Growing Mix of Life & Non-Life Insurance in Indian Insurance Industry

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The Indian insurance market is a huge business opportunity waiting to be harnessed and poised for strong growth in the long run. The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance. Economic growth in India, along with rising employment and improving household income will boost demand for various non-life products. Ongoing changes in technology, demography and consumer needs and expectations continue to disrupt the insurance industry.

Keywords: Life Insurance, Health Insurance, Motor Insurance, Non-Life Insurance, Property Insurance, Reinsurance

1. Introduction

India's insurance industry has come a long way since the reforms of the 1990s. Despite a sharp increase in the number of insurers, the country remains grossly underinsured compared to advanced economies, in terms of penetration and density. India's insurance market offers substantial long-term growth potential as the industry is still not mature and developing. India is home to a large population and steadily rising household income indicates greater affordability for a range of insurance products, though the focus will likely remain on basic motor, health and property lines.

Table I *SWOT Analysis – Insurance Industry*

Strengths	Opportunities
• Large in size, particularly the life segment • Indigenous insurance companies have scale in global terms • Market is increasingly open to foreign competition • Life insurance plays an important role as a conduit for organized savings and tax-savings instrument among those Indian households who can afford it • Strong sector growth	• New regulations raising the maximum foreign ownership in joint ventures to 49% should provide greater access to capital • Strong growth in GDP and consumer demand should spur premium growth across all sectors • Endowment plans and pension plans offering a high rate of return are witnessing strong growth • Government's campaign to promote financial inclusion has resulted in strong demand for its basic personal accident and life insurance products
Weaknesses	**Threats**
• Low customer penetration • Lack of financial literacy and awareness • Onerous claims management framework • Price competition is keeping a lid on motor vehicle insurance • High administrative costs • Micro-insurance is still at an early stage of development • Claims costs have surged, reducing profitability	• Evolving regulatory framework • Volatility in financial markets • Surging claims cost from large-scale natural disasters • Rising fraudulent claims • Decreasing interest rates

Foreign firms will continue to be active in the market and their participation has increased following the government's decision in December 2014 to increase the cap on their equity stake in joint ventures to 49% from 26%. This measure received parliamentary approval in March 2015 and since then the sector has been buzzing with activity. A number of foreign firms have raised their stakes in joint ventures with domestic companies to the maximum ratio of 49%. These include Aegon (Netherlands), AIA Group (Hong Kong), Aviva and Bupa (both UK), Ergo International and HDI-Gerling (both Germany), Liberty Mutual (US), Nippon Life Insurance and Tokio Marine (both Japan), QBE (Australia) and Sun Life (Canada). Others have increased stakes but not up to the full 49%; Dai-Ichi Life Insurance and Mitsui Sumitomo Insurance (both Japan), Munich Health (Germany) and Standard Life (UK).

