



# INSURANCE

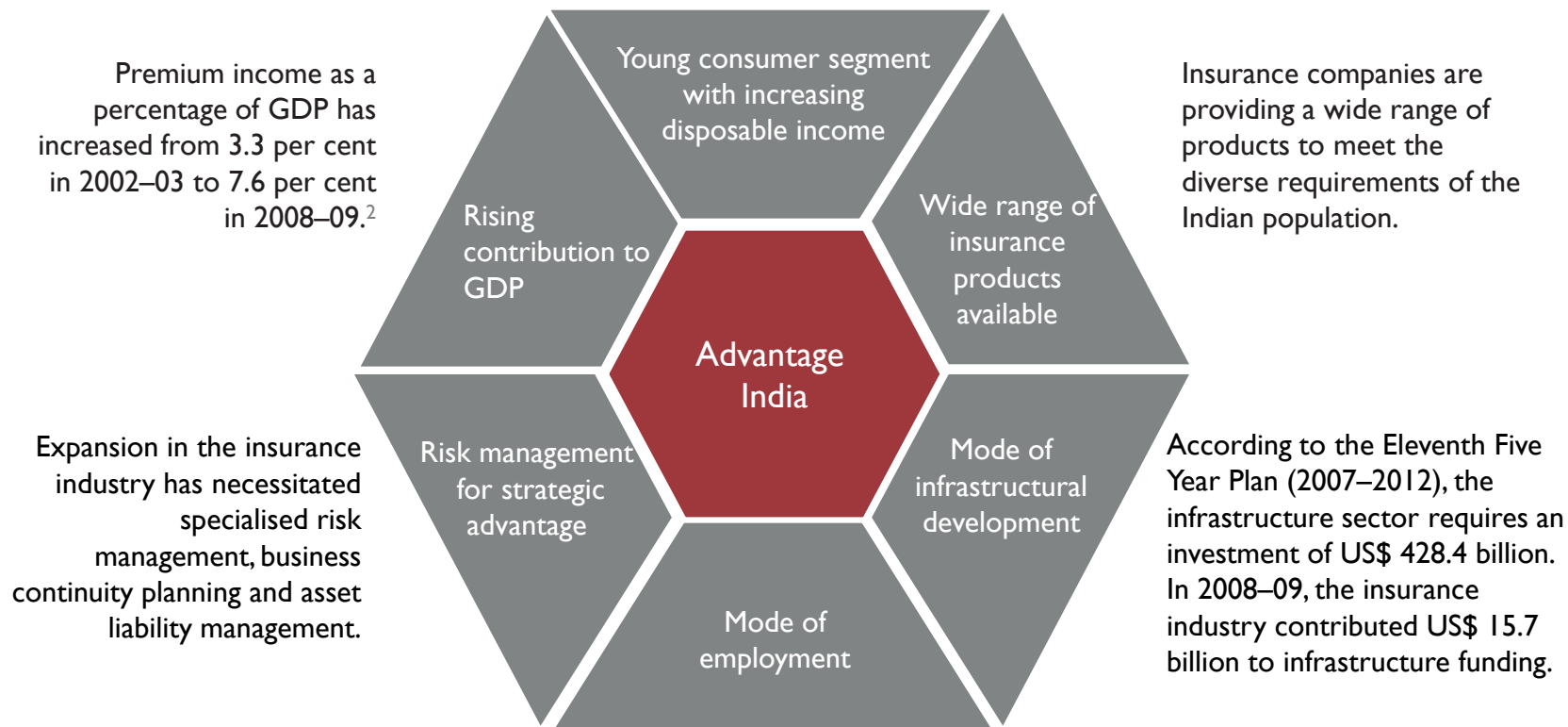
April 2010

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## Advantage India

India is among the world's youngest nations, with a median age of 25 years as compared to 43 in Japan and 36 in the US. This, coupled with the increasing disposable income and growing demand for personal financial security indicate a promising future for the insurance industry.



