General Insurance Industry in India

2009 Casualty Loss Reserve Seminar
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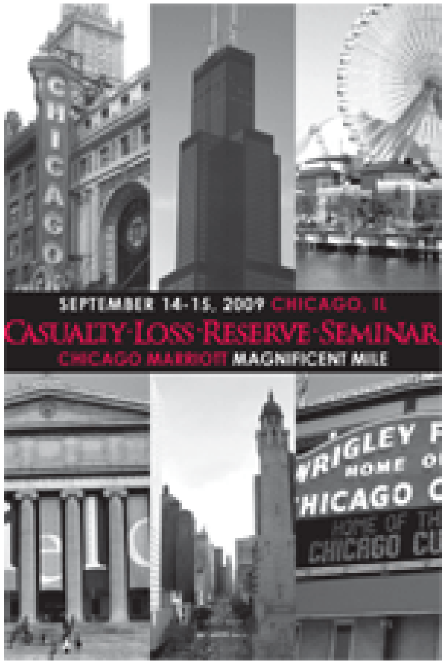

Contents

History of P&C Insurance in India

1970s - 1999

Pre-Liberalization

- Monopoly of the General Insurance Corporation of India (GIC) and its four subsidiaries:
  - National Insurance Company
  - New India Assurance
  - Oriental Insurance and
  - United India Insurance
- Regional focus – each subsidiary headquartered in the big four metro cities in India

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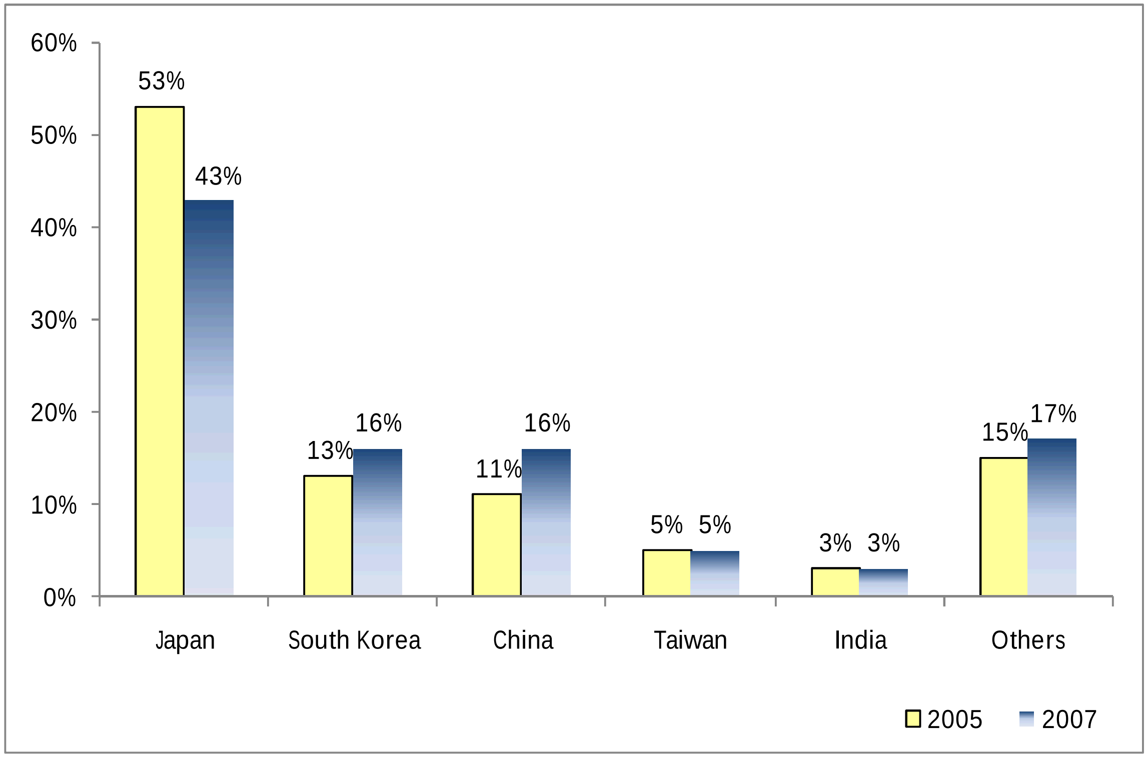
Post - Liberalization

