RBI Annual Report, TechSci Research

Notes: Financial savings denote investment in equity and debt instruments, E - Estimates
DEMAND GROWTH FOR INSURANCE PRODUCTS SET TO ACCELERATE … (2/2)

Rising income; growing middle class

- Per capita income and rural income are increasing
- The number of middle class households (earning between USD4,413.1 and USD22,065.3 per annum) is estimated to increase more than fourfold to 148 million by 2030 from 32 million in 2010
- Rising per capita income leads to increased spending on medical and healthcare services

Higher incidence of chronic lifestyle diseases

- Lifestyle diseases are set to account for a greater part of the healthcare market
- Lifestyle diseases such as cardiac diseases, cancer and diabetes are treated with the help of biotechnology products, thereby boosting revenues of biotech companies
- The growing GNI per capita, PPP of USD6,020 in FY15 resulted in improved lifestyle due to increased purchasing power of customers for healthcare

Income segment
- Globals(>22065.3)
- Strivers(11032.7-22065.3)
- Seekers(4413.1-11032.7)
- Aspirers(1985.9-4413.1)
- Deprived(<1985.9)

Notes: Greater distributional efficiencies and increasing demand (especially from rural areas) due to rising disposable incomes have created new markets for products within the country, F - Forecast


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KEY REGULATORY CHANGES … (1/2)

1999
- IRDA cleared bill
- Liberalisation of sector and formation of an independent regulator

2001
- IRDA issues TPA regulations
- Entry of TPAs specifically focussed on servicing health insurance business
- Entry of foreign players infusing capital and technical expertise

2002
- IRDA insurance brokers and corporate agent regulation
- Thrust on insurance distribution through corporate intermediaries

2006
- Entry of stand-alone health insurance players

Source: KPMG, TechSci Research
Note: TPA - Third Part Administrator
KEY REGULATORY CHANGES … (2/2)

- Creation of Indian Motor Third Party Insurance Pool
- IRDA came out with new guidelines for equity-linked insurance products
- Merger and Acquisition guidelines
- Introduction of Declined Risk pool, TP premium increase
- FDI cap raised from 26 to 49% under automatic route by cabinet
- FDI cap raised from 26 to 49%
- "Pradhan Mantri Fasal Bima Yojana" launched in 2016

**Change**

- 2007: Creation of Indian Motor Third Party Insurance Pool
- 2010: IRDA came out with new guidelines for equity-linked insurance products
- 2011: Merger and Acquisition guidelines
- 2012: Introduction of Declined Risk pool, TP premium increase
- 2013: FDI cap raised from 26 to 49%
- 2015: FDI cap raised from 26 to 49%
- 2016: "Pradhan Mantri Fasal Bima Yojana" launched

**Impact**

- 2007: Mechanism to equitably share CVTP losses
- 2010: Reduced the first-year agent commission and lock in period extended
- 2011: Enabled consolidation, inorganic transactions in the industry
- 2012: Improvement in overall profitability of the CV segment
- 2013: Cabinet approval still pending on the FDI cap increase
- 2015: Indian parliament passed bill to increase FDI in insurance
- 2016: Enabled farmers to pay lowest premium rates

**Source:** KPMG, TechSci Research


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Tax incentives

- Insurance products are covered under the exempt, exempt, exempt (EEE) 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.
- In 2015, Tax deduction under Health Insurance Scheme has been increased to USD409.43 from USD245.66 & for senior citizens tax deduction has been increased to USD491.32

Union Budget 2016–17 & 2017–18

- The government has also extended Rashtriya Swasthya Bima Yojana (RSBY) to cover unorganised sector workers in hazardous mining & associated industries.
- As per Union Budget 2016-17, USD840.21 million has been allocated to “Prime Minister Fasal Bima Yojna”.
- In Union Budget 2017-18, the government introduced an insurance pension scheme that gives an assured return of 8 per cent for senior citizens through LIC to concentrate on social security.
- Under Union 2017-18, insurance purchases made through portals of public sector insurers for general insurance will be discounted at 10 per cent.

