COVID-19 and Property-Liability Insurance in India: Impact and Prospect

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Abstract:

An unprecedented crisis in the form of COVID-19 has posed a significant problem to both the lives and livelihood of the people around the world. Economic activities of India are also affected by this pandemic with phase-wise lockdowns, implementation of social distancing measures, global economic downturn and supply chain disruptions. With reduced economic activities and movement, property-liability insurance (PLI) sector has also been impacted. In this paper we assess the impact on PLI sector in India, analyse the policies and steps taken by Government & regulatory authorities and provided a future outlook depicting the way forward. The study will help policymakers and insurers to take a holistic view of the impact of COVID-19 situation and plan for the future accordingly.

JEL: G22, I13, O530,

1. <u>Introduction:</u>

The world is in the midst of COVID-19 pandemic and every country is engaged in saving lives along with maintaining livelihood of its citizens. Two fundamental strategies have been adopted globally (Qiu *et al.*,2020), one focusing on mitigating but not necessarily stopping the virus spread and other relying on more stringent measures to suppress and reverse the growth trajectories. Implementing social distancing measures as a pre-cautionary measure and simultaneously saving the face of economy is a hard task. COVID-19 has disrupted the demand and supply chains and with this disruption trade impact on Indian economy is also expected. One of the industries majorly affected is the General Insurance sector/ non-life insurance sector which also includes Health Insurance. In North American terminology, non-life insurance is referred as property-liability insurance, hence, the terms may be used interchangeably.

Insurance sector transfer risks (Ward & Zurbruegg, 2000) from the insured to the insurer in exchange of insurance premiums covering the underlying expenses along with building a risk pool to support any claims that may arise from any untoward incident covered under policy wordings. Property Liability Insurance in addition to health insurance protects property and against any lawsuits primarily by way of Fire, Marine Cargo and Hull, Motor, Credit Guarantee, Crop, Aviation and Liability insurance. PLI covers the risk which is expected to enable entrepreneurs to take more risk and deploy capital in productive activities.

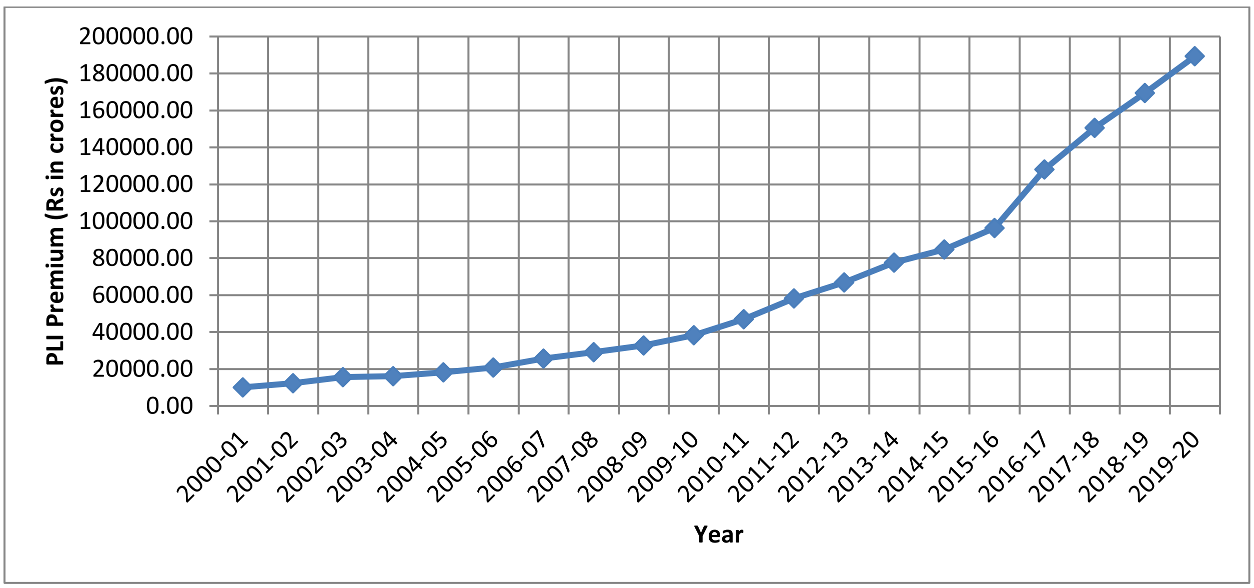
Some studies have been conducted to assess the impact of COVID-19 on Indian economy (Dev and Sengupta, 2020; Paul and Banerjee, 2020; Kumar, 2020), however, no such study is available on Indian PLI sector. Therefore, this paper is a modest attempt to study,

