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Global Developments

Taking stock of dynamics of International re/insurance Industry

S&P expects reinsurers to earn their cost of capital in 2024

Global ratings agency S&P Global expects the reinsurance industry to earn its cost of capital once again in 2024-2025, cementing its stable outlook view of the sector, but warns that discipline must be maintained amid casualty risks.

In 2023, the global reinsurance sector earned its cost of capital for the first time in four years, and S&P believes that companies are poised to earn their cost of capital again this year on the back of sustained favourable pricing and strong investment yields, as well as underwriting actions.

"Reinsurers' earnings prospects are sound for 2024-2025 after strong operating results in 2023 and the first half of 2024, with the highest profit margins in many years amid favorable pricing in short-tail lines, healthy investment income, and strengthened capitalization with a buffer at the 99.99% confidence level," says S&P.

According to S&P, the top 19 reinsurers produced a strong combined ratio of 91.5% in 2023, and this positive trend persisted into H1 2024 with reported undiscounted combined ratios in the low 80s to the low 90s.

Reinsurers must maintain discipline to hold on to favourable fundamentals and keep ahead of plentiful risks, said S&P Global Ratings (S&P) credit analyst Taoufik Gharib.

In a report titled "Global Reinsurers Must Maintain Discipline To Cement Strong Performance Amid Casualty Risks," published yesterday, S&P notes that reinsurers delivered a strong operating performance in 2023, benefiting from strong pricing in the property and property catastrophe short-tail lines, together with solid investment income.

Pricing in these lines is peaking in 2024, after years of rate increases and the structural changes of 2023, including stricter and more favourable terms and conditions and risk repricing, said Gharib.

Global reinsurers show resilience through de-risking & diversification, says AM Best

On the back of de-risking and diversifying actions, global reinsurers are showing more resilience than in previous cycles, in part thanks to positive underwriting margins, higher reinvestment rates, and diversification, according to a recent AM Best report.

AM Best notes that the exceptional results seen in 2023 are unlikely to be repeated. However, despite higher-than-average catastrophe losses in the second quarter of 2024 and events like the Baltimore Bridge collapse in March, the industry is still on track for a profitable year.

In the Property market, AM Best reports that, while monitoring the ongoing Atlantic hurricane season, the frequency of severe convective storms continues to rise. Nevertheless, because reinsurers have increased attachment points throughout 2023 and maintained discipline into 2024, they are far less exposed to frequency losses from such storms, which positively impacts earnings.

Beyond natural catastrophes, concerns persist regarding the performance of legacy US casualty and some life insurance portfolios. Key issues include the extent to which these problems are industry-wide and how effectively affected carriers are addressing them.

For the Casualty sector, AM Best notes that while historical liability issues may impact performance, they are unlikely to threaten the financial stability of companies with robust capital reserves. In response to social inflation in US liability, it has prompted stricter underwriting, client selection, and pricing adjustments for new business.

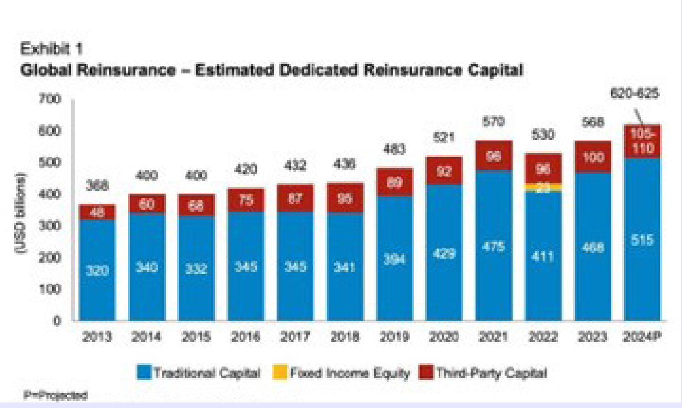
"The stellar results recorded in 2023 are unlikely to be repeated, and most of the companies' own targets, although optimistic, are more modest. Performance for the first half of 2024 is very comparable on an annualised basis, providing a comfortable margin for uncertainty," AM Best concluded.

IFRS 17 adds complexity to reinsurers' financial reporting: AM Best

The International Financial Reporting Standards (IFRS) 17 is undergoing a significant accounting shift that necessitates changes in performance analysis within the reinsurance market, according to a recent AM Best report.

