Motor Insurance: Green Shoots Visible - Will the Growth Momentum Continue?

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Summary

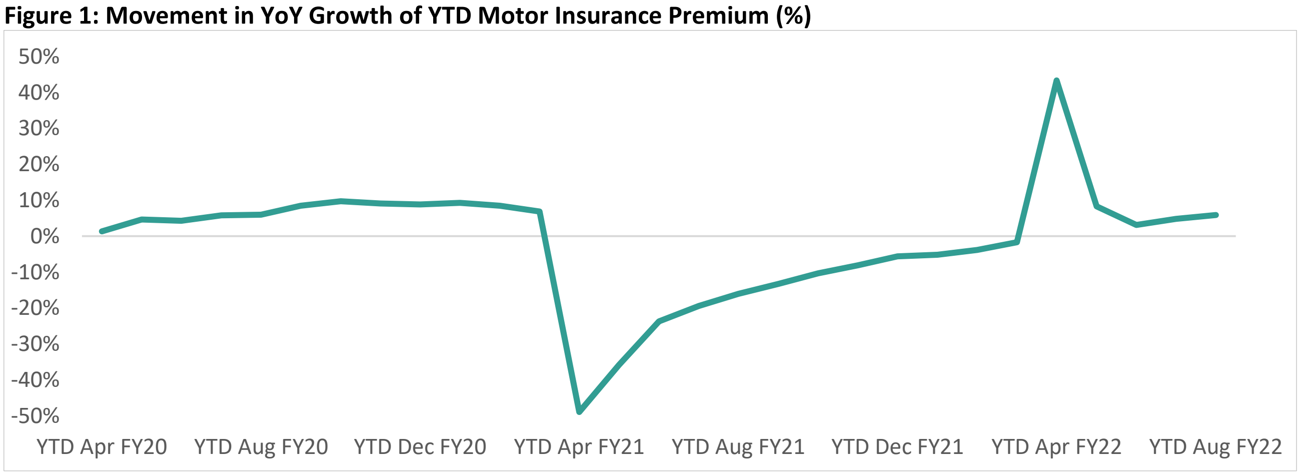
- Motor Insurance segment which had witnessed a decline in FY21 seems to be returning to the growth path in FY22 with the private sector leading the charge due to some increase in Motor vehicle sales.
- In FY21, Motor Insurance premium declined but, it retained the top spot which it has ceded in FY22 to the Health segment. This is also in line with the international market, where health is significantly larger than the motor segment.
- Motor TP segment has continued to grow faster than the Motor OD segment.
- Amongst the states, Maharashtra continues to occupy the top spot followed by Tamil Nadu, Karnataka, and Uttar Pradesh.
- Individual Agents and Brokers continue to be the leading distribution channels, however, other channels, especially the digital channels, are making steady inroads.
- Motor net-incurred claims were lower in FY21 due to the lower mobility caused by the pandemic, which has continued in Q1FY22 albeit at a lower level, as the economy has gradually started to open. This could increase to prior levels given that the traffic returns to normal, and as a reaction to the pandemic, more people move over to private transportation from public transport.
- Motor Insurance premiums are expected to grow at around 6%-8% driven by any increase in TP rates, and auto sales, however, the short-term auto outlook is hampered by the chip shortage. 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.

Introduction

Motor insurance policy is an agreement between an insurance company and the policy holder to provide protection to the vehicle owner from any expenses on account of damages to the vehicle, or Third-Party Liability (TPL) as determined by law. It protects the owner from financial liabilities as, legally, the owner is responsible for injury or damage to third-party life or property due to use of such vehicle in a public place. Third-Party Insurance has been mandatory as per Indian laws.

