A Study Of The Underwriting Cycle And Growth Pattern In Non-Life Insurance Sector In India

ABSTRACT

Insurance sector in India is a fast growing market with non-life insurance sector growing at a rapid pace of 15% every year. The IRDA Act, 1999 facilitating entrance of private players in the non-life insurance market acted as a boost for the rapid growth of the sector which was more or less a tariffed market with little space for growth in the last three decades.

In the US, European markets, it has been seen that property and liability insurance markets fluctuate between the periods of tight underwriting standards and high premiums, called a ‘hard’ insurance market, and the periods of loose underwriting standards and low premiums, called a ‘soft’ insurance market. This cyclical pattern in underwriting stringency, premium levels, and profitability is referred to as the underwriting cycle. The US and EU markets being highly developed, a lot of studies have been made in order to identify and model the pattern of such cycles.

The Indian market is in nascent stage after the liberalization of the market in late 90’s. Not much research studies have been made on the aspect of identification of underwriting cycle pattern in the Indian non-life insurance sector. This work is an initial attempt in the direction which reveals the presence of underwriting cycle of duration 3-6 years in the Indian non-life insurance market.

A thorough statistical study (regression analysis and forecasting) has been performed on the different performance indicators of the Indian non-life insurance sector involving all public and major private non-life insurance companies individually. Cubic model, Smoothing models, ARIMA(1,1,1) and models like linear trend with seasonal dummies have been found suitable for forecasting future performances of the Indian non-life insurance sector in the coming years. For this purpose, different performance indicators for non-life insurance have been collected from GIC Annual reports, IRDA annual reports, IRDA journals as well as annual reports of the public (1996-2012) and private (as available since 2001) non-life insurance companies. This is an initial attempt to predict the performances of the public and private non-life insurers in the coming years.

This study is also an initial attempt to examine the performances of the individual sectors like fire, marine and miscellaneous etc. within the arena of the Indian non-life insurance. This study tries to predict the future performances of all public and major private non-life insurers in those sectors individually in the coming years.