- The impact of COVID-19 on PLI sector in India and
- Future outlook of PLI in India

2. Pre Covid-19 PLI sector in India

New economic policy of India introduced in 1991 paved a way for liberalization of the Indian economy which also impacted the property liability insurance sector. Government of India (GoI) brought reforms in the insurance sector by setting up Malhotra Committee in 1992. Implementation of Committee recommendation commenced from 1999 and Insurance Regulatory and Development Authority of India (IRDA) was set up beginning a new era in the Indian insurance sector.

Figure 1: Year wise PLI premium in India



(Source: IRDA annual reports)

It is observed that post-liberalization of Insurance sector, PLI premiums have increased from Rs 10087.03 crores (2000-01) to Rs 189301.75 crores (2019-20) in the pre Covid-19 period in India (Figure: 1) indicating a growth of 1776.68% with a significant growth in the last 5 years. Further, PLI density has increased from 2.4 USD in 2001 to 19 USD in 2018 (growth of 692%) & penetration has increased from 0.56% (2001) to 0.97% (2018) indicating growing share of PLI markets in India. Further, non-life insurance in India has a total real premium growth rate of 14% in 2018 which is higher than the world figure of 3% (IRDA).

Table 1: Total Real Premium Growth Rate 2018

Regions/ Countries	Non-Life (%)
Advanced Markets	1.9
Emerging Markets	7.1
Asia-Pacific	6.4
India	**14.0**
World	3.0

(Source: IRDA, Annual Report FY 2018-19)

3. Impact of COVID-19 on PLI sector:

India imposed phase-wise lockdown commencing from 25.03.2020 with traffic restrictions to contain the spread and advised people to maintain social distancing guidelines. Subsequently, phase-wise unlock process began w.e.f 01.06.2020 with gradual ramp up of economic activities which is also reflected in future expectation index of Consumer Confidence Survey for July 2020 (RBI).

Insurance sector is expected to be largely impacted. As on 09.08.2020, a total of 21.50 lakhs (approx.) people were infected with COVID-19 in India (MOHA). With rising infections, there is a toll on health insurance sector with increase in hospitalisation claims. Also business entities are getting affected leading to reduced insurance premium collection of certain segments affecting

PLI sector as a whole. The challenges lie in overcoming this situation and the steps taken to protect interest of all stakeholders of the PLI sector in the days to come. Other impacts envisaged on Indian PLI sector are:

- Motor insurance premiums consisting about 37% of the total PLI premiums, however, motor claims are expected to decline, given fewer vehicles on the road and much lower frequency of accidents.
- Crisis is affecting both the demand and supply of insurance because insurers are experiencing more COVID-19 related claims and are recording large mark-to-market losses (Sigma 04/2020).
- Business-continuity insurance and commercial-risk claims are expected to go up (McKinsey & Company).
- Travel insurance and event cancellation covers may be triggered though pandemics are often excluded in such coverage.

Decline of 8.60% in PLI premiums noticed in March 2020, albeit significant improvement in premium collection by 11.72% is observed for FY2019-20. Decline is mostly due to imposition of lockdown with less premium collection and reduced number of new policies.

In March 2020, personal accident is the worst hit segment (decline by 53.03%) and with reduced economic activities, credit offtake has also diminished leading to contraction in Credit guarantee premiums (by 41.99%). Further, motor, health and other miscellaneous segment also experienced a significant decline in March 2020 (IRDA).

Lockdown continued from April to May 2020 with subsequent phase-wise lifting of lockdown commencing from June 2020 and gradual opening up of economic activities.

