Non-Life Insurance to Grow at 13-15%; Health to Cross Rs. 1 Lakh cr in FY24

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CareEdge RATINGS

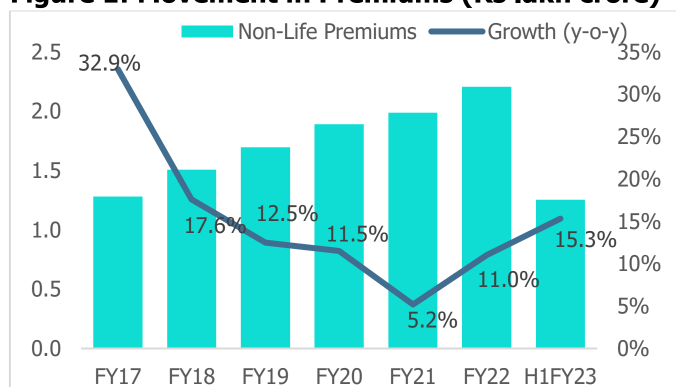
Synopsis

- The domestic non-insurance industry's total premium grew from Rs. 1.3 lakh crore in FY17 to over Rs. 2.2 lakh crore in FY22 i.e., CAGR of nearly 11.5% driven by rising income level, better product fit, strong distribution channels and rising financial literacy.
- Underwriting losses are expected to improve as the loss ratio is expected to stabilise and expenses of management remain range bound. The brokers would continue to be the largest distribution channel while alternative distribution channels would maintain a growing but small share of the non-life insurance pie. Private sector companies are anticipated to grow faster than their public-sector counterparts. Change in regulations on raising capital in form of both equity and debt, along with expected improvement in profitability will provide access to growth capital for companies to expand.
- The gross premiums of the non-life insurance industry in India are expected to grow at 13%-15% over the medium term backed by supportive regulations and economic activity. Health, which is expected to cross the Rs 1 lakh crore mark, along with motor that is envisaged to reach the Rs 85,000 crore level by FY24, would continue to constitute the primary levers of non-life insurance growth.

Overview

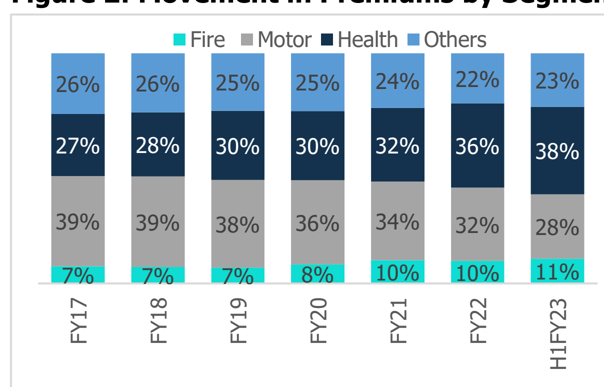
Currently, 30+ companies operate in India as non-life insurers. The public sector accounts for six companies and the remaining are from the private sector. Public sector companies include two specialized insurers, ECGC and Agriculture Insurance Company of India Limited (AIC), and four general insurance companies. Since the industry was opened to the private sector in 2001, it has witnessed several changes (regulatory and structural) and has undergone transformation leading to increased penetration/coverage, rise of multiple channels, and intensifying competitiveness in the market. The industry has also witnessed trends such as increased digital presence, emergence of InsureTech for innovations around customer education & service/ products/ technology/ delivery systems for access. The Indian non-insurance industry's total premium income grew from Rs. 1.3 lakh crore in FY17 to over Rs. 2.2 lakh crore in FY22 i.e., CAGR of nearly 11.5%. This growth has been driven by rising per capita income, product innovations and customisation, the development of strong distribution channels, and rising financial literacy. In H1FY23, the industry has grown by 15.3 % (on y-o-y basis), compared to 12.6% in H1FY22.

