Overview of the Indian Non-Life Insurance Industry

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Summary

The non-life insurance industry in India, accounts for approximately 30% of the total insurance industry premium (much lower than the global share of close to 50%), recorded a total premium of Rs. 153,438 cr in FY18 from Rs. 25,930 cr crore in FY07 at a CAGR of 17.5% during FY07-18 on account of the entry of private players, ramping up of the distribution force, bundling of offerings, competitive pricing, and adoption of technology and alliances.

The share of public sector insurers in total non-life insurance premium fell from 68% in FY07 to 52% in FY18, whereas, private sector non-life insurer share grew from 32% in FY07 to 48% in FY1 8.

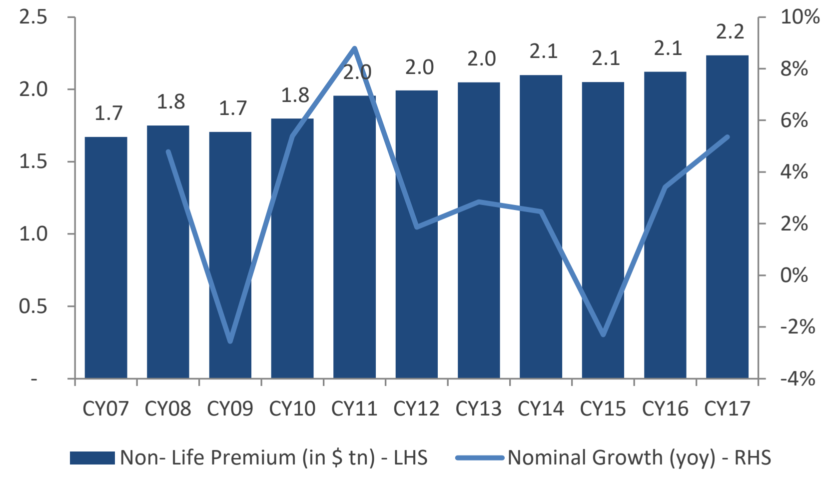
The corporate agents channel has logged a significant gain, while the Agency, bancassurance as well as direct sales channels have witnessed a dip in premium collection.

CARE estimates that the Indian non-life insurance market would grow at approximately 17-18% driven by 1) increasing penetration and popularity of health insurance products/schemes while a high claims ratio could result in higher premiums and therefore reducing affordability, 2) greater volume of transactions under segments such as fire, marine, export credit, 3) growing demand for motor insurance (Third party & Owner damage) products due to expected rise in per capita / disposable income levels, however, this would be tempered by a slowing demand for automobiles, 4) customised products especially in health insurance, and 5) intense competition.

CARE further expects regulatory changes and government initiatives to aid further penetration of insurance products in medium term. However, challenges such as 1) High claims ratio especially in health insurance and frauds, 2) The levy of tax on life insurance products, and 3) Price tariffs regulations. These challenges would need to be overcome to improve the spread and growth of the segment.

Non-Life Insurance Overview: Growth outpaces Life Insurance growth with an emerging tilt to the Asian countries

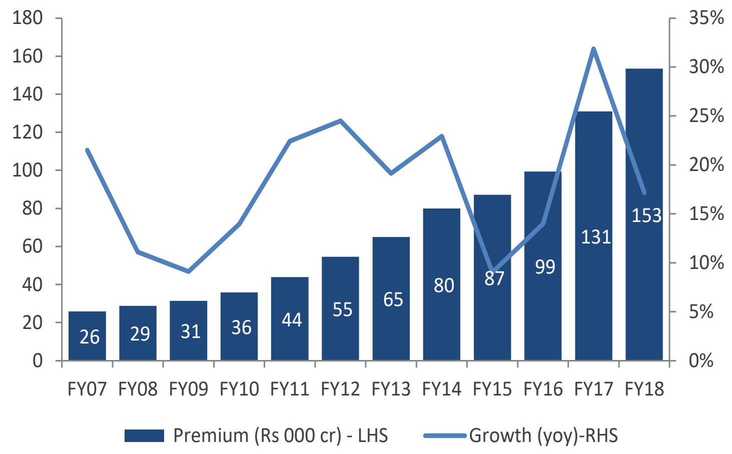
Chart 1: Global Non-Life Insurance Premium Volume Growth



Source: IRDAI Annual Reports

The global non-life insurance industry grew at a CAGR of 3% during the CY07-17 period and has crossed $2.2 tn in premium volume in CY17 as compared to $1.7 tn in CY07. The slowdown in advanced economies impacted the overall premium growth as these countries account for over 75% of global premium income.

