PRESS RELEASE

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Rise in sum assured, in bid to protect margins, drives up life insurers' capital consumption: ICRA

- *Strong growth expected in sum assured and rider attachments to protect value of new business margins*
- *Proposed increase in FDI limits is expected to enhance capital flow, supporting the sector's growth*

Ratings agency ICRA expects growth in sum assured in the retail segment for insurers to continue to outpace the growth in retail new business premium (NBP). Private insurers saw a surge in retail sum assured by 41% YoY in 9M FY2025 (30% in FY2024), higher than the retail NBP growth of 17% (7% in FY2024). Given the shift in product mix from high value of new business (VNB) margin non-participating (non-par) products to low VNB margin unit-linked investment plan (ULIP) products, the pressure on the VNB margins is likely to continue, resulting in increased sum assured and rider attachments in a bid to offset the negative impact of the product shift. As the capital requirements for life insurers are also a function of the sum assured in force, with higher growth in sum assured, the capital intensity for incremental growth is expected to remain high, resulting in elevated incremental capital requirements for the sector. The recently proposed increase in the foreign direct investment (FDI) limits to 100% could boost the inflow of capital to the sector and reduce the protection gap in India.

While historically, the growth in life insurance premiums has been driven by investment considerations, with increased consumer awareness, the industry has seen an uptick in demand for the coverage of mortality risks. While the Life Insurance Corporation (LIC) continues to dominate the market with a substantial share in retail and group NBP, however, private insurers lead in terms of sum assured. With a market share of 84% in terms of retail sum assured and 80% in terms of group sum assured in 9M FY2025, private players have a relatively higher share when compared to their market share of 63% and 28% in terms of retail NBP and group NBP, respectively.

Neha Parikh, Vice President & Sector Head – Financial Sector Ratings, ICRA said*: "Mortality protection demands significant upfront capital, risk management and reinsurance tie-ups, resulting in concentration of the sum assured market. Within the retail and group sum assured, capital requirement is even higher in the retail segment, given that the risk is underwritten for a much longer tenor. Some large private insurers benefit from their long operating history, resulting in backbook surplus[1], hence, partly supporting their ability to underwrite a higher sum assured".*

With higher growth in sum assured compared to the NBP segment, the market share in sum assured outstanding at the end of December 2024 is much higher at 65% (45% in FY2018) in the retail segment for the top five private insurers. Given the capital requirements, the market for sum assured is likely to remain skewed towards the insurers who have high backbook surplus or can bring in a larger pool of capital. To augment their capital base, the large private insurers have raised sub-debt of Rs. 29.5 billion (additional sub-debt of Rs. 23.0 billion expected by Mar-2025) and equity of Rs. 19.1 billion in YTDFY2025 compared to the overall sub-debt of Rs. 43.7 billion raised in the previous four years.

"The high capital intensity of the life insurance sector necessitates substantial investments to sustain growth. The increase in FDI limits will provide the much-needed capital boost to the sector, enabling insurers to expand their mortality coverage and increasing penetration," **Parikh** added.

The shift towards ULIPs from the non-participating segment from FY2024 onwards has been driven by the changes in the taxation regime for high ticket non-par policies, buoyancy in equity capital markets and decline in yields on

[1] Backbook surplus is the profit generated from existing policies

Government securities, thereby lowering the returns on non-par policies. Apart from the need to protect the VNB margins, the growth in sum assured over the years has also been supported by the increase in ticket sizes with the retail sum assured per policy for private insurers rising to Rs. 2.4 million in FY2024 from Rs. 1.3 million in FY2018.

For LIC, however, the retail sum assured per policy has remained stable (Rs. 0.3 million) and is much lower compared to the private insurers. Group sum assured also saw significant growth with the growth in credit life, driven by robust credit expansion in the retail segment (CAGR of 18% in FY2021-FY2024), especially unsecured loans (CAGR of 21%), where the penetration of credit life remains higher.

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