

SAHIs Dominate Retail Market Share Amid Rising Health Insurance Demand

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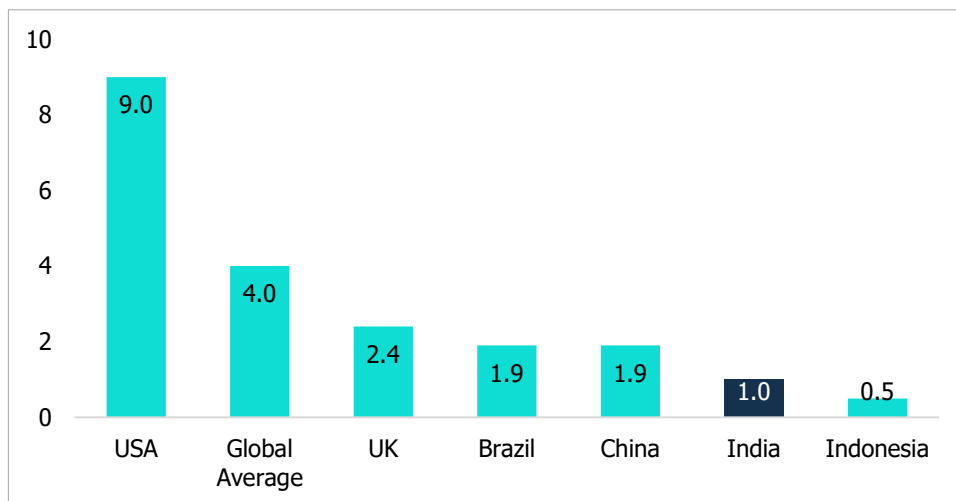
Synopsis

- Health insurance continues to drive growth in the general insurance sector, remaining the largest contributor to total gross direct premium income (GDPI).
- The market share of Standalone Health Insurance (SAHI) has been on upward trend, reaching 30% of the overall health insurance premium and 56% for retail health insurance premium in FY24.
- While SAHIs are monoline focus companies targeting on health insurance, their key focus has been retail health (contributing 73% to SAHIs GDPI) and has been a key driver of business growth.
- While SAHIs showcase better underwriting performance due to retail-focused approach, their return metrics are yet to be in par with private multi-line general insurance companies, which benefit from scale and diversified line of business (LOBs).

Health insurance segment to enable the upcycle for general insurers

The Indian general insurance sector has been growing steadily, aided by healthy economic growth, a growth in middle-class population, low penetration, digitisation, regulatory support and government initiatives. India's general insurance remains low at 1% (measured as the percentage of insurance premium to gross direct product [GDP]), compared to penetration rates of 4%-9% in developed countries.

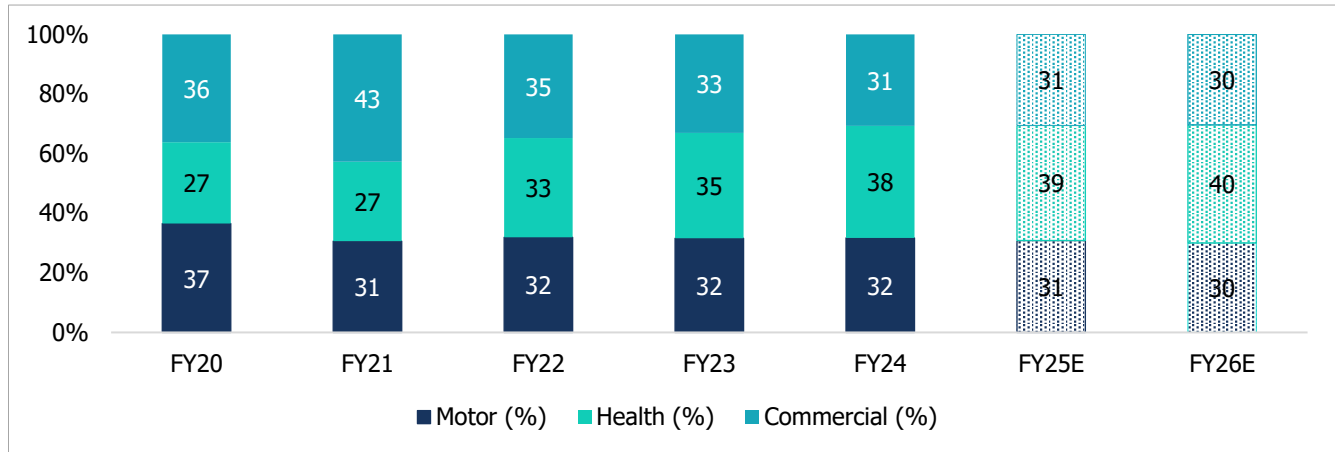
Figure 1: General insurance penetration across the world (%)



