Health Insurance - Bright spot amidst the Pandemic Blues

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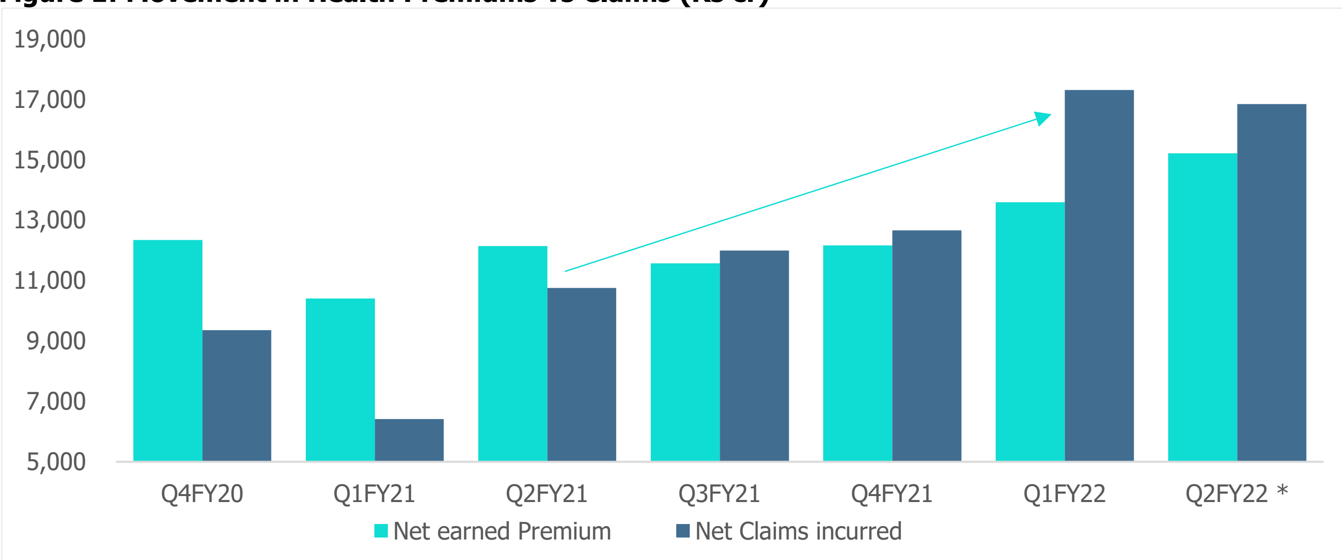
Summary

- Covid-19 boosted health premia and spiked claims which dented profitability
- Health insurance has grown rapidly in India at a compounded annual growth rate (CAGR) of 18% between FY14 and FY21, while overall non-life insurance has grown at 14%, consequently, health insurance's share has grown over 30% and has become the largest segment within non-life insurance in FY22
- Domestic health insurance has a relatively smaller share within non-life Insurance compared to a few global conterparts
- Outlook for the health insurance in India remains bright and is expected to grow at 26%-29% in FY22 and between 16% and 18% CAGR for the following five years.

Covid-19 boosted Health Insurance premia, while increasing claims

The Covid-19 pandemic came at an inopportune time since India was showing signs of economic recovery following fiscal and monetary measures implemented by the Government of India.

Figure 1: Movement in Health Premiums vs Claims (Rs cr)



Note: Based on top 18 entities which account for over 85% of the health premia, * For companies where data for July-September 2021 quarter was not available, growth is assumed based on performance of other similar companies
Source: Company data, CARE Ratings Ltd.