Figure 1: Movement in Premiums (Rs lakh crore)



Source: IRDAI

Figure 2: Movement in Premiums by Segment



Note: Health includes Personal Accident; Source: IRDAI

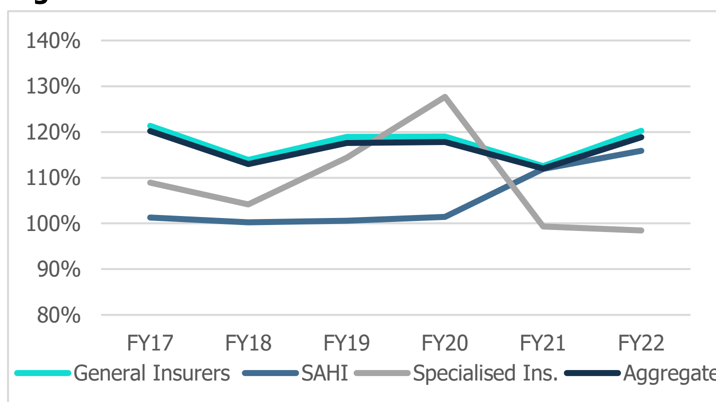
Health and Motor continue to be major contributors having a 66% stake in gross direct premium in FY22. Fire and Crop, each contribute around 10%-15% to the gross direct premium, while the other segments make up the balance.

- Health insurance premiums have been the main drivers of the growth of the non-life insurance industry since the commencement of the Covid-19 pandemic. The segment has grown by 26.2% in FY22 which is double the growth of 12.2% witnessed in FY21. Segment premiums have grown strongly due to the surge in premium income of private companies and standalone health insurance companies (SAHI). The premium growth of SAHI continues to be significantly higher than the industry average leading to improvement in their market share. The Group Health Insurance segment is witnessing significant growth as rates have increased due to premium repricing, medical inflation, and enhanced coverage.
- Even before the pandemic, motor insurance had been growing slower compared to the overall non-life insurance industry and the pandemic further slowed the momentum resulting in degrowth in FY21 on account of low vehicle sales and no revision of Motor TP rates. The segment's growth improved marginally to 3.9% in FY22. However, despite this modest rise, the segment has seen its market share fall from 36.5% in FY20 to 31.9% in FY22, declining by approximately 450 bps over the two years in absolute terms. In H1 FY23, the segment has again grown at a brisk pace of 18.9% on the back of the low base of last year, the repricing of Motor TP rates and higher vehicle sales. There has been a general shift of market share from own damage (to third-party damage. A decade ago, Motor OD premium was two-thirds of the aggregate motor premium, while Motor TP was the balance one-third. This has now reversed with Motor TP accounting for two-thirds of the aggregate motor premium and Motor OD making up the balance one-third. The TP premium has grown due to a general rise in TP premium rates (however, rates were held steady in FY21 and FY22), separation of the OD and TP covers has led to increased competition, leading to finer rates in the OD space as insurers try to gain a larger share of the pie.

Key Sectoral Trends

Underwriting losses expected to narrow

Figure 3: Movement in Combined Ratio



The industry has maintained a combined ratio of more than 100% indicating continued underwriting losses. Underwriting losses of the non-life insurance sector continue to be primarily on account of intense competition (which has impacted pricing, though not in segments where pricing is mandated by regulations e.g., TP in motor), frequency of natural catastrophes/calamities, and 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 their private sector peers. An underwriting loss does not indicate an overall loss as such losses can be recovered through investment earnings. This underscores the importance of investment income for the non-life segment as the segment has generally reported profits after taxes barring the recent pandemic-induced stress and elevated claims. However, such profitability has been volatile with fluctuations due to large payouts on account of natural disasters.

