



Profile of Non Life Insurance Market in India

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IMaCS VIRTUS
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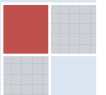


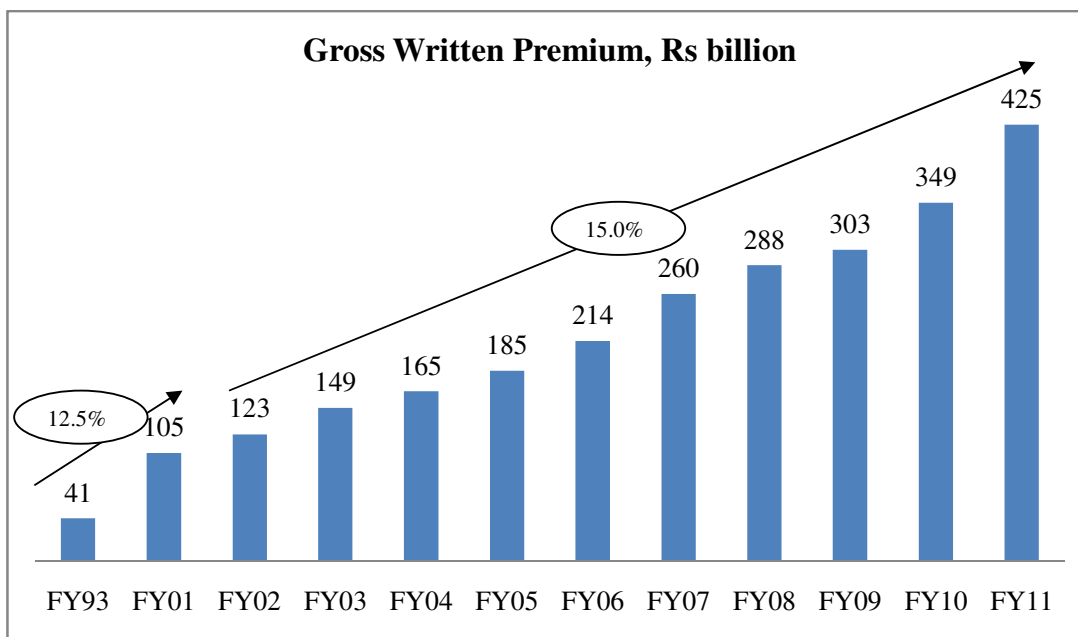
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NON LIFE INSURANCE SECTOR IN INDIA- MARKET POTENTIAL

The liberalisation of Indian Insurance sector in 1999 led to the entry of several large private sector insurers which ushered in a phase of strong growth in the sector, both in Life and Non Life insurance segments. The growth in the sector has further been aided by a favorable macroeconomic environment with a high GDP growth which has led to rising income levels, increased demand for vehicles, increasing health awareness and health expenditure and a shift from agricultural economy to industrial and service-oriented economy.

During the last ten years, the Non Life Sector has moved towards a higher annual growth trajectory of 15% with Gross Written Premium of Rs USD 9.5 billion (Rs 425 billion in FY11) as compared to an average annual growth rate of 12.5% in the pre-liberalisation era of 1993-2001.



Source: IRDA, IMaCS Analysis

Despite achieving an impressive growth, the sector remains far from tapped, with penetration rates (premium to GDP ratios) remaining abysmally low at 0.7% in FY10 as compared to average of 4.6% in United States, 3% in Europe and 1.6% in Asia.

KEY BUSINESS SEGMENTS

Traditionally, Indian Non Life Insurance sector has been dominated by mandatory motor insurance (third party and own damage) which constituted 43% of total gross written premium in FY11 followed by fire and marine insurance which constitute 11.3% and 6.3% share of the market. Health Insurance in the newest emerging product segment in the sector and has grown up to a share of 22.6% in FY11, up from a meager 2% in FY07. The balance is classified as Others which includes Engineering, aviation, liability and personal accident policies. Home insurance is a very small segment and is clubbed under 'Others'.