The life insurance sector employed 0.3 million people directly and 2.9 million people as individual agents in 2008–09.<sup>1</sup>

Sources:

<sup>1</sup> "Other Business Figures -2009," *Life Insurance Council website*, [www.lifeinscouncil.org](http://www.lifeinscouncil.org), accessed 18 January 2010;

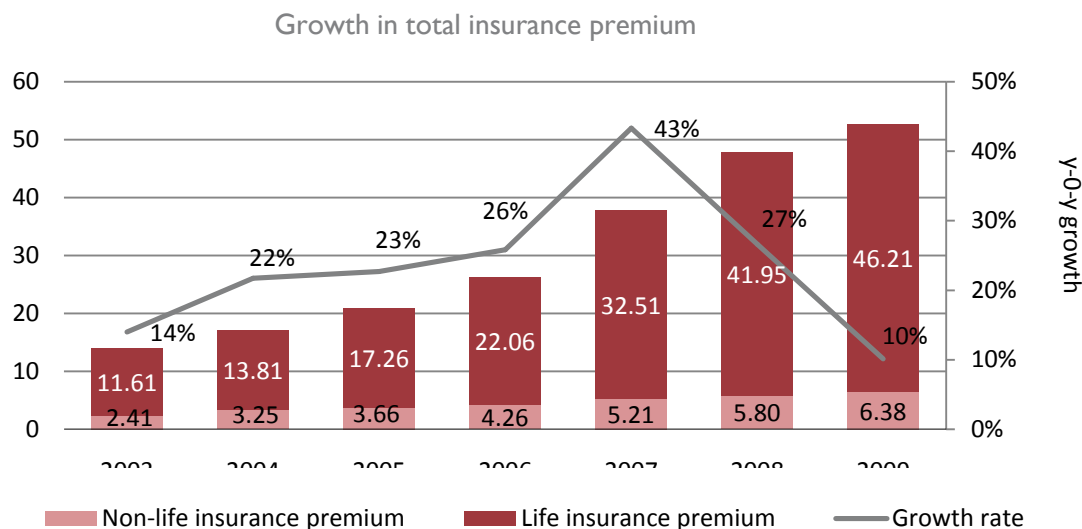
<sup>2</sup> "Insurance industry: amidst interesting time and the way forward," EY CBK, September 2009, via RAD

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## Market overview

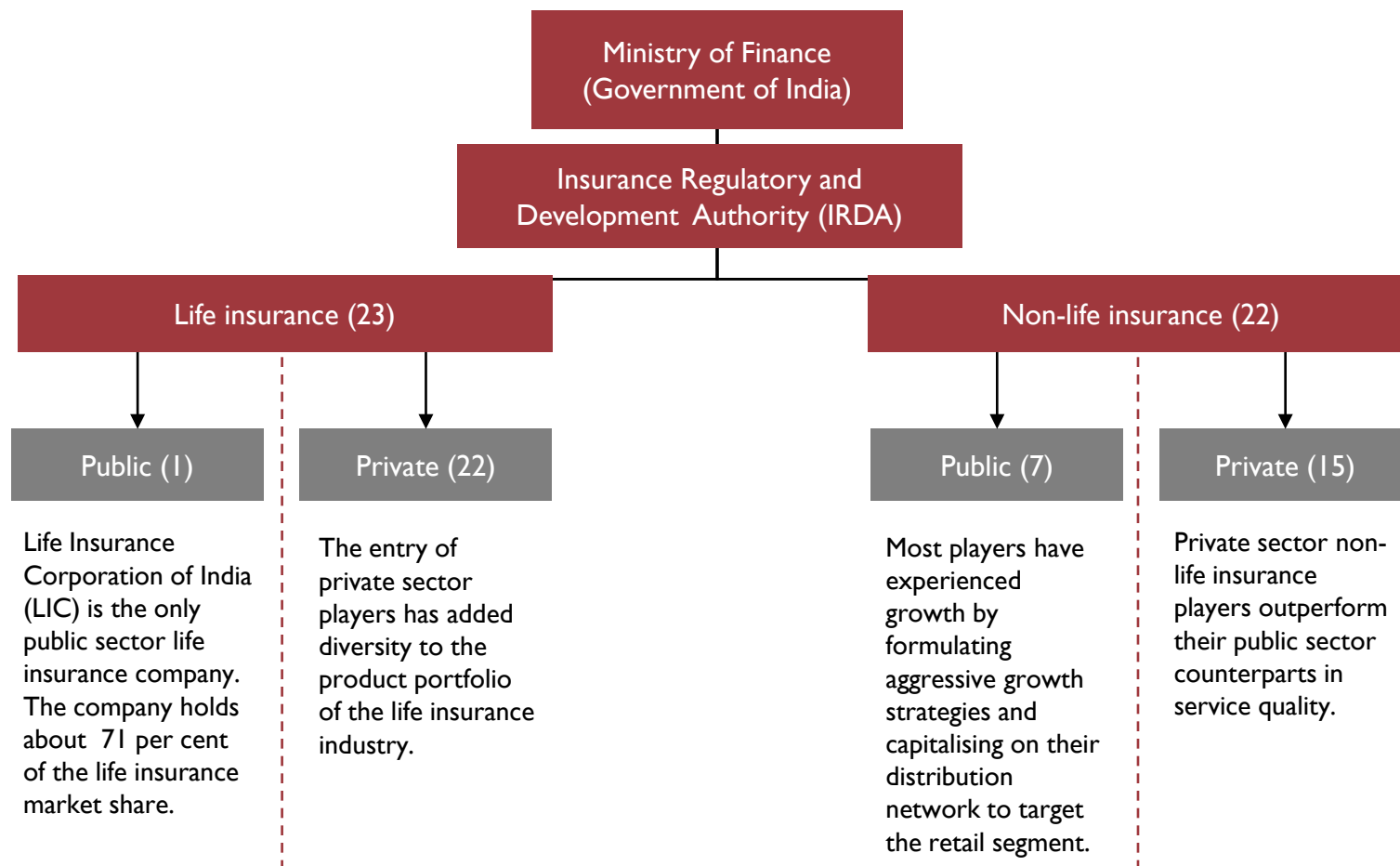
The insurance industry in India is at an early stage with low penetration and high potential.



