

# INDIA FELLOWSHIP SEMINAR

01/06/18 - 02/06/18

General insurance companies - Understanding key performance measures, Benefits and limitations in listing GI companies.

**Shubhanjali Gupta, Richa Gupta, Rohit Singhal, Charchit Agrawal**



Institute of Actuaries of India

# Agenda



- 1 Introduction
- 2 Overview of Indian GI Industry
- 3 Key Performance Measures – Private Sector and Public Sector GI companies
- 4 Benefits of Listing an Insurance Company
- 5 Limitations and Challenges faced when listing
- 6 Conclusion

# Agenda



<b>1</b>	<b>Introduction</b>
2	Overview of Indian GI Industry
3	Key Performance Measures – Private Sector and Public Sector GI companies
4	Benefits of Listing an Insurance Company
5	Limitations and Challenges faced when listing
6	Conclusion

# Introduction - I

- A total of 31 General Insurance companies with a total of 1.3 lakh crore in Gross Written Premium as on 31<sup>st</sup> March 2017.
- Overall an underwriting **loss** of ₹18,840 Cr, but an PAT of ₹845Cr, boosted by the Investment income (for 2016-17 year as per the IRDA Handbook)
- Consistently been the case for the past 4 years observed.

# Introduction - II

- In 2000, IRDA was set up and Insurance sector opened up for foreign participation, capped at 26%
- In 2014, the cap was increased to 49% to bring in more capital
- Insurance is a long-gestation venture and takes time for it to start generating profits. IRDA has now allowed companies with over 10 years of history to list

# Introduction - III

- ICICI Prudential Life Insurance was the first to hit the capital markets with IPO in September 2016.
- Since then:
  - GIC Re (Oct 17, P/B 4.0x)
  - SBI Life
  - HDFC Life
  - New India Assurance (Nov 17, P/B 3.81x)
  - ICICI Lombard (Sep 17, P/B 8.1x)

# Introduction - IV

- Insurance penetration at 0.77% vs 2.81% globally
- Insurance Density of \$13.20 vs \$285.3 globally
- India accounts for less than 1.5% of world's total premiums despite being second most populous nation.

# Introduction - IV

- Huge scope for growth as the country is heavily underinsured. Insurance industry (life and non-life) expected to quadruple in next 10 years.
- Need more innovation, structure, accountability and governance for capital infusion.
- IRDAI is helping the cause by introducing more guidelines to safeguard policyholders' interests.



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# Indian GI Market – Ready for a boom?

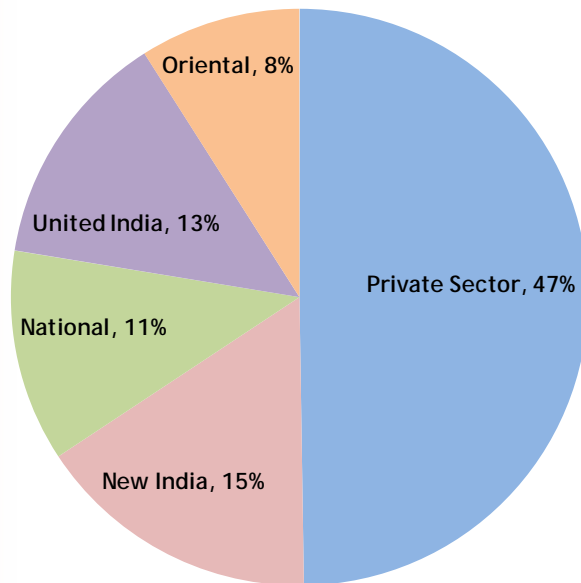
- Is the Indian Insurance market coming of age?
- With a more friendly regulatory environment and the potential for digitization, there's plenty of room for growth
- Could bring an uptick in foreign investment?

# Current Market Scenario

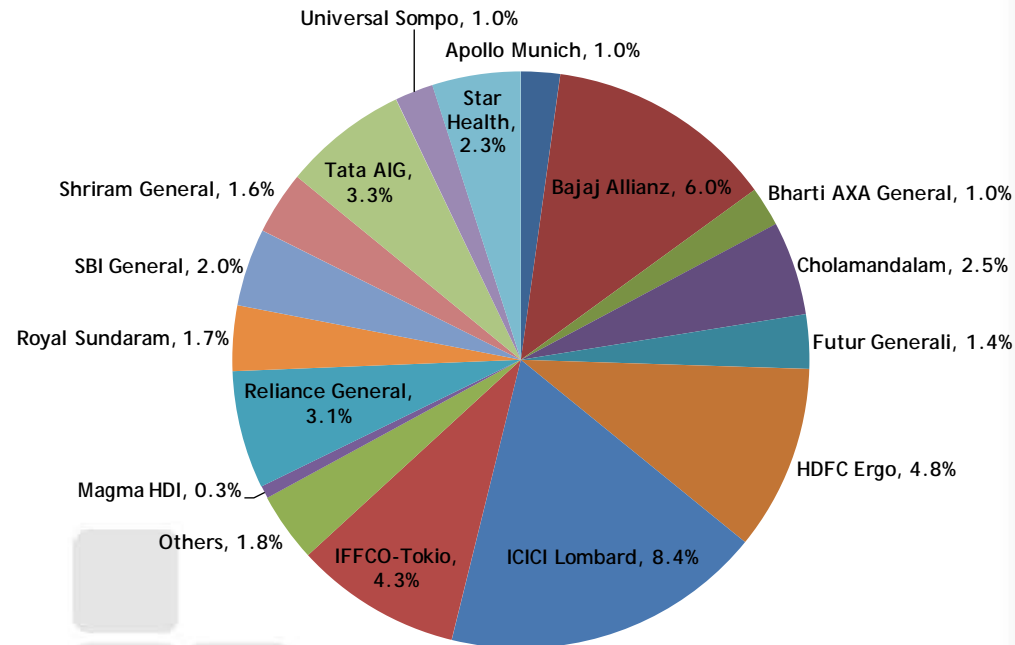
- Current Market has 31 players already in the market\*
- 6 Public sector units and 1 National Re-Insurer.
- Various products: Motor (TP & AD), Health, Fire, Marine, Aviation, Liability, Personal Accident etc

