

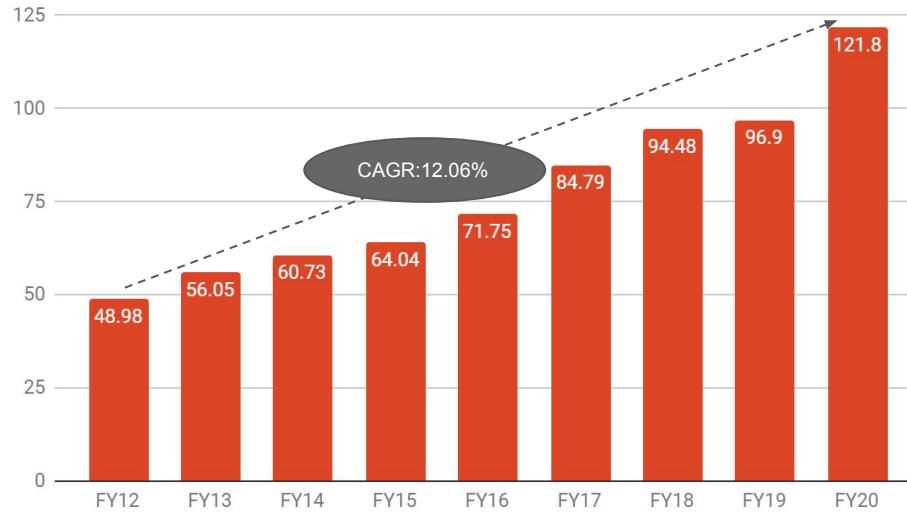
Impact of COVID-19 on Insurance Industry

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Under the guidance of **Mr. Jyotirmoy Roy, Mr. Mainak Mallick**



Insurance industry in India has taken long strides after privatisation, gross premium having grown at a CAGR of 12.06% between FY12-20.

Insurance Gross Premiums(USD Billion)

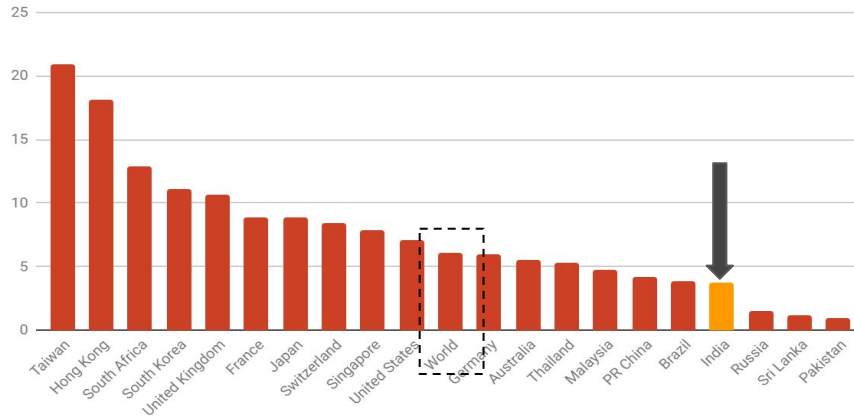


- Insurance industry in India has been at its forefront of economic development. Although after privatisation in 2000, the industry has shown huge growth yet there still remains a large untapped market.
- Gross premium collected by the insurance industry grew at a CAGR of **12.06%** from **USD 48.98 Billion** in FY12 to **USD 121.8 Billion** in FY20.
- India has **24** life insurers and **33** non-life insurers, with **LIC** being the sole public sector life insurer and **GIC** being the sole reinsurer. There are **6** public sector general insurers in the country.
- The overall share of private players has grown over the years. It has rose from **15%** in FY04 to **56%** in FY21(till April 2020) for non-life insurance industry. In the life insurance segment, private players had a market share of **31.3 per cent** in new business in FY20.

Insurance penetration has grown from 2.71% in FY01 to 3.7% in FY18 yet is far behind its peers and has huge untapped potential.

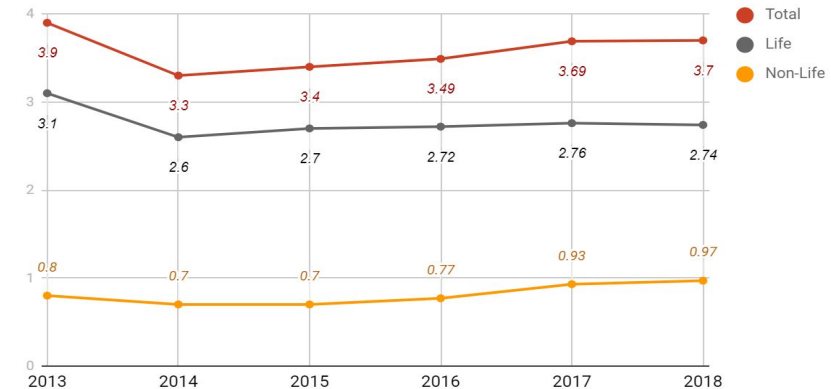
International Comparison of Insurance Penetration

As published by IRDAI in March/2020 for 2018



Insurance Penetration in India(In Percent)

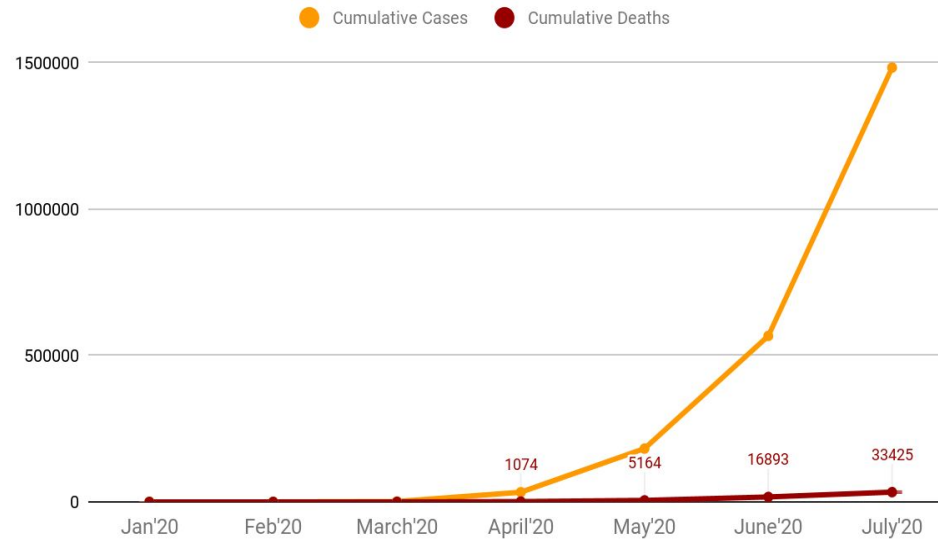
*Insurance penetration is measured as ratio of premium to GDP



- Although, the total penetration of the overall insurance business (premiums as percent of GDP) increased from **2.71%** in FY17 to **3.7%** in FY18, India remains far behind its peers as well as the world average.
- At 3.7% in 2018, India ranked **41st** in terms of insurance penetration with life insurance penetration at 2.74% and non-life at 0.97% and **15th** in terms of premium volume.
- Growing interest and awareness in insurance, innovative product offerings and distribution channels have aided the growth of the industry and will continue to do so. With increasing internet and smartphone penetration and support from the Indian government, the industry is expected to witness accelerated demand.

