inotes
Newsletter from India's Leading Insurance Broking House
January 2014

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India Insure
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Message from the Editor

Dear Readers,

It gives me immense pleasure to reach you, again, through this issue of *inotes*.

Government-owned banks have been advised by the Finance Ministry to shift from the Corporate Agency model (where they are authorised to sell insurance products of one life and one non-life insurer) to the Insurance Broking model whereby they can sell insurance products of any or all of the Insurance Companies. This was, probably, done with the primary objective of improving the insurance penetration through the banks' vast network of branches.

However, those Banks, who have entered into a Joint Venture with Foreign Insurers to set up an Insurance Company, find themselves in a position where they have a contractual obligation to sell the products of that Joint Venture Insurance Company. It is understood that the Boards of certain Banks have passed resolutions to the effect that they will sell only the products of the Insurance Company in which they are Joint Venture Partners. The industry watchers need to wait to see how many of the Banks decide to go in for an Insurance Broking Licence.

Most of us know that, the quality and availability of key talent is crucial to success in this fast-moving insurance marketplace. Yet the industry is losing, rather than gaining talent. This issue of inotes carries a vivid article on attracting and nurturing talent in this industry. There is an impending need to drive home the fact that the insurance industry is a stable and recession-proof sector.

In the interview section of this issue, Mr. Milind Kharat, Chairman & MD, United India Insurance Company Ltd; Dr. A.K.Saxena, Chairman & MD, Oriental Insurance Company Ltd; Mr. Sanjay Dutta, Chief- Underwriting and Claims, ICICI Lombard General Insurance Company Ltd; Mr. Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance Company Ltd; Mr. Yogesh Lohiya, MD & CEO, IFFCO-Tokio General Insurance Company Ltd and Mr. Ritesh Kumar, MD and CEO, HDFC ERGO General Insurance Company Ltd; have shared their views about the Indian Insurance Industry– the market trends, the concerns and the challenges that lie ahead. I am grateful to all of them for their contributions.

With best wishes.

V G Dhanasekaran
Editor - *i-notes*

Nurturing talent in the insurance market place

The Indian insurance industry today is at a critical juncture in terms of talent management. One of the most pressing issues the industry faces at present is a serious skills shortage and a major talent pipeline challenge - with over 70 percent of senior management personnel in the industry due to retire in the coming 10 years. These talent constraints are already impeding or even derailing growth plans. Issues such as talent acquisition, better on-boarding, career planning, learning and development, compensation, rewards and succession planning are quickly becoming the key strategic challenges for most stakeholders of the insurance industry.

What is inhibiting entry of fresh talent into this industry?

The insurance industry has long struggled to compete with other glamorous industries for recruits. Why then, aren't we glamorous enough to attract young people? Insurance executives and consultants have blamed this situation on three things:

- Lack of appeal of insurance careers among college students,
- A poor reputation and
- A limited pool of trained talent

It is an unfortunate fact that the insurance industry has not positioned itself as an exciting or attractive place for new college graduates to work. The industry does not exert the desired pull on the Generation Y[1]. While the insurance sector relies primarily on college graduates to fill junior positions, it is becoming increasingly difficult to recruit top graduates from premier institutes. Youngsters prefer a career in the bustling financial markets, an industry seen as being more exciting than "boring" insurance. Accordingly, research also reveals that the level of insurance literacy among college students is low. Those students who are familiar with insurance generally know only about sales agent careers and are unaware of the diversity of professional disciplines within insurance and the many job roles and opportunities the industry has to offer.

In terms of reputation too, the industry does not have the spark to attract legions of young talented graduates. Even overseas the situation is more or less the same. A student survey in 2010 by Chartered Insurance Institute (CII) found that 83% of students would not consider insurance as a career option and insurance was ranked a lowly 20th out of 21 industries that students were interested in. **Graduates perception of the insurance market tends to involve the image of agents selling life/motor policies without appreciating the multi-faceted activities in insurance** like underwriting, claims, reinsurance etc. The fact that there is a place for everybody in the insurance industry; be it a people person (marketing/ client servicing) or a numbers person (analyst / actuary) or a technical person (Underwriter/ surveyor) needs to be highlighted to capture the interest of young people.

The difficulty of sustaining the talent pipeline was also highlighted in a 2011 PWC survey of Generation Y from around the world, which found that 12% of the 4,000 graduates taking part in a poll would not want to work in insurance because of its 'image'. Among Asian graduates, the proportion was more than 20%.

The limited pool of trained insurance talent in India is quickly drying up with experts either relocating overseas or to other industries (eg- many insurance professionals have moved to the IT industry as business analysts) in pursuit of lucrative opportunities or retiring - a trend that's going to impact the industry and its customers for years to come. However, the industry has not been successful yet in replacing this brain drain at the same pace. When the seasoned professional leaves or retires, they take with them the wealth of knowledge acquired as a result of their association with the industry. The challenge now is to pass the baton to the new generation in such a way that it preserves our base of institutional knowledge and increases our competitiveness.

