Review & Preview

October 31, 2011

Sector
Non-Life

Additional Information

2011 Special Reports:
China Non-Life & Life – Market Review

India Non-Life & Life – Market Review

2011 Best's Briefings:
A.M. Best Comments on Impact of Japan Earthquake and Tsunami on Insurance and Reinsurance Industry

Reinsurers Anticipate Higher Rates in Wake of Tohoku

Criteria:
Assessing Country Risk

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Rapid Growth, Stiff Competition Challenge Asia's Non-Life Insurers

The Asia-Pacific region offers daunting challenges but lucrative rewards to non-life insurers competing in the region's fast-growing economies. Wealthier populations fed by expanding industries are driving demand for insurance, but competition and mounting losses are making underwriting profits elusive. Meanwhile, recovering investment portfolios remain subject to low interest rates and vulnerable to threats such as the European debt crisis. Over all of this hang ever-present dangers from the Pacific Rim's active seismic zones and vulnerability to catastrophic typhoons.

- A number of major markets – among them South Korea, China and India – are seeing motor business expand at double-digit annual rates, but competition is intense and underwriting results are volatile.

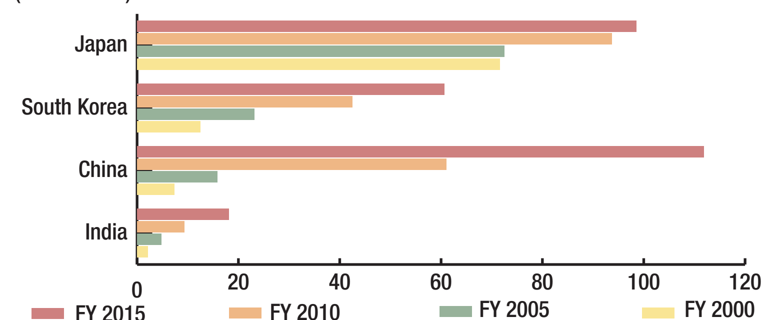
- The Great East Japan Earthquake and tsunami in March was first of all a human tragedy but also a sharp financial blow to Japan's non-life insurers, adding to the difficulties of a stagnant economy and a mature, saturated and competitive market.

- Although automobile loss ratios continued to deteriorate, strong investment results led South Korea's non-life industry to a 32% increase in net income for the most recent fiscal year, while long-term products helped to drive top-line growth.

- In China, non-life direct premiums increased by 35.5%, primarily driven by motor insurance, as Chinese non-life insurers operated in an economy that saw gross domestic product increase by 10.3% during 2010.

- Non-life insurance premiums in India increased by 21.8% in the year through March 2011, as the four major state-run companies continued to dominate the market with a combined share of about 60%, more than 10 years after it was opened to private competition.

Asia/Pacific Non-Life – Major Market Premium Income (2000-2015P*)



*P = Projected
Source: A.M. Best Co.

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Climb Aboard, but Hold On

The Asia-Pacific region is offering large-scale challenges, with potential rewards to match, for non-life insurers willing to compete in some of the world's fastest growing economies. Rising personal wealth and expanding industries are driving growth in the volume of insurance business, but competition and poor loss experience are making it difficult to achieve underwriting profits. Meanwhile, investment portfolios are recovering from the recent financial crisis, but interest rates remain low and the European debt crisis threatens to bring renewed turmoil to the financial markets; therefore insurers can count on little relief from the investment side to offset difficulties on the underwriting side.

The great earthquake and tsunami that struck Japan in March delivered a punishing blow to the results of Japan's non-life insurers, while providing a reminder to insurers throughout the Pacific Rim that natural catastrophes pose a constant threat. For Japanese insurers, the difficulties are compounded by a more stagnant economy than many of its neighbors, coupled with a mature market that leaves little room for growth.

Other major markets in the region are far less developed – among them South Korea, China and India. In all of these countries, motor business is expanding at a pace that would be unimaginable in more established, saturated markets. But the expansion comes at a price, with intense competition and volatile underwriting results. Companies have had some success in the past year, however, in implementing rate increases to recoup some of their losses. South Korean insurers also have a large market in long-term, savings-type products as a source of earnings.

Business tends to be highly concentrated among a few, established players in the major Asian markets, and they appear to be losing little if any ground to domestic or foreign competitors, despite regulators' moves to open the way for new companies to enter. In India and China, long histories of state ownership and formerly monopolistic markets give the large domestic companies a formidable advantage.

