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Need to maintain underwriting prudency to ensure long-term growth

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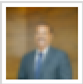

Tapan Singhel
MD & CEO, Bajaj Allianz General Insurance

We always live under uncertainty and insurance is one such sector which has the ability to bring in stability during uncertain times. Be it pandemic, natural calamity, accident, medical emergency, cyber-attack – insurance industry has been at the forefront to cover all such risks. It is connected to various sectors like agriculture, automobile, pharmaceuticals, manufacturing, etc. and plays a huge role in backing the economy. However, what mechanisms do we have in place for the uncertainty or the risks that loom over this sector? If the economy is going through a downturn, how can it back the economy and also prevent itself from suffering losses? I firmly believe that in order to be sustainable and resilient, the industry needs to follow sound and prudent approach while underwriting the risks to ensure long-term growth.

Combined ratio is one of the key parameters that helps determine an insurer's discipline in underwriting policies and profitability. Covid-19 pandemic has affected all sectors alike including the insurance industry and we see the industry complaining about Covid claims affecting the profitability wherein in FY 20-21 we saw the industry suffering underwriting loss worth Rs. 19,408 crore and the combined ratio standing at 112%. Is this a new phenomenon? Not really. Since the time free pricing happened in 2007, the combined ratio of the industry is hovering between 115%-120%. The frequency of natural calamities occurring every year and unknown viruses leading to lockdowns will keep increasing, do we as an industry prepare for such eventualities or should we hide behind these excuses which will ultimately bring down the industry further? Below are some key measures I feel can help the insurance industry not just sustain, but emerge stronger in the face of any impending crisis.

Appropriate Pricing: Insurers today need to increasingly adapt to the new technology transforming their operating models along with every-changing customer needs to not only customize their offering, but to also arrive at the right price for the market. Hence, pricing is no longer a cost-plus game as there are various risk differentiators that can impact the price of your product. One fundamental approach is to quote premium which is commensurate to the risk, which is unfortunately not happening. In the rat race to gain customers and giving into the competition, insurers today are quoting unrealistic prices which may be good for short term, but won't help them sustain for long. It's important to understand that while investment income is there to back you, it can only do so up to a certain extent as the same is also dependent on the conditions of the economy.

Additionally, with technology disruptors like Big Data, Internet of Things and predictive data analysis tools insurers can work towards dynamic pricing using innovative models based on customer usage pattern, their ability to pay, risk profile and more importantly understand the likelihood to commit fraud in the underwriting phase itself. Thus, enabling the identification of the right risk leading to appropriate pricing.

Reinsurance support: Reinsurers play an important role towards capital management and help in maintaining a competitive bottom line. They enhance the capacity of insurers to offer coverage, provide necessary understanding of the market from across the globe and also support majorly when it comes to handling catastrophic risks. Hence, it's important for insurers to understand their risk appetite based on the risks they can take directly and the impact they can take on their balance sheet. In order to enhance their coverage, have an additional safety net and build on their ability to come up with innovative offerings, insurers need to associate with reinsurers that are aligned with their business strategy and cede appropriate risks to the reinsurers. Thus, helping maintain profitability and sustainability in uncertain times.

Diversification: Putting all your eggs in one basket can certainly be risky for the business. I believe insurers need to increasingly diversify their portfolio as per various lines of business they underwrite based on the market share they hold to ensure a balanced approach. Additionally, diversification can also be done in terms of customer segments you target allowing you to customize your offerings based on need of that specific customer segment. For instance, you can offer a health insurance policy with unlimited sum insured to a person from upper middle class or HNI customer. You can take it one step forward by identifying the right target geography for your product as per your experience and customer base you'd like to go ahead with. Thus, helping you provide the right product to the right customer and enabling you to stay profitable.

As insurers, we are in the business of settling claims, we should do so gracefully and at a hyper-speed. If you look at the statistics, companies with good combined ratio and strong balance sheet typically have better claim settlement ratio, least grievances and best services. This is what customers are looking for from insurance companies in long term. All insurers can do to stay afloat, sustain and be profitable for long term is understand the customer needs, introduce products that meet these needs and underwrite the right risks at the right price without giving into market pressure. Thus, enabling insurers to serve and support their customers and society at large for long in times of dire need.