5th March 2022

Life Insurance Corporation of India

Dear Sir,

Re.: **Proposed initial public offering of equity shares of face value of ₹ 10 each (the "Equity Shares") by Life Insurance Corporation of India (the "Corporation" and such offer, "the Offer")**

We refer to your e-mail/ request dated 24th September 2021 regarding the content provided to you for your internal use by CRISIL Research as part of your subscription to its industry research on the following industry:

- *CRISIL Research – Analysis of Life Insurance Industry in India and Certain Other Countries, March 2022 (the "Report")*

As requested by you, we accord our no objection and give consent for including our name as an independent research provider and to you reproducing, extracting or utilising the content, whether in whole or in part, (hereinafter referred to as "**Material**") available to you as part of the above subscription in the draft red herring prospectus ("**DRHP**") to be filed with Securities and Exchange Board of India ("**SEBI**") and the stock exchanges where the Equity Shares pursuant to the Offer are proposed to be listed (the "**Stock Exchanges**"), the red herring prospectus ("**RHP**") and the prospectus ("**Prospectus**") to be filed with the Registrar of Companies ("**RoC**"), SEBI and the Stock Exchanges or any other document to be issued or filed in relation to the Offer, including any international supplement of the foregoing for distribution to investors outside India to be issued or filed and research reports prepared by the Corporation (collectively along with DRHP, RHP and Prospectus, "**Offer Documents**") and any other corporate or investor presentations or press releases prepared by the Corporation in relation to the Offer, subject to the following:

- Your reproducing the Material on an `as is where is basis' clearly mentioning the document source & date of release. Eg. - CRISIL Research on *Analysis of Life Insurance Industry in India and Certain Other Countries, March 2022 (the "Report")*
- Your ensuring that there is no misrepresentation/modification to our views/opinions and that the Material is not mentioned out of context or misguidingly.
- Your ensuring that the Material consisting of charts/graphs also contains the relevant texts explaining the charts / graphs.
- Your ensuring that the disclaimer of CRISIL (given below) is also reproduced along with the Report, at the relevant place in the Offer Documents.

You agree and undertake not to misrepresent, make any changes to, obliterate or tamper with the Report or present any part thereof out of context or in violation of applicable laws and regulations, if any. Further, you acknowledge and agree that CRISIL does not accept responsibility for the Offer Documents or any part thereof. We confirm that information contained in the Materials have been obtained or derived from publicly available sources and interaction with industry participants, which we consider as reliable and after exercise of reasonable care and diligence by us.

Given below is the disclaimer to be used in the Offer Documents.

"CRISIL Research, a division of CRISIL Limited (CRISIL) has taken due care and caution in preparing this report (Report) based on the Information obtained by CRISIL from sources which it considers reliable (Data). This Report is not a recommendation to invest / disinvest in any entity covered in the Report and no part of this Report should be construed as an expert advice or investment advice or any form of investment banking within the meaning of any law or regulation. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary permission and/or registration to carry out its business activities in this regard. Life Insurance Corporation of India will be responsible for ensuring compliances and consequences of non-complainces for use of the Report or part thereof outside India. CRISIL Research operates independently of, and does not have access to information obtained by CRISIL's Ratings Division / CRISIL Risk and Infrastructure Solutions Ltd (CRIS), which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL Research and not of CRISIL's Ratings Division / CRIS. No part of this Report may be published/reproduced in any form without CRISIL's prior written approval."

The Material may be shared by the Corporation, with the Book Running Lead Manager(s) (including their affiliates) and advisers concerned in relation to the Offer. We also consent to the inclusion of the Report, this letter as well as the engagement letter (Reference number: SS/BD/LIC/DRHP/2021CH1224) executed between us and the Corporation as a part of "Material Contracts and Documents for Inspection" in connection with the Offer, which will be available for public for inspection from the date of the Red Herring Prospectus until the Bid / Offer Closing Date and have no objection with you sharing the report with any regulatory or judicial authority as required by law or regulation in relation to the Offer or pursuant to a request / order passed by any authority.

Further, we consent to (i) the engagement letter (Reference number: SS/BD/LIC/DRHP/2021CH1224) executed between us and the Corporation and (ii) the Report being hosted on the website of the Corporation, being made available to the public on such website and a link to the Report being disclosed in the Offer Documents.