Motor Insurance segment which had witnessed a decline in FY21 seems to be returning to the growth path in FY22 with the private sector leading the charge due to an increase in Motor vehicle sales

Figure 1: Movement in YoY Growth of YTD Motor Insurance Premium (%)



Source: IRDAI, General Insurance Council, CARE Ratings calculations

In FY21, the automobile industry witnessed a significant downtrend as the sales volumes were pushed back by multiple years. For passenger vehicles, sales volumes were lowest since FY16, for two-wheelers - lowest since FY15, for commercial vehicles – lowest since FY11 and for three-wheelers – lowest since FY03. A similar but a more muted impact was witnessed in the motor insurance premiums business which declined by 1.6% in FY21. The impact was muted as the insurance business also accounted for renewals. Growth has returned, albeit on a lower base as in August 2021, on a YoY basis, the automobile segments that performed better were three-wheelers which grew by 59.7%, commercial vehicles (for five players) by 17.7% and passenger vehicles by 7.6%. Tractors and two-wheelers domestic sales de-grew by 17% and 14.6% YoY. Similarly, in the earlier part of the pandemic, motor insurance premiums were struggling primarily as the new auto sales had suffered. In the recent months of FY22, although the cumulative motor insurance premiums have reverted to growth, the cumulative August 2021 numbers continue to be lower than the pre-pandemic cumulative August 2019 numbers.

Figure 2: Domestic Sales of Automobiles

Segment	FY21		Aug-21			
	Units	Y-o-Y	Units	MoM	YoY	August 2021 / August 2019
Passenger vehicles	2,711,445	-2.3%	232,224	-12.2%	7.6%	22.8%
Two-wheeler	15,119,387	-13.2%	1,331,436	6.2%	-14.6%	-12.1%
Three-wheeler	216,197	-66.1%	23,210	29.8%	59.7%	-60.5%
Tractor	899,407	23.9%	53,721	-17.6%	-17.0%	45.0%
Commercial vehicles	568,559	-20.8%	49,991	-7.4%	17.7%	1.0%

Note: Automobile sales in August 2021
Source: SIAM, TMA, CARE Ratings, CMIE

Figure 3: Movement in the Market share

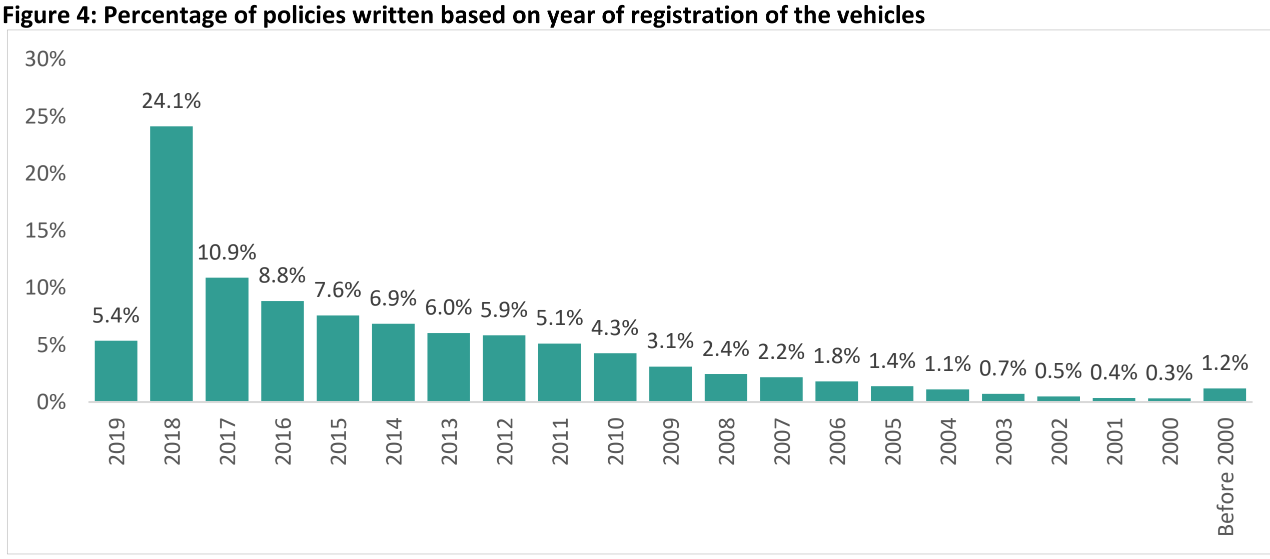
Year	Motor OD		Motor TP		Motor Total	
	Public	Private	Public	Private	Public	Private
FY18	37.5%	62.5%	53.7%	46.3%	46.5%	53.5%
FY19	32.5%	67.5%	46.5%	53.5%	40.7%	59.3%
FY20	28.3%	71.7%	42.2%	57.8%	36.8%	63.2%
FY21	25.5%	74.5%	39.7%	60.3%	34.2%	65.8%
YTD August FY21	27.8%	72.2%	42.3%	57.7%	36.6%	63.4%
YTD August FY22	24.3%	75.7%	38.3%	61.7%	32.6%	67.4%

