Insurance companies reported a positive growth in premiums in Q2FY21

Contact:
Sanjay Agarwal
Senior Director
sanjay.agarwal@careratings.com
+91-22- 6754 3582/500
Mob: +91 81080 07676

Saurabh Bhalerao
Associate Director
saurabh.bhalerao@careratings.com
+91-22-6754 3519
Mob: +91 90049 52514

Pravin Mule
Research Analyst
pravin.mule@careratings.com
+91-22-6754 3553
Mob: +91 98192 80043

Inputs By:
Gaurav Dixit
Associate Director
gaurav.dixit@careratings.com
+91-11-4533 3235
Mob: +91 97170 70079

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3573

Note: The following study analyses Q2FY21 financial performance of select Life and Non-Life Insurance companies in India. All growth comparisons are made in y-o-y terms, unless stated otherwise.

Highlights

Life Insurance

- The Life Insurance sector has reported a de growth of 0.8% in first year premium to Rs. 1.24 lakh crore in H1FY21 from Rs. 1.25 lakh crore in H1FY20 as businesses have been severely impacted by the Covid-19 pandemic. The marginal fall can be explained due to the lockdown and business disruption especially in the first quarter. Further the pandemic has created a rise in the demand for protection plans, while the volatility has dented the demand for linked plans.
- The growth in new business premium of sample life insurance companies was strong at 21.4% to Rs. 21,712.0 crore in Q2FY21 as compared with 17.9% growth in Q2FY20 led by led by higher traction in single premium.
- The Profit after Tax (PAT) of life insurance companies reported a growth of 3.1% during Q2FY21 as compared with a de growth of 7.5% in Q2FY20.

Non-Life Insurance

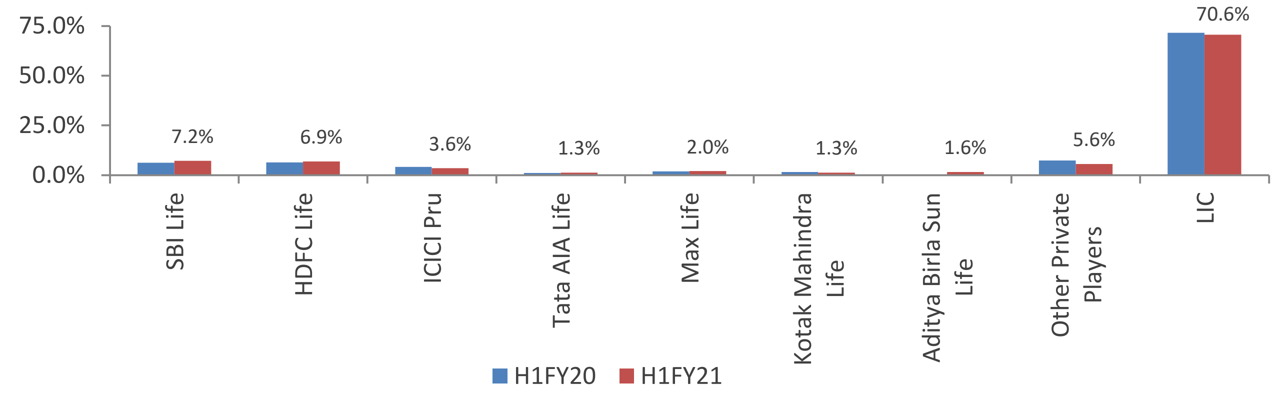
- The gross direct premiums of Non-Life Insurance sector increased by 1.6% to Rs 97,025.0 crore in H1FY21 from Rs 95,528.4 crore in H1FY20 driven by the health segment.
- The Gross Direct Premium of sample Non-Life companies registered a growth of 3.3% in Q2FY21 as compared with 18.1% in Q2FY20 as the business was impacted by COVID 19.
- The PAT of sample Non-Life companies registered a growth of 186.1% to Rs 1,534.0 crore partly due to base effect.

CARE expects the domestic life insurance industry to grow driven by pension products, life cover products, supportive regulations, effective distribution and improving customer services. However frauds and high lapse-ratio are some of the key challenges.

The Insurance industry in India is expected to grow in the single digits for the year as compared to a double digit growth last year and the medium term outlook to remain stable.

Life Insurance

Figure 1: Market share of Life Insurance Companies (%)



Source: IRDAI

After witnessing a YoY drop in first year premiums in Q1FY21, the life insurance sector reported positive growth in Q2FY21. LIC continues to dominate the group insurance premium segment. The life insurance sector continues to report a drop in their first year premium collection as businesses have been severely impacted by the Covid-19 pandemic; however the sector seems to be moving back slowly to normalcy. The sector reported a de growth of 0.8% in first year premium to Rs. 1.24 lakh crore in H1FY21 from Rs. 1.25 lakh crore in H1FY20 (compared to an increase of 35.1% in H1FY20). However, the overall sum assured declined by 7.5% from Rs 21.6 lakh crore in H1FY20 to Rs. 20.0 lakh crore in H1FY21 (compared to an increase of 8.1% reported in H1FY20).

