NOTEBOOK

Insurance for all

The 16th India Rendezvous took place in January and the collective strength of the domestic insurance industry gathered to discuss the future of India, (re)insurance and the wider region.

By AIR Team

Mr Thomas Devasia

In his inaugural address Insurance Regulatory and Development Authority of India (IRDAI) member (non-life) Thomas Devasia said that India today is a $3.5tn economy and among the fastest growing globally.

He said, "Our insurance industry, which is worth over $120bn, is growing at 13% y-o-y. We need to focus on a sustainable market for the next five years. Our target has to be insurance for all."

Mr Devasia said that in 2001 when the market opened up, the overall insurance penetration rate was 2.7% and by 2020 it had grown to 4.3%, with life insurers coming in at about 3.2%, which is comparable to global average of 3.4%. However, non-life penetration is a matter that needs attention as is only about 1%, compared to the global average of 4.4%.

He said with 27 general insurers and five standalone health insurers, the nation has a lot to do and lot to achieve. With the pandemic, alarming global inflation and the changing geopolitical situation, the insurance industry is at an inflection point.

He said Bima Sugam, the proposed technology platform, will be another big milestone for the Indian insurance industry and will help expand the insurance market.

Further regulatory support

Mr Praveen Trivedi

International Financial Services Centre Authority (IFSCA) executive director Praveen Trivedi in his address 'Fostering the growth of insurance sector in GIFT-IFSC' said there has been a 200% rise in the growth of IFSC entities over the last two years.

"From 129 in September 2020, we now have 391 entities operating from GIFT-IFSC. We offer a competitive tax structure and tax regime with several encouraging features. The GICT-IFSC has also developed an aircraft leasing and financing hub ecosystem and it offers a 360-degree approach to this market."

Making a specific mention of GIFT-IFSC insurance ecosystem, Mr Trivedi said IFSC insurance regulations are benchmarked with international best practices. He said GIFT-IFSC provides reinsurance support to the following categories of entities.

- IFSC Insurance Offices (IIOs) of direct insurers in IFSC
- Reinsurance support to IIOs (reinsures) in IFSC
- Reinsurance business from cedants based in India, subject to order of preference under the IRDAI (Reinsurance) Regulations 2018. Currently, IIOs are ranked above cross border reinsurers (CBRs)
- Reinsurance and retrocession to cedants/reinsurers based outside India

It also supports setting up of regional headquarters for Asian market and 100% tax holiday period is extended to 10 years out of any 15 years. No GST is levied on services rendered in IFSC or to an IFSC unit.

The modern era of insurance

Mr Devesh Srivastava

During his special welcome address on the first day, GIC Re chairman and managing director Devesh Srivastava said, the 1 January renewals, though not unprecedented, are a first for many insurance practitioners so used to soft market conditions. Life has come full cycle and so has the market.

He said, "We all talk of hard and soft cycles in our industry. Given the absolute mayhem witnessed in the renewals, should we not pause to consider a very basic tenet of reinsurance? If reinsurance is meant to even out the crests and troughs in an insurance company's balance sheet, should that not translate into a complete absence of a cyclical market in our business?"

Mr Srivastava said that four factors hint that the market cycle has changed considerably and that maybe the traditional hard-soft markets should not apply in the modern era. He said these four factors are: Capital is still available; rate increases have varied significantly by class of business; there is no certainty about the rate adequacy; and cyber is another area where the rates being charged are debatable.

He said these four factors strongly suggest that things are different this time around. They indicate that possibly this hard market cycle is more of an amalgamation of 'small waves' rather than an overall tide.

He said, "We must also bear in mind that these hardening trends are not a flash in the pan but are expected to continue for a couple of years. It is now for us to brace for the tough times ahead and educate our clients on the importance of sustainability for the future of our industry."

Focusing on sustainability

During the panel on, 'Are CEOs ready for tomorrow', Liberty Insurance CEO Roopam Asthana said the industry needs to be introspective on how it aligns its work force with digital technology.

There is always a lag in this area and that needs to be overcome fast. He said cyber crimes are a new CAT event, which are shaping up very rapidly and it is now an open-ended risk.

He said, "We need to question ourselves: Is going digital a transformation or a fatigue in the making? The major issues that are confronting us today are adopting and adapting to technology, measuring up to the ESG benchmarks and ensuring that the industry remains profitable."

"We need to build on two very vital traits in our employees – talent and technical thinking. Now the investors are also bringing a new dimension to the industry. We need to focus on sustainability," said Reliance General Insurance CEO Rakesh Jain. "What I erect must sustain beyond and after me. The customer wants value for money and it is a value-scaling market and not a price-setting market."

He said technology is important if there is context. Aligning business strategy and IT execution is important. He said insurers who can successfully blend their business model with social uplift will be more sustainable in the long run.

Mr Asthana said, "Respecting income disparity and ensuring protection for our larger population should be our focus."

He added that for the increasing Nat CAT of today, the industry needs more capital and also needs to focus on its bottom line.

Mr Srivastava said the CEO's role is to keep the team ready for the battle. "Sustainability is a concern while dealing with Nat CAT events. Technology does make us more efficient, but we need to be judicious in its use and implementation."

Regional reinsurers are as important as global players

The panel on 'How relevant are regional reinsurers in the current scenario' witnessed some serious discussions on the role of regional players in a highly competitive industry. Munich Re India branch head of client management P&C Ankur Gupta said that a regional player can be close to the market and understand its needs from close quarters. "The train has to run with both global and regional players," he said.

ACE Insurance Brokers director and co-founder Anil Arora said that the role of the broker is to ensure that it is able to gather capacity for clients and at competitive rates. "Regional reinsurers have a far more commitment to their local markets," he said.