Loss Ratio Expected to Stabilise, while Expenses of Management to Remain Range Bound

For the health insurance segment, the loss ratio peaked during FY22 due to Covid-led claims but moderated in H1FY23 with the easing impact of pandemic. This, along with increased pricing especially in group health insurance and rising awareness has helped the insurers to improve the top line benefiting the loss ratio. The motor insurance segment reported a steep decline in loss ratio in FY21 due to Covid-induced lockdown, however, the ratio normalized in FY22 with easing restrictions on movement. While the pricing in third-party motor insurance is largely regulated, high competition exists in its own damage segment which puts pressure on the overall pricing in the motor insurance industry. Going forward, we expect the loss ratio in the motor segment to remain largely in line with past trends. The loss ratio in the crop insurance segment which contributes around 10-15% of gross direct premium written, will continue to remain dependent on weather conditions and thus will remain volatile. For other segments, the loss ratio is expected to be in line with past trends subject to any external shocks. The overall loss ratio for non-life insurers peaked during FY22 at 92% due to Covid-led claims but moderated to 87% in H1FY23. The loss ratio is expected to further reduce to around 85-86% going forward.

Figure 4: Movement in Loss Ratio

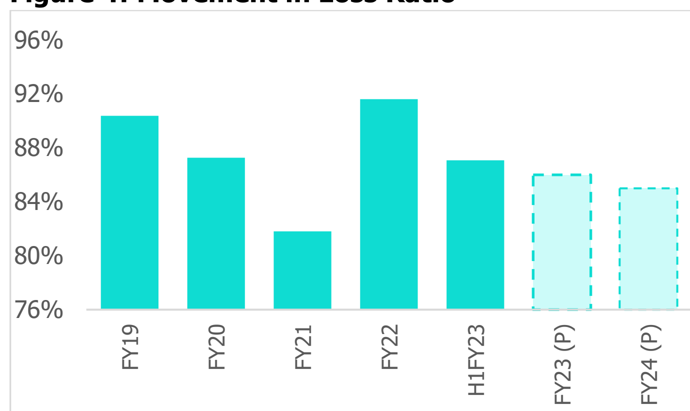
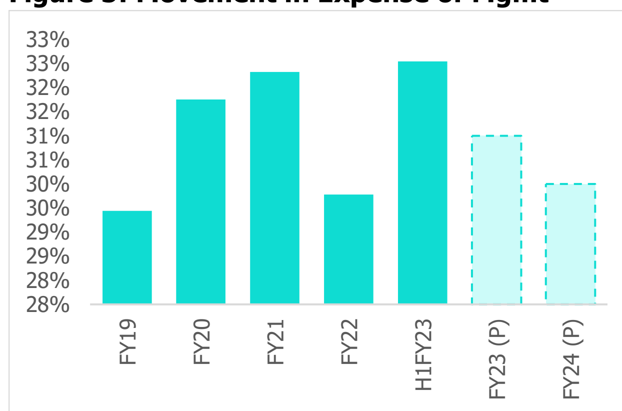


Figure 5: Movement in Expense of Mgmt



Source: Filings of 5 public sector insurers and 13 private sector insurers, which combined contribute more than 90% of gross premium written in non-life insurance industry; Note: Net Incurred claim / Net earned premium

The high customer acquisition costs, especially in the retail segment, continue to impact the expenses of management in the non-life insurance industry. Expenses of management to net earned premium has ranged between 29% - 33% in the past. It reduced to around 30% in FY22, however again normalized to 33% in H1FY23. Going forward too, CareEdge expects this ratio to remain largely range bound. Health insurance has a relatively high expense ratio as compared to other segments due to its operationally intensive nature from the perspective of claims management, engagement with agency channels and workflow running with the network hospitals.

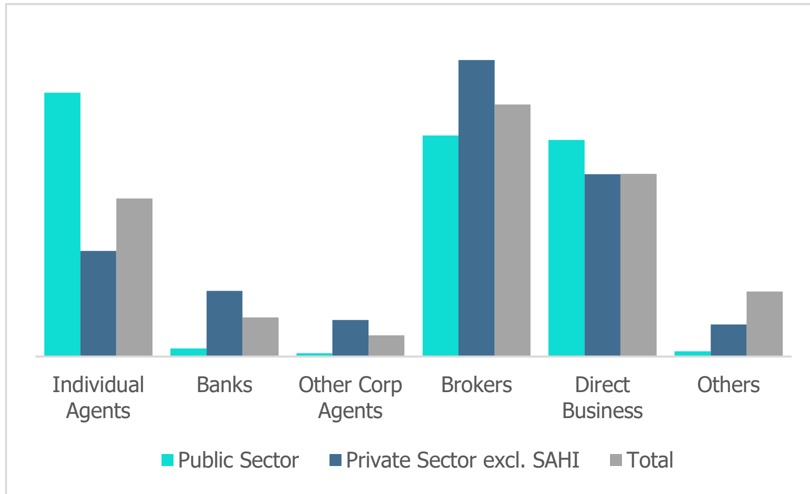
The proposed regulation to remove the product-wise cap on commission rates and implement of overall limit on expenses of management to 30% for general insurers and 35% for health insurers is considered positive for the industry. This will provide the insurers much-needed flexibility to push key product segments and to make required investments in distribution networks.