Source: IRDAI and CareEdge Ratings

During FY24, the size of general insurance sector's GDPI stood at Rs 2.89 lakh crores, up from Rs 2.57 lakh crores during FY23. The total GDPI has grown with four-year CAGR (FY20-24) of 11%. While motor insurance (FY24: 32% of total GDPI, FY23: 32% of total GDPI) and health insurance (FY24: 38%, FY23: 35%) have been key contributors to this growth, the health segment has emerged as one of fastest-growing segment over the last few years.

Figure 2: Segment wise share of general GDPI



Source: General Insurance Council and CareEdge Ratings
 Note: Health excludes PA

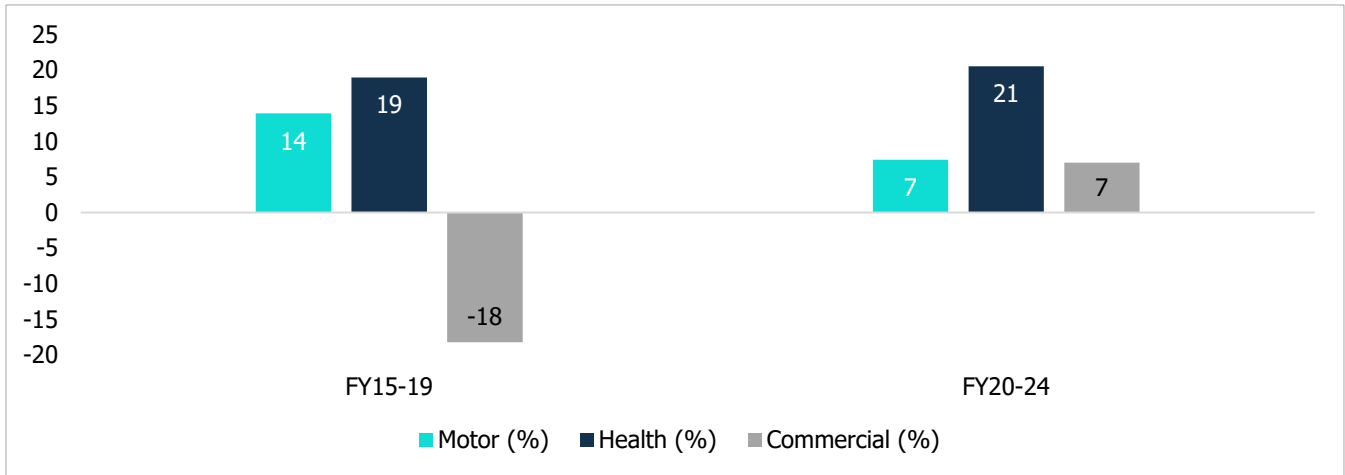
In the Indian health insurance segment, multiple growth levers are at play. While pandemic has significantly increased awareness of the need for health insurance cover, a higher number of patients, rising medical inflation, government initiatives, and increased affordability, have together boosted demand for health insurance policies. Although the health insurance segment has grown with four-year (FY20-24) CAGR of 21%, only an estimated 40% of the population is covered by a health insurance policy (retail + group + government scheme policies excluding schemes run by the government directly). From a retail standpoint, only 4% of the population is covered under health insurance. Geographically too, health insurance is not widespread, with lives covered being highly concentrated in top 5 states (Maharashtra, Tamil Nadu, Rajasthan, Gujarat and Karnataka together accounted for 71% of the total lives covered). Therefore, significant and uneven penetration gap, along with other growth levers, is expected to enable continued growth momentum for the health insurance segment.

. Going forward, CareEdge Ratings expects the health segment growth to moderate (on account of base effect) in the range of 18-19% over the next two years as growth over the last four years has been on account of both pandemic-induced health insurance awareness and industry-wide price hikes.

Health insurance growth to continue; driven by private insurers

Health insurance premiums have grown at four-year CAGR of 21% (2020-2024), compared to a pre-pandemic four-year CAGR of 19% (2015-2019). While both SAHIs and private multi-line general insurers have witnessed healthy growth in health insurance segment; SAHIs have been gaining market share at the expense of public multi-product insurance companies.