Life insurance companies allowed to go public

- IRDA recently allowed life insurance companies that have completed 10 years of operations to raise capital through Initial Public Offerings (IPOs).
- Companies will be able to raise capital if they have embedded value of twice the paid up equity capital.

Approval of increase in FDI limit and revival package

- Increase in FDI limit will help companies raise capital and fund their expansion plans.
- Revival package by government will help companies get faster product clearances, tax incentives & ease in investment norms. FDI limit for insurance company has been raised from 26 per cent to 49 per cent, providing safeguard & ownership control to Indian owners.

Notes: RSBY - Rashtriya Swasthya Bima Yojana, FDI - Foreign Direct Investment
RISING PRIVATE SECTOR INVESTMENT IN INSURANCE

- 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 to generate funds.
- In 2015, Insurance Bill was passed that will raise the stake of foreign investors in the insurance sector to 49 per cent, fueling the participation of private sector investment in the insurance sector in the country.
- In February 2017, Bank of Maharashtra partnered with insurance company Cigna TTK Health, to market their insurance products in the bank's branches, across the country.
- Dena Bank & Apollo Munich Health Insurance announced a corporate agency tie up in March 2017. As per the tie-up, Dena Bank would be distributing Apollo’s health insurance products.

<table>
<thead>
<tr>
<th>Religare Health Insurance</th>
<th>• USD110.4 million by 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEGON Religare Life</td>
<td>• USD71 million in 2010; plans to invest USD445 million through 2016</td>
</tr>
<tr>
<td>HDFC Life</td>
<td>• Planning to raise USD3.9 billion with 10 per cent stake sale. Through IPO which is expected in September 2015</td>
</tr>
<tr>
<td></td>
<td>• HDFC Life has enter the micro-insurance segment by launching two schemes named Jeevan Suraksha and Credit Suraksha</td>
</tr>
</tbody>
</table>

*Source: Towers Watson; Assorted news articles; TechSci Research*
INDIA’S INSURANCE MARKET OFFERS A HOST OF OPPORTUNITIES ACROSS BUSINESS LINES

Opportunities for Indian insurance market

- Crop insurance
- Micro-insurance
- Health insurance markets
- Motor insurance markets
- Low-income urban and pension markets

Source: TechSci Research
Increasing life expectancy, favourable savings and greater employment in the private sector will fuel demand for pension plans.

Proposed new pension bill by government will further provide new opportunities to insurers.

There is scope to introduce new-generation pension products such as Variable Annuity and Inflation Indexed Annuity. Although the pace has declined, the number of enrolments in the Jan Suraksha scheme has risen to 132 million. The Jan Suraksha scheme includes a personal accident cover, term insurance, and a pension plan.

By 2030, India will have around 180 million people in the age bracket of 60+ years.

In 2015, three schemes related to insurance and pension, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana and Atal Pension Yojana were launched. The number of policies in the Pradhan Mantri Suraksha Bima Yojana, a part of the Jan Suraksha scheme, reached 98 million on November 24, 2016.

As on October 2015, Indian Retirement system was ranked last in the global pension index which witnessed a fall in value from 43.5 in 2014 to 40.3 in 2015.

Financial Assets in terms of Provident & Pension Funds

Notes: PFRDA - Pension Fund Regulatory and Development Authority,
(¹) Expected value, at 2009-10 rates, CAGR - Compound Annual Growth Rate

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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 3rd party motor insurance
- In FY16, number of commercial vehicles & passenger vehicles sold in the country were recorded at 0.8 million & 3.4 million respectively, while the number of 2&3 wheelers sold were 19.76 million
- In FY15, Motor & Health sector constituted 67.70 per cent of the non-life insurance market

Breakup of non-life insurance market in India (FY17(1))

Vehicle production in India (million units)

Source: IRDA, ACMA, SIAM, TechSci Research

Notes: E in the axis for the figures above refer to estimates, GDP - Gross Domestic Product, CAGR - Compound Annual Growth Rate, ACMA - Automotive Component Manufacturers Association of India

(1)– Data upto June 2016
Only 1.5–2 per cent of total healthcare expenditure in India is currently covered by insurance providers.