Nurturing future talent for India's growing insurance industry

To deliver value; the insurance fraternity must fully understand and leverage their most important asset: their people. Indian insurers are starting to recognize the value of nurturing talent and succession planning, although

[1] *The generation of people born during the 1980s and early 1990s.*

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in many cases there appears to be a substantial gap between intention and reality.

Nurturing talent is about providing opportunities for people with the highest potential in an organization to learn, develop, gain useful experience and progress in their careers. It means stimulating and retaining the people who are destined to play a major role in the future of the organization and in a broader view, the insurance industry. The aim is therefore to hire exceptional people and provide them great opportunities to build their capabilities and their careers across multiple functions and geographies.

How then can we attract and nurture talent in this industry?

The Insurance industry today faces an uphill task in bridging this talent gap. It's time the industry leaders put on their thinking hats to explore proactive and sustainable ways to attract and nurture talent. Few areas in which the industry can join hands include:

Investing in the existing Workforce

The insurance industry should not look to just acquire talent, but develop and grow talent. Recognizing, coaching and developing talent within an organization in line with business strategy is of paramount importance. Every employee in an organization has talent; therefore the job of the senior team is to ensure that everyone realizes their full potential. Unfortunately we lose people before they get a sense of what life could be like if they stuck around in this industry. Hence, handholding/mentoring of new joinees is critical to retain them. Developing a pipeline of talent internally is the best way to engage employees and leverage the experience and knowledge that the organization has invested in them. The key is to have the right people, in the right place, at the right time.

Raise insurance awareness among college students and redefine the industry's image

Only a small percentage of qualified graduates take up insurance jobs today; the rest go into other fields such as investment banking, mutual funds, stock broking, law, medicine, engineering, consulting, software development etc. These choices are often shaped by a lack of awareness of the opportunities in insurance.

- The industry should work more closely with universities by conducting various seminars / workshops that create awareness and help persuade students to join the profession.
- We can also look at tie-ups with various career counselors and placement agencies; that can shed light on the prospects in the insurance industry to the potential students.
- The compensation levels at the junior levels also need a revision to attract the best talent.
- Professional institutes and associations like the Insurance Institute of India, National Insurance Academy, Actuarial Society of India, Indian Institute of Insurance Surveyors & Loss Assessors, Institute of Insurance and Risk Management and others are in the best position to raise awareness as they have keen insights into the needs and opportunities of specific professions and have large memberships needed to spur change.

The young generation also needs to be made aware of the fact that insurance is one of the biggest and most diverse industries. It involves and indeed, couldn't operate without - people trained in finance, medicine, marketing, engineering, advertising, IT and law; as well as people with underwriting, actuarial and management skills. Insurance, in fact, encompasses more professions than any other industry.

The negative image that has long haloed the industry should be shed with a massive public relations and advertising campaign. **The fact that the insurance industry is a stable and recession-proof sector needs to be branded aggressively.** Unlike banks, insurers globally have shown rather remarkable resilience during the financial crisis is an example to prove this point. **The future MBAs, law and engineering students should be made to realize that insurance offers exciting, challenging and vibrant careers.** We need to talk about the kind of research and creative thinking that allows for the development of new insurance products to protect against new risks like cloud computing, nano technology, cyber crime, bio-terrorism etc. For this industry to be successful going forward, we need to have top notch young people who need to be told what the opportunities are.

Work closely with Universities to include insurance and risk management subjects in their coursework

Including risk management and insurance subjects in the course curriculum would make young graduates better potential employees to the insurance industry. By producing graduates with the basic knowledge of insurance and the needed skill sets, the transition time reduces for new hires in the organization and the return on their investment is seen more quickly. But while numbers are important, colleges also need to raise the bar on student quality.

Internship program: An internship program can also be offered to the students along with the course work to give them a first-hand experience of the insurance industry. The internship program will help students connect their educational experience with the competencies demanded of them by future employers.

Mentoring: Mentoring these students during their graduate years is an investment worth making as the mentors can model the attitudes and aptitudes needed to succeed in this industry. The mentors can enhance the academic experience by serving as role models, coaches and advisors to students as they ponder career choices and consider how to best apply and advance their newly acquired skills in the pursuit of their professional and personal goals.

Finishing Schools: Finishing schools can bridge the gap between industry and educational institutions by offering a pre-employment training program which help students get the required Industry know-how & competency to be productive from day-one. While colleges provide technical education, finishing schools add to it and teach students what is not taught in their books- the practical knowledge. The industry can partner in structuring finishing schools where bright students interested in pursuing a career in the insurance industry are admitted and trained in the student's area of interest - be it underwriting, claims, broking, reinsurance etc. The finishing school concept would be very successful if there is a strong synergetic partnership between Universities, Industry and Industry associations.

Course Correction and Collaboration is required

The industry's main stakeholders — insurers, reinsurers, brokers, agents, TPA's, surveyors, professional associations must proceed with a unified voice to improve the industry's reputation, build awareness of various opportunities among students, expand the number of graduates from colleges of insurance and risk management and improve the education and training that risk professionals receive. The industry will need to collaborate in unprecedented ways to marshal the necessary resources to redefine its image. The stakes for insurers are simply too large to ignore since human capital is the critical element to business success. Now is the time to start the journey to transform our profession into something better than it is today. Our future and the future of the insurance industry, depends on it.