Fire, Engineering, Marine Cargo, Aviation, Health, personal accident and liability class of business forms the key corporate segments while Own Damage Motor Insurance for private cars and two wheelers and Health Insurance are the prominent retail segments in India. Insurers have also been offering schemes such as home insurance, travel insurance, students insurance, but these are new to the Indian market and are yet to pick up significantly in India.

Historically, Indian Non-life insurance sector tariffs in India have been regulated by the IRDA. However, the sector has been progressively detariffed, with prices of all policies except third party motor vehicles insurance deregulated in 2008. As the industry entered its fourth year of detariffed regime in 2011 which allowed flexible pricing, prices have begun to stabilise in various business segments. However, the regulated third party motor vehicles insurance segment which constitutes around 35% of the total motor insurance market (15% of the total market) continues to remain the largest loss making segment. In March 2011, the regulator mandatorily increase the provisioning requirement on Third Party Motor Insurance Pool to 153% loss ratio with all insurance companies required to contribute their share to the pool. This additional provisioning in FY11 is estimated to lead to industry losses ranging between Rs 25-35 billion. The situation is expected to improve going forward with the regulator increasing the premium for third party liability insurance on commercial vehicles, which is expected to bridge the gap between the actual and the estimated claim ratios to some extent.

HOME INSURANCE IN INDIA

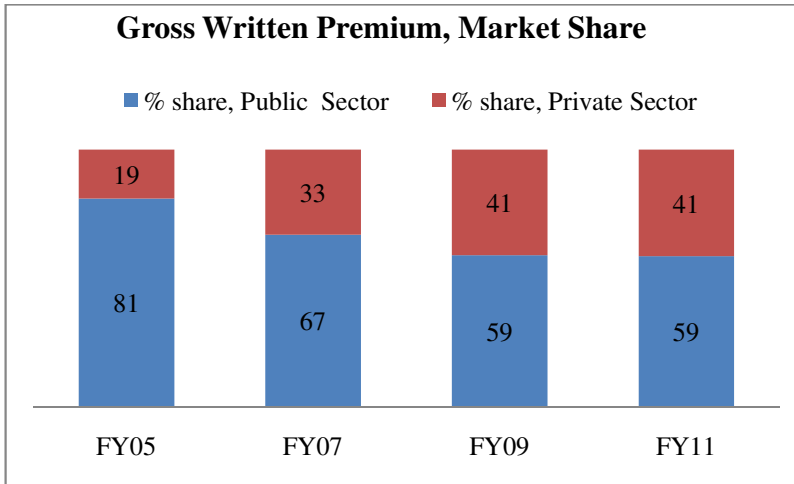
Home Insurance, commonly known as hazard insurance or homeowners insurance is a property insurance cover for private home owners to insure the property, its contents, accidents, thefts or loss of other possessions at home. Based on industry sources, the size of home and its content insurance

premium in India is estimated at Rs 2 billion in FY10, which translates into a 0.6% share of total non life insurance market in India in FY10. Currently, Home Insurance market in India is in nascent stage with an estimated penetration of just 0.18% of households in India and this signifies huge untapped potential of the market. The market has strong demand drivers in place with a significant rise in mortgage penetration and along with it, a rise in the percentage of Indian population who owns a property. With rising mortgage penetration in India, lenders are keen to cover the risk on the underlying security, the property which could be done effectively by a combination of life insurance policies on the on the borrower, home loan protection policies by the borrower, mortgage insurance by lenders and a property/home insurance cover. Adequate focus on increasing awareness and acceptance of the home insurance product by the lenders and end customers will be instrumental in expanding the scope of the home insurance market in India.

Insurance providers have realised the significant potential in the market and have launched a host of insurance policies to suit the specific requirements of the end customer segments and are planning to launch targeted promotion, awareness and marketing campaigns. Industry experts are optimistic about the sector and believe that the home insurance segment may take the same growth curve as that of Health insurance sector which now constitutes a 22% share of non life insurance market in India in FY11, up from just a 2% share in FY07.

