Equity Research

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BSE Sensex: 37982

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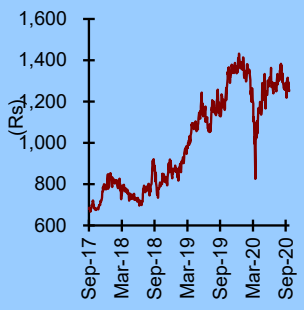
Sector update

ICICI Lombard (ADD)



Research Analysts:

Ansuman Deb
ansuman.deb@icicisecurities.com
+91 22 6637 7312

Ravin Kurwa
ravin.kurwa@icicisecurities.com
+91 22 2277 7653

INDIA

ICICI Securities

General insurance

Management call takeaways: Care Health Insurance

We hosted Mr. Pankaj Gupta, CFO, Care Health Insurance (CARE), to discuss the outlook on Indian health insurance sector. CARE is the second largest standalone health insurer (SAHI) in India as of FY20 with a GDPI of Rs24bn.

Key takeaways

- **Market share gain of Standalone Health Insurance (SAHI) companies has happened at the expense of PSU insurers.** Market share in overall health has moved from 46% in FY18 to 40% in 5MFY21-TD for PSU insurers, 20% in FY18 to 25% in 5MFY21-TD for SAHI companies and has remained steady at 35% for private insurers. While SAHI market share of overall GDPI has increased from 3% in FY12 to 8% in Aug'20, its market share within the health segment has averaged 25% in recent times. Among SAHI, Star Health held 51% share while CARE, HDFC Ergo and Max Bupa held 15%, 13% and 9% respectively as of Aug'20.
- **Focus on retail health has been a key business enabler.** Compared to 30-35% retail mix, SAHI companies like CARE have retail health share of >80%.
- **There is a strong growth outlook, but execution remains vital for success.** CARE has managed to turn profitable in five years and currently has 4% market share in health premiums, 6,500 employees, 159 offices and >150,000 agents. Loss ratio has been 55/59% in FY19/FY20 while combined ratio has been sub-100 at 95/98% in FY19/FY20. Combined ratio for CARE has improved from 177% in FY13 to 138% in FY15 to 100% in FY18 to 98% in FY20 and 92% in Q1FY21. Agency has remained the mainstay distribution channel for SAHI though some like CARE remains well diversified.
- **Sum assured has gradually increased (5-7% annually) to Rs800,000 in retail segment.**
- **CARE has made significant investments in technology**, especially in distribution channel. It is a multi-channel player, but agency (~150,000 agents) maintains the highest share. In terms of total premiums, individual agents, corporate agents (banks), corporate agents (others), brokers and direct business contributes 30%, 16%, 1%, 23% and 28% respectively. CARE has in-house claims processing and gives daily commission to distributors. Investments in AI and mobile apps have been successful and capability is at par with the new-age digital insurers.
- **Covid impact has been on three fronts.** There has been strong growth in 5M-FY21TD. SAHI GDPI during the period grew ~26% YoY, jump in claims in last two months and significant operational cost savings. While claims are rising, the exact impact is difficult to ascertain as of now, but the company expects Covid cases and claims to flatten out.
- **All cohorts remain marginally profitable despite change in loss ratio and expense ratio:** The loss ratios tend to increase while expense ratios decrease as we move from young to old cohorts of consumers in the health segment. However, there is no cross-subsidy and every cohort is able to cover the variable costs. The first renewal rate is relatively lower, but improves gradually through successive years.
- **Why do loss ratios increase over time?** Retail policies typically have a waiting period of two years for certain ailments. *Additionally, pricing increase rarely happens on annual basis.* Though annual increase is possible, it requires proper justification to before the regulator. Price changes (both increase/decrease) may conventionally happen after every three years from the prior price change.
- **There is operating leverage in health insurance** when one can achieve cost savings and there is growth in the renewal book. A large book size also results in better rates with hospitals, which can be an entry barrier for new entrants. Multiline insurers can negotiate better considering they also have a big corporate book.
- **15-20% is an achievable RoE at a combined ratio of 100% in the health insurance business.**