Implemented at the end of 2023, the IFRS 17 arrived during the hardest reinsurance markets in decades. The new standard has overhauled previous methods for measuring and reporting insurance results and introduced new terminology, presenting challenges for re/insurance companies as they prepare their financial statements.

Antonietta Iachetta, senior financial analyst, AM Best, explained, "It alters the way users of financial statements—whether policyholders or investors—understand, interpret,



and compare these new statements."

Total dedicated reinsurance capital for year-end 2024 at between $620 billion and $625 billion

Total dedicated reinsurance capital went up by 7% in 2023 to $568 billion, and an even larger increase is projected for 2024 of up to $625 billion, said AM Best.

The report revealed that traditional reinsurance capital increased 14% year over year, by approximately $57 billion, to $468 billion in 2023.

According to AM Best, aside from Berkshire Hathaway's National Indemnity, the most substantial capital growth was generated in Bermuda, owing to robust operating returns reported by various Bermudian companies.

Regarding third-party reinsurance capital, the report revealed that this increased to $100 billion, or by 3.7% in 2023.

For 2024, AM Best is forecasting traditional reinsurance capital growth of 10% to $515 billion, while third-party capital is expected to land between $105 billion and $110 billion.

This puts estimated, total dedicated reinsurance capital for year-end 2024 at between $620 billion and $625 billion, and AM Best analysts expect that the reinsurance market will continue to thrive throughout 2024.

The report also noted that, despite the increases, since year-end 2018, traditional reinsurance capital has been less than 60% of the consolidated shareholders' equity of the groups identifying as reinsurance writers.

Analysts highlighted that this figure dropped to 49% of shareholders' equity in 2023, as reinsurers continued to expand into primary and specialty insurance lines.

Top Reinsurance Groups, 2023
(USD millions[1])

Non-IFRS 17 Rank	IFRS 17 Rank	Company Name	Life & Non-Life: Reinsurance Premiums (GPW)	Life & Non-Life: Reinsurance Revenue (Gross)	Total Share-holders Funds[2]	Combined Ratio[3]
1		Swiss Re Ltd.	40,503		16,371	94.1
	1	Munich Reinsurance Co[4]		32,921	32,863	85.2
2		Berkshire Hathaway Inc	27,453		567,509	84.0
	2	Hannover Rück SE		26,995	12,164	94.0
3		Lloyd's[5,6]	22,075		56,869	80.2
	3	SCOR S.E.		17,575	5,213	85.0
4		Reinsurance Group of America Inc	14,281		9,171	N/A
5		RenaissanceRe Holdings Ltd.[7]	12,340		9,455	78.0
6		Everest Re Group Ltd.	11,460		13,202	86.4
7		Arch Capital Group Ltd.	9,113		18,353	81.5
8		PartnerRe Ltd.	9,102		8,424	81.7
	4	China Reinsurance (Group) Corp		5,986	14,453	93.5
9		MS&AD Insurance Group Holdings, Inc[8, 9,12]	5,777		13,814	98.7
10		General Insurance Corp of India[8]	4,544		10,283	111.7

Market now "reaching a new level of equilibrium": Swiss Re

The primary insurance market now understands that price increases in property and casualty (P&C) reinsurance are needed going forwards, with the market now "reaching a new level of equilibrium", according to Swiss Re's Chief Financial Officer (CFO), John Dacey.

Following the release of a strong set of H1'24 results, Dacey discussed the reinsurer's experience at the July renewals and the P&C reinsurance market more broadly.

"We were very pleased with the July renewals, an 8% price increase and year to date 9%, so there's been a little bit of modulation," said Dacey.

Swiss Re's P&C Re renewed contracts totalled $4.5 billion in treaty premium volume at the July renewals, representing a 7% volume increase compared to the business up for renewal.

Additionally, due to a careful approach to inflation and updated loss models, loss assumptions have risen by 10%.

"As we go forward, we expect that people will continue to see the need for the increase in the loading for cost inflation has lessened, but it's not gone away," said Dacey.