Table 2: Gross premium underwritten by non-life insurers
(For the months of April-June 2020)

(Rs. crores)

Period	Fire (A)	Marine (B)	Engineering (C)	Motor (D)	Health (E)	Crop Insurance (F)
April'2020	4028.48	436.68	258.54	2648.49	5619.56	214.89
April'2019	2857.66	516.88	271.86	5141.03	5066.57	590.63
Growth Rate	40.97%	-15.52%	-4.90%	-48.48%	10.91%	-63.62%
May'2020	1767.54	258.42	179.65	4105.12	3507.60	194.20
May'2019	1454.28	293.54	222.87	5370.24	3424.40	364.95
Growth Rate	21.54%	-11.96%	-19.40%	-23.56%	2.43%	-46.79%
June'2020	1640.40	232.99	242.83	5257.91	4309.42	1066.12
June'2019	1117.31	244.45	190.22	5212.40	3958.79	1001.33
Growth	46.82%	-4.69%	27.66%	0.87%	8.86%	6.47%
Q1 FY2019-20	7436.43	928.09	681.02	12011.75	13436.59	1475.21
Q1 FY2018-19	5429.26	1054.88	684.96	15723.57	12443.45	1964.34
Growth	36.97%	-12.02%	-0.57%	-23.61%	7.98%	-24.90%

Table 1 Contd...

Period	Credit Guarantee (G)	Aviation (H)	Liability (I)	Personal Accident (J)	All Other Miscellaneous (K)	Grand Total (A to K)
April'2020	43.17	76.52	323.66	365.30	461.22	14476.52
April'2019	99.70	81.13	320.27	439.68	506.17	15891.59
Growth Rate	-56.70%	-5.68%	1.06%	-16.92%	-8.88%	-8.90%
May'2020	59.02	23.57	280.28	253.86	262.20	10891.46
May'2019	115.97	27.10	253.69	367.52	336.92	12231.48
Growth Rate	-49.11%	-13.03%	10.48%	-30.93%	-22.18%	-10.96%
June'2020	140.49	19.36	293.45	465.64	292.86	13961.49
June'2019	126.03	37.79	285.71	392.62	381.08	12947.75
Growth	11.47%	-48.77%	2.71%	18.60%	-23.15%	7.83%

Period	Credit Guarantee (G)	Aviation (H)	Liability (I)	Personal Accident (J)	All Other Miscellaneous (K)	Grand Total (A to K)
Q1 FY2019-20	249.09	119.45	897.39	1084.80	1009.91	39329.73
Q1 FY2018-19	346.00	146.02	859.69	1199.84	1219.82	41071.85
Growth	-28.01%	-18.20%	4.39%	-9.59%	-17.21%	-4.24%

(Source: IRDA)

Positive growth is observed in Q1 FY2019-20 in Fire, Health and Liability segments (Table:2) with all other segments declined over that period. The improvement is mainly due to:

- Increased risk aversion and introduction of dedicated health insurance product catering Covid, supported by digital renewal of health policies.
- Fire insurance premium collection possibly driven by higher retention post rise in reinsurance rates by GIC. Hence, hardening of rates played a crucial role. General Insurance Council on 28.04.2020 has given a one-time relaxation for the properties unoccupied between 25.03.2020 and 03.05.2020 by way of continuation of policies where the insureds' premises are unoccupied for more than 30 days; renewal of those policies has sustained the fire insurance growth.

Non-payment of renewal premiums in April-May 2020 also have a major impact on PLI. The situation improved in June 2020 except for marine, aviation and miscellaneous segments. Reduced cargo vessels movement along with imposition of Covid-19 restrictions in certain countries, timeline extension for depositing premiums during lockdown period are some of the factors leading to decline of premiums.

4. <u>Steps taken to mitigate COVID-19 impact:</u>

In addition to phase-wise lifting of lockdown, IRDA and Government have taken several measures to improve PLI segment. Apart RBI has taken steps to de-stress the economy playing a major role in mitigating the immediate effect of debt-burden on business entities and as a part of economic stimulus provided by Government of India (GoI). Brief detail of steps taken for PLI sector improvement is provided below:

- Motor third party ($IRDA_a$) and health insurance policies ($IRDA_b$) that fell due for renewal during the lockdown period were allowed timeline till 15.05.2020 to ensure continuity of policies.
- Mandatory health insurance coverage to workers ($IRDA_c$)
- Insurers allowed collecting health insurance premiums in instalments for ease of payment for a period of 12 months for policies due for renewal upto 31.03.2021 (IRDA)
- 'Corona Kavach' policy introduced addressing basic health insurance needs (IRDA)
- To tackle COVID-19 and build a 'self-reliant' India, GoI in May 2020 announced a special economic package 'Atmanirbhar package'(Annexure: 1) amounting Rs 20,97,053 crores. No specific announcements made for PLI sector, however, as PLI is linked to economic activities it is expected that economic recovery will lead to uplifting of PLI sector.