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Interview – *Insurers*

In the interview section this issue, we have Mr. Milind Kharat, Chairman & MD, United India Insurance Company Ltd; Dr. A K Saxena, Chairman & MD, Oriental Insurance Company Ltd; Mr. Sanjay Dutta, Chief- Underwriting and Claims, ICICI Lombard General Insurance Company Ltd; Mr. Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance Company Ltd; Mr. Yogesh Lohiya, MD & CEO, IFFCO-Tokio General Insurance Company Ltd; and Mr. Ritesh Kumar, MD and CEO, HDFC ERGO General Insurance Company Ltd; sharing their views on the trends, challenges and concerns of the insurance industry today.

The non-life insurance penetration in India continues to remain dismal. What according to you needs to be done to improve the penetration levels?

Mr. Milind Kharat, United India: Even after a decade of opening up of the Indian insurance industry, the non-life insurance penetration remains at a dismal 0.70% of the GDP. This is because of the lack of insurance awareness and also as the insuring public do not consider non-life insurance as a risk protection measure. The Indian mindset is made up on the savings culture. The tax benefits that were available and were the driving force of the life insurance business in the Country, are deep rooted in the minds of the public. They buy insurance as a savings instrument rather than a risk protection. Insurance awareness is required to be created and people should be encouraged to buy insurance as a risk protection, in case of any eventual losses. We have taken up an initiative to create such awareness among the school children, with a view that if you 'catch them young' the concept is imprinted in their mind and they would develop into informed citizens who would be able to handle and take protection for the risks that they may face in their daily life.

Dr. A K Saxena, Oriental Insurance : According to me good publicity is required for improving the insurance awareness. The message needs to be spread far and wide, to the remote corners of the country. This is not only the responsibility of the insurers but also that of the other stakeholders. i.e. agents, brokers, Banks through Bancassurance, Media etc. All have to play an important role in this. In India, insurance, as a product is still not bought but sold. Constant follow up is required. Mass contact needs to be established to help create awareness among all individuals about the role of insurance and create demand for insurance both among individuals and SMEs.

Mr. Sanjay Dutta, ICICI Lombard : The Industry is in an interesting phase of evolution and while the Government and the Regulator have already taken quite a few steps, there is scope to do lot more. Following are some of the initiatives that would further drive insurance penetration:

Product Related Issues

- Base wordings de-tariffing for commercial lines of business
- Formation of a declined risks pool for health insurance
- Allow for long-term products, including health
- Allow for savings linked products in general insurance as well
- Micro-insurance regulations should allow for greater product flexibility : offering of a packaged product including life and savings component
- Enable instalment payment on a selective basis especially for the rural and micro segments

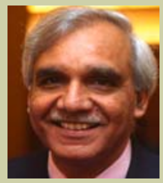
Distribution Reforms

- Allow for higher commissions in case of rural and micro segments
- E Governance
- Allow soft copy of policy as a valid document
- Implementation of ACORD standards for EDI, to enable effective data exchange wherever required

Capability Building

- Creation of talent pool by working through educational institutes
- Creation of Infrastructure for availability of data to enable accurate pricing. IIB to start publishing industry reports as recommended
- Increase the FDI cap in insurance to 49%
- Disaster Risk Financing and Universal Health Cover implemented through Insurance mechanism

Mr. Tapan Singhel, Bajaj Allianz: Yes it's a reality that the penetration of non-life insurance industry is low. I think the industry has to really work hard on distribution of personal lines of insurance and spread in the rural areas. But this is easier said than done as the operational cost can be a challenge in itself. I believe this can only be done through smart use of technology available and above all which is easily accessible and affordable. Telecom density is higher in rural areas and so is the increasing broadband connectivity. If we can leverage these developments then we can definitely improve the penetration levels.



Mr. Yogesh Lohiya, IFFCO-Tokio: Non life insurance penetration is not only low but is declining. To reverse the trend and increase the penetration concerted efforts are required to be taken by the industry as a whole and by addressing some of the following issues.

- Foremost being increasing the Public awareness for need of insurance and its benefits. To enhance the awareness level on various insurance products and how they work in principle to mitigate the unforeseen risks, sufficient investment is required to be made both by industry and the government.
- Unconventional Distribution Network: The authority needs to look at relaxing undue control on distribution channels since this is impacting the channel innovations and growth which is a requisite for higher penetration. While it is necessary to protect the policy holder against mis-selling, rigorous regulations and overbearing control on the distribution mechanism may kill the initiative itself. This is also time to go for development of new / unconventional distribution channel specially for retail rural markets
- Long period insurance coverage: General Insurance being an annual policy, lapse ratio for policies, except commercial and private car vehicles, is very high. This is primarily due to the fact that the annual premium ticket size is small and consequently remuneration to the intermediary is low. This requires either bundling of the products in one policy to increase the ticket size or allow to issue long period insurance coverage.
- Improving the industry image with the General public. Building of the constructive and positive image of the Industry is the role which the Insurer, Regulator and Government have to play jointly.