COVID-19 hit the insurance industry in Q4 ending, when the business is highest for the industry causing serious losses.

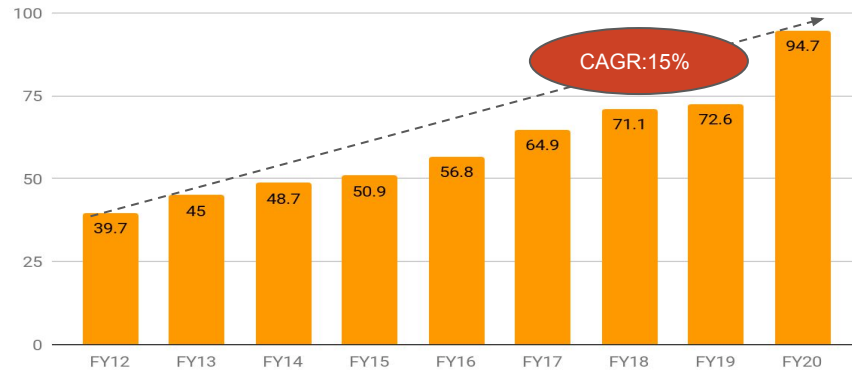
COVID-19 cases in India monthly



- Declared as pandemic by WHO on March 11' 2020, COVID-19 is a communicable infectious disease caused by a relatively newer strain of coronavirus causing a respiratory illness whose severity varies from mild to severe depending on the person's age and immunity.
- It has affected more than **15.5M** people across the globe with more than **634K** deaths. India ranks third in number of cases globally after US and Brazil with **1.4M+** cases and **33K+** deaths with daily growth surpassed ~50K cases.
- Coronavirus has caused severe havoc around the world. With lockdowns imposed, almost **140M** Indians lost their jobs and a large number of people witnessed heavy pay-cuts. IMF projected a sharp contraction of **4.5%** in Indian economy.
- As the insurance industry is mostly offline business, the industry witnessed severe losses. Life insurance industry witnessed **18.64%** decline in premium collection as compared to last year. Motor industry witnessed a completely wiped out month of April and very slow months of May and June. Health industry outperformed the motor industry first time in history with contribution in non-life portfolio rising from **30%** in 2019 to **36%** in 2020.

Online distribution channels have a meagre contribution to life insurance industry which has grown significantly during FY12-20.

Life Insurance Gross Premiums(USD Billion)

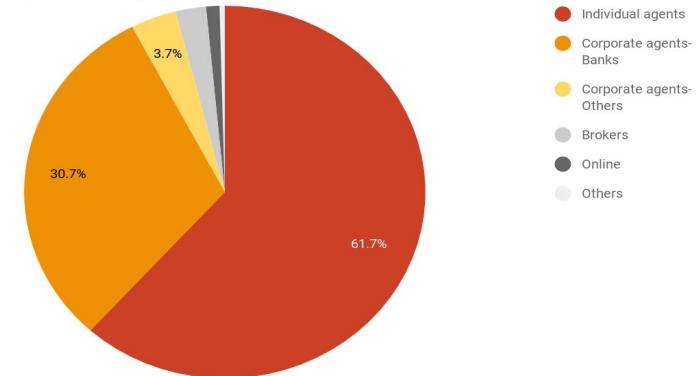


- Life insurance industry has a huge potential to grow in India. There are currently **24** life insurers with LIC being the sole public insurer whose market share stands at **66.42%** as of FY18-19.
- Gross premium collected by life insurance companies increased from **Rs. 2.56 trillion**(USD 39.7 billion) in FY12 to **Rs. 7.31 trillion**(USD 94.7 billion) in FY20 at a CAGR of **15%**.

- Life insurance industry protects the livelihoods of people by providing future earnings in the form of after-death payments to beneficiaries of the insured. It provides a steady cash flow to the family of the insured who otherwise would have to strive to live a normal life.
- Life insurance industry currently is strongly offline driven with **60%** of business being agent driven. With a meagre contribution of **0.5%** by online distribution channels to the amount of premium collected, Indian Life Insurance industry has a long way to go ahead as technology advances.

Channel-wise Business-Amount of Total Premium

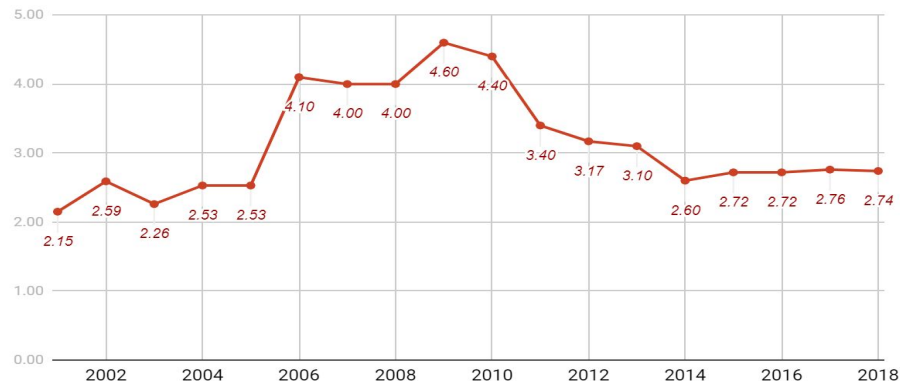
As per IRDAI published in March'20 for FY18-19



Penetration of Life insurance industry in India has although increased post liberalisation, yet remains quite low compared to its peers.

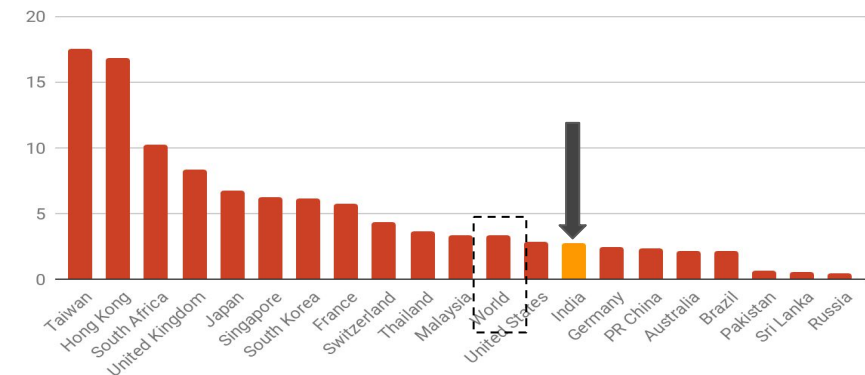
Life Insurance Penetration in India(In Percent)