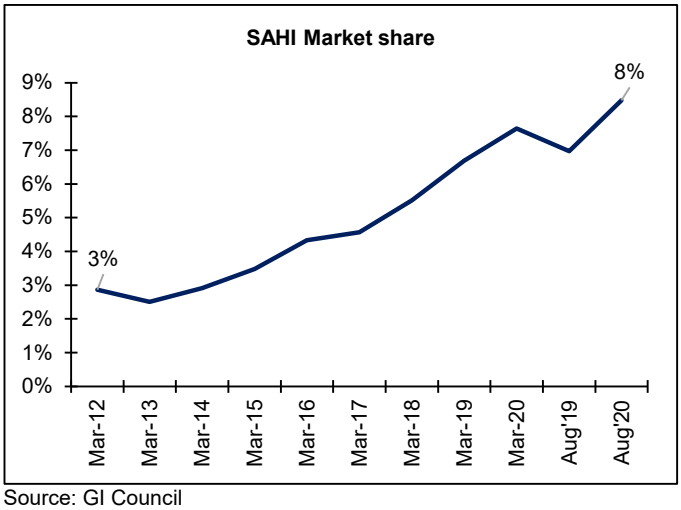
Table 1: SAHI GDPI has outperformed total industry GDPI growth

Rs bn	Aditya Birla	HDFC Ergo Health Insurance	Manipal Cigna	Max Bupa	CARE Insurance	Star Health	Total SAHI	Total Industry GDPI
Mar-12	-	5	-	1	-	11	*17*	580
Mar-13	-	6	-	2	0	9	*17*	689
Mar-14	-	7	-	3	2	11	*22*	772
Mar-15	-	8	-	4	3	15	*29*	841
Mar-16	-	10	1	5	5	20	*42*	959
Mar-17	1	13	2	6	7	30	*59*	1,282
Mar-18	2	17	3	8	11	42	*83*	1,507
Mar-19	5	22	5	9	18	54	*114*	1,698
Mar-20	9	25	6	12	24	69	*145*	1,893
Aug'19 TD	3	9	2	4	10	22	*50*	714
Aug'20 TD	4	8	3	6	9	32	*63*	740
CAGR - 8yrs		23%		37%		26%	*31%*	16%
CAGR - 5yrs		26%		27%	54%	36%	*38%*	18%
CAGR - 3yrs	153%	25%	37%	28%	49%	32%	*35%*	14%
1year	76%	15%	19%	31%	31%	27%	*27%*	11%
FY21TD	75%	-5%	27%	32%	-5%*	45%	*26%*	4%

Source: GI Council

*Note: CARE GDPI grew ~30% YoY in 5MFY21TD if we exclude the premiums written under AYUSHMAN BHARAT from the base period.

Chart 1: Annual market share of SAHIs in terms of GDPI has trended higher consistently…



Source: GI Council

Chart 2: .. which has helped them outperform total industry GDPI by a wide margin

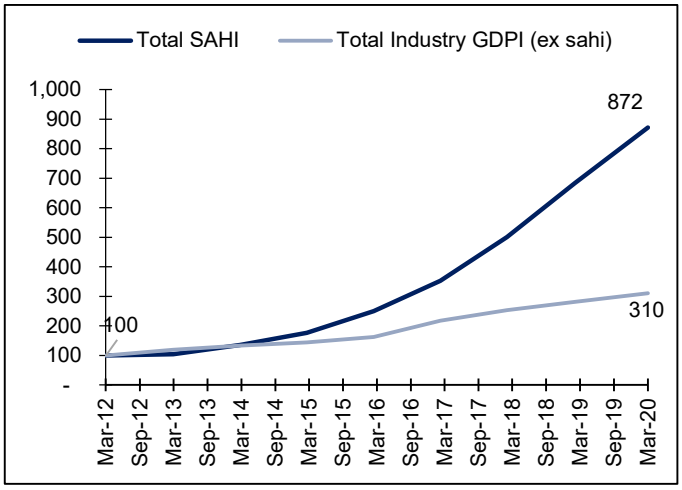
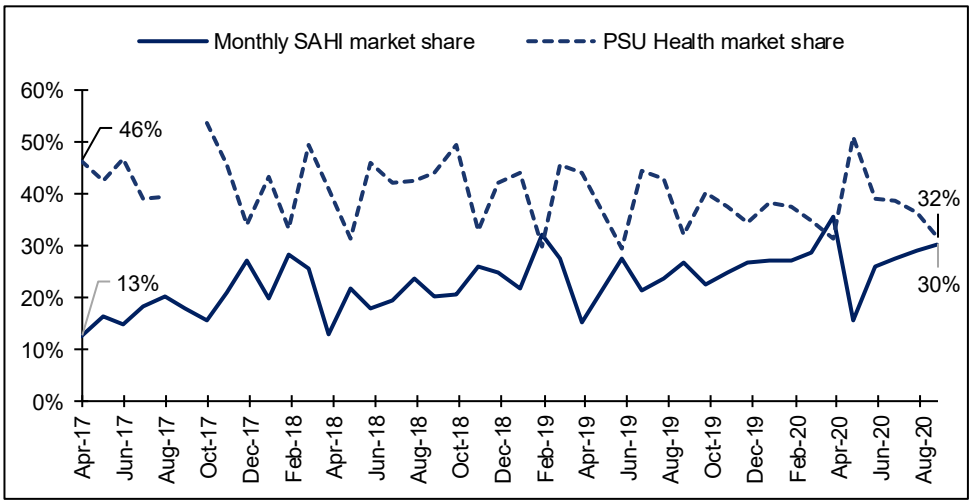


