Increasing penetration, new business premium to provide fillip to Insurance industry

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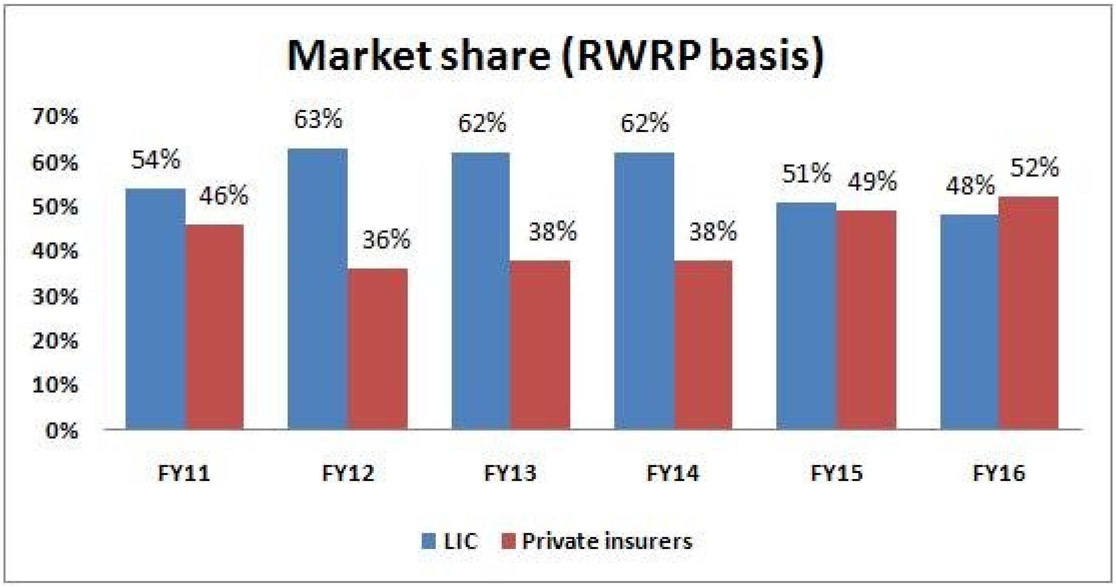
The Indian Insurance industry has been growing repeatedly since last few years, though it's still underpenetrated and posses' huge growth opportunities. The Insurance industry can mainly be divided into life insurance and non-life insurance sub sectors. The Indian Life Insurance industry is one on the strongest growing sectors in the country. Currently a $41-billion industry, India is the fifth largest life insurance market in Asia and growing at a rapid pace of 32-34% annually. There are 24 life insurance companies operating in India. The Indian life insurance sector can be classified both in terms of customer segments and products offered. The size of the Indian life insurance sector (excluding Sahara Life Insurance Company) is 3.7 trillion on a total premium basis in fiscal 2016, making it the tenth largest life insurance market in the world and the fifth largest in Asia. The total premium in the Indian life insurance sector grew at a CAGR of approximately 17% between fiscal 2001 and fiscal 2016. Despite this, India continues to be an underpenetrated insurance market with a life insurance penetration of 2.7% in fiscal 2015, as compared to 3.7% in Thailand, 7.3% in South Korea and a global average of 3.5% in 2015.

General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. There are 28 non-life insurers in the country. Out of 28 non-life insurance companies, there are six public sector insurers, which include two specialised insurers namely Agriculture Insurance Company for Crop Insurance and Export Credit Guarantee Corporation of India for Credit Insurance. 5 private sector insurers are registered to underwrite policies exclusively in Health, Personal Accident and Travel insurance segments.

Market Share

Life Insurance Corporation of India (LIC) is the market leader in insurance industry with a major share of almost 50 percent. Since the opening up of the sector, private companies too have expanded their footprint significantly in the industry. Their share peaked at 52% in last five fiscals, on a Retail Weighted Received Premium (RWRP) basis. The financial crisis in 2008 and regulatory changes in fiscal 2010 resulted in loss of market share for private sector companies, and their market share declined to 37% in fiscal 2012.