Japan

For many Japanese non-life companies, solvency ratios and capitalization are highly vulnerable to fluctuations in the domestic stock market, which affects unrealized gains on securities. Premium leverage is generally increasing, including for the top six companies, mostly due to the stock market's performance. It is difficult for the industry to generate enough retained earnings based on the current market conditions.

The most recent results for Japan's non-life industry were negatively impacted by losses from the Great East Japan Earthquake and tsunami that followed on March 11. Through mid-October 2011, claims paid by domestic and foreign non-life insurers related to the earthquake and tsunami totaled JPY 1.16 trillion, according to the General Insurance Association of Japan (GIAJ). The claims figures are for earthquake insurance on dwelling risks. The GIAJ estimates the ultimate payout for the event will be JPY 1.2 trillion.

With current loss estimates ranging from USD 30 billion to USD 35 billion across all affected segments – including dwelling, life, corporate property/fire and cooperatives – the 9.0 magnitude earthquake is set to become the most expensive earthquake in world history in terms of insured losses and has already impacted the balance sheets of

Exhibit 1

Japan Non-Life – Top 6 Insurers' Market Share (2006-2010)

Ranked by net premiums written.

	2006	2007	2008	2009	2010
Tokio Marine & Nichido Fire Insurance Co. Ltd.	26%	26%	25%	25%	25%
Sompo Japan Insurance Inc.	18%	18%	18%	18%	18%
Mitsui Sumitomo Insurance Co. Ltd.	18%	18%	17%	17%	18%
NIPPONKOA Insurance Co. Ltd.	9%	9%	9%	9%	9%
Aioi Nissay Dowa Insurance Co. Ltd.	16%	16%	16%	16%	16%
Fuji Fire & Marine Insurance Co. Ltd.	4%	4%	4%	4%	4%
Top 6 Total	**90%**	**90%**	**89%**	**89%**	**89%**
Industry NPW (JPY Billions)	**8,529**	**8,290**	**7,980**	**7,784**	**7,748**

Note: Information for Aioi Nissay Dowa represents aggregate of the results of Aioi Insurance and Nissay Dowa General Insurance.
Sources: Annual reports, General Insurance Association of Japan

insurers and reinsurers that write business globally. Apart from insured losses, Munich Re estimates USD 210 billion of overall economic losses from the earthquake, while Swiss Re estimates USD 200 billion in total property losses.

For the year through March 2011, the domestic industry reported a combined net profit of JPY 127.5 billion. Although that figure represented a 38.4% decline from the previous year, Japanese non-life insurers benefited from a 14.6% increase in investment income to JPY 656.2 billion, primarily the result of a 34.3% rise for the year from gains on the sale of securities. The larger Japanese non-life insurers continue to reduce their holdings of domestic equities to reduce portfolio risk and stabilize investment income.

For many Japanese non-life companies, capitalization and solvency ratios – currently in the range of 600% to 900% against a regulatory threshold of 200% – are highly vulnerable to fluctuations in the domestic stock market, which affects unrealized gains on securities. Premium leverage is low but generally increasing, and the top six companies – Tokio Marine & Nichido Fire, Sompo Japan, Mitsui Sumitomo, NipponKoa, Aioi Nissay Dowa and Fuji Fire & Marine – are reporting higher premium leverage, mostly due to the stock market's performance. It is difficult for companies to reduce their premium leverage, given the current market conditions.

Also posing a threat is the sovereign debt crisis in Europe, with three major insurers reportedly having a combined exposure of JPY 100 billion in the form of investments and financial institution guarantees. Any significant deterioration could affect the top five companies' underwriting profitability, investment income and capitalization.

Despite the boost to investment income and the reversal of catastrophe reserves in the most recent fiscal year, claims from the Great East Japan Earthquake led to underwriting losses of JPY 183.2 billion for the year through March 2011. For the year ended March 2010, the industry reported underwriting profits of JPY 54.3 billion.

In addition, the industry has sustained further catastrophe losses in the current fiscal year from typhoons Talas, Ma-on and Roke. Estimates of insured losses from Typhoon Roke, which made landfall on Sept. 21, 2011, range from $300 million to $600 million, according to risk modeler EQECAT Inc., which noted that the majority of insured losses are expected to be in the commercial and industrial market sectors. AIR Worldwide, another risk modeling firm, has estimated insured losses from Talas – which came ashore on Sept. 3 – of between JPY 12 billion (USD 150 million) and JPY 46 billion (USD 600 million).