# GI Market – PSUs vs Private Sector

PSUs vs Private Sector



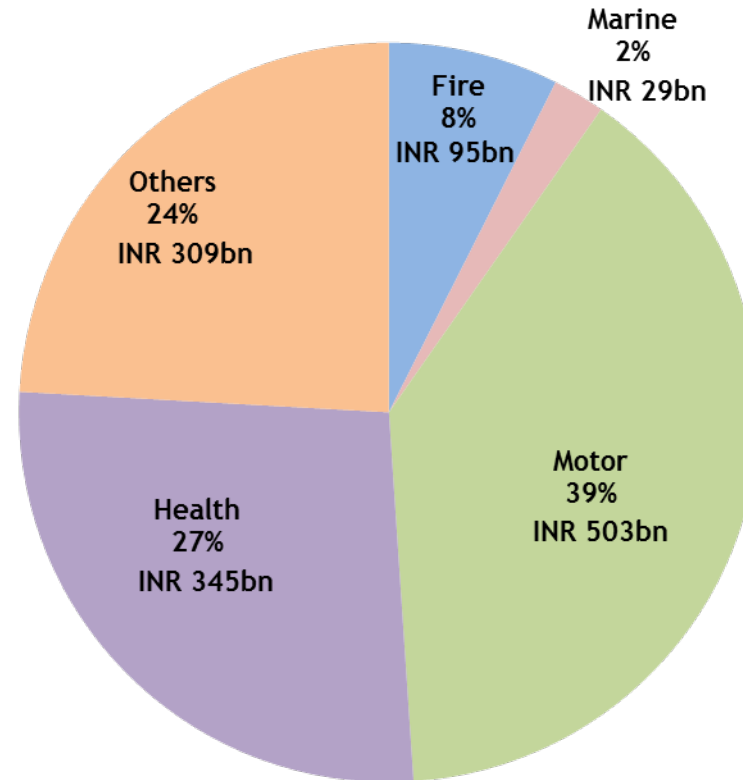
Private Sector



Source: IRDAI 2016 Annual Report

([https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral\\_NoYearList.aspx?DF=AR&mid=11.1](https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=AR&mid=11.1))

# GI Market – Products



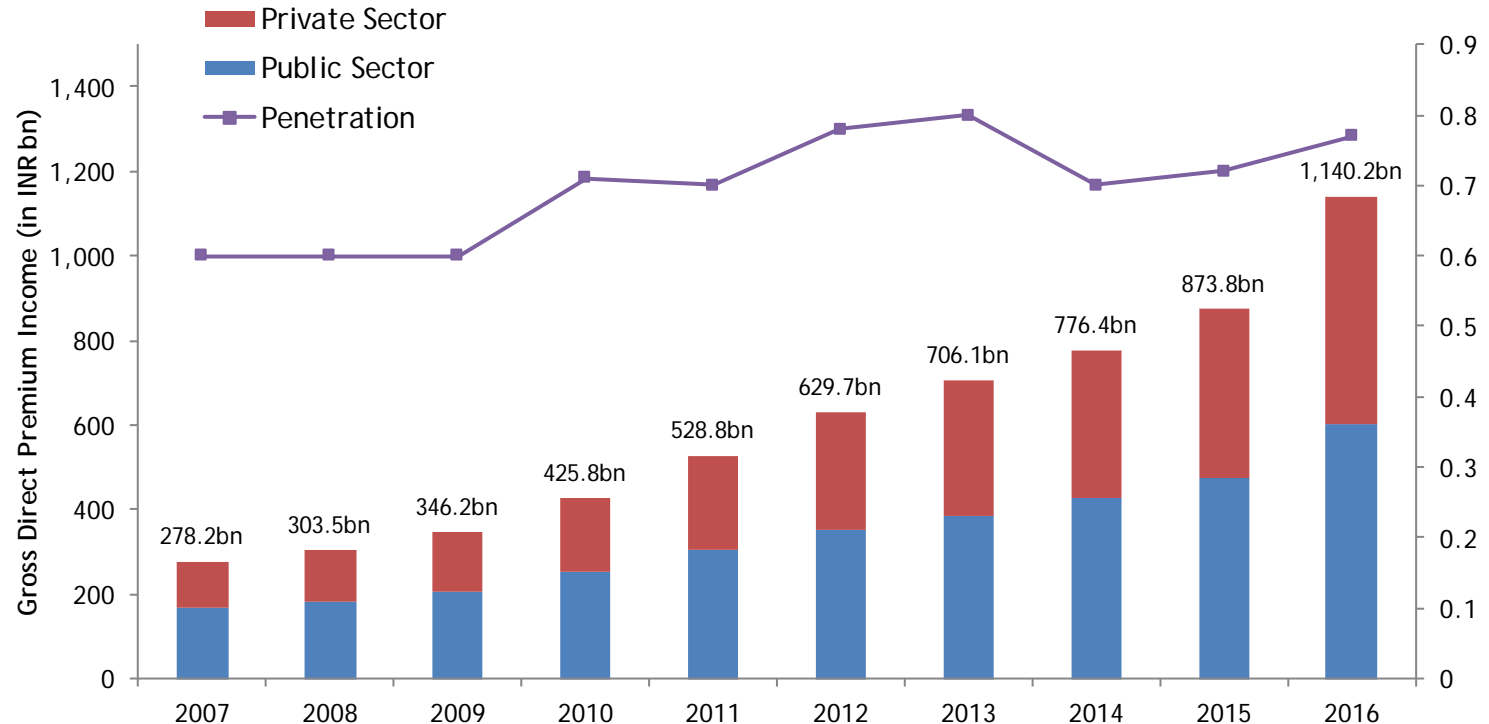
- Market dominated by Motor business followed by Health
- Motor TP still tariffed and highly regulated