*Insurance penetration is measured as ratio of premium to GDP



International Comparison of Life Insurance Penetration

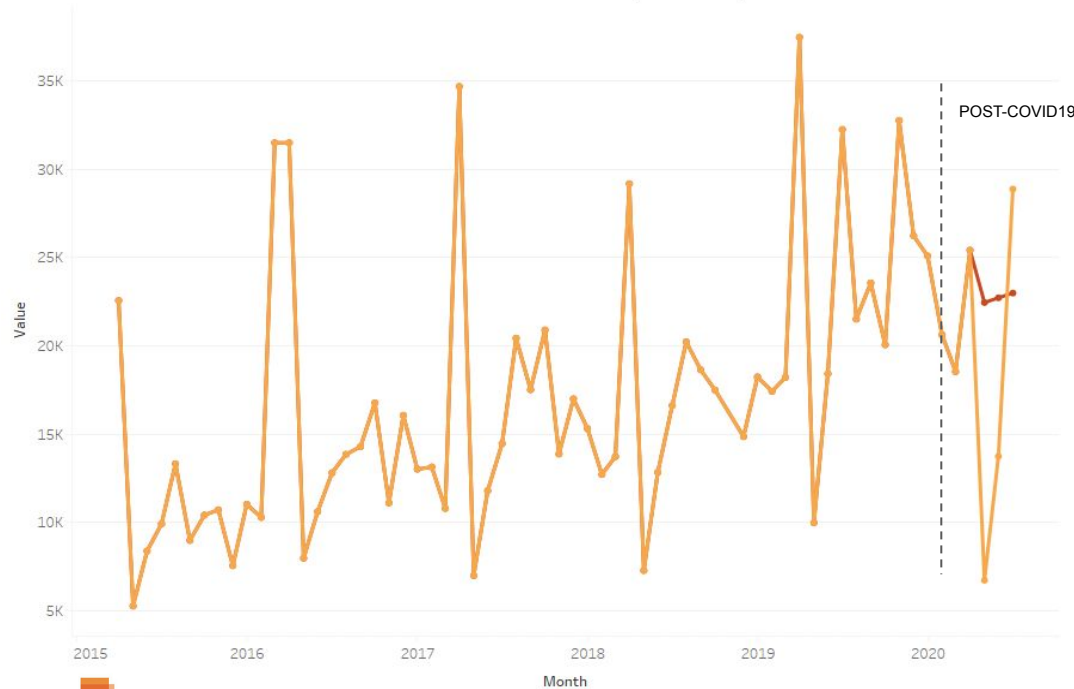
As published by IRDAI in March 2020 for FY18



- Although life insurance penetration(measured as ratio of premiums with GDP) in India has increased post liberalisation, it has declined sharply from **4.4%** in 2011 to **2.69%** in 2018 and remains far behind its peers, Taiwan and Hong Kong which have penetrations of 17.48% and 16.81% respectively.
- Despite being the second populous country of the world, India's share in the global life insurance market premiums was just **2.61 percent** during 2018. India is ranked **10th** among the 88 countries with the potential to grow exponentially in the coming years.

COVID-19 hit the insurance industry in Q4 ending, when the business is highest for the industry causing serious losses.

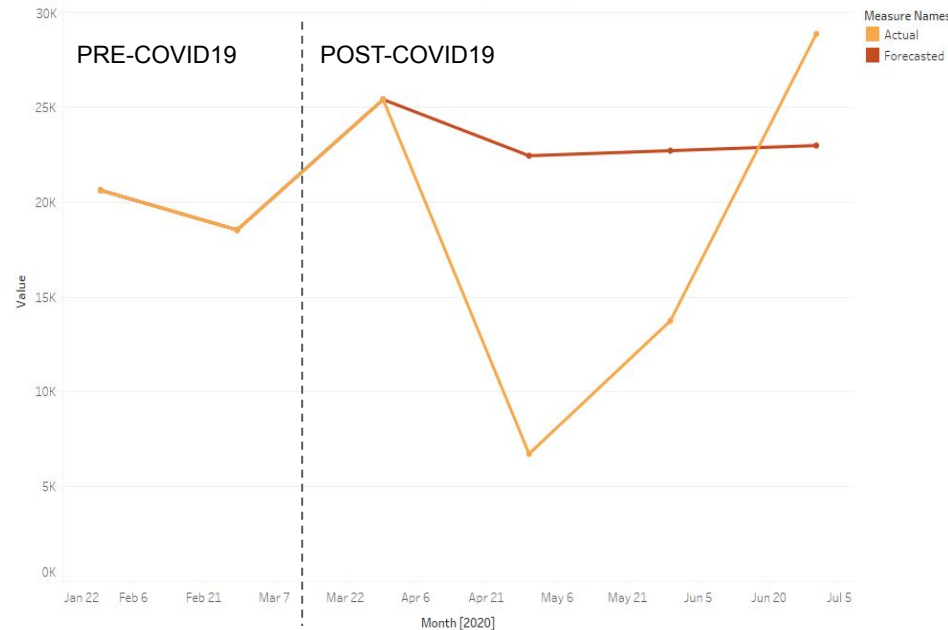
Total Life Insurance underwritten premium for FY15-21(In Crores)



- COVID-19 hit the insurance industry in its peak month of March. Insurance products are viewed as tax saving products by most of the Indians, thus the business of the industry goes up in the Q4 of a financial year, before the deadline of March end for tax filing.
- With marginal contributions from online channels, imposition of lockdown caused sharp declines in the premiums in the month of April. Life insurance industry witnessed a **40%** YoY decline in their annual premium equivalent in the month of April and a **70%** decline from the forecasted data on pre-COVID levels for the month of April.
- Even the month of March, the month which sees major traction around the year saw a **32%** Y-o-Y decline for the same period a year ago due to disruptions and fear of COVID-19.

The business of life insurance industry is anticipated to increase as people purchase more protection plans.

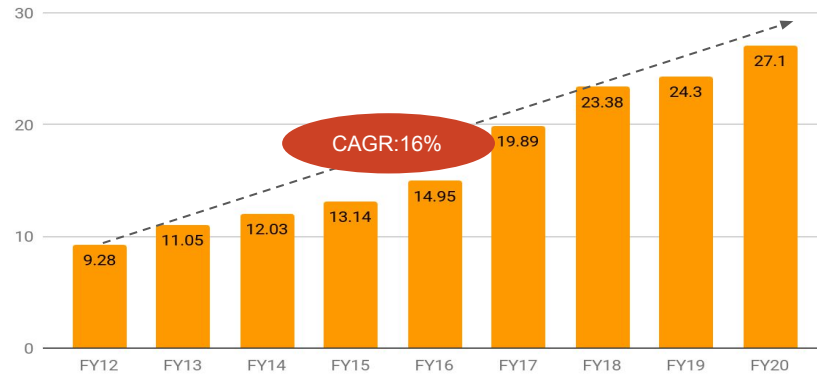
Total Life Insurance underwritten premium for FY21(In Crores)



- As lockdown started revoking, the month of June saw some momentum. Although the total business remained around 28% lesser from the forecasted levels for pre-COVID levels and 18.45% down from the last year, the month of June saw more people buying protection plans
- It is anticipated that the pandemic would force people to take protection plans to secure their family members. Since the market of term plans already exist online, the segment would witness an increase in renewal as well as purchase of policies. Policybazaar had 40% y-o-y growth in sales volume primarily due to online business.
- People would be apprehensive towards purchase of plans with higher cover to prevent locking in large sum of money for longer periods due to liquidity crunch and thus pension plans and endowment funds may witness a dip.
- With weakening confidence in the markets and plummeting interest rates, purchase of investment-linked insurance would see a decline. People already holding a policy would be advised not to withdraw prematurely due to the benefit of SIP rupee averaging cost but purchase of new policies would take a blow.