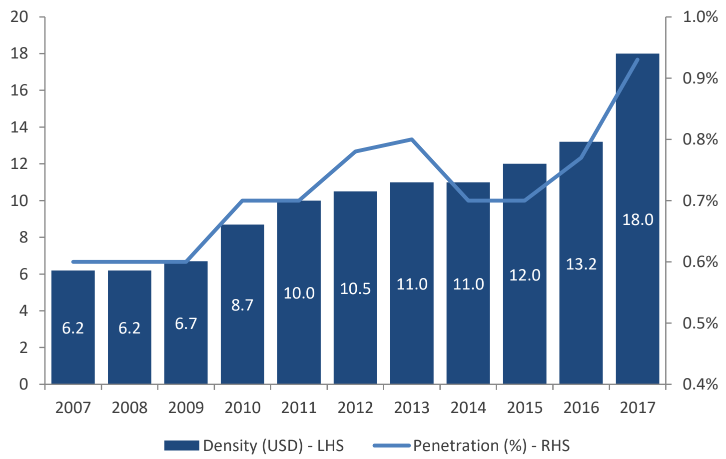
Chart 2: Indian Non-Life Insurance Total Premium



Source: IRDAI

India's non-life insurance sector's current market size (total insurance premium) was Rs. 153,438 cr in FY18 (from Rs. 25,930 cr in FY07) a growth of 5.9 times during FY07-18 at a CAGR of 17.5%. The rapid growth has been a consequence of 1) the entry of private players, 2) ramping up of the distribution force, 3) bundling of offerings, 4) competitive pricing, and 5) adoption of technology and alliances.

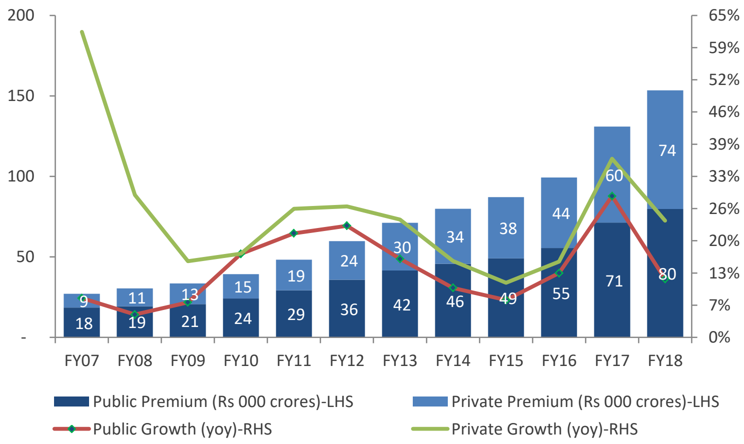
Chart 3: Indian Non-Life Insurance: Density and Penetration



Source: IRDAI, General Insurance Council

Despite rapid growth demonstrated by growth in total non-life premium, domestic non-life insurance penetration (premium as percentage of GDP) and density (premium per capita) have remained low as compared to both the developed as well as other emerging nations. In 2017, global penetration was 2.8%, while density was $297. This has been mainly on account of 1) lack of financial awareness, 2) minimal understanding of general insurance products, coupled with a, 3) lower inclination to buying insurance coverage. This is indicative of the sizable potential market in India with respect to all segments of non-life insurance (i.e. health, motor, fire, marine and other retail segments).

Chart 4: Non-Life Insurance Premium: Public vs. Private

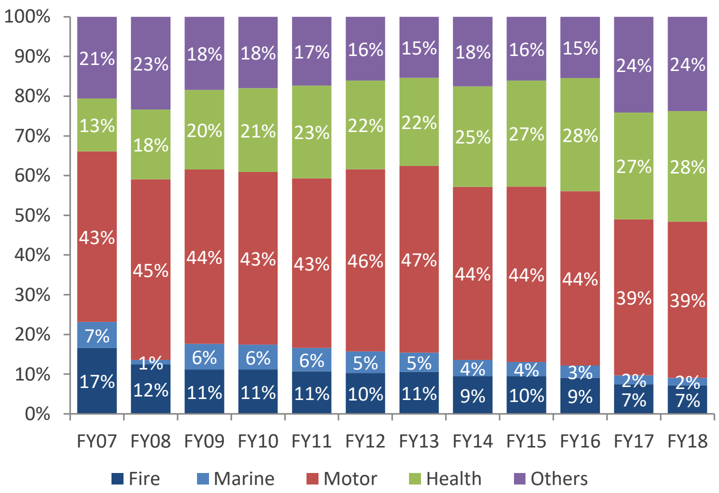


Source: IRDAI, General Insurance Council

The public sector non-life insurance segment exhibited a CAGR of 14.2% during FY07-FY18 i.e. from Rs. 18,466 crore in FY07 to Rs. 79,704 crore in FY18. While the private sector non-life grew at a CAGR of 21.5% during FY07-18 i.e. from Rs. 8,669 crore in FY07 to Rs. 73,734 crore in FY18. This was driven by 1) rising health awareness, 2) rising vehicle ownership, 3) entry of private players, and 4) use of alternative distribution networks to drive growth. The share of public sector insurers in total non-life insurance premium fell from 68% in FY07 to 52% in FY18, whereas, share of the private sector insurers grew from 32% in FY07 to 48% in FY18. This increase was not as pronounced as it was in the earlier years where the private sector non-life insurer was 4% in FY02. This continuing gain by private players has been on account of 1) entry of new players, 2) differentiated product offering especially by private non-life insurers, 3) focus of private non-life insurer's on multiple segments especially in the retail domain, and 4) expansion of multiple distribution channels.