- Insurance Regulatory and Development Authority Act 1999
- Removed exclusive privilege of GIC and subsidiaries to carry on general insurance in India
- GIC supervisory role over the subsidiaries ended and they were made four independent companies
- GIC serves as the national reinsurer and insurers have to cede 10% of their business to GIC
- Two specialty companies ECGC (Credit Insurance) and AIC (Agricultural Insurance)
- 15 private sector companies as of July 2009

State of the market

- India is the fifth largest general insurance market in Asia with annual premiums of $6.3 billion in FY09
- Second largest population in Asia (and the world) and an increasing middle class population + low penetration presents tremendous opportunity
- It is projected that from 2006-2026 the working class population is expected to increase from 675.8 million to 795.5 million



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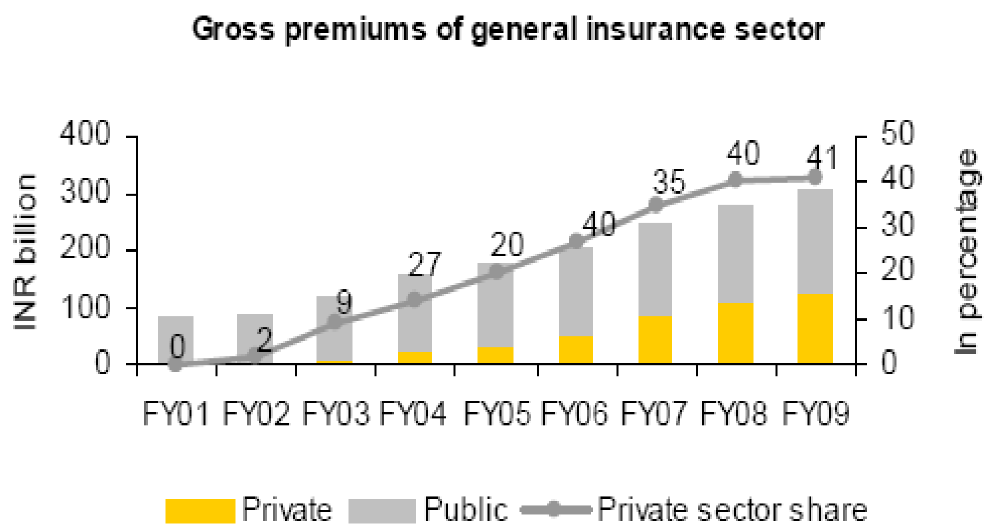
State of the market *(contd)*

- 21 companies operating in India:
  - 13 private sector companies – multiline (JV with foreign insurer)
    4 public sector companies – multiline
  - 2 private sector companies – health
  - 2 public sector specialty companies



- Intense competition and strong growth between FY01 and FY08
  - Premium grew at 19.5% per annum
  - Penetration levels (premium as a % of GDP) increased from 0.4% to 0.7% (world average being 3.1% in 2007)
  - Annual premium in April 2008-March 09 was $6.3 billion (excl health and specialty companies)