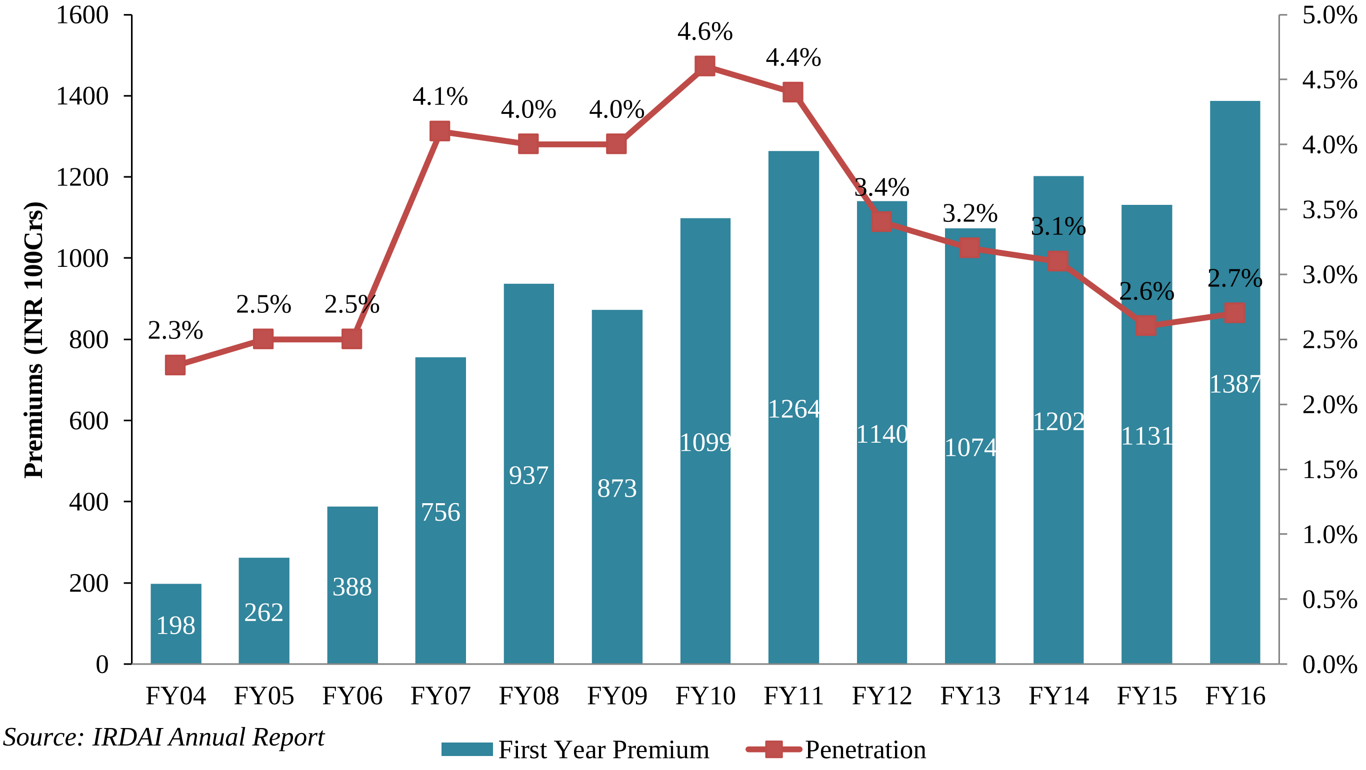
Banc assurance (in which insurance companies sell policies through bank branches and other distribution channels) is likely to grow rapidly in India, starting from a low base. The reinsurance market is ripe for foreign as well as for private players since the sector is monopolised by the state-owned General Insurance Corporation of India. In March 2016, the IRDA gave preliminary approval for four foreign reinsurers – Hannover Re (Germany), Munich Re (Germany), Swiss Re (Switzerland)

and SCOR (France) to open branches in India. At the end of June 2016, IRDA approved the initial operating license for ITI Reinsurance, paving the way for the Sun Pharmaceuticals backed firm to become India's first private domestic reinsurer.

2. Life Insurance Market Overview

The already high volume of premiums written and the huge growth potential offered by the Indian Life Insurance market means the country is attracting greater volumes of investment from multinational insurers, particularly as the regulations restricting foreign investment and ownership in the insurance sector have recently been relaxed. We expect to see more multinationals entering the market in partnership with local firms. Foreign joint ventures and private life insurers will erode the dominance of the state-owned Life Insurance Corporation (LIC). There is also likely to be further, domestically generated consolidation along the lines last seen in August 2016 when HDFC Standard Life and Max Life confirmed a merger; a move which created a new listed firm called HDFC Life, the biggest private player in India's life insurance market, behind only state-owned LIC.

Graph I: Life Insurance Premium in India since 2004



Source: IRDAI Annual Report

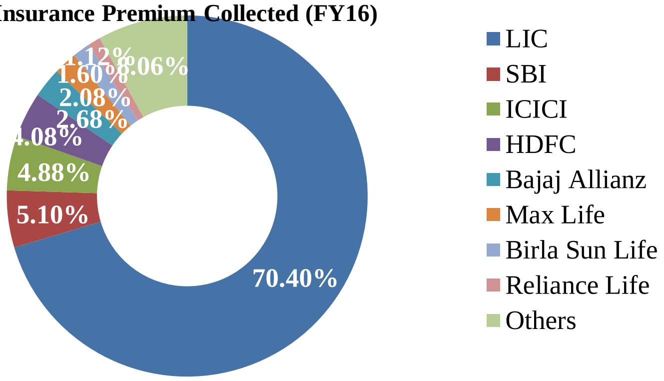
- Indian life insurance growth has been recovering over the past two years, after slowing partly due to regulatory changes and macro-economic developments
- Private sector insurers have been improving their product range, distribution mix and cost ratios
- India is the tenth largest life insurance market in the world and fifth largest in Asia with a 2.2% global market share

The life insurance industry in India has seen 3 distinct phases post the year 2000