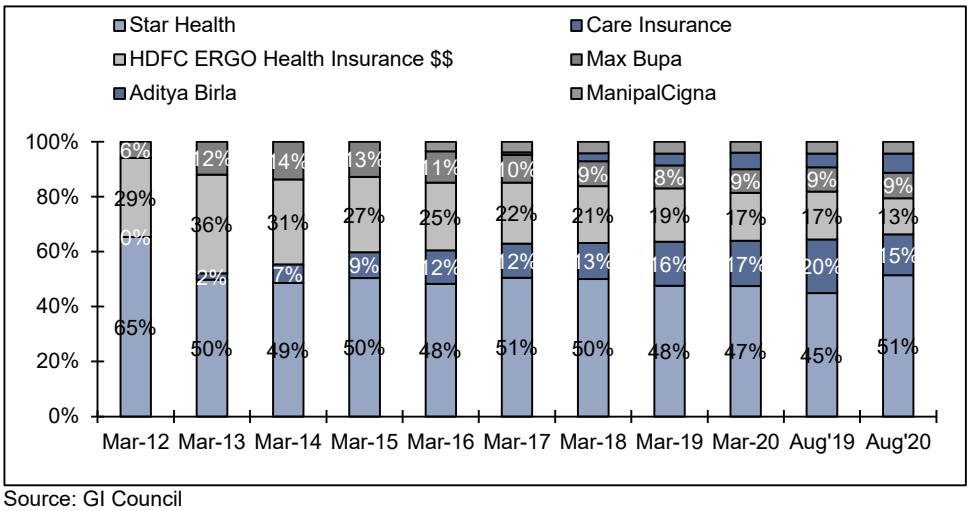
Chart 3: Within health segment, SAHI market share has averaged 25% and is trending higher



Source: GI Council

Chart 4: Within SAHIs, Star Health, CARE and HDFC Ergo have maintained strong market shares

Market share gain for Star Health was remarkable in 5MFY21-TD



Source: GI Council

Chart 5: Total expense ratio

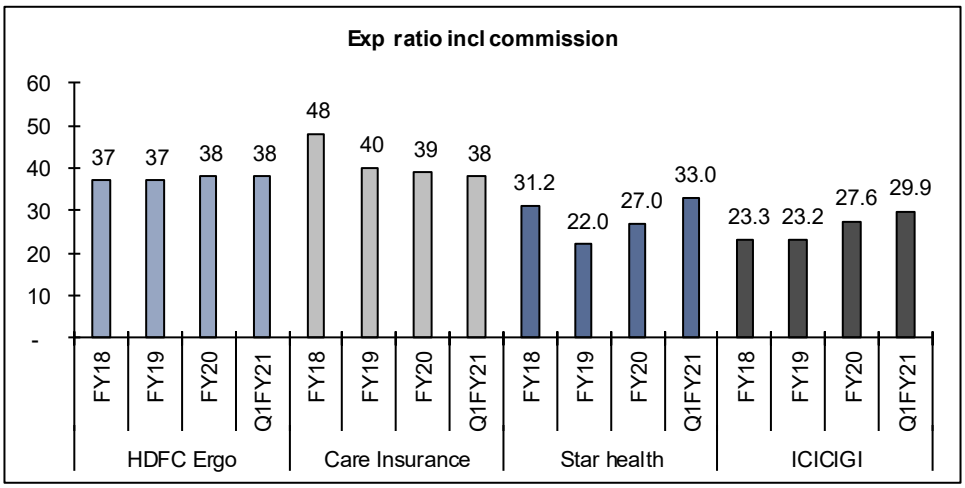


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Chart 6: Loss ratio comparison