  The positive fact is that the Authority has already started taking initiative in this direction. The Authority has already licensed CSC-SPV for selling insurance through their network of Common Service Centres, banks being asked to become Brokers and brokers are likely to be allowed to appoint sub-brokers. These initiatives will definitely bring results which will be reflective in times to come. I am

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proud to mention that IFFCO-TOKIO has been the first company to sign MOU with CSC-SPV for selling insurance products through their channel.

Mr. Ritesh Kumar, HDFC ERGO: The insurance penetration in the country has been a challenge for a long time. It goes without saying that today insurance is the need of each and every citizen. However, the challenge has been to provide the right product at the right price . As compared to a lot of other comparable countries, the average ticket size per policy is very low in the country. Given the low affordability it becomes extremely challenging to reach out to micro markets and distribute insurance products in a cost effective manner. The traditional agents have found it unviable to distribute low cost products in the markets where the cost of distribution far exceed the viability benchmarks.

- Only technology led distribution can further improve the penetration levels in the market. One has seen that Govt. led schemes such as RSBY have greatly helped distribution to population which has so far been deprived of the insurance benefits. These schemes have addressed the affordability issue by subsidizing the premia and have supported the use of smart cards in a big way.
- The CSC initiative launched by the Govt. can prove to be huge step in creating a low cost distribution network which can reach out to each and every nook and corner of the country.
- Relaxation of agency licensing requirements on the lines of CSC model, can go a long way in helping agents to reach out to smaller markets and increase penetration.
- Initiatives to bundle simple standard insurance products along with other core products already sold in these markets can certainly help increase penetration levels.

Pricing across all lines of insurance continue to be irrational. How long do you think this trend would continue and what is the impact this has had on the Indian Insurance industry?

Mr. Milind Kharat : Pricing of non-life products are based on the probability of historical claims losses and various other factors including salient features of risks and the investment income that has become volatile nowadays. The uncertainty encompassing all factors that go into pricing poses a challenge and it creates a scenario where the pricing appears irrational. But, insurers collect data, do their internal research and factor in actuarial assumptions to rationally price the products. Absence of credible data is another factor that makes pricing challenging. Use of Information Technology and collection of centralized data would help analyse the perils, events and accidents that would enable the insurers to adopt scientific principles to price the products. Insurance Information Bureau, an IRDA initiative, has already created a database in Motor and Health segments and the data could be accessed for further study by the insurers. Similar initiatives should also be taken up by the insurers collectively for the overall benefits and also to price the risks appropriately.

Dr. A.K. Saxena : No denying the fact that it is making adverse impact on the industry. Correction in price is not in the hands of any single insurer. It is an industry phenomenon. Insurance Companies, singularly, cannot take corrective measures. It's only when industry is made to move towards risk based pricing and more stringent checks on provisions for liabilities are introduced that the companies cannot get away with hiding their liabilities or indulge in wrongful denial of claims and only then can we expect some sanity to prevail in pricing of risks.

Mr. Sanjay Dutta : For most part, this is a part of the evolution cycle of insurance industry in India. We have had liberalization of insurance and de-tariffing as two major steps in the last decade and a half. The challenge before the industry today is to create differentiating factors and entry barriers which would command a premium. Irrational pricing can play a significant role only in a commoditized market. We are already beginning to see signs of improvement in the risk understanding and pricing behaviour by some companies, the market is in an interesting phase of evolution.

Mr. Tapan Singhel : Pricing continues to be irrational as clients, distributors and other stakeholders are yet to unleash the real power of free pricing. Claims is a reality and can happen anytime if not the current policy year, then in the coming years. So effectively an insurer is not providing protection in the policy year but postponing the risk to the next year. I firmly believe that if the pricing is not adequate claims payment will be the first casualty in customer services. The biggest advantage of free pricing is to price a risk as per the risk profile i.e. reward a good risk and penalise bad risks. If this happens then automatically the prices would be rational enough for all stakeholders. This will also provide a fillip to product innovation and higher customization to customers so that they are comprehensively covered. In order to make this happen all stakeholders should look at their insurance partners' key financial parameters like underwriting profit, combined ratio, reinsurance programmes etc. while placing their business.

Mr. Yogesh Lohiya : Irrational pricing is the result of too many chasing the same basket. With market expansion and increased penetration the irrational pricing will also see correction.

Irrational pricing has definitely an adverse impact on the industry but one thing which we should not forget that with this pricing also general insurance industry results, except for motor pool period of 2010-11 to 2012-13, are not bad when compared to the so called rational pricing regime. The current pricing situation has compelled the insurer to reduce management expenses which have gone un-checked in the past. There are serious efforts on process improvement and thus reducing servicing cost. IT has played a crucial role in this area of improvement. Process effectiveness and quality management has improved organisation ability to handle pricing competition.

