ICRA

# INDIAN GENERAL INSURANCE INDUSTRY REPORT

## Robust growth driven by health segment; financial performance remains strong despite impact of natural catastrophic events

MAY 2024

# List of abbreviations

**FY:** Financial year; refers to 12-month period starting from Apr 1 and ending on Mar 31

**9M FY:** Refers to the nine-month period starting from Apr 1 and ending on Dec 31

**YoY:** Year-on-year

**GDPI:** Gross Direct Premium Income

**IRDAI:** Insurance Regulatory and Development Authority of India

**ECGC:** Export Credit Guarantee Corporation

**AIC:** Agriculture Insurance Company of India Limited

**SAHI:** Standalone Health Insurers

**FVCA:** Fair Value Change Account

**Net Loss Ratio :** Net loss incurred / Net premium earned

**Total Expense Ratio:** (Net commissions + Management expenses)/Net written premium

**RoE:** Return on Adjusted Equity (net worth excluding FVCA)

**NAT CAT:** Natural catastrophe

**OD:** Own Damage

**TP:** Third Party

**PA:** Personal Accident

**ASM:** Available Solvency Margin

For the purposes of this analysis, ICRA has classified insurers into the following categories:

| Classification | |
|---|---|
| **Public Insurers (PSUs)** | The New India Assurance Co. Limited, National Insurance Co. Limited, United India Insurance Co. Limited, and The Oriental Insurance Co. Limited |
| **Select Private Insurers** | 13 private sector general insurers: ICICI Lombard, Bajaj Allianz General Insurance, SBI General Insurance, HDFC ERGO, Tata AIG, Cholamandalam MS, IFFCO TOKIO General Insurance, Future Generali, Go Digit, Reliance, Royal Sundaram, Shriram, and Universal Sompo General |
| **Private Insurers** | Private insurers including SAHI |
| **Industry** | Total general insurance industry excluding specialised insurers ECGC and AIC |

# Agenda

**1** Key Updates and Takeaways on ICRA's Outlook

**2** Industry Performance Analysis and Outlook


**3** Financial Performance and Analysis

**4** Solvency Position and Capital Requirements

**5** ICRA's Coverage on General Insurance Sector

**6** Industry Financials

# Executive Summary

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*Industry GDPI expected to grow to Rs. 3.21-3.23 trillion by FY2025 and Rs. 3.67-3.71 trillion by FY2026 from Rs. 2.79 trillion in FY2024; private insurers to expand further to 70.5% of GDPI in FY2026 from 67.6% in FY2024.*

***The growth in industry's GDPI was strong at 15.5% YoY in FY2024 to Rs. 2.79 trillion. The health segment witnessed the strongest growth (accounting for ~50% of incremental GDPI of ~Rs. 375 billion in FY2024) with the rising awareness of health insurance and increased ticket sizes. Further, the strong growth in vehicle sales supported the growth in motor OD. ICRA expects the incremental GDPI to remain strong in FY2025 and FY2026 with the industry GDPI to reach Rs. 3.67-3.71 trillion by FY2026.***

***With the high frequency and severity of the NAT CAT events in FY2024, the net loss ratio of the fire segment was impacted. However, considering the reinsurance and low retention in this segment, the impact on the overall net loss ratio of the industry was manageable. Profitability for private players remained strong supported by improved investment income, which is likely to continue; adjusted ROE for private players expected to improve to 12.7-14.0% in FY2025 with improvement in underwriting performance (combined ratio of 105.5-106.5% in FY2025 over 106.5-107.0% and RoE of 13.0-13.5% in FY2024 (estimate)).***

***The PSU insurers posted a small net profit in 9M FY2024 over net losses in the previous years, driven by an improvement in the combined ratio and higher investment income. Improvement in combined ratio was supported by the absence of the retrospective wage revision and payment of associated arrears in FY2024. ICRA expects the combined ratio for PSU insurers to remain weak, albeit improving, at 120.6-121.6% in FY2025.***

***Solvency for the three PSU insurers (excluding New India) continue to remain weak at negative 0.58 times (excluding fair value changes on investments) as of December 2023, resulting in sizeable capital requirement. Private players, however, remain comfortably capitalised to meet the strong growth.***

- GDPI to increase to Rs. 3.21-3.23 trillion by FY2025 (15-16% YoY) and Rs. 3.67-3.71 trillion by FY2026 (14-15% YoY).
- Combined ratio expected to improve for private insurers; ROE expected at 12.7-14.0% in FY2025 and 13.4-14.6% in FY2026. Despite improvement, most PSU insurers are expected to witness elevated combined ratio.
- Capital requirement for the three PSUs (excluding New India) estimated to be sizeable at Rs. 94-102 billion to meet the solvency of 1.50x as of March 2025, assuming 100% forbearance on FVCA^ (Rs. 320-328 billion excluding FVCA).

*^Assuming FVCA remains the same as Dec-23*

# Key takeaways

**Stable outlook reflects ICRA's expectation of strong growth, a comfortable capital position and earnings for private insurers while PSUs require substantial support from the GOI**

| | |
|---|---|
| **GDPI growth expected to remain strong** | ▪ Industry GDPI grew by 15.5% to Rs. 2.8 trillion in FY2024; strong growth expected to continue<br>▪ Driven by strong distribution network and better financial profile, market share of private insurers to improve<br>▪ Health to remain the key driver for growth with increase in coverage as well as ticket sizes |
| **Loss ratio impacted by NAT CAT events** | ▪ Net loss ratio of PSUs and select private insurers stood at 98% and 77%, respectively, in 9M FY2024 (98% and 76%, respectively, in 9M FY2023)<br>▪ Impact of NAT CAT events on the net loss ratios of the fire segment; impact on overall loss ratio limited by the low retention in this segment |
| **Combined ratio and profitability to improve** | ▪ ROE for select private insurers to improve with improvement in combined ratio and strong investment income<br>▪ Profitability for PSUs to remain weak; though better than FY2024 with improvement in net loss ratio |
| **Solvency continues to remain weak for PSUs and comfortable for private insurers** | ▪ Including 100% FVCA, the solvency of PSU insurers (excluding New India) estimated at ~1.04x by March 2024<br>▪ Incremental capital requirement of Rs. 94-102 billion, to meet the solvency of 1.50x as of March 2025, assuming 100% forbearance on FVCA for PSU insurers (excluding New India) (Rs. 320-328 billion excluding FVCA)<br>▪ Solvency of private players remains comfortable; increase in limit for raising subordinated debt likely to support solvency, in case required |

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# Thank You!