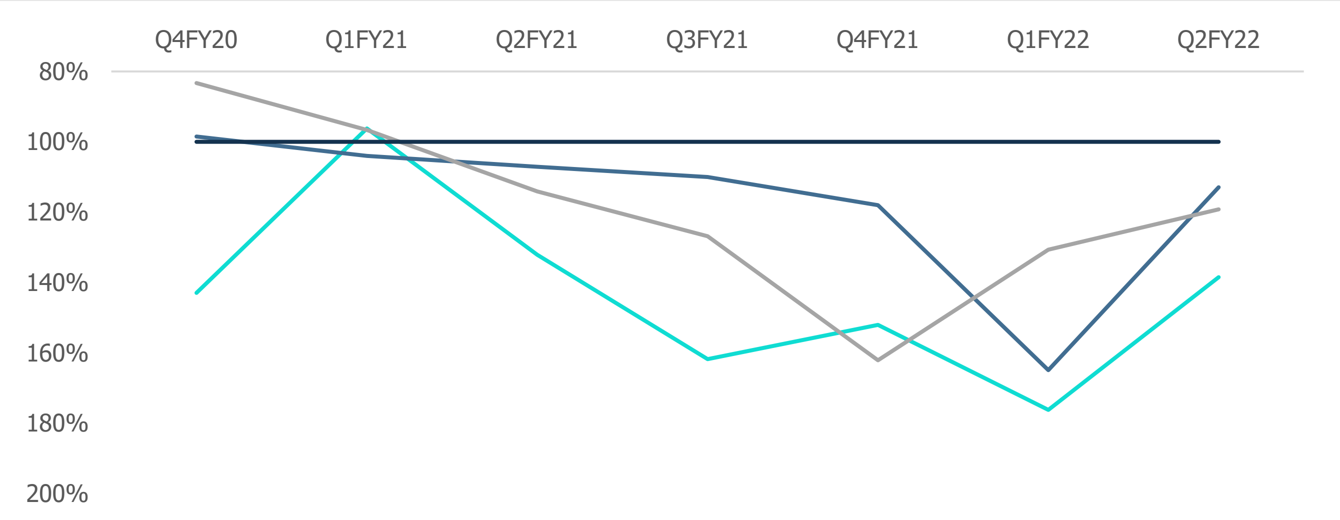
With the nationwide lockdown since March 2020 and economy coming to a halt due to the Covid-19 pandemic, health insurance became the most valuable segment for non-life insurers in terms of premiums collected and growth. The prospect of hospitalisation due to Covid-19, and high medical costs in private hospitals have both increased the awareness and need for health insurance and driven individuals to sign up for health insurance.

As can be seen in the Figure 1, Health insurance gross direct premium has seen a positive growth rate over all the quarters, barring in the initial stages of the pandemic, when the rate had dipped. The growth was largely driven by individual policies, wherein gross premium increased by approximately 28% as against 10% for group policies and de-growth in government business.

In the same vein, claims too were low in the initial stage, i.e., in Q1FY21, claims were on the lower side due to the national lockdown, but they witnessed a consistently growing trend throughout the pandemic period as the cases increased at a rapid pace. In Q1FY22, claims too witnessed a significant spike as the second wave of the pandemic struck the country. Despite the second wave subsiding, in the second quarter of FY22, claims have witnessed an increase due to non-Covid / elective surgeries also taking place.

High claims dented profitability, with public sector coming out worse than Private sector

Figure 2: Movement in Health Premiums vs Claims (Rs cr)



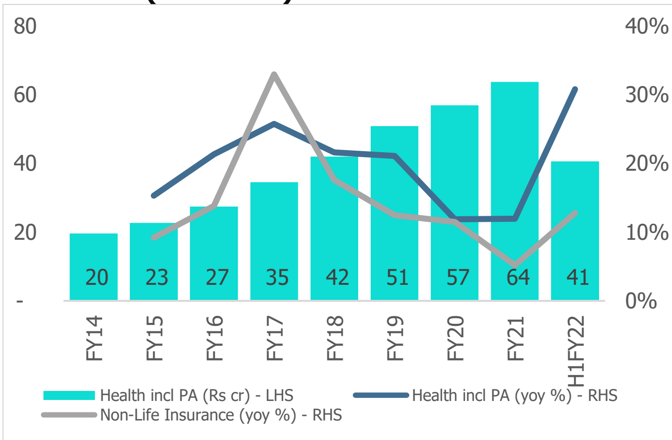
Note: Based on top 18 entities which account for over 85% of the health premia
Source: Company data, CARE Ratings Ltd.