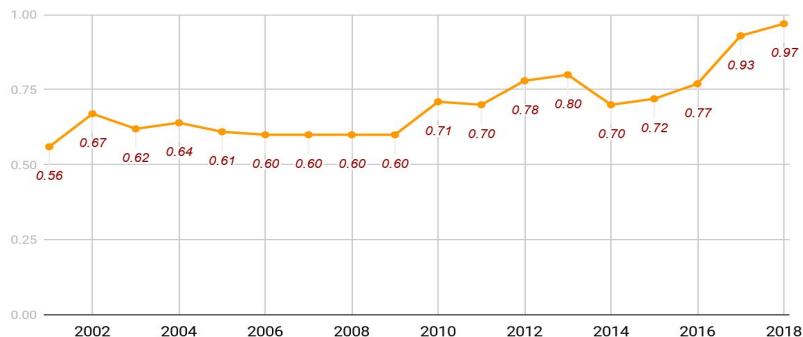
General insurance industry protects the GDP of a country by providing cover against damage to assets or properties.

General Insurance Gross Premiums(USD Billion)



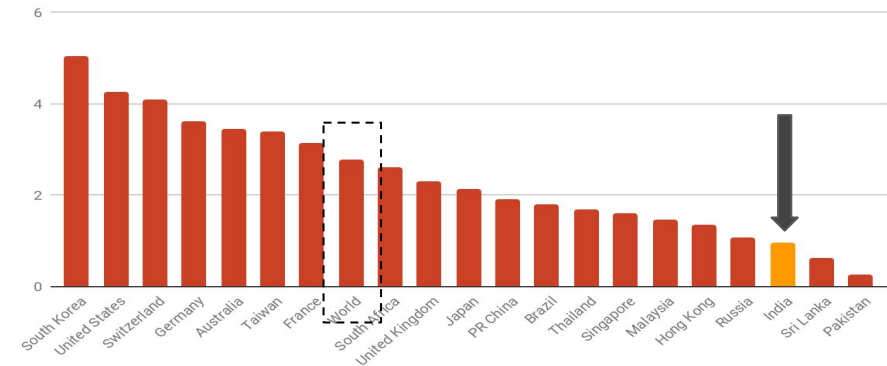
General Insurance Penetration in India(in percent)

*Insurance penetration is measured as ratio of premium to GDP



International Comparison of General Insurance Penetration

As published by IRDAI in March 2020 for 2018

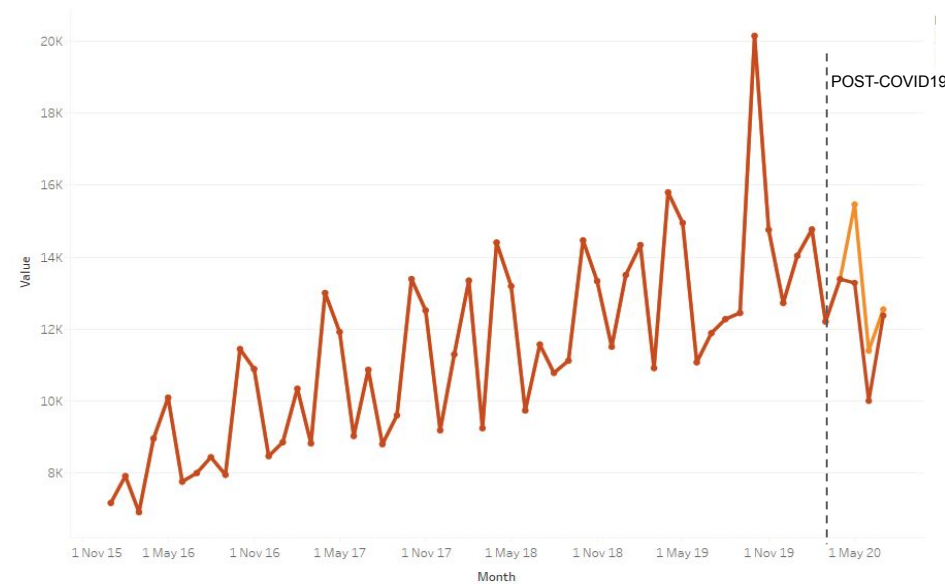


- General Insurance or Property & Casualty Insurance is designed to hedge risks due to financial losses that can occur due to damage to property or asset due to unforeseen events like accidents, disasters, etc.
- Indian non-life industry's gross direct premium grew at a CAGR of **16.0%** during FY12-20 and reached **US\$ 27.09 billion** in FY20.
- The penetration of the non-life insurance sector in the country has gone up from **0.56%** in 2001 to **0.97%** in 2018. Although an improvement, the country stands far behind the world average of **2.78%** and holds a large potential.

General Insurance industry witnessed a 10% y-o-y decline in premiums in Q1 FY20 because of lockdown.

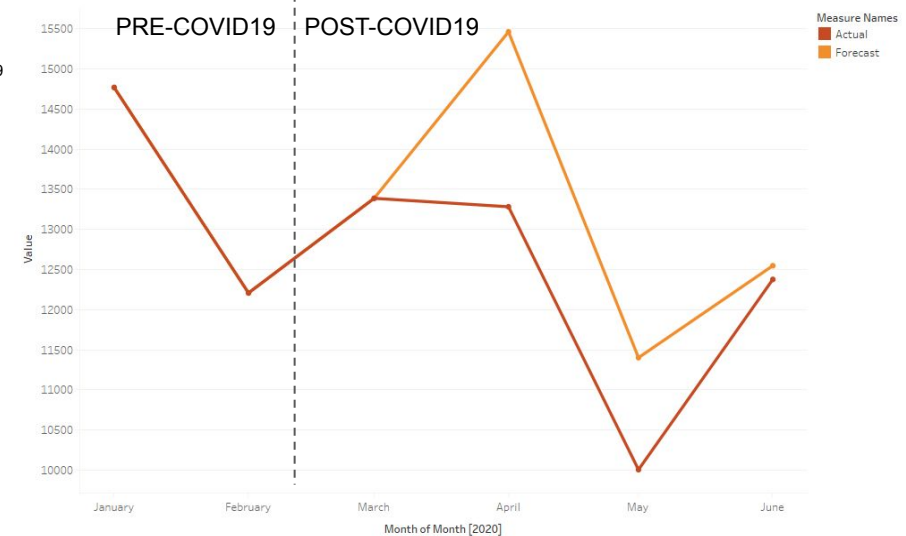
Total underwritten premium for General insurers(FY15-21)

In Rs. Crores



Total underwritten premium for General Insurers(FY21)

