

**RESEARCH**
**INSURANCE | Q2FY24 REVIEW**

Shift in product mix dampens life insurer margins

**Daily macro indicators**

Indicator	20-Nov	21-Nov	Chg (%)
US 10Y yield (%)	4.42	4.39	(3bps)
India 10Y yield (%)	7.26	7.27	1bps
USD/INR	83.35	83.35	0.0
Brent Crude (US\$/bbl)	82.3	82.5	0.2
Dow	35,151	35,088	(0.2)
Hang Seng	17,778	17,734	(0.2)
Sensex	65,655	65,931	0.4
India FII (US\$ mn)	17-Nov	20-Nov	Chg (\$ mn)
FII-D	(20.9)	(4.1)	16.8
FII-E	(44.8)	(71.9)	(27.1)

Source: Bank of Baroda Economics Research

**SUMMARY**
**INSURANCE: Q2FY24 REVIEW**

- Higher demand for ULIPs than non-par plans narrowed VNB margins for private life insurers in H1; LIC bucked the trend
- Our top pick SBI Life continues to dominate peers by dint of best-in-class growth and market share gains; LIC's performance underwhelming
- Private players moving to deepen agency channels even as bancassurance continues to spearhead growth

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## Shift in product mix dampens life insurer margins

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**ULIP, protection plans gain traction:** ULIPs and protection plans attracted strong demand in H1FY24. For private insurers under our coverage, ULIP APE grew in the broad range of 4-46% YoY, with HDFC Life in the lead and IPRU lagging. Protection APE grew 3-39% YoY and was marked by mixed trends – whereas SBI Life witnessed a flattish performance in the individual protection business but robust growth in group protection, HDFC Life and IPRU saw quite the opposite. We note that ULIPs and protection plans typically form an inconsequential portion of APE for LIC. Instead, the company saw traction in non-par business while private players experienced a decline.

**Mix shift hurts VNB margins:** With the product mix tilting towards ULIPs in H1, private life insurers could not hold on to the higher margins reported in FY23 when demand for non-par products had surged. VNB margins for private insurers contracted in the range of 140-240bps YoY during the first half and LIC reported a flat reading. Consequently, VNB growth across our coverage came under pressure.

**Premium growth spotty:** LIC had a slow run in H1FY24 as net premium declined 11% YoY whereas private insurers grew 5-22% YoY. IPRU continued to grow in low single digits while SBI Life topped the pack and retained market leadership. On the APE front, HDFC Life and IPRU clocked single-digit growth both in Q2 and H1, LIC saw declines and SBI Life outperformed all three by a wide margin. LIC did maintain market share in individual APE, but ceded ground in terms of NBP where the share of private insurers rose to 42% from 37% at end-FY23 as SBI Life gained ground and HDFC Life retained its position (but IPRU saw a retraction).

**Banking channel remains top driver; agent addition on anvil as well:** LIC continues to command the largest, most productive agency force among life insurers. Notably, SBI Life and HDFC Life have aggressively moved to swell their agent ranks by 33% and 83% YoY respectively as at end-H1, though business from the new recruits will likely come with a lag. Bancassurance continues to be the major driver for private insurers, except IPRU where business originated by parent ICICIBC remains low.

**Top pick:** SBI Life (BUY, TP Rs 1,650) remains our top life insurance pick.

### Recommendation snapshot

Ticker	Price	Target	Rating
HDFCLIFE IN	668	700	HOLD
IPRU IN	556	518	HOLD
LICI IN	611	767	BUY
SBILIFE IN	1,424	1,650	BUY

Price & Target in Rupees | Price as of 21 Nov 2023



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**Note:** Recommendation structure changed with effect from 21 June 2021

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