Source: IRDAI

As can be seen in the above figure, the public sector has been steadily losing ground to the private insurers. In Motor TP, public sector companies have turned from a majority share to slightly over 38% share in YTD August FY22. This downtrend is particularly important as the Motor TP segment has emerged as the larger segment driving the overall motor insurance growth.

According to the IIB ARFY19, as of March 31, 2019, there were over 23.12 crore vehicles on road in India, and of which, 57% were uninsured vehicles, indicating that only 43% of the vehicles on road had insurance. Two-wheelers were the largest component of the uninsured vehicles. Over 60% of two-wheelers were uninsured, whereas uninsured numbers of cars stood at 10%.

Figure 4: Percentage of policies written based on year of registration of the vehicles

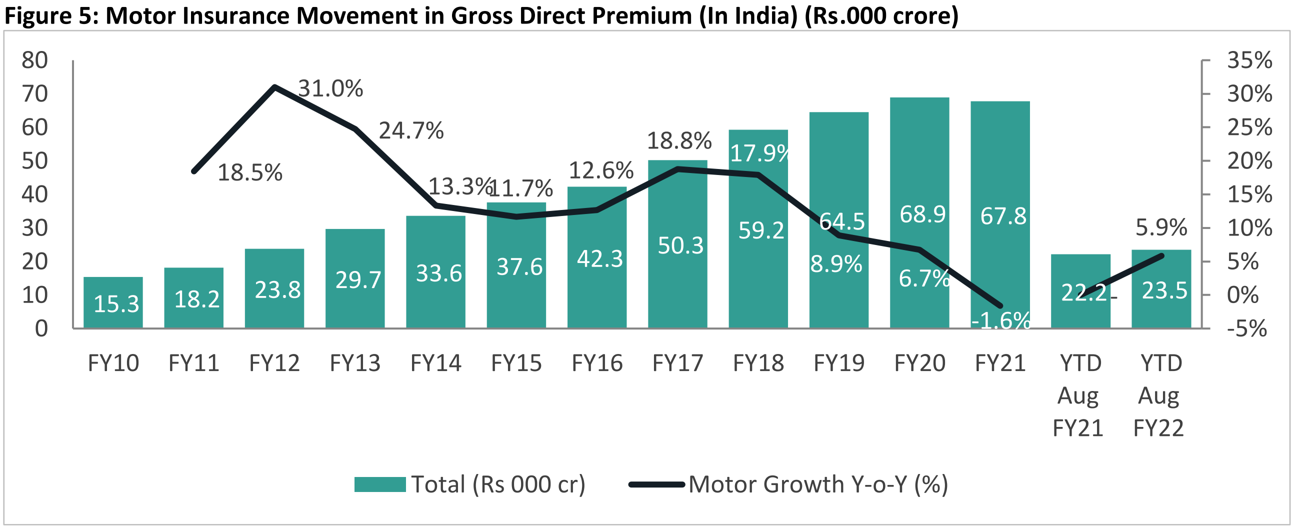


Source: Insurance Information Bureau of India (Motor ARFY19)

As per the IIB Motor ARFY19, over the years, the proportion of private cars based on the year of registration shows a gradual fall, whereas in two-wheelers it shows a steep fall in the second year itself, indicating that two-wheelers have a poor rate for renewing their insurance just in the year following their purchase.