Except for fiscal year 2008, the non-life industry in Japan generally has been reporting net profits, but overall, the industry's profitability is decreasing. During upturns, total profit for the top six companies was smaller than the total for the industry, reflecting that smaller or foreign companies still could report net profits on average. During downturns, the profitability of smaller or foreign companies could be more vulnerable.

Insurers Still Struggle For Premium Growth

Japan has a mature non-life insurance market with limited room for growth in the classic insurance coverage areas (e.g., fire, marine, personal accident, voluntary motor, compulsory motor). Premium income as a whole has been shrinking, but the decline has been decelerating. For the year ended March 31, 2011, direct premiums written (DPW) declined by 0.5% to JPY 8.2 trillion, according to the GIAJ.

Exhibit 2

Japan Non-Life – Top 6 Insurers' Net Profit (2006-2010)

(JPY Billions)

	2006	2007	2008	2009	2010
Tokio Marine & Nichido Fire Insurance Co. Ltd.	JPY 96	JPY 123	JPY 71	JPY 94	JPY 101
Sompo Japan Insurance Inc.	48	45	-74	43	12
Mitsui Sumitomo Insurance Co. Ltd.	55	38	47	25	23
NIPPONKOA Insurance Co. Ltd.	13	8	10	13	-6
Aioi Nissay Dowa Insurance Co. Ltd.	19	7	-10	18	-11
Fuji Fire & Marine Insurance Co. Ltd.	8	6	-59	5	8
Top 6 Total	**240**	**227**	**-15**	**199**	**126**
Industry	**251**	**237**	**-81**	**207**	**128**

Note: Information for Aioi Nissay Dowa represents aggregate of the results of Aioi Insurance and Nissay Dowa General Insurance.
Sources: Annual Reports, General Insurance Association of Japan

DPW has not grown since the year ended March 2003, when industry premiums grew 0.8%.

Despite the continued contraction in top-line growth, the industry has experienced some positive trends, namely premium growth of 0.5% in the voluntary auto business line, the largest non-life class of coverage. This follows higher advisory loss cost rates in 2009 for voluntary auto by an industry rating organization, the first such revision in six years. Insurers have also raised rates for compulsory automobile liability insurance (CALI), and DPW for this line of business grew marginally by 0.1% for the year through March 2011. However, that compares with declines of 7.2% and 16.6% in the years through March 2010 and March 2009, respectively. CALI business in Japan is a no-profit, no-loss scheme. It is adjusted according to the market loss ratio. Insurers have raised voluntary motor rates to cope with the high loss ratio.

Other changes that some insurers have been implementing for motor coverage seek to offset rising loss ratios. In addition to higher rates, these measures include product revisions and increased segmentation. However, any positive impact of higher auto rates on overall premium growth may be offset by reduced premiums in other lines of business from the knock-on effects of the earthquake. Discounts offered to no-accident policyholders play a major role in the stagnant market.

Despite the shrinking market, total market share of the top six insurers remained relatively unchanged. It is difficult for smaller and foreign companies to capture market share from the leaders. A.M. Best does not expect the market share composition to change significantly.

In their overseas businesses, Japanese non-life insurers may be poised to take advantage of a cyclical turn in the market. Apart from the earthquake in Japan and the earthquakes in New Zealand in September 2010 and February 2011, frequent and severe catastrophe losses in Australia, Europe and the United States are exerting upward pressure on premium rates for primary and reinsurance coverage.

Rating Outlook

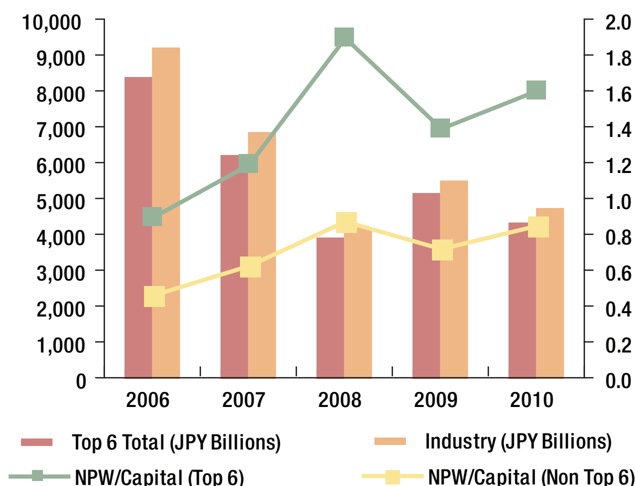
A.M. Best's rating outlook in Japan is stable, although the market has experienced severe catastrophe losses and external market conditions are unfavorable to companies operating in the Japanese market. A.M. Best's stable outlook primarily reflects Japanese companies' continuous efforts to improve enterprise risk management and reduce risk assets.