- The total premium of the insurance industry has grown at a CAGR of 24.6 per cent from 2002–03 to 2008–09 to reach US\$ 52.6 billion in 2008–09.
- The number of insurance players has increased from four and eight in life and non-life sectors, respectively, in 2000 to 23 and 22, respectively, as on January 2010.

Source: “Annual reports FY00–09,” Insurance Regulatory and Development Authority website, [www.irdaindia.org](http://www.irdaindia.org), accessed 06 January 2010

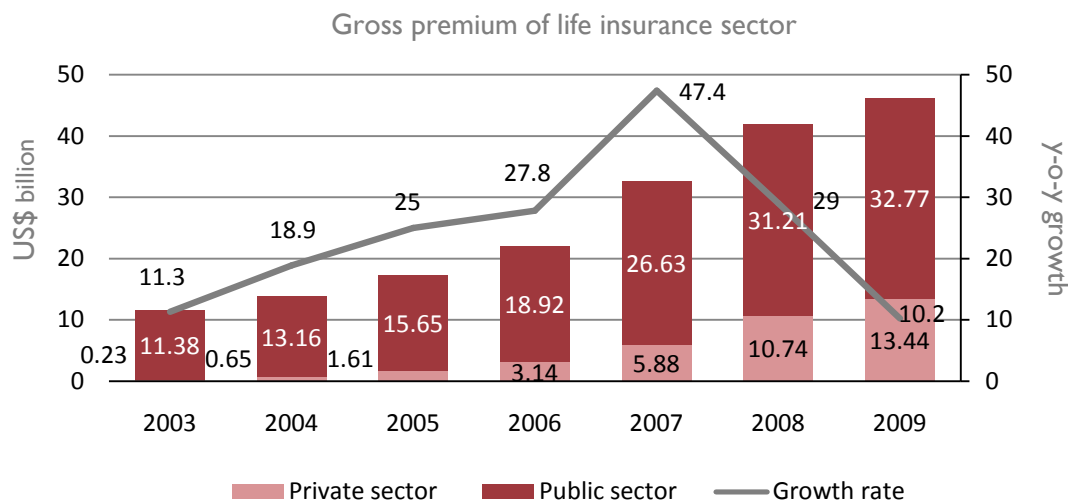
## Market structure



Source: "Annual report FY00-09," Insurance Regulatory and Development Authority website, [www.irdaindia.org](http://www.irdaindia.org), accessed 6 January 2010.