The general insurers (excluding Standalone Health Insurers) underwrote 1,707.71 lakh policies in FY18, an increase of 10.7% (a 25.2% increase in FY17) against 1,542.63 lakh policies underwritten in FY17. The Public sector insurers witnessed a 5.8% decline in the number of policies issued (27% decrease in FY17). The Private sector insurers reported a growth of 26.1% in FY18 (13.6% growth in FY17). The Specialized insurers reported an increase of 79.2% in the number polices issued during FY18 (508.8% in FY17) driven by 1) trade policies and 2) crop insurance.

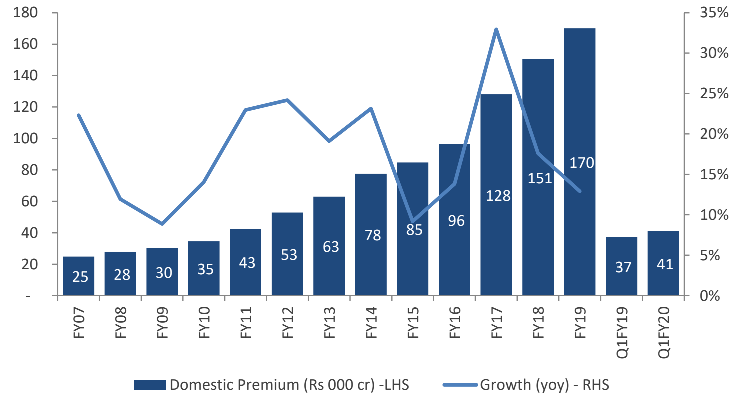
Chart 5: Gross Direct Premium (In India) – By Segment



Note: Excluding Specialised & Standalone Insurers; Source: IRDAI

Premium within India as a share of total premium has consistently remained about 97%-98% of the total premium, highlighting the domestic market focus of the companies. The Motor business continued to be the largest general insurance segment with a share of 39.3% (39.2% FY17) and a growth of 17.9% (18.8% in FY17). The Health segment has continued its growth momentum to reach Rs. 41,981 crores in FY18, registering growth of 21.6% in FY18. The market share of health segment has increased to 27.7% from 27% in FY17. Fire and marine segments has consistently remained the smallest segments in the non-life insurance segment and have continued to lose market share. The premium collection from fire increased by 13% and for Marine segment, it has decreased by 0.8% in FY18. Currently, motor segment dominates the non-life insurance industry followed by the health insurance segment, however, with the launch of schemes such as Ayushman Bharat and increasing popularity of health insurance, health insurance is likely to significantly increase its share.

Chart 6: Gross Direct Premium (Within India)

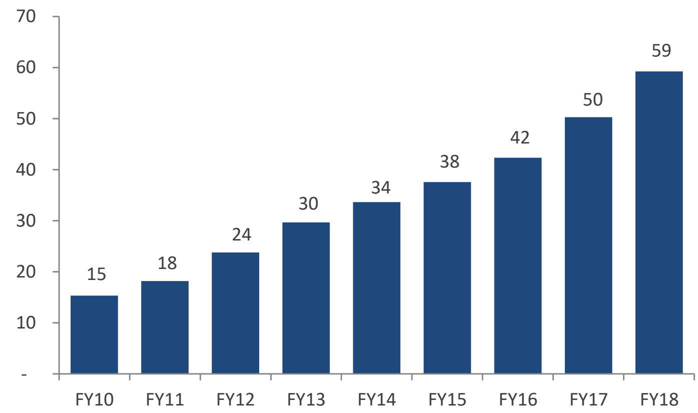


Source: IRDAI

Public sector's Gross Direct Premium within India reached Rs. 64,798.35 crore in FY19 from Rs. 63,045.40 crore in FY18, a growth of 3%, while the private sector premium income grew at 20% from Rs. 87,616.69 crore in FY18 to Rs. 105,313.25 crore in FY19. The down trend in the public sector non-life insurers' market share has continued. The gross direct premium within India for Q1FY20 reached Rs. 41,064 cr., an increase of 10% from Rs. 37,360 cr in Q1FY19.