Brokers continue to be the largest distribution channel.

Marketing insurance is critical and complex due to the periodicity, claims and brand switching costs that affect buying behaviour. Distribution is one of the key determinants of success for insurance companies.

Public sector companies derive the largest share of their premiums from the agency channel, while their private counterparts source the highest share of their business from the broker channel. For the aggregate industry, brokers continue to remain the largest channel. Private companies have achieved nearly double-digit share in the Banca channel, while their public counterparts top out at just over 1%. The contribution of the Agency channel to the new business premium decreased from 24.28% in FY21 to 22.01% in FY22, Further, the direct selling channel's share is high, primarily based on group business being sourced directly by the companies.

Figure 6: Channel Performance (FY22)

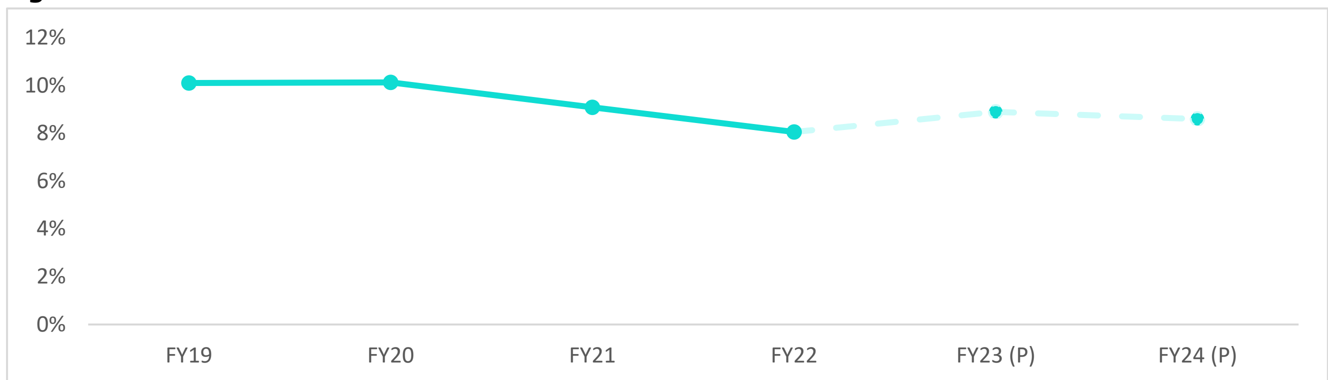


Source: IRDAI

Yield on investments will benefit from the rising interest rate environment

With consistent hikes in repo rates by RBI to tame inflation, the yield on debt securities is expected to improve. Further, the insurers have been shifting the portfolio to longer-tenure securities as they envisage the peaking of the current interest rate cycle. Assuming the return on equity to remain largely in line with the recent past, the overall return on investment is expected to increase to around 8.9% in FY23.