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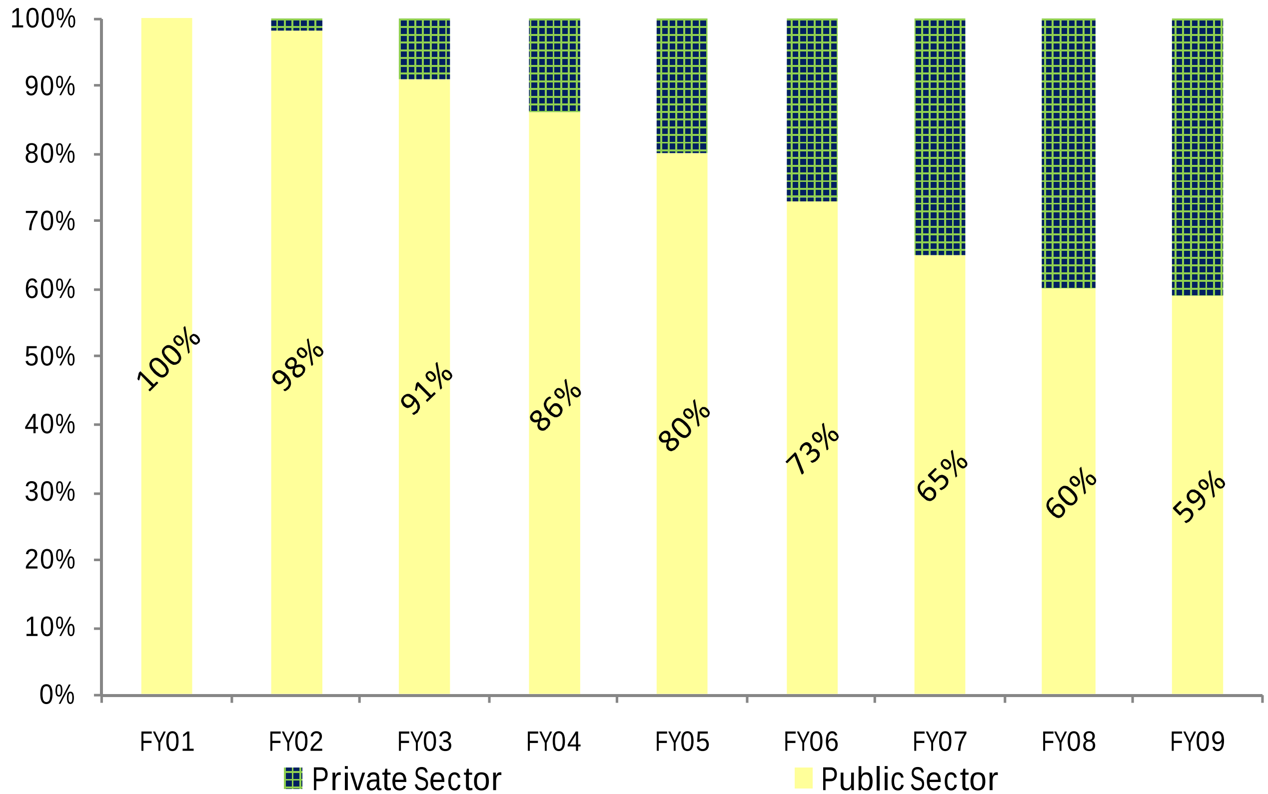
State of the market *(contd)*

- Market continues to be dominated by public sector, though share has declined since FY01
- Large middle class population, increased awareness and income levels have fueled growth
- Currently maximum foreign partner investment is 26% - soon expected to increase to 49%



