Implications of Motor TP Pool & Declined Risk Pool

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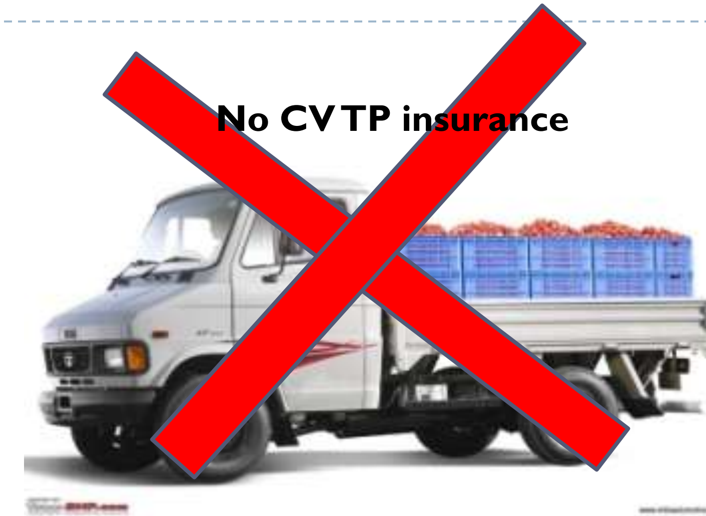
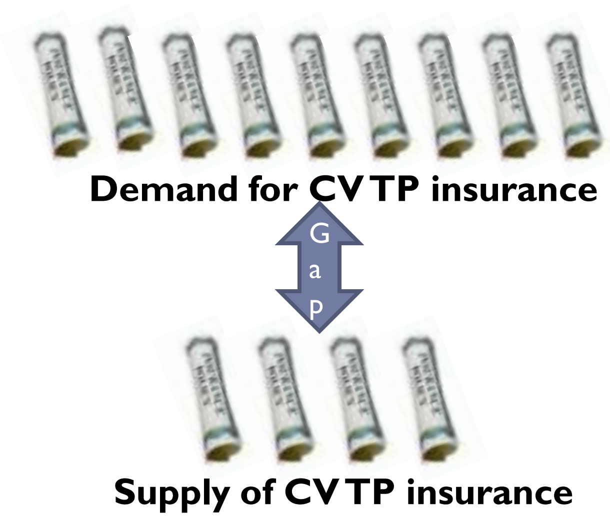
Presentation Plan

- Pre TP Pool Scenario
- Formation of IMTPIP
- Implications of TP Pool creation
- IIB Actuary's report on Pool liabilities
- IRDA's order on Pool liabilities
- Implications of increase in pool liabilities
- What Next?
- Implications of further increase in pool reserves
- Declined Risk Pool
- Implications of Declined Risk Pool

Pre-TP Pool Scenario





Formation of CV TP Pool (IMTPIP)

- TP premium rates increased w.e.f. 1st April 2007
- IMTPIP for CV TP created w.e.f. 1st April 2007 by an order of IRDA
- Objective *"Make available Third Party insurance to all Commercial vehicles at reasonable rates and terms"* *(Source: http://motorpool.co.in/)*
- Another objective was to enable the sharing of losses of CV TP business amongst all insurers rather than by just PSU insurers

IMTPIP-Salient Features

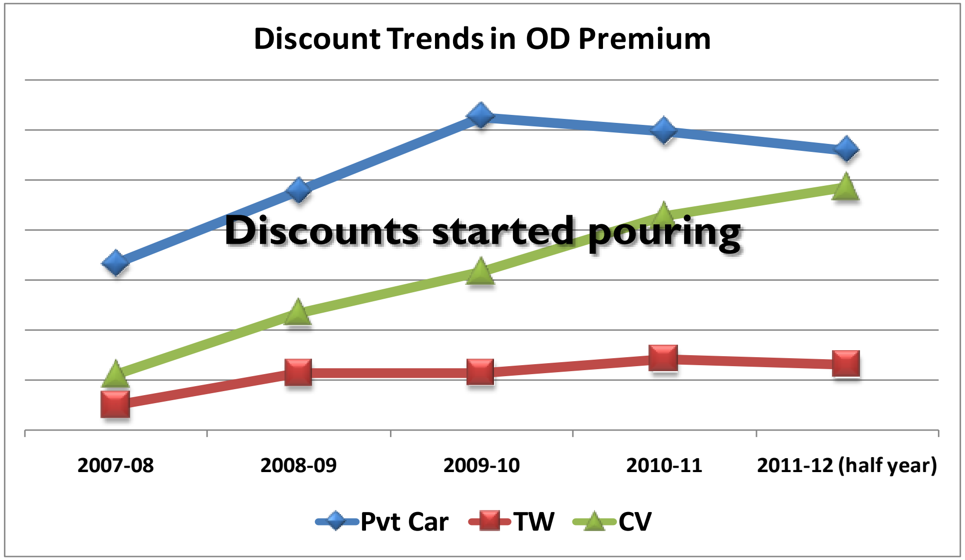
- No refusal of any CV TP insurance
- All CV TP premium to be ceded to the pool after mandatory cession to GIC from underwriting year 2007-08
- Sharing of all premiums and claims by all insurers as per their GDPI market share through retrocession mechanism
- GIC to become the pool administrator
- Pool Ultimate Loss ratio estimated at 122% for 2007-08, 124% for 2008-09 and 127% for 2009-10