Figure 2: Snapshot of sample Life Insurance Companies

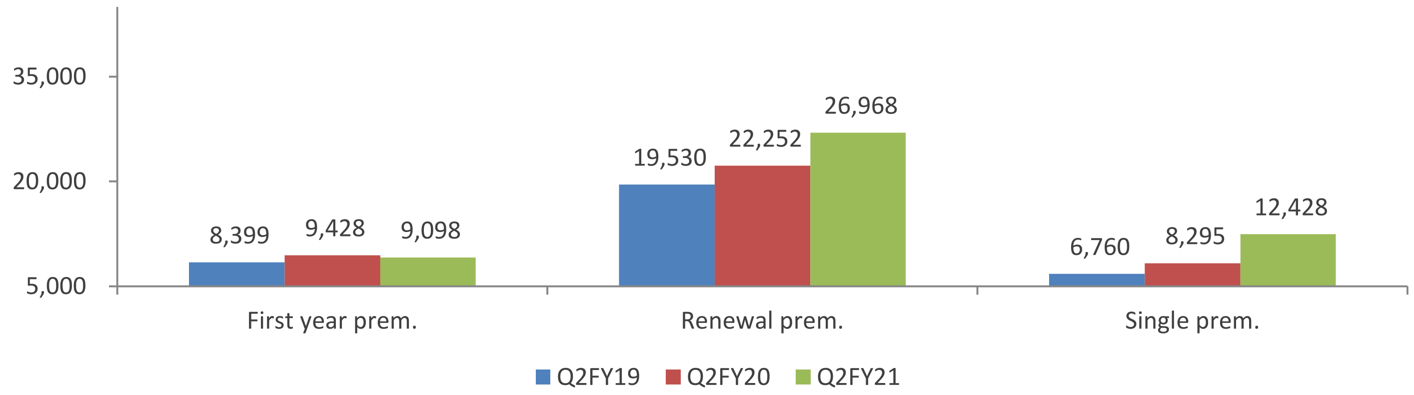
Particulars (Rs Crore)	Q2FY19	Q2FY20	Q2FY21	YoY
Gross Premium	34,689	39,975	48,494	*21.3%*
First year premium	8,399	9,428	9,098	*-3.5%*
Renewal premium	19,530	22,252	26,968	*21.2%*
Single premium	6,760	8,295	12,428	*49.8%*
Net premium Income	34,320	41,996	48,192	*14.8%*
Net commission	1,771	2,052	2,183	*6.4%*
PAT	**1,294**	**1,197**	**1,234**	***3.1%***
Commission Ratio	5.2%	4.9%	4.5%	-
Opex Ratio	9.0%	8.6%	7.3%	-

Source: Company financials, CARE Ratings Calculations

The sample set of 8 life insurance companies accounts for ~25.0% market share in first year premium out of ~30.0% market share of private players. The growth in new business premium of sample companies was strong at 21.4% to Rs. 21,712.0 crore in Q2FY21 as compared with 17.9% growth in Q2FY20 led by higher traction in single premium, while the first year premium de grew by 3.5% as compared with 12.2% growth in Q2FY20. The net premium (Net premiums written is the sum of premiums written by an insurance company over the course of a period of time, minus premiums ceded to reinsurance companies, plus any reinsurance assumed) growth moderated at 14.8% to Rs 48,192.0 crore in Q2FY21 as compared with 22.4% growth in Q2FY20, partly due to higher policy related expenses during Q1FY21. Growth in renewal premium which are the subsequent premiums was healthy at 21.2% in Q2FY21 as compared with 13.9% in Q2FY20. SBI Life which has highest market share amongst the private players reported a bounce back in business premium with a growth of 15.0% and outperformed the industry and its competitors. For Bajaj Allianz Life Insurance (BALIC) premium registered a growth of 20.0% in Q2FY21, led by traction in single and renewal premium..

SBI Life's new business APE (annualised premium equivalent is the sum of the regular annualised premium from the new business plus 10% of the first year single premium in a given period) grew by 14.0% YoY in Q2FY21 as compared with a consecutive decline for the past few months, while the ULIP business declined 13.0% YoY but improved significantly on QoQ basis due to better performance of equity markets. The APE for HDFC Life grew by 25.0% which offset the de-growth of 4.0% in the previous quarter. ICICI Pru Life reported a decline of 22.9% in its APE though the overall business traction improved on QoQ basis.