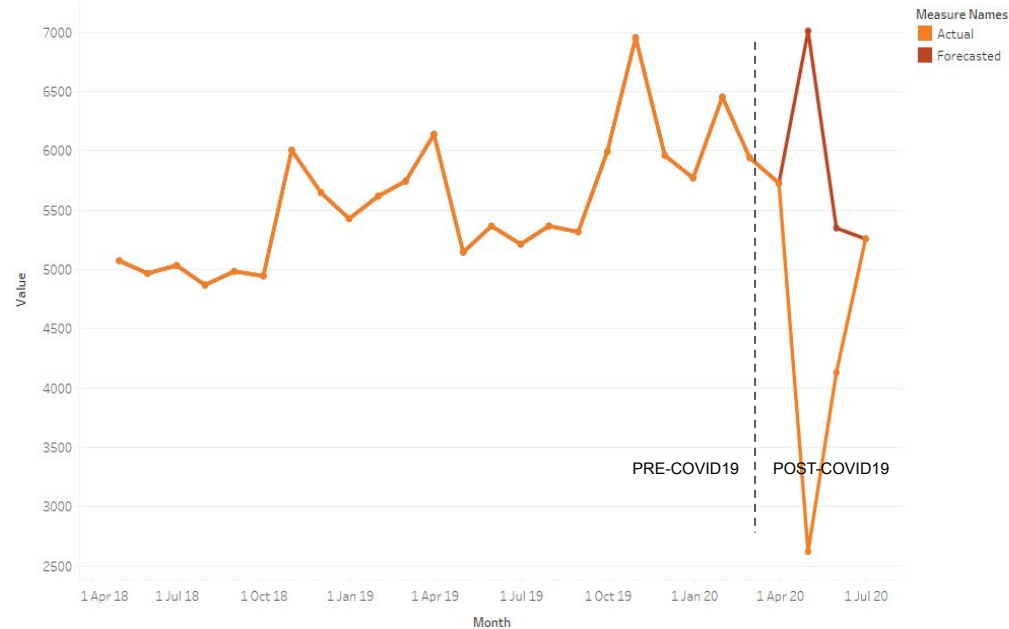
In Rs. Crores



- COVID-19 has affected different segments of general insurance differently. While the motor industry faced severe losses and slipped from its position of top contributor, health and fire industry have been the gainers.
- Although the month of June saw revival by 8% y-o-y growth in premiums led by 47% y-o-y growth in fire insurance, robust 9% y-o-y growth in health and revival in motor premium to 1% y-o-y, the entire year is expected to be slower than expected due to constrained cash flows similar to Q1 which witnessed a 10% y-o-y decline from previous year.

Motor industry witnessed a completely washed out month of April and thus the industry witnessed significant declines.

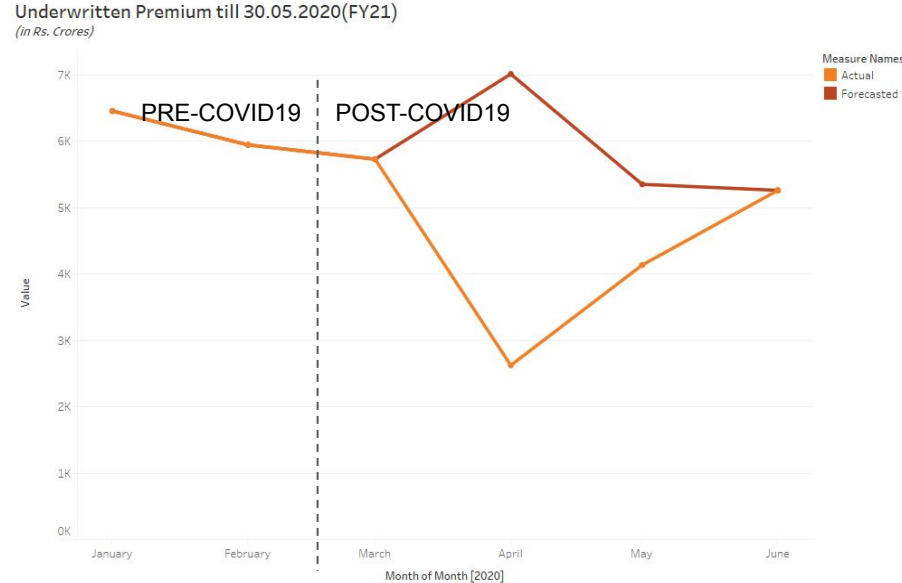
Underwritten Premium till 30.05.2020(FY18-21)
(in Rs. Crores)



- The motor insurance industry accounts for almost **35%** of the overall insurance premium collection, thus making it one of the largest and most important sectors.
- COVID-19 affected the motor industry at a time when the industry was already witnessing lows in a completely historic manner; the industry witnessed a **zero sales** completely washed out month of April.
- Motor insurance industry witnessed the worst hit across the entire industry with a **49%** decline year-over-year dip in sales for the month of April and took a **63%** sales decline blow as compared to the forecasted data for pre-covid levels.
- As lockdown reopened and people started getting out, motor insurance saw a muted **1%** y-o-y growth in June 2020 as compared to declines of **23%** in May 2020 and **49%** in April 2020, although the industry still took a blow of around **32%** for Q1 FY 20 had the things been normal.

A short term profit may be seen due to reduction in claims but as things go back to normal, stressed cash flows would put a lot of burden on motor insurance premiums.

A short term profit may be seen due to reduction in claims. Reduction in vehicles on road means a decrease in road accidents and thus a decrease in claims on existing policies. Infact, ICICI Lombard reported an improvement in its claim ratio from 68% a year ago to 62.9% in the first quarter of FY 21 due to reduction in accidents because of the lockdown imposed.



Lack of purchase of new vehicles is one of the biggest challenges. After a washed out April and a truncated May, June 2020 saw some positive momentum. Even though a positive momentum has been seen, the automobile industry witnessed a 51% drop in total domestic sales in the same period last year. With job losses and pay cuts, constraint cash flows overall disbursement of policies will be low.

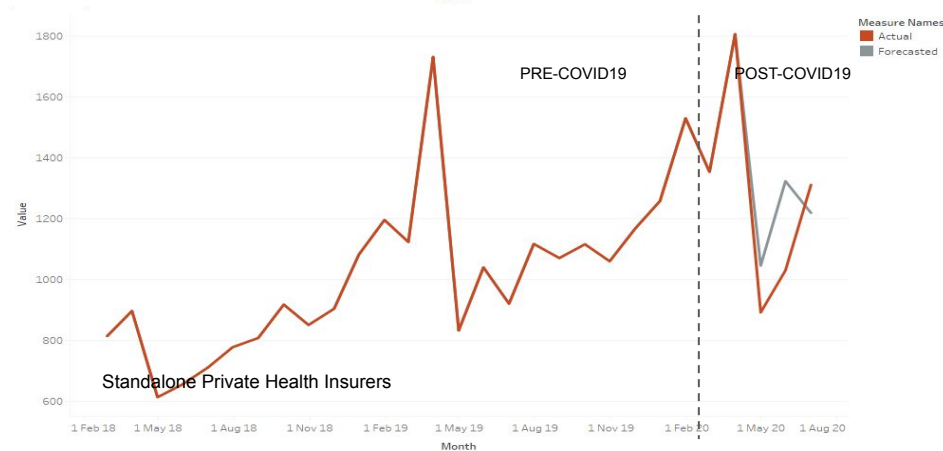
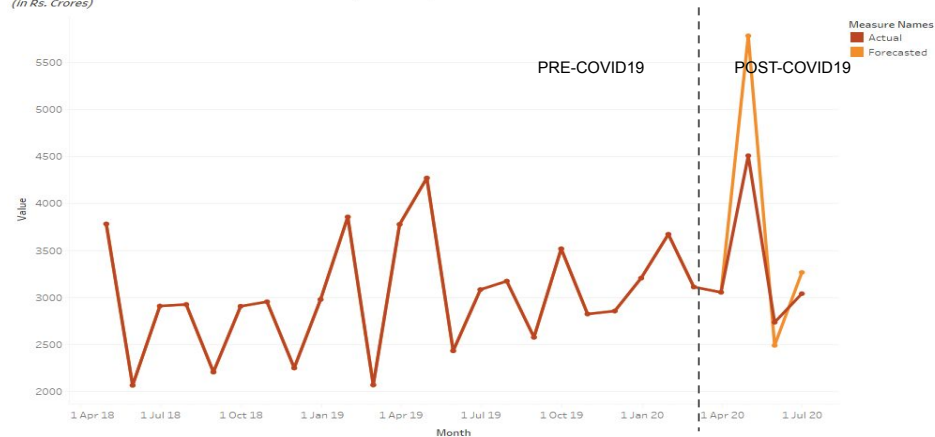
Long term persistence of social distancing would however can mean two things