In FY21, Motor Insurance premium declined; however, it retained the top spot which it has ceded in FY22

Figure 5: Motor Insurance Movement in Gross Direct Premium (In India) (Rs.000 crore)

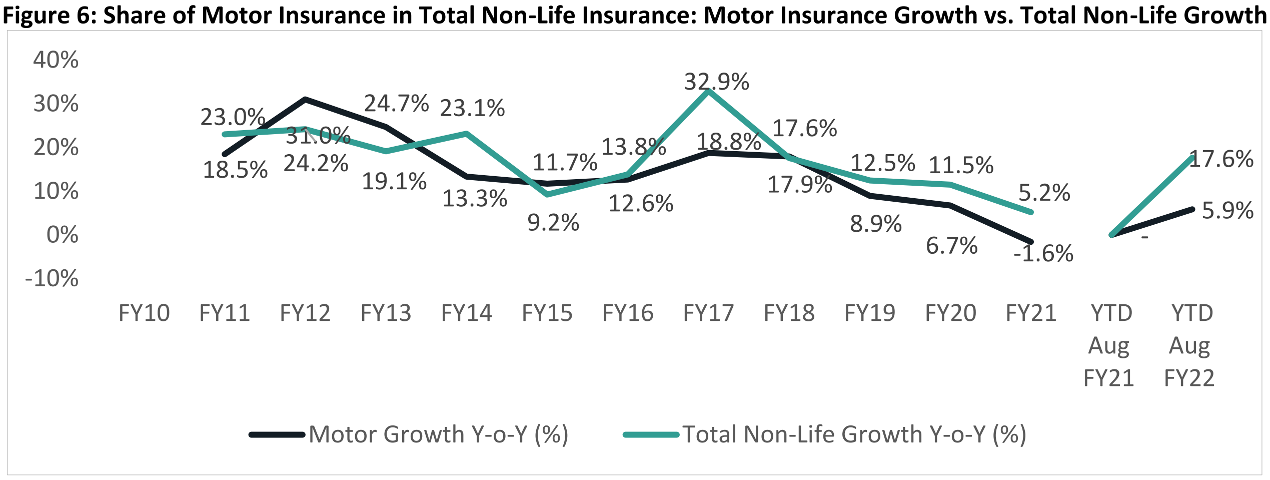


Source: IRDAI, General Insurance Council

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% due to (1) mandatory nature of third-party motor insurance, (2) an increase of more than two times of motor vehicles in use over six years, (3) increase in the premium rates, and 4) emergence of distribution channels including digital. However, this growth masks the decline witnessed in FY21 as the auto sector was already struggling and the pandemic fueled lockdown in the initial period practically brought the car purchase activity to a standstill reducing the base for retentions. Motor Insurance premiums have increased over the last year, however, they are yet to reach the pre-pandemic levels as the auto sales also have yet to reach similar levels. Low auto sales affect motor insurance in two ways, namely, the loss of premium sales on new cars and a lower base for renewal premium. Additionally, growth in FY21 also suffered as there was no revision for the prevailing Motor TP rates.