Source: IRDAI 2016 Annual Report

([https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral\\_NoYearList.aspx?DF=AR&mid=11.1](https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=AR&mid=11.1))

# GI Market Growth

## Indian General Insurance Market

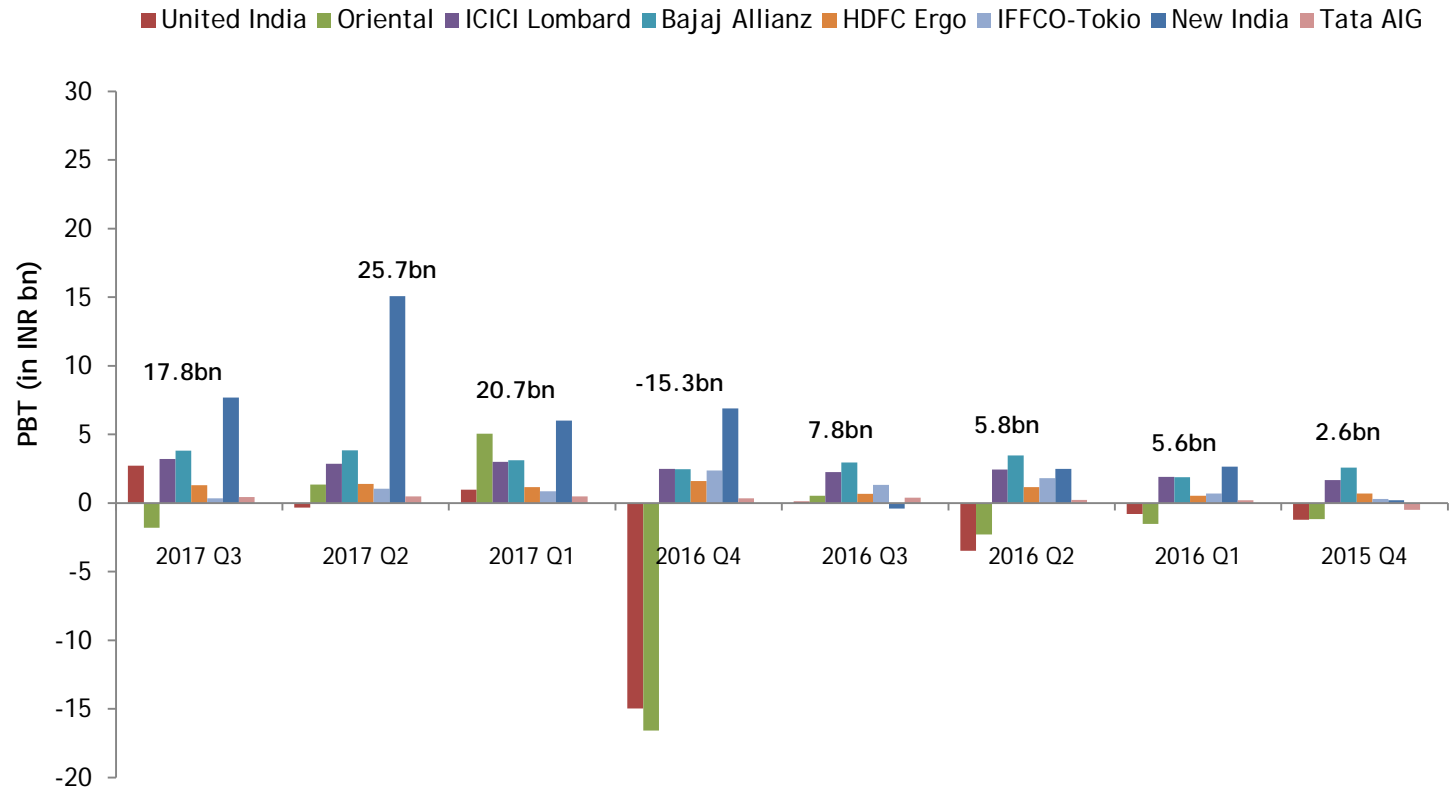


- Premium income increased by 300% in the last 10 years
- But penetration volatile and only up to 0.8%