Figure 3: Segment wise CAGR for general insurance (in terms of GDPI)



Source: General Insurance Council and CareEdge Ratings

Additionally, the growth in health insurance premium during FY24 has been primarily driven by price hikes rather than volume growth (number of policies in force remained flat in FY24 compared to 9% YoY growth in FY20). SAHIs have gained 3% market share between FY20 to FY24 in the overall health insurance segment, driven by their rising penetration in retail health insurance segment (SAHIs have gained 6% market share between FY20 to FY24 in retail health insurance, reaching a 56% market share during FY24). CareEdge Ratings expects SAHIs to continue to gaining market share in the health insurance business, supported by considerable spurt in retail health insurance space.

Figure 4: Market share in health insurance sector (in terms of GDPI)

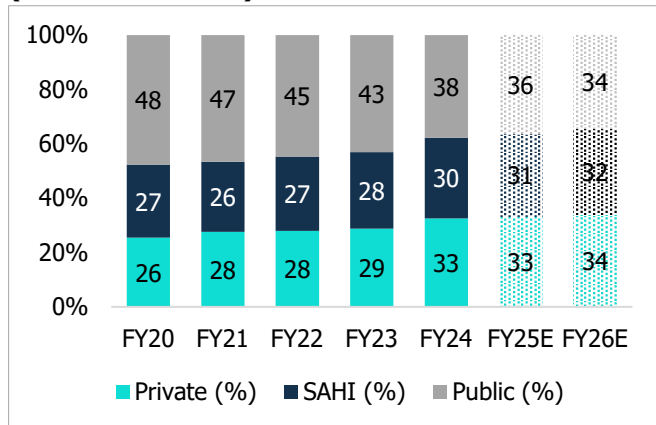
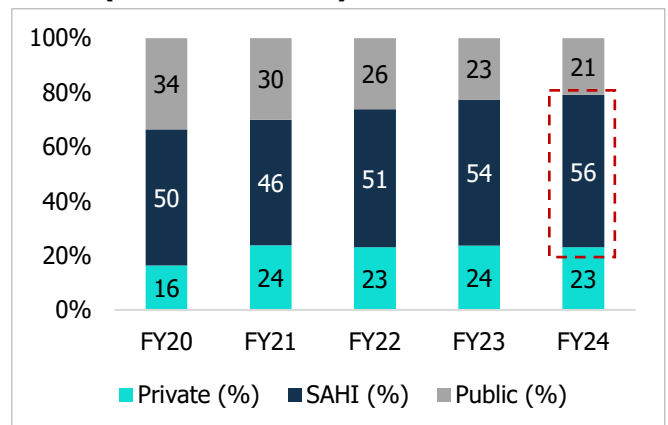


Figure 5: Market share in retail health insurance sector (in terms of GDPI)



Source: General Insurance Council and CareEdge Ratings
Health excludes PA

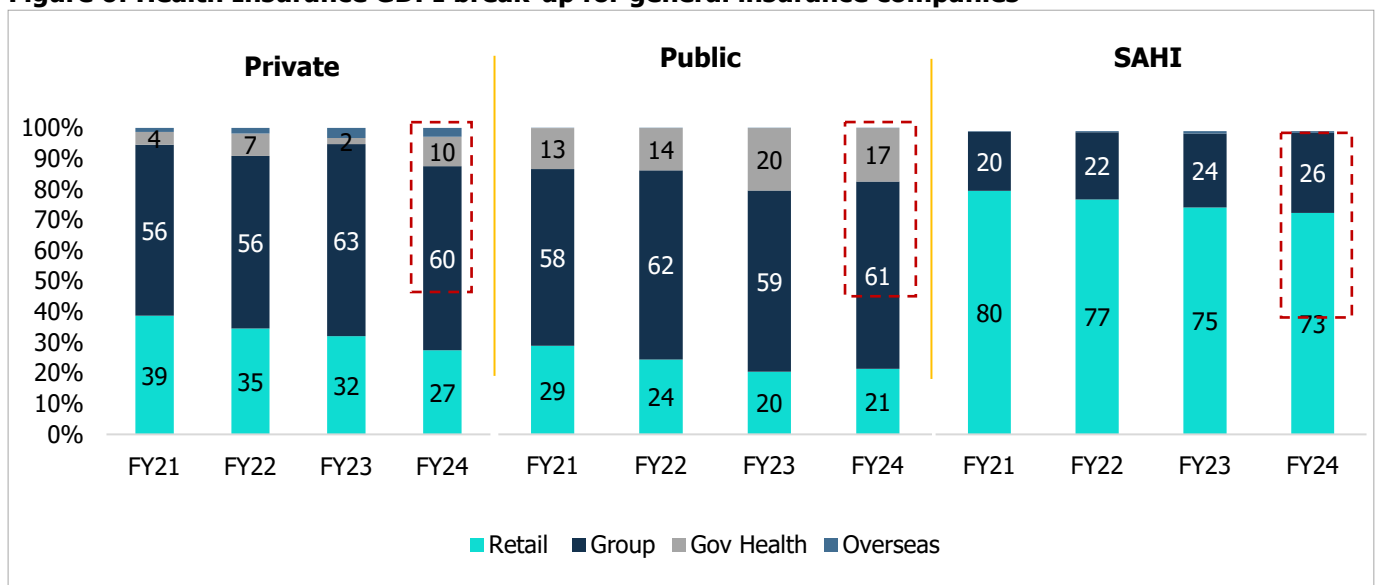
Retail health is a focus area for SAHI while group health a crucial earner for private multi-line general insurance companies