Mr. Ritesh Kumar : This is growth in the market share of these products. It would not be fair to say that pricing across all product lines is irrational. There may be some areas which continue to find the right pricing levels, but most product lines today, particularly on the retail side, the pricing seems to have stabilized to a realistic level. This is borne out by the fact that the underwriting results of the industry have started to improve significantly first time after the de-tarifiing. We must keep in mind that for a market which remained under a tariff regime for such a long time, it had to take time for the pricing to stabilize. The only product line on the retail side which remain under priced even today is the motor TP business. We all know that the pricing here is mandated and is not market driven.

On the corporate side barring Group Health, the pricing seems to have found the realistic level to a large extent. The property business which is largely reinsurance driven has seen pricing stabilization under the pressure of hardening of terms and dwindling reinsurance capacity.

The pricing liberalization has had a huge impact on the industry. It has helped rationalize prices for most product lines. Today most products have to be priced on their own merits with no cross subsidy from other product lines is available as in the past. As a result the industry has taken steps to spread insurance penetration to newer markets. The penetration has increased from .6% of GDP in FY 2001 to .8% in FY 2013. We have seen significant growth of the retail business over the

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Report Card - November 2013

Gross premium underwritten by non life industry for and up to the month of November 2013* **(Rs. In crores)**

INSURER	NOVEMBER 2013	NOVEMBER 2012	GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR (%)	APRIL - NOVEMBER 2013	APRIL - NOVEMBER 2012	GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR (%)
New India	790	680	16.1	7420	6507	14.0
United India	738	721	2.2	6636	6229	6.5
National	712	687	3.7	6272	5720	9.7
Oriental	493	478	3.1	4724	4266	10.7
ICICI-Lombard	538	547	-1.6	4530	3968	14.2
Bajaj Allianz	328	295	11.2	2928	2506	16.9
AIC	178	161	10.7	2307	2173	6.1
IFFCO-Tokio	170	181	-6.2	1913	1665	14.9
HDFC ERGO	180	177	1.7	1869	1601	16.7
Reliance	196	163	20.1	1669	1373	21.5
Tata-AIG	174	151	15.6	1579	1354	16.6
Cholamandalam	135	130	3.5	1171	1057	10.7
Shriram	120	126	-4.3	987	954	3.4
Royal Sundaram	117	130	-10.0	974	1013	-3.8
Bharti AXA	118	99	19.7	935	773	20.9
ECGC	119	93	27.8	817	727	12.3
Future Generali	93	84	10.3	803	723	11.1
SBI General	90	67	35.2	727	425	70.9
Star Health	82	58	41.0	638	513	24.4
Universal Sompo	35	37	-4.4	347	331	4.9
Apollo Munich	44	55	-19.1	318	318	0.02
Magma HDI	33	11	217.2	236	16	1367.2
Max BUPA	22	13	62.8	177	105	68.9
L&T General	18	11	59.6	160	105	52.3
Religare	9	2	476.4	96	17	481.9
Liberty	11			62		
Raheja QBE	2	2	-29.3	16	14	13.0
PRIVATE TOTAL	2516	2338	7.6	22133	18829	17.5
PUBLIC TOTAL	3029	2820	7.4	28175	25622	10.0
GRAND TOTAL	5545	5158	7.5	50308	44451	13.2

* Source : IRDA

Observations: Performance for April - November 2013

- The non-life industry has registered a growth rate of 13.2% up to the month of Nov 2013. Total premium collected by general insurers up to the month of Nov 2013 was Rs. 50308 crores vis-a-vis Rs. 44451 crores up to November 2012.
- The accretion achieved by the PSU's during the April to November 2013 is Rs. 2553 crore while the private players have achieved Rs. 3303 crore towards the overall market accretion of Rs. 5856 crore.
- The PSU's have registered growth rate of 10% during the period April -November 2013 vis -a-vis 17.5% for the same period last year while the private players have registered a growth rate of 17.5% during this period compared to last year's 22%.
- The major Contributors have been: New India with an accretion of Rs. 913 Crores, ICICI Lombard with an accretion of Rs.563 crores, National with an accretion of Rs. 553 crores and Oriental with an accretion of Rs.458 crores.
- In terms of growth rate during the period April-November 2013, SBI General registered a growth of 70.9% followed by L&T General 52.3%, Reliance 21.5% , Bharti AXA 20.9%, Bajaj Allianz 16.9%, HDFC Ergo at 16.7% .
- The market share of PSU's has decreased collectively from 57.6% to 56% during the period of April-November 2013 while the private players have increased their market share collectively from 42.4% to 44% during the same period.The gap between Oriental at the 4th position and ICICI at the 5th position is narrowing with the former at 9.4% market share and the latter at 9%.

years. Motor has grown from 40% in FY 2001 to 46% in FY 2013. Similarly, the Accident and Health business has grown from 9% in FY 2001 to 26% in FY 2013.

How has the situation changed in motor third party insurance after creation of the declined risk pool?

