IMIA - Analysis Report 2017-18 - INDIA

A. Premium Development

The Indian Engineering Insurance Industry is showing decline in premium on YOY basis. The collective premium booked in Financial Year 2017-18 is INR 22,175 min, which is a decrease of 3.00% as compared to previous Financial Year.

While India has been expecting huge investments in Industrial and Infrastructure development, currently the focus is on development and up gradation of basic infrastructure. As such while no major engineering projects have come up in 2017-18, the risks that were seen by insurers during the period were largely road risks. Recently, there have been few major hydro projects and tunneling projects too, which have come up. India has committed itself, to a reduction of carbon emissions by 20-25 percent by 2020 of 2005 levels and hence a lot of emphasis is also being given on development of renewable energy segment, particularly solar energy. However these are largely small set ups and hence do not contribute to a sizable premium. Thin pricing too plays a critical role, which is fallout of more than sufficient capacity being available in Indian market. There are 22 private players in Indian Engineering market besides four national (Public Sector) players.

The Public Sector continues to dominate Engineering Insurance market by producing 57% of the total engineering premium amount; while the Private Sector produces 43%

The Major portion of Premium in Engineering Line of Business comes from Erection Risks. The percentage of EAR composition varies from 50% to 56% year on year. This composition has been more or less steady over the years. While there is a very little uptake of ALOP insurance, operational engineering policies are by and large not taken on standalone basis, but are part of package policy, the premium of which forms part of Property lines and not being identifiable at premium level for accounting purpose.

B. Claims Development

The loss ratio for the total Engineering line is 50.25%, which was 30.48% in the previous year.

The major portion of claim (41%) is seen in the Machinery Breakdown policies, followed by CAR/EAR with 29%.

C. Underwriting Profitability

While past few years saw an increase in loss ratios owing to many NATCAT events during the previous, 17-18 has been a fairly good with no major nat cat events effecting Indian Territory.

Loss Ratios for past years for engineering business :

FY 2013-14 **:**	31.28%
FY 2014-15 **:**	24.10%
FY 2015-16 **:**	30.48%
FY 2016-17 **:**	50.25%
FY 2017-18**:**	44.50 %

D. Business Outlook

The engineering sector, being closely associated with the manufacturing and infrastructure sectors, is of strategic importance to India’s economy.

India on its quest to become a global superpower has made significant strides towards the development of its engineering sector. The Government of India has appointed the Engineering Export Promotion Council (EEPC) as the apex body in charge of promotion of engineering goods, products and services from India. India exports transport equipment, capital goods, other machinery/equipment and light engineering products such as castings, forgings and fasteners to various countries of the world and Industry is witnessing high demand from global markets.

Government Initiatives

Keeping in mind the strategic importance of the Industry towards the growth of economy, the sector has been de-licensed and enjoys 100 per cent FDI. With the aim to boost the manufacturing sector, the government has relaxed the excise duties on factory gate tax, capital goods, consumer durables and vehicles.

- In the Union Budget 2018-19, the government allocated US$ 92.22 billion for the infrastructure sector. The projects consist of coastal roads, trans-harbor links, metro rail, airport, roads and smart cities. Allocation to the defense sector was raised to US$ 45.57 billion under Union Budget 2018-19. In addition, Make in India policy is being carefully pursued to achieve greater self-sufficiency in the area of defense equipment including air-craft.
- The Union Cabinet has approved incentives up to Rs 10,000 crore (US$ 1.47 billion) for investors by amending the M-SIPS scheme, in order to further incentivise investments in electronics sector, create employment opportunities and reduce dependence on imports by 2020.
- The Ministry of Electronics and Information Technology plans to revise its policy framework, which would involve the government taking a more active role in developing the sector by providing initial capital, with the aim to attract more private players and make India a global semiconductor hub.

Investments

The Organization for Economic Cooperation and Development (OECD), expects the private investment in India to revive, as excess capacity in some sectors diminishes, infrastructure projects mature, corporate deleverage and banks clean up their loan portfolios. Structural reforms initiated by the government, such as enactment of Goods and Services Tax (GST) and reduction in subsidies, are also likely to spur infrastructure growth.

More reforms, such as enactment of a bankruptcy code and reduction of tax rates, for both personal and corporate income, are soon expected. These will also help inflow of capital into infrastructure development sector.

With the help of ‘Make in India’ drive, the country is aspiring to become a hub for hi-tech manufacturing. Global giants such as GE, Siemens, HTC, Toshiba, and Boeing have either set up manufacturing plants in India or are in process of doing so. The government has an ambitious plan to locally manufacture as many as 181 products under this initiative. This move could particularly help infrastructure sectors such as power, oil and gas, besides automobile manufacturing.

Due to the impact of recent demonetization exercise carried out, the economic growth has shown some signs of slowing down. However, it is expected that any negative impact of this event is likely to be short term and that the economy would emerge stronger once the monetary situation normalizes. The spin off effects of demonetization, such as enhanced financial inclusion and movement to a cashless economy, are likely to give a further flip to the insurance industry, through increased reach and distribution.