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Market Share

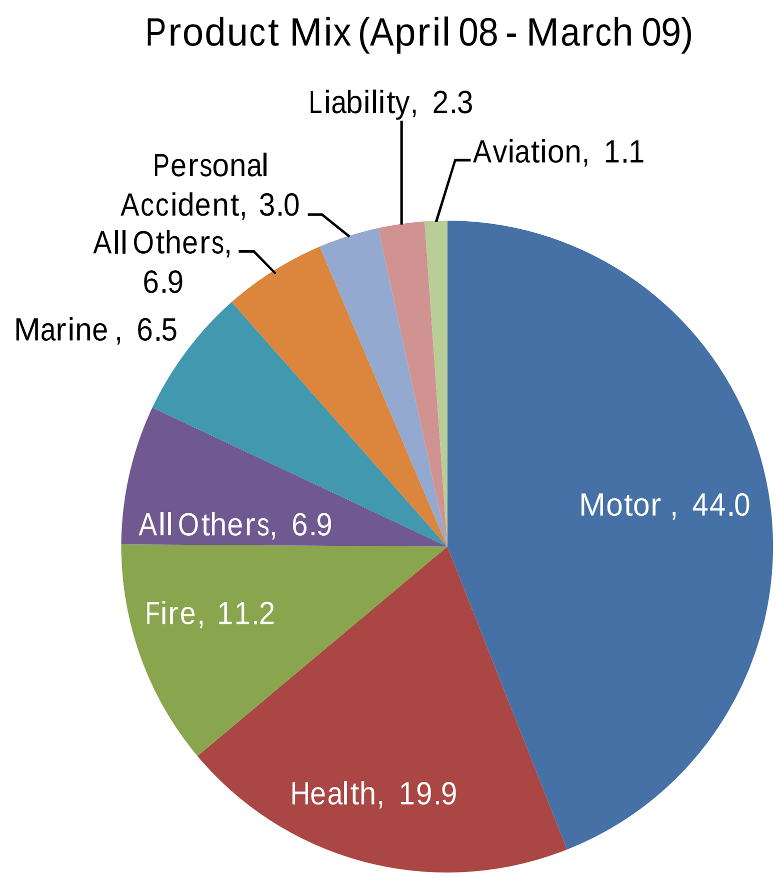
INSURER	GROSS WRITTEN PREMIUMS ($s MILLION) 2006-07	2007-08	2008-09	MARKET SHARE 2006-07	2007-08	2008-09
(1)	(2)	(3)	(4)	(5)	(6)	(7)
ICICI-lombard	620	690	705	12%	12%	11%
Bajaj Allianz	372	496	545	7%	9%	9%
Reliance General	188	402	395	4%	7%	6%
IFFCO-Tokio	237	255	313	5%	4%	5%
Tata-AIG	153	168	182	3%	3%	3%
Royal Sundaram	124	144	166	2%	2%	3%
Cholamandalam	65	108	141	1%	2%	2%
HDFC ERGO General	39	49	70	1%	1%	1%
Future Generali		2	40	0%	0%	1%
Shriram General		-	23	0%	0%	0%
Universal Sompo		-	6	0%	0%	0%
Bharti AXA General		-	6	0%	0%	0%
PRIVATE TOTAL	**1,798**	**2,314**	**2,593**	**35%**	**40%**	**41%**
New India	1,035	1,089	1,138	20%	19%	18%
National	787	827	882	15%	14%	14%
United India	722	771	882	14%	13%	14%
Oriental	810	786	817	16%	14%	13%
PUBLIC TOTAL	**3,354**	**3,472**	**3,719**	**65%**	**60%**	**59%**
GRAND TOTAL	**5,152**	**5,787**	**6,313**	**100%**	**100%**	**100%**

Period from April xx - March xx-1

Exchange Rate as of Sept 12, 2009: INR 48.4747 per US$1

Product Mix

- Products mainly divided as Commercial vs Personal/retail products
- Growth for the largest private sector players has been fueled by the retail segment
- Commercial lines will grow in line with high economic activity, personal lines in line with increasing income levels and changing lifestyles
- Motor continues to be the largest business segment - Own Damage 62% of premiums, third party 38%
- Marine insurance is dominated by the public sector - Marine hull 60% of premiums, marine cargo 40%