While SAHIs are monoline insurance companies, within health their key focus has been retail health (contributing 73% to SAHIs GDPI) which has been a key driver in business growth. SAHIs exclusive focus on health enables them to offer range of specialised products for different population cohorts, customer service and claims handling tailored to healthcare market. Further, SAHIs have built a strong retail distribution franchise over the years as compared to a multi-line general insurers; five SAHIs collectively had 13.06 lakh agents during FY24 compared to

6.49 lakh agents of twenty-five multi-line general insurers. After agency channel, brokers and direct channel contribute maximum business for SAHIs. Brokers include online insurance selling platforms while direct channel are sales via employees and own website.

Group insurance continues have large share in total health insurance sector with the same constituting 50% of the total health insurance premium during FY24 as compared to 39% by retail). This has been the key focus for private and public multi-line general insurance companies. Consequently, Group health insurance contributed 60% and 61% to total health GDPI of private and public insurers, respectively during FY24. As group insurance business is mainly driven by direct channels, multi-line general insurers have been able leverage their existing network to capture the same.

Figure 6: Health Insurance GDPI break-up for general insurance companies



Source: General Insurance Council and CareEdge Ratings
Health excludes PA

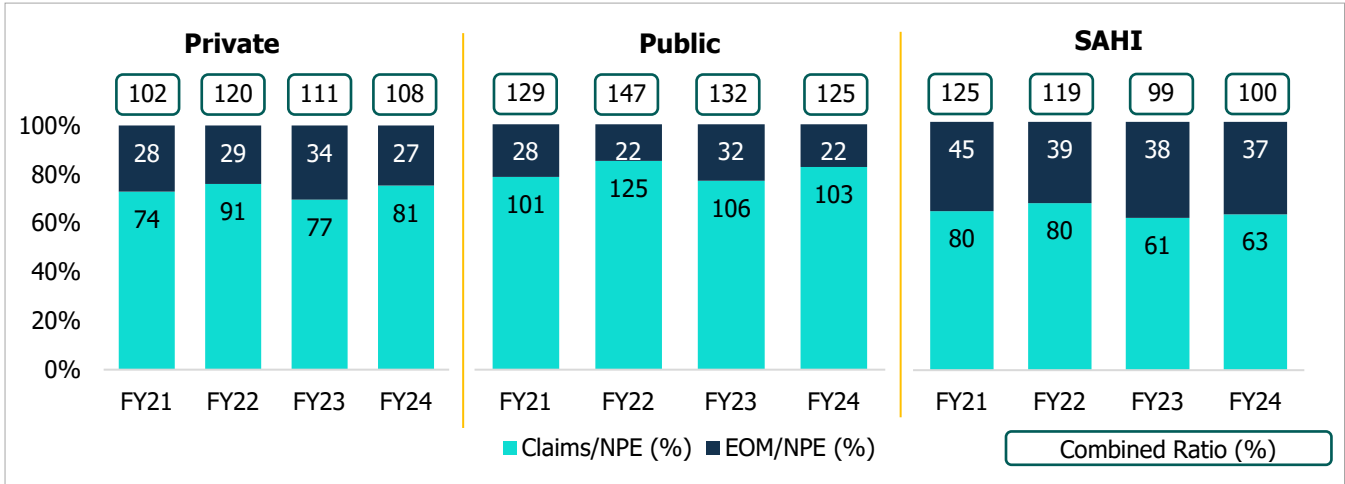
While SAHIs are retail-focused with granular nature of business, single LOB exposes them to business concentration risks in event of adverse selection, pandemics or health crises. Going forward, CareEdge Ratings expects SAHIs to continue dominating the retail health segment in medium term. Since private multi-product general insurance companies have started building their retail health businesses and are gradually investing in their agency channel, claim processing units, hospital tie-ups etc., competition expected to intensify for the retail health insurance business.