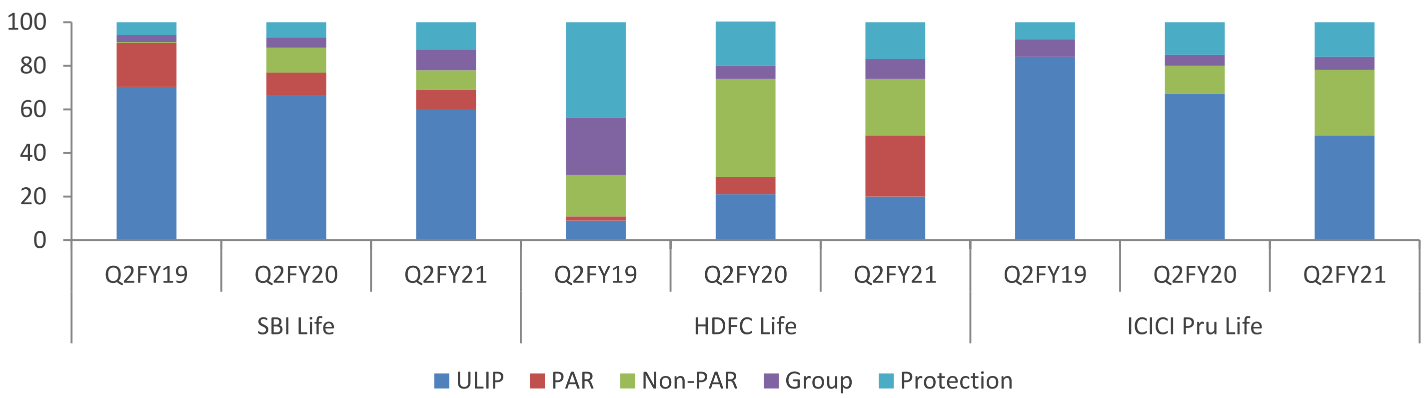
Figure 3: Premium trend of sample companies (Rs Crore)



Source: Company financials

The net commission growth of sample companies (refer figure 2) moderated to 6.4% as compared with a growth of 15.9% in Q2FY20 and the net commission ratio also declined to 4.5% in Q2FY21 (growth of 4.9% in Q2FY20) mainly due to decline in number of policies/scheme in H1FY21 as compared with H1FY20. Overall the cost control measures seen in employee and admin cost for sample companies during H1FY21. Opex of SBI Life, HDFC Life and ICICI Pru Life registered a de growth of 4.8% at Rs.2,338.0 crore, which has resulted in decline in opex ratio to 7.3% in Q2FY21 as compared with a growth 8.6% in Q2FY20. SBI has steadily reduced its operating expenses from 5.9% in Q2FY20 to 4.5% in Q2FY21.

Figure 4: Product Mix on New Business Premium NBP (%)

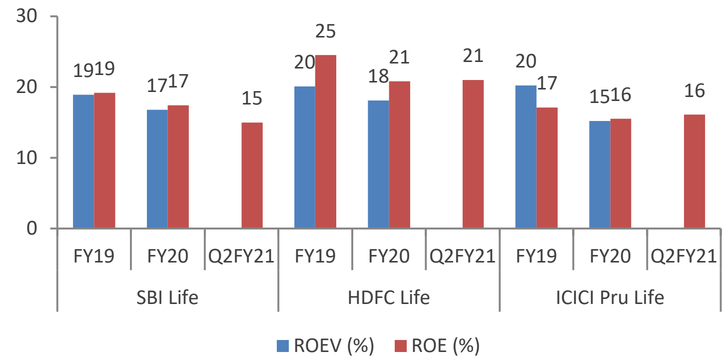


Source: Company Financials; ULIP: combination of insurance plus investment plan, Par and Non-Par: participating plans that participate or share in profits while Non par are not entitled to any profits, Protection: health plus annuity.

As can be seen in Figure 4, the trend in ULIPs share has been declining in Q2FY21 for SBI Life and ICIC Pru Life as most of the insurers have reduced the reliance on linked business and also due to the weak demand (due to risk aversion). Overall the protection business witnessed a strong traction (except for HDFC Life) due to pure focus on this segment during the same period.

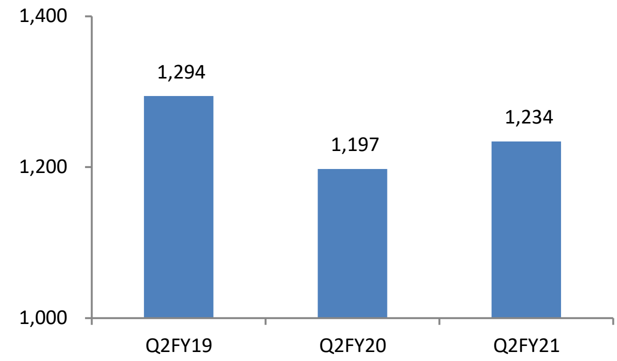
The ULIP share in New Business Premium witnessed a declining trend for ICICI Pru Life from 84.0% in Q2FY19 to 67.0% in Q2FY20 and 48.0% in Q2FY21 and for SBI Life it has declined from 70.0% in Q2FY19 to 66.0% in Q2FY20 and 60.0% in Q2FY21. Whereas, it was largely stable for HDFC Life during Q2FY20 and Q2FY21. ULIP demand is likely to remain muted amidst challenging macros due to the COVID-19 pandemic and hence share of ULIP in NBP is also expected to be lower.