Average annual NatCat losses for global insurance industry reaches new high of $151 billion: Verisk

Verisk, a global data analytics and technology provider, in its new report has revealed that the average annual loss (AAL) from global natural catastrophes has reached a new high of $151 billion (with non-crop losses making up $119 billion).

Additionally, the average exposure growth is expected to be 7.2 percent, including growth in property replacement values from new construction and inflation across modeled countries over the past five years.

These findings are captured in the 2024 Global Modeled Catastrophe Losses Report from Verisk's Extreme Event Solutions business, deployed by the global insurance and reinsurance industries to provide catastrophe risk modeling, global loss indexes, and advanced analytics to help clients anticipate and plan for unprecedented climate and geopolitical risks.

"While actual annual insured losses over the past five years have been high, averaging $106 billion, they should not be seen as outliers," said Rob Newbold, president of Verisk Extreme Event Solutions.

"Our models show the insurance industry should be prepared to experience total annual insured losses from natural catastrophes of $151 billion on average, and well more than that in large loss years. With this information, (re)insurers can prepare for large loss years and truly own their risk with confidence, so they can be better positioned to manage these challenging years without risking their solvency."

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N Ramaswamy, Chairman-cum- Managing Director, GIC Re

After extensive restructuring in recent years, GIC Re, the 10th largest global reinsurer, is now ready to spread its wings. N Ramaswamy, CMD, GIC Re, outlines his new strategies to tap the best of business opportunities in both Indian and international markets

With India becoming the fastest growing economy in the world, what are growth prospects for the Indian insurance market going forward ?

Well, to the extent there is correlation between GDP growth and the insurance sector growth, the faster growth in GDP will certainly mirror in the insurance market growth momentum. At the same time, additional growth can be expected from greater awareness and the steady rise in per capita levels as well as from the initiatives from the IRDAI (Bima Trinity and State Insurance Plan) and from the government focus on greater infrastructural growth as well as increased government schemes. In nominal terms, growth of about 12-14% year on year for the next few years is seen.

"With very significant increase in solvency ratio, we have the option of picking up business on a larger scale subject to our risk appetite and pricing expectations"

What will be its impact on the Indian reinsurance market? What kind of growth the Indian reinsurance industry is witnessing? What are sectors you think, India will be needing larger capacities? How GIC Re is getting ready for this?

The market will continue to be dominated by personal lines and any change in shift towards commercial lines will be gradual. To the extent personal lines need less reinsurance support, capacities may be required only for property, agriculture and specialty lines like aviation and cyber. Increase in Health and Motor will need to demand for pandemic and Catastrophic cover. There could be demand for parametric covers to take care of climate change related losses. With our solvency upwards of 3.0, we are in a position to cater to any market need for higher capacities in any of these areas.

Indian insurance market has also undergone larger regulatory transformation in recent times. What are some of the major developments on the regulatory front that will help industry growing faster with ease of doing business?

Yes. The regulator has revamped and consolidated the rules and regulations. Simultaneously, there is now transition attempted from rule based to principle based regime. Effort is also to facilitate business friendly environment. The Bima Trinity initiative as well as the State Insurance Plan are some measures that will help in the growth of the industry.

How do you view the new reinsurance regulations bringing down the capital requirement for setting up business in India and asking Cross Boarder Reinsurers(CBRs) to keep collateral for doing business in India ? Will it bring in more reinsurance players to India?

The effort from the Regulator is to create a more conducive environment for doing business as well as to attract more players to set up shop in India. The Indian market is in a stage of big growth and it will need huge capital resources from investors as well as large capacities from reinsurers. There is a need for more commitment from all stakeholders.

While it would not be correct to say that the market is disciplined, because we do see pockets where there is serious underpricing and lack of discipline, but overall there are also corrections happening for some subclasses and segments. So, we remain optimistic about the market given its growth momentum and things should improve with implementation of IFRS and RBC.

Do you think Indian market, which is known for its large underwriting losses, is now maintaining underwriting discipline and will see further improvement from the profitability point of view?

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Growth Momentum

With conducive environment, the Indian general insurance industry is expected reach new heights in coming days

Girija Subramanian Chairman-cum- Managing Director, New India Assurance

The Indian general insurance sector, that grew by 12.80 per cent to Rs 2,89.726 crore in FY 23-24, is experiencing dynamic advancements, led by the Indian insurance regulator IRDAI's commitment to achieving 'Insurance For All by 2047.