From 13.3 per cent of the total non-life insurance premium in FY07, health insurance contributed 27.43 per cent in FY15.

Total health insurance premiums increased from USD733.1 million in FY07 to USD3,636.47 million in FY16, witnessing growth at a CAGR of 19.48 per cent.

In FY17 (Up to June 2016) gross direct premium income underwritten under health insurance is USD1.17 billion.

Absence of a government-funded health insurance makes the market attractive for private players.

IRDA recommended the government to reduce capital requirements for stand-alone health insurance companies from USD21 million to USD10 million.
Introduction of health insurance portability expected to boost the orderly growth of the health insurance sector

- Increasing penetration of health insurance likely to be driven by government-sponsored initiatives such as RSBY and ESIC

- In FY15, population covered under health insurance through government sponsored schemes reached 351 million

- Government-sponsored programmes expected to provide coverage to nearly 380 million people by 2020

- Private insurance coverage is estimated to grow by nearly 15 per cent annually till 2020

- Health insurance coverage to cross 630 million people by 2015

- In July 2016, IRDA issued Health Insurance Regulations, 2016. These regulations replace the Health Insurance Regulations, 2013. As per these new norms, companies will provide better data disclosure, pilot products, coverage in younger years, etc.

- As of May 2016, only 18 per cent of people in urban areas are covered under any kind of health insurance scheme

- Rashtriya Swasthya Bima Yojana (RSBY) is a centrally sponsored scheme to provide health insurance to Below Poverty Line (BPL) families & 11 other defined categories of unorganised workers, namely building & other construction workers, licensed railway porters, street vendors, MGNREGA workers, etc.

Source: World Bank, Mckinsey estimates, TechSci Research
Notes: E-Estimates, RSBY - Rashtriya Swasthya Bima Yojna
ESIC - Employees State Insurance Corporation, E - Estimated
The business environment in India’s microinsurance sector supports healthy growth

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macro level</strong></td>
<td>IRDA drafted microinsurance guidelines in 2010, which contain numerous favourable measures such as</td>
</tr>
<tr>
<td>(The enabling environment)</td>
<td>- Lower threshold limits for agents’ commissions</td>
</tr>
<tr>
<td></td>
<td>- Rural areas must account for 7 per cent of new life insurance policies in the first year of firm’s operation and rise to 20 per cent over the next 10 years</td>
</tr>
<tr>
<td><strong>Intermediate level</strong></td>
<td>In order to reduce microinsurance distribution costs, IRDA proposed microinsurance schemes to supplement existing government insurance schemes</td>
</tr>
<tr>
<td>(Support infrastructure)</td>
<td>- The number of regional rural banks and NGOs operating in the rural sector will aid distribution of microinsurance products</td>
</tr>
<tr>
<td><strong>Micro level</strong></td>
<td>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 during 1990–2010</td>
</tr>
<tr>
<td>(Policy holders)</td>
<td>- About 5 million people currently have microinsurance, while the entire market is expected to be in the range of 140–300 million</td>
</tr>
</tbody>
</table>

Source: IRDA, McKinsey, TechSci Research
In FY16, total new business premium in India was recorded at USD49.69, with USD8.97 million accounted for by the private sector and USD40.72 million by the public sector.

New business premium\(^{(1)}\) (USD million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY09</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>FY10</td>
<td>4</td>
<td>30</td>
</tr>
<tr>
<td>FY11</td>
<td>30</td>
<td>21</td>
</tr>
<tr>
<td>FY12</td>
<td>21</td>
<td>39</td>
</tr>
<tr>
<td>FY13</td>
<td>39</td>
<td>21</td>
</tr>
<tr>
<td>FY14</td>
<td>21</td>
<td>3.5</td>
</tr>
<tr>
<td>FY15</td>
<td>3.5</td>
<td>19.1</td>
</tr>
<tr>
<td>FY16</td>
<td>19.1</td>
<td>40.72</td>
</tr>
</tbody>
</table>

\(^{(1)}\) - Premium includes group premium and Individual Premium

Source: IRDA, McKinsey, TechSci Research
Crop insurance market in India is the largest in the world, covering around 30 million farmers.