Figure 5: Profitability Ratios (%)



Source: Company Financials

Figure 6: PAT of sample companies (Rs Crore)

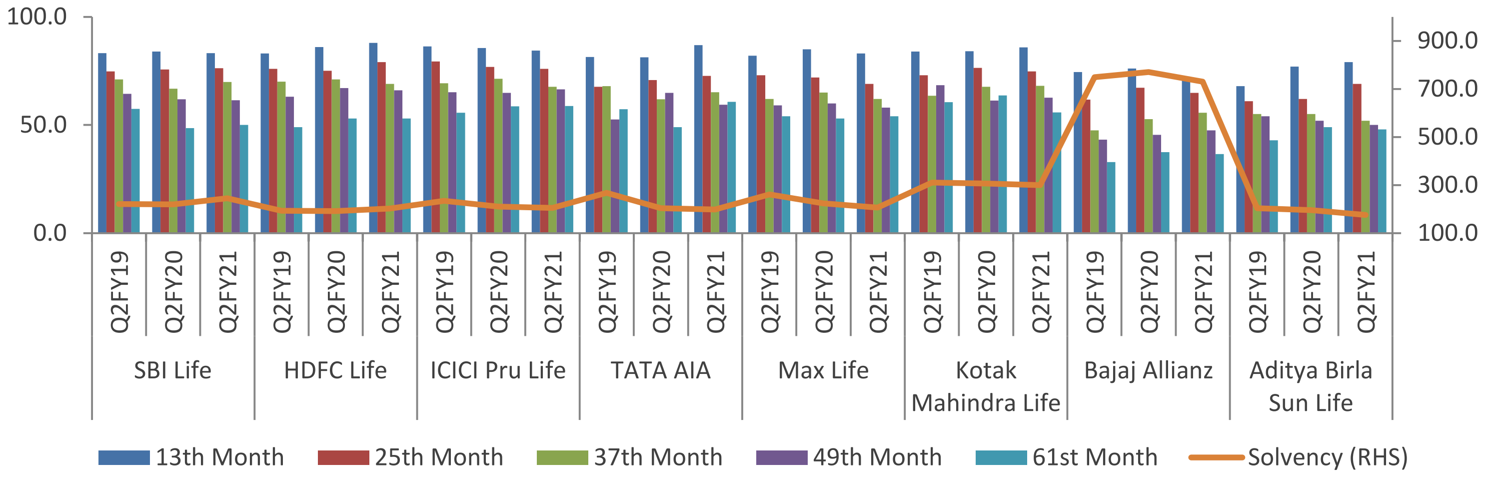


Source: Company Financials

The PAT of sample companies reported a growth of 3.1% during Q2FY21 as compared with a de growth of 7.5% in Q2FY20, whereas the combined PAT growth of SBI Life, HDFC Life and ICICI pru life was strong at 25.5% to Rs.929.0 crore in Q2FY21 from Rs.740 crore in Q2FY20 (PAT growth for SBI Life: 130.9%, HDFC Life: 5.6%, ICICI Pru Life: 0.4%). BALIC's PAT was impacted by lower capital gains during the quarter. PAT of Max Life, BALIC and Aditya Birla Sun Life registered a de growth of 69.5%, 52.9% and 20.7% respectively due to higher commission and operating expenses. The ROE is largely stable for for HDFC Life and ICICI Pru Life in Q2FY21, while for SBI Life it declined by 180 bps (refer figure 5).

The Embedded Value (which represents the present value of shareholders' interests in the earnings distributable from the assets allocated to the business after sufficient allowance for the aggregate risks in the business) of SBI Life, HDFC Life and ICICI Pru Life witnessed a growth of 14.4% at Rs.78,901.0 crore in Q2FY21 as compared to 21.4% in Q2FY20. Value of new business (which is the present value of the future earnings from policies issued during a period) registered a muted growth of 2.9% in Q2FY21 as compared with 26.1% in Q2FY20. VNB margin improved by 70 bps to 18.8% in Q2FY21 for SBI Life, 64 bps to 27.4% for ICICI Pru Life and declined by 19 bps to 25.6% for HDFC Life. The return on operating embedded value (ROEV) moderated in FY20 vs FY19 [SBI Life: (-)210 bps YoY, HDFC Life: (-)200 bps YoY and ICICI Pru Life: (-)500 bps YoY].

