



WE KEEP YOU GOING

Delivering returns: Value to Shareholders

December 18, 2013

Key Outlines

Shareholder value in GI

Industry context

Customer and Supply-Demand dynamics

Key factors impacting Indian GI Industry

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Shareholder Value

- Value is created by enhancing a company's prospects and this, to a large degree, stems from 'Competitive Advantage'
- Value is created by the ability of the management to choose and implement a strategy
- The Share holder Value measure must reflect the strategy
 - Emphasis could be improved return from existing assets (efficiency led strategy)
 - Emphasis could be investing to generate superior returns above the cost of capital (growth led strategy)

Shareholder Value measures

Name	Definition
Cost of Float	Underwriting loss / (profits)
Earnings per share	Shareholders PAT / No of shares in issue
Return on Capital Employed	Profits / Capital Employed
Cash Flow Return on Investment	The IRR of cash flows (for each point in time it uses the value of the firms current investment in assets, the stream of cash flows expected and a final value)
Economic Value Added	Net operating profits less (capital base X cost of capital)
Total Shareholder Return	(Closing Share Price + Dividends – Opening Share Price) / Opening Share Price

Warren Buffet on 'Float'

- The source of our insurance funds is “float,” which is money that doesn’t belong to us but that we temporarily hold
- Float is wonderful – if it doesn’t come at a high price. Its cost is determined by underwriting results
- When an underwriting profit is achieved float is better than free
- However, life has been far more difficult:
 - In aggregate, the property-casualty industry almost invariably operates at an underwriting loss
 - When that loss is large, float becomes expensive, sometimes devastatingly so

Shareholders Return



- **Berkshire Hathaway has delivered excess return of 19% annualized in excess over T-bill rate over a 30 year period**

SOURCE: GOOGLE FINANCE



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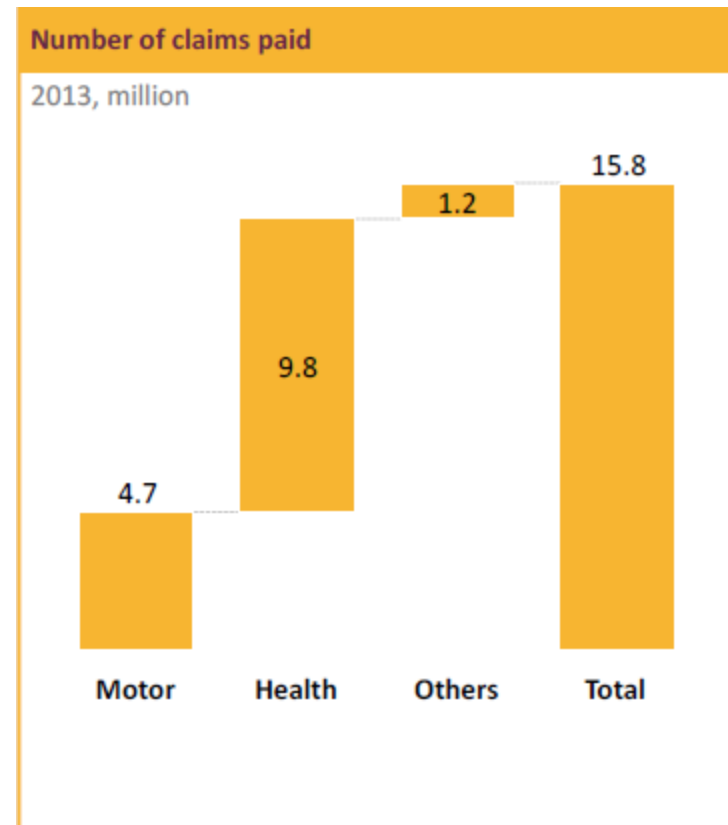
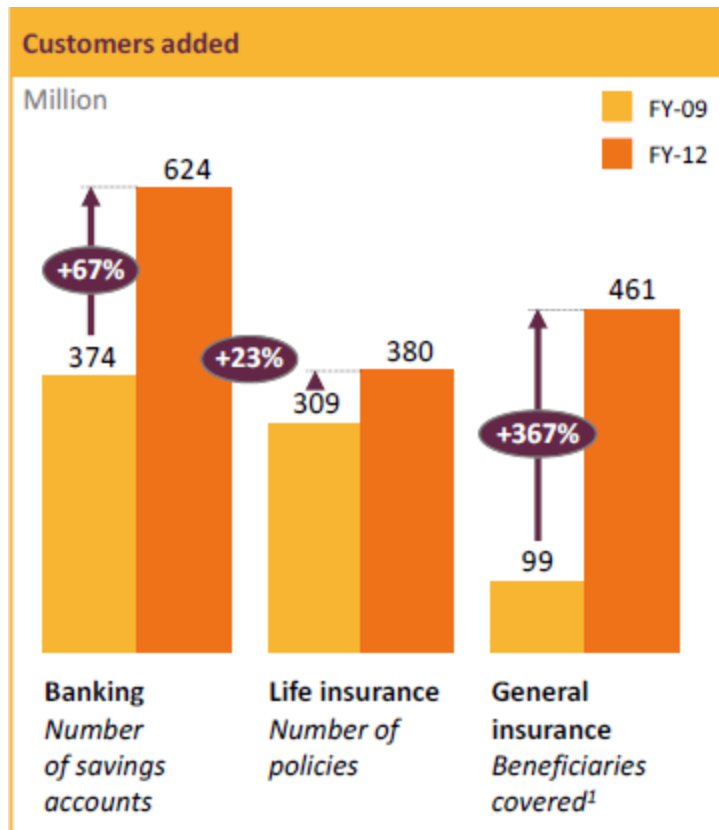
Customer and Supply-Demand dynamics