- The first phase (2000-04) saw the entry of 13 private life insurers, namely HDFC Life, Max Life (then Max New York Life), ICICI Prudential, Kotak Life, Birla Sun Life, TATA AIA (then TATA AIG), SBI Life, Exide Life (then ING Vysya Life), Bajaj Allianz, PNB MetLife (then MetLife India), Reliance Life (then AMP Sanmar), Aviva India and Sahara Life
- The second phase (2005-09) fueled by the equity bull run and consequently the exponential growth of ULIP sales, lasted until 2008-09 and saw the entry of 7 private players in the market, namely Future Generali, IDBI Federal, Aegon Religare, Shriram Life, Canara HSBC, DHFL Pramerica and Bharti AXA
- The third phase (2010-present) began with the global financial crisis, the implementation of the ULIP regulations and saw insurers' rightsizing their business model by cost optimization, reducing their branch count and agency numbers and focusing on operating metrics. Three companies entered the market in this phase – India First Life, Edelweiss Tokio Life and Star Union Dai-Ichi

Some foreign players have exited the Indian market since then namely AMP, AIG, New York Life and ING.

Chart I: Major Companies Market Share in terms of Life Insurance Premium Collected (FY16)



Source: LIC-Life Insurance Corporation of India

Life Insurance in India is largely sold as a tax-saving instrument rather than as a safety cushion for contingencies. There is a considerable amount of misinformation about insurance in the minds of the average investors and hence a crying need to change people's perception and outlook about insurance. Life Insurance is one of the five savings products that have the Exempt-Exempt-Exempt (EEE) status.

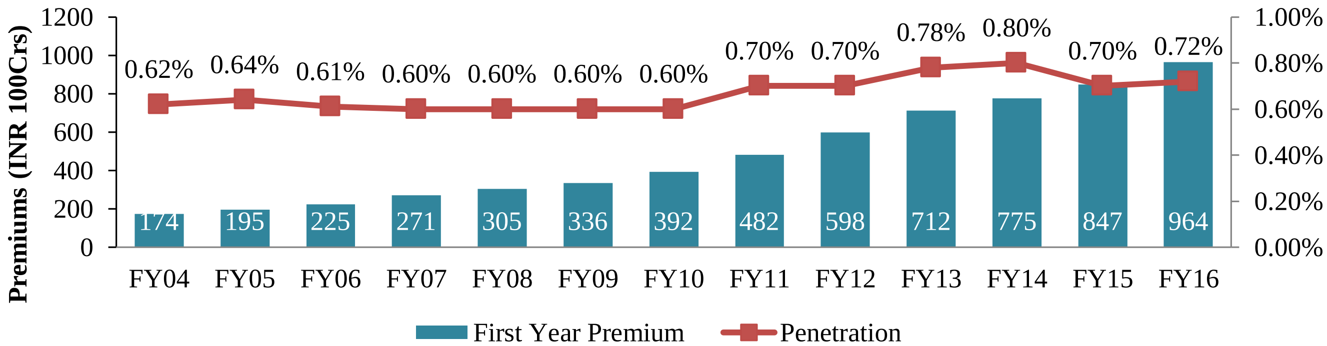
Table II *Comparison of Investment Products in India with EEE Status*

Investment	Returns	Liquidity	Tax Treatment	Min. & Max. investment limit per annum
Public Provident Fund (PPF)	8.10%	Locked in for 15 years	EEE	INR 500 min, INR 150,000 max
Employee Provident Fund (EPF)	8.80%	Locked in, can be withdrawn for specific purpose only	EEE, after 5 years	12% of Basic + dearness allowance
Life Insurance (Traditional & ULIPs)	No guaranteed return, depends on market performance for ULIPs	Varies upon tenure, ULIPs are locked in for 5 years	EEE	N/A
Equity Linked Savings Schemes (ELSS)	No guaranteed return, depends on market performance	Locked in for 3 years	EEE	INR 500 min, no max
Sukanya Samriddhi Yojana	8.60%	Can only invest for girl child. Partial withdrawal available once child is 18 years old	EEE	INR 1000 min, INR 150,000 max

3. Non-Life Insurance Market Overview

Similar to the life insurance market, the non-life sector in India is also attracting greater foreign investor interest, with firms drawn by the huge growth potential of this currently underdeveloped market, which is dominated by basic motor and health insurance lines. There is scope for many lines to grow rapidly from a low base and we expect to see positive growth in smaller lines such as property and credit/financial guarantee insurance. Despite the large size of the market, there are relatively few non-life insurance providers at present and we do expect to see more multinationals entering the competitive landscape over the medium term, challenging the dominant domestic providers. Economic growth in India, along with rising employment rate and improving household income will boost demand for various non-life products, at the same time insurers will also expand coverage by developing a greater range of affordable micro insurance products.

