

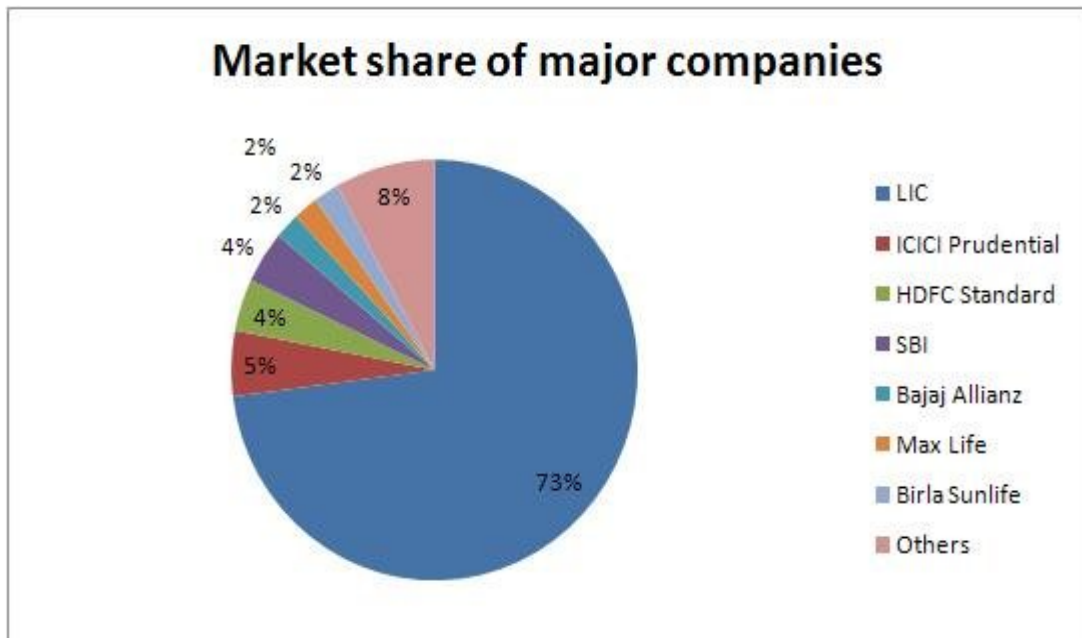
**Insurance sector to get boost from new insurance bill**

**March 31, 2015**

India's life insurance sector is the biggest in the world with about 36 crore policies, which are expected to increase at a compounded annual growth rate (CAGR) of 12-15 per cent over the next five years. The insurance industry is planning to hike penetration levels to five per cent by 2020, and could top the \$1 trillion mark in the next seven years. The total market size of India's insurance sector is projected to touch \$350-400 billion by 2020. The general insurance business in India is currently at Rs 77,000 crore (\$12.41 billion) premium per annum industry and is growing at a healthy rate of 17 per cent. Rs 12,606 crore (\$2.03 billion) domestic health insurance business accounts for about a quarter of the total non-life insurance business in the country.

Investment corpus in India's pension sector is anticipated to cross \$1 trillion by 2025, following the passage of the Pension Fund Regulatory and Development Authority (PFRDA) Act 2013. Indian insurance companies are expected to spend Rs 117 billion (\$1.88 billion) on IT products and services in 2014, an increase of five per cent from 2013, as per Gartner Inc. Also, insurance companies in the country could spend Rs 4.1 billion (\$66.11 million) on mobile devices in 2014, a rise of 35 per cent from 2013.

The insurance industry of India consists of 52 insurance companies of which 24 are in life insurance business and 28 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company, while among the non-life insurers there are six public sector insurers. There is sole national re-insurer, namely, General Insurance Corporation of India. Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims. Out of 28 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments.