Figure 7: Persistency and Solvency Ratio (%)

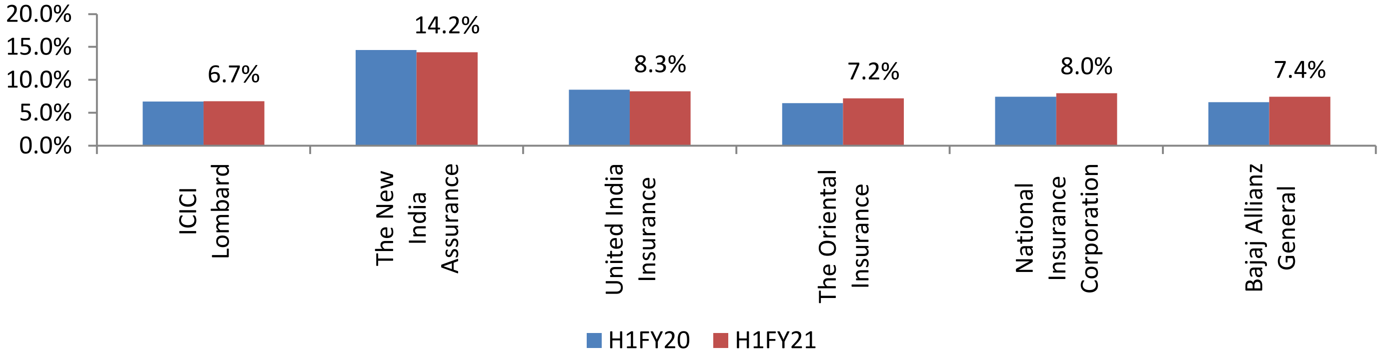


Source: Company financials

As can be seen in figure 7, the persistency ratio (percentage of policies that have not lapsed) has remained largely stable in most of the buckets for life insurance companies. Higher the persistency, lower is the cost of acquisition for the company in subsequent years. ICICI Pru Llife, BAGIC and Max life has seen the highest dent in their persistency ratios. SBI life and HDFC life reported an improvement in persistency rate for most of the brackets with highest improvement seen in 61st month and 25th month bracket respectively. The trend in solvency ratio (Ratio of available solvency Margin to required solvency Margins) of life insurance companies has declined for most of the companies during Q2FY21. The ratio is expected to be more than 150% as a statutory requirement. The volatility in equity market has partly impacted the solvency ratio in Q2FY21 (as volatile markets impacts its assets as well as other impacts on the liability side) .

Non-Life Insurance

Figure 8: Market share of Non-Life Insurance Companies (%)



Source: IRDAI

After witnessing a YoY drop in premiums for the first quarter during FY21, the non-life insurance sector reported positive growth for Q2FY21.

In the current year, crop insurance premiums till August 2020 have been higher, but anecdotal data suggests that as the crop insurance scheme has been made optional, farmer enrolment has reduced. Another reason for the drop in farmer enrolment is reportedly the delay in pay-outs. Furthermore, motor insurance has been suffering due to lower vehicle sales.

The gross direct premiums increased by 1.6% to Rs 97,025.0 crore in H1FY21 from Rs 95,528.4 crore in H1FY20. This minimal increase can be juxtaposed against a significant rise of 16.7% in H1FY20. The growth has been driven by the health segment and increase in fire premiums. The standalone health insurers demonstrated a growth of 37.9% in September 2020, which is higher by more than 15.0% compared to the growth of 21.9% witnessed in September 2019, however, H1FY21 numbers have grown at a much slower rate of 28.1% as compared to the H1FY20 growth of 36.2%. However, it should be noted that H1FY21 growth of these players is significantly higher than growth witnessed by the overall industry highlighting the rising importance of the health segment.

