CARE Ratings
Professional Risk Opinion

Life Insurance industry reverted to negative growth, while Non-Life insurance continued on recovery path in Q3FY21.

April 8, 2021 I BFSI Research

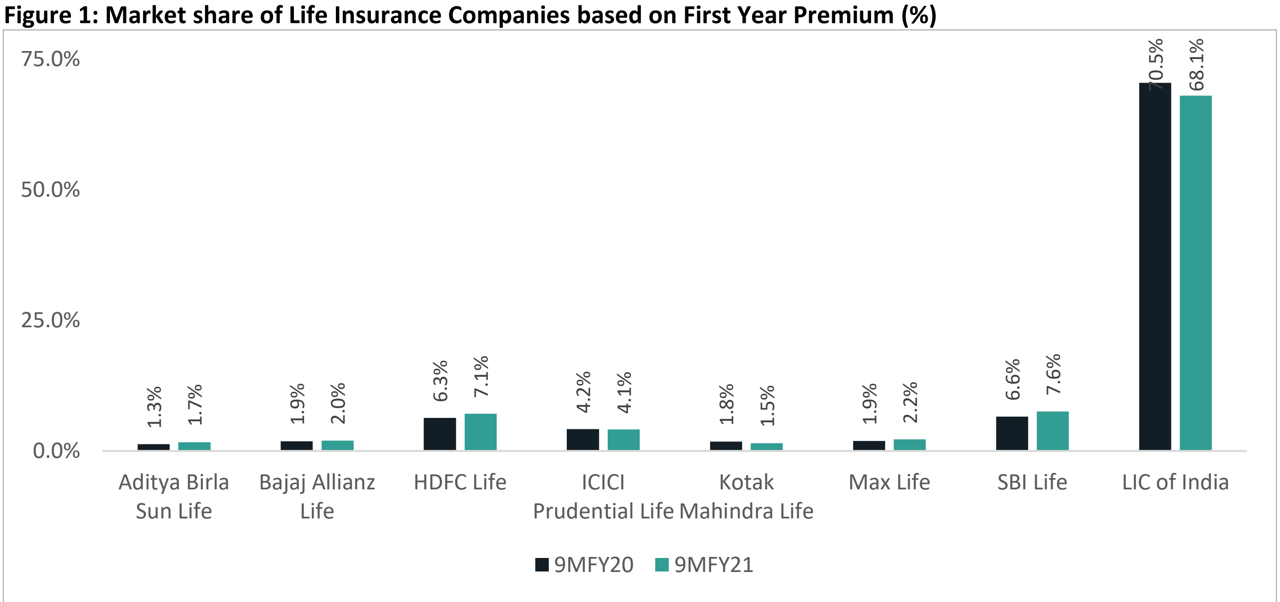
Note: The following study analyses Q3FY21 financial performance of select Life and Non-Life Insurance companies in India. All growth comparisons are made in y-o-y terms, unless stated otherwise.

Highlights

Life Insurance

- The life insurance sector has continued to report a negative growth in first year premium collections. First Year Premium of life insurers fell by 2.8% in the month of December 2020 to Rs 24,383 crore; compared to Rs 25,080 crore in December 2019 due a fall in group non-single premiums, however, growth in the individual segment muted the fall.
- The premium vis-à-vis sum assured pattern indicates an increasing preference for life insurance products as an investment tool than as just protection plan.
- Single premium policies (primarily investment oriented) accounted for a significant portion of the policies sold in December 2020 but the growth declined compared to yoy levels; however, non-single policies witnessed a fall vs. a double digit growth witnessed in December 2019.
- The premiums fell primarily due to the base effect. Premiums had increased substantially in FY20 as some high yield policies were to be withdrawn in November 2019 but were finally withdrawn in January 2020. This can be evinced in the CAGR of 16.2% for two years ended 9M2021 albeit with very high increase in 9MFY20, and a relative correction in 9MFY21 (for the industry).
- The new business premium of sample life insurance companies witnessed a de growth of 4.4% due to lower traction in first year premium in Q3FY21 as compared with a growth of 43.6% in Q3FY20.
- The Profit after Tax (PAT) of life insurance companies registered a de-growth of 19.7% during Q3FY21 (PAT of sample companies dragged down by lower PAT of LIC in Q3FY21) as compared with a growth of 37.6% in Q3FY20.