- With restriction in public transport and overall concerns about hygiene and contactless travel, people who can afford to buy new vehicles would purchase their own which could mean some increase in business.
- Private vehicles' frequency could increase on the road as a result, which would imply an increase in accidents and damages to vehicles and thus increase in claims.

Overall as things would go back to normal, stress on cash flows would lead to muted automobile sales plus same claim ratio as pre-COVID levels would mean a lot of pressure on business from motor premiums.

Health insurance premiums became the top contributor to the non-life portfolio.

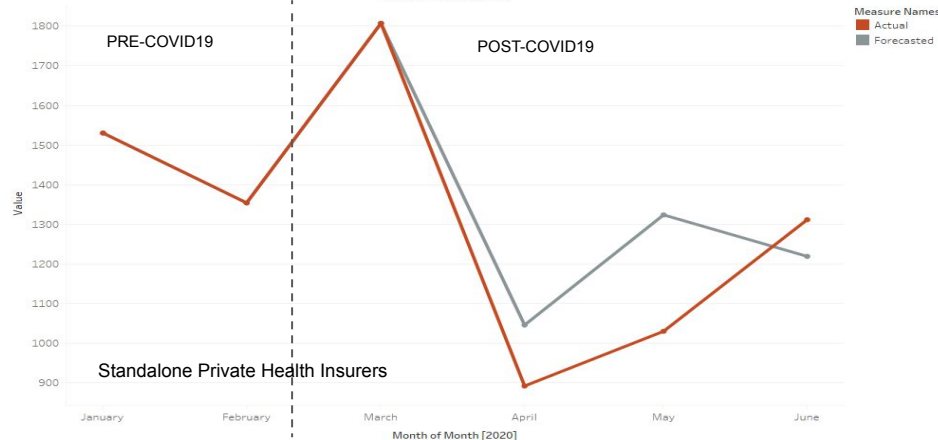
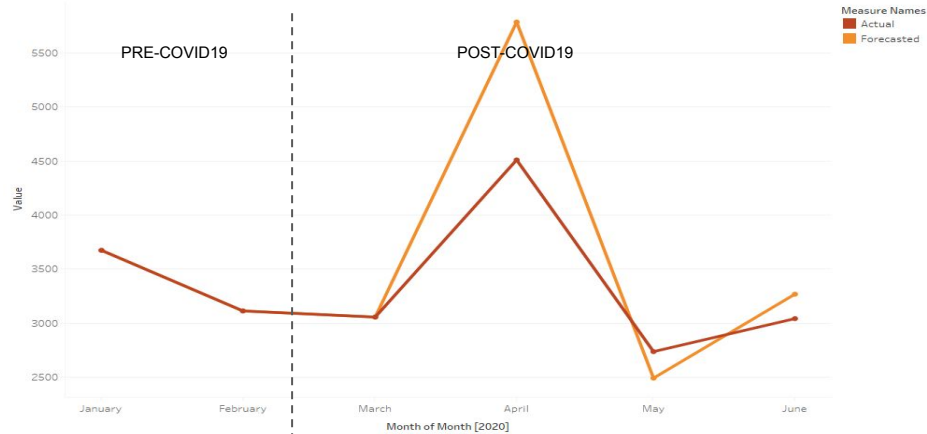
Underwritten Premium till 30.06.2020(FY18-21)
(In Rs. Crores)



- COVID-19 has reshaped the dynamics of the non-life insurance industry by pushing the growth in the health insurance industry's premium collection over the motor insurance for the first time ever to emerge as the largest contributor to non-life insurance portfolio.
- Health insurance industry contributed 36% to the non-life insurance premium collection and was partly able to offset the losses in motor and other segments. Increasing awareness regarding protection covers has made the segment stand out at the time of pandemic.
- Standalone private health insurers witnessed a growth of 46% y-o-y increase in premiums and the overall health business witnessed a moderate y-o-y growth of 8% in Q1FY21.

Health insurance industry is expected to serve as a cushion to damages done by COVID-19 to non-life industry.

Underwritten Premium till 30.06.2020(FY21)
(In Rs. Crores)

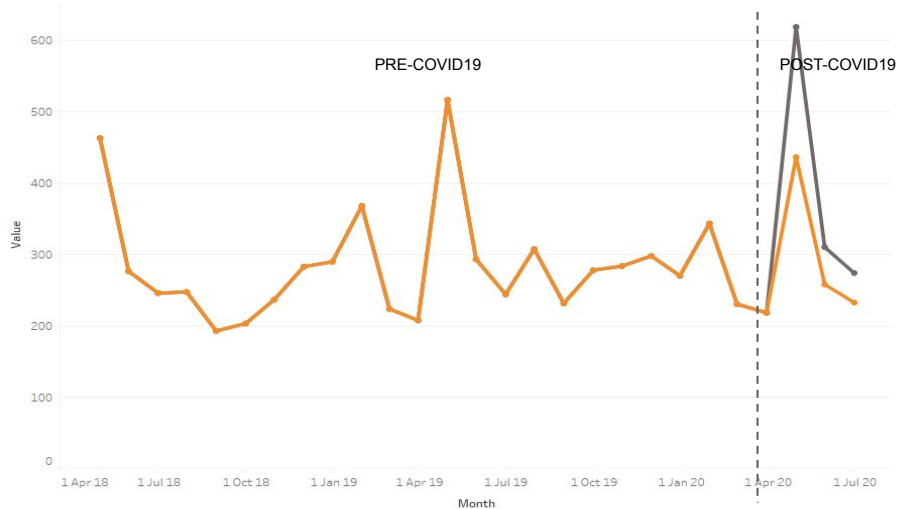


- IRDAI has mandated all insurance companies to include COVID-19 as a part of all active protection plans and also include health insurers to start offering individual Covid-specific standard health policy 'Corona Kavach'. It has also mandated 5% discount in premiums to doctors, nurses, and other health workers.
- As things return back to normal, claim payouts for normal healthcare processes would regain speed. With increasing corona patients, net claims would increase which would put a burden on the financial statements of health insurers.
- Health insurance companies till now have performed almost at par with the forecasted levels. Long-term future would witness people purchasing more and more health insurance protection plans while at the same time, an increasing number of cases would also mean increased payouts.
- The situation for health insurers is both challenging and opportunistic. Health insurers should tap this opportunity to make people aware of insurance policies as not some tax-saving or investment products rather as protection plans. Proper strategic decisions and use of online channels would help the industry to grow.