## Overview of the life insurance segment ... (1/2)

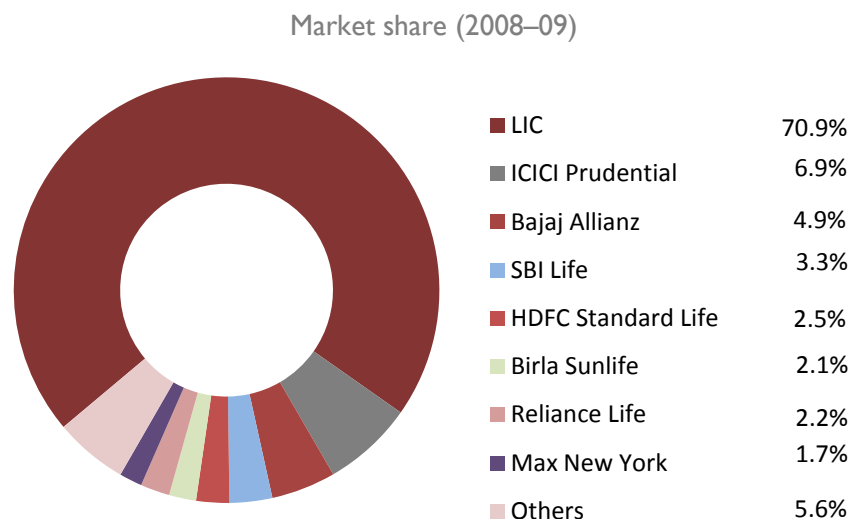
- Premium income has grown at a high CAGR of 25.8 per cent between 2002–03 and 2008–09.
- The number of policies issued grew at a CAGR of 12.3 per cent. between 2002–03 and 2008–09.
- There are 23 players, 1 from the public sector and 22 from the private sector, as of January 2010.
- There is increased insurance penetration due to a growing consumer class, rising insurance awareness and increasing domestic savings and investments.



Sources: "Annual report FY00-09," Insurance Regulatory and Development Authority website, [www.irdaindia.org](http://www.irdaindia.org), accessed 06 January 2010; Life Insurance Council website, [www.lifeinscouncil.org](http://www.lifeinscouncil.org), accessed January 2010

## Overview of the life insurance segment ... (2/2)

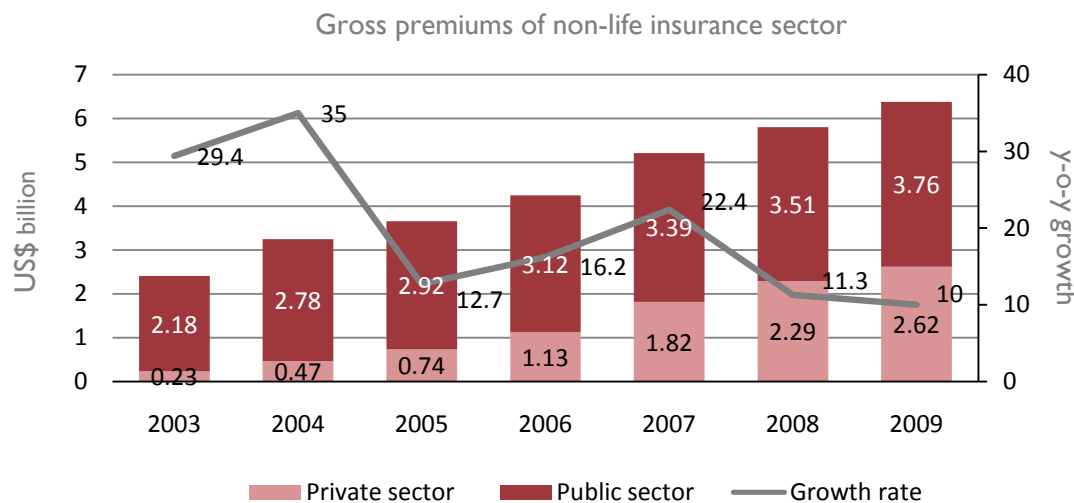
- A wide range of life insurance products are available. These include:
  - Group insurance products — endowments, term insurance, annuities, whole life insurance, riders
  - Individual insurance products — Unit Linked Insurance Plans (ULIPs), pension funds, guaranteed life products



Sources: “Annual report FY00-09,” Insurance Regulatory and Development Authority website, [www.irdaindia.org](http://www.irdaindia.org), accessed 06 January 2010; Life Insurance Council website, [www.lifeincouncil.org](http://www.lifeincouncil.org), accessed January 2010

