

## GENERAL INSURANCE

# DISRUPTION Can be a Celebration

Indian general insurance was a cesspool of restrictions forcing most of the cos to bleed for years. But with the shift towards global standards, the industry is now a sunrise sector. So much so, even the govt wants to capitalise by listing its jewels, says Shilpy Sinha

Lloyd's of London is the most revered name in global insurance. It doesn't like controls like any dyed in the wool financial services giant from the capitalist world. But when it comes to India, it is willing to take what's on offer from the government and do business even if it means kicking and screaming.

It is not alone. For someone who thought of riding the general insurance wave on the back of the strength of an Indian financial giant, Prem Watsa, the Warren Buffett of Canada, is open to take a gamble on his own with a partner other than ICICI.

Watsa's 35% stake in ICICI Lombard, a unit of ICICI Bank, is on the block. And he is pitching for a license from the Insurance Regulatory and Development Authority of India (IRDAI) to open a general insurance shop that would compete with state-owned giants like New India Assurance & Oriental Insurance and private players like HDFC Ergo.

In the 17 years since the private sector general insurance companies were permitted to write policies, hardly anything changed for nearly a decade. Almost every company was reporting losses because of controlled pricing and the way claims were settled. But that may change for the better:

"New companies that are coming in will have very little to destabilise market dynamics when the industry is at ₹1.25 lakh crore," said Joydeep Roy, leader-insurance, PwC India. "Industry was giving discounts to grab market share and that is going to change now."

Other than Lloyd's which is opening a branch for reinsurance, Edelweiss, the DHFL conglomerate are also vying to compete with Watsa's firm. Global reinsurers like Swiss Re and Munich Re have applied and seek to challenge the monopoly of GIC Re in India.

The Indian general insurance industry, which deals with writing policies from motorcycles, cars, trucks to health insurance (provides for hospitalisation expenses), comprises 29 companies and generates an annual premium of ₹1.25 lakh crore. It is still dominated by the public sector companies, but the likes of ICICI Lombard, Bajaj Allianz General Insurance and HDFC Ergo have made strides with advancing market share. It is ranked 18th among 88 nations.

Stars are aligning for the business to

get more profitable now than in the past – be it technology or the changes in regulations, including the provisions of the Motor Vehicles Act, and the improving data availability with the information bureau helping to eliminate frauds.

It all changed in 2007 when the insurance regulator brought in the detarification policy, except for third party motor insurance where the regulator retains price control. It has raised third party premium rate by 100% in the last five years. Now, companies are responsible for assessing risk and protecting their profits.

For cars below

the next few years, this segment would start providing reasonable economic profit," said Bajaj Allianz in its last annual report.

The Motor Vehicles Bill 2016 proposed hefty penalties for violating road safety rules and this is expected to boost car insurance growth.

K Sanath Kumar, chairman, National Insurance Company, said that about half of the vehicles and majority of two-wheelers have no insurance despite the fact that third party insurance is mandatory under the law.

One of the major provisions in the

involving an automobile.

"Third party motor claims of ₹15,000 crore so far has been a drag on profitability of general insurance companies," said Bhargav Dasgupta, MD and CEO, ICICI Lombard General Insurance.

Technology is another tool that companies are betting on to lift their fortunes.

Today motor, health and travel insurance policies are sold online.

Policies are sold online or through agents, manufacturers and banks. But online sales are merely 3% compared to 30% in the US and UK.

"Disruption will come in the industry with companies focusing on pure online distribution," said Tapan Singhel, MD and CEO, Bajaj Allianz General Insurance.

Founders of Coverfox have applied for a general insurance license to sell policies primarily through online channel, on the lines of Warren Buffet's Geico in the US.

### FRAUDS BEHIND?

For the past couple of years, insurance companies have been sharing data to detect frauds in the system. They have tied up with LexisNexis and Experian to collate database on frauds.

Accordingly, they are training claims assessors to document claims decisions and have proper evidence on record to repudiate such frauds.

