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Motor insurance showing signs of recovery post-Covid: CARE Ratings

By Joel Rebello, ET Bureau Last Updated: Oct 14, 2021, 06:25 AM IST

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Synopsis

The agency expects motor insurance premiums to grow at around 6% to 8% driven by any increase in third party insurance rates and higher auto sales, the ratings agency said.



Agencies

Motor insurance is set to rise this fiscal year helped by increase in mobility as post pandemic economic recovery gathers momentum, rating agency Care said in a report.

The agency expects **motor insurance premiums** to grow at around 6% to 8% driven by any increase in third party insurance rates and higher auto sales, the ratings agency said.

"Furthermore, given that 57% of the vehicles on road are not insured (**Insurance Information Bureau of India (Motor ARFY19)**), bringing a portion of these vehicles under coverage would add heft to the industry growth," Care said.

Motor insurance premium has grown from Rs.15,343 crore in FY10 to Rs.67,764.7 crore in FY21 at a compound annual growth rate (CAGR) of 14.5% as motor vehicles on road have doubled in the last six years and third party insurance (TPI) has been made mandatory in India.

TPI protects vehicle owner from any financial liabilities caused by injury or damage to third party property due to use of vehicles.

Though business has grown in the last 11 years gross premiums declined 1.67% in the fiscal ended March 2021 due to a slowdown in the auto sector which

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was hit by restricted mobility due to a national lockdown in the first half of the year.

To be sure though though motor insurance premiums have increased over the last year, they are yet to reach the pre-pandemic levels as auto sales are yet to reach similar levels.

But signs are that things are picking up this fiscal for example in August 2021 the gross premium collected increased to Rs 23,500 crore up 5.9% from Rs 22,200 crore in August 2020.

Growth in fiscal 2021 also suffered as there was no revision for the prevailing TPI rates. The annual growth rate for FY10-FY20 was 16.2%, while the growth rate for FY10-FY19 was 17.3%, highlighting the slowing growth momentum in the last couple of years in this segment.

Digital issuance and online channels are also expected to contribute to faster growth in this segment, together with a large number of uninsured vehicles in India.

Care analysis shows that the 57% of vehicles, mostly two wheelers are uninsured as of March 2020 down from 60% as of March 2018, indicating a higher number of vehicles which are getting into the insurance bucket.

“However, given that no increase in the motor TPI premium has been announced, the sector is expected to witness pressure on near-term profitability. Furthermore, lower auto sales, high lapse-ratio (especially in the two-wheeler segment), unfavourable changes in macro-economic factors, and uncertainties in the regulatory landscape could be characterised as key challenges to the industry growth,” CARE said.

(Originally published on Oct 13, 2021)

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