\*Excludes Stand-alone Health Insurers; Source: IRDAI Annual Reports

([https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral\\_NoYearList.aspx?DF=AR&mid=11.1](https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=AR&mid=11.1))

# Reported Profits (PBT)



- Very volatile profits over the last 8 quarters ranging between INR -15.3bn to INR 25.7bn
- Is the Industry really growing?

# GI Market – Recent developments

- Proposed merger of 3 PSU general insurers (National Insurance, Oriental Insurance & United India Insurance) in the 2018 Union Budget\*
- IRDA designed public offering guidelines for insurance providers in India, which regulated the divest equity through the IPO route.
- ICICI Lombard, New India Assurance & GIC Re debuted their IPO in 2017



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2 Overview of Indian GI Industry

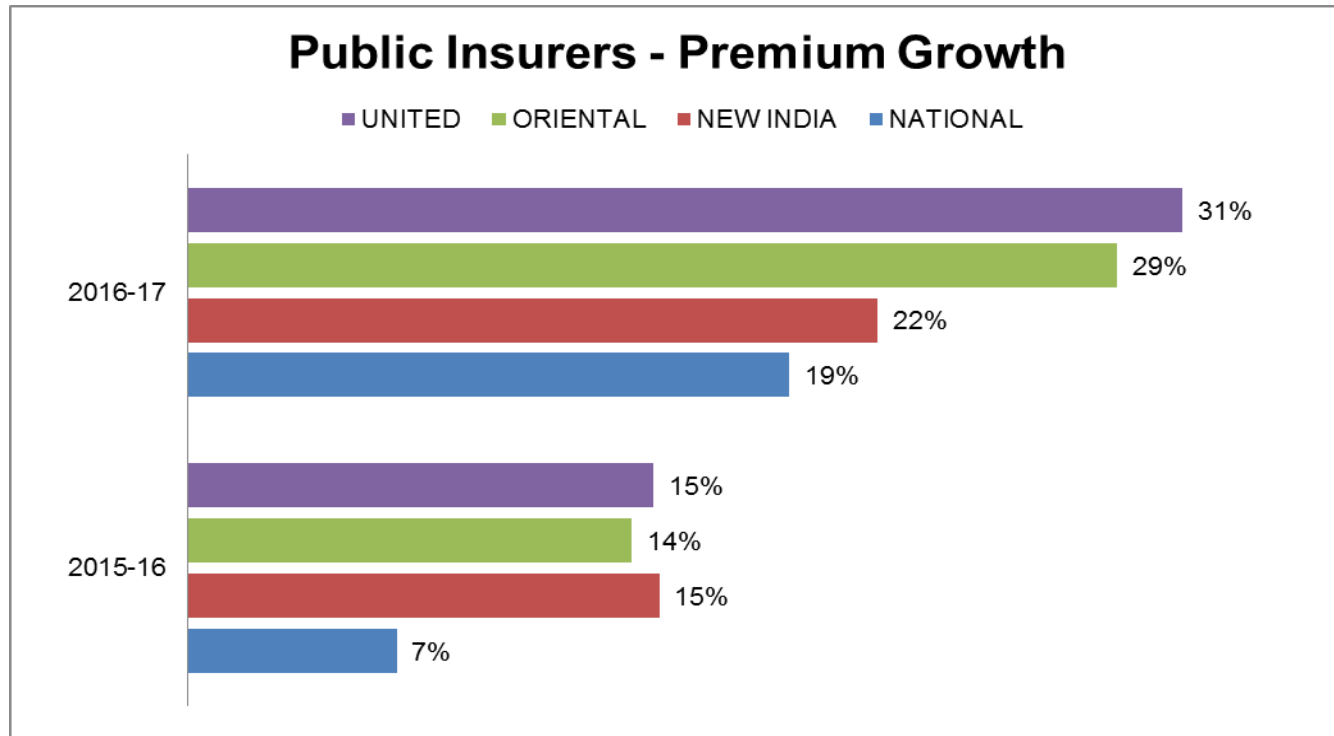
**3 Key Performance Measures – Private Sector and Public Sector GI companies**

