Ratings

Premium growth at a decadal-high

Non-life insurance industry update

June 2017

Analytical contacts

Krishnan Sitaraman
Senior Director - CRISIL Ratings
CRISIL Limited
+91 22 3342 8070
krishnan.sitaraman@crisil.com

Ajit Velonie
Director - CRISIL Ratings
CRISIL Limited
+91 22 4097 8209
ajit.velonie@crisil.com

Abhijit Roy
Associate Director - CRISIL Ratings
CRISIL Limited
+91 22 3342 3354
abhijit.roy@crisil.com

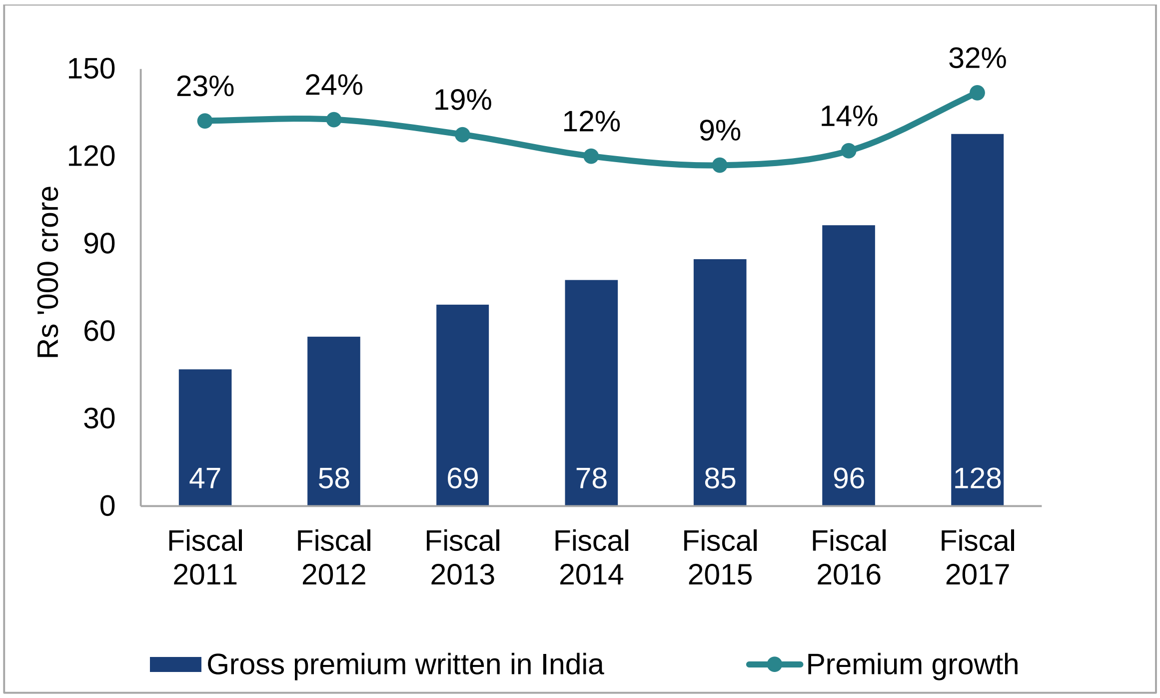
Prashant Mane
Senior Rating Analyst - CRISIL Ratings
CRISIL Limited
+91 22 3342 3397
prashant.mane@crisil.com

Vani Ojasvi
Rating Analyst - CRISIL Ratings
CRISIL Limited
+91 22 6172 3560
vani.ojasvi@crisil.com

Non-life premium growth hits a decadal-high

Non-life insurance registered a premium growth of 32% in fiscal 2017 driven by a four-fold rise in crop insurance premiums because of the Pradhan Mantri Fasal Bima Yojana. Motor third-party and health segments also contributed by recording growth in premium of 26% and 24%, respectively.