Figure 7: Yield on Investments



Source: Filings of 5 public sector insurers and 13 private sector insurers, which combined contribute more than 90% of gross premium written in non-life insurance industry

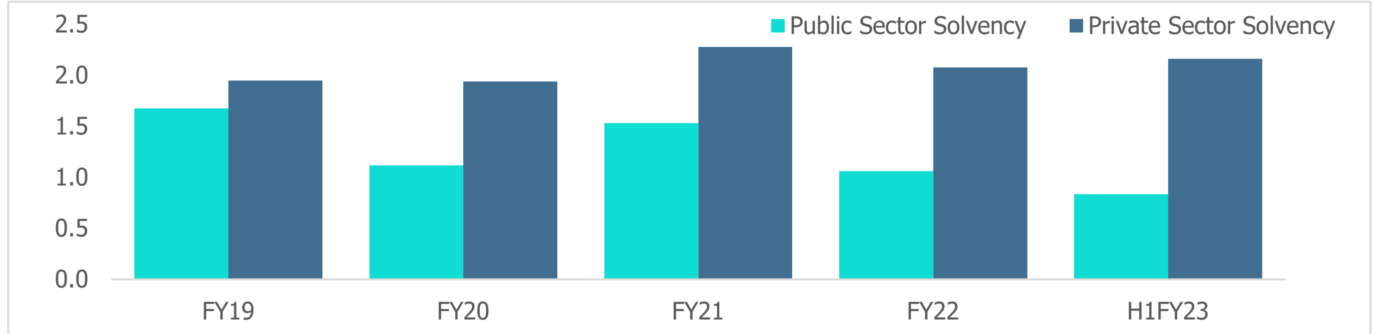
Further, favourable regulations on increasing exposure to AT1 securities, a rise in exposure limit to 30% for the overall BFSI industry, increasing investment in InvIT / REIT, and relaxed dividend criteria for equity investments is likely to support the yield over the medium term.

Private companies continue to grow faster than their public sector counterparts

The share of public sector insurance companies has been on a downtrend. In non-life insurance, the FY22 numbers have continued the trend of private players outpacing their public peers, with the private companies (14.8%) growing at more than double the rate of their public counterparts (6%). The market share of private non-life insurance companies has increased to 59% in FY22 from 56% in FY20. This continuing gain by private players has been on account of entry of new private companies, new products, and expansion of distribution channels.

Increased availability of resources to underwrite more risk

Figure 8: Solvency Ratio (%)

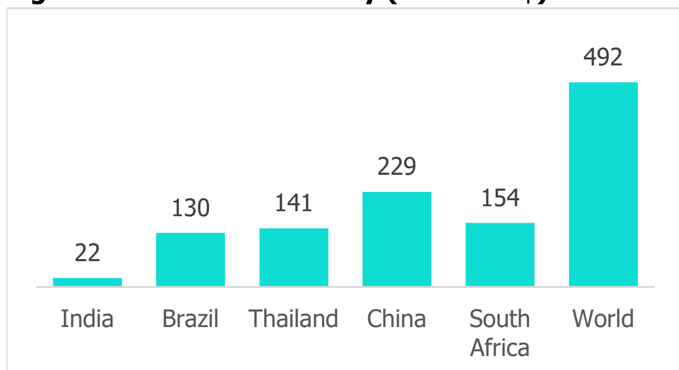


Source: Filings of 5 public sector insurers and 13 private sector insurers, which combined contribute more than 90% of gross premium written in non-life insurance industry

Private insurers, with solvency levels higher than 2x, largely have sufficient capital required to achieve their target growth. The public sector, on the other hand, except for two entities remains dependent on equity infusion from the government and regulatory forbearance to support growth. To provide sufficient availability of growth capital, the regulator has come up with several initiatives recently. The threshold limit for raising subordinate debt/preference share has been raised from 25% of paid-up capital to 50% of paid-up capital. Further, the prior regulatory approval required for issuing subordinate debt/preference shares has also been waived off. For raising equity, IRDAI has allowed for raising capital in form of investments up-to 25% (earlier 10%) of paid-up capital by a single investor and up to 50% (earlier 25%) of paid-up capital from all investors can be raised. Accordingly, promoters can now dilute their stake up to 50% for non-listed insurers and 26% for listed insurers. The move will support the infusion of capital from private equity entities. Also, for the entities having sizable crop insurance in their portfolio, solvency margins are expected to benefit from the recent amendments in the solvency margin calculation. All these measures along with the expected improvement in profitability will provide additional growth capital.