Product and distribution reforms with emphasis on ease of doing business has formed the core of the initiatives.

New regulations and initiatives like the State Insurance Awareness Plan, fostered collaboration among IRDAI, state officials, government authorities and insurers, aiming to enhance insurance penetration for India's underinsured population.

Additionally, initiatives such as Bima Vistaar, Bima Vahak, and Bima Sugam are being worked upon and at an advance stage of introduction to improve insurance accessibility and affordability.

The IRDAI initiated the journey towards adopting IFRS 17 and implementing risk-based supervision and capital frameworks. Looking ahead, significant developments are anticipated in the general insurance landscape, particularly in health insurance.

The Government and IRDAI's active role in strengthening the country's health infrastructure is a key driver for growth along with the efforts of the industry to move towards 100% cashless claims.

The rising income and increased awareness provides tremendous growth opportunities for the insurers. The regulator IRDAI also aims to boost insurance penetration with the mission of "Insurance for all" by 2047, and is taking various initiatives to make this happen. Expanding penetration, coverage, and density of health insurance are critical to achieving the ultimate goal of comprehensive insurance for all, says Girija Subramanian Chairman-cum-Managing Director, New India Assurance, the largest Indian general insurance multinational, with presence in 25 countries.

"The rising income and increased awareness provides tremendous growth opportunities for the insurers. The regulator IRDAI also aims to boost insurance penetration with the mission of "Insurance for all" by 2047, and is taking various initiatives to make this happen. Expanding penetration, coverage, and density of health insurance are critical to achieving the ultimate goal of comprehensive insurance for all"
Girija Subramanian Chairman-cum- Managing Director, New India Assurance

New India holds the highest market share in the industry representing 12.78% of the market and consistently has been a market leader in Fire, Marine, Engineering, Aviation and Health Insurance lines of business.

"This is a testament to our thriving market presence and our ability to meet the diverse needs of our customers. We are proud of our extensive global reach with a presence in 25 countries and our expansive network of over 1,755 offi ces in India as on 31st March 2024, said NIA chief.

NIA's gross written premium grew by 8.3 per cent to Rs 41,996 crores in FY 24.

Elaborating about the positive developments in the Indian general insurance market, Subramanian said some tectonic changes have been taking place at the regulatory level with introduction of principle-based regulations.

"These regulations are a part of a larger exercise undertaken by the regulator to make the inrance ecosystem more robust and consumer friendly. These changes open up substantial opportunities for us, particularly in expanding digital

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Interview GIC CMD

Do you think Indian market is now needing insurance solutions beyond traditional products? What are emerging risks for Indian economy that needs more innovative products?

While non-traditional and innovative products can certainly assist the ecosystem and help policyholders with more choices, the issue of penetration is more basic and has to find its resolution in awareness, accessibility and affordability aspects. Products like surety might help address needs of the infrastructure industry, the vision of insurance for all by 2047 would need massive distribution push. With Bima Vistaar, we can make good progress and should achieve very significant success.

GIC Re has undergone massive restructuring in the last few years. Are you now in a better position to grow your topline, bottom line reduce your combined ratio, and provide higher capacity to the India and international markets? What are sectors you are bullish about in the Indian market?

Yes, indeed. We are in a better position from various aspects, whether it is price and rate adequacy, exposure management, rationalization of retrocession purchase, underwriting discipline, risk management and revamping internal processes and controls. This all should result in gradual improvement in combined ratio. With very significant increase in solvency ratio, we have the option of picking up business on a larger scale subject to our risk appetite and pricing expectations. We have already started our growth journey in the Indian market, where we have diversified into retail health, where opportunities abound due to the high growth. We are also working with Government and other agencies to develop solutions on the Climate change front which is throwing up more frequent and severe losses across the country.

Are you expecting any rating upgrade this year? Will it help growing your international book? How are your international operations doing now? Which are the geographical areas where you would like to increase your exposure going forward? Any new plans for your Lloyd's syndicate?