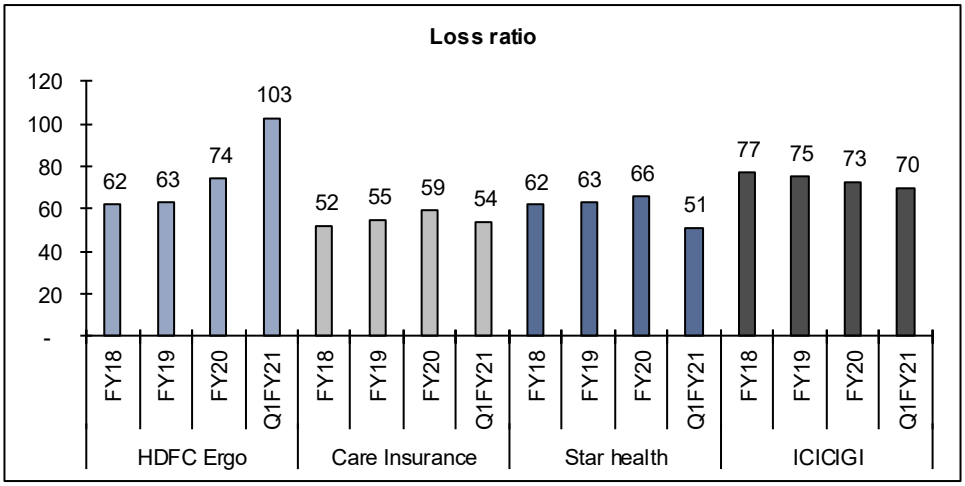

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Chart 7: Combined ratio

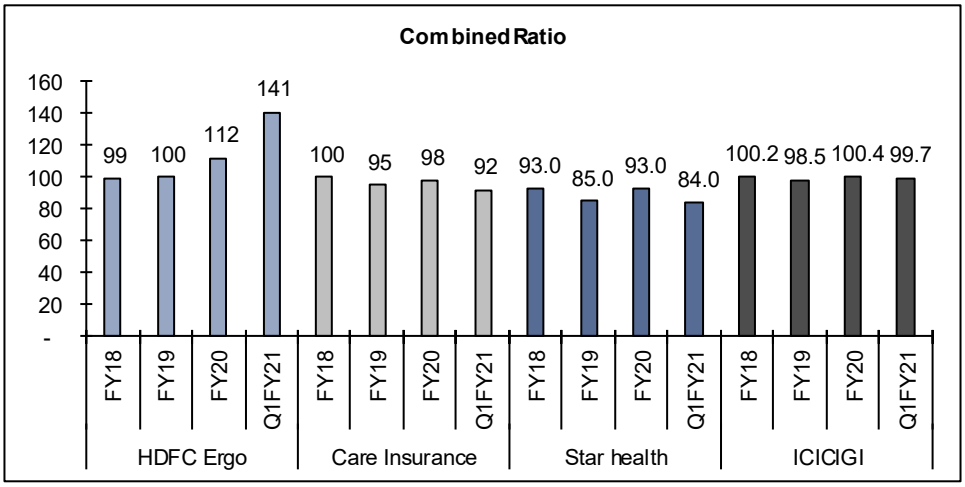

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Chart 8: Return on equity

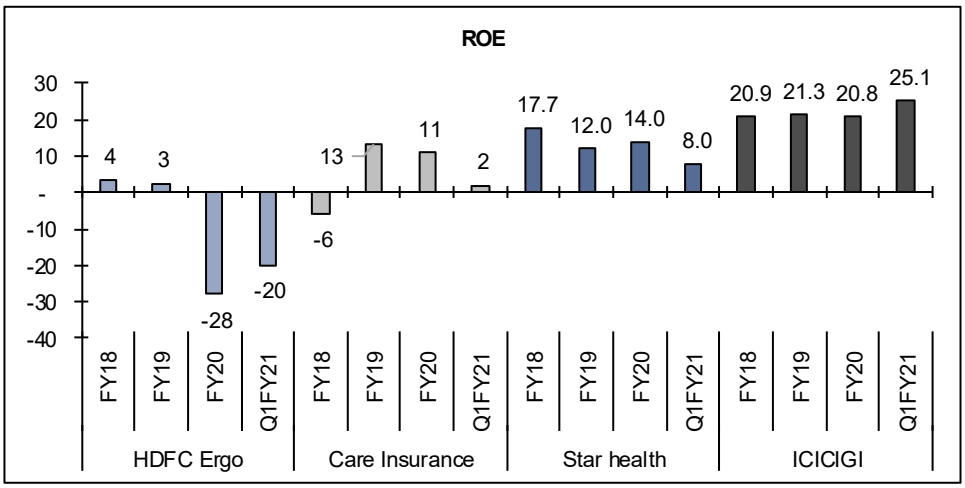

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Chart 9: Solvency ratio comparison