Figure 1: Market share of Life Insurance Companies based on First Year Premium (%)



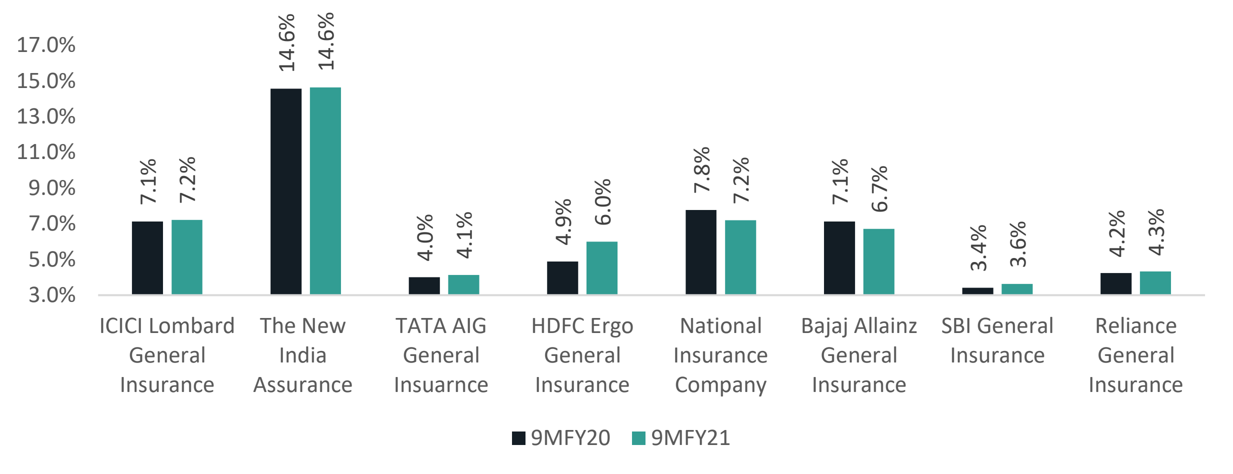
Source: IRDAI

Non-Life Insurance

- The Gross direct premiums of Non-Life Insurance sector increased by 2.5% to Rs 145,678.8 crore in 9MFY21 from Rs 142,085.1 crore in 9MFY20. The growth has been driven by the fire and health segments.
- Due to the lockdown, segments barring fire, engineering, health, aviation and liability showed a decline in their premium numbers.

- The Gross Direct Premium of sample Non-Life companies registered a growth of 13.1% in Q3FY21 as compared with 1.4% in Q3FY20.
- The sample Non-Life companies witnessed a significant jump in its PAT growth to Rs 1,146.0 crore in Q3FY21 (due to base effect in PAT of National Insurance Company Ltd) as compared with Rs 115 crore in Q3FY20.

Figure 2: Market share of Non-Life Insurance Companies based on Gross Premium Written (%)



Source: IRDAI

Life Insurance

Figure 3: Snapshot of sample Life Insurance Companies

Particulars (Rs Crore)	Q3FY19	Q3FY20	Q3FY21	YoY
New Business Premium	45,068	64,700	61,854	-4.4%
First year premium	14,486	24,967	17,374	-30.4%
Renewal premium	65,189	71,775	80,806	12.6%
Single premium	30,582	39,734	44,479	11.9%
Net premium Income	1,09,900	1,35,525	1,41,871	4.7%
Net commission	6,106	7,709	7,561	-1.9%
PAT	1,103	1,519	1,219	-19.7%
Commission Ratio (%)	5.5%	5.6%	5.3%	-