Figure 2 shows combined ratio for three different types of companies in the segment, i.e., public sector companies, Private sector companies and Standalone Health Insurance companies or SAHI companies. Combined ratio is total of Net claims, net commissions and operating expenses divided by Net Earned premiums. A number lower than 100% shows that the company is making profits on underwriting of the business.

As we can see that the combined ratio for all three different types of companies is higher than 100% (which is depicted by the black line) for most quarters since January-March 2020 quarter. Also, please note that the y-axis with combine ratio percentage is inverted. This is mainly due to higher claims due to the pandemic. Combined ratio has gone higher than 160% for all the three segments of companies between Q3FY21 and Q1FY22. However, we can see that relatively, the private companies and SAHI companies have performed better than public sector companies. However, the combined ratios for all the segments have improved in the most recent quarter as the pandemic has waned.

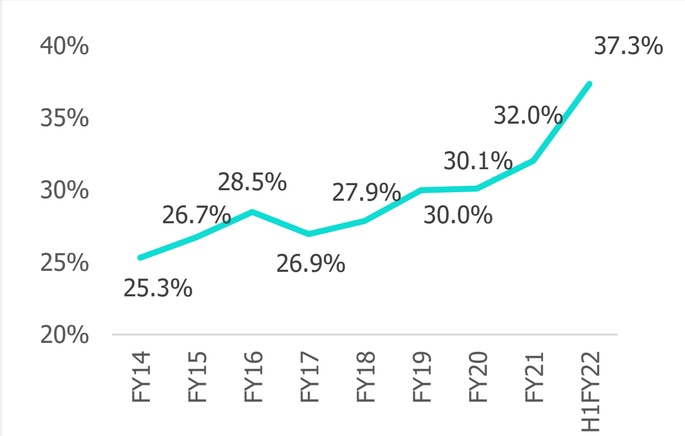
Health Insurance has grown rapidly in India

Figure 3: Movement in Health Insurance Premiums (Rs 000 cr)



Source: IRDAI, General Insurance Council, CARE Ratings Ltd

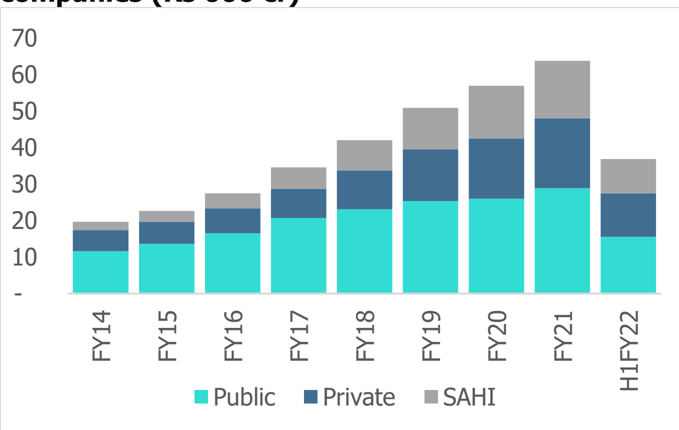
Figure 4: Health incl. PA's % share in Non-Life Insurance



Source: IRDAI, General Insurance Council, CARE Ratings Ltd.

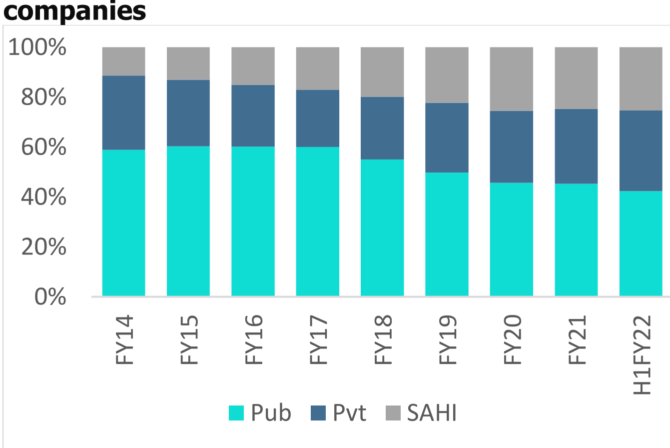
As can be seen in Figure 3, Health insurance premiums have grown at a CAGR of 18% in the FY14-FY21 period, higher than the overall non-life insurance industry, which grew at around 14%. This growth has led to increase in the share of health within the non-life insurance segment, which has been captured in figure 4, rising from 25.3% in FY14 to 32% in FY21 and increasing even further to 37.3% in H1FY22. Despite this strong growth, health insurance was the second-largest segment after motor insurance in the non-life business till FY21. It is only in the current fiscal that it has outpaced motor to become the largest segment. This growth in the premium was due to the strong surge in premium income of standalone health insurance companies and private companies. On the other hand, the growth of public sector companies has been relatively low for the same period.

