ET Q&A

BHARGAV DASGUPTA
CEO, ICICI Lombard General Insurance

'Our Focus in On Segments That Are Sensibly Priced'

Bhargav Dasgupta, chief executive of ICICI Lombard General Insurance, talks to **Shilpy Sinha** about the impact of the Supreme Court order mandating long-term motor third-party insurance cover, crop insurance, states adopting the trust model for the Ayushman Bharat healthcare programme and the need for sensible pricing in tender-driven large businesses. Edited excerpts:

ET ARCHIVES

Does the industry need government's push for mass schemes or a Supreme Court order to grow?

If you look at the non-life industry growth, for the last 18 years, that is considering 2001-2008 tariffed era and 2008-2018 de-tariffed period, the CAGR growth of the industry has been around 17%. Premium rates have come down in the last decade; despite that, the growth rate has been maintained. The level of under-penetration and India's economic development will only add to the growth of the industry. As per capita income increases, the need for insurance will go up. Events like the Supreme Court judgement do add a spike but had it not happened, even then the industry would have gradually grown. We believe that for the next 5-10 years, the industry will grow at 15-20%. We see most investors realising the long-term growth potential of the industry.

What's been the experience with crop insurance? You have reduced your exposure?

In our opinion, the Pradhan Mantri Fasal Bima Yojana scheme has been really well thought through and has been designed keeping in mind the learnings of the past crop insurance schemes. Earlier, the claim liability beyond a certain threshold, say 95%, was paid by the government. It was more of an administrative scheme so in a bad year, the government would pay a lot. Secondly, the farmers' risk covered was low, which has been taken care of now. This time, they have used technology more efficiently. The challenge in the past was it was paper-based. The government is now trying to digitise, implement Aadhaar-based claim settlement. It has also added a penalty, for delay in payment of premium at state level or if companies delay payment of claims.

Having said this, one needs to see the sustainability of the scheme. The loss ratio for the industry has been 80% at the national level in the last two years even though these were bumper years for crop production. In some states, for instance in Tamil Nadu, the industry paid 600% claim during rabi 2016-17. The worry we would have as an industry is that if in a good year, we have 80% loss ratio and you add reinsurance cost and operational cost to that, you are not leaving any margin for a bad year.

IMPACT OF SC ORDER

The court has not talked about own damage... The risk of not renewing own damage portion is real. We will know after a year

Your market share has fallen by 10 basis points in the first half...

Our focus has been on segments that we believe are more sensibly priced. We are cautious on taking risks in some segments that do not seem viable in the long term. Over the last 10 years, our profit has grown by 23% CAGR. Our premium growth has been 14%. We do not chase top line just for the sake of chasing top line.

Which businesses are not sensibly priced?

Typically, tender-driven large businesses are not sensibly priced, where we find the behaviour of some of the players to be very aggressive and prices inadequate. It is not sustainable and ultimately quality of service suffers.

What has been the impact of long-term third-party motor products on the motor insurance business?

The Supreme Court judgement on introducing long-term motor policies is to address the malaise that more than 50% of the vehicles are uninsured. The big problem because of this is that when someone is hit by an uninsured vehicle, he will not be able to get any compensation from a liability claim. The Supreme Court's order looks to eliminate this.

In fact, we see that in two-wheelers, by the second year, almost 70% of the vehicles do not renew the insurance. For customers, a long-term cover will be convenient to purchase and around 20% cheaper. Most companies have already gone for a price reduction on the own-damage component. The only area of uncertainty is the long-term performance of these products.

Is there a risk of losing out on motor insurance business as people will increasingly buy mandatory long-term third-party (TP) insurance and ignore the own-damage policy?

That is a genuine risk. The regulator has rightly given a choice to the customer to buy either a bundled or packaged policy post the Supreme Court judgement on five-year TP for two-wheelers and three-year TP for four-wheelers. The court has not talked about own damage. When customers buy a bundled policy, they have to understand that they have purchased only one-year own damage cover. The risk of not renewing own damage portion is real. We will know after one year whether people are renewing or not.

Most states have adopted the trust model for the Ayushman Bharat scheme. Is this opportunity missed by the industry?

Health is a state subject. The central government has to leave the choice to the states. Thirteen states have gone with the trust model and another 13 have gone with the insurance or hybrid model. In terms of population, 55% states have gone with the trust model. Our view is that over the next 2-3 years, we will see evidence of insurance model being more effective in terms of pricing and servicing vis a vis the trust model. In the insurance model, there is true risk transfer as the liability moves to the books of insurance companies. In India, we do not have a health regulator, we need to know that claims being paid are genuine, that work is done by insurance companies.