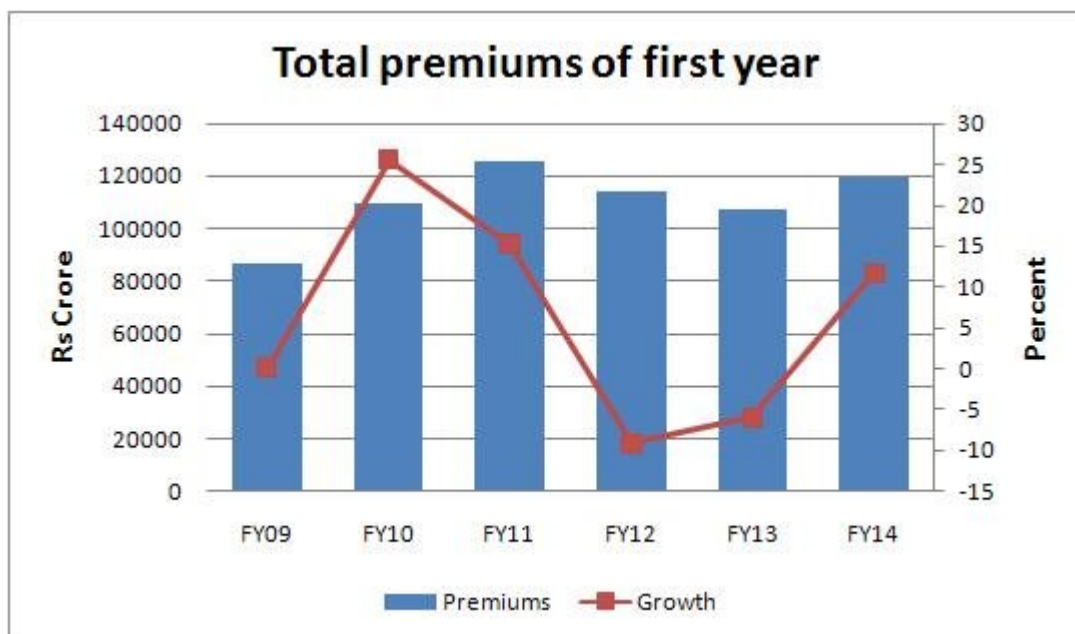
## Market size

The insurance industry over the last 14 years (since it was opened to FDI and private players) has attracted over Rs 33,749 crore of capital and over the next 5-10 years it requires as much, if not more, in fresh capital to be able to fund its growth and expansion. The insurance industry over the last 14 years (since it was opened to FDI and private players) has attracted over Rs 33,749 crore of capital and over the next 5-10 years it requires as much, if not more, in fresh capital to be able to fund its growth and expansion.

During 2000-01 to 2013-14, the life insurance business registered a growth of 1 per cent in total premium and 21 per cent in new business premium collections and non-life segment grew by 16 per cent. This growth was driven by entry of new players with significant growth aspirations and capital commitments, which showed in the improvement in both insurance penetration and density of India. However, compared to the developed countries like the US (7.5 per cent), UK (11.5 per cent) and South Africa (15.4 per cent), the Indian insurance industry is still under-developed in terms of penetration (3.90 per cent in 2012-13).

## Growth in life insurance premiums

During 2013-14, the life insurance industry recorded a premium income of Rs 3.14 lakh-crore, as against Rs 2.87 lakh-crore in the previous financial year, registering a growth of 9.4 per cent. While private-sector insurers posted 1.4 per cent decline in their premium income, Life Insurance Corporation of India (LIC) recorded 13.5 per cent growth during the period. However, latest data of new premiums from Life Insurance Council shows that the life insurers had posted an overall decline of 8.7 per cent in new premium collection. Here, while private life insurers saw a 19.1 per cent growth in premiums, LIC posted a 17.26 per cent in new premiums.

