



ICRA

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SERVICE COMPANY

INDIAN GENERAL INSURANCE INDUSTRY REPORT

Profitability to improve in FY2023 with
continuing growth momentum and better
underwriting performance

APRIL 2022

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GENERAL INSURANCE OUTLOOK - STABLE



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Industry GDPI growth recovered strongly, led by growth in the health segment.

Covid claims soared while motor claims returned to normalcy in FY2022, resulting in a deterioration in the combined ratio

With the resumption of economic activity after the waning of Covid-19 infections, the gross domestic premium income (GDPI) growth recovered to an estimated 11% in FY2022, which was marginally above the upper band of ICRA's expectation of 7-9%. ICRA expects the industry GDPI to grow by 10-12% to Rs. 2.2 trillion in FY2023. The GDPI from the health segment and commercial lines (fire, marine and engineering) is expected to grow at a higher rate than the motor segment. However, economic uncertainty due to structural challenges in the automobile industry and rising commodity and oil prices amid the geopolitical crisis pose downside risk to FY2023 growth.

The combined ratio deteriorated across the industry in 9M FY2022 due to higher health claims. The combined ratio for the industry is expected to improve in FY2023 driven by lower health claims and the expected improvement in risk pricing by the insurers. ICRA expects the combined ratio for PSU insurers to improve to 124-126% in FY2023 from 127% (E) in FY2022 supported by various cost-cutting measures directed by the Central Government and better claims performance, while select private players are expected to report a combined ratio of 106-108% in FY2023. The Government of India (GoI) infused fresh equity capital of Rs. 5,000 crore in March 2022 to augment the solvency profile of weaker PSU insurers. ICRA expects the continuous government support in the form fresh capital infusion or regulatory forbearance to weak PSU insurers.

ICRA maintains a Stable outlook on the sector, given the expectation of better underwriting performance, which will lead to a comfortable profitability and solvency profile for private sector insurers, and continuous Government support in the form of regulatory forbearance and fresh equity infusions for PSU insurers.

- Strong recovery in GDPI growth in FY2022 post muted growth in FY2021** – With the resumption of economic activity after the waning of Covid-19 infections, the GDPI growth recovered to an estimated 11% in FY2022, which was marginally above the upper band of ICRA's expectation of 7-9%. Increasing health insurance awareness following the onset of the Covid-19 pandemic and revision in premium pricing in the fire segment aided the growth in FY2022. The GDPI of private sector insurers grew at a faster rate of 14% (E¹) compared to the growth of 5% (E) witnessed by public sector undertaking (PSU) insurers in FY2022. ICRA expects the industry GDPI to grow by 10-12% to Rs. 2.2 trillion in FY2023, led by higher growth in the health and commercial business segments. The GDPI of PSU insurers is expected to grow moderately at 4-6%, while private insurers are expected to capture market share by growing at a higher rate of 13-15% in FY2023. The GDPI from the health segment and commercial lines (fire, marine and engineering) is expected to grow at a higher rate than the motor segment. Further, the revision in the pricing of certain health products in late FY2022 and the proposed revision in the motor-TP

¹ Estimate

Weak underwriting performance of PSU insurers resulting in weak solvency profile, thereby requiring Government support in FY2023

Uptick in economic activity and increasing awareness of health insurance expected to fuel growth in FY2023

Rising yield scenario expected to impact PSU insurers more, as they often sought sale of investments to book gains and restrict the net losses

premium are expected to support the premium growth for FY2023. However, economic uncertainty due to structural challenges in the automobile industry and rising commodity and oil prices amid the geopolitical crisis pose downside risk to FY2023 growth.

- **Health segment fuelled growth in FY2022** – The gross premium from the health segment experienced a steep year-over-year (YoY) growth of 26% in 11M FY2022 with growing awareness of medical insurance and increase in premiums amid the pandemic. The fire segment premium increased by 8% in 11M FY2022 despite partial lockdowns across the country. Post the decline in FY2021, the motor business reported muted growth of 4% in 11M FY2022 on the lower base due to structural challenges in the automobile industry. The GDPI from the crop business declined by 20% in 11M FY2022 mainly due to the significant decline in the PSU business.
- **Combined ratio expected to improve in FY2023, though underwriting performance of PSU insurers to remain weak** – The combined ratio across the industry deteriorated to 119% in 9M FY2022 from 112% in 9M FY2021 due to higher health claims. Covid claims accounted for 6% of the total number of health claims paid in FY2021 and are expected to form around 11-12% of the total number of health claims paid in FY2022. With the resumption of economic activity and the relaxation in lockdown restrictions in FY2022, vehicle movements were back to normal, resulting in higher claims because of road accidents. The combined ratio for the industry is expected to improve in FY2023 driven by lower health claims and the expected improvement in risk pricing by the insurers. ICRA expects the combined ratio for PSU insurers to improve to 124-126% in FY2023 from 127% (E) in FY2022 supported by various cost-cutting measures directed by the Central Government and better claims performance. However, PSU insurers are expected to continue to post net losses in FY2023 with negative RoAE. With better risk pricing and underwriting practices, private players are expected to report a combined ratio of 106-108% in FY2023 with RoAE of 12-14%.
- **ICRA expects Government support in the form of regulatory forbearance or fresh capital in FY2023** – With the deterioration of the combined ratio, the PSU insurers reported high net losses. To augment the solvency profile, the Government of India (GoI) infused fresh equity capital of Rs. 5,000 crore in weaker PSU insurers in March 2022. Accordingly, ICRA expects the solvency position of PSU insurers to improve to 1.67x or 1.39x as on March 31, 2022, considering 100% or 50% FVCA forbearance, respectively. ICRA expects the regulator to continue to provide FVCA forbearance to weak PSU insurers in FY2023 and accordingly estimates the solvency of PSU insurers at 1.57x-1.60x as on March 31, 2023 at 100% FVCA forbearance. If the FVCA forbearance is reduced to 50%, ICRA estimates incremental equity capital requirement of around Rs. 350 crore for solvency of 1.30x or between Rs. 3,800 crore and Rs. 4,200 crore for solvency of 1.50x as on March 31, 2023.
- **Private players expected to have a comfortable solvency position** – ICRA notes that the well-established private insurers have solvency ratios comfortably above the regulatory minimum with better profitability, risk management and asset-liability management. Private insurers reported a decline in the RoAE to 12.1% (16.1% in FY2021) while maintaining the solvency position at 2.21x as on December 31, 2021. Select private players are expected to report solvency of 2.07x-2.15x as on March 31, 2023. Further, as on December 31, 2021,