To provide crop insurance to farmers, Government has launched various schemes like National Agriculture Insurance Scheme (NAIS), Modified National Agriculture Insurance Scheme (MNAIS) & Weather-based Crop Insurance Scheme (WBCIS).

Total sum insured under crop insurance is USD836.6 million.

Government of India plans to increase the coverage to 50 million during the 12th Five-Year Plan.

As of February 2017, the Central Government aims at enhancing crop insurance cover from 22 per cent of farmers to 50 per cent in the forthcoming 2 years.

Source: Agricultural Insurance Company of India Annual Report, Department of Agriculture and Cooperation, IRDA, TechSci Research
It is estimated that by 2020 three in every four insurance policies would be influenced by online channel.

It is estimated that insurance sales through online channel will grow 20 times from now by 2020.

Source: BCG, Gartner, TechSci Research

Notes: (¹) Retention ratios are from FY14
INSURANCE

SUCCESS STORIES
SBI Life Insurance is a joint venture between Indian banking giant State Bank of India (74 per cent) and France headquartered BNP Paribas Assurance (26 per cent).

The company primarily deals in life insurance and pension plans with 758 offices across India. In FY14, it issued around 10.4 lakh insurance policies.

Between FY08 and FY16, SBI Life’s profits increased at a CAGR of 41.05 per cent; with its annual profits increasing to USD131.5 million by FY16. In FY15, it accounted for a market share of 13.9 per cent among all private sector companies in the life insurance new business premium.

The company reported growth of 4.94 per cent Profit After Tax (PAT) standing at USD 63.95 million, during the first half of the current financial year, ending on September 30.

**Total premium collected (USD billion)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Premium Collected (USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY08</td>
<td>1.4</td>
</tr>
<tr>
<td>FY09</td>
<td>1.6</td>
</tr>
<tr>
<td>FY10</td>
<td>2.1</td>
</tr>
<tr>
<td>FY11</td>
<td>2.8</td>
</tr>
<tr>
<td>FY12</td>
<td>2.8</td>
</tr>
<tr>
<td>FY13</td>
<td>1.9</td>
</tr>
<tr>
<td>FY14</td>
<td>1.8</td>
</tr>
<tr>
<td>FY15</td>
<td>2.1</td>
</tr>
<tr>
<td>FY16</td>
<td>2.4</td>
</tr>
<tr>
<td>FY17(1)</td>
<td>0.52</td>
</tr>
</tbody>
</table>

**Net profit (USD million)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY08</td>
<td>8.4</td>
</tr>
<tr>
<td>FY09</td>
<td>39</td>
</tr>
<tr>
<td>FY10</td>
<td>58.2</td>
</tr>
<tr>
<td>FY11</td>
<td>80.2</td>
</tr>
<tr>
<td>FY12</td>
<td>118.6</td>
</tr>
<tr>
<td>FY13</td>
<td>114.5</td>
</tr>
<tr>
<td>FY14</td>
<td>122.8</td>
</tr>
<tr>
<td>FY15</td>
<td>136</td>
</tr>
<tr>
<td>FY16</td>
<td>131.5</td>
</tr>
<tr>
<td>FY17(1)</td>
<td>32.9</td>
</tr>
</tbody>
</table>

**Source:** SBI Life Annual Report, IRDA, Company website, TechSci Research

**Notes:** CAGR - Compound Annual Growth Rate

(1) FY17 (Till June 2016)
Tata AIA Life Insurance Company Limited (Tata AIA Life) is a joint venture between Tata Sons (74 per cent) and AIA Group Limited (26 per cent)

Overall life insurance premium increased from USD198.8 million in FY06 to USD379 million, as of September 30, 2015, witnessing growth at a CAGR of 6.65 per cent over FY06-16