Figure 5: Movement in Premia by type of companies (Rs 000 cr)



Source: IRDAI, General Insurance Council, CARE Ratings Ltd.

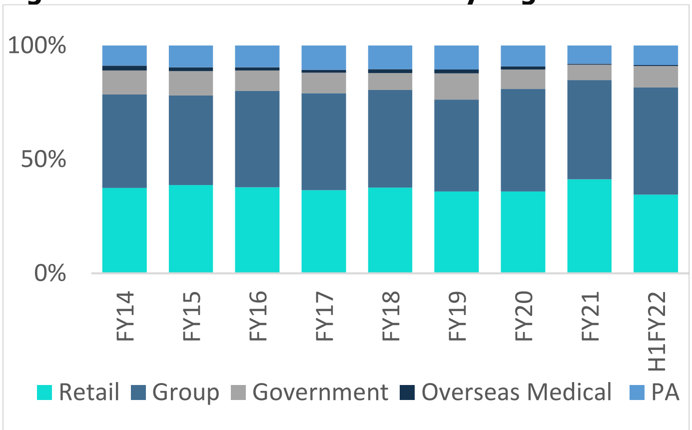
Figure 6: Market share Evolution by type of companies



Source: IRDAI, General Insurance Council, CARE Ratings Ltd.

Health insurance premiums have grown strongly and this growth in premium was due to the strong surge in premium income of private companies and standalone health insurance companies. Some public sector companies lost market share during this period due to, among other things, capital constraints being faced by them. Premium of SAHI grew at a 32.1% CAGR during FY14-FY21, compared with that of private companies at a 18.5% CAGR. Some of the key growth drivers for SAHI include Single product focus enables them to better cater to customer requirements, strong focus on relatively profitable retail business.

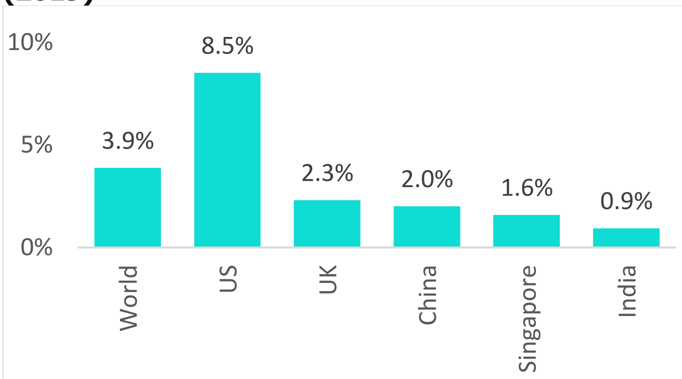
Figure 7: Market share Evolution by Segment



Source: IRDAI, General Insurance Council, CARE Ratings Ltd.

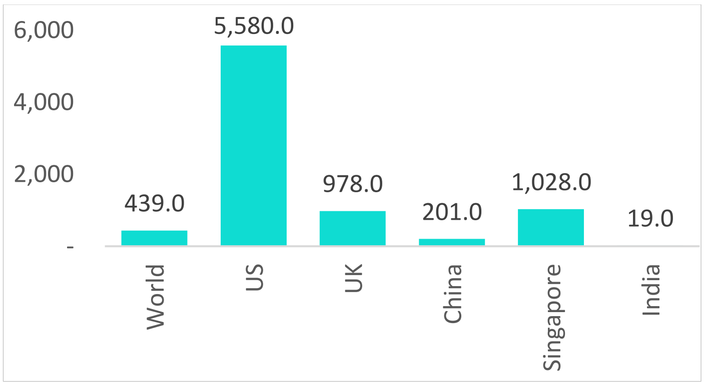
In Figure 7, we can observe that retail has grown at a faster rate as the retail segment's share has increased from 37.5% in FY14 to 41.3% in FY21, while the group segment's share has moved from 41% in FY14 to 43.5% in FY21. SAHIs and private companies have driven the growth in the retail segment and their growth momentum is likely to continue due to their focus and distribution channels.

