

Digital push to drive growth for Insurance sector

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The insurance industry plays a vital role in the Indian economy and it has the potential to grow rapidly in the years to come due to the solid economic growth and higher personal disposable incomes. The favourable regulatory environment in India is likely to help in fueling growth of the sector. Indian insurance industry is basically divided into 2 basic categories ' Life Insurance and Non-life Insurance. Both these categories are governed by Insurance Regulatory and Development Authority (IRDA) of India.

The Indian insurance sector is the fifteenth largest insurance market in the world in terms of premium volume. Post liberalisation, the insurance industry in India has recorded significant growth. The insurance sector is likely to reach \$280 billion by 2020 and it plans to increase penetration levels to 5% by 2020. The penetration level in the insurance sector is likely to increase due to strong economic growth and government enabling policy actions.

Insurance density in India

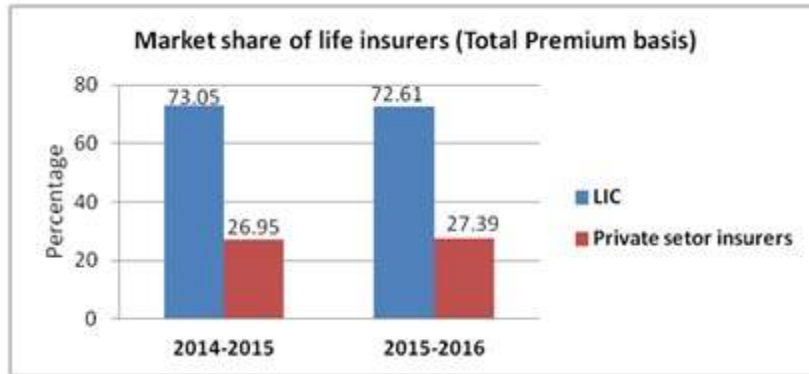
The measure of insurance density which is calculated in US Dollar as ratio of premium to total population reflects the level of development of the insurance sector. During 2015-2016 the insurance density was \$54.7, which had seen a rising trend from \$11.5 in 2001 to reach the peak at \$64.4 in 2010.

Insurance density of Life Insurance business during 2015-2016 was \$43.2. The density of life insurance business had been rising from \$9.1 in 2001 to reach the peak at \$55.7 in 2010. Insurance density of Non-life insurance business during 2015-2016 was \$11.5. Over the past 10 years, the density of Non-life insurance business had gone up from \$2.4 in 2001 to \$11.5 in 2015.

Market share of Life insurers

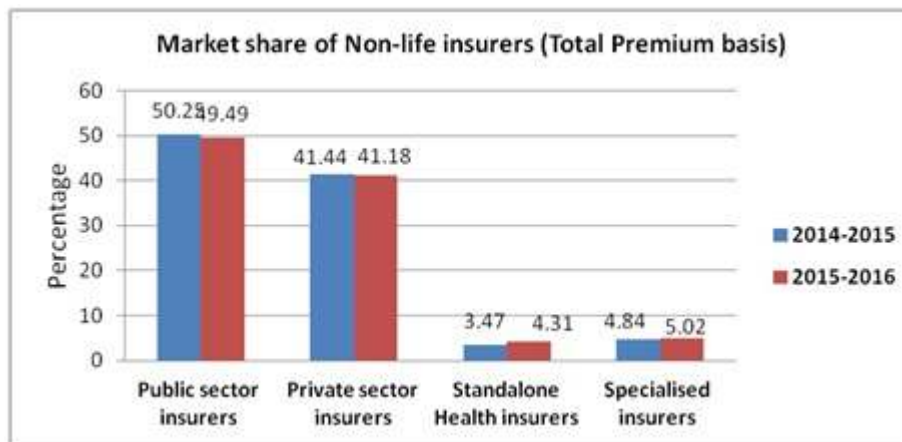
Market share of LIC decreased to 72.61% in FY2016 from 73.05%, while the market share of private sector insurers jumped to 27.39% in FY2016 from 26.95% in previous year. This shows that the role of private players in the Life insurance market in India is increasing.

Life insurance Corporation (LIC) still remains the dominant player in the Life insurance market in India, despite it losing some market share to private sector insurers. Private players are slowly gaining market share in Life insurance market in India.



Market Share of Non-Life insurers

The market share for public sector insurers decreased to 49.49% during FY16 from 50.25% in FY15. New India was the main public sector insurer with market share of 15.72% during FY16. The market share for private sector insurers reduced marginally to 41.18% during FY16 from 41.44% in FY15. ICICI Lombard was the leading private sector insurer with market share of 8.39% during FY16. The market share for standalone health insurers surged to 4.31% during FY16 from 3.47% in FY15. The market share for specialized insurers rose to 5.02% during FY16 from 4.84%.