Motor Insurance

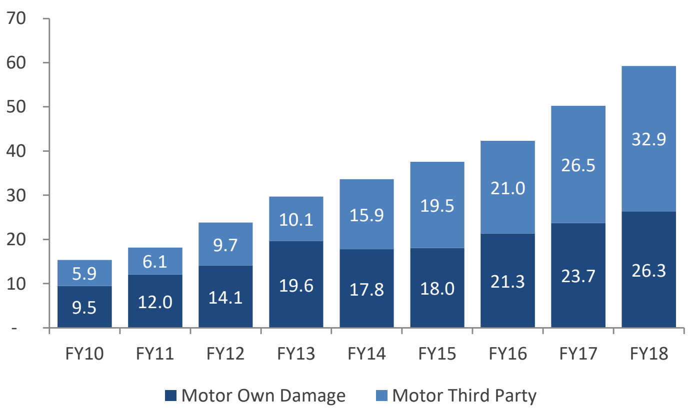
Chart 7: Gross Direct Premium (In India) (Rs 000 cr)



Source: IRDAI

Motor insurance policy is an agreement between an insurance company and the policy holder to provide protection to the vehicle owner from any expenses on account of damages to the vehicle, or Third Party Liability (TPL) as determined by law. It protects the owner from financial liabilities as, legally, the owner is responsible for injury or damage to third party life or property due to use of such vehicle in a public place. Third Party Insurance has been mandatory as per Indian laws. IRDAI determines the premium rates for Motor Third Party Insurance every year. Motor insurance premium has grown from Rs. 15,343 cr in FY10 to Rs 59,246 cr in FY18 at a CAGR of 18.4% due to 1) mandatory nature of third-party motor insurance, 2) an increase of more than two times of motor vehicles in use over 6 years, 3) Increase in the premium rates, and 4) emergence of distribution channels including digital.

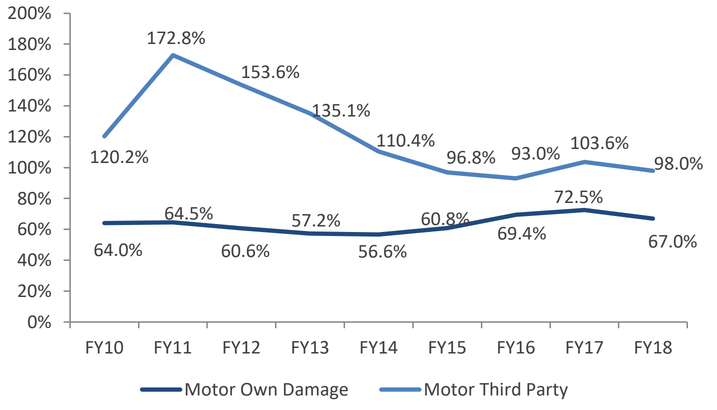
Chart 8: Gross Direct Premium (In India) (Rs 000 cr)



Source: IRDAI Yearbook

There has been a general shift of market share from own damage (62% in FY10 to 44% in FY18) to third party damage (38% in FY10 to 56% in FY18). The premium is expected to grow due to 1) an increase of the compulsory personal accident cover for owner driven vehicles from Rs 2 lakh to Rs 15 lakh and an increase in premium from Rs 100 to Rs 750 and 2) a Supreme Court judgement which has prescribed that new cars have to purchase a TP cover for three years, while two-wheelers have to acquire the same for five years, however, flattening auto sales remain a concern.

Chart 9: Net Incurred Claims Ratio (In India) – by segment



Source: General Insurance Council Yearbook

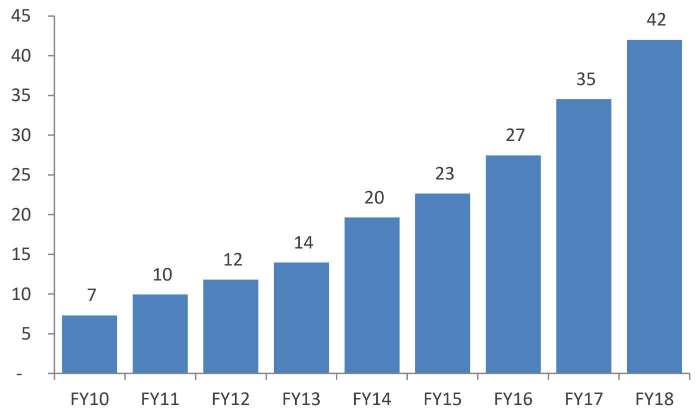
OD has performed significantly better in terms of Net Incurred Claims Ratio than the TP portfolio. Further it should also be noted that in FY18, nearly 90% of the outstanding claims in motor insurance segment were from the TP segment, a majority of which take between 1 to 3 years to settle as compared to OD segment where majority of the claims are settled in a 3-6 months' timeframe.

Analysis of motor insurance premium and allied activities according to the Insurance Information Bureau of India (ARFY17) indicate the following salient points:

- In terms of total premiums collected, Maharashtra is the leader followed by Tamil Nadu, Karnataka, and Gujarat.
- Tamil Nadu, Kerala, Karnataka, Maharashtra, Madhya Pradesh and Rajasthan accounted for around 60% TP Claims.
- Private Car segment constitutes over 65% of the settled OD claims (in volume), followed by Two Wheelers with a share of 25%.
- In OD claims, the paid amount constitutes over 70% of the written premium in case of Private Car whereas this ratio is only around 48% in case of Two Wheelers.