select private players had equity capital buffer and can issue additional sub-debt of Rs. 3,271 crore, which could add 0.16x to the solvency ratio as on March 31, 2023.

- **Investments** – The investment book of the sector (PSUs and select private players) increased 14% YoY to Rs. 3.47 trillion as on December 31, 2021, supported by the higher GDP growth of select private players. Around 42% of the investments were held in the form of Government securities (G-Secs) and quasi-sovereign securities, while equities stood at 17%. PSU insurers (30%) held a higher share in equity investments compared to private players (6%). Given the inflationary scenario and the declining liquidity surplus in the system, the Indian economy is poised for interest rate reversal, thereby impacting the valuation of the debt and equity investments held by the insurers. PSU insurers are expected to be more affected as they often sought the sale of investments to book gains and restrict the net losses. As on December 31, 2021, the market value of the debt securities held by PSU insurers was 3% higher than the book value (compared to 1% for select private insurers), thereby providing a buffer to absorb the negative variance in the investment value in a rising interest rate scenario.
- **Major regulatory changes in the industry** – The regulator (Insurance Regulatory and Development Authority of India – IRDAI) issued The IRDAI (Surety Insurance Contracts) Guidelines, 2022 to promote and regulate the surety insurance business, which became effective from April 1, 2022. The surety business will act as an additional revenue generator for general insurers, though the regulator has capped the business. Further, ICRA believes the industry might need to resolve multiple challenges, viz. adequate pricing, reinsurance arrangement and underwriting expertise, before significant scaleup is visible. In March 2022, the regulator also issued draft guidelines for revision in motor third party (motor-TP) insurance premium, which was last revised in June 2019. With the marginal increase in the premium rates for the goods carrying commercial vehicle segment (which forms a major share of the motor-TP premium), the proposed revision is expected to marginally improve the motor-TP premium for FY2023. In addition the regulator released draft guidelines on the remuneration and tenor for CEO and non executive directors. Minimum and maximum caps were placed on variable pay, with 50% of the variable pay to be in the form of ESOPs. The maximum tenor of a CEO is to be capped at 15 years.

This ICRA paper, on the general insurance sector in India, analyses the performance of 18 general insurance companies collectively representing ~90% of the industry-wide gross direct premium written (GDPW) during 9M FY2022. Of these companies analysed, four are from the public sector and 14 from the private sector. Our industry analysis does not include specialized insurers such as Export Credit Guarantee Corporation of India Limited (ECGC) and Agriculture Insurance Company of India Limited (AIC of India). The industry performance encompasses all the players in the general insurance industry, while the financial performance analysis section and outlook is pertaining to the 18 entities listed earlier.

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» General Insurance Industry Outlook

» Industry Performance Analysis and Outlook

- Growth recovery to continue; structural challenges and economic uncertainty pose downside risk for FY2023
- Private players continue to gain market share
- Health and fire segments fuel growth in FY2022
- Robust growth in health segment in 11M FY2022, though loss ratio remained higher amid the pandemic
- Motor segment impacted by structural challenges; revision in motor-TP pricing to marginally support premium growth
- Recovery in economic activity and revision in premium rates led to higher growth in fire segment
- Crop segment growth impacted by change in regulations and lower participation of PSU insurers
- PSUs continue to have higher retention ratio; reinsurance premium impacted by decline in GIC's share amid pandemic
- Potential for general insurance in India remains strong, given low penetration and density
- Claims ageing increased in FY2021 amid operational challenges during the pandemic
- Retail claims expected to remain high in FY2022 led by higher health claims post second wave
- Important regulatory/industry announcements

» Financial Performance & Analysis

- Combined ratio of PSUs remains higher; claims soared in 9M FY2022 post second wave
- Loss ratio in health and motor segments deteriorated in 9M FY2022
- Net profitability largely supported by investment income
- Improvement in combined ratio to drive profitability in FY2023
- G-Secs dominate investments; equity mix remains higher for PSU insurers, exposing them to market volatility
- Solvency ratio remains comfortable for private insurers, while PSUs' solvency largely supported by Govt's capital infusions
- Direct business and brokers dominate distribution channel; PSU insurers source considerable business from individual agents
- Comfortable liquidity profile; PSU insurers carry higher share of equity investments and cash and bank balances

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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