Gross premium and premium growth of non-life insurers



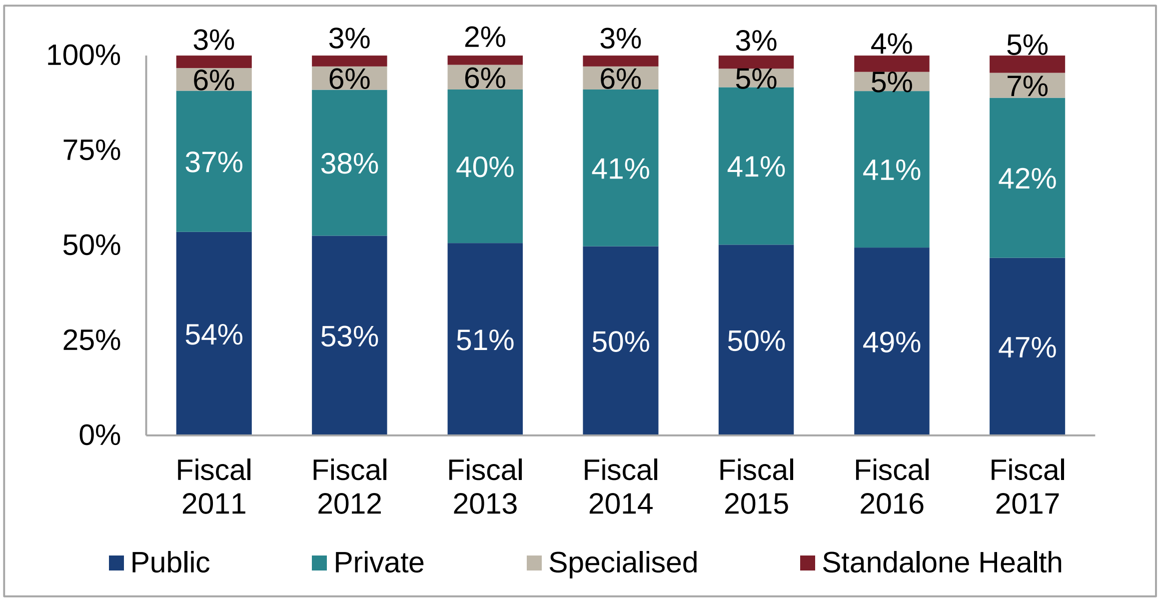
Source: CRISIL estimates

Market share edges up for private insurers

In the six years ended fiscal 2017, private insurers saw a 21% compounded annual growth rate in premiums compared with 16% for public insurers. As a result, the market share[1] of private insurers increased from 37% to 42%, while that of public insurers declined from 54% to 47%.

[1] In addition to public and private insurers, Indian general insurance industry also includes specialised and standalone health insurers

Market share based on gross premium written in India

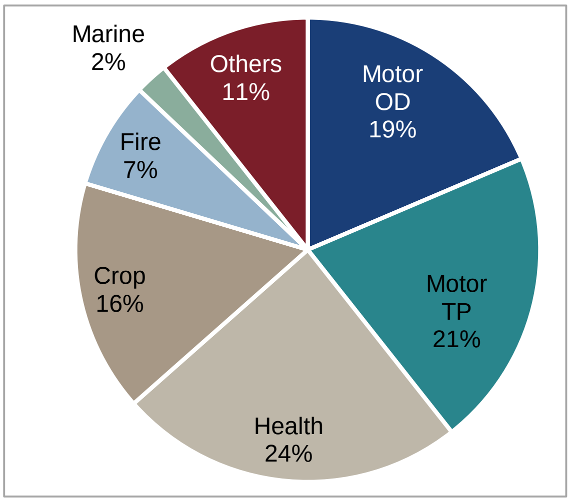


Source: CRISIL estimates

Crop insurance emerges as the third-largest segment after motor and health

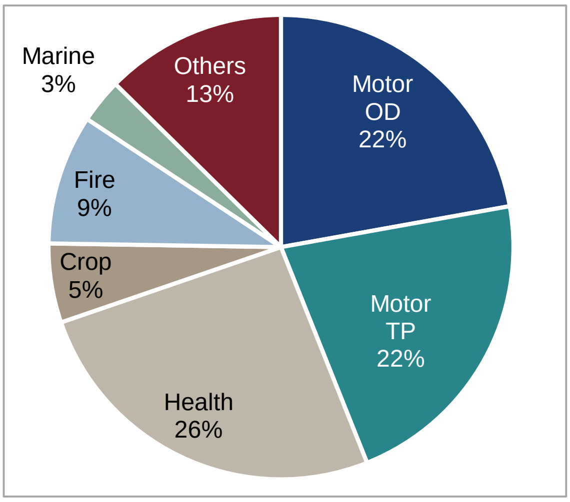
With a four-fold rise in premium in fiscal 2017, contribution of crop insurance in the gross premium written increased to 16% from 5.5% in the previous fiscal.