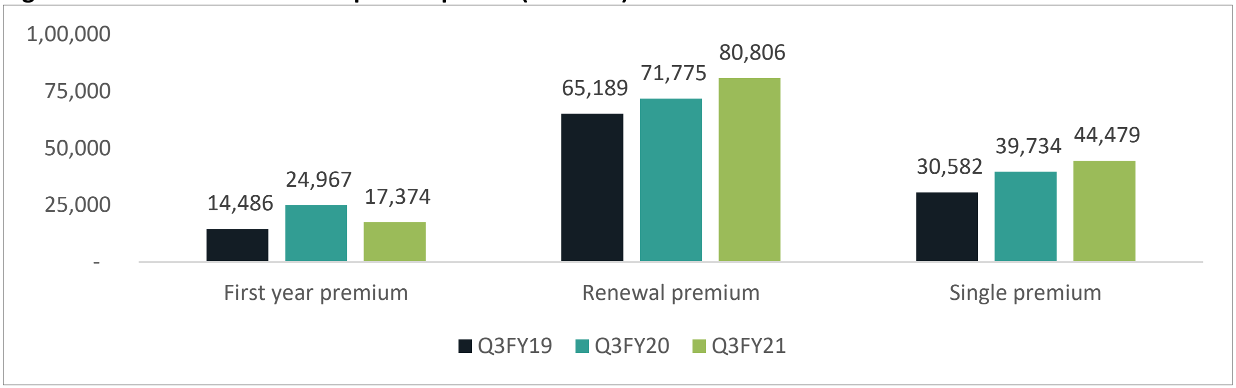
Source: Company financials, CARE Ratings Calculations

The sample set of eight life insurance companies accounts for around 94% market share in first year premium (around 26% market share excluding LIC of India's share). The new business premium of sample companies witnessed a de growth of 4.4% to Rs. 61,854 crore in Q3FY21 as compared with 43.6% growth in Q3FY20. The new business premium of sample companies excluding LIC of India registered a growth of 12.6% in Q3FY21 as compared with a growth of 22.6% in Q3FY20. The first year premium de grew by 30.4% in Q3FY21 as compared with a growth of 72.3% in Q3FY20. 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 4.7% to Rs 1,41,871 crore in Q3FY21 as compared with a growth of 23.3% in Q3FY20. Growth in renewal premium which are the subsequent premiums was healthy at 12.6% in Q3FY21 as compared with 10.1% in Q3FY20. The growth in new business premium was led by unlocking of economic activities.

SBI Life and HDFC Life which has highest market share amongst the private players reported a healthy growth in gross premium with a growth of 18.0% and 20.3% in Q3FY21 led by higher traction in renewal premium (SBI Life: up by 24.3%, HDFC Life: up by 21.5%) and single premium (SBI Life: 16.5%, HDFC Life: 21.8%). LIC of India has witnessed a marginal de growth in its gross premium due to a de growth of 48.5% in First year premium during Q3FY21 mainly due to base effect. Other small private players in sample like Bajaj Allianz and Max Life Insurance have also reported a strong growth in its gross premium led by a healthy growth in renewal and single premium during the quarter under review. Stable and improved persistency of most of the sample companies has led to a healthy growth in renewal premium.

The 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) of HDFC Life grew by 18.0% led by growth in individual APE. For SBI life the new business APE registered a muted growth led by de growth in group APE. ICICI Pru Life reported a de growth of 18.3% in APE though the overall business traction improved significantly on sequential basis.

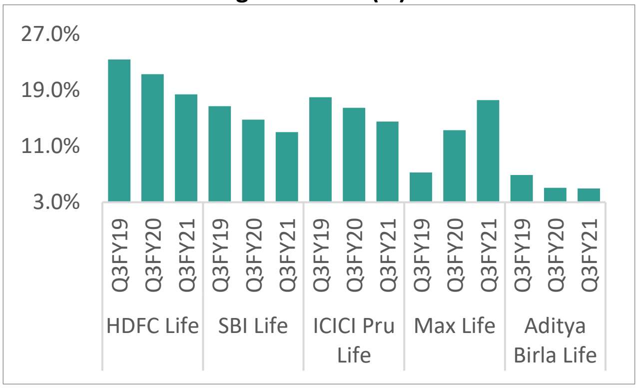
Figure 4: Premium trend of sample companies (Rs Crore)