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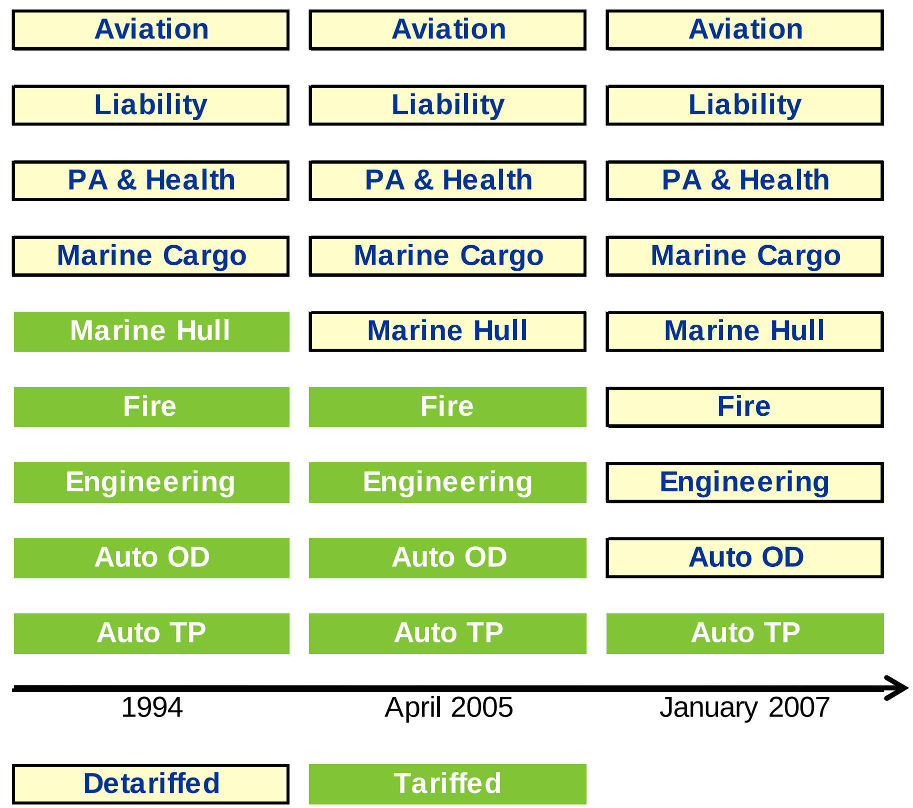
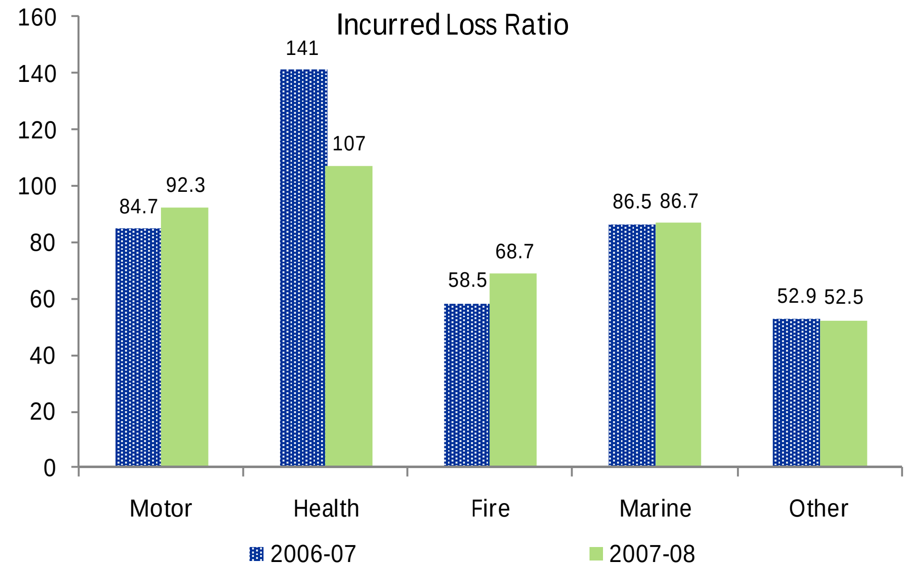
Removal of Tariffs ("Detariffing")