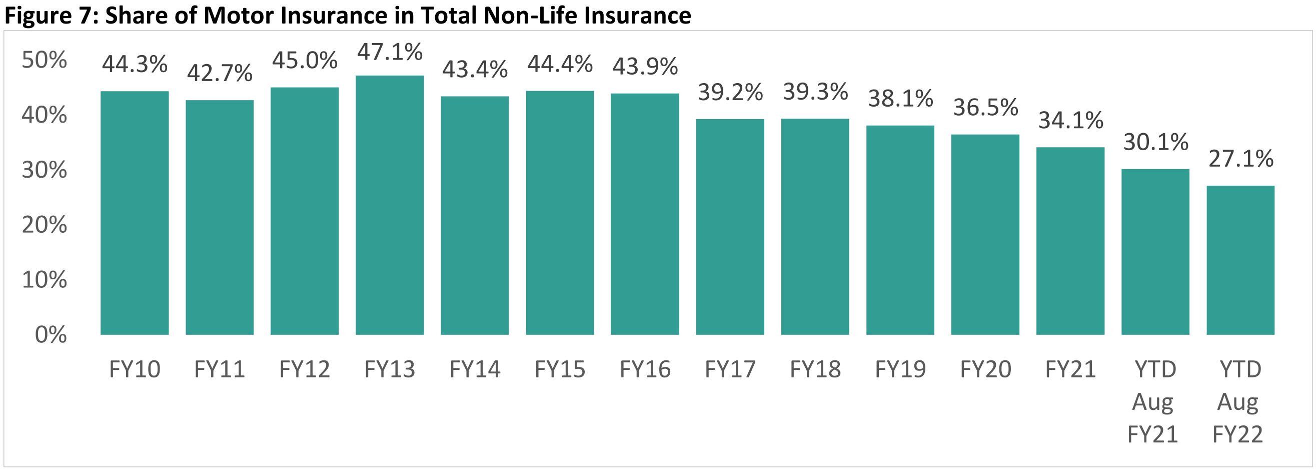
The CAGR for FY10-FY20 was 16.2%, while the CAGR for FY10-FY19 was 17.3%, highlighting the slowing growth momentum in the last couple of years in this segment. This is described in the following figure, in which barring a couple of years earlier in the period, the annual growth rate of the motor insurance premiums has lagged the overall non-life insurance premiums. In fact, when motor witnessed a negative rate in FY21, the overall non-life segment was able to achieve a growth (based on the health portfolio growth). This trend has also continued in the current fiscal year, wherein as the health portfolio has been growing significantly faster, the motor insurance growth has lagged the overall sector growth. Furthermore, changes in law and regulations have also contributed to premium growth in earlier years as a longer tenure of 3/5 years was made mandatory for new vehicles; however, later this mandate was reversed, and annual policy sales were permitted. Additionally, a recent court judgement which was later reversed also proposed that all vehicles should have a comprehensive cover.

Figure 6: Share of Motor Insurance in Total Non-Life Insurance: Motor Insurance Growth vs. Total Non-Life Growth



Source: IRDAI, General Insurance Council

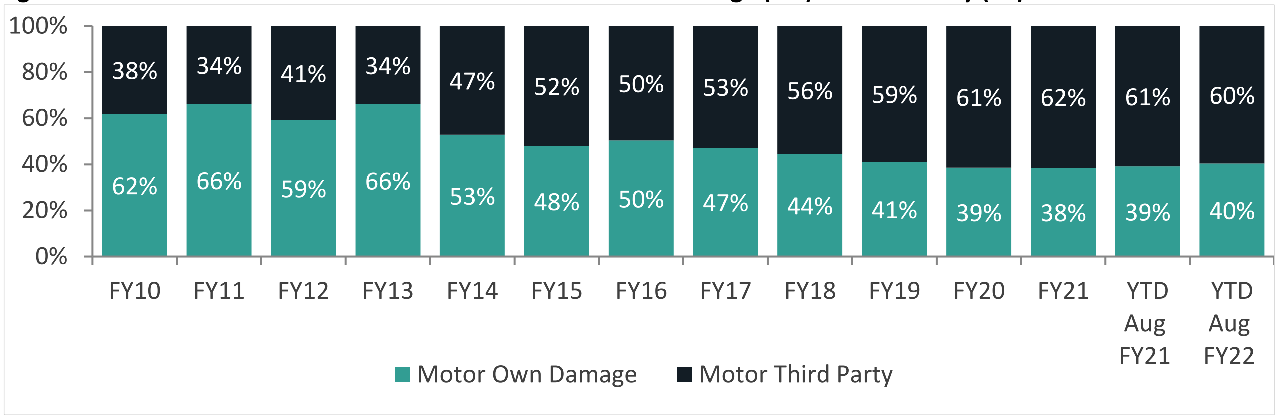
Figure 7: Share of Motor Insurance in Total Non-Life Insurance



Source: IRDAI

This flagging growth rate in earlier years and the decline in FY21 has had an adverse effect on the motor insurance segment’s market share in the non-life insurance pie. As can be seen in the above figure, barring a few years in the earlier part of the last decade, the market share has been witnessing a consistent decline and the pandemic has only accelerated the pace as for the five months of the current fiscal year, i.e., FY22, the market share has dipped below the 30% mark. However, on the other hand, it should be noted that till FY21-end, the Motor business continued to be the largest non-life insurance segment. However, the health segment received a boost due to the pandemic, and schemes such as Ayushman Bharat have led to the health segment having a larger share for the first 5 months of FY22. This too seems to be in line with global trends, where the health segment is much larger compared to the motor segment.