4 Benefits of Listing an Insurance Company

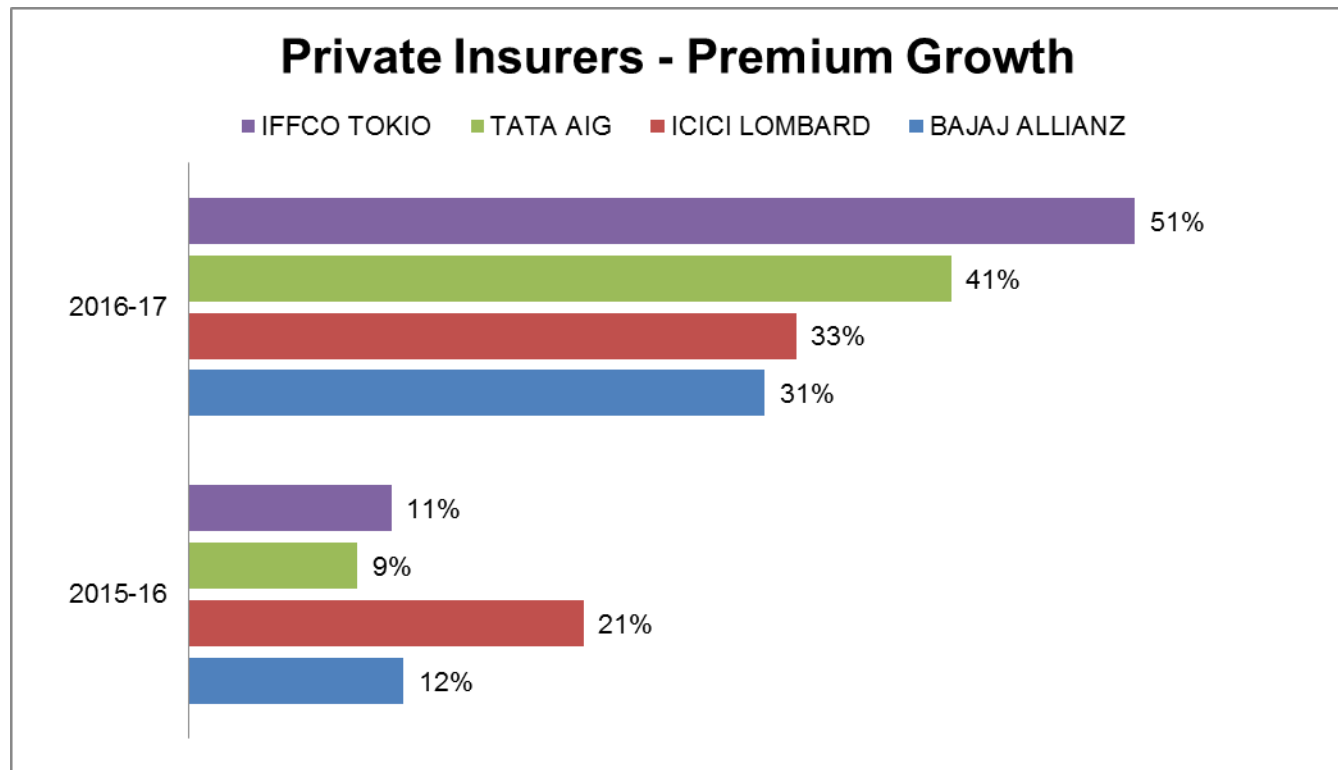
5 Limitations and Challenges faced when listing