Mr. Milind Kharat : Compared to the erstwhile Third Party Pool, the decline pool mechanism has been encouraging. The Companies have the freedom to choose or decline and share the declined pool risks only. Thereby, the companies are able to assess the risks associated with the Third Party Business in the motor segment, and accordingly underwrite the business. Since, the ownership for acceptance is now with the respective companies, prudent underwriting is the key while accepting the Third party business, even though its mandatory nature and the unlimited liability are posing challenges. The demand for aligning the premium to the ICR in this segment has been accepted by the Regulator.

Dr. A.K. Saxena : Not so significantly. Of course, it did make a big impact by way of removing the supply side constraints. However, in our country, still a significant number of vehicles run on the roads without insurance, due to lack of awareness of the statutory requirement on one hand and on the other the huge risk they are taking when they drive in public spaces without the third party insurance. Unless the Police and the Road Transport Dept. Officials carry out vigorous checks and prevent such vehicles from plying without the mandatory Third Party insurance, we cannot expect the objective to be fully served, the objective of all vehicles plying on the public roads to have the MV Act mandated insurance cover protecting the third parties.

Mr. Sanjay Dutta : The size of the declined risk pool is not as much as was initially anticipated, which is a very positive development. This implies that most risks are insurable with minor tweaks in the current pricing framework. The uninsurable risks must either bear a substantial hike or be significantly subsidized by the Government.

The motor third party insurance market is hence likely to be treated similar to other lines of business in the future.

Mr. Tapan Singhel : The creation of declined risk pool has somewhat lowered the risk for insurers. Since the pool size is lower than the erstwhile motor third party pool the risk is low. The regulator has just announced the ultimate loss ratio of 210% for the pool and will impact those players who have not fulfilled their quota of declined third party risks. I am of the firm opinion that even this pool be abolished by bringing the third party premium also in the free price regime. This will automatically bring in discipline and increase claims efficiencies.

Mr. Yogesh Lohiya : The creation of declined risk pool is definitely a welcome change when compared to the erstwhile Motor Third Party Pool the results of which had made the general insurance business unviable. The increase in Motor Third Party Premium coupled with the freedom of underwriting the portfolio, is definitely an improvement on the bottom line and is evident in the financial results of the insurers. But this arrangement too requires to be changed. Creation of a pool is short term solution. It's been seen world- wide that a pool is only short gap solution.

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Readers Speak

Would the new IRDA regulations allowing bank to act as brokers lead to much needed deeper penetration and enhance distribution for the insurance industry?

In the last issue of inotes, we had invited our Readers opinion on the above topic.

Response from Mr. Arvind Laddha, CEO, Vantage Insurance Brokers Pvt Ltd.

The proposal to allow Banks to function as Brokers has been much debated, with various sections of the insurance industry placing their views in favour or against, depending on the perspective they sought to convey. It is now a reality and one needs to examine the impact it is likely to have in the coming times.

PSU Banks and the top few Private Banks have a network of branches that is wider than any private insurance company. It is therefore natural that the distribution capacity of the insurance industry will increase manifold, once the banks start acting as insurance brokers. The benefits of this wider network may not flow automatically, as there are a few other factors that need to be taken into account. If past trends are anything to go by, banks are likely to initially focus on life insurance products, where LIC already has a presence that is much wider. Banks may also prefer to initially focus on Tier 1 and 2 cities, as can be seen from the manner in which they have distributed Mutual Funds. Further, we also need to see the strategy that is adopted by banks, which have promoted insurance companies. In the short term therefore we may not see any significant impact in the penetration levels.

However, in due course as banks decide their market strategy, put in place the adequate infrastructure and train their workforce, we do expect penetration to grow. This is also likely to benefit customers, as banks can offer a wider choice and as a broker, the fiduciary responsibility of banks is also higher. This is therefore a move in the right direction and the insurance industry should be able to reap its benefits in the long term.

Response from Mr. Kishore K Panda, DGM, United India Insurance Co. Ltd; Regional Office, Pune

While IRDA regulation on Banks to act as Brokers aims at the much needed penetration of insurance to uninsured population and area by leveraging its network, the challenges are huge. Separate out fit to dedicated insurance service entails placement of skilled manpower, both in back and front office which is not cost effective for them. Domain knowledge in general insurance is acquired over long period of experience. Claims management is another area of challenge. More over the Banks core competency in banking shall get diluted. BA business even now is only 1% of the total business inspite of 10 years of operation.

As of today conventional brokers have hardly generated new business for the industry, these have not found rural area to be attractive where bank, with large network may fit in.

Response from Mr. A. Ajithkumar, Divisional Manager, United India Insurance Co. Ltd; Div. Office No-VI, Malleswaram, Bangalore

By the introduction of the new regulation by IRDA of allowing banks to act as brokers, I feel that this is a further systemization of the existing bank-assurance. This will bring back the old system of banks arranging insurance policies for their customers through any insurer and wherein the bank would arrange insurance to the extent of bank's financial interest only. Earlier time they had no benefit other than protecting their interest on the assets. But now this will provide them a good sum of brokerage with the help of their vast client base and with almost no effort for the administration of the same.