The sum assured increased from USD3.5 billion in FY06 to USD24.7 billion in FY16\(^{(1)}\), rising at a CAGR of 19.9 per cent

---

**Total life insurance premium (USD million)**

<table>
<thead>
<tr>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>199</td>
<td>303</td>
<td>508</td>
<td>595</td>
<td>737</td>
<td>874</td>
<td>774</td>
<td>508</td>
<td>385</td>
<td>351</td>
<td>379</td>
</tr>
</tbody>
</table>

CAGR: 6.65%

**Total sum assured (USD billion)**

<table>
<thead>
<tr>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16(^{(1)})</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>9</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>13</td>
<td>13</td>
<td>10</td>
<td>9.2</td>
<td>12</td>
<td>24.7</td>
</tr>
</tbody>
</table>

CAGR: 19.9%

---

**Source:** Company website, IRDA, TechSci Research

Notes: CAGR - Compound Annual Growth Rate

\(^{(1)}\): As on September 30, 2016

For updated information, please visit [www.ibef.org](http://www.ibef.org)
Objective for establishing micro insurance

- Fulfilment of corporate social responsibility
- Increase brand recognition to boost market entry – today’s micro clients maybe tomorrow’s high-premium clients
- To target untapped markets and income groups of rural India

Key strategic decisions

- The micro insurance business model must be separated from business model
- Selling micro insurance would require new, alternative distribution mechanisms

The micro insurance business model

New business unit
- A special microinsurance team called the Rural & Social Team is formed

Partnering with NGOs
- Identify and partner with credible NGOs operating in the local community
- NGO suggests good agents for microinsurance policies (micro-agents)

Forming CRIGs
- A group of micro-agents called a Community Rural Insurance Group (CRIG) is formed; it relies on direct marketing of microinsurance policies to local community members

Local operations managed by NGOs
- Local operations like collecting and aggregating the premiums, training micro-agents, and helping to distribute benefits looked after by the NGO; this saves administrative costs for Tata-AIG

Source: Company website, TechSci Research
INSURANCE

SUCCESS OF TATA-AIA LIFE … (3/3)

Robust growth in micro-insurance expected

Number of policies

Premium – First Year (FYP) and Renewals (RYP) (USD Million)

Source: Company website, TechSci Research

Source: Company website, TechSci Research
INSURANCE

* New India Assurance, a wholly owned subsidiary of Government of India, is the largest non-life insurance company in India with a market share of 15.74 per cent in FY16 in the non-life insurance segment

* It is the largest non-life insurer in Afro-Asia, excluding Japan

* New India Assurance has been selected as the Best General Insurance Company by IBN Lokmat Channel in association with Maharashtra Chamber of Commerce, Industry & Agriculture (MACCIA)

* The company has overseas presence in 22 countries: Japan, UK, Middle East, Fiji and Australia

* It has been rated as "A-" (Excellent) for six consecutive years, indicating its excellent risk-adjusted capitalisation, prospective improvement in underwriting performance and leading business profile in the direct insurance market in India

* Gross Direct Premium in the country increased from USD1,193.94 million in FY09 to USD2,314.31 million in FY16, growing at a CAGR of 9.92 per cent over FY09-16

SUCCESS OF NEW INDIA ASSURANCE

Gross Direct Premium (USD million)

CAGR: 9.92%

Source: IRDA, Company website, New India Assurance Annual Report, A.M. Best Europe Ltd, Alfred Magilton Best Company Limited
Notes: CAGR - Compound Annual Growth Rate
ICICI Lombard GIC Ltd is a 74:26 joint venture between ICICI Bank Limited, India’s second largest bank, and Fairfax Financial Holdings Limited, a Canada-based diversified financial services company.

It has a market share of 8.39 per cent in the non-life insurance sector in FY16.

As of FY16, ICICI Lombard GIC had 257 pan India branches with an employee strength of 7,954.

Company’s Gross Direct Premium increased from USD 812.5 million in FY09 to USD 1,269.1 million in FY16 at a CAGR of 6.58 per cent over FY09-16.