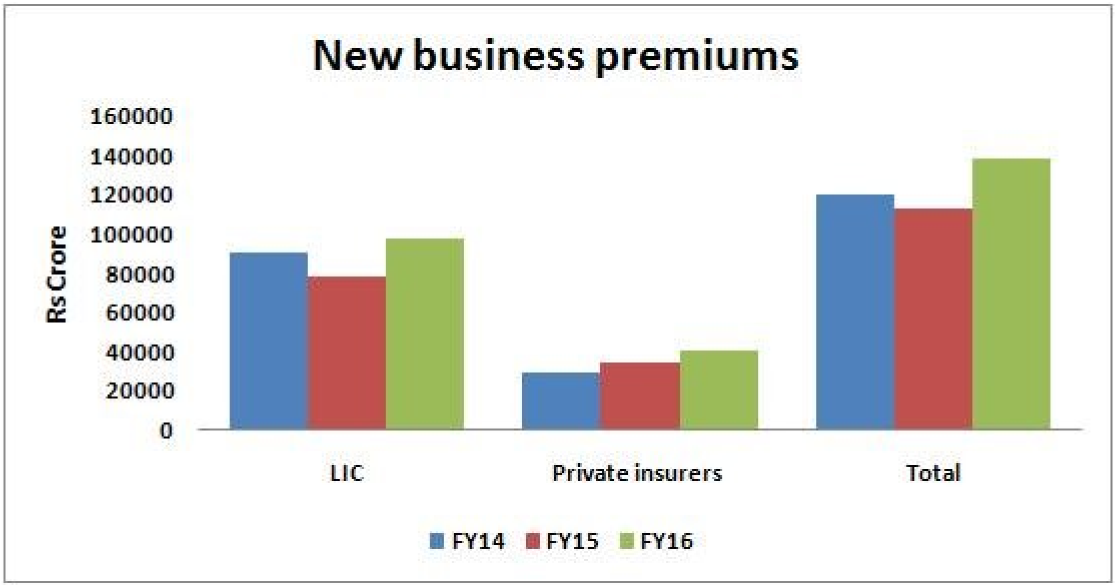
However, private sector companies have gained substantial market share in the last two years; increasing their share to 52% in fiscal 2016 from 38% of the overall Indian life insurance sector in fiscal 2014, driven by improved product design, primarily for linked products that offer a superior customer value propositions. Private sector companies have also increased their focus on bancassurance for marketing their products. The following chart sets forth, for the periods indicated, the trend in market share on an RWRP basis.



Life insurers' FY16 new business performance grows 23%

The domestic life insurance industry registered 22.55% growth for new business premium in financial year 2015-16, largely due to the high growth in the group single premium policy. While private insurers saw their growth at 17.63%, state- run Life Insurance Corporation of India (LIC) registered higher growth at 24.74% in last financial year. Life insurance industry saw new business premium at Rs 1.38 lakh crore in FY16, as against Rs 1.13 lakh crore in the previous financial year. Private insurers saw new business premium at Rs 40,983 crore in the last fiscal, as against Rs 34,840 crore in the previous financial year. Though life industry has seen growth of 22.55%, bulk of this growth has come from selling group insurance policies. The industry has seen positive growth; yet growth from business from individual single premium and individual non-single premiums has been very ordinary. It seems the industry needs to work more hard in this financial year, to make the business more profitable.

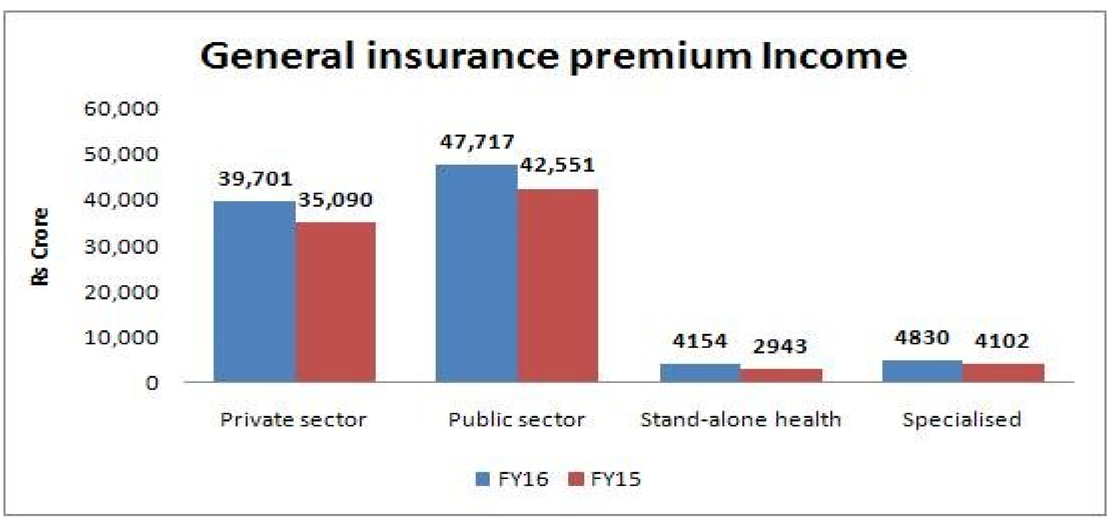
LIC new business premium was Rs 97,674.32 crore in the last financial year compared to Rs 78,302.64 crore in FY 15. But even for LIC, an increase of 46.1% was from group single premium policies. Last few years were disappointing, but now with new products, it expects to see strong growth even in this financial year. Several of the big private large players like Birla Sun Life, HDFC Standard Life, ICICI Prudential Life and SBI Life among other posting growth in the range of 14-30% in the last financial year. SBI Life, which registered 28.55% growth in FY16, saw positive growth.