Source: Company financials, CARE Ratings Calculations

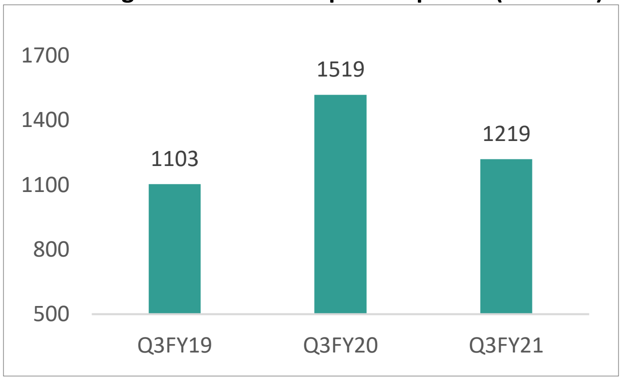
The net commission of sample companies de grew by 1.9% (refer figure 2) mainly due to decline in number of policies/schemes sold for the period ended December 31, 2020 as compared with a growth of 26.3% in Q3FY20. The net commission ratio also declined to 5.3% in 3FY21 as compared with 5.6% in Q3FY20.

Figure 5: ROE (%)



Source: Company Financials, CARE Ratings Calculations

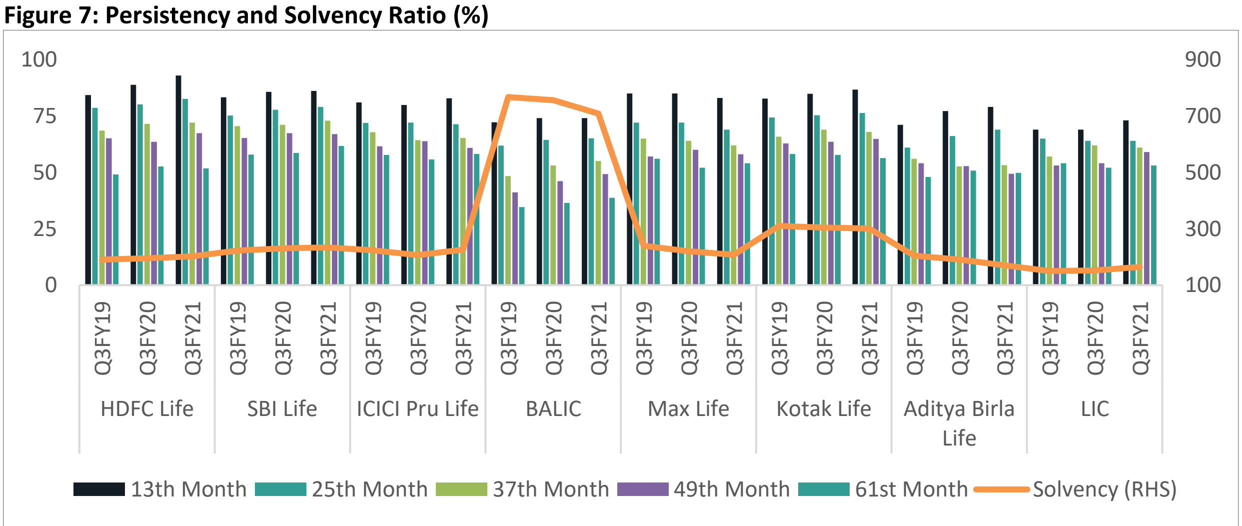
Figure 6: PAT of sample companies (Rs Crore)



Source: Company Financials, CARE Ratings Calculations

The PAT of sample companies reported a de growth of 19.7% during Q3FY21 as compared with a growth of 37.6% in Q3FY20 (PAT dragged down by lower PAT of LIC in Q3FY21). The combined PAT of SBI Life, HDFC Life and ICICI pru life (large private players) also registered a de growth of 14.8% as compared with a growth of 17.0% in Q3FY20 (PAT growth for SBI Life: -40.3%, HDFC Life: 5.9%, ICICI Pru Life: 1.0%). Value of new business (which is the present value of the future earnings from policies issued during a period) of HDFC Life, SBI Life and ICICI Pru Life registered a de growth of 3.1% in Q3FY21 as compared with a growth of 32.1% in Q3FY20. During Q3FY20, the growth in value of new business was partly led by growth in protection business. VNB margin improved by 430 bps to 26.0% in Q3FY21 for ICICI Pru Life, 100 bps to 19.3% for SBI Life and 100bps to 25.6% for HDFC Life.