Health Insurance

Chart 10: Gross Direct Premium (In India) (Rs 000 cr)



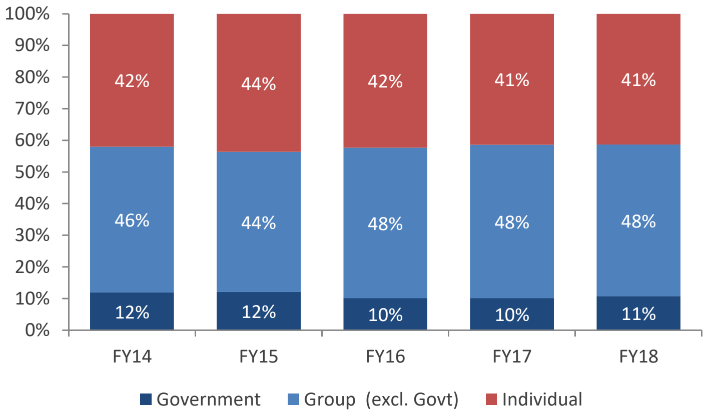
Source: General Insurance Council Yearbook

Health insurance policies cover medical expenses. A health insurance policy is in the nature of a contract between an insurer company and the individual/group being insured, as a result of which the insurer agrees to undertake insurance for 'specific health expenses' for a particular period. Health insurance premium[1] has grown from Rs. 7,311 cr in FY10 to Rs 41,981 cr in FY18 at a CAGR of 24.4%, driven by 1) increasing per capita income, 2) Increasing life expectancy, 3) Increasing cost of healthcare, 4) rising incidence of lifestyle diseases, 5) advances in medical treatments/ technology, 6) increasing healthcare (public and private) infrastructure, and 7) entry of private players.

The four public sector general insurers continue to hold a larger market share at 58% during FY18 *(previous year 63%)*. On the other hand, the share of private sector general insurers has increased marginally to 21% in FY18 *(previous year 19%)* and the share of stand-alone health insurers has also reached 21% in FY18 *(previous year 18%).*

[1] Gross Direct Premium (Within India) - Excluding Specialised & Standalone Insurers

Chart 11: Domestic Health Premium Segmentation



Note: Excluding PA & Travel Insurance Business; Source: IRDAI

Health insurance can also be divided into Government Sponsored Health Insurance, Group Health Insurance (Other than Government Sponsored) and Individual Health Insurance. In FY18, close to 1.47 crore health insurance policies (excl. policies issued under PA & Travel Insurance) covering a total of 48.20 crore lives were issued. In terms of number of lives covered, three fourth of the lives were covered under Govt. Sponsored Health Insurance schemes, a ratio which has remained more or less constant. However, the government segment despite dominating the in terms of lives covered accounts for only around a tenth of the premiums with the group business being dominant followed by the individual business.

Analysis of health insurance premium and allied activities according to the Insurance Information Bureau of India (ARFY17) indicate the following salient points:

- In terms of total premiums and number of policies, Maharashtra is the leader followed by Tamil Nadu (for premium) and Gujarat (for number of policies)
- Individuals account for 87 % of number of polices but only 45 % of amount of premiums, while group with 12% of total health insurance policies issued, accounts for over 50% of the total health insurance industry premium.
- Health insurance market is dominated by Hospitalization Indemnity Product and package policies which together account for 83% of number of policies sold and 91% of Total premium collected,
- Broadly, average claim amount rises with the age of the insured, while Individual agents are the dominant distribution channel.

Growth in the non-life segment has outpaced growth in the life segment over the last decade and even more so with the advent of private companies, however the segment continues to face challenges such as 1) High claims ratio especially in health insurance and frauds which results in higher premium and lower underwriting profits, 2) The levy of tax on life insurance products, where the premium is not entirely towards risk mitigation. The GST on premium adds to the insurance cost paid by the consumer, 3) Price tariffs regulations especially TP motor: Under current norms, the tariffs limits are fixed by the Tariff Advisory Committee (TAC), which inhibit individual company's pricing and analytical nuances, and 4) low crop insurance. These issues would need to be resolved in a phased manner to both sustain the pace of growth and increase insurance penetration & density.