General insurers' premium income up 13.8 per cent in FY16

The general insurance industry has reported a growth of 13.8% in premium income for the last financial year. However, at 13.1%, the growth for private sector general insurance companies was higher than that for public sector insurance companies, which stood at 12.1%. At the end of financial year 2015-16, the general insurance sector saw premium income of Rs 96,402.37 crore compared to Rs 84,685.69 crore in 2014-15. Private sector companies saw premium income of Rs 39,701.12 crore in the last financial year against Rs 35,090.06 crore in FY15.

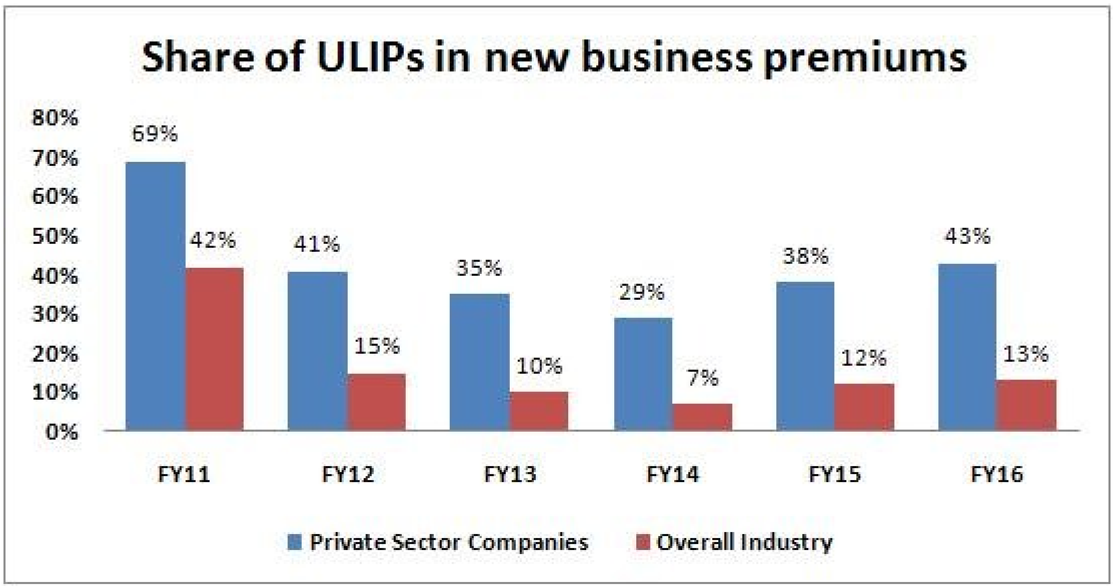
In the motor insurance segment, gross direct premium income underwritten by the non-life insurers in the last financial year was at Rs 42,410.58 crore with Rs 22,569.97 crore for private sector and Rs 19,840.61 crore for public sector companies. Apart from general insurance, stand-alone health insurance companies also saw surge in their premium income by 41.2% in the last financial year. Stand-alone health insurance companies saw premium income at Rs 4,153.77 crore compared to Rs 2,942.56 crore in 2014-15. A few years ago, insurance sector had set an ambitious task of collecting premium income of Rs 1 lakh crore in FY16, but it fell short of target.