6 Conclusion

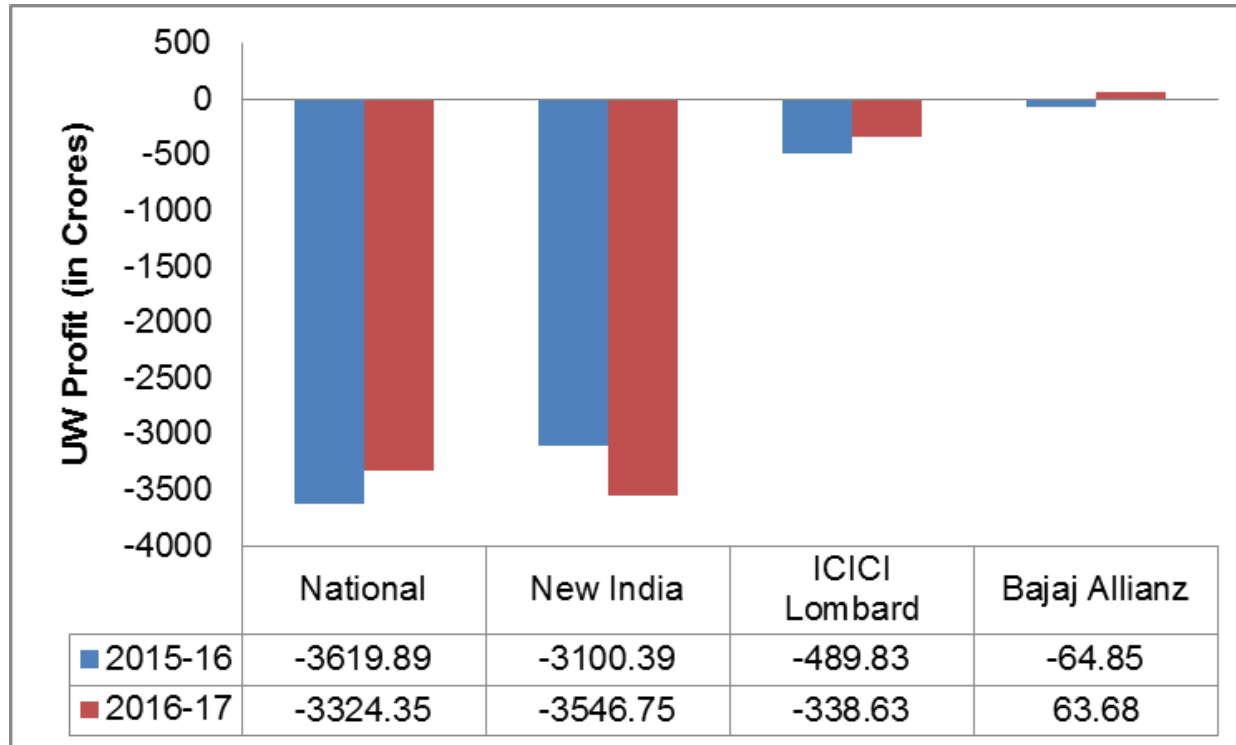
# Premium Growth - I



# Premium Growth - II



# Underwriting Results



- Nearly All Companies making Underwriting Loss

# Solvency Ratios

	Solvency Ratio			
	Dec-13	Dec-14	Dec-15	Dec-16
<b>Bajaj Allianz</b>	2.01	1.82	2.54	2.58
<b>Iffco Tokio</b>	1.61	1.60	1.62	1.62
<b>ICICI Lombard</b>	1.54	1.96	1.93	2.01
<b>Reliance</b>	1.43	1.51	1.64	1.58
<b>Tata AIG</b>	1.64	1.60	1.58	1.54
<b>National</b>	1.57	1.52	1.51	1.31
<b>New India</b>	2.48	2.60	2.31	2.17
<b>Oriental</b>	1.59	1.62	1.74	1.22
<b>United India</b>	2.54	2.53	2.02	1.55
<b>GIC Re</b>	1.79	3.15	3.52	2.21

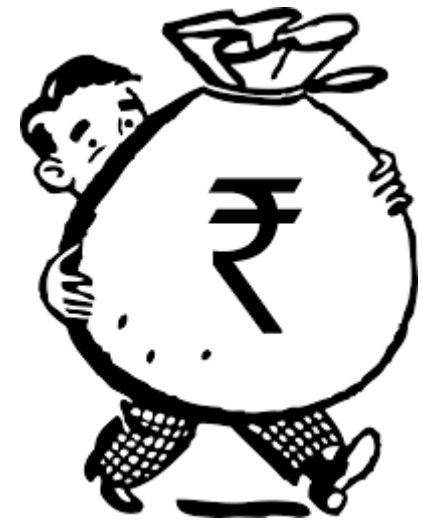
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# Benefits - Organization

- Fund raising
  - Expansion of Operations
  - Acquisition
- Exit Route to Promoters
- Liquidity to the ESOP-holding employees
  - Compensate and Retain Talent



# Benefits- Organization



- Better Corporate Practice and Governance
  - Disclosures higher for listed companies
  - Additional disclosures to be made to Stock exchange
  - Rating Agencies watch listed companies and publish Analytical Reports on companies
  - Higher Scrutiny