Based on my vast marketing experience, I believe, due to this opening, banks would derive more benefit as they can use the large customer database readily available with them. Similarly, since today almost every village has a bank / ATM / Business Correspondent, this will help insurance reach the true India and thus increase the penetration levels of the insurance industry. However, this would take a long time as initially they will be tapping business from their own clients only and I do not see the penetration levels increasing in the near future. I expect that this opening would increase the penetration levels of the retail insurance products and the mandatory insurance policies as well which otherwise receive a step-motherly treatment from the existing distribution channels of insurance industry.

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Next Issue:

Bridging the Talent gap in the Insurance Industry

The Indian insurance market has exploded over the past decade. There is more demand than supply of trained manpower and the talent pool is fast shrinking. One of the most serious problems facing the insurance industry today is the acute shortage of bright, young people from premiere institutes entering the profession.

What do you think is inhibiting the entry of fresh talent into this industry? With over 70% of senior management personnel in the industry due to retire in the coming 10 years; what can be done to close the talent gap? What steps should be taken by the industry to improve its packaging and attract intellectual talent?

Your opinion is solicited.

Please send your responses in 200 - 300 words to knowledge@indiainsure.com

Interview – Insurers.... Contd. # 5

Eventually the portfolio needs to be made viable either in terms of pricing or by limiting the liability in line with the pricing and thereby doing away the need for a compulsory pool.

Mr. Ritesh Kumar : The dynamics of the TP business has significantly changed after creation of the TP Declined Risk Pool. While having addressed the supply side constraints it has also given flexibility to the insurers to decide which class of TP business suits their strategy the best. One finds that today most insurers are willing to write this business from which they stayed away in the past. This is clearly demonstrated in considerable reduction in the size of the Declined Risk Pool as compared to the Motor TP Pool. What has had greater impact is the formula based inflation adjusted pricing correction mechanism for the TP business. As a result the UW losses of the entire non - life industry have reduced. However, the pricing still remains inadequate and if corrective steps are not taken soon we may again find the UW losses mounting for the industry.

What are the main challenges and concerns that insurers are facing in the industry today? What are the growth engines for the non-life industry?

Mr. Milind Kharat : Lately, aggressive business practices employed by the industry raise a red flag in the industry. Slowing economy, auto sales and the prolonged evasive recovery in the global economy, are all concerns faced by the industry. Except for few infrastructure projects,

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capital formation has been slow in the country over the last year. Industrial players have also taken a cautious stand and new projects are taken up with skepticism. Non-life insurance industry which is dependent on the manufacturing sector for bulk of its business is impacted by these events in the economy. However, the retail segment especially Health and Motor would be the growth drivers. The industry should survey the customer preferences and introduce innovative products to attract the Next-Gen wave of customers who demand value for money. The SME sector is another segment which can be a growth driver for non-life premium growth. However, growth is dependent on the industry's ability to understand customer preferences and provide affordable risk solutions.

Dr. A.K. Saxena : I think the most important concern is the ever falling premium rates leading to lesser and lesser margins to the insurers. A little underwriting surplus is needed each year so that the insurers get stronger year on year so that retention levels increase thereby saving precious foreign exchange and dependence on foreign reinsurers.

Another major challenge is tapping of the insurance potential from the rural areas. This needs cost effective reach and willing partners and development of more channels of distribution.

The growth engines appear to be Health as well as Motor insurance segments. Infrastructure sector is currently stagnant but, in the long run should sustain the growth of the insurance industry along with Health and Motor lines of business.

Mr. Sanjay Dutta : The challenges and concerns facing the insurers in the industry today are addressed in part 1 of the questionnaire. If these are resolved, insurance penetration is likely to increase.

Following are the growth engines for the non-life industry currently:

For Motor insurance segment:

- Sales of new private cars driven by increasing affordability of the Indian middle class
- Sales of the high end segment being driven by increasing number of people in the elite segment as well as trend of increasing consumerism
- Sales of commercial vehicles being driven by the economic and road infrastructure development
- Increase in penetration of insurance for two wheelers, for which convenience driven by technology is a major factor

For Employer-Employee Health insurance segment:

- Increasing population segment in the 'employability' range
- Providing quality care at optimum cost

For Government subsidized Health Segment

- Introduction of health schemes by central and state Governments
- Partnerships with MFIs, SHGs, NGOs
- Use of Technology for servicing as well as for fraud control, hospital management, disease pattern identification

For Retail Health Segment

- Shift from a savings society to a credit society
- Increasing number of nuclear families
- Changing disease profiles including lifestyle diseases like cancer and cardiac
- Increasing cost of healthcare
- Higher levels of "good health" consciousness
- Higher confidence in service delivery

For Property and Marine

- Infrastructure development
- FDI & other Investment
- Growth in manufacturing sector and economic development
- Increase in trade, including foreign trade

Mr. Tapan Singhel : Growth will be a challenge in the coming months as I do not see any visible revival signs immediately. This will naturally affect profitability which in turn affects customer services as I believe that only a strong and profitable player can provide the best possible services to its customers.

But there are silver linings if one clearly look beyond the clouds. Health insurance is a promising line of business considering the health inflation and lower healthcare spend among the vast majority of our population. Some other lines of business like Liability, Aviation and Crop insurance also likely to grow as they are still untapped and awareness is slowly growing.