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Role of industry

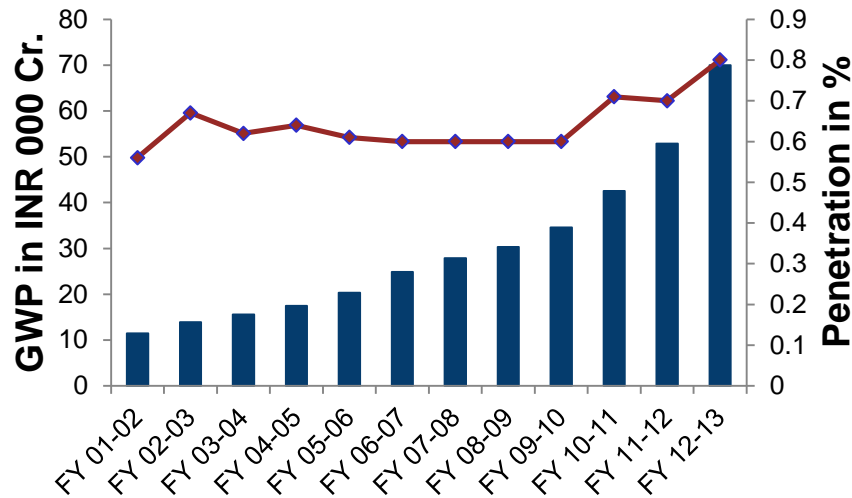
- **It is a major contributor to the country's economy**
 - **In India it employs around 700,000 people both directly & indirectly**
- **The industry supports the government & society**
 - **Reducing the financial burden of social welfare**
 - **Sharing cost of contingent risk capital**
- **The GI industry has also played an unparalleled role in creating access to financial services & protection**