Mr Srivastava said that if spread is the basic tenet of reinsurance, then the term regional for reinsurers is a misnomer. "Our strength comes from the Indian market and our current portfolio consists of almost 50% domestic and 50% global business," he said.

Asian Re president and CEO

L-R: Dr George E Thomas, Messrs Devesh Srivastava, Rakesh Jain and Roopam Asthana

L-R: Dr Sanjeev Jha, Messrs Anil Sant, Devesh Srivastava, Anil Arora and Ankur Gupt

Anil Sant said that the 1 January renewals have been one of the most difficult and reminded the market of the period during WTC crisis when markets saw a scarcity of capacity. "There was a 15% depletion in reinsurance capital and this created a big demand-supply gap," he said.

Mr Arora said that regional reinsurers have far more commitment to their local markets. "As brokers it is challenging to work in a hardening market and satisfy clients' needs," he said.

Mr Gupta said that reinsurers are aligned to each other and it is ultimately the insurers who will have to make the choice. "The environment today is challenging with capital scarce and costly," he said.

Mr Sant said that a strong local reinsurance player will support the local market during difficult times when other big players stay away. "In the marketplace we need both regional and global players, but it is the local player who will not go away from his local market," he said.

Mr Srivastava said that knowledge in the reinsurance industry is free flowing and hopes that this trend will continue. "For everyone else, India is another market but for GIC Re, India is the market," he said.

Growth despite challenges


Ms Neerja Kapoor

New India Assurance Company chairman and managing director Neerja Kapoor in her special address, 'Winds of change' said the food and energy crises, global inflation, unsustainable debt levels, geopolitical confrontation and climate change, all add up to the present global turmoil.

She said, the Indian insurance industry is poised to take off on a growth trajectory. "Over the next decade we expect to see a strong double-digit growth in the market. By 2032 we are set to become the sixth largest insurance market in the world and non-life is expected to perform better than life insurance due to low penetration."

Ms Kapoor said global reinsurers can no longer afford to ignore the Indian insurance market. Appreciating the efforts being made by the Indian regulator, IRDAI to achieve insurance for all, she said IRDAI is leaving no stone unturned. Over the last 12 months a complete overhaul of the regulatory regime has been initiated. This is bound to create an insurance market where ease of doing business is the priority.

She said, "Very soon we expect a transition from an overly prescriptive regime to a principle-based outcome driven regulation and an open market unhindered by regulatory arbitrage is expected to emerge."

'Social' is the neglected middle child


Dr Kai-Uwe Schanz

When it comes to ESG, the social aspect is the neglected middle child, said Geneva Association deputy managing director Kai-Uwe Schanz, during his presentation.

Insurers, like many other organisations, struggle to measure their social footprint, which leads to this topic being under-researched and poorly understood.

At its most basic, social impact is the impact business has on people, be it positive and negative. Secondly, social impact can also be outcome-driven, essentially looking at what insurers want to achieve. "Of course, we want to enable as many people as possible to live in healthy and equitable conditions. That's the objective of social sustainability efforts," he said.

Even with this understanding, the topic can be difficult to address. Dr Schanz said that the pandemic and recent geopolitical shock events have shown a clear manifestation of protection gaps, with COVID-19 exposing the gap in health protection, that had previously gone neglected in favour of the Nat CAT protection gap. Further, Russia president Vladimir Putin's invasion of Ukraine and the current cost of living crisis have massive social implications.

He also pointed out that the push towards a more transparent non-financial performance from both the public sector and the investment community is providing a major obstacle to channelling funds and capital towards sustainable purposes. "When you look at the landscape, there are more than 600 frameworks globally to describe and to conceptualise non-financial performance. With thousands of metrics. And this chaos is not just a nuisance," he said.

However, he added that there are many efforts to streamline and facilitate this process, which offers the potential to pave the way towards a globally consistent approach to measuring non-financial performance.

Achieving sustainable pricing

A significant portion of climate change is already locked in based on historical emissions for the next few decades, said Moody's Investor

L-R: Messrs Brandan Holmes, Mohammed Ali Londe, Karthik Srinivasan

Service senior VP Brandan Holmes during a panel discussion on sustainable pricing.

The incidence of extreme weather will continue increasing for the next few decades, regardless of what is done now to reduce greenhouse gas emissions and limit temperature increase over the much longer term. "We see this trend increasing and for it to continue impacting insurers. And I think what we're seeing there plays into the growing awareness of society, corporations and governments of the risks that are faced and of the knowledge that the insurance sector has in addition to balance sheet capacity to help manage debt," he said.

However, Mr Holmes believes that one of the big risks for insurers is risks or sources of premium volume becoming uninsurable over time. As such, a growing focus on mitigation and adaptation is being seen and is quite vital to ensure that some higher risk areas, with some mitigation, can remain insurable.

"And then alongside that, we see increasing focus on collaboration between reinsurers, primary insurers, governments and corporates already in developing more and more sophisticated and loading and more sort of adaptation and mitigation techniques," he said. "And I think another role of the insurance sector is raising awareness of these risks, and that's in part through pricing, where there's been a lot of subsidisation, but not very specific pricing."

On pricing, ICRA Limited senior VP and group head of financial sector ratings Karthik Srinivasan pointed out that increasing pricing to match interest and inflation rates, while also improving insurance penetration is the balancing act that all insurers – but especially the non-life insurers in India – must engage in.

He said that IRDAI has been more vociferous than other regulators in terms of its expectations of deepening the insurance sector and improving penetration levels. While some insurers have made some improvements towards reaching pricing parity, it is still product specific, and there are still many lines where the pricing is exuberant.

"Pricing challenges are here to stay for some time, at least where insurers are concerned," he said.