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 and marginal improvement in most of the buckets for life insurance companies. Higher the persistency, lower is the cost of acquisition for the company in subsequent years. Max Life has witnessed a slight fall in its persistency ratios. SBI life, ICICI Pru Life and HDFC Life reported an improvement in persistency rate for most of the brackets with highest improvement seen in 13th month bracket. The trend in solvency ratio (Ratio of available solvency Margin to required solvency Margins) of life insurance companies has declined for few companies during Q3FY21. The volatility in equity market impact the solvency ratio as companies witness a fall in the reserves and surplus amount. The erosion in equity investments immediately impacts the unit linked policies and there is an impact on the embedded value of life insurers.

Non-Life Insurance

The non-life insurance business has continued on its recovery path in Q3FY21 after returning to growth in Q2FY21 primarily led by fire and health segments. Gross direct premiums of non-life insurance companies increased by 2.5% to Rs 145,678.8 crore in 9MFY21 from Rs 142,085.1 crore in 9MFY20. Interestingly, the growth of standalone health insurance players during 9MFY21 was significantly higher than growth witnessed by the overall industry indicates the rising importance of the health segment.

Due to the lockdown, segments barring fire, engineering, health, aviation and liability showed a decline in their premium numbers. The Fire segment grew by 32.5% in 9MFY21, mainly due to increase in reinsurance rates by GIC Re. The health segment grew by 13.7% in 9MFY21 as compared with a growth of 16.7% in 9MFY20. The retail health premium grew at a much faster rate of 30.3% compared with 10.6% growth in group business, as a result the share of retail health has increased which also indicates that the individual health polices have gained traction primarily due to the pandemic. The Motor insurance segment has witnessed a decline, although lower than 9MFY20.

Figure 8: Snapshot of Non-Life Companies

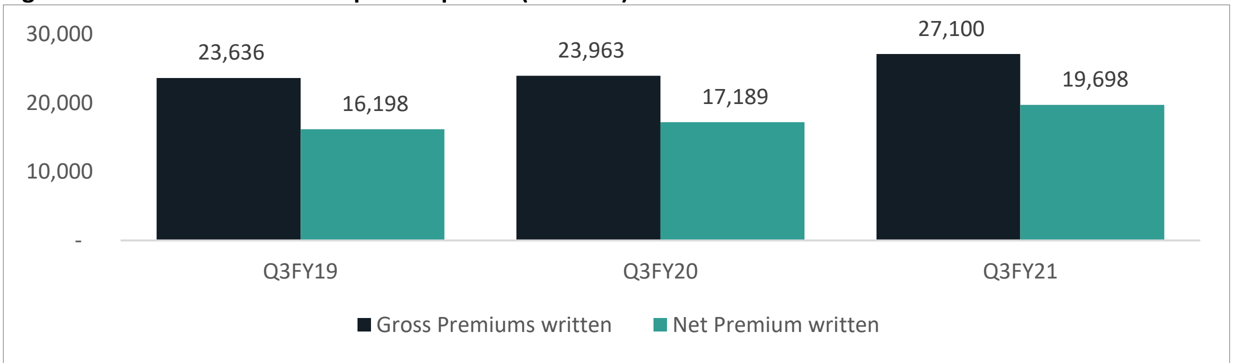
Particulars (Rs Crore)	Q3FY19	Q3FY20	Q3FY21	YoY
Gross Premiums written	23,636	23,963	27,100	13.1%
Net Premium written	16,198	17,189	19,698	14.6%
Premium Earned (Net)	15,661	17,246	18,625	8.0%
Income from investments (net)	1,078	1,326	1,340	1.1%
Other income	47	11	25	118.1%
Net Commission	911	914	1,079	18.1%
Claims Paid	18,691	16,510	15,799	-4.3%
PBT	314	536	1,621	202.1%
Taxes	225	421	474	12.5%
PAT	89	115	1,146	895.8%

Source: Company financials; CARE Ratings Calculations

The Gross Direct Premium of sample Non-Life companies registered a healthy growth of 13.1% in Q3FY21 as compared with a growth of 1.4% in the same period previous year.