ULIP

Unit linked investment plan (ULIP) is unique investment vehicle that facilitate customers to get dual benefits of capital appreciation and insurance. Earlier, the unit-linked product regulations introduced in September 2010 and financial crisis, slowdown in economic growth and financial savings, volatility in the equity markets, rising interest rates and high inflation led to changes in the product mix. During 2010-2014, the commission in ULIPs reduced, which was a challenge to distributors (especially agents). This resulted in a decline of the share of linked products in the life insurance sector from 42% to 7% and from 69% to 29% for private sector companies in fiscal 2014.

The demand for ULIPs has increased in past 2-3 years and it accounted for 43% of the new business premiums for private sector companies in FY16, higher from 38% in FY15 and 29% in FY14 and accounted for 13% of the new business premiums for overall industry, up from 12% in FY15 and 7% in FY14. The demand for linked products increased on the back of enhanced value proposition of ULIP products and a robust market outlook.



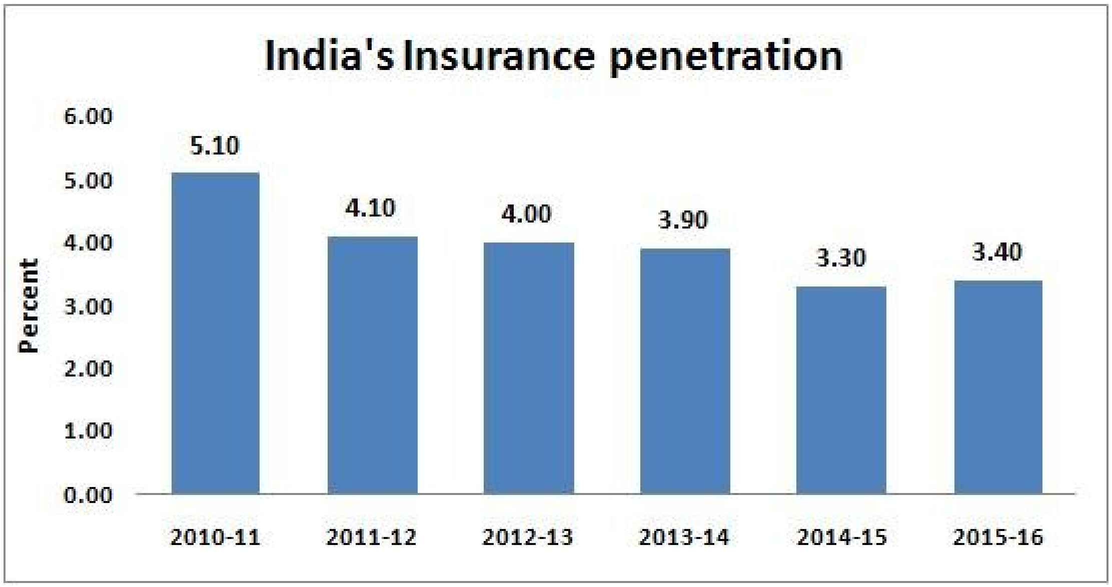
Claims Settlement

The Claim Settlement Ratio (CSR) means the claim paid ratio to the candidates by the term insurance companies and entire claim get from consumers. The Max life insurance company has a good CSR in 2015-2016. This can only to the rejected 1.5 percent of the claims among the 91.5% of the settled claims in 30 days. The HDFC life insurance has plenty of claims in pending with the rejection of 4.35%. The pending claims are in 14% and the settled claims are 76% within 30 days. Moreover, ICICI Prudential Insurance Company settled over 99% of its claim in FY16 within the IRDAI-prescribed timelines, and the average time taken to settle mortality claims was 3.3 days from the date of submission of all required documents and information in relation to the claim. For the same fiscal year, its claims settlement ratio was 96.2%.

During 2014-15, the industry's settlement ratio had slightly increased to 96.97 percent in 2014-15 from 96.75 percent in 2013-14 and the repudiation ratio had remained at the same level of 2.08 percent in 2014-15 as in 2013-14 (2.08%). The life insurance companies had settled 8.51 lakh claims on individual policies, with a total payout of Rs 11,788.67 crore. The number of claims repudiated/rejected was 18,231 for an amount of Rs 701.69 crore. The number of claims pending at the year-end was 7,061 and the amount involved was Rs 453.15 crore. Of these, 1488 claims were pending for more than one year and 5,573 claims were pending for less than and up to one year. The claim settlement ratio of LIC was better than that of the private life insurers. Settlement ratio of LIC had increased to 98.19 percent during the year 2014-15 when compared to 98.14 percent during the previous year. The percentage of repudiations was 1.15 percent in 2014-15 remaining almost at the same level (1.10 percent) as of the previous year.