We confirm that we are not and have not been engaged or interested in the formation or promotion or management of the Corporation and as per our records and information submitted by the Corporation, we confirm that the Corporation, its Promoter, Directors, Key Managerial Personnel and the book running lead managers appointed in relation to the Offer ("**Book Running Lead Managers**") are not a 'related party' of CRISIL Limited, as per the definition of 'related party' under the Companies Act, 2013 and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, each as amended, as on the date of this letter. We confirm that we are an independent agency with no relationship with the Corporation or its current directors, promoter or the Book Running Lead Managers as on date.

We further confirm that we have, where required, obtained requisite consent or duly acknowledged the source(s), as may be required, by any governmental authority or other person, in relation to any information used by us in the Material.

We represent that our execution, delivery and performance of this consent has been duly authorized by all necessary actions (corporate or otherwise).

This letter may be shared by the Corporation, with the Book Running Lead Managers and advisers concerned in relation to the Offer.

We also authorise you to deliver this letter of consent to SEBI and the Stock Exchanges pursuant to applicable law, or any other legal, governmental or regulatory authority as may be required, in relation to the Offer.

This letter does not impose any obligation on the Corporation or the Book Running Lead Managers to include in any Offer Document all or any part of the information with respect to which consent for disclosure is being granted pursuant to this letter provided that the terms of this letter are complied with.

We agree to keep strictly confidential, the non- public information relating to the Offer until such time that: (A) such disclosure by us is approved by the Corporation; or (B) such disclosure is required by law or regulation, subject to CRISIL intimating the Corporation in advance if permissible and practicable; or (C) such information is already in public domain or comes into public domain through no fault of ours.

For CRISIL Limited

Suresh

Suresh Krishnamurthy

Senior Director – CRISIL Research

Analysis of Life Insurance Industry in India and Certain other Countries

For Life Insurance Corporation of India

March 2022

Macroeconomic Scenario

COVID-19 pandemic impacts world and Indian economy; bounce back expected in fiscal 2022

According to the provisional estimates released by the NSO, India's real GDP growth in fiscal 2021 stood at -7.3% versus the earlier estimate of -8.0%. After sluggish growth in first half of the fiscal 2021 owing to rising COVID-19 cases, gross domestic product (GDP) growth has moved into positive territory in the second half of the year reflecting a pickup in economic activity.

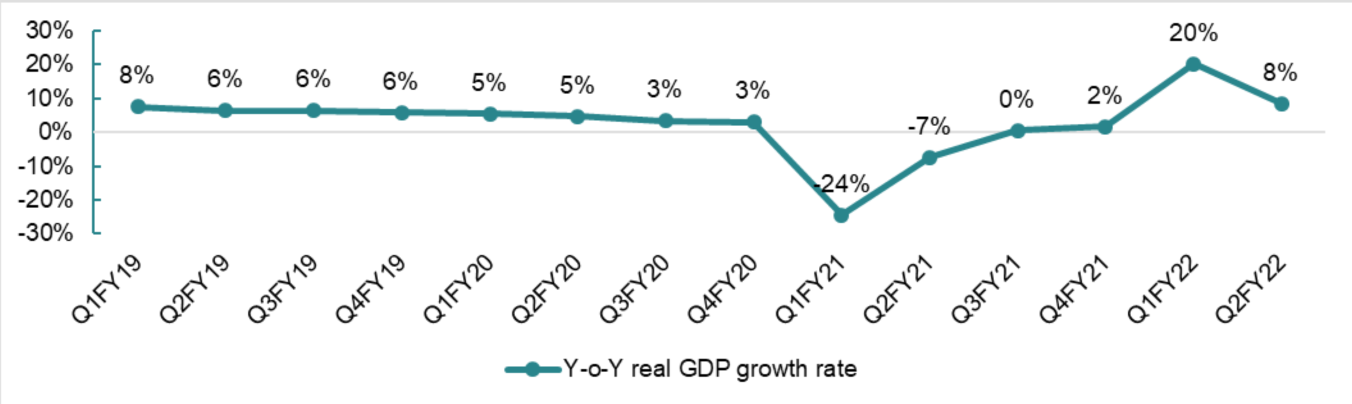
Fiscal 2020 was volatile for the global economy. The first three quarters were ensnared in trade protectionist policies and disputes among major trading partners, volatile commodity and energy prices, and economic uncertainties arising from United Kingdom's exit from the European Union (Brexit). Hopes of broad-based recovery in the fourth quarter were dashed by the COVID-19 pandemic, which has infected more than 340 million people in 224 countries (as of January 21, 2022), leading to considerable human suffering and economic disruption.