Figure 8: Motor Insurance Movement in Market share: Own Damage (OD) vs Third-Party (TP)



Source: IRDAI

There has been a general shift of market share from own damage (62% in FY10 to 38% in FY20) to third-party damage (38% in FY10 to 62% in FY20). The TP premium has grown due to (1) an increase of the compulsory personal accident cover for owner driven vehicles, (2) general rise in TP premium rates (however, rates were held steady in FY21), (3) 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.

Figure 9: Premium by States

State	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Maharashtra	15.2%	14.5%	14.1%	24.2%	13.6%	13.2%	14.7%
Tamil Nadu	9.8%	9.5%	8.5%	7.9%	9.1%	8.8%	8.6%
Karnataka	7.7%	7.8%	8.2%	7.5%	7.8%	8.0%	8.1%
Uttar Pradesh	7.4%	7.0%	6.0%	6.7%	8.3%	8.1%	8.0%
Gujarat	7.5%	7.5%	7.5%	7.1%	7.6%	7.4%	7.4%
Other States	52.4%	53.6%	55.7%	46.7%	53.6%	54.4%	53.2%

Source: IRDAI

Analysis of motor insurance premium and allied activities according to the Insurance Information Bureau of India (ARFY19) and the General Insurance Council Yearbook FY20 indicates that in terms of:

- Total premiums and the Motor TP segment premiums in FY20, Maharashtra is the leader followed by Tamil Nadu, Karnataka, and Uttar Pradesh.
- As per the Motor OD segment premiums in FY20, Maharashtra is followed by Uttar Pradesh and then Gujarat, Karnataka and Delhi.

Individual Agents and Brokers continue to be the leading distribution channels

Figure 10: Movement in Distribution channels

Channel	Motor Own Damage							Motor Third-Party						
	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY14	FY15	FY16	FY17	FY18	FY19	FY20
IA	45.1%	46.4%	40.0%	34.2%	33.0%	29.7%	27.7%	57.9%	47.8%	57.8%	54.8%	56.1%	51.1%	48.2%
Banks	4.7%	3.9%	3.3%	3.5%	3.3%	3.6%	3.4%	4.3%	3.5%	3.4%	3.7%	3.3%	3.8%	3.5%
Other B	5.2%	6.9%	6.9%	11.2%	11.3%	7.9%	7.1%	3.6%	6.0%	8.0%	10.1%	10.9%	9.1%	7.7%
Broker	27.7%	30.3%	29.2%	38.1%	36.7%	44.1%	43.1%	17.1%	15.6%	18.8%	17.5%	17.4%	22.1%	24.1%
Direct	16.8%	12.1%	20.1%	12.8%	8.0%	5.2%	5.6%	16.5%	26.8%	11.6%	13.5%	7.9%	6.0%	7.3%
Others	0.5%	0.4%	0.5%	0.3%	7.8%	9.6%	13.0%	0.6%	0.2%	0.3%	0.4%	4.5%	7.9%	9.3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: IRDAI, Note: IA: Individual Agents

Channel	Motor Total						
	FY14	FY15	FY16	FY17	FY18	FY19	FY20
IA	51.2%	47.1%	48.8%	45.1%	45.8%	42.3%	40.3%
Banks	4.5%	3.7%	3.3%	3.6%	3.3%	3.7%	3.4%
Other Brokers	4.4%	6.4%	7.5%	10.6%	11.1%	8.6%	7.4%
Broker	22.7%	22.6%	24.0%	27.2%	26.0%	31.1%	31.4%
Direct Business	16.6%	19.8%	15.9%	13.2%	7.9%	5.7%	6.6%
Others	0.5%	0.3%	0.4%	0.3%	6.0%	8.6%	10.7%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: IRDAI, Note: IA: Individual Agents