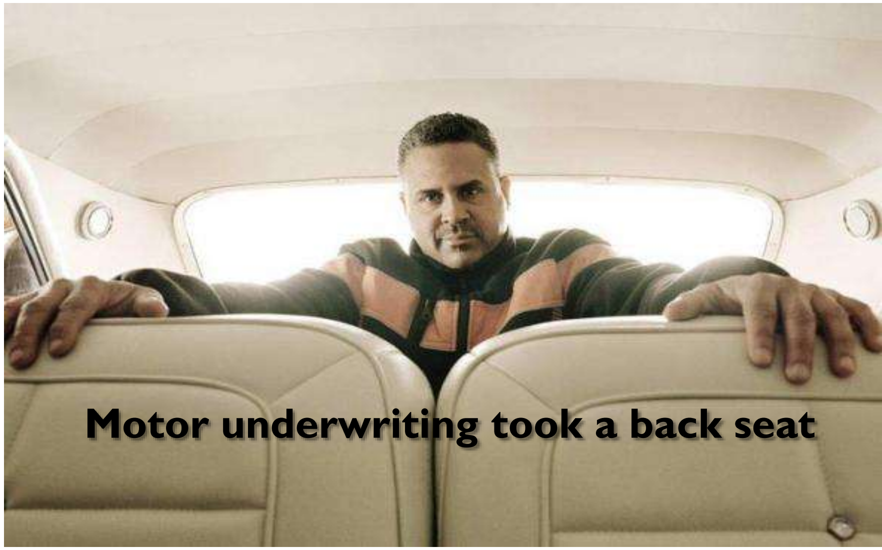
Implications of Pool creation

Implication on CV TP insurance availability

- From a perceived demand supply gap, it became a buyers market, albeit only for comprehensive cover
- From a situation of Pick and choose CV business, TP losses became a necessary tax for insurers
- This prompted many to use this opportunity to play the cash flow game and try to minimize CV TP losses with some profits in Own Damage
- This facilitated the easy availability of CV TP cover to all, which was the objective of pool creation

Implications on Pricing and Underwriting





Source: Bajaj Allianz data

- Insurers started looking at CV insurance sans TP, since TP was ceded to pool
- Some insurers started using it as an arbitrage for writing large amounts of CV business by retaining the profitable OD component and ceding loss making TP component into pool.

Implications on Industry Profitability

	ICICI Lombard	Bajaj Allianz	IFFCO Tokio	RGICL	HDFC ERGO	TATA-AIG	RSA	Chola MS	New India	NIC	UIIC	OIC
2009-10	158.30	179.80	38.61	-90.55	-94.46	4.78	34.01	1.85	140.68	259.45	822.84	88.23
2008-09	0.27	149.77	6.92	-50.17	-25.21	9.50	9.73	11.85	297.23	-133.54	502.91	-88.42
2007-08	130.22	167.90	11.86	-162.84	-16.77	26.92	4.77	10.54	1521.46	172.06	658.14	442.35