The revision of the solvency calculation put pressure on companies to look further into the total risk they are assuming and increased their awareness of operating volatility. Japanese companies are striving to improve risk management and additionally are preparing for the latest global developments such as International Financial Reporting Standards (IFRS) and Solvency II. A.M. Best believes Japanese non-life companies will be well prepared for the changes to come.

In addition to the life business, Japanese non-life companies have been actively going overseas to capture new markets and opportunities for growth.

Exhibit 3

Japan Non-Life – Capitalization & Leverage of Top 6 Insurers & Industry (2006-2010)



Note: Information for Aioi Nissay Dowa represents aggregate of the results of Aioi Insurance and Nissay Dowa General Insurance.
Sources: Annual Reports, General Insurance Association of Japan

South Korea

Despite continued deterioration in motor loss ratios, strong investment results led South Korea's non-life industry to a 32% increase in net income to KRW 2.0 trillion for the most recent fiscal year that ended March 31, 2011. According to figures from South Korea's Financial Supervisory Service (FSS), the non-life industry's operating income on investment increased by 18.9% to KRW 3.7 trillion.

Direct premiums written increased by 17.1% to nearly KRW 49.4 trillion. The compulsory and voluntary auto markets grew by about 10.6% for the year through March 2011, as premiums increased about 3% on the heels of poor loss experience in the second half of the year. Voluntary motor business grew 14.7% as the economy revived and tax incentives drove motorists to trade their aging cars for newer ones. Also, growing numbers of high-value and imported cars were registered. New players selling motor coverage through new channels since fiscal year 2006 have made an impact, but the large companies also are active in new motor channels.

Overall, the top five companies are growing strongly, with increasing profitability and improving capitalization. A.M. Best expects that the share of the top five – Samsung Fire & Marine, Hyundai Marine & Fire, Dongbu, LIG and Meritz Fire & Marine – will be maintained or will increase. Samsung lost some share from 2006 to 2009 as it avoided pricing competition in motor, did not enter direct sales in that line and was not aggressive in bancassurance. The company changed course in all of these areas in 2010, and so its share is expected to increase again. Meanwhile, other top players maintained their market shares. The rest of the industry is facing capital pressure due to low income levels.

Long-term products were another key driver of top-line growth, with premiums for the line of business increasing by about 21%. Long-term products – contracts that provide medical indemnity or savings and financial protection, depending on the specific product design – represented about 62% of direct premiums written in the Korean non-life market in the most recent fiscal year, according to the FSS, up by about four percentage points. Although non-life insurers weren't able to sell as many new long-term contracts as they were in the prior-year period, premium income from retained policies contributed to annual growth, and persistency ratios somewhat improved, particularly for industry leaders. Also aiding the growth of long-term business was a broadening of the scope of compulsory fire business and homeowners liability as insurers competed for premium.

Non-life insurers, for the most part, also offered higher interest rates on savings-type products compared with banks, helping to drive premium volume and demand for the long-term business line. Volume for savings-type products was also driven by sales through other distribution channels such as bancassurance, which started in 2003. Writers of long-term business face threats from rising loss ratios on medical products, which were sold heavily in fiscal year 2009.

Higher net income for the industry reflected increasing investment income, a result

Exhibit 4

South Korea Non-Life – Top 5 Insurers by Market Share (2006-2010)

Based on gross premiums written.

Company	2006	2007	2008	2009	2010
Samsung	30%	29%	28%	27%	27%
Hyundai	16%	16%	16%	16%	16%
Dongbu	15%	15%	15%	15%	15%
LIG	14%	14%	13%	14%	14%
Meritz	8%	8%	8%	8%	8%
Top 5 Total	**83%**	**82%**	**80%**	**80%**	**80%**

Source: Companies' Annual Reports

Exhibit 5

South Korea Non-Life – Top 5 Insurers' Net Profit (2006-2010)

Ranked by market share.

