Foreign Investments flow in Insurance Sector in 2016

(January 2016)

The Associated Chamber of commerce and Industry of India

Executive Summary

Foreign investment of over Rs 12,000 crore is expected to land in the country as more than dozen foreign companies are planning to raise their stake in private sector insurance joint venture this year.

These investment deliberations are different stages and foreign funds will flow in during course of the year.

The investment push has come as a result of liberalisation of foreign investment ceiling from 26 per cent to 49 per cent last year through the passage of Insurance Laws (Amendment) Bill last year.

The Bill was passed by Parliament in March, 2015 clearing decks for foreign entities to increase their stake in private sector insurance companies.

Soon after the law took effect, foreign investors started ploughing capital into their Indian joint ventures, raising their equity holdings.

Companies including AXA of France, Bupa of the UK, Nippon Life Insurance of Japan announced raising stake in their respective joint venture.

This year has begin with Rs 1,705 HDFC Standard Life Insurance Company's proposal getting inter-ministerial panel nod for increase of share of Standard Life of the UK in the insurance joint venture from 26 per cent to 35 per cent.

Based on the suggestions of Foreign Investment Promotion Board, the proposal of HDFC Standard Life Insurance Company has been referred to Cabinet Committee on Economic Affairs (CCEA) for its approval. The money will flow as the approval from Cabinet comes.

Besides, more than a dozen foreign companies including BNP Paribas Cardif, Insurance Australia Group, Aviva Plc, AIA, QBE Insurance Group, Prudential Financial Inc, Sun Life Financials and Fairfax Financial Holdings of Canada are expected to raise stakes in their ventures during this year.

Mitsui Sumitomo Insurance Company of Japan also proposed to increase stake to 40 per cent from 26 per cent in Cholamandalam MS General Insurance Company for consideration of about Rs 883 crore.

About 9 insurance companies have already applied for regulatory clearances to bring in foreign investment .

If these proposals get approval, it will lead to inflow of about Rs 6,000 crore of foreign capital.

In addition, 10 companies are at different stage of deliberations with regard to increasing stake in their Indian insurance joint venture.

So more than Rs 12,000 crore is set to flow in the insurance sector comprising of both life and non-life during 2016. Besides, re-insurance sector would also see some fund flow as it has also get a leg-up through the amended Act.

According to IRDAI, the total FDI in insurance sector as on March 31, 2015, was about Rs 8,031 crore.

“This figure could well cross Rs 20,000 crore by the end of December this year” he said.

There are 52 insurance companies operating in India, of which 24 are in the life insurance business and 28 in the general insurance. State-owned General Insurance Corporation (GIC), in addition, is the sole national reinsurer.

In order to deepen the re-insurance market, IRDAI permitted UK-based Lloyds to set up business in India.

Lloyds India will ensure that the market and the constituents are housed in one location for the conduct of reinsurance business.

Besides, Ireland-based global reinsurance firm XL Catlin has announced plans to enter India and has already begun the licensing process to establish its branch, aiming to seamlessly tap into the country's growing market.

An application has been filed with the Insurance Regulatory Development Authority of India (IRDA) seeking to establish a reinsurance branch office, the firm said in a statement.

The XL Catlin reinsurance companies are among the world’s leading reinsurers. They offer products that include aerospace, property, casualty, marine and specialty.

It is to be noted that AXA raised stake in both life and non-life insurance ventures with Bharti Enterprises, leading to foreign capital inflow of about Rs 1,300 crore.

Japan's Nippon Life Insurance, too, announced the acquisition of another 23 per cent stake in Reliance Life Insurance for about Rs 2,265 crore. At the same time, Bupa also announced to raise its stake to 49 per cent in Max Bupa Health Insurance for Rs 191 crore.

The Netherlands based Ageon has also increased its stake in life insurance venture Aegon Life Insurance Company to 49 per cent.

Introduction

Insurance market in India was opened up for private sector in 2000 with the enactment of Insurance Regulatory and Development Authority of India (IRDAI) Act. From Just five state-owned companies, IRDAI now regulates 24 life insurance and 28 non-life insurance companies.

Before opening up of the sector for the private players, the industry consisted of only two state insurers: Life Insurers (Life Insurance Corporation of India, LIC) and General Insurers (General Insurance Corporation of India, GIC). GIC had four subsidiary companies.

Of the 53 companies presently in operation, eight are in the public sector - two are specialised insurers, namely ECGC and AIC, one in life insurance namely LIC, four in non-life insurance—New India Assurance, Oriental Insurance Company, National Insurance Company and United India Insurance --and one in reinsurance GIC. The remaining forty five companies are in the private sector.

Industry has seen a gradual growth over the last 15 years in terms of product innovation, vibrant distribution channels, penetration and density.

This capital starved industry after 7-year wait got Parliamentary permission to bring in more foreign capital for growth and expansion.

Insurance Amendment Bill with specific provision to raise FDI in private sector insurance companies was first tabled in 2008 but could not see light of day due to non-concurrence of all the political parties. It remained in the Upper House till it was cleared last year.

The passage of long-pending Bill has opened new vistas and will help deepening the insurance market in the country which is second most populous in the world.

Considering its ever growing population and demographic dividend, it has huge unexplored potential yet to be explored and harnessed.