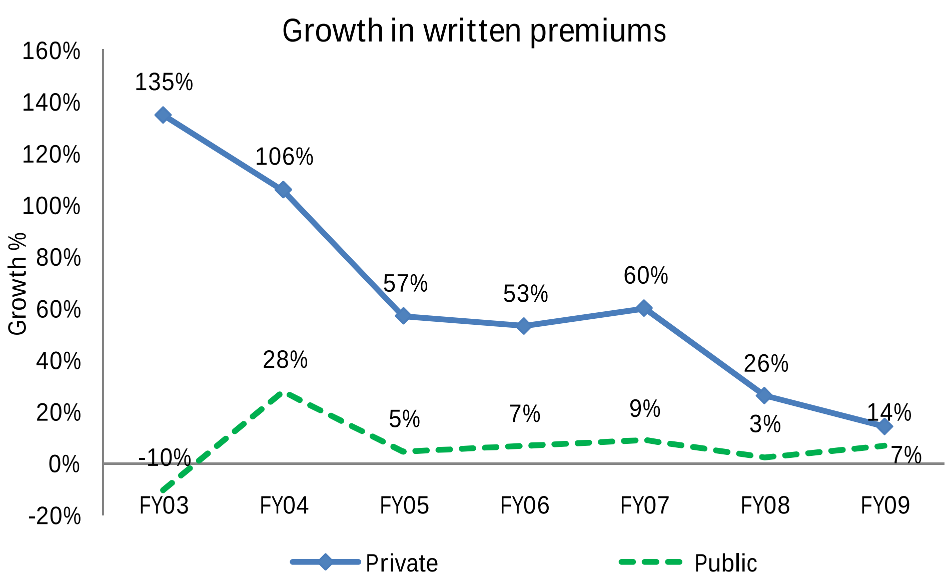
- Detariffing occurred in three phases
- One of the significant milestones has been the withdrawal of premium pricing restrictions initiated from Jan 1, 2007
- From Jan 1, 2007 – Jan 1, 2009, insurers were permitted to structure the premium rates, but were not allowed to vary the coverage, terms, conditions, policy wordings etc. This period allowed to migrate towards risk based pricing
- From Jan 1, 2009 the IRDA allowed the insurers to file variation in deductibles, coverage amounts, etc. This phase has allowed flexibility in terms of breadth of coverage
- Detariffing of rates has led to a virtual price war in certain lines of business such as Fire and Engineering thereby resulting in an adverse impact on profitability