Segment-wise mix of gross premium written in India in fiscal 2017



Source: CRISIL estimates

Segment-wise mix of gross premium written in India in fiscal 2016

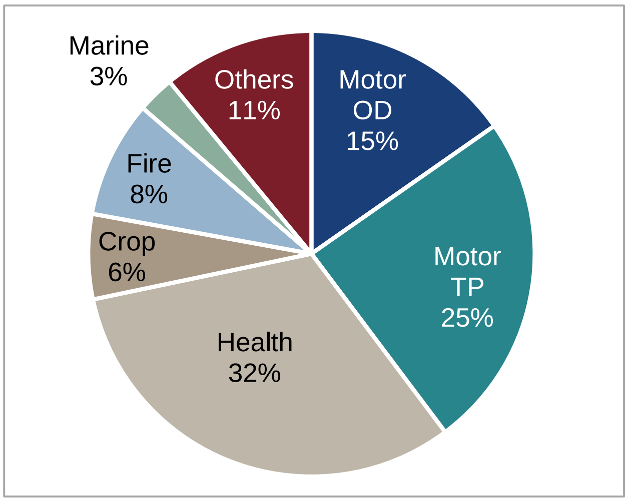


Source: CRISIL estimates

With insurance penetration among small and marginal farmers expected to increase, share of crop insurance will increase even further over the medium term – but at a gradual pace.

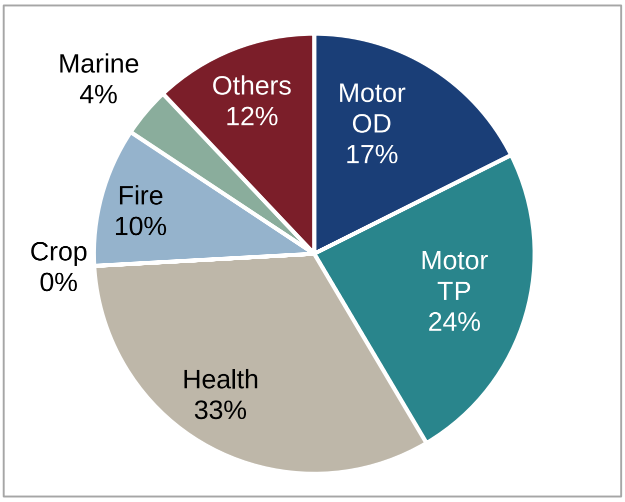
Portfolio mix of public sector insurers largely remained the same with motor and health contributing nearly three-fourth of the gross premium written in India.

Segment-wise mix of gross premium for public insurers in fiscal 2017



Source: CRISIL estimates

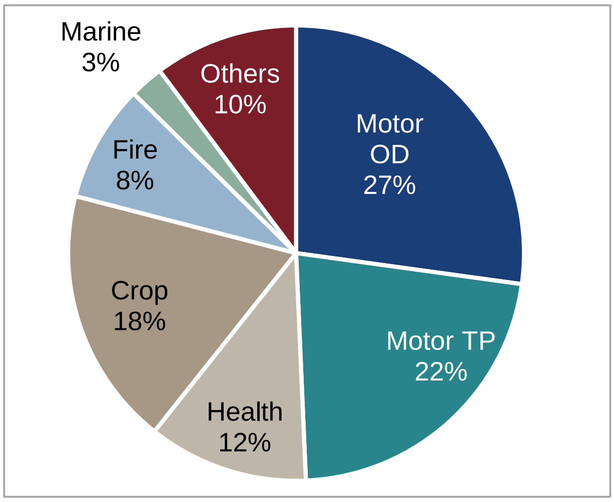
Segment-wise mix of gross premium for public insurers in fiscal 2016