GI has created significant access



Source: Indian General Insurance Vision 2025, FICCI

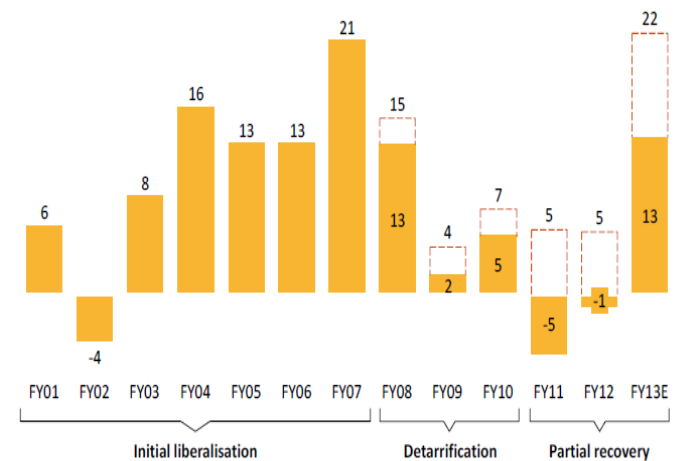
Growth & profitability of GI in India



- While GWP shows significant growth over the years, GI penetration has largely remained flat

ROE of GI in India

- However industry profitability has been a challenge with low ROE's for most of the years



Source: 1. Handbook on Indian Insurance Statistics 2011-12
2. Indian General Insurance Vision 2025, FICCI

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Customer appreciation of GI products is increasing, particularly motor & health

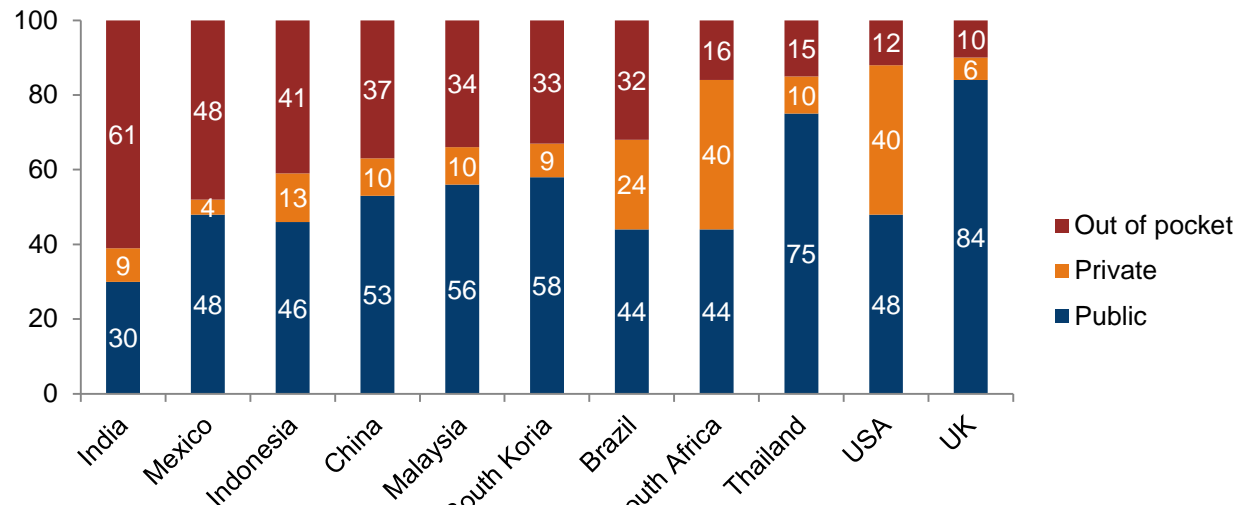
- **GI has evolved an identity of its own**
 - **Health insurance is the fastest growing segment in last decade with annual trend of 30% per annum**
- **Emergence of brands driving preference in the GI space through media and internet**
- **Emergence of customer with different needs and expectations, requiring the development of a finer customer centric approach**
- **Blurring boundaries between the online & offline world, with demonstrated multi-channel behavior**
 - **Customer's selection is primarily driven by price differentials**

Shifting demand–supply dynamics in related sectors

..(1 of 3)

- **Healthcare:**

Sources of Healthcare expenditure



- **Huge scope of expansion of private health insurance space in India**
- **Rapid increase in healthcare spend**
- **Private-public partnership in health delivery systems**

Shifting demand–supply dynamics in related sectors

..(2 of 3)