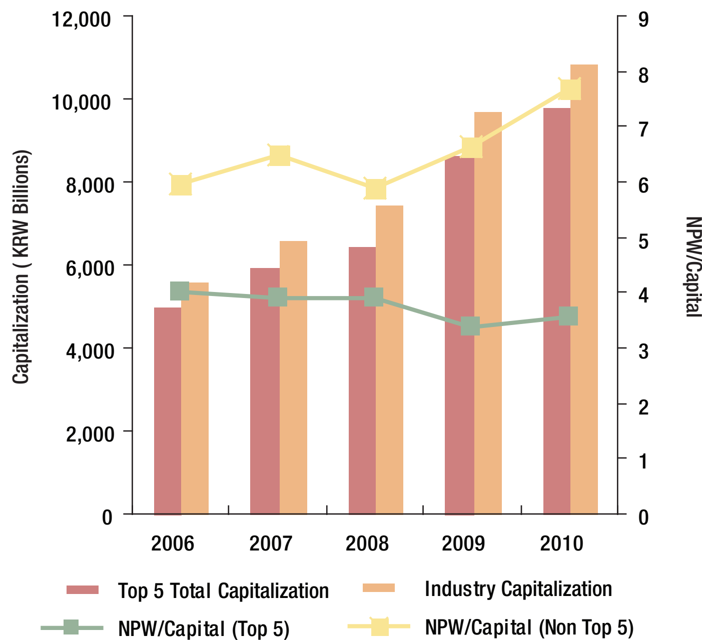
(KRW Billions)

Company	2006	2007	2008	2009	2010
Samsung	KRW 341	KRW 476	KRW 599	KRW 525	KRW 665
Hyundai	42	171	115	184	159
Dongbu	122	271	232	226	284
LIG	10	125	117	148	73
Meritz	36	71	-59	140	121
Top 5 Total	**KRW 552**	**KRW 1,115**	**KRW 1,004**	**KRW 1,224**	**KRW 1,302**
Industry	**KRW 430**	**KRW 1,092**	**KRW 991**	**KRW 1,190**	**KRW 1,116**

Source: Companies' Annual Reports

Exhibit 6

South Korea Non-Life – Capitalization & Leverage, Top 5 Insurers & Industry (2006-2010)



Source: Companies' Annual Reports

of better portfolio management but also of growth in long-term products. Despite lower margins on new products sold through bancassurance, overall income from this business is increasing.

Net income for fiscal year 2011 is likely to exceed that of 2010 as long-term business continues to grow and motor loss ratios fall drastically. A.M. Best believes the trend of increasing income is likely to continue in fiscal year 2011 as well as fiscal year 2012.

In the motor line of business, underwriting continued to deteriorate in fiscal year 2010 but is showing dramatic improvement in fiscal year 2011. The industry's loss ratio in fiscal year 2010 spiked to its highest level in recent years as insurers paid out more claims. Weather-related catastrophe losses included a typhoon in August 2010 and heavy winter snows. In addition, government regulations that raised surcharges for motor own-damage coverage have led to more frequent claims activity and larger claim amounts. But the increase in premium rates by insurers, as well as the adoption of a copayment system, is lowering the loss ratio in fiscal year 2011.

South Korean non-life companies' absolute capital levels, excluding catastrophe reserves, are increasing every year, and premium leverage of the top five companies is gradually improving. If depository premium is excluded, this trend is clearer. The rest of the industry faces increasing capital pressure as companies generate insufficient income to support the growth in their business.

Rating Outlook

A.M. Best's rating outlook in Korea is positive for the large insurers, as the companies rated by A.M. Best are expected to show strengthened capitalization with increasing incomes. The rating outlook for the rest of the industry is negative. Volatility of risk-based capital and local solvency is managed at a low level, owing to the early adoption of risk asset-liability management in long-term portfolios. The five leading non-life companies have been publishing embedded value for their existing books of business, which helps to further stabilize their solvency positions. Although the market is very homogeneous, companies that are able to differentiate loss ratios or expense ratios likely will see positive rating movement in the coming years.

China

In China, non-life direct premiums increased by 35.5% to RMB 389.6 billion, according to the National Bureau of Statistics of China. Growth was primarily driven by motor insurance – which benefited from increased policy counts and higher premium rates – while smaller market segments such as liability, cargo and homeowners also added to premium volume, particularly for the country's largest companies. Agricultural insurance continued to grow, with the extension of various coverages subsidized by the Ministry of Finance.

In addition, Chinese non-life insurers operated in an environment during 2010 in which gross domestic product increased by 10.3%, while auto production and auto sales each increased year on year by nearly 32.5%.

Underwriting results improved selectively for the full year 2010, although

insurers continue to strengthen the underwriting and claims management functions to improve loss experience for motor insurance, which represents about 74% of the market by premium volume. After posting an underwriting loss of RMB 2.1 billion in 2009, PICC Property & Casualty Co. Ltd., the nation's largest non-life insurer, reported an underwriting profit of RMB 2.7 billion in 2010 – the company's first underwriting profit since 2006. The combined ratio declined by 4.4 percentage points to 97.8. Net premiums earned increased by 31.8% to RMB 123.0 billion, while investment income was up by 11.4% to RMB 5.1 billion. PICC's market share continued to decline modestly amid aggressive growth by the other major industry players.

