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INDIAN LIFE INSURANCE INDUSTRY REPORT

Profitability of life insurance players
impacted in Q1 FY2022 due to pandemic;
NBP growth to resume in 9M FY2022

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Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sahil Udani
+91 22 6114 3429
Sahil.udani@craindia.com

Neha Parikh
+91 33 7150 1146
Neha.parikh@icraindia.com



LIFE INSURANCE

SUMMARY

Highlights

This ICRA paper analyses the performance of 16 life insurance companies in India, of which one is in the public sector while the rest are in the private sector. These companies collectively represented over 98% of the new business written in the domestic life insurance industry during FY2021. The industry performance encompasses all the players in the life insurance industry, while the financial performance, analysis section and outlook pertains to the 16 entities listed earlier.

- Business growth resumes after the slowdown in Q1 FY2022:** The total New Business Premium (NBP) growth had tapered to 7% (Rs. 2.78 trillion) in FY2021, compared to a 21% growth in FY2020. The growth remained subdued in 5M FY2022 at 2% or Rs. 1.01 trillion due to the localised lockdown in Q1 FY2022. Typically, the last quarter is the strongest in terms of growth for the industry. A closer look between the growth rates indicates a sharp decline in the NBP growth for LIC in FY2021. FY2020 had seen a sharp uptick in the group non single premium for LIC (predominantly led by high fund/pension management business). Private sector NBP had slowed down in FY2020, but yet showed a positive growth (8% in FY2021 vs. 9% in FY2020), which accelerated in 5M FY2022 (31%) due to strong growth in the individual business.
- Gradual increase in individual sum assured over four years:** The total sum assured (SA) for both the private sector and LIC had increased in FY2021 and 5M FY2022 from the year ago periods. The total SA for the private sector was Rs. 4.04 trillion up 1% YoY while for LIC it had increased 7.5% YoY to Rs. 8.9 trillion. The total SA had increased at a CAGR of 11.2% in the last four years for the private sector. The average individual SA had marginally increased to Rs. 19.9k in FY2021, while in 5M FY2022 it had declined to Rs. 20k (Rs. 24k in 5M FY2021). The increase in individual SA over the years is due to a shift in product mix towards protection products (which has a higher SA), however, the growth of protection is expected to slow down with the increase in reinsurance rates.
- Moderate growth expectations for FY2022:** ICRA estimates the NBP to grow 14% in FY2022 to Rs. 3.18 trillion, as the nominal GDP is projected to grow by 16%. ICRA expects the NBP growth to accelerate in H2, and Q4 has always been the strongest quarter for life insurance business growth. The NBP density is expected to increase to Rs. 2,326 from Rs. 2,054 at present. Increasing focus on protection products should help increase the insurance density in India. **The outlook on the sector continues to remain stable.**
- LIC IPO to drive global interest in the life insurance segment in India:** The proposed IPO of the biggest life insurer in the country is likely to pave the way for other private life insurers to list themselves on the exchange. With the listing, LIC would be subject to stringent disclosures thereby providing better insights into the strategies followed by LIC. LIC currently maintains solvency of 1.7x as on June 30, 2021; though higher than the regulatory requirement of 1.5x lower than the other large players in the life insurance segment. With the listing, the company could look at shoring the solvency levels.

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Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
+91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: Jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: Communications@icraindia.com
Tel: +91 124 4545 860

Registered Office

B-710, Statesman House 148,
Barakhamba Road
New Delhi-110001
Tel: +91 11 23357940-45

Corporate Office

Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon - 122 002
Tel: +91-124-4545300

Ahmedabad

1809-1811, Shapath V,
Opp: Karnavati Club,
S.G.Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/501

Bengaluru 1

'The Millenia', Tower B Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

4th Floor, 'Shoban'
6-3-927/A&B. Somajiguda
Raj Bhavan Road,
Hyderabad - 500 082
Tel: +91 40 4067 6500

Hyderabad 2

No. 7-1-58, 301, 3rd Floor, 'Concourse',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 1194

Email: Info@icraindia.com

Helpdesk: 9354738909

Website: www.icra.in/ www.lcraresearch.in