How the insurance sector is likely to pan out in the post Covid-19 scenario

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The Great Depression was a golden era for the US insurance industry. Sums assured shot up as uncertainty peaked after October 1929 and the spike only briefly reversed in 1932 when bank failures forced people to surrender their insurance covers to meet cash needs.

The picture was quite the opposite in the Global Financial Meltdown of 2008. Insurance written for life, healthcare and personal accidents began to dip immediately in US, UK and Spain, with a lag in Germany.

The Covid-19 pandemic seems to be following the trajectory of the Great Depression for the Indian insurance industry. Of course, the pandemic is itself just four months old in India. Yet as a Goldman Sachs research paper, 'Investing in 2020 And Beyond' notes, insurance will be one of the sectors that could do well coming out of the impact of the pandemic.

The Insurance Regulatory Authority of India (Irdai) has moved to make the sector more risk free. On Tuesday, **it changed the scope of health insurance business** to block life insurers from offering health covers that reimburse the actual expense of hospital stay by the insured, up to the total life cover bought. “A life insurer may not offer indemnity-based products either Individual or Group. All existing indemnity based products offered by life insurers shall be withdrawn,” its notification said. Irdai was walking the other way till as late as February this year, having set up a committee to consider ways to introduce the product.

From Ulips to term insurance

Irdai has reasons to be worried. **New business premium for life insurers** in April has declined a steep 32.6 per cent to Rs 6,728 crore from Rs 9,928 crore in the same period last year. But the great news is much of the new cover bought has been for long-term insurance. Those insured are dropping the habit of treating investment as a savings plan and running to buy what it should actually be, life protection.

Rushabh Gandhi, deputy CEO of IndiaFirst Life Insurance Company Limited said his company described it as a "sea change". There is a fear factor among the people which is making them choose long term protection plans”. He says 50 per cent of his sales since April was term insurance, up from single digits in the same period last year.

Gandhi’s company is much smaller in comparison with Bajaj Allianz Life, but the trend has held up there too. Tarun Chugh, MD and CEO of the company said, “we are seeing an uptick in term and guaranteed plans as the perception of risk has increased, and customers want to be prepared for Covid kind of situation.” Chugh says the industry’s mainstay, sale of Ulips (unit-linked insurance plans) “will be impacted”. The Ulip offer market linked returns along with some life cover and accounts for almost 15 per cent of the total premium earned by the life insurance companies (March 2019). It is also the fastest growing segment at 17.42 per cent though it trails the traditional products in terms of volume.

A decade ago, Irdai had fought a rare regulatory battle on behalf of the life insurers, with capital market regulator, Securities and Exchange Board of India (Sebi), to decide who should regulate the market for Ulips. Such was its charm.

The rapid change in the preference of customers has surprised insurers, though. Chugh says, “We will have to wait and see till the end of the year in terms of how things turn around for the sector, especially Ulips”. So does Amit Palta, Chief Distribution Officer, ICICI Prudential Life Insurance: “Currently, we are witnessing a lower demand in market linked saving plans due to the volatile market environment. However, the financial goal continue to exist and we believe that in the long term, savings orientation will come back.”

This might not happen, however. **As the US experience from the Depression shows** , while the insurance sector is the go-to sector for people when they are buffeted by uncertainties, it is to get away from market-related scares. “Most life insurance companies have been so strong financially that they have not been obliged to seek loans from the Reconstruction Finance Corporation,” quotes a report from the period by CQ Researcher (Patch, B. W. (1933). Life insurance in the depression. Editorial research reports 1933 (Vol. I)) Only one of them failed, compared with the rapid collapse of banks in the period.

This was in sharp contrast to the global meltdown of 2008-09, when insurance companies in the US fell as rapidly as other financial sector entities.

Part of the reason was that they had moved away from the old fashioned bulking up on long-term infrastructure papers like railways to sub-prime housing mortgages. When the claims came in bulk, they were not able to hold up.

While Insurance premiums grew fast during the Depression, covering 55 per cent of the population of the US, it fell away post 2008, **as an OECD report notes**. “It was, after all, an insurance product that contributed to the risk that almost brought down the global economy,” said T J Wilson, CEO, Allstate.

India was nowhere there till recently. Just about 25 per cent of the Indian population in 2018 has life cover, according to Irdai data. A joint ongoing survey by the Indian finance ministry and Life Insurance Corporation of India has found less than 20 per cent of those killed by Covid-19 had life insurance. Of the 1,568 recorded deaths till May 3, the teams have managed to reach over 500 across the country. Another 100 is being reached out to via sms. The total number with a life cover has barely touched 100 so far. There is pressure to improve these numbers and one way is to go digital.

Digital reach

The perceived picture of the sector's solidity is likely to attract far more customers from now on. Anand Roy, Managing Director, Star Health and Allied Insurance agrees that the market for its products is expected to grow fast. “Though there may be reduction in disposable income, when it comes to priority, people will look at health insurance as one of the essentials.” Roy says, adding that to “further support the insuring public many insurers are also coming out with premium payments in easy Instalment options, which will help people to opt for health insurance”.

As of now, no insurance company Business Standard reached out to had expectations of a flood of insurance claims. Roopam Asthana, CEO & Whole Time Director, Liberty General Insurance says, “We will have to face short-term pain with subdued demand till the growth, sentiment and consumer confidence revives.” But he too, as a non-life insurer, expects the pain only in terms of loss of business in segments like motor, as car sales have crashed. Other sectors to be hit will be travel insurance which “has taken a complete hit besides marine cargo”, says Shreeraj Deshpande, Chief Operating Officer, Future Generali India Insurance.

Still, payout blues due to loss of life at a major scale is not on the radar of most companies, unlike what has begun to happen in the US. **A PwC USA report notes**, “Claims may increase, especially for long-term care, life and disability insurance. Even though specific losses may be excluded, some carriers could see a surge in claims involving health, travel, event cancellation, business interruption and supply chain policies.” But Irdai is taking no chances as its comprehensive guidelines on health insurance makes clear. Withdrawing short-term covers like indemnity based health insurance is one of those. The regulator is worried that with such claims could shoot up, affecting the solvency of the insurance companies.

A decisive way the industry, both life and non-life, could grow is through digital penetration. Deshpande says, “Sourcing business via retail channels and reaching out to customers is the biggest challenge given the fact that the digital penetration, adoption as well as digital ecosystem is still evolving”. But companies are fast evolving. “Organisations across industry are undergoing metamorphosis by adopting and leveraging digital technologies which will open up new channels for growth,” he adds. In Jharkhand, of all states, Bajaj Allianz Life has discovered digital adoption post lockdown has jumped over 70 per cent, “against a nominal 20 per cent before the lockdown period”. Roy says this could facilitate payment of premium through instalments. “The options will help people to opt for health insurance.”

Acknowledging the same trend, Asthana says, “Any economic downturn will negatively impact the spending power of consumers – especially the self-employed and those running small businesses. This time around we will see impact in the salaried segment also on account of job losses, salary cuts and general uncertainty about future prospects. However, with the IMF predicting a return to 7 per cent-plus GDP growth in 2021-22 we expect the demand for insurance as well as for other products and services to revive soon enough.”

Chugh, however, asks for caution about the optimism. “I believe the Indian life insurance segment will have a trajectory similar to China, where insurance picked up after a few months of the crisis. There will be a slow growth in demand, and hence, perhaps next year we will witness some winds of change as we see that the awareness of life insurance is going up. Slowly.”