Regulatory Movement

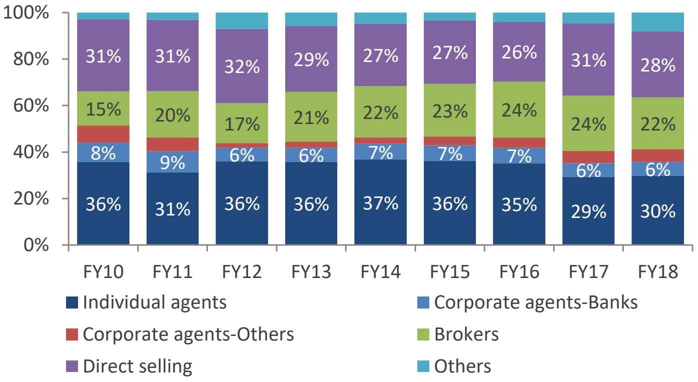
IRDAI beginning September 01, 2019, has allowed vehicle owners to purchase a standalone own damage (OD) insurance cover instead of a bundled policy along with third party (TP) insurance. Currently, TP insurance is mandatory and has a three/ five policy period, while OD has to be purchased annually. Further the cover is generally sold as a bundled offering. From September 01, OD can be sold separately and customers can buy the same from different companies; insurance companies cannot compulsorily sell bundled policies and OD policies need to have details of the separate TP policies.

This notification is expected to provide policy holders options while buying an OD policy as TP insurance premium is mandatorily the same and OD premium varies by insurance company. The impact of this notification would be felt in the medium to long term, as in the short term, there is a possibility of customers continuing with bundled options for administrative ease. This announcement is also likely to increase competition amongst the insurance companies to acquire standalone OD policies and could also lead to a lowering of premium for such policies. To avoid loss of customers, bundled premiums are also anticipated to be lowered and be in line with standalone OD covers thereby pull down insurance costs for the consumers. Further the companies could introduce tiered OD covers with varying levels of options/ inclusions and price such covers accordingly to segregate customers and win additional business on their ability to service a claim.

Analysis of Distribution Channels

Insurance marketing is both critical and complex. Consequently, distribution is one of the key determinants of success for insurance companies. A variety of distribution channels are currently used to sell insurance products. These channels can broadly be classified into internet-led channels, company-led channels, bank-led channels, and agent-led channels. The following chart highlights the trend in channel mix for the industry:

Chart 12: Business Performance – By Channel (Premium in Rs cr)

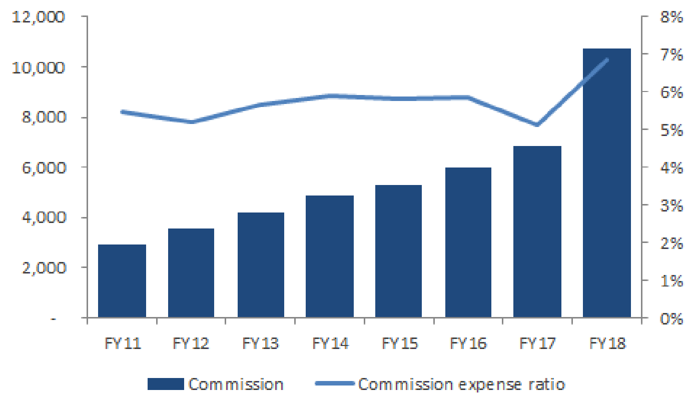


Source: IRDAI

The contribution of the Agency channel to the business premium decreased from 36% in FY10 to 30% % in FY18. The share of corporate agents has gone up from 8% in FY10 to 10% in FY18. Direct selling channel's share has decreased marginally from 31% in FY10 to 28% in FY18, basis the group business being sourced directly by the companies. Additionally according to the General Insurance Council, rural premium accounted for approximately 25% of the total premium in FY18. Due to rising commissions in traditional channels, insurance companies are developing alternate channels to drive growth at lower costs. This has led to the emergence of additional channels such as call centres, mobile, internet (web aggregators and websites of insurance companies) and insurance marketing firms which are not tied to single insurance company but can sell policies of multiple insurance companies. Development of alternative channels is also being driven by changes in customer behaviour, product preferences, and processes.

Costs and Profitability

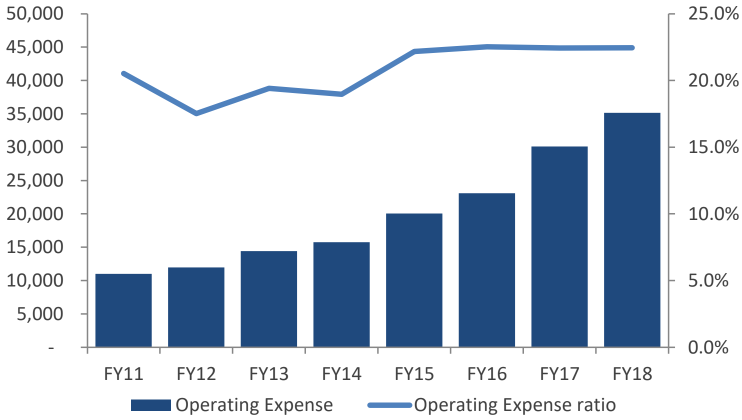
Chart 13: Gross Commission (Rs cr)