Source: CRISIL estimates

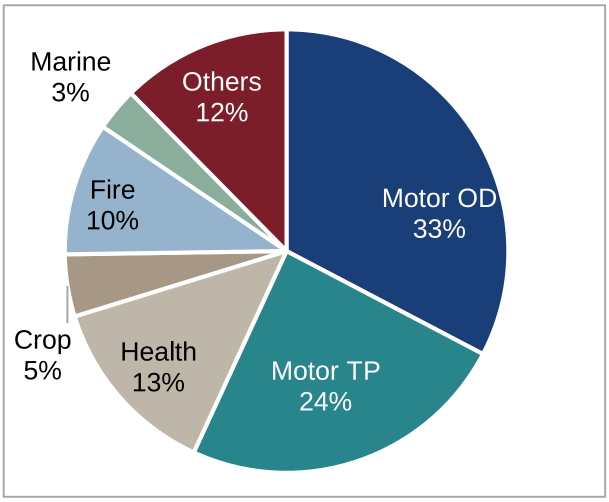
For private insurers, contribution from crop insurance business increased three-fold last fiscal. Motor insurance, however, continues to be the largest segment contributing nearly 50% of gross premium written in the year.

Segment-wise mix of gross premium for private insurers in fiscal 2017



Source: CRISIL estimates

Segment-wise mix of gross premium for private insurers in fiscal 2016



Source: CRISIL estimates

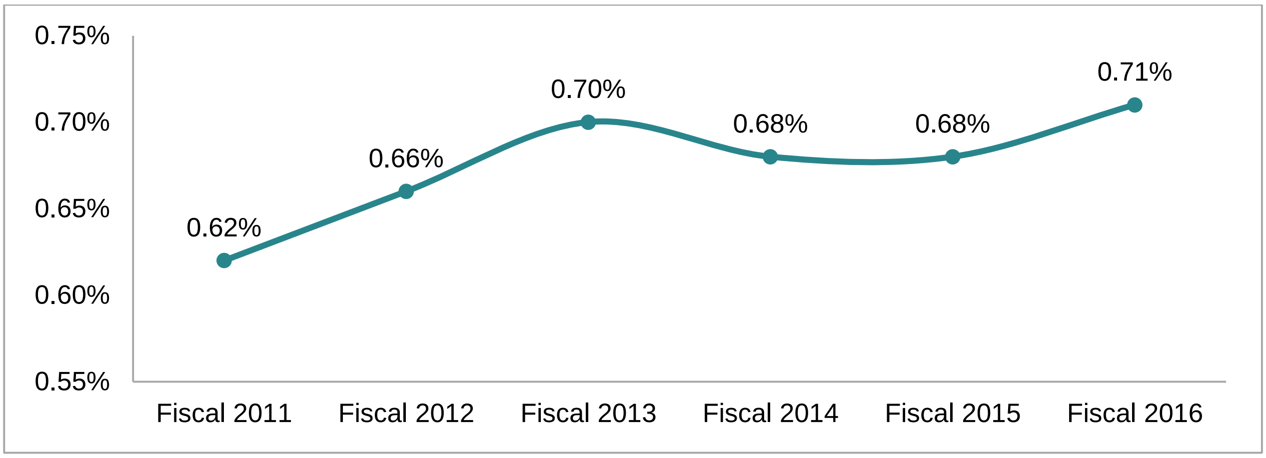
Long-term prospects remains buoyant for non-life

Though premium growth for non-life insurers will moderate in fiscal 2018, it will still be strong at 18-20%. This will be aided by

1. A significant hike in motor third-party premium
2. Price correction in the group health segment
3. Increased penetration in the crop insurance and retail segments

Relatively low level of insurance penetration[2] in India presents ample opportunity for growth. But the challenge is to design new products that meet customer needs.

Non-life insurance penetration in India



Source: GIC Yearbook 2016

Regulations supportive of penetration

Regulatory developments in the recent past is expected to lead to an increase in insurance penetration in the country, albeit gradually. Major developments likely to have a positive impact are as follows:

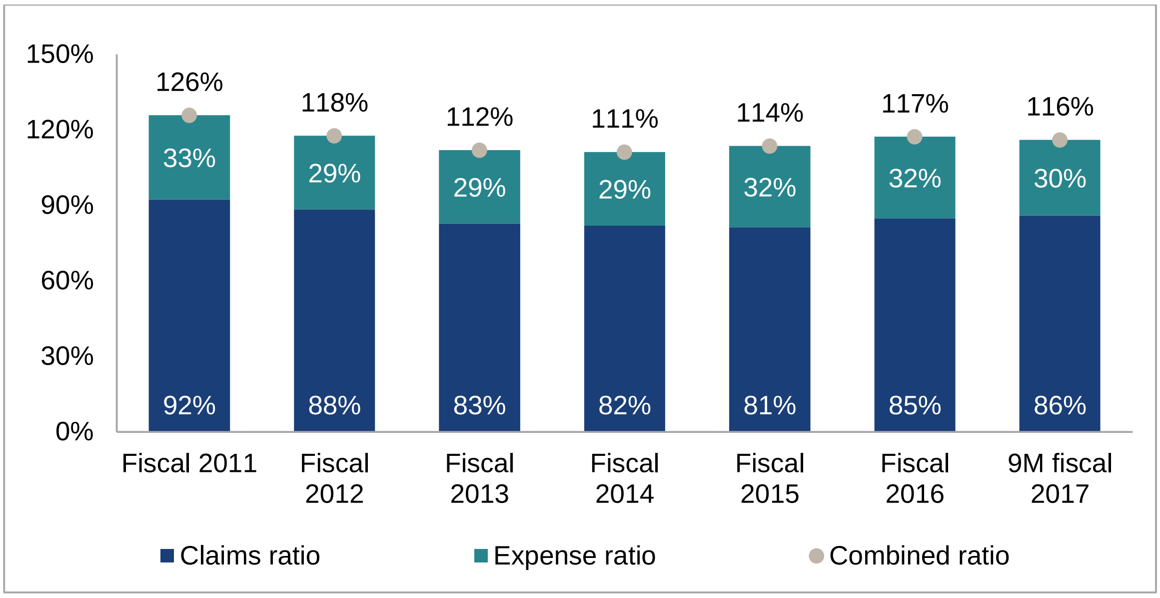
1. Increase in foreign direct investment in an insurance company to 49% from 26%
2. Allowing insurers to raise hybrid capital such as subordinated debt and/or preference shares
3. Permitting large foreign reinsurers with strong financial profile to set up branches in India
4. Permitting Lloyd's (a global specialist insurance and reinsurance market) to enter into India

[2] Gross premium written expressed as a percentage of gross domestic product (GDP)

Underwriting performance, however, remains a drag

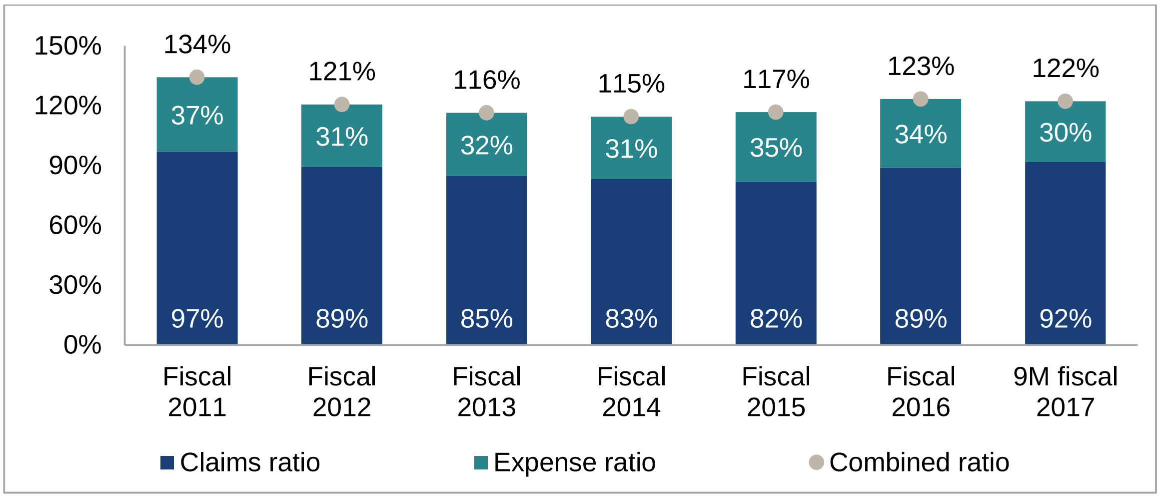
Underwriting performance remains modest as reflected in high combined ratio[3], which stems from continued weakness in the group health and motor third-party segments. Moreover, the combined ratio increased in the past few years because of increase in claims ratio following catastrophic events such as floods in Chennai, Uttarakhand and Jammu & Kashmir, and cyclone in Andhra Pradesh.