At Ping An Property & Casualty Insurance Co., part of Ping An Insurance (Group) Co. of China Ltd., premium income increased by 61.2% to RMB 62.5 billion in 2010. The bulk of that growth came from the auto segment, where premium income increased by 67.2% to RMB 49.4 billion. Profit from property and casualty business was RMB 3.9 billion, compared with RMB 675 million in 2009. The combined ratio for 2010 improved by 5.4 percentage points to 93.2. Due to business growth, subordinated debt issuance and a capital injection, the solvency margin improved to 179.6 as of Dec. 31, 2010, compared with 143.6 as of Dec. 31, 2009.

Given the pace of growth in recent years in the non-life market, the China Insurance Regulatory Commission (CIRC), the insurance regulator, has been focusing on solvency and market discipline, in addition to improvements in underwriting, actuarial practices and insurers' identification of operational risks. In terms of solvency, several insurers have raised debt or injected capital over the past 18 months or so and continue to do so.

And while underwriting results selectively improved during 2010, the losses in the auto segment continue to be elevated. According to the CIRC, the compulsory motor insurance sector reported an operating loss of RMB 7.2 billion (USD 1.1 billion) in 2010. Underwriting losses of RMB 9.7 billion were offset by RMB 2.5 billion in investment income. The CIRC said in August 2011 that it would study the opening of compulsory motor third-party liability insurance to foreign insurers to introduce new technologies and overseas management.

While the market enjoys more opportunities, insurance companies also face challenges in such a fast-growing market. One challenge is the gradual liberalization of motor premium rates. While benefits from this price reform have yet to emerge, the removal of tariffs could adversely impact the industry's overall growth. On top of the continued competitive conditions in China's non-life market and the challenging global financial market environment, rate deregulation in the motor sector may exert pressure on insurers' underwriting profitability. On the other hand, policyholders may be better off without the tariff and with more choices.

Key points concerning the motor market include a flexible commercial motor

Exhibit 7

China Non-Life – Top 3 Insurers' Market Share (2006-2010)

Based on direct premiums written.

	2006	2007	2008	2009	2010
People's Insurance Company of China Ltd.	45.1%	42.5%	41.6%	39.9%	38.2%
Ping An Property & Casualty Insurance Co. of China Ltd.	10.7%	10.3%	10.9%	12.9%	15.4%
China Pacific Property Insurance Co. Ltd.	11.5%	11.2%	11.4%	11.4%	12.8%
Top 3 Total	**67.3%**	**64.0%**	**63.9%**	**64.2%**	**66.4%**

Source: China Insurance Regulatory Commission

Exhibit 8

China Non-Life – Top 3 Insurers & Industry Net Profit (2006-2010)

(RMB Billions)

	2006	2007	2008	2009	2010
People's Insurance Company of China Ltd.	RMB 2.08	RMB 2.99	RMB 0.11	RMB 1.78	RMB 5.21
Ping An P&C Insurance Co. of China Ltd.	0.64	1.46	0.58	0.65	3.87
China Pacific Property Insurance Co. Ltd.	0.53	2.24	0.54	1.42	3.51
Top 3 Total	**RMB 3.25**	**RMB 6.69**	**RMB 1.23**	**RMB 3.85**	**RMB 12.59**
Industry	**RMB 1.75**	**RMB -2.119**	**RMB -9.79**	**RMB 5.488**	**RMB 15.68**

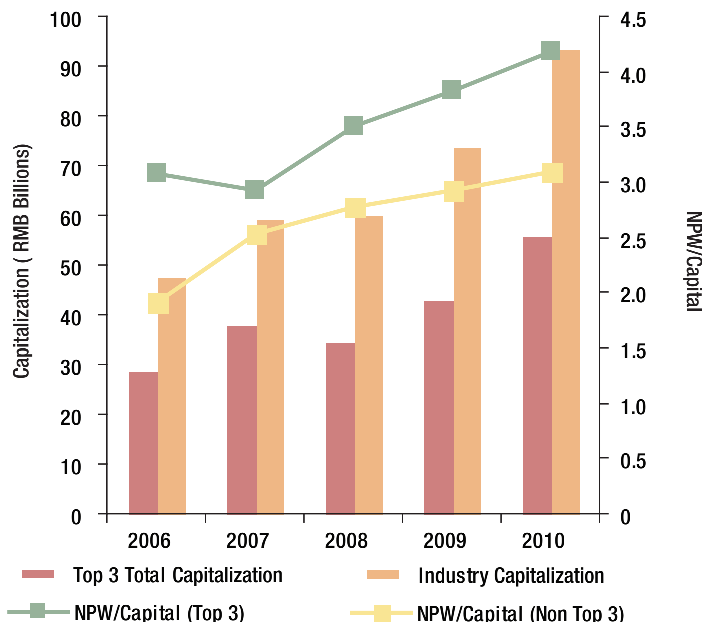
Source: Yearbook of China Insurance, company websites, A.M. Best Co. estimates