- **Auto:**
 - Insurance premium streams have become significant focus of OEMs/dealers due to pressure on core margins
 - Emergence of online channel for the customers providing convenience & ease of purchase
 - Claim service efficiency becoming important for customer & distribution
 - Technological advancement like Immobilizer, anti-lock braking system has significant implications

Shifting demand–supply dynamics in related sectors

..(3 of 3)

- **Corporate sector:**
 - **Globalization and infrastructure spending translate into significant GI opportunities**
 - **Knowledge driven solution approach by insurance companies & global brokers**
 - **Focus on indemnifying idiosyncratic risk & improved underwriting enhances market opportunity**
 - **Product innovations in lines such as liability insurance**
 - **Need to understand price & risk dynamics over time**
 - **SME is assuming greater significance**

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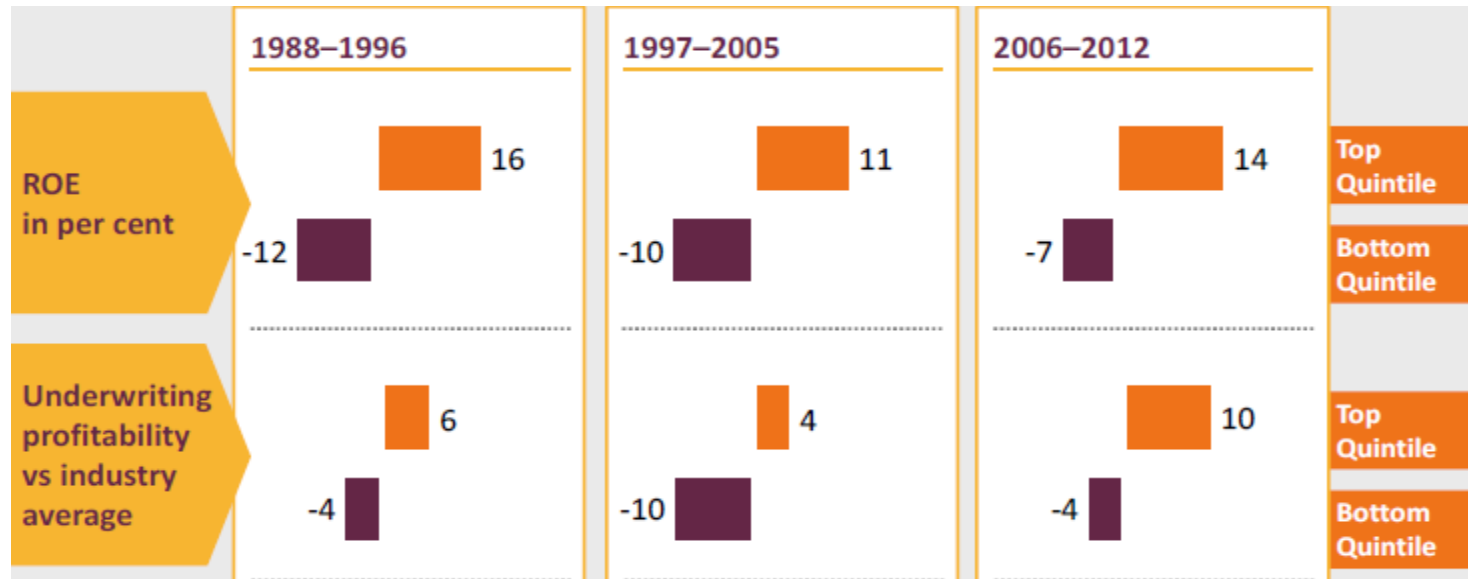
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Understanding performance

- Significant variation seen in UW performance between top & bottom players



- Focus on customer lifetime value to build sustainable business model

Source: Indian General Insurance Vision 2025, FICCI

Global forces impacting Indian market

- **India follows China as the new frontier for global players**
 - **Almost all major global players (direct, reinsurance, broking and surveying) have significant presence**
- **Technological changes (Big Data, Mobility, Social Media, Cloud) are leading to development of more sophisticated business models**
- **Increasing complexity of risks driven by an ageing population, lifestyle changes, climate changes, new types of coverage pose newer challenges**