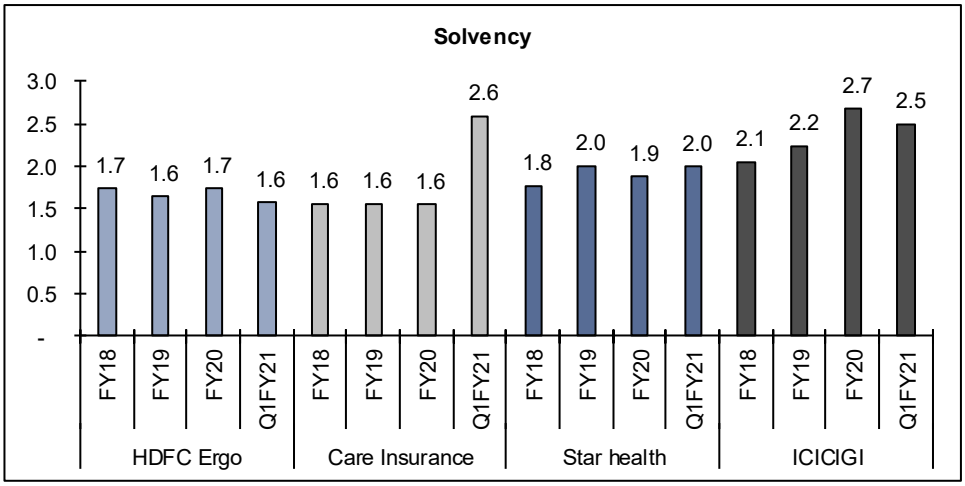

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Chart 10: Retention ratio

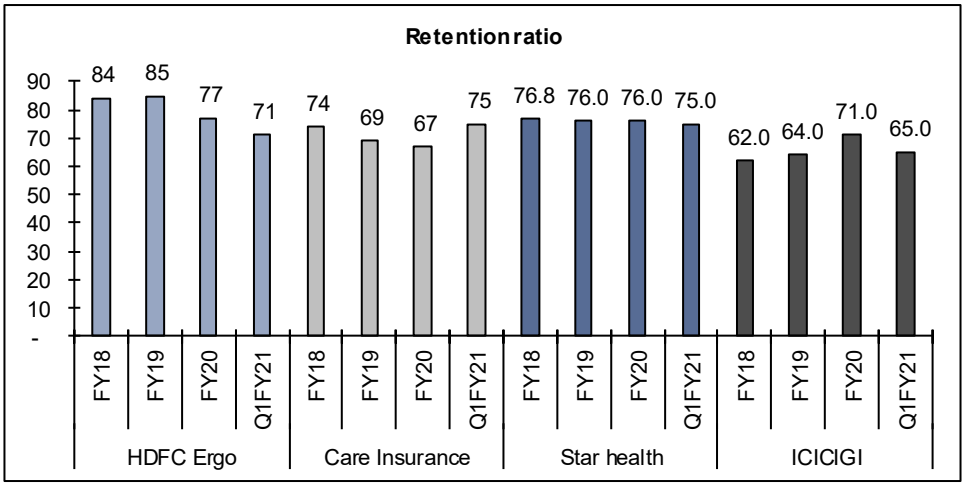

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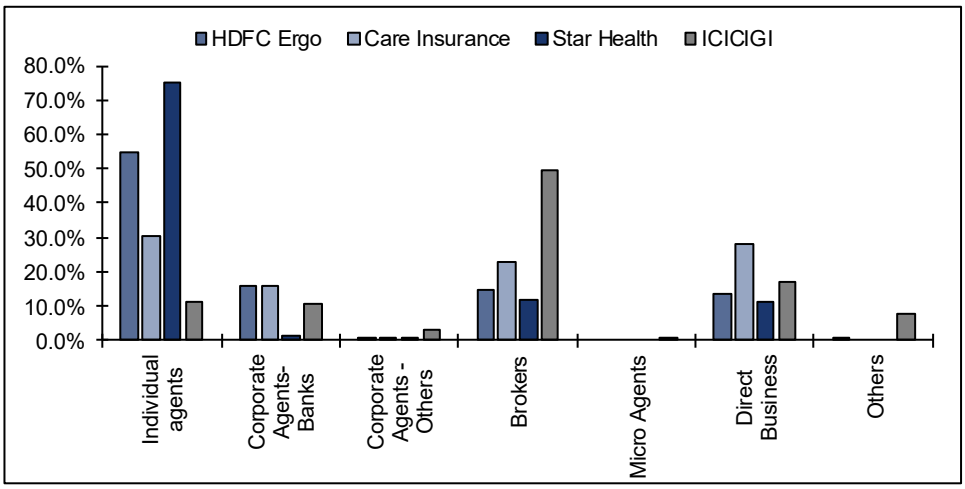
Chart 11: Distribution channels for ICICIGI, Acko and Go Digit in FY20



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