The contribution of the Agency channel to the business premium decreased from 51.2% in FY14 to 40.3% % in FY20. On the other hand, the broker channel's share increased from 22.7% in FY10 to 31.4% in FY20. The share of banks has declined marginally over the same period. Additionally, according to the General Insurance Council, rural premium accounted for approximately 25% of the total premium in FY20. Due to rising commissions in traditional channels, insurance companies are developing alternate channels to drive growth at lower costs. This has led to the emergence of additional channels such as call centers, mobile, internet (web aggregators and websites of insurance companies) and insurance marketing firms which are not tied to single insurance company but can sell policies of multiple insurance companies. All these comparatively cost-efficient channels have been categorized in the others segment. Development of alternative channels is also being driven by changes in customer behavior, product preferences, and processes. However, brokers and individual agents continue to source over 70% of the premiums.

Figure 11: Movement in Net Incurred Claims Ratio

Particulars	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Private	80.4%	93.7%	97.6%	84.4%	81.4%	81.9%	82.5%	83.0%	77.8%	76.2%	77.9%
Public	87.8%	111.1%	92.4%	92.9%	77.5%	72.4%	79.8%	93.5%	89.5%	107.7%	96.5%
Own Damage	64.0%	64.5%	60.6%	57.2%	56.6%	60.8%	69.4%	72.5%	67.0%	72.9%	78.0%
Third Party	120.2%	172.8%	153.6%	135.1%	110.4%	96.8%	93.0%	103.6%	98.0%	104.2%	90.6%
Total	**84.5%**	**102.7%**	**95.0%**	**88.6%**	**79.5%**	**77.1%**	**81.2%**	**88.2%**	**83.5%**	**90.6%**	**85.6%**

Note: Net Incurred Claims: Net Claims after accounting for recovery of claims from reinsurers. This includes net claims relating to both Direct and Reinsurance accepted. Explanation: Net Incurred Claims = Net Claims paid (Gross Claims paid less reinsurance recoveries of claims) PLUS Net Claims outstanding at the end of the period (both direct and reinsurance accepted) LESS Net Claims outstanding at the beginning of the period (both direct and reinsurance accepted). Net outstanding claims include Net IBNR/IBNER; Source: IRDAI, General Insurance Council

The incurred claims ratio (net incurred claims to net earned premium) of the motor insurance industry was 85.6% in FY20, which is less than the previous year figure of 90.6% and has been in the overall range for the past decade. The incurred claims ratio for public sector insurers was 96.5% for FY20 which was less than the 107.7% ratio in FY19. On the other hand, for the private sector non-life insurers, incurred claims ratio for FY20 was 77.9% as compared with the previous year's ratio of 76.2%. OD has performed significantly better in terms of Net Incurred Claims Ratio than the TP portfolio. The net incurred claims ratio for the TP portfolio remains quite high but has become down from a high of 172.2% in FY11 to 90.6% in FY20.

In the case of outstanding claims at the end of the period, as per IIB, it should be noted that in FY19, around 90% of the outstanding claims in motor insurance segment were from the TP segment, a majority of which take between 1 and 3 years to settle as compared with OD segment where majority of the claims are settled in a 3-6 months' timeframe.

As per the Insurance Information Bureau (ARFY19 Motor), among the various segments:

- Tamil Nadu, Kerala, Karnataka, Maharashtra, Madhya Pradesh and Rajasthan accounted for around 60% TP Claims.
- Private Car segment constitutes over 65% of the settled OD claims (in volume), followed by two-wheelers with a share of 25%.
- In OD claims, the paid amount constitutes over 70% of the written premium in case of Private Car, whereas this ratio is only around 48% in the case of two-wheelers.
- In TP, Motor CV -goods carriers have the largest share of incurred claims.