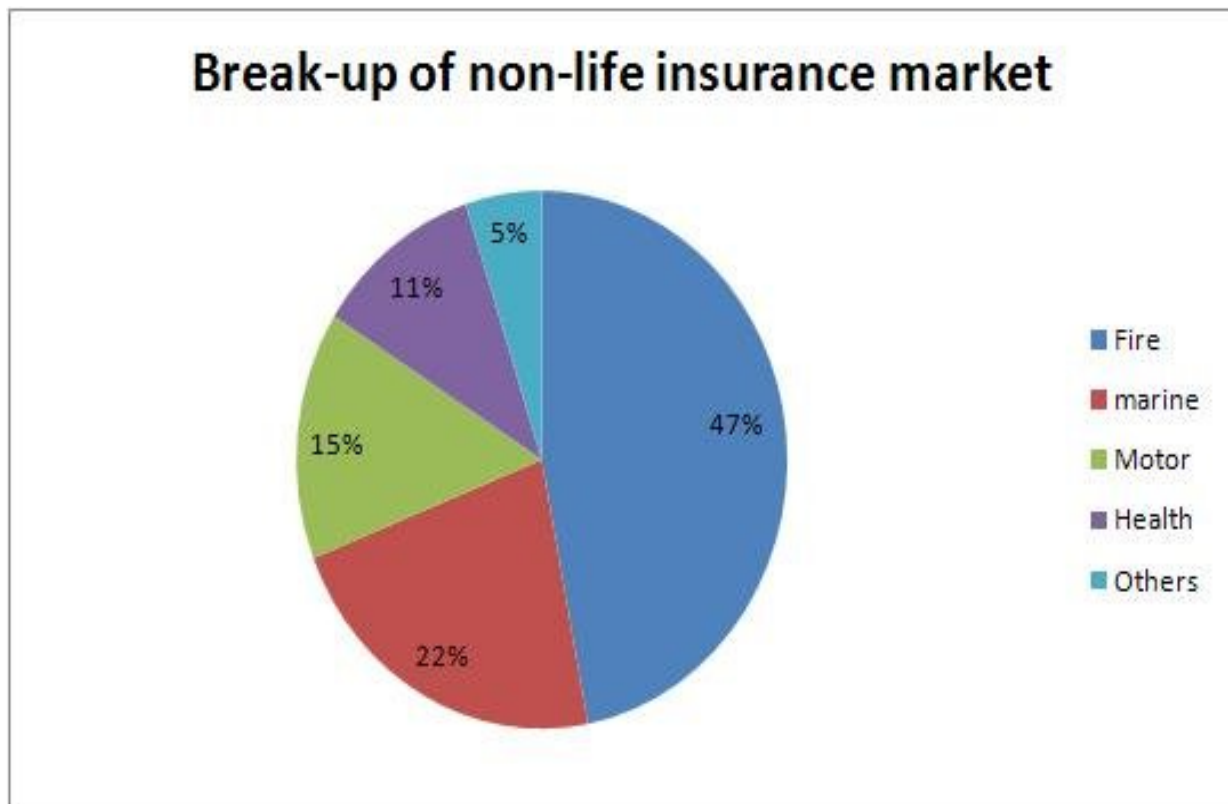


### Growth in Non-life insurance segment

The country's worst slowdown in over a decade has stunted the growth of non-life insurance sector to 12 per cent for 2013-14. However, the growth would pick up in the second half of the current financial year and would be 15 per cent in 2014-15.

According to the recent data released by the Insurance Regulatory and Development Authority (IRDA), the gross direct premium underwritten by non-life insurance companies during 2013-14 was Rs 77,538.25 crore compared to Rs 69,089 crore in 2012-13. The gross direct premium underwritten during 2011-12 was 58,119.71 crore. The non-life sector growth was 19 per cent in 2012-13 and 23 per cent in 2011-12.

A slowdown in new motor car sales has hit motor insurance business. Car sales in India fell for the second consecutive fiscal in 2013-14 with a drop of 4.65 per cent as the auto industry continued to struggle with demand slump due to a sluggish economy. Meanwhile, Fire and engineering insurance having a share of 14 per cent in the gross premium, have been directly impacted by the slowdown in the economy, postponement of capital expenditure and new infrastructure projects.