**SUCCESS OF ICICI LOMBARD GIC**

- **Gross Written Premium (USD million)**
  - **FY09**: 812.5
  - **FY10**: 723.6
  - **FY11**: 966.4
  - **FY12**: 1143.1
  - **FY13**: 1182
  - **FY14**: 1183.5
  - **FY15**: 1146.9
  - **FY16**: 1269.1

  **CAGR: 6.58%**

- **Number of policies issued (million)**
  - **FY09**: 4
  - **FY10**: 4.5
  - **FY11**: 5.6
  - **FY12**: 7.6
  - **FY13**: 9.2
  - **FY14**: 11.2
  - **FY15**: 13.8
  - **FY16**: 15.8

  **CAGR: 21.68%**

Source: ICICI Lombard Annual Report, IRDA, Company website, TechSci Research
Notes: CAGR - Compound Annual Growth Rate
Insurance Regulatory and Development Authority (IRDA)
3rd Floor, Parisrama Bhavan, Basheer Bagh, Hyderabad–500 004
Phone: 91-040-23381100
Fax: 91-040-66823334
E-mail: irda@irda.gov.in

Life Insurance Council
4th Floor, Jeevan Seva Annexe Bldg. S. V. Road, Santacruz (W),
Mumbai–400054
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
**CAGR**: Compound Annual Growth Rate

**IRDA**: Insurance Regulatory and Development Authority

**IPO**: Initial Public Offering

**FDI**: Foreign Direct Investment

**LIC**: Life Insurance Corporation of India

**GIC**: General Insurance Corporation of India

**NBFC**: Non-Banking Financial Company

**NGO**: Non-Governmental Organisation

**RSBY**: Rashtriya Swasthya Bima Yojana

**PFRDA**: Pension Fund Regulatory and Development Authority

**GDP**: Gross Domestic Product

**ESIC**: Employees State Insurance Corporation
**FY**: Indian Financial Year (April to March)

- So, FY12 implies April 2011 to March 2012

**GOI**: Government of India

**INR**: Indian Rupee

**USD**: US Dollar

- Where applicable, numbers have been rounded off to the nearest whole number
## Exchange Rates

### Exchange rates (Fiscal Year)

<table>
<thead>
<tr>
<th>Year</th>
<th>INR equivalent of one USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004–05</td>
<td>44.81</td>
</tr>
<tr>
<td>2005–06</td>
<td>44.14</td>
</tr>
<tr>
<td>2006–07</td>
<td>45.14</td>
</tr>
<tr>
<td>2007–08</td>
<td>40.27</td>
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<tr>
<td>2008–09</td>
<td>46.14</td>
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<td>2009–10</td>
<td>47.42</td>
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<tr>
<td>2010–11</td>
<td>45.62</td>
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<tr>
<td>2011–12</td>
<td>46.88</td>
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<tr>
<td>2012–13</td>
<td>54.31</td>
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<td>2013–14</td>
<td>60.28</td>
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<tr>
<td>2014–15</td>
<td>61.06</td>
</tr>
<tr>
<td>2015–16</td>
<td>65.46</td>
</tr>
<tr>
<td>2016-2017E</td>
<td>66.95</td>
</tr>
</tbody>
</table>

### Exchange rates (Calendar Year)

<table>
<thead>
<tr>
<th>Year</th>
<th>INR equivalent of one USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>43.98</td>
</tr>
<tr>
<td>2006</td>
<td>45.18</td>
</tr>
<tr>
<td>2007</td>
<td>41.34</td>
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<td>2008</td>
<td>43.62</td>
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<td>2009</td>
<td>48.42</td>
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<tr>
<td>2010</td>
<td>45.72</td>
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<td>2011</td>
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<td>2012</td>
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<td>2013</td>
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<td>2014</td>
<td>61.03</td>
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<td>2015</td>
<td>64.15</td>
</tr>
<tr>
<td>2016 (Expected)</td>
<td>67.22</td>
</tr>
</tbody>
</table>

Source: Reserve bank of India, Average for the year
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