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Health check for general insurers post-COVID-19

The coronavirus pandemic has had a disruptive impact on India's general insurance industry. Some in the industry are hopeful of a return to the 'good old days' soon but that could be an uphill task for the industry.

By Anoop Khanna

The gross premium income of the Indian non-life insurance industry in the first quarter of the current financial year 2020-21 declined by 4.24%. The industry earned gross premium income of $5.24bn during April-June 2020, while the gross premium income in the first quarter of the previous financial year (2019-20) was $5.48bn.

Standalone health insurers, however, registered a 15.8% growth ($431m) in gross premium underwritten.

Speaking with *Asia Insurance Review*, Bajaj Allianz General Insurance chief investment officer Amit Joshi said, "The insurance industry is facing a direct impact of the lockdowns that have resulted in a decline of new business as well as renewal premiums."

Mr Amit Joshi

He said, "On an overall basis Indian general insurance contracted by 6% in the first quarter. However, the health segment has been an exception where most companies have shown healthy growth."

The surge in sale of health insurance covers has, to some extent, given a boost to the financials of the general insurers but how far this 'rally' will last is difficult to assess as the surge in COVID-19 health insurance claims could offset these gains by health insurers.

Economic activity picking up gradually

Economic activity has resumed post lockdown and the economy is gradually coming back on track though not to the fullest extent. This should, to some extent, help normalise premium growth for the year as lockdowns become more localised and government allows more economic activities.

"The economic package of $267bn announced by the union government should also provide a fillip to the economic activities in the country in the last two quarters of the financial year," Mr Joshi said.

"Very few insurers in India make underwriting profits. We have, however, seen some improvement in the underwriting results of listed general insurers for the first quarter," he said.

The rise in fire portfolio pricing due to higher reinsurance premium set by the state-owned reinsurer GIC Re, from 1 April 2020 renewals has made general insurers hike their fire premiums for domestic businesses. This has also helped general insurers to an extent.

Post-pandemic claims can spike

With the overall decline in the premium income, insurance companies are also likely to witness a spike in claims from commercial businesses during this financial year.

According to industry experts, economic slowdown is often accompanied by a spike in claims. While lack of maintenance due to lockdowns and non-availability of skilled manpower could be one of the reasons for the rise in fires and other industrial accidents, the possibility of a 'moral hazard', cannot be ruled out.

Decreasing investments can impact stock markets

The decline in insurers' premium income could also disrupt the support the insures' investments provide to the Indian stock markets. With reducing premium income, investment in stock markets by insurers may not be possible at pre-pandemic levels.

According to Insurance Regulatory and Development Authority of India's annual report for 2018-19 the total investments by the general and health insurers in 2018-19 was $41.91bn.

This disruption would also impact the cushioning effect that domestic institutional investors have provided so far in the event of heavy selling by foreign institutional investors, among others.

"Usually the stock market returns are a major cushion for the insurers' profits in India. Equity markets have been highly volatile during the pandemic and we saw markets correcting by almost 40%, " said Mr Joshi.

"The stock markets are now down 12-15% from the pre-COVID-19 levels, hence the impact of lower equity prices will not be very pronounced on the profitability of the sector. Additionally, the opportunity provided by the steep fall could have been taken by the companies to add to the equity exposures at lower levels."