Out of eight companies in the sample set, HDFC Ergo and TATA AIG registered a highest growth in gross direct premium of 49.4% and 30.3% respectively. The growth in HDFC Ergo was led by Health segment which registered a growth of 161.1% (HDFC Ergo health got merged with HDFC Ergo General Insurance, hence growth is not directly comparable) and growth in TATA AIG was led by Fire (increased by 64.2%) and Motor segment (increased by 34.1%). The gross direct premium of ICICI Lombard grew by 9.1% to Rs 4,112 crore driven by property & casualty segment which registered a growth of 25.7% led by increase in market share of fire, engineering and marine insurance . The net premium written registered a growth of 14.6% in Q3FY21 as compared with a growth of 6.1% in Q3FY20. Out of the sample set National Insurance, HDFC Ergo and TATA AIG has registered a growth in net premium written (National Insurance: 40.7%, HDFC Ergo: 44.1% and TATA AIG: 39.3%)

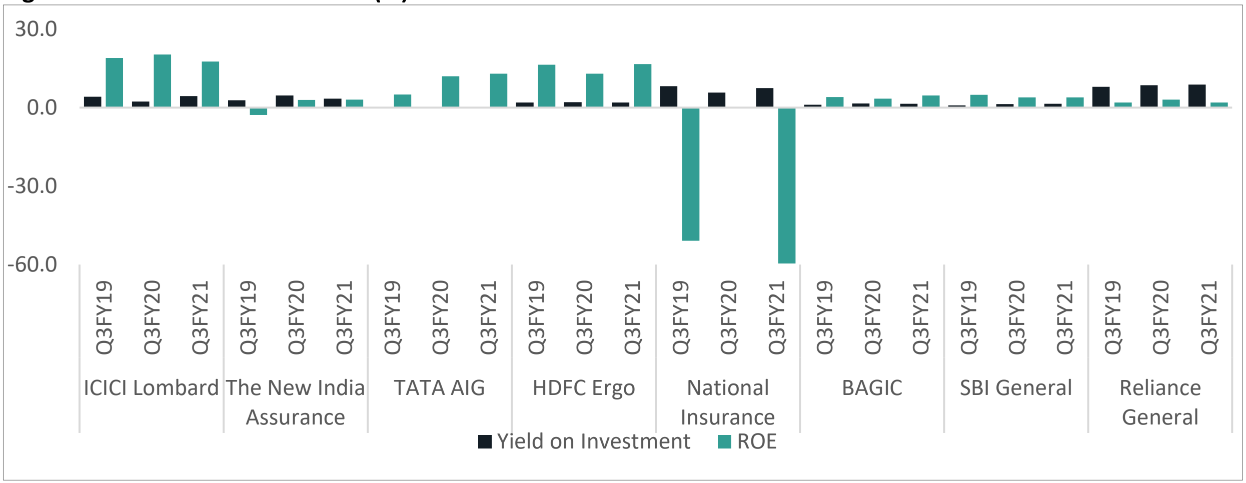
Figure 9: Premium trend of sample companies (Rs Crore)



Source: Company financials

The net commission paid of sample Non-Life insurance companies grew by 18.1% to Rs 1079 crore in Q3FY21 as compared with a growth of 0.3% in Q3FY20. The growth in commission paid can be attributed to high retention ratio for most of the players in our sample set. Claims paid of sample companies registered a de growth of 4.3% in Q3FY21 as compared with a de growth of 11.7% in Q3FY20, while health insurance companies have registered a growth in claims paid largely due to the pandemic.

Figure 10: Yield and Return Ratio (%)

