INDIAN GENERAL INSURANCE INDUSTRY REPORT

Private insurers continue to gain market share; solvency of PSU insurers worsens

MAY 2023

Agenda

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Executive Summary

ICRA

Industry GDPI expected to grow to Rs. 3.06-3.17 trillion by FY2025 from Rs. 2.40 trillion in FY2023

Driven by improving distribution network and better financial profile, the market share of private insurers to expand further to 70% of GDPI in FY2025

With the resumption of economic activity after the waning of the Covid-19 infection, the Gross Direct Premium Income (GDPI) for the industry witnessed a sharp year on year (YoY) growth of 17.2% in FY2023 and stood at Rs. 2.4 trillion (compared to growth of 10.9% and 3.8% respectively during FY2022 and FY2021). In absolute term, incremental growth in GDPI stood at an all-time high of Rs. 350 billion in FY2023 (higher than Rs. 200 billion in FY2022 and Rs. 70 billion in FY2021). The GDPI from the health segment witnessed the sharpest growth, accounting for~48-50% of the incremental GDPI in FY2023, driven by the rising awareness of health insurance. Motor, which was subdued due to the lockdowns, also picked up pace. The incremental growth in GDPI is expected to be strong in FY2024 and FY2025 with the industry GDPI to reach Rs. 3.06-3.17 trillion in FY2025. The net claims ratio improved with the normalisation of the heath claims partially offset by the higher claims in the motor segment, with increased vehicle movement post the pandemic. While the claim ratio improved, the underwriting losses for PSU insurers increased because of wage revision and payment of associated arrears. ICRA expects the combined ratio for PSU insurers to remain weak at 125-127% in FY2024 though better as compared to 133-134% (estimate) in FY2023, while the select private players in ICRA's sample set are expected to report a combined ratio of 105-106% in FY2024 (106-107% in FY2023E). Profitability is likely to be supported by the investment income with adjusted ROE for private players expected to improve to 11.2-12.8% in FY2024. While the solvency for private insurers remains comfortable in relation to the regulatory solvency of 1.50x; high net losses for PSU insurers (excluding The New India Assurance Company Limited) resulted in negative solvency ratio of 0.25 times (excluding fair value changes on investments) as of December 2022. ICRA expects support from the Government of India (GoI) to augment the solvency profile of weaker PSU insurers.

Industry expected to grow at a healthy pace

- Industry GDPI grew by 17.2% to Rs. 2.41 trillion in FY2023; incremental GDPI at an all-time high of Rs. 350 billion
- GDPI to increase to Rs. 2.73-2.78 trillion by FY2024 (13-15% YoY) and Rs. 3.06-3.17 trillion by FY2025 (12-14% YoY)
- Private insurers continue to gain market share with ~70% share in GDPI in FY2025 (66% in FY2023; 50% in FY2017)

Executive Summary

ICRA

Combined ratio expected to improve for private insurers; ROE expected at 11.2%-12.8% in FY2024 and 12.5-13.9% in FY2025. Despite improvement, most of the PSU insurers are expected to witness elevated combined ratio resulting in net losses

Capital requirement for three PSUs (excl New India) estimated to be sizeable at Rs. 172-175 billion to meet the solvency of 1.50x as of March 2024 assuming 100% forbearance on FVCA

Lower claims in health improves loss ratio; partially offset by motor

- With waning of Covid claims, net loss ratio in health improved in 9M FY2023
- Motor claims increased due to the resumption of economic activities and higher vehicle movement
- Net loss ratio of PSU and select private insurers declined to 104% and 79% of NPE, respectively in 9M FY2023 (128% and 101%, respectively in 9M FY2022)

Combined ratio and profitability to improve

- Combined ratio expected to improve to 105-106% by FY2024 and 104-105% by FY2025 for private insurers
- With underwriting losses, profitability for private insurers is driven by the income on investment portfolio
- Higher underwriting losses for PSU insurers in FY2023 due to wage revisions and arrear payments of ~Rs. 100 billion; combined ratio expected to improve to 126-127% by FY2024 and 125%-126% by FY2025
- PSU insurers expected to continue reporting net losses in FY2024 and FY2025

Solvency remains weak for PSUs; substantial GoI support required to meet regulatory solvency requirement

- High net losses for PSUs (excluding The New India Assurance Company Limited; New India) resulted in negative solvency ratio of 0.25 times as of December 2022 (excluding fair valuation change account or FVCA)
- Including 100% FVCA, the solvency of the PSU insurers (excl New India) estimated at ~0.48x by March 2023
- ICRA estimates incremental capital requirement of Rs. 172-175 billion, to meet the solvency of 1.50x as of March 2024 assuming 100% forbearance on FVCA for PSU insurers (excluding New India)
- Solvency of private players remains comfortable; increase in limit for raising subordinated debt likely to support solvency in case of requirement

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Thank You!