SAHIs reporting better underwriting performance while multi-line insurance companies generating better returns due to scale and diversification

The retail health insurance business is capital and resource-intensive, requiring superior claim processing, constant product innovation, and a deeper distribution network. However, due to granular underwritings, the claims ratio for retail policies tend to be lower as compared to group insurance policies. Therefore, the loss ratio for SAHIs is lower than that of other multi-line general insurance companies (which are broadly group focused). The claims ratio for private companies stood at 81% during FY24 against 63% for SAHIs. Alternatively, as retail health is resource-intensive and demands a deeper distribution network, the expense of management (EOM) for SAHIs are

higher compared to private and public insurers. Going forward, CareEdge Ratings expects the EOM for SAHIs to improve with increase in scale in medium term.

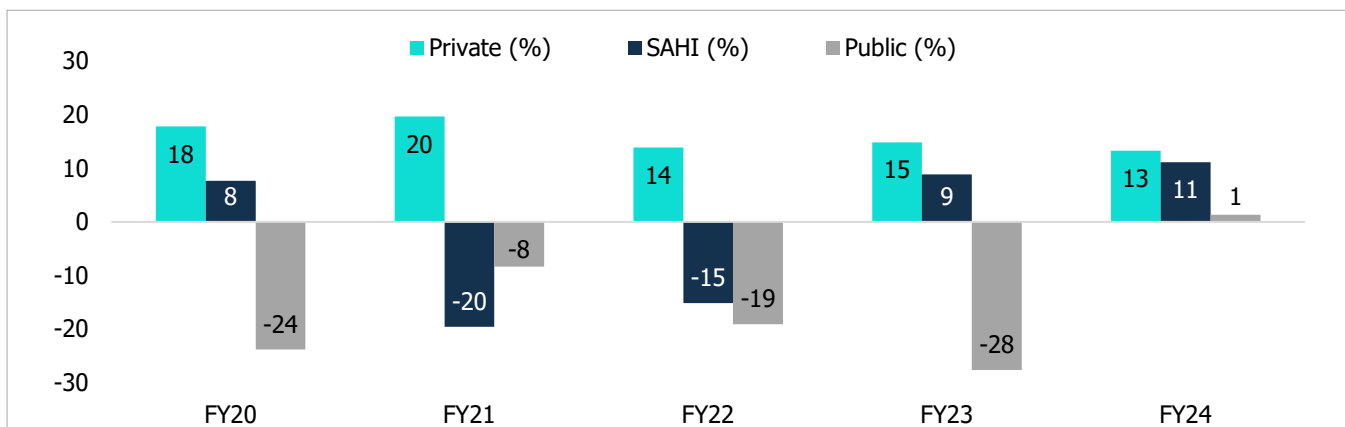
Figure 7: Segment wise underwriting performance of health insurance segment



Source: Company data of 12 entities having over 80% health insurance market share, CareEdge Ratings; Note: Expenses relate to health business
Health includes PA as part of public disclosure

Due to scale and diversified business, private general insurance companies have better return metrics. As SAHIs achieve scale, their return metrics are expected to improve gradually.

Figure 8: Segment wise return on net-worth (RONW)



Source: Company data of 12 entities having over 80% health insurance market share, CareEdge Ratings

Outlook

- Going forward, investment in Insurtech, digitisation, government policies, expanding middle class & rising affordability will continue to be growth drivers for health insurance sector. Further, during FY24, IRDAI has taken several long-term initiatives to increase penetration, including "Bima Sugam", "Bima Vistar" and "Bima Vahak". These initiatives will further support overall growth of the sector.
- The expected regulation on composite licences is anticipated to be game changer and increase competition in medium term.
- The growth story of health insurance sector is expected to continue, with SAHIs continuing to dominate the retail insurance space. Despite some moderation, CareEdge Ratings expects the health segment to grow in the range of 18-19% over the next two years, with growth rate for SAHIs expected to be in the range of 20-22%.
- Given the continued growth momentum in health insurance segment, we expect the share of health insurance segment within general insurance to increase in the range of 39% to 40% in FY25.

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