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“Customers have started buying/renewing policies online”

By Asia Insurance Post – January 8, 2018

Indian general insurance industry is currently in an upswing mode. Players in the industry, after years of restricted growth, are gearing up to take advantage of the new opportunities in the sector. KG Krishnamoorthy Rao, MD & CEO, Future Generali India Insurance, in an interview with Asia Insurance Post, outlines growth trends as well his company's strategies to grow its business Edited Excerpts:

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K.G. Krishnamoorthy Rao, MD & CEO, Future Generali India Insurance

How do you see the growth and development in Indian general insurance industry? Why do you think penetration level has remained so low?

The industry growing in double digit figures since past two years is closely linked to country’s GDP, as both the rise in consumption and investment leads to an uptick in insurance demand. Due to government’s higher spending on infrastructure, companies executing infrastructure projects relating to roads, ports, power plants will need insurance and this will give a boost to the sector.

Overall, since the GDP growth is expected to enhance, the insurance sector should also grow by 15-20% in the next few years. Going forward, with number of players increasing as well as many players putting up more distribution points, we believe the penetration of insurance will deepen especially in rural area.

The industry’s premium during 2016-17 has grown by 30 per cent to Rs 1,27,000 crore. Do you think it can maintain this momentum going ahead?

Crop Insurance sector has grown by 30%. While the same level of growth is not expected this year, we expect the industry to grow by a minimum of 15% in next few years.

Holistically speaking, being at the confluence of a massive insurance under-penetration on one hand and a growing recognition of insurance as a potent risk mitigation tool on the other, the Indian insurance market presents a huge business opportunity waiting to be harnessed. Rising financial literacy along with a rise in per capita incomes as well as government initiatives like the ‘Pradhan Mantri Jan-DhanYojana’ for enhancing financial inclusion are likely to drive sustainable growth of the Indian insurance industry.

The Indian insurance market is now having retail bias. Do you think the trend will continue going ahead? When do you think demands from commercial segments will revive and grow?

Looking at the population and the growth of middle class, demand for personal line of business will increase contributing to retail growth. One of the key reasons for rise in retail insurance is the ever-increasing inflation in healthcare costs. Healthcare costs have seen a drastic upward trend since many years now and customers have come to terms with the fact that this trend will continue. This phenomenon has driven retail health sales.

Also, the insurance schemes announced by the Government has certainly helped in creating more awareness about insurance as a product and will help insurance companies sell other insurance products as well, especially in rural areas.Initiatives such as open architecture have also enabled insurers to reach out to customers at the grass root level.

Following the detariffing of property and engineering segment, there has been a significant reduction in rates in commercial segment, leading to comparatively lesser growth. However, once the industrial growth picks up, commercial segment will grow as well.

Largely, despite there being 30 players in India’s general insurance industry, the market is still significantly under-penetrated. In the general insurance sector, the penetration level is just about 0.65%. With penetration-premium as a percentage of GDP at 0.7% for non-life insurance, there is a huge untapped potential in the Indian market.

In addition to the growth of the urban market for insurance in India, the rural landscape is now emerging as yet another growth driver with rising incomes, increasing financial awareness and significant product under-penetration.

The new crop insurance business(PMFSY) has become a big business in one year. How do you see its implications including further adding to underwriting losses for the general insurance industry? Is the crop insurance business getting modernised? Does it need large reinsurance support?

Crop insurance to a large extent depends upon the weather pattern. The loss ratio in a year will depend upon how good the monsoon has been across the country. Thus, loss ratio due to weather may not be consistent every year. In a bad year, it may add to underwriting losses for the entire industry. Insurers along with the government are trying to use technology for better management of crop insurance.Of course, since the exposure for a single insurer is for a significantly large amount, it will need good reinsurance support.

Apart from motor and health, what are the other segments that have large potentials in the Indian market? What about demands for cover for catastrophes and Cyber?

On the personal insurance side, home insurance is one of the untapped segments in the Indian market. Considering the growth of middle class population, demand for home insurance will increase as well.

Unfortunately in India, insurance is still considered as an expense rather than a necessity to secure financial stability. People need to realise that an adequate insurance cover can protect from a financial loss caused by a crisis situation. It will protect people from catastrophes like floods and earthquake.Increased use of electronic devices/apps for financial transaction will necessitate the requirement of cyber insurance cover.

Do you think the prices- post detariffing- have improved and cut throat competition is now under check that can help the industry to improve its financials?