5. <u>Future Outlook:</u>

<u>Infrastructure investment to drive PLI growth:</u>

There will be a significant slowdown in 2020 due to COVID-19 and risks to growth, remain on the downside, is expected to contract by 1% in 2020 in India. In spite of above, average annual growth rate of emerging Asia during 2021-2030 is expected at 5.2% and India (6.1%) will take over China (5.1%) as the region's fastest growing economy (Sigma 03/2020).

Infrastructure investment (healthcare, urbanization, information, communication infrastructure) can improve productivity and resilience. India announced National Infrastructure Pipeline-USD 1.5 trillion project as a part of its large scale infrastructure program in support to build a USD 5 trillion economy by 2025. Being second largest emerging market in infrastructure investment, India is projected to contribute USD 170 billion each year to 2040 (Sigma 03/2020) providing investment opportunity for insurers that can deliver attractive yields.

Further, it may create demand for related insurance and protect against risks during construction & operational phases. Contractors all risk and marine are the main lines of business to benefit during construction while property insurance can provide coverage during operational phase of such projects. Hence, infrastructure investment in India remains the key in sustaining growth rates in the long term.

Strong underlying fundamentals and rate hardening:

Global non-life premiums are expected to grow by 1.6% during 2020-2021 (0.1% contraction in 2020 and 3.3% growth in 2021) (Sigma 04/2020). COVID-19 induced slowdown is temporary and forecast is in line with the strong underlying fundamentals. Further, with increased risk awareness and digitalization of the economy insurance is expected to gain pace in India.

Silver lining exists:

Silver lining exists since hardening of PLI rates and resumption of economic activities has improved PLI figures for June 2020 quarter (Table 1) inspite of COVID-19 situation.

Health insurance is also expected to positively contribute the PLI sector considering the rising infection cases and creation of awareness amongst people from the ongoing crisis. Public health system reforms in India will also open more opportunities for private health insurance participation. Further, insurance cover for pandemic risk could gain importance after COVID-19 since at present pandemic risks are often excluded from the policy wordings. Additionally, growth is expected to accelerate from agriculture sector, liability and credit insurance development in India.

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Annexure: 1

Table 3: Break-up of stimulus from Atmanirbhar Bharat package

Item	Amount (Rs in crores)	Purpose
Stimulus from earlier measures	1,92,800	Earlier measures which majorly includes Pradhna Mantri Garib Kalyan package worth Rs 1.7 lakh crores
Stimulus provided by announcements in Part 1	5,94,550	Focused on injecting liquidity in MSMEs. It includes Rs 3 lakh crores collateral-free loans and Rs 50,000 crores equity infusion for MSMEs. Further, liquidity measures amounting Rs 30,000 crores were also announced for NBFCs, HFCs, etc. and Rs 90,000 crores for power distribution companies.
Stimulus provided by announcements in Part 2	3,10,000	This tranche catered to migrant workers and street vendors and 'one nation one ration card' was introduced to allow migrant workers to buy ration from any place in the country. A special credit facility of Rs 5000 crores to support around 50 lakh vendors, Rs 2 lakh crores to farmers through Kisan Credit Cards, Rs 11000 crores to the states to fund food and shelter facilities to migrant workers.
Stimulus provided by announcements in Part 3	1,50,000	It focused on agriculture and allied sectors. Rs 1 lakh crore as agriculture infrastructure fund, Rs 20000 crores to fishermen through Pradhan Mantri Matsya Sampada Yojana, Rs 10000 crores to formalize micro food enterprises, Rs 4000 crores for herbal cultivation, Rs 15000 crores Animal Husbandry Infrastructure Development Fund, Rs 500 crores for bee-keeping related infrastructure development.
Stimulus provided by announcements in Part 4 and Part 5	48,100	The announcement comprised of reforms of sectors pertaining to coal, minerals, defence production, air space management, airports, power

Item	Amount (Rs in crores)	Purpose
		distribution companies, space sector and atomic energy. For consolidation of PSU firms in strategic sectors, government announced the formulation of a new Public Sector Enterprises Policy. In addition to earlier allocation of Rs 61,000 crores in the budget for MGNREGA in this FY, the government has allocated Rs 40,000 crores as a part of this package.
Sub Total	**1,295,450**	
RBI Measures (Actual)	8,01,603	Belonged to various measures by RBI in February, March and April 2020.
Grand Total	**20,97,053**	

(Source: www.india.gov.in & www.prsindia.org)