Underwriting by non-life insurers



Source: CRISIL estimates

Underwriting by public non-life insurers

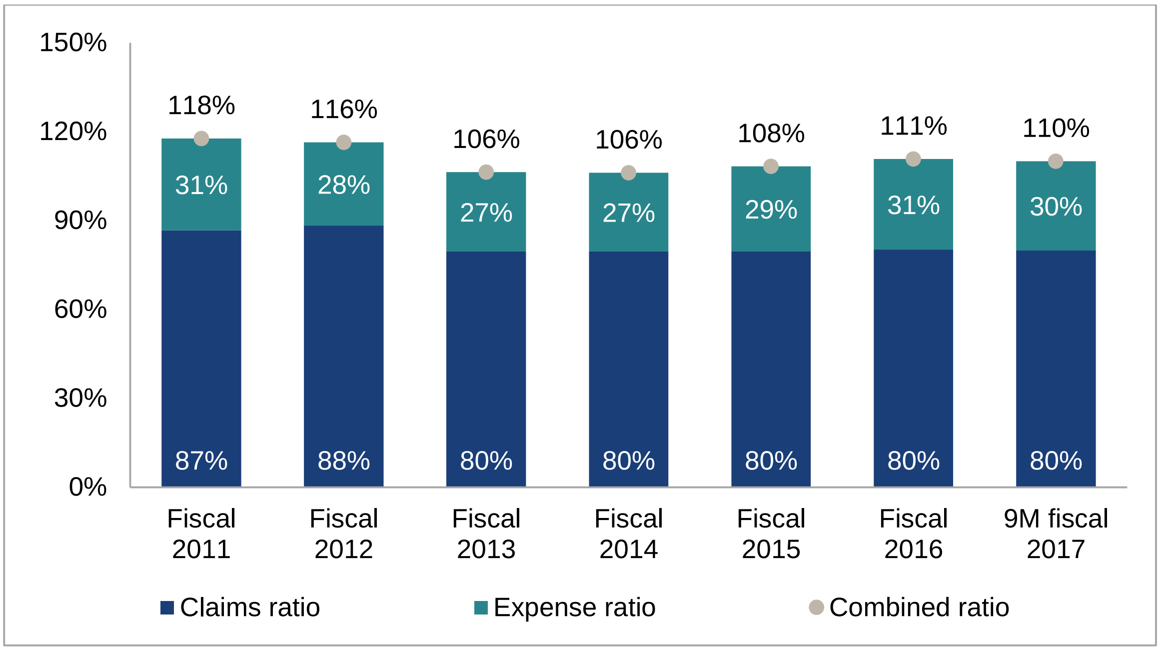


Source: CRISIL estimates

[3] Combined ratio is an indicator of the underwriting performance of a non-life insurance company. Combined ratio of above 100% indicates that an insurer is not able to make underwriting surplus and has to rely on investment income for profitability.

Claims ratio for public insurers have increased in the past few years because of sluggish group health segment. The expense ratio increased in the previous fiscals because of a revision in salary structure leading to a one-time increase in retirement benefits such as gratuity.

