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Evolving Frontiers, Exciting Prospects

16th Global Conference of Actuaries & 2014 AGFA

17th – 18th Feb, 2014 Mumbai - India

Agenda

- A global perspective
- Wither India?
- Symptoms
- Diagnosis
- Therapy
- Relapse/ Reaction
- Are we ready to learn from someone else’s woes?

A global perspective

- The global non life insurance market is likely to remain challenging over the coming decades.
- Greater price sensitivity, a lack of differentiation among carriers, and record-low interest rates have constrained top-line growth for most insurers.
- The uncertain pricing environment has added to these woes, squeezing margins and contributing to low equity returns.
- On top of that, a spate of catastrophic events has elevated loss ratios in recent years.

Source: BCG Perspectives

"The dance of prices"

- "People still get upset when the balance between income and outgo that they have carefully devised is upset by a sudden rise in prices. It is easy to think that some evil power must be behind the rise. There may be. If the price of kerosene goes up, you know who is behind it: the government. But all prices are not raised by evil powers. Usually it is possible to guess what is happening. But a number of guesses are possible; the difficulty comes in deciding which guess is right. And if you are trying to make a policy to reduce price rise, it becomes important to make the right guess."

The Price of Onions, by Dr Ashok V. Desai

Symptoms

- Commoditized: From a P&C (P&L) market transformed to A&H!
- Each renewal, the premium must go down. So what if it is a loss making portfolio, so what if the portfolio turnover has gone up, so what if the limits have gone up. Liability is still profitable. Must get cheaper too.
- Less than 10% of referrals we see convert into real business and 90% do not end up our way on account of pricing.
- The fact that all those eventually get snapped - there is always a cheaper insurer!
- Come to me direct and you will get a better price!

Diagnosis

- **Steroids**: Investment income
- **Ostrich syndrome**: can't happen to us in India
- **Abdication**: The broker must have given us incorrect info
- **Pavlov**: take you to NZ
- **Withdrawal syndrome**: demise of tariffs
- **Fault lines**: Valuation/ Market Share/Arbitrage from reinsurance commission/ What underwriting?
- **Shrunk and shallow** talent pool
- Unlike the onions the **demand is not inelastic**

Therapy

- Company Law, Governance, Listing? We still miss the big picture!
- We need the knowledge worker back
- Dealing with a hard cycle?
- Writing profitable business in soft cycles
- Economist v Actuary: Penetration v density: what happens when your price goes down/ inflation goes up - particularly in long tail? Does it lead to higher penetration?

Relapse/ Reaction

- Customer dismantles the pricing and figures out the profit component - excessive profit is obscene (not just anti-socialistic). Brings in areas of governance into play
- Actuary: Volatility
- 64VB: Ticket size/ loss experience
- Risk: reward equation
- New set of anchor points
- Business expenditure vs. investments
- Long tail: Imported pricing model – how do we adapt them? Given that we have no local ‘experience’ as yet??
- Despite all these cross-currents, the insurers must stay long enough to settle claims as and when they arise!

Are we ready to learn from someone else's woes?

- "During 2000 at the Institute of Actuaries annual seminar on general insurance, two senior actuaries, Peter McCarthy and Geoff Trahair, presented a paper that rang alarm bells for HIH Insurance. Even though HIH was not mentioned in the paper (entitled "Lack of industry profitability and other stories") the insurance industry was accused of under pricing policies, pressuring actuaries to reduce the projected level of outstanding claims liabilities and of having poor quality staff and senior management. This was a forewarning of what seems to have gone wrong at Australia's second largest insurance company."

- "The actuary who was valuing the liabilities, and the auditors reviewing the value, allowed the company to appear solvent when it was quite a long way from it. And when the music stopped – the company stopped growing because it could no longer keep up with the growth required – the house of cards quickly collapsed."

Source: Various

Thank You..