ICRA RESEARCH SERVICES

Indian Life Insurance Industry

Industry Outlook and Performance Review

Industry growth rate expected to be in the range of 15-20% during FY2017

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1. Executive Summary

This ICRA paper analyses the performance of eleven life insurance companies in India, of which one is in the public sector and ten others in the private sector[1]. These eleven companies collectively represent over 95% of the new business in the domestic life insurance industry during H1 FY2017. The key highlights of the report are:

- Despite sound growth in the population of the country, life insurance density levels have been rising, albeit, at very low growth rates (CAGR of 2-3% during FY2006-15). In order to support the same, the GoI has, over the years, announced various initiatives that pertain to foreign ownerships in insurance companies, listing requirements, the usage of e-commerce, special schemes (aimed at the masses at minimal rates), tax rates on specific policies and reinsurance companies operating in the country.
- After a healthy growth in total new business premium collections of 23% YoY during FY2016, overall industry growth continued in H1 FY2017 to 35% YoY (22% YoY for H1 FY2016). While the growth was broad-based across the industry, LIC's business growth was sharper at 41% YoY when compared with the 23% YoY recorded by private sector players during H1 FY2017.
- Industry growth in the single premium segment improved in H1 FY2017 to 45% YoY from 33% YoY in FY2016. While the growth was broad based across industry, LIC's premium from this segment grew at a slightly higher rate of 46% YoY than the private sector's 39% YoY in H1 FY2017.

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[1] *The public sector company is Life Insurance Corporation of India Limited (LIC), while the ten private sector companies are: ICICI Prudential Life Insurance Corporation Limited, Bajaj Allianz Life Insurance Company Limited, SBI Life Insurance Company Limited, Birla Sunlife Insurance Company Limited, Max Life Insurance Company Limited, Reliance Life Insurance Company Limited, Kotak Mahindra Old Mutual Life Insurance Limited, Star Union Dai-chi Life Insurance Company Limited, Exide Life Insurance Company Limited and HDFC Standard Life Insurance Company Limited. This note uses the term* ***Select Private Players*** *to collectively refer to the ten private-sector life insurance companies, while the term* ***private players*** *refers to all players in the industry apart from LIC.*

- In line with the trend witnessed during the past few years, especially since the regulatory changes of September 2011, the proportion of single premium in the total new business premia generated by the industry has continuously increased. In H1 FY2017, the share increased to 69% from 65% in H1 FY2016.
- In H1 FY2017, the share of the group business for the overall industry rose to 62% of new business premium from 58% in FY2016. Since group insurance is a low-margin segment with lumpy premium collections, the industry-wide shift towards the segment is likely to result in a pressure on overall industry profitability.
- In H1 FY2017, industry level individual premium growth rate was largely at par with group premium growth rates at 36%. There was a sharp surge in the growth in the Individual segment supported by a robust 48% YoY improvement in LIC's individual premium collections in H1 FY2017 vis-a-vis zero growth in FY2016.
- The industry added 24,000 new agents in H1 FY2017 with close 80% of these being on-boarded by LIC alone. This is sharply in contrast to the 2% reduction in the number of agents in the industry during FY2016 with LIC alone losing over one lakh agents during that year. While the entire industry has focussed on improving agency efficiency by faster adoption of technology and has been cautious in on-boarding new agents, LIC has aggressively expanded its agency force given the high dependence of its existing business model on agents.
- Both LIC and 'Select Private Players' derive between 55-65% of their gross premium earnings from renewal premium. For its new premium segment, LIC continues to rely heavily on the single premium business (33% of gross premium in H1 FY2017) while 'Select Private Players' rely more on first year business (26% of gross premium in H1 FY2017).
- On account of the high growth of 'Select Private Players' in the single premium segment, their APE grew at a higher rate of 13% in comparison with 9% for LIC during FY2016. In H1 FY2017, Select Private Players reported an APE of Rs. 111 billion vis-a-vis Rs. 156 billion reported by PSUs.
- Despite the adoption of technology for various parts of the policy issuance and servicing process, the cost structure across the industry has been hardening. This increase in expenses in partly on account of the greater focus on the single premium segment – which generally entails higher business origination costs when compared with the renewal premium segment. In H1 FY2017, operating costs (as a %age of Gross Written Premium) increased by 3-4 percentage points over FY2016 levels.
- The growth in LIC's topline resulted in it net profits improving by 38% to Rs. 25 billion in FY2016 (vis-a-vis Rs. 18 billion in FY2015). The growth in profits was on account of the robust growth in top-line along with lower benefit payouts. During H1FY2017, LIC's profitability was lower mainly because most of its business is underwritten in the last quarter of the year.
- As on September 30, 2016, domestic life insurance companies remain well capitalised as premium collections growth has not been very high. In H1 FY2017 the median solvency ratio of 'Select Private Players' moderated marginally to 2.8 from 3.0 in FY2016.

- After a sharp decline in investment income in FY2016, the incomes of 'Select Private Players' increased sharply during H1 FY2017 to Rs. 300 billion. With the lower growth in premium collections, Investment Income as a proportion of gross premium increased to 1.3x times in H1 FY2017 from 0.3x times in FY2016. While LIC's investment income was subdued in FY2016, it was superior to that of the 'Select Private Players' largely on account of the difference in their portfolio composition.

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