Underwriting by private non-life insurers



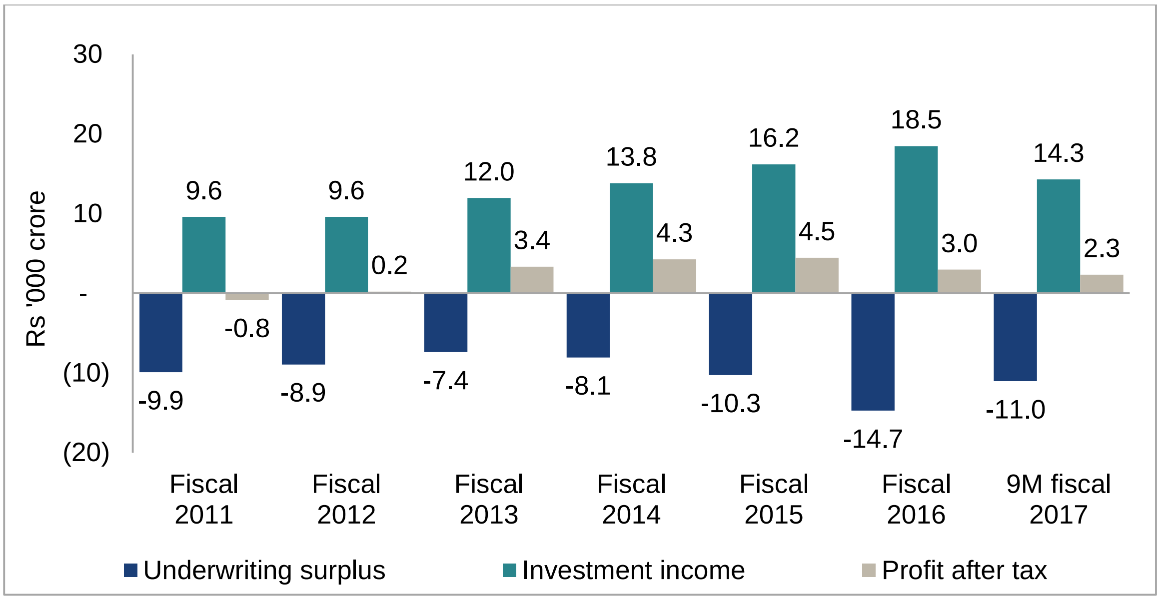
Source: CRISIL estimates

Claims ratio for private insurers have remained largely stable given limited exposure to weaker performing segments such as group health business and higher reinsurance percentage (~25%) to cover for risks related to large exposure. Combined ratio for private insurers nevertheless went up due to increase in expense ratio because of diversification into newer product segments such as two-wheelers and retail health.

Profitability supported by healthy investment income

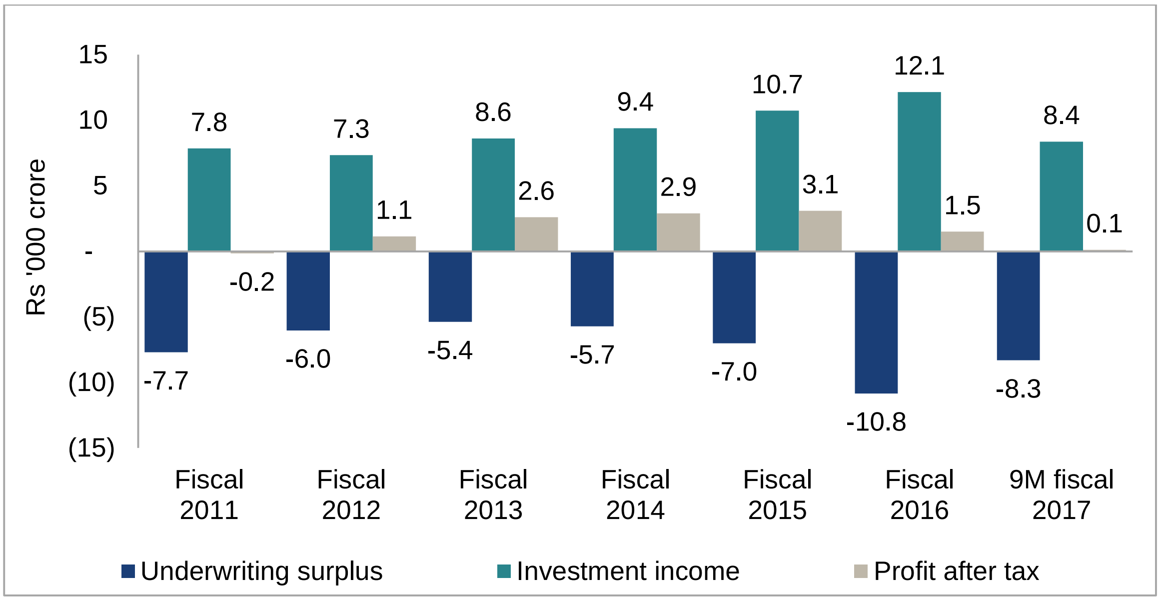
Despite the underwriting deficits, the industry has been profitable supported by healthy investment income both in the form of income from interest, dividend and rents, and profit from sale of investments. The ability to implement risk-based pricing across products and improve underwriting performance, nevertheless, remains critical.