The COVID-19 pandemic sharply slowed the Indian economy in the first quarter of Fiscal 2021 leading to a degrowth of 24% year-on-year for the same period, but the huge economic costs that it extracted, forced the economy to open and recover in the second quarter of Fiscal 2021. A sharp cutback in operating costs for corporates due to job and salary cuts, employees exercising work from home options, low input costs due to benign interest rates, crude and commodity prices also helped the recovery.

The fierce second wave of COVID-19 pandemic took the healthcare ecosystem to the brink and beyond in the first quarter of fiscal 2022, but it did not hit economic activity as hard as the first wave did. The main reason for this was decentralised and less-stringent lockdowns, which reflect the 'learning to live with the virus attitude' that authorities adopted. Many states also permitted construction and manufacturing activities to continue during the lockdown.

The pandemic came at an inopportune time since India was showing signs of recovery following a slew of fiscal/monetary measures as nominal GDP grew by 8.8% on year in the fourth quarter of fiscal 2021 as compared to 4.7% in the fourth quarter of fiscal 2020. Having said that, CRISIL Research foresees GDP growth to rebound in fiscal 2022, on the back of a very weak GDP base in fiscal 2021, government expenditure and initiatives towards pushing investments and some benefit from recovery across the world. The gradual increase in vaccinations against COVID-19 is also expected to boost confidence and support stronger recovery. Even after the strong rebound, fiscal 2022 real GDP is expected to be only slightly higher than that in fiscal 2020.

Trend in real GDP growth rate on quarterly basis



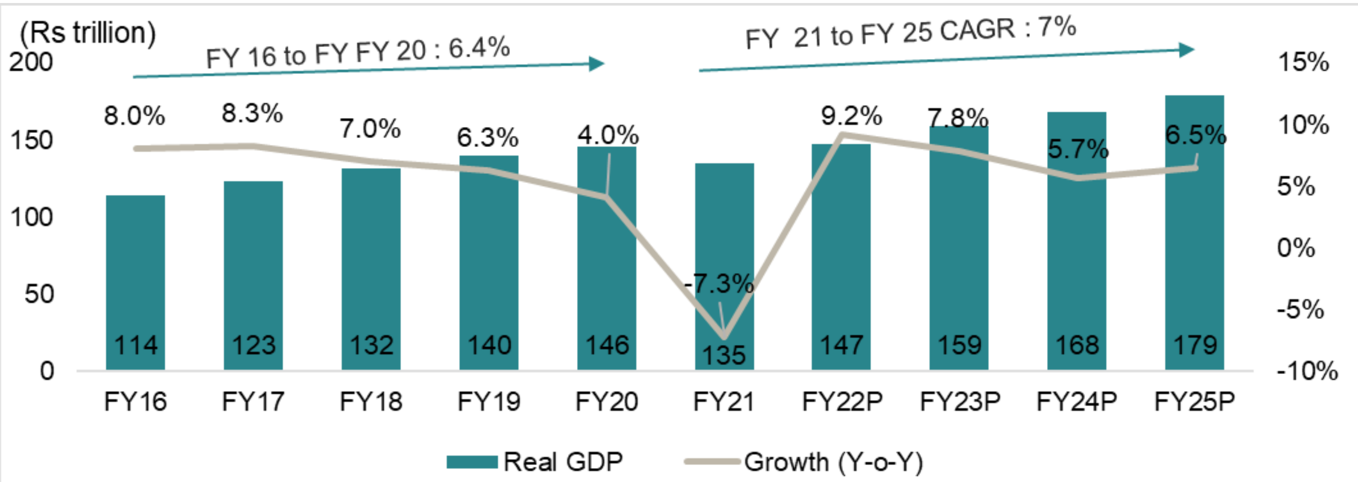
Source: CSO, RBI, CRISIL Research

Further, the focus of Union Budget 2022-23 on pushing capital expenditure (capex) despite walking a fiscal tightrope provides optimism and creates a platform for higher growth. The lift in the consumption cycle is tied to broad based pick-up in economic activity – which the Indian government is trying to engineer through focus on investments. This is expected to enhance the growth potential of India's economy and, it is hoped, will bring endurance to growth in the medium term. However, refraining from giving a direct consumption support may curb the pace of economy recovery in short term.

The total capex of the central government (Budgetary Capex plus revenue grants for capital creation and capex by central public sector enterprises) is budgeted to rise to 14.5% in fiscal 2023 compared with 3.1% in fiscal 2022.