pricing scheme (rated based on the associated risk with a vehicle) that was introduced in Shenzhen from March 2011. In September 2011, the CIRC issued its Notice on the Administration of Provisions and Rates in the Commercial Insurance of Motor Vehicles, and the regulator is requesting feedback. Qualified companies are allowed to price their own commercial motor products based on their own underwriting statistics. For the approval of those qualified insurers, the CIRC will look into various aspects, including solvency position, underwriting performance, motor portfolio coverage, etc.

Through the six months ended June 2011, premiums in the non-life market grew by 17.1% to RMB 308 billion, according to the CIRC. Top-line growth, however, was negatively impacted in part by a slowdown in auto production and sales, as favorable government policies promoting auto purchases and the adoption of vehicle purchase restrictions in some cities took effect. The premium growth rate of nonmotor business, for example, was 11 percentage points higher than that of motor insurance, according to the CIRC.

Exhibit 9

China Non-Life – Capitalization & Leverage of Top 3 Insurers & Industry (2006-2010)



Sources: Yearbook of China Insurance, company websites, A.M. Best Co. estimates

Partly due to underwriting expense reductions, PICC's combined ratio fell by 4.2 percentage points to 92.5, and the insurer reported an underwriting profit of RMB 4.9 billion for the six months through June 2011, compared with RMB 1.9 billion for the same period in 2010. Ping An Property & Casualty's combined ratio declined by 3.6 percentage points to 92.9. For the six months through June 2011, net profits were RMB 2.7 billion, compared with RMB 1.1 billion a year earlier.

For the second half of 2011, non-life insurers could face some headwinds in terms of operating performance. Volatility in the capital markets will make it tough for insurers to keep pace with recent investment results, while less robust growth rates for auto production and sales are expected to have some impact on premium growth. A.M. Best expects the top three insurers – PICC, Ping An and China Property – to continue to dominate the China non-life market in the medium term.

The industry's growth of capital has been led mainly by the top three. Numerous insurers raised capital or issued subordinated debt to maintain their solvency margins over the past two years. The industry will need more capital to support its growth over the next few years, through increasing income but also through capital infusions, as profits alone seem unlikely to suffice as an engine for growth.

Rating Outlook

As a whole, A.M. Best believes the rating outlook for the rated China portfolio remains stable. Among A.M. Best's portfolio, the insurance companies' risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), is expected to remain supportive of the anticipated growth in business (at a slower rate than in the most recent two years) through 2011. Underwriting performance may face challenges in light of increasing competition, yet would remain profitable.

India

Non-life insurance premiums in India increased by 21.8% to INR 425.9 billion in the year ended March 31, 2011 for the 19 companies operating in the market, according to the Insurance Regulatory and Development Authority (IRDA). Premiums for motor insurance (including third-party liability and own-damage coverage), which represented 42.6% of non-life premiums, increased by 19.1%.

The premium figures cited for India's non-life market exclude two insurers that provide credit and agricultural insurance coverage, respectively, and two private health insurers. The figures also refer only to business written within India.

The four major state-run companies – New India Assurance, United India Insurance, Oriental Insurance and National Insurance – continue to dominate the market with a combined share of about 60%, more than 10 years after the domestic Indian insurance market was opened to private competition. These companies also account for about 90% of the non-life industry's net profits since fiscal year 2006.

The overall industry continues to experience high loss ratios and poor underwriting results, offset by investment income. Contributing to the deterioration in underwriting has been the substantial discounting of premium rates following the lifting of premium rate tariffs in 2007 for lines such as motor own damage, fire and engineering. The industry is determined to fix this problem, however, and insurers have begun to adjust premiums accordingly.