Driving value: key action items

- **Individual insurers**
 - **Build customer insights and enhance customer engagement across lifecycle**
 - **Upgrade technical capabilities to next level**
- **Industry level collaborative initiatives**
 - **Defining industry standards and protocols**
 - **Build common infrastructure**
- **Policy and regulatory initiatives**
 - **Product and distribution reform**
 - **Strengthen industry structure**
 - **Intervene to increase penetration in uncovered regions**



Individual insurers need to enhance capabilities to global benchmarks

- **Development of Actuarial talent:**
 - Companies need to strengthen their Actuarial departments & staff them with trained personnel
 - Efforts must also be taken by Institute of Actuaries of India to build capabilities in the non-life industry
- **Data driven pricing:**
 - Effort needs to be undertaken to capture data on many dimensions & overcome customer resistance
 - Product lines should be segregated according to frequency & severity
 - Separate pricing approach should be established for different lines

Global benchmarked technical know-how

..(1 of 2)

- Risk based pricing:
 - Pricing with an ROE focus
 - Actuaries should focus on enterprise risk modeling
 - Companies with the initiative of regulator should develop risk based capital model (Solvency II)
 - Regulator should penalize high risk behavior of companies manifested in the form of high combined ratio through a higher solvency margin

Global benchmarked technical know-how

..(2of 2)

- **Incentive model:**
 - **Alignment of incentives for staff in order to drive healthy underwriting practices need to be reinforced**
 - **Shareholders should demand better returns and hence act as catalyst for this change**
- **Consistent improvement in customer service levels**
 - **Constant focus on key service metrics including grievance levels**
 - **Innovation in service delivery through imaginative deployment of technology**

Industry level collaboration- Standards and protocols

- **Define standard definitions for claims fraud across lines of business**
 - **Sharing of information on frauds through central repository**
 - **Sharing best practices and networks**
- **Develop standard protocols for medical treatment**
 - **Standardization of data capture across the industry**
 - **Leading to consistent basis for evaluation of costs and outcomes**

Industry level collaboration- Common infrastructure

- **IIB as a data repository should take pro-active role in publishing detailed portfolio results**
 - **Act as gatekeeper for industry data quality**
 - **Historical run-off triangles for the industry data (at least for long tail lines)**
 - **Developing consistent measures for measuring portfolio performance at industry level**
- **Skill building at industry level**
 - **Setup institution to develop methodologies and train resources in essential technical aspects like underwriting, actuarial pricing etc.**

Policy and regulatory initiatives

..(1 of

2)

- **Product and distribution reforms**
 - **Streamline product approval process**
 - **Liberalize policy wording**
 - **Allow new product constructs like savings linked etc.**
 - **Accelerate distribution reforms and improve on framework for classifying agents and basis of remuneration**
- **Standard definitions for industry performance metrics**
 - **Consistent definitions for measures of performance indicators from the perspective of investors, customers, & shareholders**

Policy and regulatory initiatives ..(2of 2)

- **Strengthen industry structure**
 - **Permit higher self regulation through movement to solvency based monitoring**
 - **Strengthen disclosures (particularly in areas of reserving and reserve development)**
 - **Differential oversight norms**
- **Create structural incentives based on differential solvency norms for risk based underwriting**

In conclusion

- **Macro-economic scenario is getting tougher but opportunity will remain in the medium term**
- **Individual players need to enhance their maturity levels to global benchmarks**
- **Industry need to develop models for collaboration to reduce information arbitrage and leakages**
- **Regulatory and policy makers could facilitate significant changes in the industry evolution**
- **In a capital scarce environment these changes will be essential for sustainable growth**

Future prospects of the industry

- An inclusive, progressive and high performing industry will deliver the following results in the medium term-
 - GWP of Rs. 4,80,000 crores in 2025
 - With a penetration of 1.4% of GDP...
 - ...and RoE upwards of 20%

Source: Indian General Insurance Vision 2025, FICCI



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Thank You



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