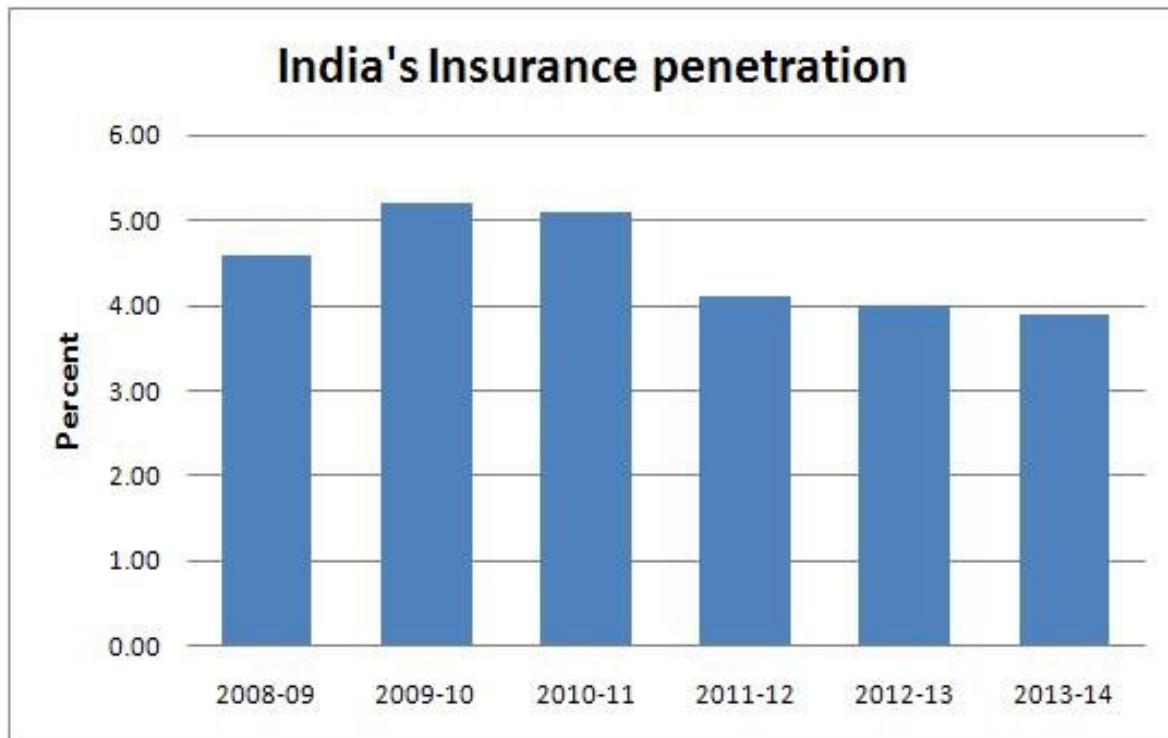


### Insurance penetration in India surges to 3.9% in FY14

The Insurance penetration levels in the country have increased to 3.9% in FY14 from 3.2 per cent in FY13. Though, it dropped from 4.6 per cent in FY2009 to 3.2 per cent in FY2013 with the slowdown in the industry new business. The key structural drivers namely underpenetrated market, favourable demographics, high savings rate coupled with better policy holder friendly products and an expected recovery in the economy can provide impetus to the Industry. At the industry level, the growth of around 10 per cent on an APE basis in FY15 and 12-15 per cent over the next few years as the operating environment improves further.

The Pradhan Mantri Jan Dhan Yojana (PMJDY) launched on August 28, 2014, and the RuPay Card, are complementary and will enable achievement of multiple objectives such as financial inclusion, insurance penetration, and digitalisation. PMJDY has offered Rs 1 lakh accident insurance for all RuPay cardholders and also Rs 30,000 life insurance for those who enrolled in the Jan Dhan scheme before January 26, 2015.

The Insurance Laws (Amendment) Ordinance 2014 got promulgated on December 26, 2014, with a view to removing archaic and redundant provisions in the insurance laws. This empowered the Insurance Regulatory and Development Authority of India to enable more effective regulation. The ordinance enhanced the foreign equity investment cap in an Indian insurance company from 26 to 49 per cent with the safeguard of Indian ownership and control.



### Investments in the sector

Some of the major investments and developments in the Indian insurance sector:

- Life Insurance Corp of India (LIC) has earmarked a total of around Rs 1 trillion for investments in bonds, including non-convertible debentures (NCDs), certificates of deposit (CDs), commercial papers (CPs) and collateralized borrowing and lending obligations (CBLOs), with primary focus on infrastructure and real estate in the year to March 31, 2015.
- Aditya Birla Financial Services Group has signed an agreement to form a health insurance joint venture (JV) with MMI Holdings of South Africa. The two will enter into a formal JV in which the foreign partner will hold a 26 per cent stake.
- South African financial services group Sanlam plans to increase stake in its Indian JV Shriram Life Insurance from 26 per cent to 49 per cent.
- JLT Independent plans to develop India as a service hub for all countries that are a part of South Asian Association for Regional Cooperation (SAARC), according to Mr Sanjay Radhakrishnan, CEO, JLT Independent.
- Kotak Mahindra Bank became the first bank to get the permission from Reserve Bank of India (RBI) to set up a wholly-owned non-life insurance company.