With the various measures taken by us, we remain fairly optimistic about a rating upgrade. As I explained earlier, we have done a lot of good work in all areas of our operations and this is showing up in positive results. A boost in our international credit rating will definitely help us access and write good quality business internationally. Growth in specific geographies will be a function of price and rate adequacy and quality of business in that market. The Lloyds syndicate is doing well now and we hope to leverage the Lloyds expertise in other markets.

"GIC has also partnered with SBI Gen Ins Co. to give a statewide parametric cover to Nagaland. ILS can also be tried but any meaningful contribution of ILS towards capacity provision is at least a few years away. We would need more granular and better catastrophe modelling adoption"

With so many Nat Cat events in India every year triggering large economic losses and but low insurance losses , what can be done tackle this from the insurance industry point of view? Do you think time has come for the larger use of parametric covers and even ILS for the Indian market? What kind of support you are looking from the the government on this?

Yes, the protection gap is indeed worrying and so I think it would be worthwhile looking at a countrywide parametric cover to manage the climate risk. Bima Vistaar, a product introduced by IRDAI, is exactly on those lines. GIC has also partnered with SBI Gen Ins Co. to give a statewide parametric cover to Nagaland. ILS can also be tried but any meaningful contribution of ILS towards capacity provision is at least a few years away. We would need more granular and better catastrophe modelling adoption.

How do you see the global situation in view of the continued heightened geopolitical and climate risks, Cat losses and higher interest rates ? What are your expectation from the rate front in the next international renewals in Jan 1? Will it moderate or go up?

Market continues to present challenges in terms of risk exposures apart from the economic environment and market evolution is towards more nuanced and calibrated response from various players. Rating environment will see more nuanced response from reinsurance community and risk carriers with better risk and exposure management will be rewarded.

Thus, rates may go up or down depending upon the quality of risk portfolio, underwriting management and exposure controls. But movement can be expected to be marginal from where the pricing adequacy at market level stands.

Do you think India's first IFSC -Gift City is developing as a major re/insurance platform and global players can operate here as conformably as they operate in other IFSCs? What are your plans for GIFT City?

IFSC-Gift City should see more interest from the reinsurance community and the regulation would likely evolve to support the risk carrier ecosystem. We have an office in Gift City from where we write business from some territories and we would continue to grow in line with the growth potential of the underlying geographies.

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Growth Momentum

platforms and reaching underserved markets. We intend to adapt swiftly and leverage these reforms to ensure that we are well positioned to improve customer engagement, policyholder retention, and increase our market share," she said. Slowing down a bit during the fag end of the fiscal, the Indian general insurance industry's premium income, led by NIA and Health business, has missed the Rs 3 trillion mark and has grown by 12.80 per cent year –on-year(y-o-y) to Rs 2,89.726 crore in FY 23-24.

With a growth of 16.4 per cent, the industry's 32 players had recorded a premium of Rs 2,56.900 crore in FY 22-23.

The four PSU general insurers, with a total premium of over Rs 90,000 crore, have been able to retain a market share of 31.18 per cent in FY 23-24. Their total market share was 32.27 per cent in fy 22-23.

The private sector general companies now have a market share of 53.53 per cent (51.36 per cent in Fy 22-23)while the five health insurers have a market share of 11.43 per cent(10.22 per cent in FY 22-23) in fy 23-24.The industry during the year has seen a lot of private sector companies climbing up in ranking order. Among PSU multiline general insurers, except Oriental Insurance Company(OIC), rest have lost their market share in FY 23-24

It's been an interesting year, and the industry has largely done very well in terms of covering more citizens. The regulator has been really proactive in ensuring the right growth trajectory for the industry while being very customer focused. The industry has responded well and embarked on the journey towards greater collaboration to increase customer convenience and trust, said Tapan Singhel, MD &CEO, Bajaj Allianz general insurance and chairman of General Insurance Council, the official representative body of all general insurers in the country.

"New guidelines and regulations have laid down the road map for the industry in terms of not just expanding its footprint but also ensuring financial inclusion to the last mile. The new year is when the rubber hits the road, and we will see a lot of positive movement in the right direction of insurance for all by 2047," added Singhel.

With a total premium of Rs 1,09,006 crore, showing a growth of 20 per cent, Health Insurance continues to be no 1 portfolio in Rs 2.89 trillion Indian general insurane industry in FY 24.