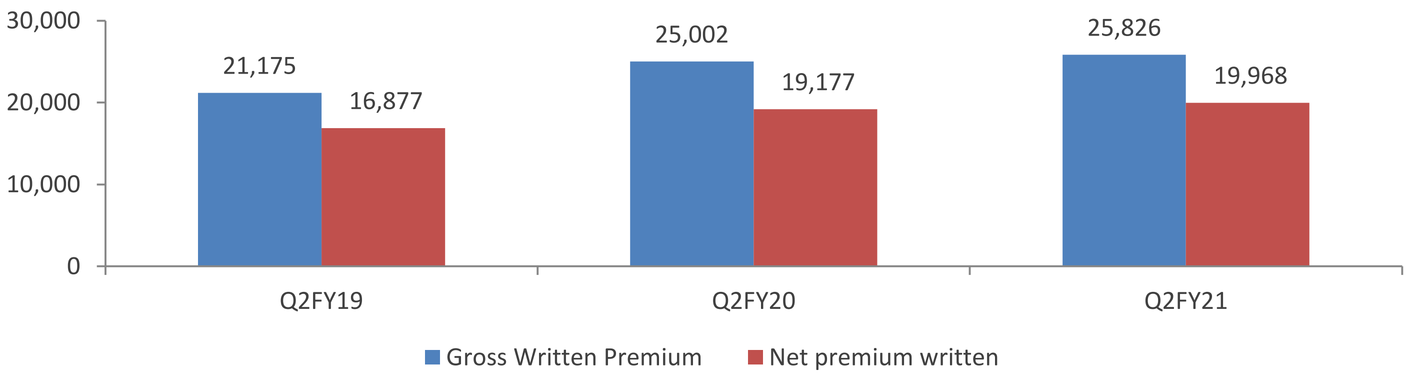
Figure 9: Snapshot of Non-Life Companies

Particulars (Rs Crore)	Q2FY19	Q2FY20	Q2FY21	YoY
Gross Written Premium (GWP)	21,175	25,002	25,826	3.3%
Net premium written (NWP)	16,877	19,177	19,968	4.1%
Net premiums earned (NEP)	20,118	22,256	20,509	-7.9%
Claims paid	16,777	15,157	18,379	21.3%
Commission (net)	2,645	1,720	2,526	46.9%
Total Expenses #	21,954	23,526	21,045	-10.5%
Underwriting profit/(loss) #	-3,515	-3,401	-2,511	-26.2%
Operating profits/loss #	-265	-380	837	-320.1%
PBT	1,265	816	2,107	158.2%
Tax	-52	280	573	104.9%
PAT	**1,318**	**536**	**1,534**	186.1%

Source: Company financials; Note: # excluding Bajaj Allianz General

The Gross Direct Premium of sample Non-Life companies registered a growth of 3.3% in Q2FY21 as compared with 18.1% in the same period previous year, as the business was impacted by COVID 19. For ICICI Lombard, pandemic had impacted its premium incomes, which have almost normalized during Q2FY21, its gross direct premium registered a growth of 0.8% during the quarter and net premium written recorded a growth of 15.3% in Q2FY21.

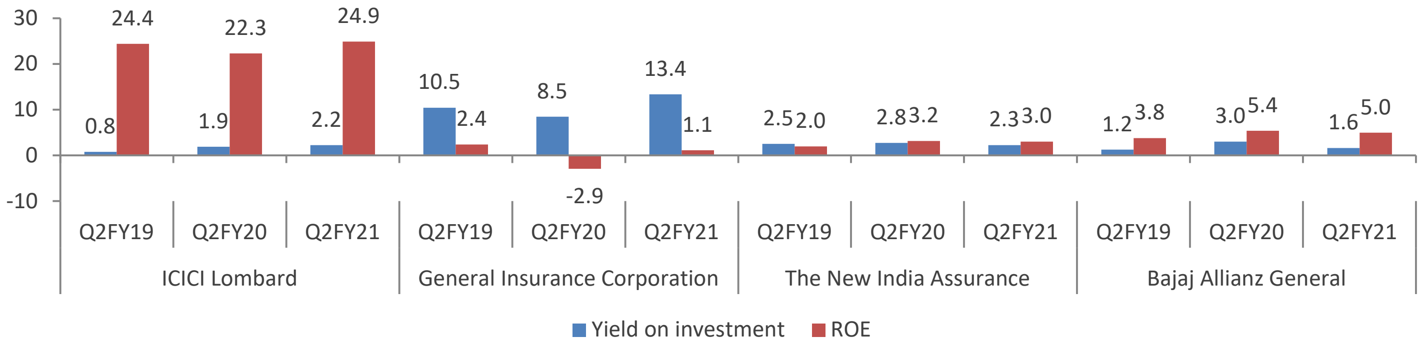
Figure 10: Premium trend of sample companies (Rs Crore)



Source: Company financials

The overall opex for sample Non-Life insurance companies declined by 10.5% to Rs 21,045 crore in Q2FY21 as compared with a growth of 7.2% in Q2FY20. BAGIC expenses in H1FY21 were lower due to admin, travel etc. expenses. Since H2FY20, BAGIC has been rationalising its manpower and its office infrastructure too being rationalized in cities with multiple branches. In addition, they have also re-negotiated rentals costs, due to these measures, costs have come down.