## Overview of the non-life insurance segment ... (1/2)

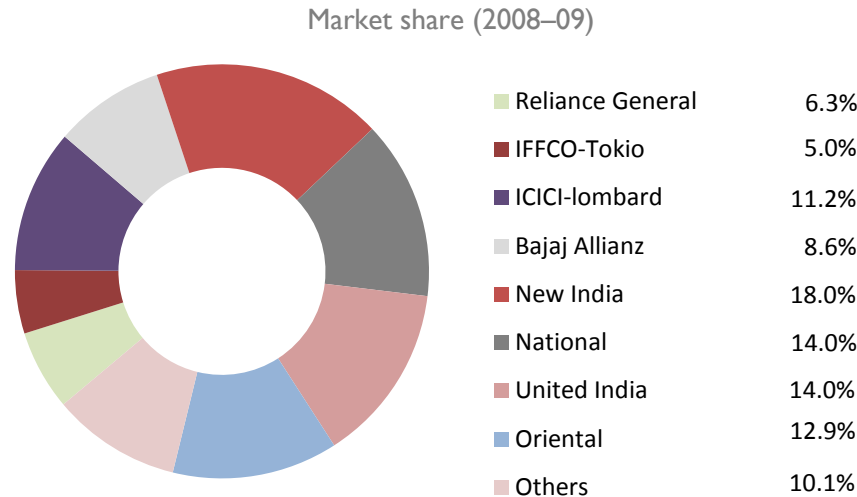
- Premium income grew at a CAGR of 17.6 per cent between 2002–03 and 2008–09.
- There are 22 players, out of which 7 are public sector players (including 1 reinsurer) and 15 private sector players, as of January 2010.
- Segments covered include auto, health, fire, marine and engineering, among others.



Sources: "Annual report FY00-09," Insurance Regulatory and Development Authority website, [www.irdaindia.org](http://www.irdaindia.org), accessed 06 January 2010; General Insurance Council website, [www.gicouncil.in](http://www.gicouncil.in), accessed January 2010

## Overview of the non-life insurance segment ... (2/2)

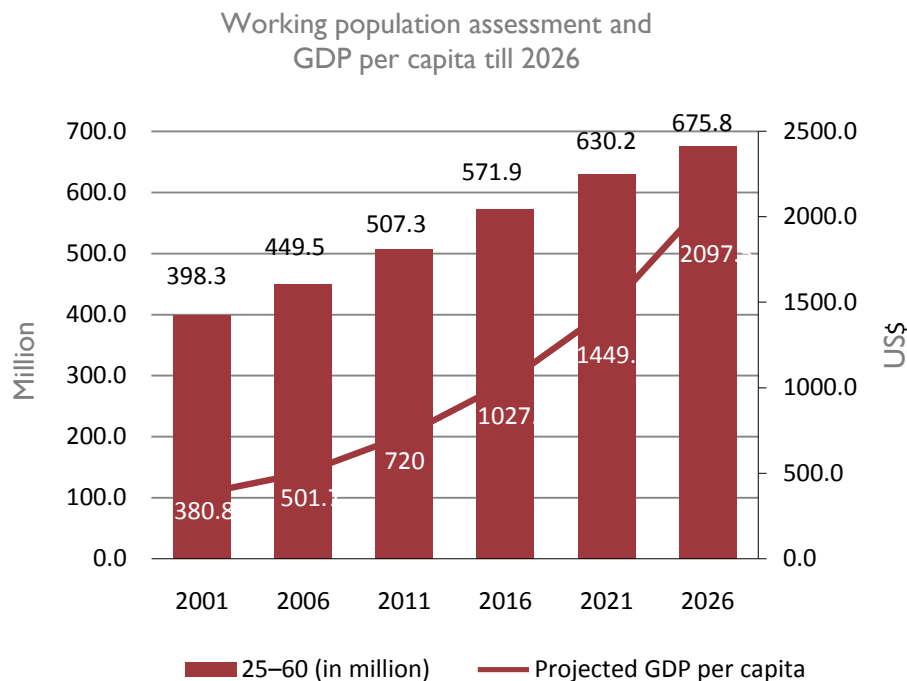
- Product trends:
  - Auto insurance had the largest share in the non-life insurance segment in 2008–09 (43.2 per cent).
  - Health segment recorded a growth of 21.3 per cent in 2008–09 (a growth of 9.3 per cent over 2005–06).
  - Public sector companies have a dominant share in the marine insurance segment.



Sources: “Annual report FY00-09,” Insurance Regulatory and Development Authority website, [www.irdaindia.org](http://www.irdaindia.org), accessed 06 January 2010; General Insurance Council website, [www.gicouncil.in](http://www.gicouncil.in), accessed January 2010

## Growth drivers ... (1/5)

- There is a high demand for insurance products due to a growing middle class, increasing working population, rising household savings and increasing purchasing power.