A Reserve Bank of India (RBI) study points out that an increase in capex by the central and state governments by one rupee each induces an increase in output by Rs 3.25 and Rs 2.0, respectively *(Source: RBI Bulletin – April 2019).*

Budgetary support and vaccines expected to boost economic growth



Note: P - Projected

Source: National Statistics Office (NSO), CRISIL Research estimates

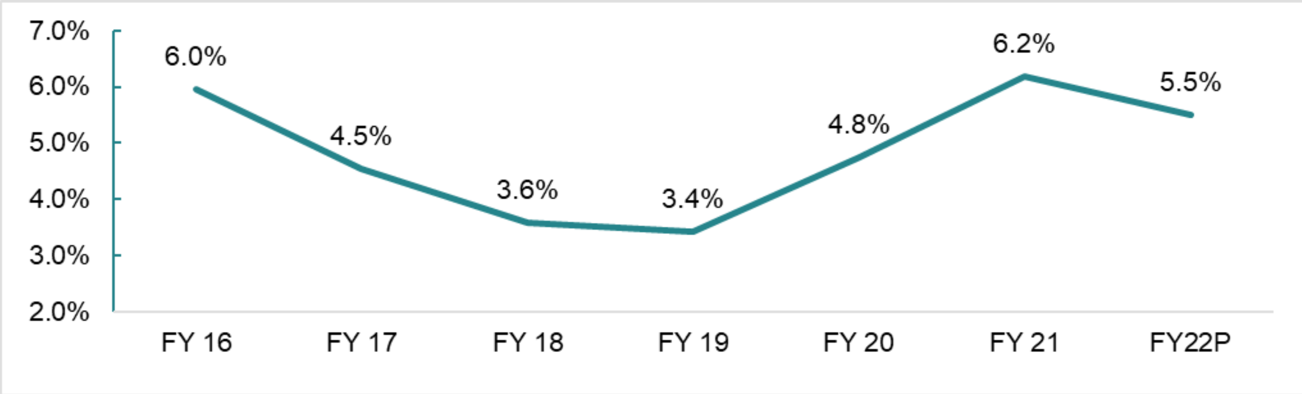
In the aftermath of the second wave witnessed in the first quarter of the fiscal, many states had implemented localized restrictions in the form of weekend lockdowns, restricting non-essential businesses from operating and/or night curfews to prevent the spread of the infection. Although the COVID cases declined substantially from May 2021 to December 2021 leading to resurgence in economic activity, the cases witnessed a surge again from the last week of December 2021, leading to onset of a third Covid-19 wave in the country.

However, the active cases declined to 13,405 on February 22, 2022, from 3,23,533 as on January 22, 2022. Furthermore, the number of patients being admitted to intensive care units of hospitals and those needing ventilator or oxygen support is lower than in the second wave. Going forward, in a scenario of significant rise in COVID-19 cases for a sustained period of time due to new waves and a rise in mortality rates, the economic growth may be impacted over the short run, as witnessed during the second wave of COVID-19 in Q1 fiscal 2022. Furthermore, the number of patients being admitted to intensive care units of hospitals and those needing ventilator or oxygen support is lower than in the second wave. Going forward, in a scenario of significant rise in COVID-19 cases for a sustained period of time due to the Omicron variant and a rise in mortality rates, the performance of the life insurance industry may be impacted over the short run, as witnessed by the industry during the second wave of COVID-19 in Q1 fiscal 2022.

The NSO, in its advance GDP estimates released in January 2022, has forecast India's GDP to grow by 9.2% in fiscal 2022. CRISIL Research forecasts India's GDP for fiscal 2022 to grow by around 9.2% and 7.8% for fiscal 2023, assuming that there will not be a new wave as COVID-19 vaccinations continue to grow at a robust pace in the country. While close to 97% of India's adult population (963 million people) has received the first dose of the COVID-19 vaccine (as of February 22, 2022), 80% of India's adult population (775 million people) have also taken the second dose and are fully vaccinated. Further, in December 2021, the government also announced 'precaution dose' for healthcare & frontline workers and senior citizens from January 10, 2022. Further, vaccination for children in the age group of 15-18 years was also announced from January 3, 2022 onwards. The large proportion of vaccinated people will aid the economic recovery observed in fiscal 2022 to sustain and strengthen further, particularly for contact-based services, which have been the biggest victims of the Covid pandemic.