Profitability of non-life insurers



Source: CRISIL estimates

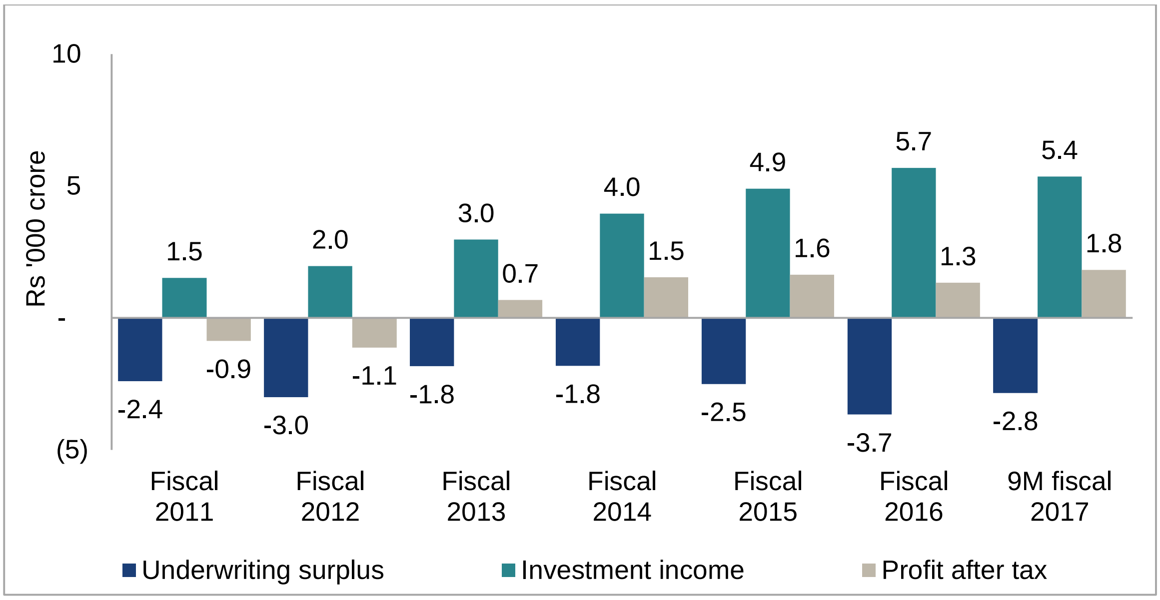
Profitability of public non-life insurers



Source: CRISIL estimates

Profitability for public insurers declined in fiscal 2016 and in the nine months of 2017 due to sharp decline in underwriting performance – as reflected in the increase in combined ratio.

Profitability of private non-life insurers



Source: CRISIL estimates

The financial performance of private insurers also declined in the past few fiscals because of weakness in underwriting. However, they have outperformed public insurers because of limited exposure to weaker segments such as group health.

Capital adequate for now, but will be needed in future

Capitalisation is adequate for most non-life insurance companies as reflected in their solvency ratios. Moreover, solvency ratios are expected to improve because of a change in the way solvency margin is calculated. The Insurance Regulatory and Development Authority of India (IRDA) recently revised the factor used to compute solvency margin for crop insurance to 0.5 from 0.7, and extended the timeframe to recognise government dues in available solvency margin to one year from six months so as to enable capital optimisation and improve insurance penetration. This will result in 10-15 basis points rise in the reported solvency ratios of non-life insurers with sizeable exposure to the crop insurance business.

Yet most insurers will need external capital to fund growth, while maintaining solvency ratio, because internal accruals may come up short given modest underwriting performance.

Hybrid bonds have emerged as an attractive alternative to equity

Subordinated debt issuances, or hybrid bonds, have emerged as a major source of growth capital – and higher solvency ratio cushion – for non-life insurers.

In December 2015, IRDA allowed insurers to raise non-equity forms of capital such as subordinated debt or preference shares, which qualify as regulatory capital, and help improve the solvency ratio of insurers.

The first hybrid bond issuance was in July 2016, and since then seven non-life insurers have tapped the debt market. Rs 2,181 crore of hybrid capital has been raised in fiscal 2017. More issuances are on the cards with non-life premium growth expected to be buoyant this fiscal.

About CRISIL Limited

CRISIL is a global, agile and innovative analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 95,000 MSMEs have been rated by us.

CRISIL Privacy Notice

Argentina | China | Hong Kong | **India** | Poland | Singapore | UK | USA

CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India

Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

/company/crisil @CRISILLimited /CRISILLimited /user/CRISILLimited