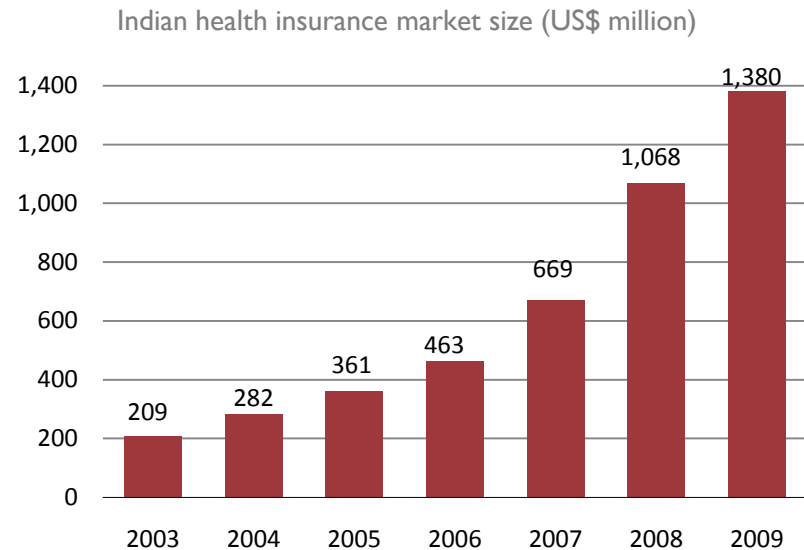
Source: "Insurance industry: amidst interesting time and the way forward," EY CBK, September 2009, via RAD

## Growth drivers ... (2/5)

- Penetration levels set to increase
  - The increasing literacy rate, specially in rural India, has spread awareness about the need for insurance.
  - Between 2006 and 2026, the working population (25–60 years) is expected to increase from 675.8 million to 795.5 million giving rise to a favourable market for insurance companies.
  - Projected per capita GDP is expected to increase from US\$ 380.8 in 2000–2001 to US\$ 2,097.5 in 2026, reflecting higher disposable income.

## Growth drivers ... (3/5)

- Favourable government and regulatory initiatives are expected to increase the contribution of the insurance industry to the overall economic development of the country.



Source: "Insurance industry: amidst interesting time and the way forward," EY CBK, September 2009, via RAD

## Growth drivers ... (4/5)

- Fast progressing medical technology and increasing demand for better healthcare has resulted in rising demand for health insurance. Regulatory initiatives to promote health insurance include:
  - IRDA has set up a separate department for health insurance.
  - It has recommended that the government brings down capital requirements for standalone health insurance companies to US\$ 10.42 million from US\$ 20.83 million.
  - The government is set to raise budgetary support of US\$ 28.33 billion for the health sector during the Eleventh Plan.
  - International players and life insurers have entered this segment.

## Growth drivers ... (5/5)

- Launch of innovative products
  - The life insurance sector has witnessed the launch of innovative products such as ULIPs. Other traditional products have also been customised to meet specific needs of Indian consumers.
  - The non-life insurance sector has witnessed personal/retail line products pick up on the back of increasing income levels and changing life styles.
- Emergence of new distribution channels, such as bancassurance, brokers and e-channels, has increased outreach.
- Rise in sale of passenger cars, fuelling demand for auto insurance
  - Between 2002–03 and 2008–09, the number of passenger cars has increased at a CAGR of 14 per cent. This trend is likely to continue due to strong growth in the auto segment resulting from an increase in consumer income levels. Between 2005–06 and 2008–09, the auto insurance premium has increased at a CAGR of 21.4 per cent.

Source: “Insurance industry: amidst interesting time and the way forward,” EY CBK, September 2009, via RAD

## Key trends

### Emergence of new distribution channels

- Alternative channels include bancassurance, direct selling agents, brokers, online distribution, corporate agents such as non-banking financial companies (NBFCs) and tie-ups of para-banking companies with local corporate agencies (e.g. NGOs) in remote areas.

### Product innovation

- Consumers' need for higher levels of customisation has led to product innovation.
- Product innovation will continue to enhance operational efficiency.

### Growing market share of private players

- In the life insurance segment, share of the private sector in total premiums increased from 2 per cent in 2002–03 to 29.1 per cent in 2008–09.
- In the non-life insurance segment, share of the private sector in total premiums increased from 9.5 per cent in 2002–03 to 41.1 per cent in 2008–09.