As the borders were sealed, decline in trade caused a slump in the Marine insurance industry.

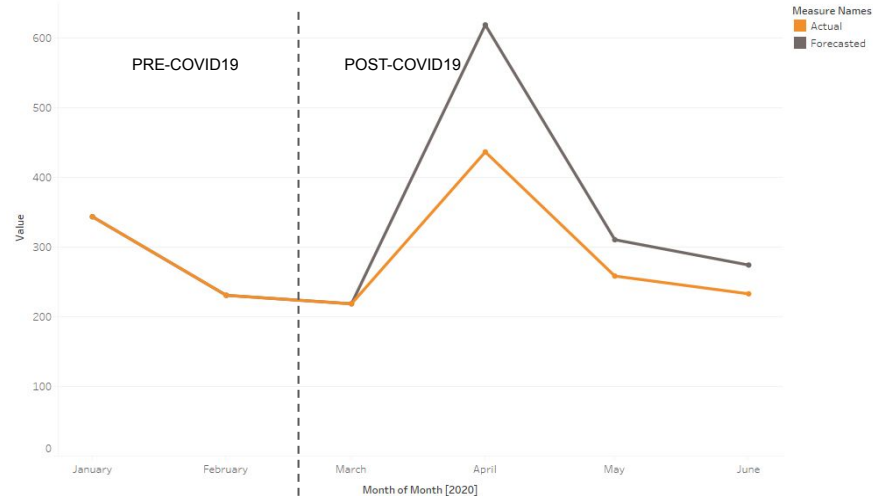
Underwritten Premium till 30.05.2020(FY18-21)

(in Rs. Crores)



Underwritten Premium till 30.05.2020(FY21)

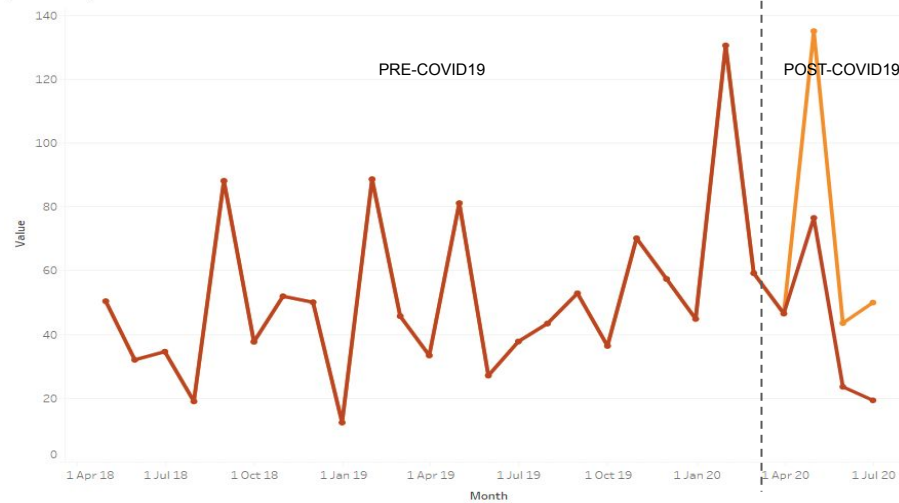
(in Rs. Crores)



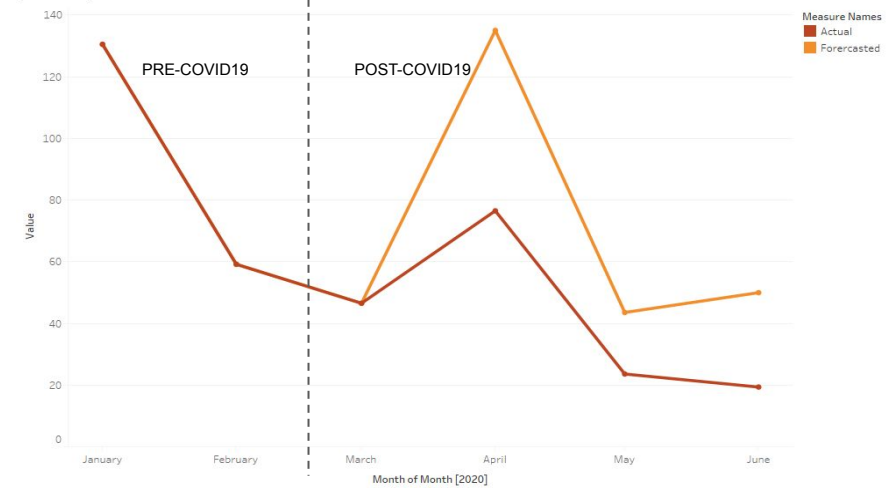
- Marine Cargo insurance operates a master policy and the policy is triggered every time a trip occurs. Due to **decline in export-import** and transportation of only essentials during lockdown, insurance companies witnessed a temporary slump in this sector.
- The sector saw a **15%** y-o-y decline in April 2020 and a **30%** decline from the forecasted data on pre-covid levels. Overall, a **12.09%** y-o-y decline was witnessed for the entire Q1 as compared to previous year, **22.9%** lesser than the forecasted levels.
- Reduced number of trips also reduced the number of accidents thus a reduction in total claims has been seen. However, as things revert back to normal, trade would be back on track which means industry revival. However, insurers would have to remain cautious of overloading due to reduced drivers.

Reduced trips and travel would force the aviation industry to take a back seat, a profitable segment prior to COVID-19.

Underwritten Premium till 30.05.2020(FY18-21)
(in Rs. Crores)



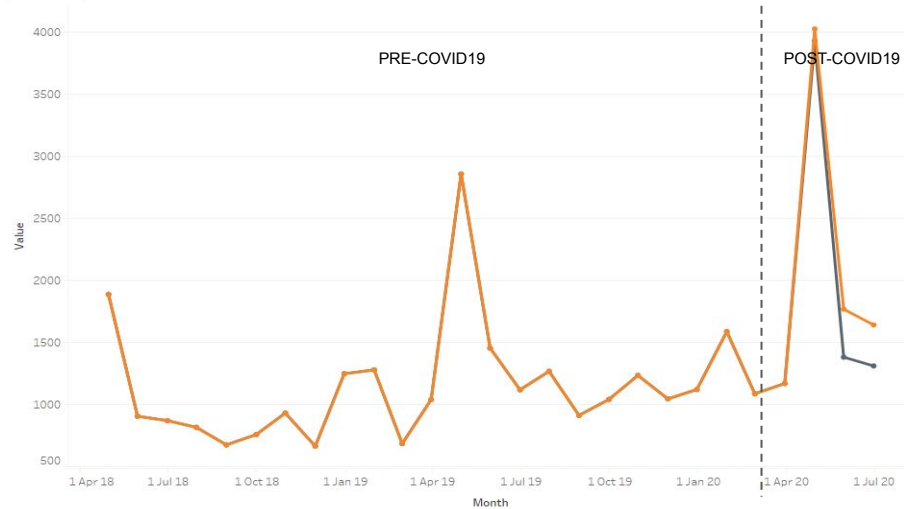
Underwritten Premium till 30.05.2020(FY21)
(in Rs. Crores)