Figure 11: Yield and Return Ratio (%)

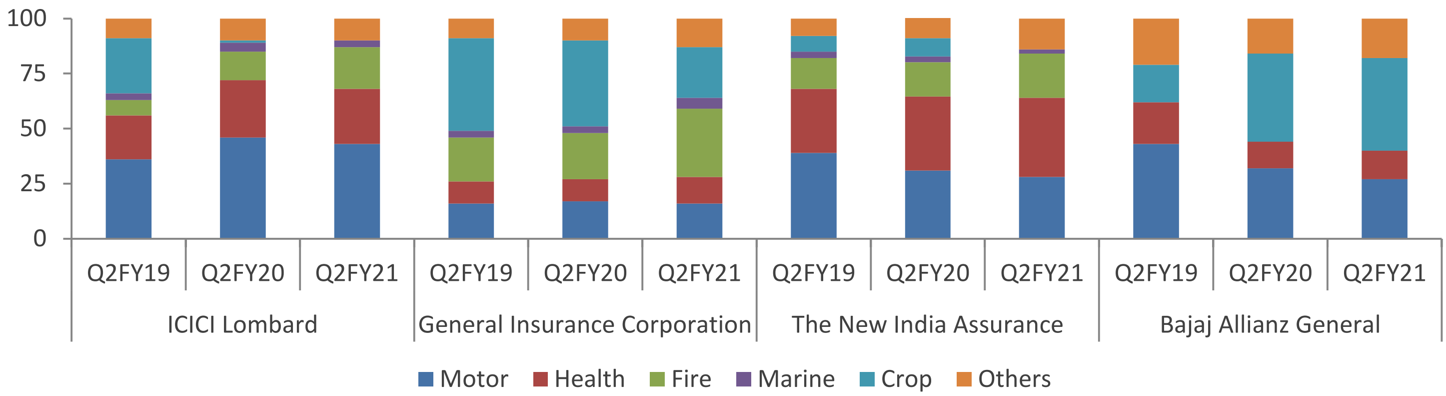


Source: Company financials

The PAT of sample companies registered a growth of 186.1% at Rs 1,534.0 crore (partly due to base effect), as a result the companies reported a better ROE during the quarter. ICICI Lombard reported a healthy operational performance in Q2FY21 led by lower claims and combined ratios (Combined ratio is a measure of profitability. It is calculated by taking the sum of incurred losses and expenses divided by earned premium), led to a strong 35.0% growth in its PAT. However, due to the lockdown and pandemic impact, the insurer saw a decline in claims ratios. For BAGIC the claims ratio declined to 74.0% in Q2FY21 from 75.0% in Q2FY20. There were higher claims in health due to COVID and property (due to heavy rains), which were partly compensated by lower claims in the motor segment.

The yield on investments (which measures return on company's invested assets) improved for ICICI Lombard and General Insurance Company while it declined by 144 bps and 47 bps for Bajaj Allianz and The new India Assurance respectively. (Refer figure 8).

Figure 12: Product Mix (%)

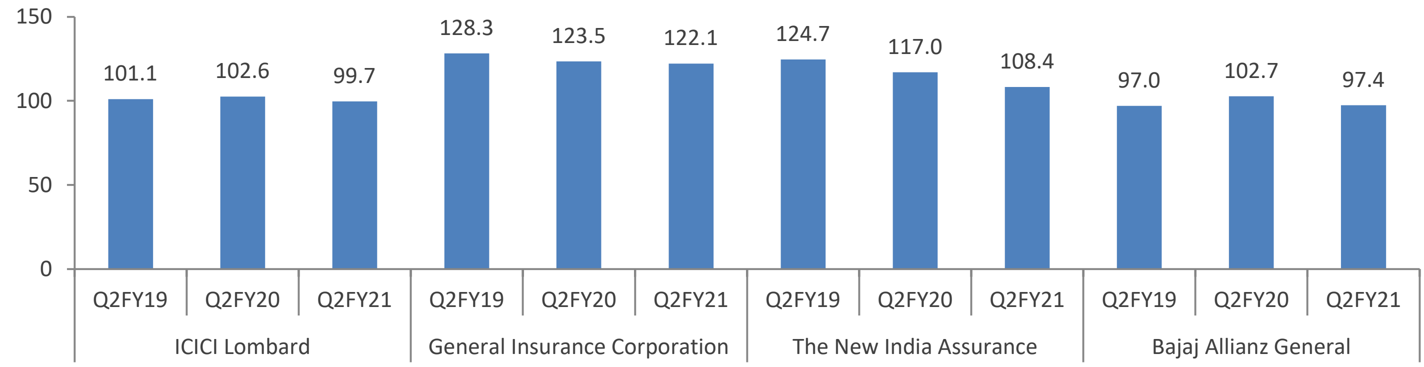


Source: Company Financials

Motor share has dropped for all the 4 companies during Q2FY21 (ICICI Lombard by 300 bps, GIC by 100 bps, The New India Assurance by 298 bps and Bajaj Allianz by 500 bps) due to lower renewals. The policy renewals have been impacted by the forbearance given by the IRDAI on premium payments for third party motor insurance and health insurance. For BAGIC also motor segment share has dropped from 32% in Q2FY20 to 27% in Q2FY21 as new sales significantly impacted due to lockdown. Business mix is largely inclined towards Prop, Public Liability and Engineering (classified as others in figure 12) business segment from 10.0% to 13.0% and huge decline are witnessed in Motor segments with de-growth of 500 bps.