Mr. Yogesh Lohiya : Years 2010-11 to 2012-13 have been very bad for General Insurance Industry. Insurers having no control on losses coming from the erstwhile motor pool were not able to plan the business. This situation has resulted into capital requirements and promoters were reluctant to support due to no sign of positive bottom-line. Apart from this, rapid and too many changes in regulations have also made insurers clueless on how to adjust business since time to implement has been too short.

General Insurance industry is witnessing growth coming from retail products and within this primarily from Motor and Health. Further this growth is also urban centric. The need of the time for the industry is to build portfolio in other product lines and also open to markets in B & C class cities and rural areas. The key challenge shall be creating the necessary infrastructure for sales and service. This would require insurers to understand insurance needs of rural masses, spreading general insurance awareness, building up effective distribution channels operating with technology and innovative processes. Recent guidelines of IRDA on utilisation of Common Service Centres (CSC) to reach out to rural India by life and non-life insurers may be a big enabler in this direction.

Mr. Ritesh Kumar : The growth and profitability are the main challenges for the industry today. While profitability has been a concern since the detariffication & the creation of TP Pool in the year 2007, growth was something that was taken for granted. In the past decade the industry has seen robust CAGR growth of ~ 15%. After a long time the numbers are struggling to remain at 15% level, it's likely that the industry may end up reporting growth rate lower than 15% for the FY. General economic slowdown coupled with uncertain political climate has created very challenging circumstances for the insurance industry as well.

While some companies in the private sector have started reporting over-all profits, the industry on UW basis is still well above the CoR of 100%. This needs to change and fast, else the growth of the business may not be sustainable in the long run. With supply constraints having gone, the commercial vehicle TP prices needs to be market driven. The cross subsidization of this business may hamper the profitability and growth of the entire non - life industry.

While 44% of business in PSU's is through agents and 16% through brokers; for Private insurers, it is an equal 26% from each of these channels. Does it indicate that PSU insurers remain sceptical about embracing brokers?

Mr. Milind Kharat : Traditionally, insurance business in India has been driven by agents, as they could penetrate the hinterlands to spread the message of insurance. Brokers serve the corporate clients well, apart from scouting for a suitable risk transfer solution; they are supposed to

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provide risk management advices to the clients. Hence, they have been focussing on big manufacturing units and High net worth clients. Retail business is driven by agents who are able to convince the insuring public about the risk protection insurance would provide them. As mentioned elsewhere, retail business is going to be the growth engine for non-life business. However, with the Government's initiative to open place of business in Tier III and Tier IV or V towns as part of the Financial Inclusion initiative, we believe, the insurance penetration would also move northwards. The PSUs are also rendering focused and value added service to the brokers. The proportion of broker business is continuously growing for PSUs. Therefore there is no skepticism and on the contrary there has been collaborative approach.

Dr. A.K. Saxena : No, PSU insurers are not sceptical about the brokers. The PSU insurers have large set up and network throughout the country. Traditionally we have been working with agents much before Broking came into India. The agency force is fairly wide spread and active. However, year on year, the business through brokers is only increasing even in the case of PSUs.

On the other hand the private sector insurers are late entrants in this business. Their entry coincided with the entry of brokers in this market, so from day one, they are working with the brokers. Hence in the case of Private insurers the share of agency force and that of the brokers is different than that of PSU insurers.

The PSU insurers, of course, would like to work with brokers as much as we would like to work with any other channel. In fact the share of brokers in our business is increasing year on year. We have established dedicated offices in Metro Cities to focus on Broker generated business.

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News TitBits

General insurance mart to grow by 17% in year to March 2014

Source: The Financial Express

The non-life insurance industry in India is likely to grow at 17-18% in the current fiscal year ending 31 March 2014 with premium collections expected to touch INR 800 billion (US$12.8 billion), according to a report by India Insure, an insurance broking firm. The report says the middle class will contribute to the growth, particularly in the health segment. In addition, insurance penetration in rural areas is expected to increase exponentially during the current fiscal year, with the sector regulator, the IRDA, allowing banks to sell products of multiple insurers.

For greater connect, IRDA plans health insurance info grid

Source: The Financial Express

The Insurance Information Bureau (IIB), through IRDA, plans to connect with TPAs, insurers and hospitals to evolve and maintain a health insurance information grid. This will help the health insurance industry develop a rationalized system of insurance claims management, leading to transparent treatment costs and efficient pricing of health insurance products. IIB has been collecting health insurance transaction level data from insurers and TPAs for the last several years and publishing useful reports after analysing the data.

IRDA plans to have unique identity number for hospitals

Source: Business Standard

IRDA through the Insurance Information Bureau (IIB) has begun an initiative to have a unique identity number for hospitals. This, said IRDA chairman TS Vijayan, will help them identify the hospitals and also collect information on the charges for different procedures. "We are collecting transactional data from health insurers. We will then be able to know as to how much is charged for a particular disease/procedure, by one hospital versus another hospital," he added.

Disclaimer

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