The insurance industry has been evaluating the claims experience for various type of industries and is trying to address the issue of premium rates for those industries which have had bad claim experience over the years. This is expected to improve the loss ratios along with financials of the insurers.

One of main concern of the industry is the huge underwriting losses the industry is suffering despite third party premium going up every year?

The underwriting losses for the industry has been contributed by three segments primarily – motor, property and health. Though third party premium gets revised every year, the loss ratio along with expenses are not compensated fully by the premium increase. Due to this, third party insurance still contributes for a significant amount of underwriting loss.

Increasing catastrophic claims and fire claims are contributing to underwriting loss in the property segment. The industry requires to increase premium rates for loss making industries so that underwriting loss in the segment can be minimized.In health, pricing of group health policies has started improving which will eventually set off the underwriting loss in this particular segment.

Has the industry been innovative in its product and distribution strategies?

The industry has been coming up with many new products in last few years especially in retail segment. The regulator has been helpful to introduce certain new distribution channels like Common Service Centres, Point of Sale etc., many of them being innovative concepts in insurance.

Online as a channel is growing significantly. Customers have started buying/renewing policies online. Realising the potential of this channel, we also launched online-only products last year and have seen substantial rise in sale of such policies.

How do you see the role of new global reinsurers including Munich Re, Swiss, SCOR and Lloyd’s who have started their operations in since Apr 1? How they are helping the market in terms of prices, capacity and innovative products? Are they keen on top line or bottom line growth?

The new reinsurers have just established their offices few months back and as of now are following the same strategies what they had in the past. We believe that going forward they will contribute to the development of the reinsurance market in the country.

Do you expect large scale consolidation in the Indian general insurance industry? There is a buzz that your company and promoter is actively looking for a buyer. Would you please comment on this?

Like any other industry, the general insurance industry would also witness consolidation at some point of time. However, we do not comment on market speculation.

Where do you see the industry by 2025?

India’s economy is the world’s seventh largest in terms of nominal GDP and the third-largest in terms of PPP (purchasing power parity). By 2024-25, Morgan Stanley expects per capita income to rise 125% of the current levels to about INR 234,713 (conversion @ INR 64.31). With the increase of per capita income, per capita spending could grow, which could boost the insurance market.

The Indian insurance industry is highly competitive with a large number of players vying for the same share of the pie. Industry constituents need to have a long-term orientation to business to win in this market. Since price is hardly a determinant for customer acquisition, the only way to win mandates is through service differentiation. Besides, since premiums are typically market-determined and also influenced by regulations, the one lever in hand to persuade customers is superior service.

By 2025, we expect the industry would be at least 3 times of the size of today. By that time, we also expect the penetration of general insurance to exceed one per cent of GDP. We hope that the market will become more stable with players resorting to pricing driven by underwriting considerations. This will lead to healthy development of the general insurance market.

What are your premiums profits, investment income, Underwriting losses, Combined Ratio, claim ratio, reinsurance ratio in 2016-17?

Company achieved a Gross Written Premium of Rs 1,843 Crore against Rs 1,595 Crore in the previous year, registering a growth of 16% over the previous year. The Company earned a net profit of Rs 42.80 Crore.

Our Income from Investment was Rs 2,280,750 in year ended March 2017. The Combined Ratio in FY17 was 114%.Amongst health insurance claims, Future Generali topped in settlement ratio among general insurers with 96.95 per cent.

What are your expansion plans for your company in terms of premium, profitability and raising capital?

We are looking at growing higher than the market instead this year with a focus on retail channel. The growth is expected to come from diverse segments, especially motor insurance, retail health and personal accident portfolio. Going forward, retail will account for nearly 70 per cent of our business from current 65 per cent. By 2020, we want to see ourselves as a top retail player in the general insurance sector.

Product wise, our focus will be to grow profitable segments of business in order to ensure the equilibrium of our bottom-line. These would include Marine Cargo, Liability insurance, Individual Health and Personal Accident policy. Another major thrust this year will be on the rural insurance portfolio. Rapidly changing landscape of the rural economy along with heightened awareness about financial inclusion owing to the current government's schemes is an area that we would like to tap. We plan to drive the sale of our policies ranging from micro-insurance products to standard personal line products.

Overall, the plan is to stay ahead of industry's growth and we are working towards reducing underwriting losses.

When do you plan to get listed?

We look for reaching a reasonable size at which point of time shareholders might take a call regarding this.

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