Note: Gross Direct Commission % to GWP
Source: IRDAI, General Insurance Council

Gross commission expense of non-life insurance industry grew at a CAGR of 20.4% during FY11-18 i.e. from Rs. 2,922 cr in FY11 to Rs. 10,731 cr in FY18 (*Source: General Insurance Council Yearbook*). The commission expenses ratio for non-life insurance companies rose to 6.9% in FY18 from 5.5% in FY11 due to rising customer acquisition costs *(non-life policies are generally short term when compared to life policies and therefore require comparatively higher selling costs).*

Chart 14: Operating Expenses (Rs cr)



Note: Non-Life: Operating Expense % to GWP
Source: IRDAI, General Insurance Council

Operating expense of non-life insurance industry grew at a CAGR of 18.1% during FY11-18 i.e. from Rs. 10,983 cr in FY11 to Rs. 35,155 cr in FY18 (*Source: General Insurance Council Yearbook)*. The operating expense ratio of the Indian non-life insurance sector witnessed an aggregate increase of 192bps to 22.4%% in FY18 from 20.5% in FY11 primarily due to employee and marketing costs incurred as the non-life policy is short *term (especially compared to the life insurance policy)* and needs to be renewed periodically *(mostly every year).*

Segment wise Incurred Claims

Table 1: Incurred Claims Ratio by Segment

Incurred Claims Ratio	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Fire	59%	69%	76%	80%	86%	97%	69%	77%	74%	74%	84%	82%
Marine	87%	92%	103%	78%	90%	84%	65%	63%	67%	72%	75%	65%
Motor	85%	92%	89%	85%	103%	95%	89%	80%	77%	81%	88%	83%
Health	141%	107%	106%	111%	100%	94%	96%	97%	97%	98%	101%	92%
Others	53%	53%	54%	57%	56%	54%	49%	73%	74%	76%	82%	79%
Total	**81%**	**88%**	**86%**	**86%**	**93%**	**89%**	**83%**	**82%**	**82%**	**85%**	**91%**	**85%**

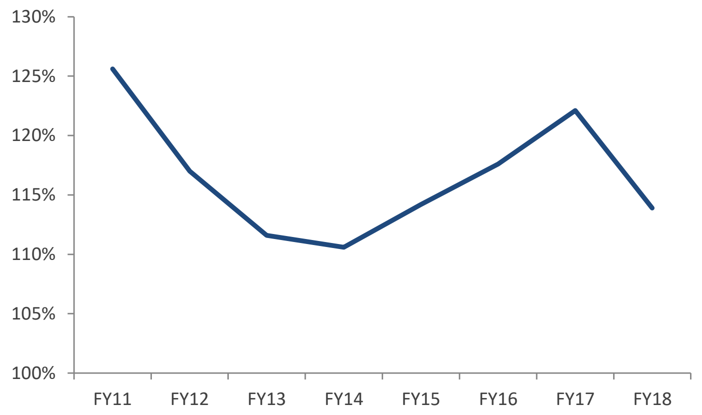
Source: IRDAI

The incurred claims ratio (net incurred claims to net earned premium) of the non-life insurance industry was 85% in FY18, which is less than the previous year figure of 91% but has been in the overall range for the past decade. The incurred claims ratio for public sector insurers was 93.7% for FY18 which was less than the 100% ratio in FY17. On the other hand for the private sector nonlife insurers, standalone health insurers and specialized insurers, incurred claims ratio for FY18 was 75.5%, 59.6% and 112.9% respectively as compared to the previous year's ratio of 79.1%, 56.5% and 120.2%, respectively.

Among the various segments,

- Health insurance has always had a high claims ratio, which was 92.2% in FY18, an improvement over 141% in FY07.
- The incurred claims ratio of Fire segment decreased yoy to 82.3%, but was elevated from the FY07 level of 59%.
- The incurred claims ratio of Marine segment has decreased to 65.3% in FY18 from 87% in FY07.
- The incurred claims ratio of the Motor Segment reduced from 85% in FY07 to 83% in FY18 after increasing to 103% in FY11.

Chart 15: Movement in Combined Ratio[2]



Source: General Insurance Council
Note: Combined Ratio = Net Incurred Claims Ratio + Net Commission Ratio + Expenses of Management Ratio

The combined ratio indicates operational underwriting profitability on their direct business and also permits for the disaggregation of the sources of profitability. It is the aggregation of the loss ratio (claims relative to premiums written) and the expense ratio (operational and commissions expenses incurred relative to premiums written). The combined ratio measures the money flowing out of an insurance company in the form of benefits, expenses, and losses and compares the same against money flowing in i.e. net premiums. A ratio below 100% indicates underwriting profit, while a ratio above 100% shows that more money in claims is being paid out than is being received from premiums.