Prior to the onset of the pandemic, India's GDP growth slowed on account of existing vulnerabilities such as a weak financial sector and subdued private investment. However, in light of production-linked incentive (PLI) scheme, reduction in corporate tax rate, labour law reforms together with healthy demographics and a more favourable corporate tax regime, India is expected to witness strong GDP growth when the global economy eventually recovers, supported by prudent fiscal and monetary policy.

Due to higher liquidity push, inflation moved out of target band; expected to decline in fiscal 2022



Note: P - Projected

Source: National Statistics Office (NSO) and CRISIL Research

Macroeconomic outlook for Fiscal 2023

Macro variables	FY22P	FY23P	Rationale for outlook
GDP (y-o-y)	9.2*%	7.8%	Lower growth next fiscal would be mainly due to this fiscal's high base Growth will continue to be supported by investments (largely government, but also private in some pockets, and driven by PLI scheme to an extent). Consumption will revive only gradually.
Consumer price index (CPI) inflation (y-o-y)	5.5%	5.2%	*Inflation is expected to remain elevated – above the midpoint of the RBIs target of 2-6% for the third year in a row. Firms are expected to pass on cost pressures to a greater extent as domestic demand strengthens next fiscal. While higher crude oil price will add pressure, it will be partially offset by lower excise duties on petroleum products relative to last year.*
10-year Government security yield (fiscal-end)	6.8%	7.0^%	Increase in gross market borrowing by the government, rate hikes by the RBI and the Fed, and surging crude oil price will impose pressure on yields next fiscal
CAD (Current account balance)/GDP (%)	-1.4%	-1.8%	The current account balance is expected to slip further into deficit as trade deficit widens, with imports increasing as Brent crude oil prices rise and domestic demand improves. External demand may not support exports next fiscal to the extent seen it happened this fiscal, as global growth is seen slowing

Rs/$ (March average)	75.0	76.0	The Fed's tapering of its assets purchases and raising its policy rate are expected to impose downward pressure on the rupee as demand for the dollar increases. Further, widening of the current account deficit will add to the depreciation pressure on the rupee

*Note: *NSO estimate, ^ with upside risk, P – Projected*

Source: Reserve Bank of India (RBI), National Statistics Office (NSO), CRISIL Research

GDP to bounce back over the medium term

After clawing back in fiscal 2022, CRISIL Research forecasts India's GDP to grow at 6.0-7.0% per annum between fiscals 2023 and 2025. This growth will be supported by the following factors:

- Focus on investments rather than consumption push enhancing the productive capacity of the economy.
- The production linked incentive (PLI) scheme which aims to incentivise local manufacturing by giving volume-linked incentives to manufacturers in specified sectors
- Raft of reform measures by the government along with a more expansionary stance of monetary policy leading to a steady pick-up in consumption demand
- Policies aimed towards greater formalisation of the economy are bound to lead to an acceleration in per capita income growth

Budget 2022-23 turns expansionary with an eye on medium term

The Union Budget 2022-23 bet big on an investment push to lift economic growth, two years and three waves into the pandemic. The idea clearly is to push the growth multiplier rather than stoke consumption through direct budgetary support. For the next fiscal, the government's revenue expenditure is budgeted to grow less than 1% after growing 2.7% in the current fiscal. The total capex of the government (budgetary capex plus revenue grants for capital creation and capex by central public sector enterprises) is budgeted to rise 14.5% as compared with only 3.1% in the current fiscal. The government thus has tightened the belt around revenue expenditure and frontloaded infrastructure spending that would lead to faster economic growth.

Among the sectors, infrastructure continues to be in the bright spot with a 30% hike in budgetary support. In addition, railways, water and green energy has also received strong impetus. If there is an overarching picture, it is that this budget sets the tone for much-needed infrastructure growth for the next 3-4 years. That will help both, sustain development and create jobs. But implementation, which is all-crucial, remains the elephant in the room. The budget also tries to lift the medium-term growth potential through a sharper focus on financial sector reforms such as:

- **Deepening Financial Inclusion:** In another progressive step for the financial sector, the Government, in the budget, also announced its intention to add 0.15 million post offices to the core banking system to enable financial inclusion and access to accounts through net and mobile banking, and ATMs and provide online fund transfers between post office and bank accounts

- **Extending ECLGS:** The allocation under Emergency Credit Line Guarantee Scheme (ECLGS) has been increased from Rs. 4.5 trillion to Rs. 5.0 trillion and the timeline for sanctions has been extended to March 2023. However, the enhancement of Rs. 500 billion is earmarked exclusively for hospitality and related enterprises, which have been most impacted owing to the pandemic.