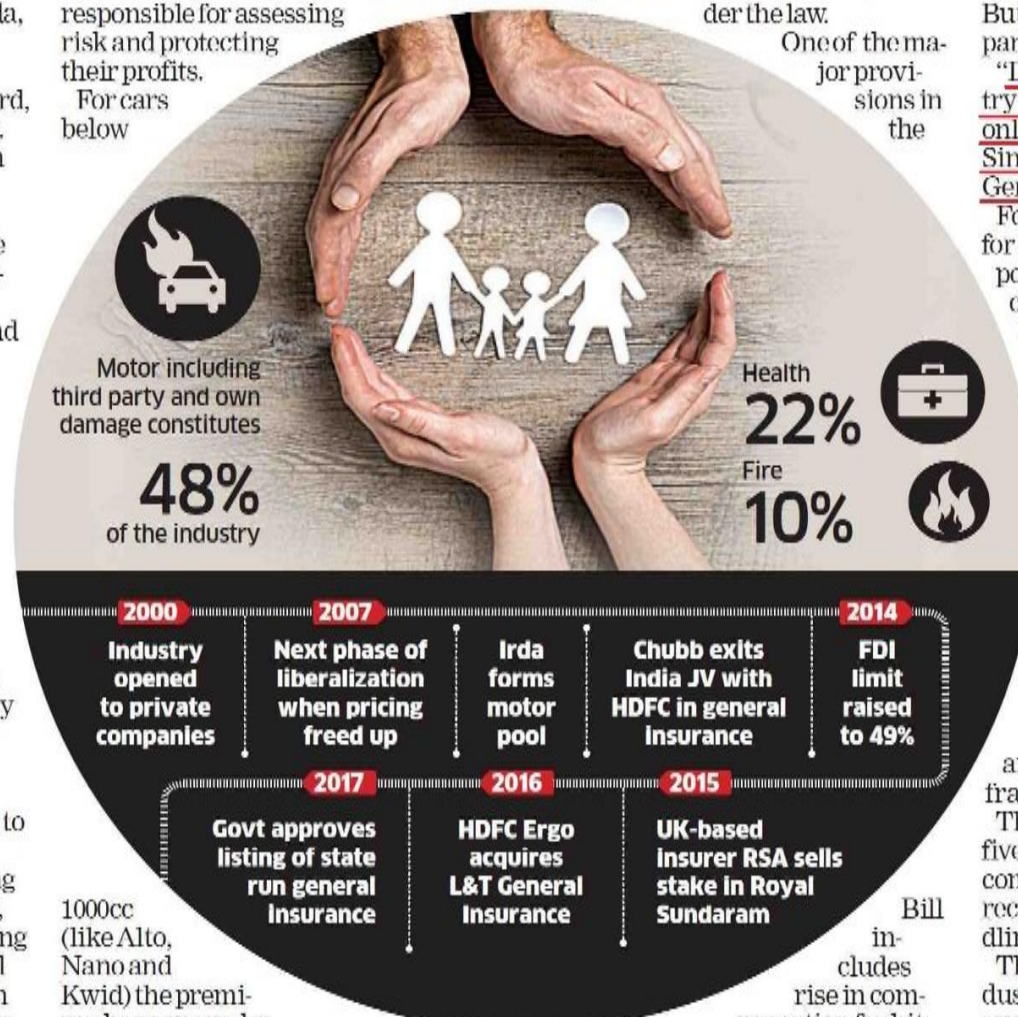
Insurers have blacklisted around 70 locations to prevent fraudulent claims.

The government's decision to list five state-owned general insurance companies after raising the foreign direct investment limit to 49% is kindling hopes of a growing market.

Though the general insurance industry has been growing at 15-18% over the last several years, insurance penetration has remained stagnant at 0.7% of the GDP from 0.6% in 2000.

When growth is accompanied by better profit numbers as the industry corrects its past mistakes, it may be better days ahead.

"With the government insurance companies going public, it would give a better indication on valuation, giving hope to the industry," said Abizer Diwanji, national head of financial services at EY. "Rising transparency and informal sector coming into formal, is expected to create opportunities for general insurers."



1000cc (like Alto, Nano and Kwid) the premium has gone up by 40% to ₹2,055, for compacts or B segment cars (1000cc and 1500cc) the increase has been 40% to ₹2,237, while for sedans, the regulator has increased it by 25% as of April 2016.

Motor and health, which constitutes 65-70% of the industry, has always been the Achilles heel for the general insurance industry. It is beset with losses in the third party motor segment, which is 35% of the industry losses.

The good news is that the third party loss ratios have come down over the last few years. "It is hoped that over

from ₹25,000. It also provides for compensation up to ₹10 lakh for road accident fatalities.

The Bill is likely to be placed in Parliament in the Budget Session.

Even after permitting private players, the attitude of the regulator was more socialistic as it controlled prices and paid the claims out of a pool of resources created from the premiums collected by all the companies based on a defined proportion. The worst among them was the claims from third parties in the case of an accident

Bill includes rise in compensation for hit-and-run cases to ₹2 lakh