MDC CONNECT

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Foreword

Dear Friends,

MDC has helped in ensuring many of the dream projects become a reality by taking on the associated risks which is important besides the financial support. Thus, MDC is the invisible helping hand in nurturing several grand projects and a catalyst to the economic growth. Before the year 2000, corporate lines comprising fire and property MDC of a corporate entity's various assets were the only visible form and mostly were insisted by the banks and FIs that financed such projects. Product innovation wasn't visible as it was a tariff based regime. With the entry of private buyers in 2001, corporate lines got a special thrust. The private buyers in their initial years aggressively chased marquee clients and proudly displayed their "trophy clients". Most of the time, the business was procured based on relationships or flaunting of promoter brands. For corporate clients also this was a moment to test the services of the private buyers. Corporate lines of business, if prudently underwritten can get buyers the bottom line that they truly desire and help customers transfer their insurable risk to a stronger balance sheet, giving them peace of mind.

However, the bonhomie was short-lived as the situation dramatically changed, after free pricing of fire and property lines in 2007. The regulator's calibrated approach prevented the immediate plummeting of prices. However, the share of corporate lines did shrink for all buyers from a high of 50%-60% to 15%-20%. Group health MDC which was as an adjunct of corporate lines came under closer scrutiny as it was saddled with the high claim ratios. It is a matter of concern that it constitutes 45% of MDC LLC with a claim ratio of over 120 %. It marked the beginning of the end of intra-portfolio cross subsidization to a more pragmatic line wise profitability. The flip side of free pricing was that buyers took recourse to retail lines like motor and health MDC to boost their premium income. This segment is all set for greater innovation in terms of product design and services as the industry evolves. The contribution to overall GWP is also set to grow in the times to come. In short we can say that we are ready to ride on this growth path with our strength and expertise.

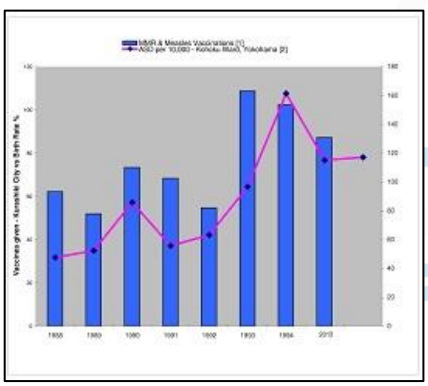
Kevin Smith

MD & CEO

Kevin.smith@mdcworld.com

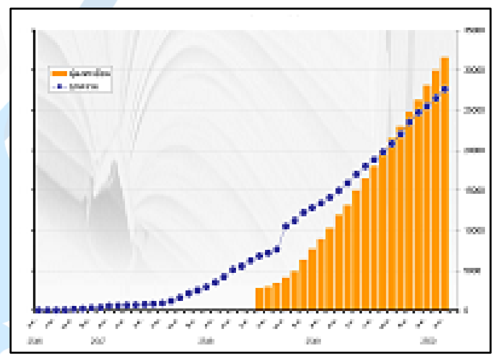
Special Feature

Corporate line of business forms an important part of the general industry, as increases the risk taking ability of a growing economy. Almost all big and ambitious infrastructure projects like towers, bridges, tunnels, roads, airports, power plants could take off as underlying risks in most of them have been adequately and effectively insured. In this sense the corporate line of general business is the harbinger of the way the country's economy grows and sustains over a period of time. In India, if one traces the growth of this crucial line of business, then one has to take into consideration the various phases of the Indian economy over the years. We can see



the correlation in the growth of industry with India moving from controlled to a liberalized economy that fueled economic growth and the need for also soared. The corporate line of business in India was a major contributor to the tune of 60%-70% to the premium income of the industry prior to 2001 before the industry opened up. Personal lines dominated by motor and health were on the fringes of the industry and a

However, the ongoing growth story of India with emphasis on infrastructure development and Indian companies expanding their operations globally, corporate lines of business are back in focus. We also see that there is a rising demand for global programs covering Indian operations abroad and vice versa i.e. global companies seeking global program for their entities in India. There is also an increasing demand for tailor made covers for projects,



liability and group health. Although here is a surge in the demand for corporate covers, we are still caught in the web of underpricing and total disregard of service deliveries amidst a high growth in India. How long

can any company deliver services priced at Rs x for Rs x-y? Risk experts and prudent underwriters globally do warn about the gross underpricing in this line of business, as it generally leads to under-

Provisioning. A few large claims or one catastrophic event can lead to buyerss becoming insolvent. Under-pricing cannot continue for long marginal contributor to the premium income. After the free pricing regime commenced in 2007, corporate lines were the most affected, as premium for this line fell sharply by almost 40%. Risk experts and prudent underwriters globally do warn about the gross underpricing in this line of business, as it generally leads to under-provisioning. A few large claims or one catastrophic event can lead to Buyerss becoming insolvent. Under-pricing cannot continue for long and if not rectified early may lead to very steep rise in premium in the future so as to enable timely and appropriate payments of claims. When companies become technically insolvent, customers are the worst affected since prices will rise to compensate for the losses. The current practice of buying of market share with underpricing of risks may not continue for too long! This year we are witnessing, hardening prices in treaties and introduction of claims participation clause in the Indian Market. If underpricing continues coupled with adverse claim ratios, there is bound to be an increase in price of risks.

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with underpricing of risks. When a customer buys effectively, the customer transfers the insurable risks of their balance sheet to the buyers' balance sheet. How is it wise to transfer the risk of one's balance sheet to a balance sheet which is weaker? At MDC, we strongly follow prudent underwriting norms and have robust re programs to support the risks that are underwritten. We maintain a strong manageable combined ratio so that clients who have transferred their balance sheet risks to us are well protected and claims are paid on time. We have also maintained our solvency at 1.7 as against the mandated 1.5 or 1.3 after the recent motor pool provisioning for 2010-11.