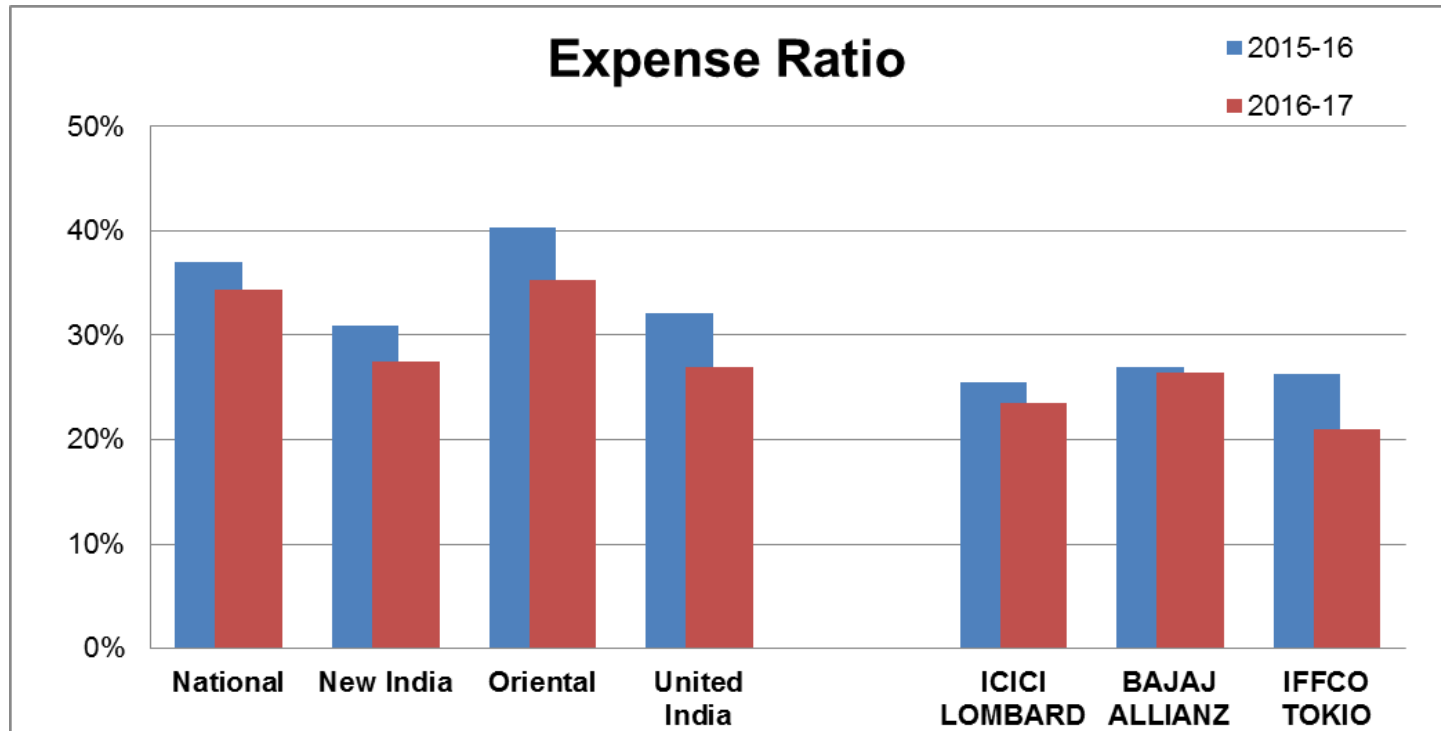
# Benefits - Organization



- More Focus on core business strategies
  - Shareholders' participation in the decision-making of the entity
  - Greater transparency of operations
  - Discipline underwriting
  - Expense Control



# Benefits - Organization



- Cut down Management expenses
- Control Commissions to Intermediaries

# Benefits - Organization

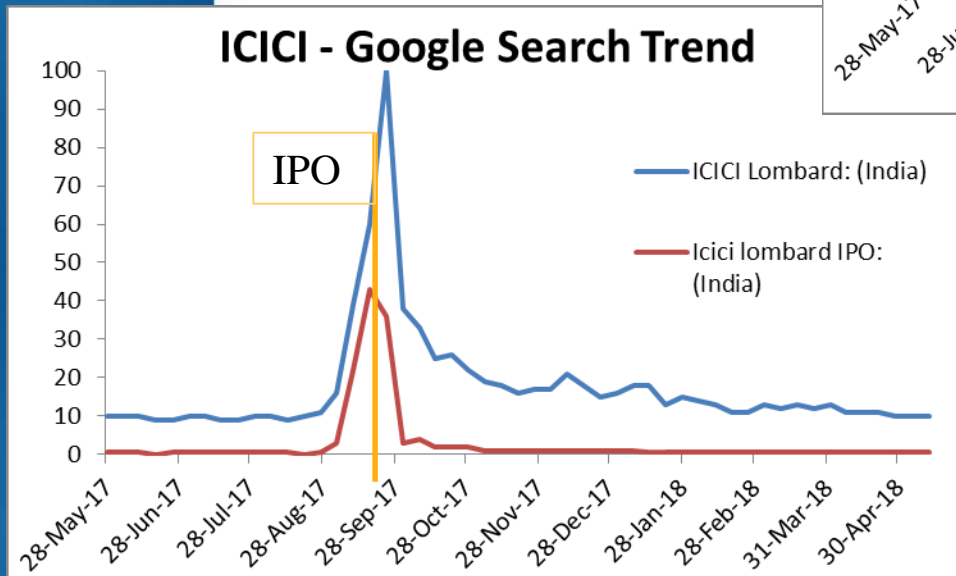
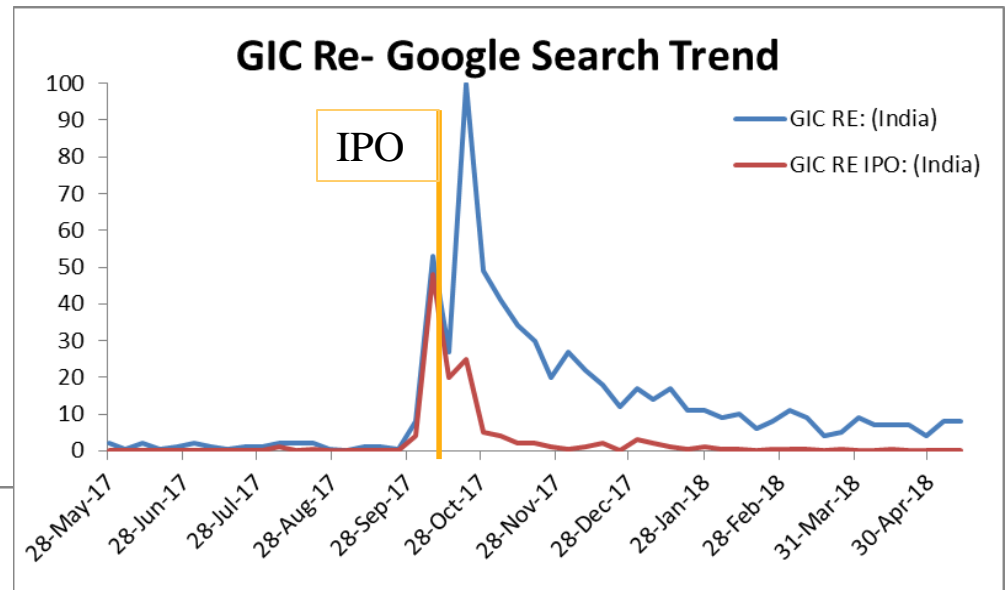