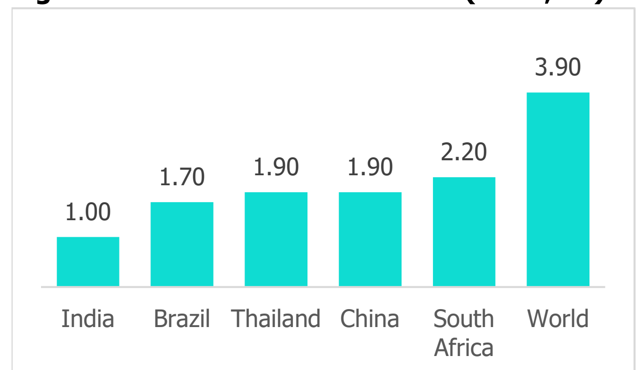
Additional Factors Supporting Growth

Figure 9: Insurance Density (2021: US$)



Source: IRDAI

Figure 10: Insurance Penetration (2021; %)



Source: IRDAI

India's non-life insurance penetration (premium as a percentage of GDP) is lower than the global average. India continues to be an underpenetrated insurance market with non-life insurance penetration of 1.0% in 2021, as compared to the global average of 4.1%. At $22 in 2021, the insurance density (premium per capita) in India also remains low as compared to the global average of $449. Both these indicators highlight the potential of the industry. IRDAI, under its vision of insurance for all by 2047, has undertaken several initiatives which are expected to support the industry growth in the long run, which includes easing the registration of Indian Insurance companies, 'use and file' procedure for most product filings to fasten response to emerging market needs, increase in tie-up limits for intermediaries. Corporate agents can now tie up with 9 insurers over the earlier limit of 3 insurance companies. Insurance marketing firms can tie up with 6 insurers from an earlier limit of 2, experimentation period for innovative products/subsidiaries has been increased from 6 months to up to 36 months, under the Regulatory Sandbox regulations, and Bima Sugam portal to offer insurance products to the public at a lower cost.

Industry on the Growth Trajectory with GDPI Expected to Grow in Double Digits

CareEdge estimates that the Indian non-life insurance market would grow by approximately 13-15% over the medium term. The growth is to be driven by popularity of health insurance products/schemes, growing demand for motor insurance (Third party & Owner damage) products due to expected rise in per capita / disposable income levels, a greater volume of transactions under segments such as fire, marine, export credit, customised products especially in motor and health insurance and gradual introduction of new products. Further, improving profitability, stabilisation of loss ratios which had increased during the pandemic, expenses of management would be controlled given the upcoming regulations around the same, enabling regulatory environment, strengthening of distribution networks (increase in the number of partners, digital issuance and online channels are expected to witness continued growth) higher investment yields due to a rising interest rate environment and adequate availability of growth capital will support growth.

- CareEdge expects the health insurance segment to continue to grow at around 15-18% and outpace the overall growth in the non-life insurance industry, reaching the Rs. 1 lakh crore mark in FY24. The demand for health insurance has historically increased during pandemics, even if income growth and savings had come under pressure.
- Further CareEdge anticipates that the demand for Motor insurance premiums would grow at 11.5%-13.5% crossing Rs 85,000 crore in FY24 driven by post-covid rising demand for personal mobility space leading to a shift in vehicle ownership patterns increasing the opportunity for motor insurers, product innovations such as pay as you use, and increase in Motor TP coverage. The long-term drivers include strong growth in the automotive industry and reducing the uninsured vehicles on road. As per the Insurance Information Bureau of India, uninsured vehicles as a percentage of vehicles on road in India for FY19 remained at a high of 57% with the bulk of the uninsured vehicles being two-wheelers.

Companies are expected to incur significant investments into overall digital enablement across the distribution channels along with expanding the online/digital distribution channel, simplifying the insurance purchase experience boosting underwriting capacities including automated/AI-based underwriting while maintaining a focus on cost improvement to sustain margins. Overall, the outlook is expected to be stable in the medium term. However, intensification of competition and an uncertain geopolitical environment, and high inflation, can negatively impact economic growth and subsequently the non-life insurance sector.

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