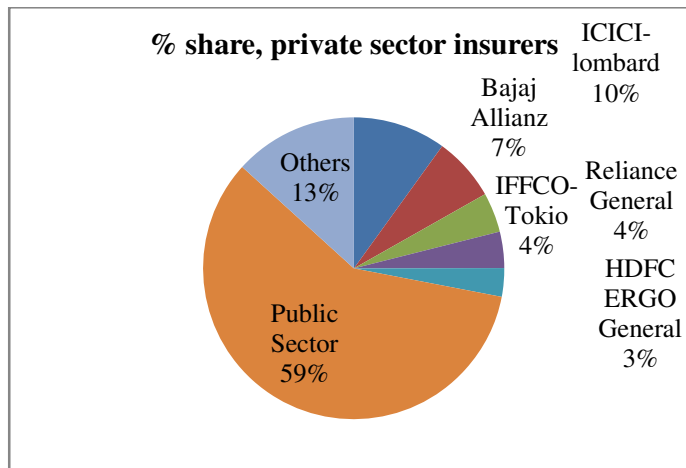
COMPETITIVE LANDSCAPE AND PERFORMANCE

The immense potential of the Indian Non-Life insurance sector and the significant untapped potential has attracted large private sector financial services providers in India to form joint ventures in collaboration with global insurance majors. These entrants have captured a significant share of the market at 41.3% in FY11 at the expense of the four public sector incumbents which had a share of 58.7% in FY11. Initially, the incumbents continuously lost share to the private sector incumbents, but over the past 3 years have managed to arrest the decline in their market share.



Source: IRDA, IMaCS Analysis

As on March-11, there are 15 private non-life and 3 health insurers in India, with three new entrants in the year FY11. The top five private sector players constituted a 28% share of the total market in FY11, with the remaining 10 insurers constituting a 13.3% share.



Source: IRDA, IMaCS Analysis

Majority of the private sector joint ventures (with the exception of few such as Reliance General) have been formed in collaboration with leading international insurers which bring in the crucial expertise and capital investment capacity, essential for a capital intensive business with a long gestation period of 3 to 5 years.

Details of Joint Ventures of Top five private Non Life Insurers in India

Joint Venture	Foreign Partner	% share, Domestic
ICICI-Lombard	Farifax Financial holdings, Canada	74%
Bajaj Allianz	Allianz SE	74%
IFFCO-Tokio	Tokio Marine and Nichido Fire Group	74%
Reliance General	None	100%
HDFC ERGO General	ERGO International AG (Munich Re)	74%

Source: Public Domain, IMaCS Analysis

The private sector insurers have resorted to aggressive growth strategies by building a large agency force and distribution network, incurring big marketing and promotion budgets, differentiating on the basis of quality of service offerings and identifying profitable customer segments. The private insurers have developed multi-channel distribution system with a mix of branches, agents, banks, brokers and online portals to tap the end customers directly in a cost efficient manner. Their aggressive growth posture has not only led to an increase in penetration of insurance products but has also prompted the incumbents to get their act together and deploy all resources to arrest the unilateral decline in their market share which in itself has led to a further expansion of the market.

Over the last ten years, the industry has been in an aggressive growth phase trying to gain its ground in the de-tariffed era and struggling to deal with losses of the third party motor insurance policies. All these factors have led to delay in achieving optimal profitability ratios for the insurers despite a strong top-line growth. The combined ratios of leading insurers still remain well above 100% in the range of 105-110% with exception of few players such as Bajaj Allianz which achieved a combined ratio of 98.6% in FY10 and 99.6% in FY11 which is within range to global benchmark of 97-98%. Further, several large insurers in sector still rely significantly on investment income to write off underwriting losses, which is an unsustainable model and poses a challenge for the industry.