## Key players — life insurance ... (1/2)

Company	Indian promoter partner(s)	Foreign partner(s)	Market share (2008–09) (in per cent)
LIC	Government of India	None	70.92
ICICI Prudential	ICICI Bank Ltd	Prudential, UK	6.92
Bajaj Allianz	Bajaj Auto	Allianz, Germany	4.79
SBI Life	SBI	BNP Paribas, France	3.25
HDFC Standard Life	HDFC	Standard Life, UK	2.51
Birla Sun Life	Aditya Birla Group	Sunlife, Canada	2.06
Reliance	Reliance Group	None	2.22
Max New York	Max, India	New York Life, USA	1.74
Tata AIG	Tata Group	AIG, USA	1.24
Aviva	Dabur	CGU Life, UK	0.90
OM Kotak Life	Kotak Mahindra Bank	Old Mutual, South Africa	1.06
Metlife	Jammu & Kashmir Bank, Shapoorji Pallonji, Max	Metlife, USA	0.90

## Key players — life insurance ... (2/2)

Company	Indian promoter partner(s)	Foreign partner(s)	Market share (2008–09) (in per cent)
ING Vysya	Gujarat Ambuja, Enam, Exide	ING Insurance, Netherlands	0.65
Shriram Life	Shriram Group	Sanlam, South Africa	0.20
Sahara	Sahara Group	None	0.09
Bharti AXA	Bharti Group	AXA Insurance, France	0.16
IDBI Fortis Life	IDBI, Federal Bank	Fortis, UK	0.14
Future Generali	Future Group	Generali Group, Italy	0.07
Canara HSBC OBC	Canara Bank, OBC	HSBC, Asia Pacific	0.13
AEGON Religare	Religare	AEGON, USA	0.01
Star Union Dai-ichi	Bank of India, Union Bank of India	Dai-ichi, Japan	0.02
IndiaFirst Life Insurance Company	Bank of Baroda and Andhra Bank	Legal & General Middle East Limited, UK	0.00
DLF Pramerica	DLF	Pramerica, USA	0.00
ING Vysya	Gujarat Ambuja, Enam, Exide	ING Insurance, Netherlands	0.65

Source: Insurance Regulatory and Development Authority website, [www.irdaindia.org](http://www.irdaindia.org), accessed 6 January 2010

## Key players — non-life insurance ... (1/2)

Company	Indian promoter partner(s)	Foreign partner(s)	Market share (2008–09) (in per cent)
New India Assurance	Government of India	None	18.03
National Insurance	Government of India	None	13.98
United India Insurance	Government of India	None	13.97
Oriental Insurance	Government of India	None	12.94
ICICI Lombard	ICICI Bank	Lombard, Canada	11.18
Bajaj Allianz	Bajaj Group	Allianz, Germany	8.63
Reliance	Reliance Group	None	6.26
IFFCO Tokio	IFFCO	Tokio Marine Asia	4.95
Tata-AIG	Tata Group	AIG, USA	2.89
Royal Sundaram	Sundaram Finance & Associates	Royal & SunAlliance Plc,	2.63
Cholamandalam	Murugappa Group	Mitsui Sumitomo, Japan	2.24
HDFC ERGO General	HDFC	ERGO, Germany	1.11

## Key players — non-life insurance ... (2/2)

Company	Indian promoter partner(s)	Foreign partner(s)	Market share (2008–09) (in per cent)
Future Generali	Future Group	Generali Group, Italy	0.64
Shriram General	Shriram Group	Sanlam Group, South Africa	0.37
Universal Sampo	Allahabad Bank, IOB, Karnataka Bank	Sampo, Japan	0.10
Bharti AXA	Bharti Group	AXA Insurance, France	0.09
Raheja QBE	Raheja Group	QBE Holdings, Australia	0.00
GIC (Re-insurer)	Government of India	None	-
Health insurance	Indian promoter partner(s)	Foreign partner(s)	Market share (2008–09) (in per cent)
Star Health & Allied Insurance	Star Health and Allied Insurance Co	ETA Ascon Group, Oman	1.67
Apollo DKV	Apollo Hospitals	DKV, Germany	0.16
Agriculture Insurance Co	GIC and its four subsidiaries	None	2.63
ECGC	Government of India	None	2.43

Source: Insurance Regulatory and Development Authority website, [www.irdaindia.org](http://www.irdaindia.org) accessed 6 January 2010

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## Policy and regulatory framework ... (1/4)

- IRDA was formed by an act of the Indian Parliament (known as the IRDA Act, 1999) as the regulatory body to govern the Indian insurance sector.
- A company, to operate as an insurance company in India, must be incorporated under the Companies Act, 1956, and possess the certificate of the memorandum of association and articles of association.
- Capital requirement — paid up equity share capital
  - At least US\$ 208.3 million for life insurance or non-life insurance business
  - At least US\$ 416.7 million for reinsurance business
- International players can operate in India only through a joint venture with a domestic firm and are classified under private sector insurers.
- FDI up to 26 per cent is permitted in the insurance sector.
- IRDA does not allow foreign reinsurance companies to open branches in India. This proposal is currently under consideration in the Parliament.

