

Business Standard

'We've decided to not accept business at unviable rates'

Q&A Iffco Tokio General Insurance is hoping to step up growth by focusing on motor and health insurance. Managing Director and CEO, S NARAYAN tells Shilpy Sinha. Excerpts:

Why has your growth in premium collection come down from 25 per cent last year to 5.2 per cent in April-July 2009-10?

There is a definite decline in the overall industry growth rate. We are adding to what we did last year. At a time when private players have recorded de-growth in the first two months of the financial year, we managed to grow at a relatively higher rate. We are looking at 17-17.5 per cent growth this financial year. The industry will grow 7-7.5 per cent. Since the disposable income is less, motor sales are low. Also, a poor monsoon can affect insurance, as tractor sales will go down. Our growth rate is slightly higher than the industry average.

How will you manage 17 per cent growth? What is your strategy?

Since premium from large companies is shrinking, the growth will essentially have to come from health and auto segments. In the health segment, premiums have been looking up, so there is some hope. In the automobile sector, the first two months have been pretty bad, but now things seem to be improving. Growth will have to come in the later months. Our increased stress on individual health will drive growth.

Irda is talking of risk-based pricing. How relevant is this in a de-tariffed mode?

It should be there in all insurance companies. We had what is essentially risk-based pricing. You look at past experiences, make adjustments



for inflation, for improvements in the risk quality of the premium and your efficiency to administer.

The regulator has asked insurers to improve infrastructure for actuaries. The appointed actuaries are part-time. But with increase in infrastructure, what Irda means is that the appointed actuaries should have access to all the information of the company. We have a five-member actuarial team.

Will more players focusing on the retail segment affect rates?

What effect it can have on pricing will depend on time. Group health was not very profitable and therefore needed a price correction. That is what we are introducing. Some of our clients have gone after we revised rates. There is a definite hardening of

prices. It depends from customer to customer. The group profile can change, the average age of the group can change, and depending upon that, the premium will change.

How is the third-party motor pool doing?

It is in deep loss. Last year, the actuaries made an estimate of a 125 per cent loss ratio, so 25 per cent is a straight-away provision for the loss and we do not know whether it will be ultimately adequate. In some cases, it takes five-six years to file a claim and pay out. It is a sensitive issue and the regulator is seized of the matter and is taking it forward in consultation with other stakeholders. There is a sub-committee already working on the matter.

Have discounts declined further?

We have come a long way from taking tariffed prices as base. We have our own burning cost calculation from our experience of the last eight-nine years. The moment you go away from the tariff mindset, the discounting percentage will also vanish. Each company may have its own pricing.

The pressure due to the market shrinking and, to some extent, undercutting of prices, has worsened compared to last year. We have taken a conscious decision not to accept business at unviable rates in order to have growth. We are not getting business at last year's prices or with little adjustment. The prices have come down compared to last year.

How much of your business comes from micro insurance?

It accounts for 1.5-2 per cent of our total portfolio. We have a special focus on this area. Cattle and weather insurance come under this sector.

Irda is talking about standardisation in health products. How will it help the industry?

The general insurance industry has been grappling with the definition of pre-existing diseases. After two years of deliberation, some sort of definitions were agreed upon. Standardisation of health service providers and the charge levied by them is a huge task. This is an ongoing process.

With less rainfall this year, will the claims from your weather derivatives go up?

One of the beauties of this rainfall index product is that the policyholders do not make a claim. We collect data and if the rainfall data are short, we take the register from these claims and then say you are eligible for this claim. We are focused on the farm sector. This year, it is too early to say.