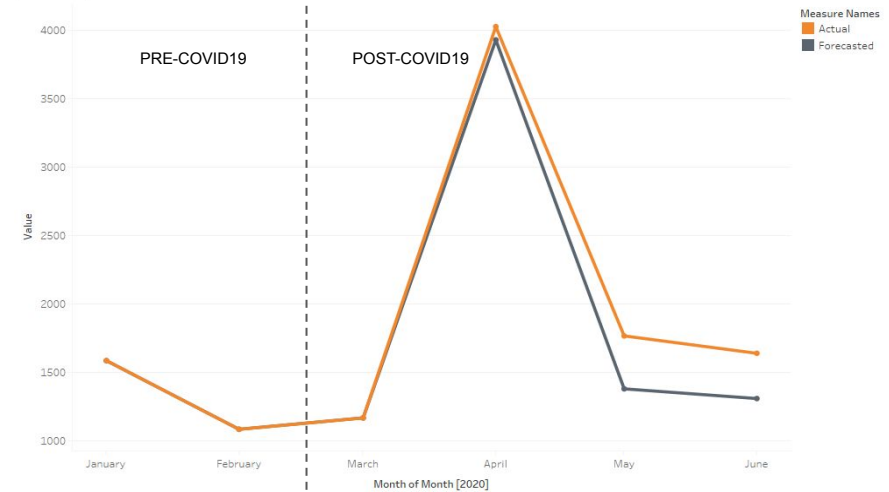
- Aviation industry provides liability and property coverage for aircraft, typically covering repair and replacement costs for aircraft parts and liability costs due to accidents. As major countries sealed their domestic as well as international borders and restricted travel, the aviation industry suffered setbacks with airplanes parked back.
- The industry witnessed a **18.15%** decline in Q1 FY20 for underwritten premiums as compared to the same quarter, the previous year and was **47.7%** down from the forecasted levels for pre-COVID data.
- Reduced travel would hit the airline industry and the aviation insurance industry would witness a slowdown at least for the FY20-21 due to fear of corona amidst people due to which travel and trips would be last thing on people's mind unless urgent.

Reintroduction of fire tariff by GIC and increased property reinsurance rates lead to the fire insurance industry to grow despite lockdowns.

Underwritten Premium till 30.05.2020(FY18-21)
(in Rs. Crores)



Underwritten Premium till 30.05.2020(FY21)
(in Rs. Crores)

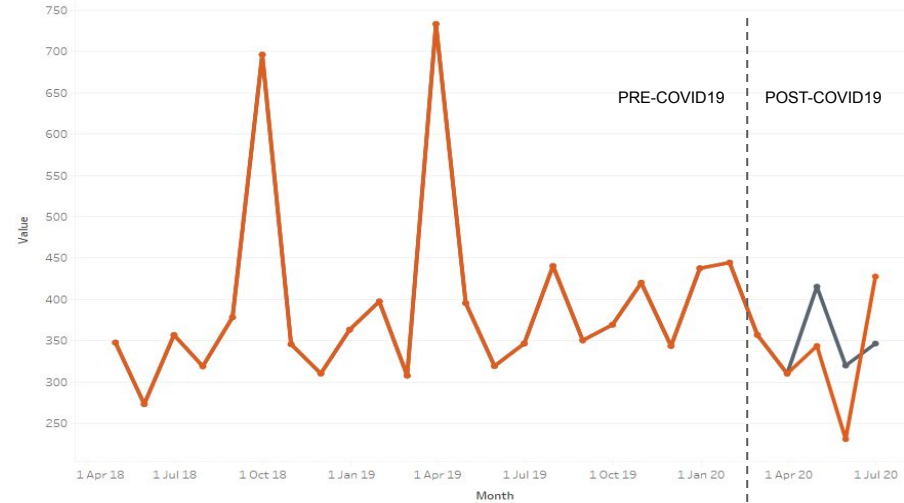


- Commercial property may not see too many fire claims, but they may be hit by the 30-day non-occupation clause which states that insurance policy ceases to exist in case of inactivity or closure to a commercial property for a month or more. This requires relaxation in policies so that industry does not lose out on existing customers.
- The fire insurance industry has witnessed a 47% y-o-y growth in June 2020 likely driven by the coupled effect of relaxed policies and higher property reinsurance rates by GIC.

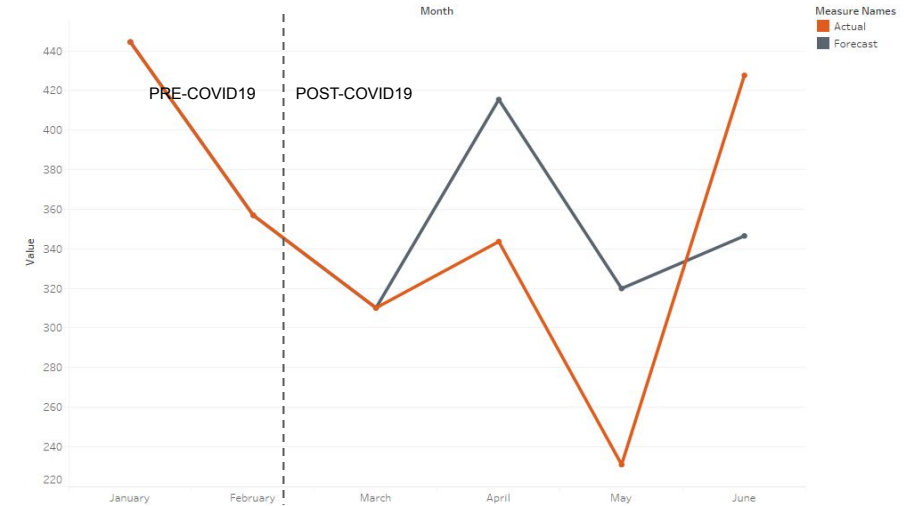
The growth in the fire insurance industry has surpassed the forecasted data as per pre-covid levels and showed a 41% yo-y growth in the month of April and the overall quarter showed a 37% higher performance from the previous year despite the COVID-19 and the lockdown. The overall industry is optimistic about the changes brought by the GIC and the growth in the industry is a evidence of that.

Insurers are advised to target the personal accident segment to keep it profitable due its independence from underlying economic activity.

Underwritten Premium till 30.05.2020(FY18-21)
(in Rs. Crores)



Underwritten Premium till 30.05.2020(FY21)
(in Rs. Crores)



- Personal Accident insurance is used to insure the family/beneficiaries of insurer in case of death/damage only due to accident. Due to limited movement due to lockdown, the industry witnessed **lesser claims and low renewals**.
- The industry witnessed a significant low in March' 2020 as compared to the previous year and a **6% decline** in Q1 FY20 from the same quarter last year. However, it only showed a **7% decline** from the forecasted data as it does not depend on underlying economic activity and rather just on people's choices and their financial health.
- Insurers are advised to target this particular segment to ensure smooth business due to the segment's lesser dependence on underlying economic activity.

Thank you

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