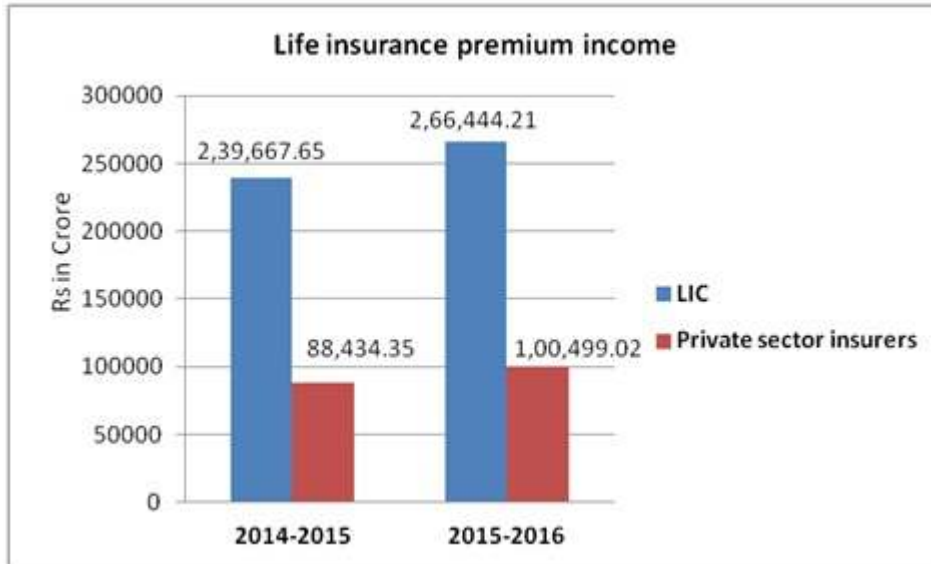


Premium income of life insurance

Total life insurance premium soared to Rs 3,66,943.23 crore during FY2016 from Rs 3,28,102 crore in FY15 and recorded a growth of 11.84%. LIC had clocked a premium income of Rs 2,66,444.21 crore during 2015-16 as against Rs 2,39,667.65 crore in 2014-2015 and posted a growth of 11.17%. Private sector insurers saw a premium income of Rs 1,00,499.02 crore during 2015-16 as against Rs 88,434.35 crore in 2014-2015 and recorded a growth of 13.64%.

During 2015-2016, regular premium one of the four categories of premiums recorded a growth of 8.43%. Single premium another category of premiums registered a growth of 32.52% during 2015-2016. First year premium (Singular + Regular) witnessed a growth of 22.53% during 2015-2016 and Renewal premium reported 6.20% growth during 2015-2016.

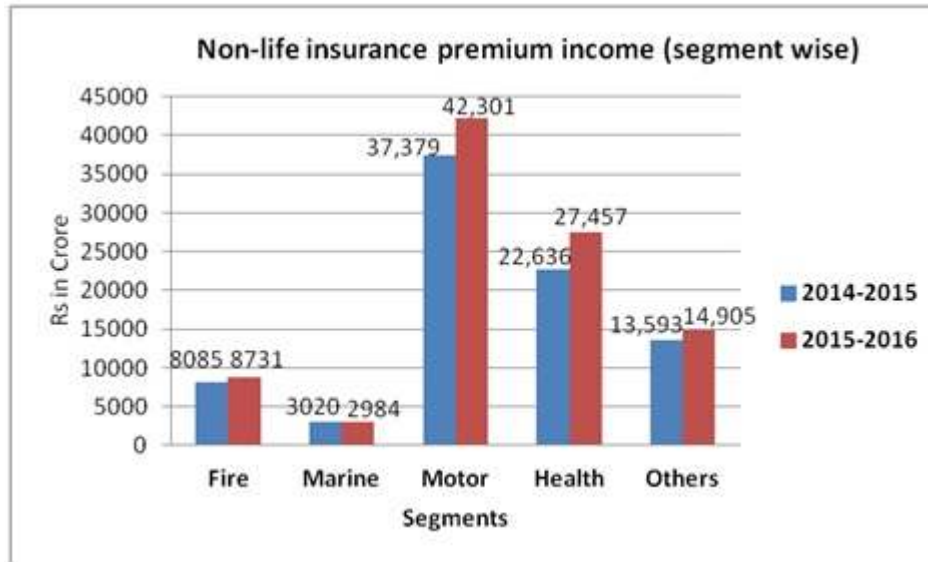
Unit-linked products (ULIP's) which provides risk cover along with investment options registered a growth of 12.62% premium from Rs 41617.80 crore in 2014-15 to Rs 46871.58 crore in 2015-16. The share of unit-linked products in total premium increased to 12.77% in 2015-16 as against 12.68% in 2014-15.