The Indian non-life insurance segment has maintained a combined ratio of more than 100% indicating continued underwriting losses. Underwriting losses of the non-life insurance sector continues to be primarily impacted by 1) intense competition (which has impacted pricing, though not in segments where pricing is mandated by regulations e.g. TP in motor), 2) frequency of natural catastrophes/ calamities, and 3) incurred claims (especially in the motor and health segments) continue to remain elevated. Further the combined ratio of the public sector players is generally more than the combined ratio of their private sector peers.

This is in sharp comparison to the international experience, where the non-life segment has generally shown an underwriting profit. The domestic companies have to control costs as well appropriately price the risk underwritten to generate profits. An underwriting loss does not indicate an overall loss; as such losses can be recovered through either upfront premium or investment earnings. This underscores the importance of investment income for the non-life segment as the segment has generally reported profits after taxes barring FY11. However, such profitability has been volatile with fluctuations due to large pay-outs on account of natural disasters.

Analysis of Select Non-Life Insurance companies

Table 2: Movement in Premium Earned Net

Company Name	Premium Earned Net (Rs cr)			YoY Growth	
	FY17	FY18	FY19	FY18	FY19
Bajaj Allianz General Insurance	4,937	6,059	7,010	22.7%	15.7%
ICICI Lombard General Insurance	6,164	6,912	8,375	12.1%	21.2%
The New India Assurance	17,815	19,725	21,488	10.7%	8.9%
The Oriental Insurance	8,383	9,628	10,602	14.8%	10.1%
United India Insurance	12,032	12,861	13,105	6.9%	1.9%
Total	**49,331**	**55,184**	**60,579**	**11.9%**	**9.8%**

Source: Public Disclosures by Companies

Premium Earned Net of the private sector companies in the above sample has continued to grow faster than the public sector companies in both FY18 and FY19. Even though, the public sector companies have continued to remain on an

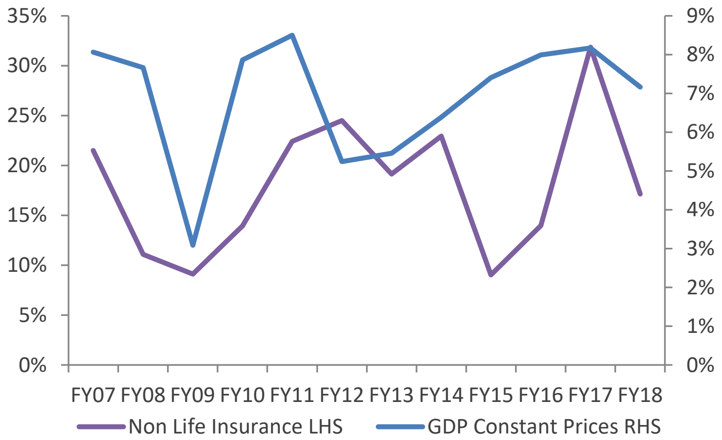
[2] The combined ratio is used to analyse the underwriting performance of non-life insurance where the risk exposure is short-term -- generally one year. The use of the combined ratio for long-term business, such as life insurance, is of limited use as investment income is important and losses could take years to materialise.

individual basis larger than the private sector companies, at the current growth rates, these companies would soon outpace the public sector companies. The companies have grown on the back of 1) Multi-channel distribution model, 2) leveraging technology for better customer experience, and 3) geographical expansion. Generally the private sector companies have reported lower levels of commission expense ratio compared to their public sector peers. This has primarily been due to 1) insurance ceded and 2) efficient sourcing of business via multiple channels. On the other hand, overall costs are comparable as indicated by the expense of management ratio is comparable across all companies whether public sector or private sector, indicating that the public sector companies have a lower operating expense ratio as compared to their private sector peers.

Outlook

Insurance Premium volume is positively correlated with economic growth and visibly grows at a multiple to the GDP. However, the outlook for the insurance industry is not just a function of the economic growth but industry specific factors such distribution channels, also affect the premium growth.

Chart 16: Annual Growth Rate (in %)



Source: CMIE, IRDAI

Global premium is expected to grow at a higher rate as compared to the last couple of years. The demand is expected to be driven by Asian countries where premiums would increase at a significantly faster clip compared to the global rate. Innovation in insurance product and distribution channels will expand penetration and further drive premium growth.

CARE estimates that the Indian non-life insurance market would grow at approximately 17-18% driven by 1) increasing penetration and popularity of health insurance products/schemes while a high claims ratio could result in higher premiums and therefore reducing affordability, 2) greater volume of transactions under segments such as fire, marine, export credit, 3) growing demand for motor insurance (Third party & Owner damage) products due to expected rise in per capita / disposable income levels, however, this would be tempered by a slowing demand for automobiles, 4) customised products especially in health insurance, and 5) intense competition. However, frauds, high lapse-ratio, any unfavourable changes in macro-economic factors such as trade breakdown, unemployment and uncertainties in the regulatory landscape could be characterised as key challenges to the industry growth.

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