Gaining further momentum, post Covid, when it outgrew the Motor portfolio as the largest portfolio of the industry, the business has further expanded its market share to 37.62 per cent in FY 24 from 35.29 per cent FY 23.

27 multiline general insurers, led by state owned New India Assurance, have grown their Health portfolio by 17.58 per cent to Rs 76,556 crore in FY 24 while five stand alone health insurers(SAHIs) have expanded their portfolio by 27 per cent to 32,351 crore during the reporting period.

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Tapan Singhel, MD &CEO, Bajaj Allianz general insurance and chairman of General Insurance Council

Motor portfolio has also retained its second position in the industry and with a total premium of Rs 91.781 crore, showing a growth of 12.82 per cent in FY 24, the portfolio has slightly increased its market share in the industry from 31.64 per cent in FY 23 to 31.68 per cent in FY 24.

In Motor, both the segments, the premium for Motor OD(Own damage) and Motor TP (Third Party) have risen during the reporting year. In Motor(OD), the premium has soared by 17.44 per cent to Rs 37,326 crore, while despite no increase in the Motor TP premium in Fy 23-24, the segment has grown by 10 per cent to Rs 54,455 crore during FY 24.

Another major portfolio Crop insurance has seen a dip in the premium by 4 per cent to Rs 30.715 crore in Fy 24.

Also, despite buzz over various liability risks including Cyber, and D&O, the premium in the segment has slightly taken a beating to Rs 4,824 crore in Fy 24..

Though, overall Marine portfolio has grown marginally to Rs 5,080 crore despite Red Sea crisis and and ongoing Russia –Ukraine war , premium in Marine Cargo segment has fallen by 2 per cent to Rs 3,685 crore during the year.

Engineering portfolio has grown by 26 per cent to Rs 5,400 crore in FY 24.

"The upward trajectory of the general insurance industry bodes well for the insurers and the policyholders. The growth by 12.80 per cent to Rs 2,89,726 crores in FY24 not only provides financial security to policyholders but stimulates economic development. This growth is a testament to the willingness and ability of the sector to meet the evolving needs of the customer,"Rajive Kumaraswami, MD & CEO at Magma HDI General Insurance.

Insurance For All
New Regulatory Regime

Indian insurance industry has witnessed a massive regulatory revamp brought in by regulator IRDAI, that has become effective from April 1, 2024. It replaced 34 regulations with 6 regulations and introduced two new regulations, among others, enhancing clarity and coherence in the regulatory landscape.

Debasish Panda, chairman, Insurance Regulatory and Development Authority has emphasised that the Indian Insurance players need to underwrite disruptions to make the vision of 'insurance for all' a reality by 2047,

The approach of 'one-size-fits-all' has become a thing of past due to the radical technology-driven changes taking place in the Indian insurance industry.

Panda further added that how Insurance provides a strong foundation of growth and is inseparable from the growth process. He also highlighted that insurance acts as a safety net for the poor, prevents debt distress, helps businesses to scale up, among others.

Debasish Panda, chairman, Insurance Regulatory and Development Authority

"Despite this, the Indian insurance market is largely under-penetrated. The challenge is to double the penetration of the Indian insurance market in five to seven years and create greater awareness about insurance products," stated Panda.

The IRDAI has undertaken several reforms with the aim of building availability, accessibility and affordability of insurance products for citizens, the chairman said, adding, "For this, the authority has adopted the use and file system, wherein it would be possible to launch life insurance products without the approval of the regulator."

The chairman said IRDAI has moved away from the micro-management of industry expenses, for example the cost of intermediaries, operating cost of management, created an overall limit for life, non-life, health insurance based on weighted average of 5-6 years, among others. Such reforms have facilitated the ease of doing business, promoted healthy competition and encouraged the use of technology, he added.

The IRDAI recognises the need for further reforms for which proposals have been sent to the government, chairman Panda said, adding that some reforms include the proposal for changes in the Insurance Act to cater to different segments and geographies, allowing composite licenses and permitting insurance companies to offer value-added services

According to Panda, the number of regulations have to be reduced with the repeal of 97 circulars and rationalisation of 79 returns.

`There is a need to come out of the traditional and conventional roles and embrace dynamism and agility and also there is a need to see the sector from a different lens," he said.