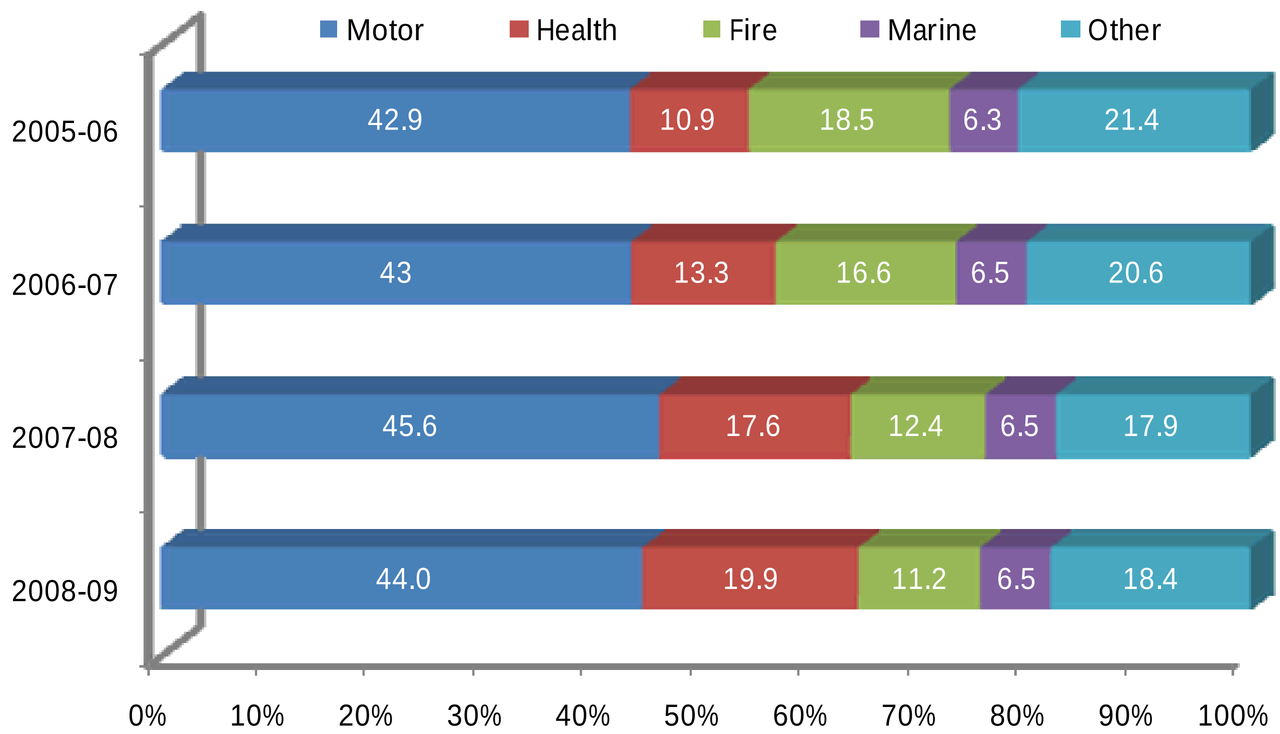
Impact of detariffing

- Loss ratios have increased for FY08 compared to FY07 and are expected to continue to worsen in FY09
- Fire has seen premium correction of approx 60-70% and motor has witnessed a decrease in rates of approx 30-40%
- Health insurance shows a high level of underwriting losses mainly due to the group health portfolio, but has showed an improvement in FY08
- Growth in gross premiums decreased significantly from 21.5% in FY03 – 07 to 9.9% in FY09
- Sum assured continues to grow at a healthy rate – increase of approx 16% in FY09 and 23% in FY08
- Increased focus on scientific risk based pricing and improving underwriting capabilities
- Improvement in risk management and claim control
- Eliminate cross subsidization between lines of business (e.g. health and fire)
- Emphasis on customer service and relationship management





Impact of Detariffing on product mix



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Motor Insurance

- Two coverages:
  - Own Damage (OD) policies cover physical damage to own vehicle and is an optional coverage
  - Third party (TP) policies cover bodily injury and collision and is mandated by law
  - Comprehensive policies cover both OD and TP
- Reserving/pricing for motor insurance
  - About two-thirds of the IBNR reserving is for the third party segment
  - No statute of limitations as to when a third party claim can be filed
  - 80-85% of the third party claims are reported during the first three years of the policy
  - Private insurers have collected loss history for the past 8-9 years and are using common actuarial techniques to estimate IBNR
  - Joint venture with foreign insurers gives private sector ready access to sound actuarial techniques
  - PTM and Emblem commonly used pricing softwares
  - Public sector companies do not have good data or good systems in place for data collection, hence it is not clear if sound actuarial techniques are used

Motor Insurance *contd*

- OD premiums account for approximately 62%, third party 38%
- Post detariffing drop in motor premiums was expected, but it was partly offset by increase in car sales
- The sales of high priced vehicles is also creating a need for comprehensive policies
- Distribution continues to be a problem since it is difficult to find agents to distribute general insurance products
- In 2007-08 the overall incurred loss ratio was 92.3% being especially high for the third party commercial vehicles segment
- For private cars the OD incurred loss ratio was 65.4% and the TP incurred loss ratio was 183% in 2005-06
- Large part of the third party claims arise from commercial vehicles
- Private players had thus been reluctant to sell commercial third party policies
- IRDA set up a third party motor pool to provide coverage