- Boosts brand image
  - Enhances public profile
  - Indirect Advertisement
  - Increases visibility
  - Recognition of its products and services



# Benefits - Organization

**Very high search during IPO**



**Searches are higher after listing as compared to pre listing**

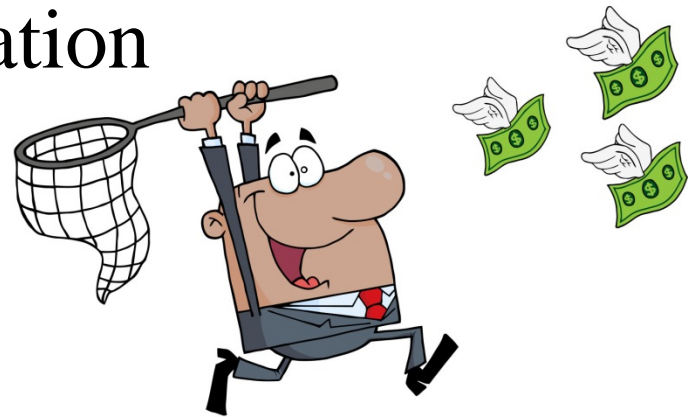
# Benefits- Policyholders

- Outspreading penetration of insurance services
- Better meet customer needs
  - Better and Innovative products
  - Enhanced service standards



# Benefits- Investors

- Insurance stocks do not follow other asset classes
- Portfolio Diversification



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# Challenges

## *Investors*

- Valuation of stocks
  - Value of new business
  - Measuring long term benefits
- Reliance on investment income





# Challenges

## *Policyholders*

- Premium Price Surge
  - Price sensitivity
  - Low penetration



# Challenges

## *Expenses*

- More Disclosure leading to higher costs
  - Shift of Focus away from analysis to reporting
  - Unwanted volatility in stock prices



# Story So FAR

## *GIC RE*

- Trading at 10% of original price
- Lack of interest from retail investors
- 50% subscription from LIC



## *ICICI*

- Prudential listed at discount of 6.7%
- Lombard listed at discount of 1.66%

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# Are we READY???

*Is it the right step?*

*Is the right time?*

*Is the market ready?*



# ***APPENDIX***

# APPENDIX

## PSUs vs Private Sector (Market Share)

Private Sector	47%
New India	15%
National	11%
United India	13%
Oriental	8%

## Private Sector (Market Share)

Apollo Munich	1.0%
Bajaj Allianz	6.0%
Bharti AXA General	1.0%
Cholamandalam	2.5%
Futur Generali	1.4%
HDFC Ergo	4.8%
ICICI Lombard	8.4%
IFFCO-Tokio	4.3%
Others	1.8%
Magma HDI	0.3%
Reliance General	3.1%
Royal Sundaram	1.7%
SBI General	2.0%
Shriram General	1.6%
Tata AIG	3.3%
Universal Sompo	1.0%
Star Health	2.3%

Source: IRDAI 2016 Annual Report  
([https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral\\_NoYearList.aspx?DF=AR&mid=11.1](https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=AR&mid=11.1))

# APPENDIX

Gross Direct Premium Income			
Year	Total Market	Public Sector	Private Sector
2007	INR 278,236,400,000	168,317,500,000	109,918,900,000
2008	INR 303,518,400,000	180,307,500,000	123,210,900,000
2009	INR 346,206,500,000	206,436,500,000	139,770,000,000
2010	INR 425,764,600,000	251,518,300,000	174,246,300,000
2011	INR 528,757,700,000	305,607,400,000	223,150,300,000
2012	INR 629,726,500,000	350,221,200,000	279,505,300,000
2013	INR 706,100,100,000	385,997,100,000	320,103,000,000
2014	INR 776,410,600,000	425,509,700,000	350,900,900,000
2015	INR 873,847,600,000	476,906,800,000	396,940,800,000
2016	INR 1,140,233,200,000	602,183,700,000	538,049,500,000

*\*Excludes Stand-alone Health Insurers; Source: IRDAI Annual Reports*

*([https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral\\_NoYearList.aspx?DF=AR&mid=11.1](https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=AR&mid=11.1))*



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Year	Penetration
2001	0.56
2002	0.67
2003	0.62
2004	0.64
2005	0.61
2006	0.6
2007	0.6
2008	0.6
2009	0.6
2010	0.71
2011	0.7
2012	0.78
2013	0.8
2014	0.7
2015	0.72
2016	0.77

Product	Premium
Fire	95,380,100,000
Marine	29,174,700,000
Motor	502,505,300,000
Health	345,266,100,000
Others	308,957,200,000

Source: IRDAI 2016 Annual Report

([https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral\\_NoYearList.aspx?DF=AR&mid=11.1](https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=AR&mid=11.1))

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<https://timesofindia.indiatimes.com/business/india-business/insurance-penetration-in-india-has-risen-to-3-49-economic-survey-says/articleshow/62696220.cms>

<https://www.livemint.com/Opinion/6DkHmWvGhq6EQhiYkS3hSP/To-grow-Indian-insurers-need-IPOs.html>