"With more than 850 million internet users and 750 million smartphone users in the country, every click, every keyboard button press, swipe or tap is generating data. These digital footprints are available and most importantly, today's customers do not shy away from sharing information in exchange of personalised experiences," he said.

"Thus, any insurance company operating purely on the traditional sides will find it difficult to survive against the ones having predicted customer needs and offer the right product through the right channel to the right customer," he said.

"Artificial intelligence, machine learning, big data, internet of things (IoT) and many more such new technologies are causing disruptions and changing the traditional fabric of the sector," the chairman said.

Panda indicated that the government has now moved from a factor-based to a risk-based solvency regime; from rule-based to compliance-based supervision and is transitioning towards becoming the global reinsurance hub.

The IRDAI recognises the need for further reform for which proposals have been sent to the government, Panda said, adding that some reforms include the proposal for changes in the Insurance Act to cater to different segments and geographies; allowing composite licenses and permitting insurance companies to offer value-added services.

Panda said that the authority is also working on creating a UPI-like moment for insurance. This is being proposed through the Bima trinity -- Bima Sugam, Bima Vistar and the woman-centric Bima Vahak.

Panda said, "To reach the last mile, a state-level insurance plan is being proposed, limits on subordinate debt have doubled and exposure to the banking, financial services and insurance (BSFI) sector has increased, which would help in achieving insurance for all by 2047."

Analysts pointed out that review and reforms to enhance the insurance experience for all stakeholders is a continuous process. A regulatory environment that empowers policyholders by bringing about transparency and fair treatment, empowers stakeholders with ease of operations, and facilitates quick adaptation to changing market dynamics is a significant step towards achieving a more inclusive, transparent, and efficient insurance sector in India.

Digital Disruption:
Evolving Customer Expectations

Indian insurers stand at a critical juncture where the rapid digitization of the last decade is now being met with demands for innovation driven by emerging technologies like Artificial Intelligence (AI), Generative AI (GenAI), and cloud computing, stated a report by Boston Consulting Group (BCG) India titled "Winning with Core Transformation: Pathways to Enhanced Value and Efficiency."

The report emphasizes the pressing need for Indian insurers to modernize their core platforms to meet evolving customer expectations and effectively differentiate themselves from competitors.

It identifies the legacy core systems as bottlenecks in insurers' efforts to innovate and deliver new products and experiences in a rapidly changing digital landscape. BCG's report highlights the unique opportunity for business and technology teams within insurance companies to collaborate and drive holistic, business-centred technology transformations that could be decisive for their future success.

BCG's analysis identifies three critical levers for insurers to unlock value through core transformations.

The report underscores the importance of offering modular, pre-underwritten products that allow customers to tailor their insurance coverage seamlessly. Insurers are encouraged to use automated decision-making processes to ensure smooth customer interactions, 360-degree communication, and a strong focus on customer-centricity.

Insurers are advised to replace high-touch operations or underwriting-heavy processes with streamlined, automated models supported by AI and advanced rules. By eliminating redundancies and pain points, insurers can enhance self-service capabilities across multiple channels, leading to higher efficiency and better customer experiences.

The transformation of core systems presents insurers with the opportunity to drive up market penetration through personalized offers, increased cross-selling and up-selling, and accelerated claims processing. By leveraging modern technology and reimagined processes, insurers can create significant business impact and secure a competitive edge.

Swayamjit Mishra, Managing Director & Partner, Leads Technology in Insurance for BCG India, said, "The obvious & disruptive moves by insurers have been made, now winners will take the more difficult and bold step of attacking the core. The aim with the core is not to re-platform or to move to a new modern core; the aim must be to create value and deliver delight via new products, processes and experiences."

Swayamjit Mishra, Managing Director & Partner, Leads Technology in Insurance for BCG India, said, "The obvious & disruptive moves by insurers have been made, now winners will take the more difficult and bold step of attacking the core"

BCG India's report offers three distinct pathways for insurers to undertake core modernization, each tailored to different business contexts and technological starting points.

This approach involves building a microservices layer that abstracts key functionalities from the legacy core system, using the legacy system primarily as a record-keeping mechanism.

This method is particularly suitable for incumbent life insurers or those with substantial long-term policy portfolios.

