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General insurers may need more capital for motor cover pool

By R Srividhya Nov 21 2011 , Chennai
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Promoters of non-life insurance companies may have to bring in more investments into their companies if the regulator, the Insurance Regulatory and Development Authority (Irda) firms up its decision to increase the third-party motor insurance pool limit, from 153 per cent now. In financial year 2010-11, capital infusion in the business by promoters of general insurance companies increased to Rs 1,021 crore from Rs 573 crore in the previous financial year. The reason was largely attributed to an increase in third-party motor pool limit from 126 to 153 per cent. Now, with the Irda hinting at a further increase in pool limits and speculations rife that the limit may be hiked to anywhere between 175-200 per cent, it becomes certain that many promoters will have to invest more capital in the companies.

Among the largest capital infusions last year was the Rs 222 crore investments by Bharti Axa Insurance, followed by the Rs 195 crore capital infusion by promoters of Future Generali. Most other players, like Royal Sundaram, Tata AIG and ICICI Lombard, also had to infuse capital that was more than what was invested in the previous year or against none in the previous financial year. The level of capital that promoters bring in this year would largely depend on the percentage by which the third-party motor pool limit is increased, experts in the business say.

"Last year, Irda's announcement came too close to the end of the financial year. This year, since the regulator has hinted it early on, the promoters could be well prepared. Still, the level of capital to be invested will depend on the percentage of increase in the motor pool limit," says Meena Nair, vice-president, India Insure Risk Management and Brokerage Services.

Banks like ICICI Bank and HDFC Bank, which have a general insurance subsidiary, may not have a problem in raising capital because they have adequate liquidity. But, whether they would want to do it at a time when the business appears to be going through a downward spiral, is the question that matters, experts say. Rising interest costs mean lesser money for people to spend and with insurance not being a top priority for many in India, the sector has been dull as well. The slowdown in economic activity and with not many new projects taking off, insurance companies have been finding it difficult to get new business.

“The next five months of the financial year will be very challenging for the insurance business because there are not many new projects coming up. Production is also down in many sectors. We are already seeing a fall in marine and engineering business. We will not see a buoyant growth as we had seen in the past few months,” says SS Gopala Rathnam, managing director, Chola MS General Insurance.