## Policy and regulatory framework ... (2/4)

IRDA and the government are in the process of initiating the following regulatory reforms

- Regulatory reforms for IPO
- Regulatory reforms for M&A
  - IRDA and the Securities and Exchange Board of India (SEBI) are in the process of finalising their directives and provide detailed guidelines for M&A.09
- FDI norms
  - The Insurance Laws (Amendment) Bill, 2008, proposes to provide for the increase in shareholdings by a foreign company from the current limit of 26 per cent to 49 per cent.

## Policy and regulatory framework ... (3/4)

- Disclosure norms
  - IRDA is drafting norms for mandatory disclosure of insurers' financial statements, investment portfolios at regular intervals, financial and operating ratios, actual solvency margin, policy-lapse ratio, current financial position, risk management architecture, etc.
- Set up a data warehouse to monitor settlement of insurance claims.
- Publishing policy and draft documents in regional languages for better understanding and extending reach.

## Policy and regulatory framework ... (4/4)

IRDA and the government are in the process of initiating the following regulatory reforms

- Broadening the long-term debt market by liberalising the investment norms of insurance and pension funds and development of credit enhancement institutions.
- Implementing Weather Based Crop Insurance Scheme (WBCIS)
- Institutionalising the process of a self-regulatory mechanism by IRDA for enforcement of market discipline and initiating steps to ensure that the Life Insurance Council and the General Insurance Council become self-regulatory organisations.
- Establishing a separate health section with the specialists in the authority.

Source: Insurance Regulatory and Development Authority website, [www.irdaindia.org](http://www.irdaindia.org), accessed 6 January 2010

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## Opportunities ... (1/3)

### High potential demand for insurance products

- Since more than two-thirds of India's population lives in rural areas, micro-insurance is seen as the most suitable aid to reach the poor and socially-disadvantaged sections of society.
- Favourable demographics, fast progression of medical technology and increasing demand for better healthcare have facilitated a high growth in health insurance.

### Growing demand for Indian insurance offshoring business

- Total revenues from Indian offshore insurance business process outsourcing (BPO) services are estimated to have increased from US\$ 367 million in 2002–03, US\$ 790 million in 2006–07 to US\$ 2 billion by 2009–2010.
- Employment is expected to more than double from 41,600 in 2005–06 to around 100,500 in 2009–2010.

## Opportunities ... (2/3)

### Lower penetration of the health insurance sector

- In India, the total expenditure on health, as a percentage of GDP, was 5 per cent in 2006–07 as against 15.2 per cent in the US, 8.2 per cent in the UK and 4.7 per cent in China. Of this, government expenditure constituted 3.5 per cent.
- The health insurance industry has the potential to become a US\$ 5.21 billion industry by 2012.
- Life insurance companies are likely to target primarily the young population so that they can amortise the risk over the policy term.

### Growing pension sector

- In India, the government provides limited social security to its citizens as reflected in the fact that less than 4 per cent of the population is covered under the social security schemes. Only government employees are entitled to pension benefits post-retirement.
- The opening of the pension sector and the establishment of the new pension regulator have expanded the avenues for private sector employees.

## Opportunities ... (3/3)

Rising demand from semi-urban and rural population for micro-insurance products

- The industry is also promoting micro-insurance as a viable business opportunity and integrating the same with the poverty alleviation programmes of various state governments.
- Poor insurance literacy and awareness, high transaction costs, inadequate regulations and inadequate understanding of client needs and expectations have restricted demand for micro-insurance products.
- However, with the development of rural health insurance regulations and growing awareness about micro-insurance products, focus of many private players has shifted to these areas.

*Sources:* Insurance Regulatory and Development Authority website, [www.irdaindia.org](http://www.irdaindia.org), accessed 6 January 2010; “Insurance industry: amidst interesting time and the way forward,” EY CBK, September 2009, via RAD

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## Industry associations

### **Insurance Regulatory and Development Authority (IRDA)**

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Fax: 91-040-66823334

E-mail: [irda@irda.gov.in](mailto:irda@irda.gov.in)

### **Life Insurance Council**

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Phone: 91-22-26103303, 26103306

E-mail: [ninad.narwilkar@lifeinscouncil.org](mailto:ninad.narwilkar@lifeinscouncil.org)

### **General Insurance Council**

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Fax: 91-22-22817515

E-mail: [gicouncil@gicouncil.in](mailto:gicouncil@gicouncil.in)

## Note

Wherever applicable, numbers in the report have been rounded off to the nearest whole number.

Conversion rate used: US\$ 1 = INR 48.

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