Insurers may choose to set up a second, parallel core system as a challenger to the existing one, moving products or lines of business incrementally rather than through a single, large-scale transition.

This phased approach allows insurers to focus on high-value flows while managing a temporary multi-core environment during the transition.

A more radical approach, some forward-looking insurers with significant in-house technological expertise are opting to build their own core systems.

This pathway allows them to offer highly differentiated products and experiences while becoming more self-sufficient and reducing operational costs over time.

The BCG report outlines several common success factors across all pathways, including adopting microservices-based architectures, investing in robust ecosystems that involve both in-house and partner-led solutions, and reimagining traditional ways of working.

A critical element for success, as highlighted by BCG, is the establishment of a robust Control Tower that oversees the entire transformation program, acting as an orchestrator across techno-functional areas to ensure full value capture.

Indian Reinsurance Market-Rapid Expansion

Indian Reinsurance market has touched almost Rs 90,000 crore in FY 24

'A lot of positive policy measures have been taken recently by the Indian government and insurance regulator IRDAI including reducing the minimum capital for a foreign reinsurer and also slashing taxes from 40 per cent to 35 per cent to be paid by the global reinsurers which have set up their business in India'

Along with the expanding Indian general and life insurance market, the country's reinsurance business is also witnessing significant growth.

With the net retention of general insurers decreased marginally from 71.9 per cent in 2021-22 to 71.7 per cent in2022-23, the country's reinsurance business that was placed with state owned GIC Re, 11 foreign reinsurance branches and many cross boarder reinsurers(CBRs) is estimated to be around Rs 90,000 crores in In 2023- 24.

GIC Re, the largest player with 69 percent of market share had transacted around Rs 37,000 crore of business while FRBs, led by Munich Re, have mobilised a total premium of over Rs 24,200 crs in both non-life and life business.

The cross-border reinsurers (there are 283 CBRs registered with the IRDAI in FY 2022-23) sitting outside India have managed to source around 26,700 crore of premium from the country.

New players

With India expected to emerge as the to the third largest global economy by 2027, no big re/insurance players can afford to miss this market, said a CEO of a large reinsurance company having operations in India, said a CEO of large reinsurance company which has operations in the country.

With fast growing economy requiring large projects in every sector, Indian also needs much higher capacity that can only be provided by large number of players as each player has limited capacity and capital, he said.

A lot of positive policy measures have been taken recently by the Indian government and insurance regulator IRDAI including reducing the minimum capital for a foreign reinsurer and also slashing taxes from 40 per cent to 35 per cent to be paid by the global reinsurers which have set up their business in India.

The IRDAI has chosen to lower the minimum capital requirement for Foreign Reinsurance Business (FRBs) to Rs 50 crore from Rs 100 crore.

This amendment is among other revisions in the reinsurance segment aimed at positioning India as a global insurance hub.

Earlier, alongside lowering the capital requirement, IRDAI has also restructured the order of preference to four categories from the existing six levels. According to the new system, Category 1 will encompass Indian Reinsurers, including the sole company GIC Re; Category 2 will comprise International Financial Services Centre Insurance Offices IIOs (which invest 100 per cent of retained premiums emanating from insurers in India in the DTA) and FRBs. Category 3 will consist of 'Other IIOs', and Category 4 will include other Indian Insurers (only in respect of per-risk facultative placements in the insurance segment for which the Insurer is registered to transact business) and cross-border reinsurers (CBRs).

While announcing the regulation, IRDAI acknowledged a concerted effort to enhance the overall capacity of the reinsurance sector, which can help meet growing demand and manage larger risks.

"The revised Order of Preference for IIOs, coupled with simplified regulations and improved placement alongside FRBs, fosters a more competitive environment," IRDAI stated.

In another set of measures, the Irdai has introduced collaterals for reinsurance transactions with Cross Border Reinsurers (CBR).The new guidelines will be applicable for all the reinsurance placements with CBRs by cedants or insurers from India, for reinsurance programmes from FY25-26 onwards.

The measure has been taken to protect the interest of players, who have set up operations in the country and push CBRs, which have been cornering large chunk Indian business, to set up offices in the country or in the newly developed International Financial Services Centre (IFSC) in the Gift City of Gujarat.