Figure 8: Non-Life Insurance Penetration (%) (2019)



Source: IRDAI, General Insurance Council, CARE Ratings Ltd.

Figure 9: Non-Life Insurance Density (US$) (2019)

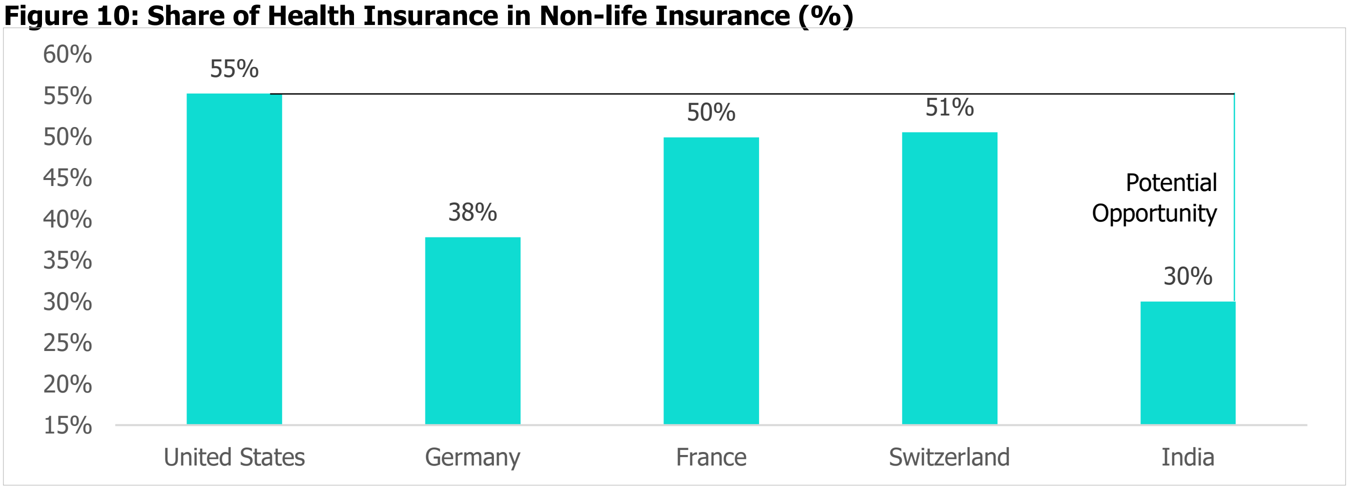


Source: IRDAI, General Insurance Council, CARE Ratings Ltd.

Despite rapid growth demonstrated by growth in the total non-life premium, domestic non-life insurance penetration (premium as percentage of GDP) and density (premium per capita) have remained low as compared with both the developed as well as other emerging nations. In 2019, global penetration was 3.8%, while density was $439. This has been mainly on account of lack of financial awareness, minimal understanding of general insurance products. This is indicative of the sizable potential market in India.

Health insurance in India has smaller share in Non-Life Insurance vs. select OECD countries

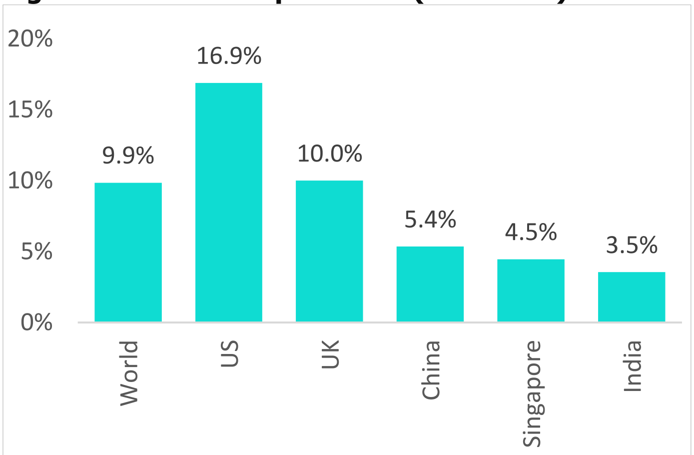
Figure 10: Share of Health Insurance in Non-life Insurance (%)



