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INDIAN GENERAL INSURANCE SECTOR

Motor third party: Is a rate increase on the horizon?

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Glossary

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Net loss ratio : Net loss incurred / Net premium earned

Total expense ratio: (Net commissions + Management expenses)/Net written premium

Combined ratio: Net loss ratio + Total expense ratio

Ultimate net loss ratio: Initial estimate of the ultimate net loss for the business underwritten during the year

Reserving: Reserving is the provision made by the company from the current premium for the claims to be paid in the future

Favourable development: Favourable development happens when the actual claims expected to be paid out are lower than initially assessed. This may result in the insurance company releasing provisions in the current financial year for the business done in the past years, thereby positively impacting the current year's profitability.

Unfavourable development: Unfavourable development happens when the actual claims expected to be paid out are higher than initially assessed. This may result in the insurance company to make additional provisions in the current financial year for the business done in the past years, thereby adversely impacting the current year's profitability.

1/n: 1/n refers to a method of recognising and reporting long-term premium income over the period of risk, where 'n' represents the number of days of the policy term

Investment leverage: (Total investments – borrowings) / Reported net worth

RoE for motor segment: Profit before tax / Available solvency margin (ASM); investment income computed as policyholder (PH) investment income + shareholder investment (SH) income; PH investment income calculated basis the share of technical reserves; SH income calculated basis the ASM which in turn has been computed based on segmental RSM

Highlights

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Industry players have been requesting a rate hike in the motor TP segment.

While the large private insurers have been generating strong returns in the motor segment, the same has been supported by the favourable development of prior-period reserves.

Given the disparity in the performance across insurers; a balanced view protecting both consumers and insurers could be taken while considering a hike.

- Motor segment has been a key contributor to the overall premium of the general insurance industry with a share of 33-35% in the overall premium.
- Within motor, motor Third Party (TP) has a share of 55-60% in the overall premium.

- Motor TP is a long-tail business wherein the claims payout takes place over a longer period, thereby necessitating appropriate upfront reserving for future payouts.
- While the ultimate net loss ratio in the motor TP segment remains largely stable, the reported net loss ratio for select private insurers has reduced over the last three years, supported by the sizeable favourable development pertaining to prior year periods.
- Given the long tail nature, the motor segment has a higher investment float, which supports the net profitability of the segment, despite the weak underwriting performance.

- Motor TP is the only segment in general insurance where the pricing is regulated; further the regulator has mandated general insurers to undertake this business.
- This segment is capital intensive with higher upfront reserving for Motor TP, whereas the benefits of the income on investments emerge over future periods, resulting in a drag on the initial profitability.

- The select private insurers have been reporting strong profitability in the motor segment with a return on equity (ROE) upwards of 20%. However, the same has been supported by favourable development in the last three years, and its sustainability and prudency remain to be seen.
- The performance of the PSU insurers within motor TP has been much weaker compared to their private counterparts.

- While insurers have been requesting rate hikes, the motor TP rates have largely remained stagnant over the last few years.
- Given the disparity in the performance of the insurers in the motor TP segment, a nuanced approach could be adopted, implementing rate hikes tailored to the performance of specific segments, while safeguarding the interests of both the consumers and insurers.

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