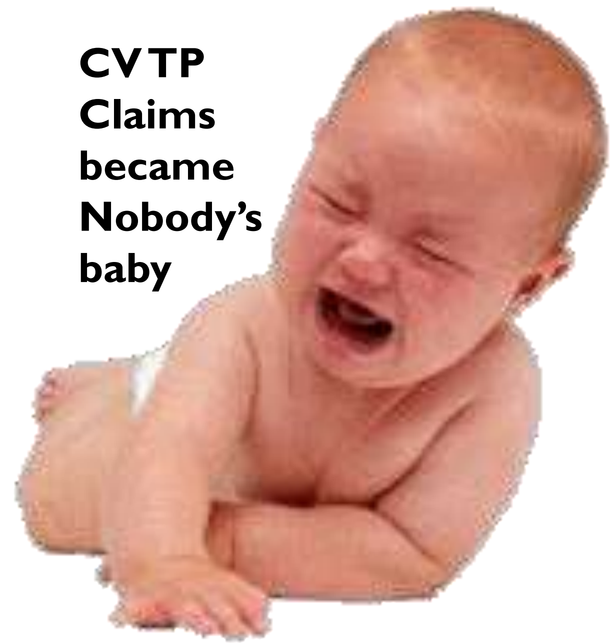
Source: GIC council & IRDA annual report

- Difficult to segregate the effect of de-tarrification from that of TP Pool
- However, the CV TP losses got fairly distributed amongst all insurers

Implications for TP Claims

- Every insurer's stake in a TP claim was only to the extent of its market share in the industry
- This is understood to have bred inefficiency in pool claims settlement and possibly laxity in fraud detection and prevention

CV TP Claims became Nobody's baby



28th January, 2011

- Late Mr. KP Sarma, Consulting Actuary, IIB, submits his report on TP Pool provisions
- The report cited under-provisioning in TP Pool and recommended increasing the provisions as below:

Underwriting Year	Ultimate Loss ratio
2007-08	172.3%
2008-09	181.81%
2009-10	194.15%

- These Ultimate Loss ratios were contested by the industry

12th March, 2011

- IRDA declared that Ultimate Loss Ratio for pool business should be provisionally taken at 153%
- Pool provisions were to be immediately strengthened assuming the above loss ratio for all the years retrospectively
- Solvency norms were relaxed to 130% for 2010-11 and increasing to 150% in phases by 2013-14
- In view of the lack of consensus on the pool ultimate loss ratio estimate, it was decided to refer the actuarial estimation of pool provisions for an actuarial peer review
- The report of peer review from GAD, UK is awaited.

Implications of increase in Pool reserve

Implications on Balance sheet

- Additional liability of nearly 2000 crores provided for in March 2011 for years 2007-2010 by pool
- An additional 900 crores(approx) in excess of the "Budgeted"(@127%) liability for 2010-11 also provided for in Mar 2011
- The additional provision in 2010-11 was more than 2.2 times the industry PBT in 2009-10 and 1.5 times during 2008-10