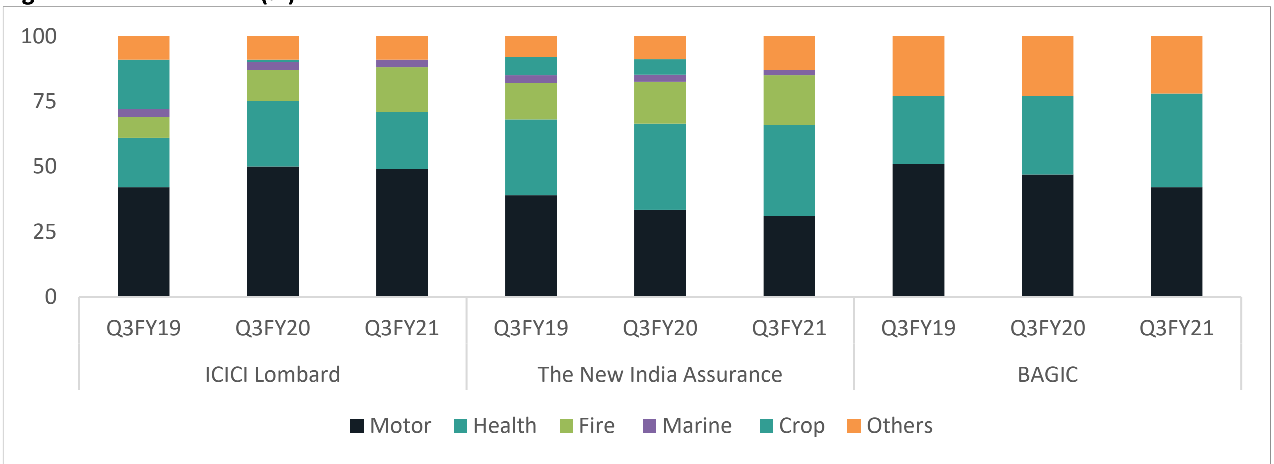


Source: Company financials, CARE Ratings Calculations

The PAT of sample companies registered a growth of 895.8% at Rs 1,146 crore as compared with a growth of 29.0% same period previous year. PAT of sample companies was driven by a strong PAT numbers reported by BAGIC. PAT of BAGIC increased by 73.2% supported by higher capital gains, lower claims and lower costs during Q3FY21. Due to partial restrictions on economic activities and pandemic impact, the general insurers witnessed a de growth in claims paid, while health insurance companies have registered a growth in claims paid largely due to the pandemic. At industry level, COVID claims reported at around 7.7 lakh of which 39,000 claims were reported with ICICI Lombard as of December 31, 2020.

The yield on investments (which measures return on company's invested assets) improved for ICICI Lombard and National Insurance Company by 203 bps and 175 bps respectively, while for Reliance General Insurance and SBI General Insurance it increased marginally. The New India Assurance, HDFC Ergo and BAGIC witnessed a decline in its yield on investments. (Refer figure 10).

Figure 11: Product Mix (%)

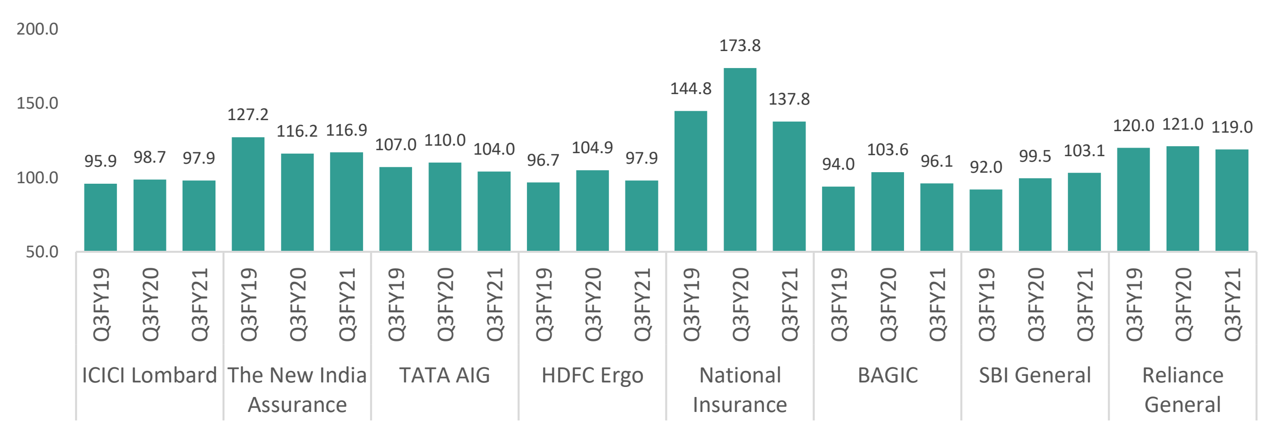


Source: Company Financials, CARE Ratings Calculations

Motor share has dropped for all the three companies during Q3FY21 as compared with Q3FY20 (BAGIC by 500 bps, The New India Assurance by 249 bps and ICICI Lombard by 100 bps). However, the motor share has increased by 1500 bps for BAGIC, 600 bps for ICICI Lombard and 300 bps for The New India Assurance as compared with Q2FY21, which indicates revival in the economy and motor sector as lockdown was lifted. The policy renewals have been impacted by the forbearance given by the IRDAI on premium payments for third party motor insurance and health insurance.