The Marine and Engineering segments share has been improved slightly as transit of consignments etc has picked up the pace (which was slower during the lockdown) due to improvement in the overall economic activity.

Figure 13: Combined Ratio (%)

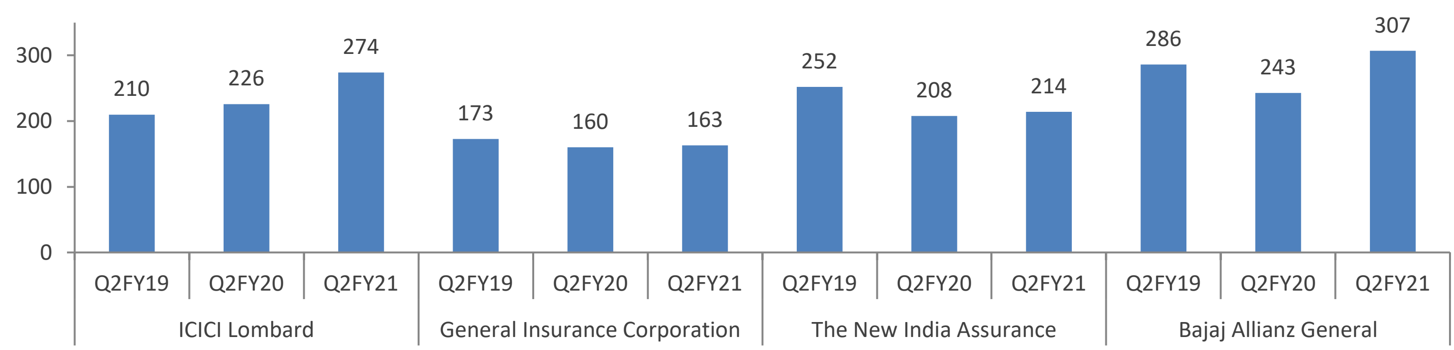


Source: Company financials

As can be seen in chart 13, Combined ratio stood stable for all the companies on YoY basis except for Bajaj Allianz General Insurance company which has marginally improved in Q2FY20. The solvency ratio (refer chart 14) remain strong for all the companies because of healthy solvency cushion, whereas it remained sequentially flat at 163.0% for General Insurance Corporation, which is marginally above the statutory requirement of 150.0%. As can be seen in figure 11, combined ratio is almost 100.0% for the sample companies which indicates that profitability of these companies are mainly supported by investment income. During a lower interest rate scenario, profitability of Non-Life insurance companies will further go down as yields on investment will get impacted.

As operating ratio of ICICI Lombard declined, due to which combined ratio came down, which has also helped to improve the solvency (crop business premium collection/receivables have partly resulted in increase in solvency ratio). The combined ratio stood at 99.7% (98.4% in Q1FY21).

Figure 14: Solvency Ratio (%)



Source: Company financials

Concluding Remarks

- The life insurance business witnessed a fall during Q1FY21 due to the lockdown and business disruption. The COVID-19 has created an increase in the demand for protection plans, while the market volatility continued to affect the demand for linked plans. However ULIPs may witness some bounce back due to strong market performance. CARE expects the domestic Life Insurance industry to grow driven by pension products, life cover products, supportive regulations, effective distribution and improving customer services. However frauds and high lapse-ratio are some of the key challenges.
- The pandemic has impacted the Q1FY21 performance of non-life insurers as well. However growth has been tepid in Q2FY21 driven primarily by the health segment.
- The Insurance industry is expected to grow in the single digits for the year as compared to a double digit growth witnessed last year and the medium term outlook to remain stable.

Annexures

1: Life Insurance Companies Sample set

1	SBI Life Insurance Company Ltd
2	HDFC Life Insurance Company Ltd
3	ICICI Prudential Life Insurance Company Ltd
4	Tata AIA Life Insurance Company Ltd
5	Max Life Insurance Company Ltd
6	Kotak Mahindra Life Insurance Company Ltd
7	Bajaj Allianz Life Insurance Company Ltd
8	Aditya Birla Sun Life Insurance Company Ltd

2: Non-Life Insurance Companies Sample set

1	ICICI Lombard General Insurance Company Ltd
2	General Insurance Corporation of India
3	The New India Assurance Company Ltd
4	Bajaj Allianz General Insurance Company Ltd