### Recent developments

#### Parliament okays Insurance-Bill raising FDI ceiling to 49%

It took seven years, changes in government and U-turns by various parties, but lawmakers finally came good on India's pledge to raise the overseas investment in insurance on Thursday night. After a short delay when the Left parties insisted on a vote being taken on some amendments to register their opposition, Rajya Sabha members approved lifting the ceiling to 49% from 26%, marking a significant success for the Narendra Modi government in getting a major economic reform through Parliament.

The Insurance Laws (Amendment) Bill had been passed by the Lok Sabha earlier in March 2015 but ran into opposition in the Upper House, where the government lacks a majority. But the government's floor management was much better this time around, with BJP having convinced Congress to support the legislation. The move, which will replace an emergency decree issued last year, was welcomed by the industry.

The regulator, for instance, will have more powers to levy higher penalty, impose a ceiling on expense management, and fix remuneration for agents. These moves will cheer insurance agents. As per the Bill, the manner and amount of remuneration, or reward, to be paid or received by way of commission or otherwise, to an insurance agent or an intermediary, will be decided by the regulator. The Bill has scrapped two Sections - 40 and 40 B - where limits can be prescribed by the IRDA.

### Growth drivers:

**Distribution channels:** The effectiveness and cost of diverse distribution strategies of different players is crucial in ensuring the success of players in the insurance business, particularly in the retail lines of business.

**Focus on financial inclusion:** The approach to insurance must be in sync with the evolving times. The mission of the insurance sector in India should be to extend the insurance coverage over a larger section of the population and a wider segment of activities.

**Consumer needs and preferences:** The growth in insurance industry has been spurred by product innovation, vibrant distribution channels, coupled with targeted publicity and promotional campaigns by the insurers. Innovation has come not only in the form of benefits attached to the products, but also in the delivery mechanism through various marketing tie-ups. All these efforts have brought insurance closer to the customer as well as making it more relevant.

### Challenges:

The major challenge for Indian insurers has been improving operational performance to achieve profitable growth. Many Insurers, in the past, have resorted to techniques like high commission payment to distributors, focusing more on fresh premium rather than renewals, high premium discounting and focusing only on growth rather than focusing on improving operational maturity. The result has been high customer acquisition costs, low channel productivity, low customer-centric service excellence, reduced ability to detect frauds, difficulty in implementing risk-based pricing, challenges in acquiring and retaining talent and poor quality of data.

The insurers will need to innovatively alter the operating models, business processes, channel management and human resource strategy to control the operating expenses and the combined ratios.

Insurers have implemented innovations like over-the-counter products, auto-underwritten and straight through processed products to improve the speed of service and reduce processing costs. However, with increasing customer sophistication, growing scale of operations, larger diverse workforces and greater need to increase reach, the players will need to bring in rapid innovations across business functions.

### Outlook

The insurance sector's future looks bright, on the back of India's favourable demographic, greater awareness, supportive regulatory environment, policies that improve customer-centric products, and practices that help businesses grow. India's insurable population is projected to touch 75 crore in 2020, with life expectancy reaching 74 years. Meanwhile, the new insurance bill allows foreign companies to invest up to 49 per cent in domestic insurance firms. Consecutively, Rs 20,000 crore to Rs 25,000 crore in foreign funds is likely to come immediately. The money will



## Sector Outlook - Insurance

help insurance companies to expand aggressively and will be beneficial for the people. It will be a big positive for private insurers who have limited presence beyond metros and tier 1 cities.

### Companies Financial Data In Industry

Company Name	CMP	MCAP (Rs Crore)	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Aditya Birla Nuvo Ltd.	1667.60	21701.68	656.39	0.42	41.65	40.04
Reliance Capital Ltd.	429.80	11159.02	482.55	1.98	16.99	25.30
Max India Ltd.	446.15	11890.02	130.73	0.81	15.29	29.17
Bajaj Finserv Ltd.	1394.30	22186.82	159.90	0.13	5.83	239.34

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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