Graph II: Non-Life Insurance Premiums in India since 2004



Source: IRDAI Annual Report

Table III *Top 10 Non-Life Insurers and Gross Direct Premium Earned over the Fiscal Year Ending March 31st 2015*

Insurer	Classification	Gross Direct Premiums (INR Cr.)
National Insurance	Public sector	1,11,282.60
New India Insurance	Public sector	15,480.40
United India Insurance	Public sector	10,691.70
Oriental Insurance	Public sector	7,561.90
ICICI Lombard General Insurance	Private sector	6,677.80
Bajaj Allianz General Insurance	Private sector	5,229.80
IFFCO Tokio General Insurance	Private sector	3,330.00
HDFC ERGO General Insurance	Private sector	3,182.20
Agriculture Insurance Company of India	Specialized	2,739.70
Reliance General Insurance	Private sector	2,715.80

(Source: IRDAI Annual Report)

Non-Life Insurance Sub-Sectors

India's non-life sector is dominated by motor insurance which is a compulsory line in India. The motor vehicle sub-sector will remain the largest non-life line but it will be outpaced by faster growth in other non-life sub-sectors like health and property insurance as these two lines gain market share more rapidly.

Motor Insurance

Motor insurance is the largest line in India, supported by its status as a compulsory line (for third party liability). The country's auto market is performing strongly (both in terms of domestic production and sales) and along with wider economic growth and rising household income, there will be growth in motor insurance premiums. However, competition in this sector places a downward pressure on pricing.

Transport Insurance

Transport insurance is a relatively well-established line in India which is predictable considering the country's large size, huge export base and challenging transport issues. The growth in this line is being driven by the overall growth in freight volumes, which in turn, is boosted by the expansion of the economy and general improvement of infrastructure. Therefore, steady economic growth and further rise in freight volumes should underpin the rise in transport insurance premiums.

Property Insurance

Property insurance is currently the third largest line in India's non-life market, having grown rapidly in recent years as the country experienced a construction boom. Because of general economic growth, rapid rise in the urban middle class households and investment in infrastructure, property insurance premiums will rise.

Health Insurance

Demand for private health care and private health insurance is growing in India. Publically provided healthcare, though in many respects is of high quality, can also be restricted in terms of access, particularly in rural areas and associated high out-of-pocket expenses. This provides an inherently favorable environment for health insurance, which is one of the largest sub-sectors of the non-life segment. As a result of increasing share of medical cost in household expenditure, rise in nursing care for senior citizens, spread of new diseases, increasing lifestyle related health risks, inadequate government healthcare schemes and low product innovations on part of the insurer; this sub-sector indicates huge potential and hence, health insurance premiums will grow.

Personal Accident Insurance

Personal accident insurance is a relatively small sub-sector in India's non-life market. The purchasers are generally wealthy middle/upper class households. Higher household income among the wealthier classes supports growth in personal accident insurance premiums.

Credit and Financial Guarantee Insurance

Credit and financial guarantee insurance sub-sector is currently small. This sector is a natural beneficiary of the general development of financial services in India – where an increasing proportion of the population is benefiting from access to formal banking services, including provision of mortgages and credit cards. Product innovation, both within the insurance industry and the wider banking sector, will support growth in this sub-sector.

4. Conclusion

The life segment will remain the most important part of the insurance industry. However, non-life premiums are likely to grow faster than life premiums as non-life insurers introduce new products.

Non-life insurance will remain patchy owing to the fact that there are only a few areas where it is legally obligatory to obtain insurance cover. The market for non-mainstream products is likely to expand as the insurance industry is liberalized. For example, crop insurance is expected to become increasingly common in rural areas as about 60% of India's population lives in the countryside and agriculture remains the mainstay of rural economy. The government launched its insurance schemes for farmers across the country. The scheme includes crop insurance, livestock insurance and accident insurance. India also has the largest micro-insurance market in Asia in terms of people covered with the majority of policies in life insurance. Health insurance coverage will remain well below the average due to shortcomings of public healthcare system.

There are both upside and downside risks for growth in India's non-life sector. An influx of foreign capital following the increase in allowed investment in domestic insurers could result in a widening of distribution channels and broadening of product offerings, which could stimulate faster than expected growth. To the downside, deterioration in India's currently strong economic outlook could derail demand in the non-life sector with particular risks presented by weakening agricultural growth and slowing reform momentum, notably in the infrastructure sector.

Indian life insurance sector is home to several major multinationals operating in partnership with local firms and bringing much needed capital and operational expertise. As India's economy strengthens and income level rises, we expect to see significant growth in this sector.