KEY REGULATIONS AND EXPECTED CHANGES

Indian Insurance sector was liberalized in 1999, with foreign direct investment (FDI) of 26% allowed in the sector. An entity carrying on the business of general insurance in India is required to have a

minimum capital of Rs 1 billion. Further, if at the time of inception, the promoters hold more than 26%, they are required to divest the holding in excess of 26% after a period of ten years. The FDI cap at 26% has put the pressure of capital infusion on the Indian promoters and has been quoted as a key deterrent to entry by foreign investors. Industry quarters have been demanding an increase in FDI cap to 49% to ensure continuous capital supply, but the bill has been pending in the parliament due to a strong opposition. Recently, the regulator has announced the norms for public offerings of Life Insurance companies as several companies are about to reach the ten year threshold of shareholding offload beyond 26%. Similar norms are expected to be announced for Non Life Insurance companies.

FUTURE OUTLOOK

The Indian non-life insurance sector has registered an impressive growth in the post liberalization era and continues to offer substantial room for further growth owing to low penetration ratios. The industry is entering into a phase of relative stability and optimal price discovery after the commencement of complete de-tariffed regime four years back. Private insurers have managed to garner an attractive market share at the expense of public sector insurers owing to their aggressive growth strategies, focus on developing a large multi-channel distribution network and a customer focused service approach.

Despite an attractive growth, the sector continues to face shortcomings on critical areas relating to underwriting performance, risk management, pricing, and high reliance on investment income to offset underwriting losses. Going forward, efficient pricing/underwriting skills, stronger claims management, cost control measures, superior customer service, continuous product innovation, and timely regulatory reforms will be the key factors for success in this sector. Key regulations that are expected to facilitate further growth of the sector and improve its business dynamics over the next few years are increase in FDI limit and policy norms related to improved transparency, infrastructure and operations development for the sector.

About IMaCS Virtus Global Partners

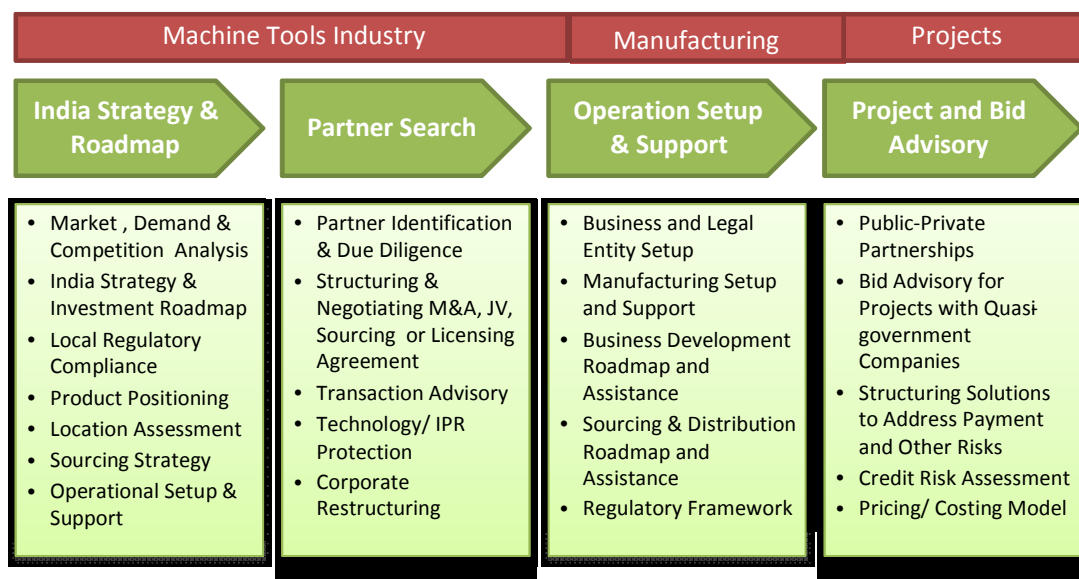
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- Formulating an India entry strategy for a leading global bank.
- Assessment and Due diligence of joint venture partner for an international power project investor
- Market Assessment of commercial vehicles gearbox and seatbelts in India for a leading international auto-component manufacturer.
- Financial assessment and valuation of India based utility companies for an international strategic investor seeking acquisition of stake in a State Owned Public Sector Utility

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