Source: OECD Insurance Statistics, IRDAI, CARE Ratings Ltd.; OECD data for CY 2019, while India data is for FYE March 2020

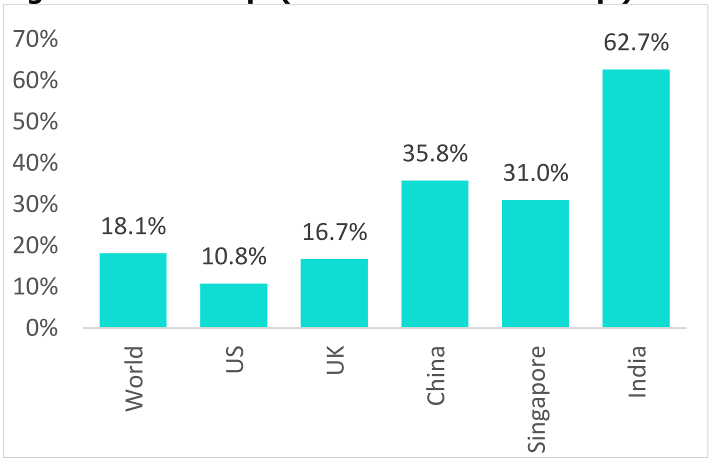
Globally, the non-life insurance segment is around half of the overall insurance industry, while health is around half of the non-life insurance pie. However, in India, non-life insurance accounts for a 25% share of the insurance industry. Furthermore, if we look at the Figure 10, we can observe that health in US has a 55% share of non-life insurance, while France and Switzerland have close to 50% share compared to India's 32% highlighting the potential opportunity.

Figure 11: Health expenditure (% of GDP)



Source: World Bank, CARE Ratings Ltd

Figure 12: OOP Exp. (% of current health exp.)



Source: World Bank, CARE Ratings Ltd

Another way to look at the health opportunity in India is the low level of health expenditure and a hight share of out-of-pocket expenses vis-à-vis funded exposure. We can see that India has an OOP share of nearly 63% of the current health expenditure. Given the pandemic and the rising medical inflation, higher out-of-pocket expenses is expected to incentivise buyers to acquire health insurance to offset medical expenses.

Outlook for the Health Insurance in India remains bright

The demand for health insurance has historically increased during pandemics, even if income growth and savings had come under pressure. For example, in 2003 to 2004 during the SARS outbreak in China, China Life Insurance Company witnessed significant growth. In addition, from 2013 to 2014 when MERS spread in the Middle East, health insurance too witnessed a jump during 2013 and 2014. While the rise in demand for health insurance during outbreak of such diseases enhances the awareness of health insurance and opportunity for health insurers, in the short term, it may result in an increase in claims pay out.

We expect the gross direct premium for health insurance to grow at approximately 26%-29% in FY22 and is likely to grow at around 16%-18% CAGR over the next five years after FY22. The growth would be driven by increasing life expectancy, urbanisation, income levels, and pandemic-led awareness, higher number of individuals subscribing to health insurance, existing customers increasing their sum assured, availability of wide range of products that offer varied health covers, depending on the need for the customers, and possible rate increase considering the increase in claim ratios in FY21 and 1HFY22.

The longer-term drivers include the fact that health insurance in India is highly underpenetrated and Insurance density and Health care expenditure as a percentage of GDP is quite low in India as compared to other countries. Furthermore, as the sum insured is indemnity-based, with an increasing portion of customers purchasing higher sum insured policies, the rising claims could impact claim ratios, thereby requiring insurers to maintain adequate solvency margin buffers.

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