Health retail has increased its share in 1HFY21, which indicates that the individual health policies have gained traction primarily due to the pandemic. In Q3FY21, the share of health segment for ICICI Lombard declined and for BAGIC it remained stable as compared with Q3FY20, whereas it has improved for The New India Assurance.

Figure 12: Combined Ratio (%)

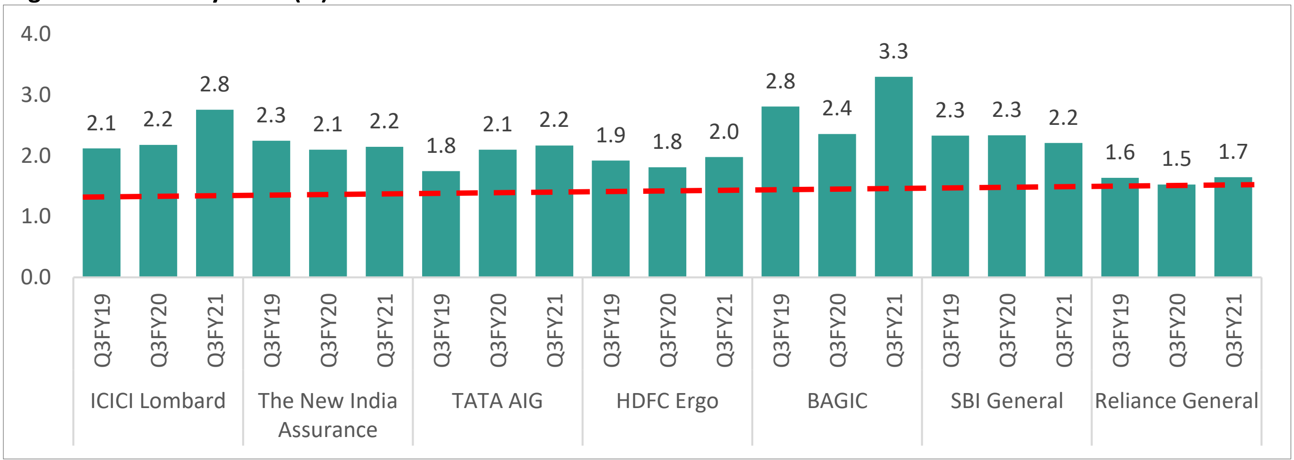


Source: Company financials

As can be seen in chart 12, Combined ratio (It is a measure of profitability) has been reduced for most of the companies in sample set on YoY basis except for The New India Assurance and SBI General, which has marginally improved during the quarter. The combined ratio is almost 100.0% and above for the sample companies which indicates that profitability of these companies are mainly supported by investment income.

The solvency ratio (refer chart 13) remains strong for all the companies except Reliance General Insurance. For Reliance General Insurance it stood at 1.7x which is marginally above the statutory requirements of 1.5x.

Figure 13: Solvency Ratio (%)



Source: Company financials

Concluding Remarks and Outlook:

- The first year premium of Life insurance companies fell in Q3FY21 primarily due to the base effect. Premiums had increased substantially in FY20 as some high yield policies were to be withdrawn in November 2019 but were finally withdrawn in January 2020. The pandemic has led to surge in demand for protection business, while market volatility has hurt linked plans.
- The pandemic has increased the awareness of health insurance. Whereas, the availability of COVID-19 vaccines may lead to slowdown in demand for retail health insurance in the near term.
- 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 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	Max Life Insurance Company Ltd
5	Kotak Mahindra Life Insurance Company Ltd
6	Bajaj Allianz Life Insurance Company Ltd
7	Aditya Birla Sun Life Insurance Company Ltd
8	LIC of India

2: Non-Life Insurance Companies Sample set

1	ICICI Lombard General Insurance Ltd
2	The New India Assurance Ltd
3	TATA AIG General Insurance Ltd
4	HDFC Ergo General Insurance Ltd
5	National Insurance Company Ltd
6	Bajaj Allianz General Insurance Ltd
7	SBI General Insurance Ltd
8	Reliance General Insurance Ltd

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