Figure 12: Net Incurred Claims Ratio of Select Companies

Company	Motor OD Insurance				Motor TP Insurance			
	FY20	FY21	Q1FY21	Q1FY22	FY20	FY21	Q1FY21	Q1FY22
Bajaj Allianz	67.7%	54.0%	50.8%	56.4%	64.5%	78.1%	79.7%	78.5%
HDFC Ergo	81.8%	70.4%	74.1%	55.0%	76.4%	69.6%	74.8%	49.8%
ICICI Lombard	68.9%	62.2%	62.9%	68.1%	84.4%	69.7%	70.2%	70.6%
New India Assurance	82.0%	85.3%	50.3%	78.8%	87.8%	73.2%	60.3%	71.8%

Source: Company Filings, CARE Ratings Calculations

As a general trend, we can observe that FY21 net incurred claims ratio was lower than FY20 net incurred claims ratio given that the pandemic-fueled lockdown across the nation resulted lower traffic mobility and hence lower claims especially in the motor insurance space. The same can be witnessed in Q1FY22 albeit at a lower level given that the economy was gradually opened in this quarter. The motor own-damage claim frequency had a lower reduction due to partial/ local lockdown in some states unlike a complete nationwide lockdown that was witnessed last year.

Figure 13: Movement in Net Commission Ratio

Particulars	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Own Damage	6.6%	6.0%	7.5%	7.8%	6.2%	6.7%	6.2%	14.5%	17.0%	17.6%
Third Party	-0.6%	1.0%	-1.5%	-0.7%	-0.5%	-0.4%	-1.1%	-1.0%	0.6%	0.3%

Source: General Insurance Council

Commission Ratio is moving opposite to the share of the premiums, TP commission is significantly lower, while OD commission is significantly larger. This is also indicative of the fact that OD pricing has been freed and companies are allowed to set their own prices thereby increasing competition, while TP prices are administered and declared by the IRDAI. Increased competition has had significant impact on the growth of OD premium, while the market has grown, the pace of growth has reduced, and the customer acquisition cost has increased, reflecting in the higher commission ratios. Pure=play digital companies along with other insurance companies are working on utilizing the digital channel to acquire customers directly and/or reduce acquisition costs.

Figure 14: Net Commission Ratio of Select Companies

Company	Motor OD Insurance				Motor TP Insurance			
	FY20	FY21	Q1FY21	Q1FY22	FY20	FY21	Q1FY21	Q1FY22
Bajaj Allianz	17.0%	17.2%	12.2%	11.3%	0.7%	-3.1%	-6.7%	-1.1%
HDFC Ergo	17.0%	18.5%	14.1%	12.8%	-9.5%	-14.2%	-8.5%	-13.1%
ICICI Lombard	17.9%	18.7%	10.0%	10.9%	0.6%	0.9%	0.6%	0.5%
New India Assurance	19.7%	19.0%	17.0%	12.6%	3.4%	3.0%	3.5%	1.3%

Source: Company Filings, CARE Ratings Calculations

Outlook

Insurance Premium volume is positively correlated with economic growth and visibly grows in tandem with the GDP and the auto sales. However, the outlook for the insurance industry is not just a function of the economic growth but industry-specific factors such distribution channels, also affect the premium growth.

Motor insurance premium is expected to grow at 6%-8% in FY22 driven by (1) post-covid rising demand for personal mobility space is leading to a shift in vehicle ownership patterns and may create an opportunity for motor insurers, (2) strong demographic factors, (3) conducive regulatory environment, (4) increased partnerships, (5) product innovations, (6) any increase in Motor TP coverage due to inflation, adverse claims, etc., and (7) vibrant distribution channels. Digital issuance and online channels are expected to witness continued growth, the share of web aggregators within digital insurance has been constantly increasing. The long-term growth of the motor insurance would be driven by (1) Strong growth in the automotive industry over the next decade is expected to boost the motor insurance market and 2) working on 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. In 15 states, more than 60% of the vehicles were uninsured thus showing a slight increase of 3% over FY18.

However, given that no increase in the motor TP 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), any unfavorable changes in macro-economic factors such as third covid wave, and uncertainties in the regulatory landscape could be characterized as key challenges to the industry growth.

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