Additional

Reserves

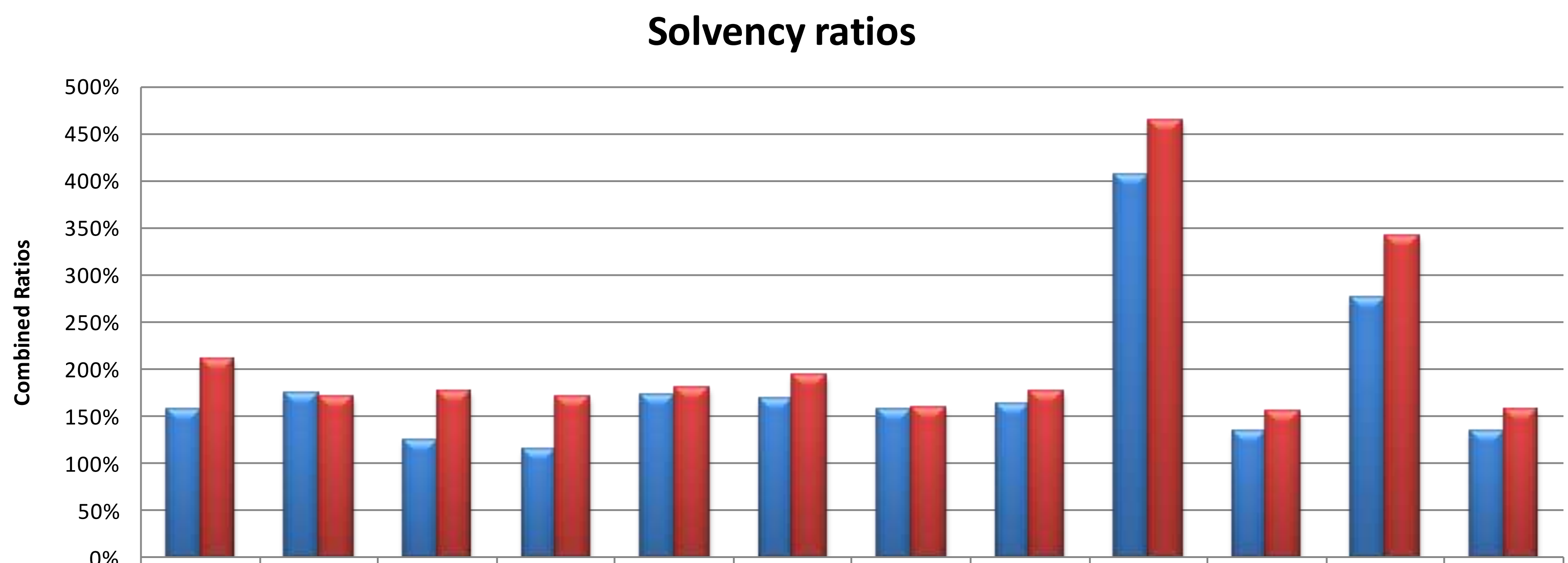
Implications on Industry Profitability

	ICICI Lombard	Bajaj Allianz	IFFCO Tokio	RGICL	HDFC ERGO	TATA-AIG	RSA	Chola MS	New India	NIC	UIIC	OIC
2010-11	-82.34	61.91	-49.37	-309.76	-36.43	-21.05	-14.88	-22.59	-329.21	75.40	130.83	180.00
2009-10	158.30	179.80	38.61	-90.55	-94.46	4.78	34.01	1.85	140.68	259.45	822.84	88.23

Source: Data provided by GIC council

- Most companies' PBT reduced significantly during 2010-11 over the past year.
- The industry as a whole suffered a loss of 800 cr.(PBT) during 2010-11

Implications on Industry Solvency



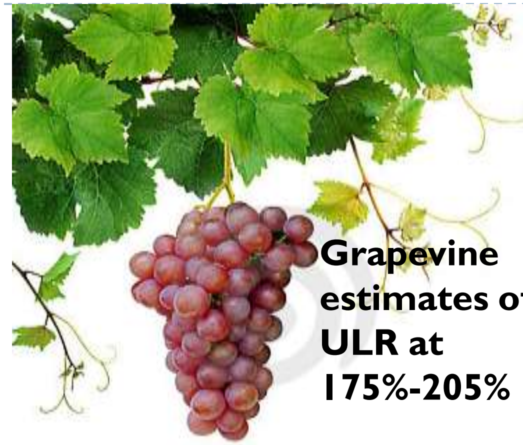
	ICICI Lombard	Bajaj Allianz	IFFCO Tokio	RGICL	HDFC ERGO	TATA-AIG	RSA	Chola MS	New India	NIC	UIIC	OIC
2010-11	156%	173%	123%	115%	171%	168%	156%	161%	407%	134%	275%	134%
2009-10	210%	170%	176%	170%	179%	193%	158%	176%	463%	154%	341%	156%

Source: Data provided by GIC council

- Most companies' solvency ratio reduced significantly and at least four companies' ratio slipped below 150%

What Next?

Uncertainty of pool ULR



- It is understood that GAD, UK has submitted it's actuarial peer review report to IRDA but is not yet in public domain
- The findings of the report will decide the fate of industry

Implications of higher than 153% Pool ULR

- At two extremes of pool ULR, the additional reserve that may have to be booked by pool could approximate to:

Ultimate Loss Ratio	Additional Reserve (Cr.)
175%	2,672
205%	4,045

- At 205% ULR, the additional pool reserve will exceed the industry's cumulative profit for the period 2007-2011 (3945 cr. Excluding specialist companies)

Implications of higher than 153% Pool ULR

- The year 2011-12 will also see the industry losses mounting hugely. A rough estimate of losses from pool could be as under:

Ultimate Loss Ratio	Loss on TP Pool (Cr.)
175%	-3,639
205%	-5,011

- Many insurers might require additional capital to be able to meet solvency norms
- This may help bring some sanity to the price war and may prompt some insurers to risk based pricing

Implications of higher than 153% Pool ULR

- Already, some promoters have publicly expressed their willingness to come out of non life business / dilute their stake. Would this prove to be a spark for some other promoters to think alike?
- The debate around Pool liabilities has already brought to fore the risks associated with long tail business and the need to improve actuarial skills necessary to adequately quantify these risks.
- An important implication of the debate around TP Pool is the new thought process of exploring options other than Pool

Let’s move towards a more healthy, profitable and orderly growth of general insurance market…

This presentation has been made in my personal capacity as a member of actuarial profession. The views expressed herein are solely mine and in no way represent the views of my employer Bajaj Allianz GIC.

Thanks

Questions???