Third party pool

- Effective April 2007, this pool has been set up as an arrangement for sharing commercial vehicles' third party liability coverage among insurance companies
- Premiums and losses get ceded to the pool and the net results of the pool are shared by all insurance companies proportional to their market share in all lines of business combined
- No incentive to shy away from writing this business for private insurers
- This is the only coverage still subject to tariff control – tariffs controlled by the regulator and are insufficient to compensate the risk involved. FY09 loss ratio was 124% of earned premium, but lower than it has been in the past
- Pool is managed by GIC Re for a fee of 2.5% of the pooled premium and GIC also assumes statutory reinsurance cessions from the pool
- Insurance companies receive 10% of the premiums as servicing fee
- The premium increases are still not adequate and should be revised in the near future

Terrorism pool

- Started in April 2002 as an initiative by all the general insurers in India – essentially a corpus of funds collected from all insurers to offset possible future terrorism losses
- Provides capacity in the domestic market to underwrite terrorism risks
- Terrorism coverage is usually offered as an add-on cover with personal accident
- All premiums collected by the insurers are ceded to the pool
- GIC manages the pool and also covers 20% of the losses. The balance of the losses are either covered by domestic insurers or ceded abroad
- Currently the pool has approximately $278 million in funds and covers a single loss event of $155 million
- The recent terrorist attacks on Nov 26, 2008 incurred a loss of approx $103 million
- After the attacks terrorism insurance is rapidly gaining importance
- Premiums have increased by ~30% after the attacks

Health Insurance

- Second largest contributor to general insurance premiums after motor insurance
- ~20% of the market in FY09 and is expected to be 26% of the market in FY10
- Fastest growing segment – 5 year growth rate of 37%. Annual premiums in FY09 of $1.4 billion – expected to increase to $6.2 billion by FY15
- Growth drivers
  - Ageing population
  - Improving per-capita income and awareness
  - Increasing healthcare costs
  - Increasing health insurance by employers
- In the absence of any major social security support in the India, the need for health insurance is a subject of prime importance
- It is estimated that only 3-4% of the Indian population has some form of health insurance

Health insurance *(contd)*

- Private insurers are more aggressive in this segment
- Loss ratio has been high at ~141% in 2006-07, and 107% in 2007-08 largely driven by the group health portfolio
- Prior to detariffing, this coverage was commonly bundled with fire insurance and companies made a profit on the whole due to fire tariffs being much higher. Now after detariffing this cross subsidization cannot continue.
- Life insurers can now sell health policies and recently two companies specializing in health insurance have set up shop (Star Health & Allied Insurance and Apollo DKV)

Key Regulations and Solvency II update

- Appointed actuary is required to sign off on all IBNR reserves in a published format
- New requirements to also provide backup to the actual IBNR number (previously a statement that the IBNR is adequate would suffice)
- All insurance companies are required to maintain a solvency ratio of 1.5 at all times
- As the market evolves, the level of required capital will be linked with the risks inherent in the underlying business
- India is likely to start implementing Solvency II norms in the next 3-4 years
- As the first step to Solvency II, insurers are now required to file their audited reports on solvency compliance on a quarterly basis
- Challenges to implementing Solvency II norms
  - Data collection for timely risk assesments
  - Collation of accounting, risk and actuarial information
  - Systems processes and data need to be streamlined
  - Solvency II directives to affect monoline insurers – large diversified groups will avail the benefits of diversification credits

The road ahead…

- The industry has witnessed radical changes since the opening of the market in 2000
- Between FY01 and FY08 the industry grew at 19.5% per annum and ~10% in FY09
- Key growth drivers in the future
  - Growing economy
  - Low insurance penetration as a % of GDP
  - Higher disposable income and savings
  - Increasing urbanization and awareness
- Detariffing has strengthened the bargaining power of the consumer, but in the short run has hurt profitability of the insurance companies
- Companies will have to customize products and improve customer experience in order to win further market share
- Increase in the FDI cap from 26% to 49% will help increase growth
- It will be critical to develop systems that will ensure accurate pricing of risks, and adequate training of underwriters and sales force
- On the whole, while the short term scenario for the general insurance sector appears to be challenging, the long term prospects definitely present ample opportunities for growth

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