Indian insurance industry has a long way to traverse insurance penetration in the country is quite low compared to global average.

According to IRDAI, globally, the share of life insurance business in total premium was 55.55 per cent. However, theshare of life insurance business for India was very high at 79.12 per cent while the share of non-life insurance business was small at 20.88 per cent.

In life insurance business, India is ranked 11 among the 88 countries, for which data is published by Swiss Re. India's share in global life insurance market was 2.08 per cent during 2014. However, during 2014, the life insurance premium in India increased by 1.0 per cent (inflation adjusted) when global life insurance premium increased by 4.3 per cent.

The Indian non-life insurance sector witnessed a growth of 4.8 per cent (inflation adjusted) during 2014. During the same period, the growth in global non-life premium was 2.9 per cent. However, the share of Indian non-life insurance premium in global non-life insurance premium was small at 0.69 per cent and India ranks 20 in global non-life insurance markets.

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population(per capita premium).

During the first decade of insurance sector liberalization, as per IRDAI, the sector has reported consistent increase in insurance penetration from 2.71 per cent in 2001 to 5.20 per cent in 2009. However, since then, the level of penetration has been declining reaching 3.3 per cent in 2014. A similar trend was observed in the level of insurance density which reached the maximum of USD 64.4 in the year 2010 from the level of USD 11.5 in 2001.

During the year under review 2014, the insurance density was USD 55. The insurance density of life insurance business had gone up from USD 9.1 in 2001 to reach the peak at USD 55.7 in 2010. During 2014, the level of life insurance density was USD 44.

Similarly, the life insurance penetration surged from 2.15 per cent in 2001 to 4.60 per cent in 2009. Since then, it has exhibited a declining trend reaching 2.6 per cent in 2014.

Over the last 10 years, the penetration of non-life insurance sector in the country remained steady in the range of 0.5-0.8 per cent. However, it’s density has gone up from USD 2.4 in 2001 to USD 11 in 2014.

As per IRDAI, life insurance industry recorded a premium income of Rs 328101.14 crore during 2014-15 as against Rs 314301.66 crore in the previous financial year, registering growth of 4.39 per cent (9.44 per cent growth in previous year).

While private sector insurers posted 14.32 per cent growth (1.33 per cent decline in previous year) in their premium income, LIC recorded 1.15 per cent growth (13.48 per cent growth in previous year).

The non-life insurance industry underwrote total premium of Rs 84684 crore in India for the year 2014-15 as against Rs 77554 crore in 2013-14, registering a growth of 9.19 per cent as against an increase of 12.13 per cent recorded in the previous year.

The public sector insurers exhibited growth in 2014-15 at 10.23 per cent; over the previous year's growth rate of 10.21 per per cent, according to IRDAI. The private general insurers registered growth of 9.62 per cent, which is lower than 14.52 per cent achieved during the previous year.

During the year 2014-15, the total net profit of non-life insurance industry was Rs 4639 crore as against a profit of Rs 4649 crore in 2013-14. The public sector insurance companies reported a net profit of Rs 3094 crore. The private sector insurers reported a net profit of Rs 1644 crore and specialized insurers have reported Rs 348 crore. However, the standalone health insurers reported Rs 447 crore net loss.

Overview of Insurance Industry post privatisation in 2000

Regulator	Insurance Regulatory and Development Authority of India (IRDAI)
Number of players	General insurance companies: 28 Life insurance companies: 24
Number of Private players	General insurance companies: 22 Life insurance companies: 23
Number of Re-insurer	One
Foreign Investment Limit	Increased to 49 per cent from 26 (2015)
FDI as of March 2015	Rs 8,031 crore
Number of listed insurance firm	None

IRDAI has permitted life insurance companies that have completed 10 years of operations to raise capital through Initial Public Offerings (IPOs). Some listing from insurance sector can be expected in the coming years.

It has also announced merger and acquisition norms for smooth exit of insurance participants in case they find opportunity better elsewhere.

Mergers and acquisition guidelines do not undermine the interest of policy holders rather it is the key focus.

Outlook

The Insurance sector also plays a vital role in the economic development by providing various useful services like mobilising savings, intermediating in finance, promoting investment, stabilising financial markets and managing both the social and financial risk.

Realizing the potential of insurance sector in mobilizing the savings for the productive use and social safety, Government has taken various steps to improve its quality, reach and popularity.

With objective to provide insurance cover to all, the Government last year introduced Pradhan Mantri Suraksha Bima Yojna (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJBY) to bring more people under the insurance cover.

PMSBY offers a renewable one-year accidental death-cum- disability cover of Rs 2 lakh for partial/permanent disability to all savings bank account holders in the age group of 18-70 years for a premium of Rs 12 per annum per subscriber. The scheme is managed by general insurance firms.

PMJJBY, on the other hand, offers a renewable one year life cover of Rs 2 lakh to all savings bank account holders in the age group of 18-50 years, covering death due to any reason, for a premium of Rs 330 per annum per subscriber.

Going forward, increasing life expectancy, favourable savings and greater employment in the private sector is expected to fuel demand for insurance and pension plans. Likewise, strong growth in the automotive industry over the next decade would be a key driver for the motor insurance market.

Post capital raising, the insurance sector is expected to see greater growth may be among top five insurance market in the world in the next 10 years.

****