Premium income of Non-life insurance

The non-life insurance industry underwrote a total premium of Rs 96,380 crore for FY16 as against Rs 84,686 crore in FY15. Non-life insurance industry recorded a growth of 13.81% during 2015-2016. Most of the growth in the general insurance sector was driven by health and motor segments, which are traditionally largest segments of the industry.

Amid the non-life insurance, premium collection in Motor segment was Rs 42,301 crore in 2015-2016 compared to Rs 37,379 crore in 2014-2015. Motor business reported a growth rate 13.17% in 2015-2016. Motor business continued to be the largest non-life insurance segment. The premium collection in Health segment was Rs 27,457 crore in 2015-2016 as against Rs 22,636 crore in 2014-2015. Health segment posted a growth of 21.30% in 2015-2016. The premium collection in Fire segment was Rs 8731 crore in 2015-2016 as against Rs 8058 crore in 2014-2015. This segment reported a growth of 8.35% for fiscal year 2015-2016. The premium collected in Marine segment was Rs 2984 crore in 2015-2016 as against Rs 3020 crore in 2014-2015. The segment recorded a decline of 1.19% in 2015-2016.



Recent Development

IRDA plans to tighten norms for brokers - In order to streamline the domestic insurance broking industry, the Insurance Regulator and Development Authority (IRDAI) has proposed a host of stringent measures, including doubling the capital requirements for the segment. After almost 13 years since broking was allowed in the insurance industry, the insurance regulator has taken initiatives in a bid to regulate the segment more closely. Presently, there are over 500 brokers channelising over Rs 25,000 crore of business, or 20 to 25 per cent, of the total premium in the non-life sector. The regulator has proposed raising the capital requirement of insurance brokers to Rs 1 crore, Rs 4 crore and Rs 5 crore for direct, reinsurance and composite brokers, respectively. The existing capital requirement for direct, reinsurance and composite brokers is Rs 50 lakh, Rs 2 crore and Rs 2.5 crore, respectively. A composite broker can do both direct insurance and reinsurance business. The draft norms have suggested there should be cooling off period of two years in case foreign investor exits an Indian insurance broking venture and wants to reinvest in another insurance broking company.

IRDA unveils portal for insurers to sell policies online - The insurance regulator has launched a web portal for insurance companies, brokers and corporate agents. This web portal will allow them to register and sell policies online. This portal is also open to intermediaries in the insurance business. The companies may offer discounts to customers if their policies are sold through e-commerce websites. This will help companies increase insurance penetration in the country.

IRDAI proposes changes in fire and allied policy covers - With a view to increase insurance penetration for dwelling, offices, hotels, offices, hotels and shops that suffer big economic losses due to natural calamities, the insurance regulator has proposed changes in fire and allied policy covers. Catastrophic events such as floods have revealed that economic losses are much higher than insured losses.

Impact of GST

The introduction of Goods and Services Tax (GST) will bring major change in the hands of the common man. GST is a value added tax, which will eliminate double taxation effect on the cost of goods and services. The service sector would be the most impacted sector than any other sector. The higher tax rate will have an adverse impact on insurance sector and the cost of insurance products. The insurance sector will now attract a tax of 18 percent for services offered by the industry. Currently a tax of about 15 percent is imposed on an average on insurance premiums and also includes cess and service tax. Thus, the customers would have to bear the burden of the additional taxation being imposed on the insurance services.

Outlook

India is the fifteenth largest insurance market in the world in the terms of premium volume and has the potential to grow exponentially in the coming years. The Indian insurance market is a huge business opportunity waiting to be harnessed. Given the relaxation of Foreign Direct Investment norms, the Indian industry is likely to witness surge in flow of foreign capital in the coming time. Strong economic growth and government enabling policy actions likely to increase penetration level in the insurance sector in the country. Besides, payment of premium through the cashless mode has moved up sharply as cash shortage increased post note ban. Also, the insurance regulator IRDAI is likely to revise reinsurance norms as it has appointed a committee to review the existing regulatory framework. The committee will study international regulatory frameworks, practices relating to reinsurance pools, Alternative Risk Transfer (ART), other such mechanisms and will look into the existing guidelines for SEZs. The appointed committee will submit its report by August 2017. It will also make necessary and appropriate recommendations in the context of various reinsurance activities. However, GST will have some adverse impact on insurance sector as the insurance sector will now attract a tax of 18 percent and therefore the burden of additional tax would have to be borne by the customers.

Companies Financial Data in Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
ICICI Prudential Life Insurance Company Ltd.	442.85	63565.02	10.00	0.87	11.72	37.80

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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