For the year through March 2010 (the most recent figures available), the non-life industry's underwriting losses increased year on year by nearly 11%, compared with an increase of 36.5% in the year ended March 2009. The incurred claims ratio remained at around 86.0 for each period, according to the IRDA.

Investment income for all non-life insurers increased year on year by 30.5% for the year through March 2010, leading to an overall profit for the industry. However, three of India's four public-sector insurers and only seven of the 13 private insurers in the market reported net profits, according to the IRDA.

Part of the difficulty insurers have had in attaining underwriting profitability can be attributed to India's third-party liability pool for motor coverage, known as the Indian Motor Third Party Insurance Pool. The pool, created in April 2007, requires insurers to pay claims within the pool based on overall market share, above a percentage of business ceded to the General Insurance Corporation of India (GIC Re), the state-controlled reinsurer that administers the pool.

In March 2011, the IRDA announced that reserves for the pool would have to be increased to meet claims obligations. According to a report by a consulting actuary for the IRDA, the pool's ultimate loss ratios were estimated at 172.3, 181.8 and 194.2 for the years through March 2008, March 2009 and March 2010, respectively. However, the pool only maintained reserves at a loss ratio of 126.0.

The IRDA's directive issued in March says companies should make provisions with

Exhibit 10

India Non-Life – Top 4 Insurers' Market Share (2006-2010)

By gross premiums written.

	2006	2007	2008	2009	2010
New India Assurance Co.	23%	21%	21%	20%	19%
United India Insurance Co.	13%	13%	14%	15%	15%
Oriental Insurance Co.	16%	14%	13%	14%	13%
National Insurance Co.	15%	14%	14%	13%	15%
Top 4 Total	**67%**	**62%**	**61%**	**61%**	**62%**

Source: Companies' Annual Reports

Exhibit 11

India Non-Life – Top 4 Insurers' Net Profit

(INR Millions)

	2006	2007	2008	2009	2010
New India Assurance Co.		INR 14,011	INR 2,241	INR 4,047	-INR 4,216
United India Insurance Co.	5,289	6,316	4,761	7,078	1,305
Oriental Insurance Co.	4,973	93	-527	-443	546
National Insurance Co.	4,213	1,634	-1,492	2,249	749
Top 4 Total	**INR 29,074**	**INR 22,055**	**INR 4,983**	**INR 12,931**	**-INR 1,615**
Industry	**INR 31,371**	**INR 22,493**	**INR 3,971**	**INR 12,045**	

Source: Companies' Annual Reports

an assumed loss ratio of 153.0 retrospectively from the year ended March 31, 2008 through the year ended March 31, 2011, until actual losses are determined based on a review of the consulting actuary's loss estimates. The goal ultimately is to run the pool on a break-even basis, as is done in some other Asian countries, with premium rates adjusted, probably annually, to reflect market losses. It may take a few years, however, to achieve this goal.

The IRDA did give companies some leeway in meeting their commitments to the pool by lowering required solvency ratios to 137.0, 145.0 and 150.0 for the years through March 2012, March 2013 and March 2014, respectively. Companies also are required to restrict their spending on bonuses and other incentives for any part of the year in which the solvency ratio is below 150.0.

Exhibit 12
India Non-Life – Capitalization & Leverage Of Top 4 Insurers & Industry

	2006	2007	2008	2009	2010
Top 4 Total (INR Millions)	389,763	477,193	311,790	517,175	529,182
Industry (INR Millions)	415,374	513,759	361,991	582,704	
NPW/Capital (Top 4)	33.4%	29.0%	51.0%	35.1%	42.2%
NPW/Capital (Non Top 4)	182.5%	195.8%	169.6%	151.8%	

Source: Companies' Annual Reports

The industry experienced a huge drop in capital in 2008 as the balance sheet value of equity investments declined during the global financial crisis. Meanwhile, despite the growth in NPW from private insurers since 2006, new entrants in the market continued to drive down the overall NPW to capital ratio for private insurers between 2007 and 2009.

The IRDA said in August 2011 that it planned to impose a common framework for supervising life and nonlife companies' asset management practices through stress testing. Given the incomplete and inconsistent reporting on insurers' asset and liability management practices, the IRDA said insurers would have to develop and implement controls and reporting procedures appropriate to their business and risks – including market, underwriting and liquidity risks – so as to evaluate the potential impact on economic value.

Rating Outlook

A.M. Best's rating outlook for Indian nonlife companies remains negative but could change if the industry manages to reverse the trend of poor motor underwriting. Companies have expressed optimism to A.M. Best concerning the changes in the market and in premium rates for the motor pool.

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