Insurance penetration in India surges to 3.4% in FY16

India's insurance penetration increased partially to 3.4% in FY16 as compared to 3.3% in FY16. The total insurance premiums in India grew by 7.9% in 2015 owing to stronger growth in life and non-life premiums on the back of significant demand of Jan Suraksha insurance schemes. Moreover, government sponsored insurance schemes including the term insurance and personal accident schemes has seen more than 100 million enrollments which led to an increase in the reach of insurance in the country. In FY15, insurance penetration had hit a 10-year low in India dropping to 3.3% of gross domestic product (GDP).



FDI in the sector

The Government increased the maximum permissible shareholding of foreign investors in Indian life insurance companies from 26% of paid-up equity capital to 49% in its Insurance Laws (Amendment) Act, 2015. However, ownership and control would still remain with Indian shareholders, as Indian partners are required to have the right to appoint a majority of the directors or to control the management and policy decisions, including by virtue of their shareholding, management rights or shareholders agreements or voting agreements. This amendment led to an inflow in foreign direct investments (FDI) of $1.13 billion in fiscal 2016, an approximate increase of 170% over fiscal 2015.

Impact of GST on insurance sector

The Goods and Services Tax (GST), the biggest reform in India's indirect tax structure since the economy began to be opened up 25 years ago, will be have mixed impact on different sectors, and on the insurance it will have a bit negative impact, making insurance costlier from April 2017.

There are two parts of insurance i.e. protection and investment and service tax is levied on the protection part and not on the investment part. Hence, the term plans will be impacted the most and may become costlier by around 300-500 basis points as the sector currently attracts 15% service tax, which may shoot up to 18-22% depending on the rate the GST Council agrees on. This could impact middle class the most as they invest more in insurance policies than any other investments options.

On the industry prospective, higher tax rate will have a negative impact as not only the policies will become costlier but processes will also become complex. Life insurance penetration has shown negative growth over the last few years and the higher tax rate will make it difficult for the industry to get the required pace from here.

Recent development

IRDA makes equity investment norms tougher for insurance companies

Insurance Regulatory and Development Authority (IRDA) has made equity investment norms tougher for insurers by setting down a dividend track record of 10 percent for the last two years instead of the earlier 4 percent in the last eight out of the nine years. The insurance regulator has said that insurance companies can invest in equity shares of any listed company where at least 10 percent dividend has been paid for at least two consecutive years under the approved investment category. Under the unit-linked insurance plans, which are a mix of investment and protection, companies can invest 75 percent in approved securities and 25 percent in other than approved securities. Approved securities are those stocks that have dividend paying record and are liquid. As per the liquidity criteria, in a month 50,000 shares, or a value of Rs 5 lakh crore, should be traded. Traditional funds invest primarily in government securities, 50 percent, both state and central, 15 percent in infrastructure, and the remaining 35 percent in corporate bonds, equities and other than approved securities. The regulator wants insurance companies to stay away from investing in companies which have not paid dividend and are financially weak.

Outlook

India has emerged as one of the most attractive destinations for insurance investment globally in recent past and provides huge growth potential in future to foreign investors, as government relaxed entry norms and increased maximum permissible shareholding for foreign investors in Indian companies. Significant increase in FDI in the sector will help the insurance companies ramping up their distribution networks and improve their financial strength. The sector will also get some boost with increased awareness about the need for insurance and growing disposable incomes of middle class. Increasing new business performance and insurance penetration will provide fillip to the sector in coming time. However, implementation of GST may play spoil sport for the sector, as the new act is likely to make the term plans costlier for the customer.

Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
ICICI Prudential Life Insurance Co Ltd.	317.95	45639.34	40.66	3.13	11.50	26.87
Bajaj Finserv Ltd.	3110.25	47500.84	173.02	0.06	8.49	351.78
Max Financial Services Ltd.	549.55	14260.19	66.10	0.67	7.39	72.19

Sorted with TTM EPS (High to Low)

Source – Ace Equity