INDIAN LIFE INSURANCE INDUSTRY

Strong growth, but resilience amid regulatory headwinds remains to be seen

NOVEMBER 2024

List of abbreviations

FY: Financial year; refers to 12-month period starting from Apr 1 and ending on Mar 31

Q1 FY: Refers to the three-month period starting from Apr 1 and ending on Jun 30

H1 FY: Refers to the six-month period starting from Apr 1 and ending on Sep 30

YoY: Year-on-year

NBP: New business premium

APE: Annualized equivalent premium

IRDAI: Insurance Regulatory and Development Authority of India

GPW: Gross premium written

VNB: Value of new business

EV: Embedded Value

ROEV : Return on Embedded Value

Par: Participating product

Non-Par: Non-participating product

RoE: Return on Adjusted Equity (net worth excluding FVCA)

FVCA: Fair Value Change Account

ASM: Available Solvency Margin

ULIP: Unit Linked Insurance Plan (also referred to as linked)

For the purposes of this analysis, ICRA has classified insurers into the following categories:

Classification	
LIC	Life Insurance Corporation of India
Select Private Insurers	14 private sector life insurers: HDFC Life, ICICI Prudential, SBI Life, Max Life, Aditya Birla Sun Life, PNB Met Life, Bajaj Allianz Life, Kotak Life, Canara HSBC Life Insurance, Reliance Life, India First Life, Star Union Dai Ichi, Bharati AXA, TATA AIA
Private Insurers	All private insurers
Industry	Total life insurance industry

Agenda

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2 Industry Performance Analysis & Outlook

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Executive Summary

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Industry NBP expected to grow to Rs. 4.07-4.10 trillion by FY2025 and Rs. 4.37-4.44 trillion by FY2026 from Rs. 3.78 trillion in FY2024

The New Business Premium (NBP) for the life insurance industry is expected to grow by 8-9% to Rs. 4.07-4.10 trillion in FY2025 from Rs. 3.78 trillion in FY2024. ICRA expects the individual NBP to grow by 7-8% in FY2025 (4% in FY2024 and 19% in H1 FY2025). The individual NBP has seen a sharp uptick in H1 FY2025 partly due to the lower base of the last financial year. The growth is likely to moderate over the full year, given the uncertainty related to the impact of the higher surrender value and the time taken to adjust to the new product structures. Group NBP is likely to increase by 8-9% in FY2025 (1% in FY2024, 20% in H1 FY2025). Growth in H1 FY2025 was driven by the revival in LIC's group fund business partly offset by the slow group credit life for private insurers in light of the slower credit offtake in the economy. The value of new business (VNB) growth for the industry is likely to be lower in FY2025 over the previous years with continued compression in the margins.

The growth in individual NBP in FY2024 and H1 FY2025 has been supported by the linked products given the slowdown in the guaranteed non-par segment with the taxation changes as well as investor preference for the linked segment driven by the uptick in equity markets. With the decline in the G Sec rates, the ability of the insurers to offer higher internal rate of returns (IRRs) in non-linked savings has reduced, thereby reducing its attractiveness against the longer tenor fixed deposits. Further, to counter the impact of the recent guidelines on higher surrender values effective October 01, 2024, the insurers have introduced product changes with trail-based commission payout, persistency linked clawbacks and revision in the IRRs. In light of these guidelines and reduced relative attractiveness of the non-par guaranteed products, the ability of insurers to demonstrate growth is to be seen. In the meanwhile, ICRA expects linked policies to remain the growth drivers in the near to medium term.

VNB margins have compressed with increase in the lower margin linked segment and are likely to be further impacted by the surrender value regulations. With the compression in VNB margins, growth in absolute VNB would be contingent on growth in the premium. Accounting profitability for private insurers is likely to remain range bound in FY2025 (RoE of ~8-9%) as the internal accruals are estimated to be consumed for growth.

The solvency for private insurers remains comfortable in relation to the regulatory requirement of 1.5x. However, capital consumption remains high with increased sum assured, rider attachments with linked to improve margins and increased investment book with strong mark-to-market gains. Solvency will likely be supported by equity raise and issuance of sub-debt.

Key takeaways

Stable outlook reflects ICRA's expectation of the industry navigating the regulatory changes and growing, given the low penetration in the country; capital position remains comfortable

NBP growth dependent on linked segment	▪ The industry has seen changes in the regulatory landscape, driven the overall product mix and growth. ▪ The insurers have revised their product structures to offset the impact of the higher surrender values, however, offtake of the same is to be seen. ▪ The IRRs offered by insurers are under pressure both with the decline in G Sec rates as well as an attempt to protect the margins due to the higher surrender values reducing their relative attractiveness. ▪ Linked to remain the key driver for growth in individual NBP in the near to medium term. ▪ Private players are expanding into Tier 2-3 cities, providing headroom for growth; mortality experience in these locations to be seen.
Profitability to be impacted	▪ With the change in product mix towards linked, margins have compressed thereby impacting the absolute growth in VNB and the Embedded Value (EV). ▪ Further, with the higher surrender value, there is a likely downward pressure expected on the margins for non-linked savings.
Capital consumption remains high	▪ Capital consumption has remained elevated in FY2024 and is likely to continue. ▪ To protect margins, insurers have been looking at increasing the sum assured and rider attachments with linked. ▪ While the solvency of private players remains comfortable; the headroom available for raising subordinated debt is likely to support the capital consumption and reported solvency.

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Thank You!