India's GDP to recover sharply

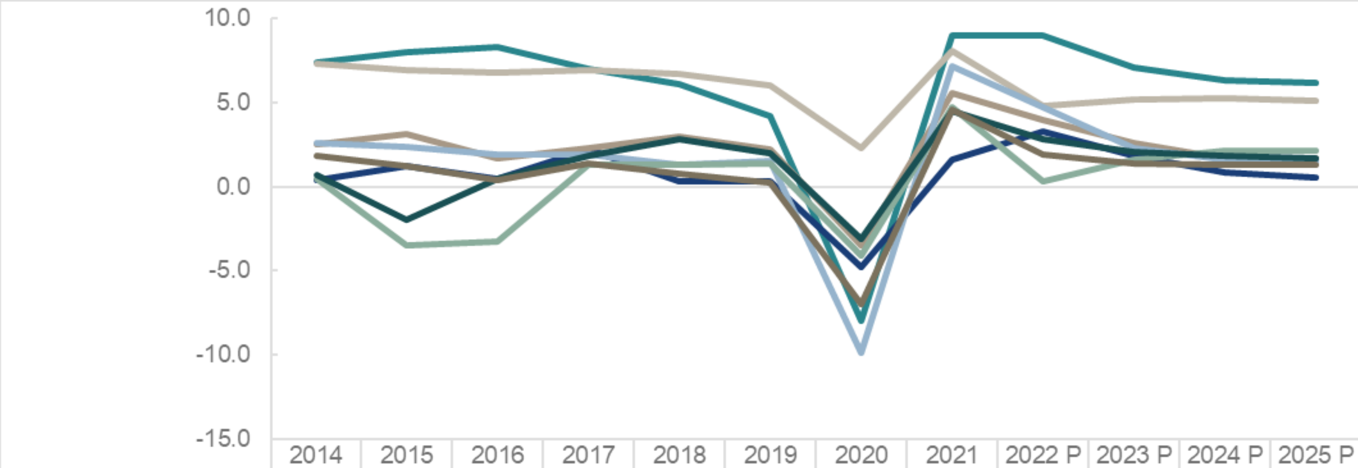
India was one of the fastest growing economies in the world pre-COVID, with annual growth of around 6.7% in between calendar year 2014 to 2019. Over the few years prior to the onset of the pandemic, India's macroeconomic situation had gradually improved with the twin deficits (current account and Fiscal) narrowing and the growth-inflation mix improving and durably so. The Government adopted an inflation-targeting framework that provides an institutional mechanism for inflation control, while modernizing central banking.

While economic growth in calendar year 2020 has been dented due to COVID-19, CRISIL expects the economy to rebound and India to regain its tag of one of the fastest growing economies globally in the medium-term.

Going forward, rapid urbanisation, rising consumer aspiration and increasing digitisation coupled with government support in the form of reforms and policies is expected to support growth. For example, the government has recently announced production-linked incentives across identified sectors with an aim to propel the growth of India as a manufacturing destination. At a macro level, digitalization has led to various benefits like linkage to Aadhaar identity cards, direct benefit transfer and various other government benefits.

The IMF forecasts India's GDP to grow by 9.0% in calendar year 2021 due to the lower base of calendar year 2020 and approved vaccines and policy measures. At this pace of growth, India is forecasted to be the fastest growing economy in the world in 2021. Going forward as well, IMF forecasts India's GDP to grow at a faster pace than other economies.

India is one of the fastest-growing major economy (GDP growth, % year-on-year)



	2014	2015	2016	2017	2018	2019	2020	2021	2022 P	2023 P	2024 P	2025 P
India	7.4	8.0	8.3	7.0	6.1	4.2	-8.0	9.0	9.0	7.1	6.3	6.2
China	7.3	6.9	6.8	6.9	6.7	6.0	2.3	8.1	4.8	5.2	5.2	5.1
Japan	0.4	1.2	0.5	2.2	0.3	0.3	-4.8	1.6	3.3	1.8	0.8	0.6
United states	2.5	3.1	1.7	2.3	3.0	2.2	-3.5	5.6	4.0	2.6	1.7	1.7
United kingdom	2.6	2.4	1.9	1.9	1.3	1.5	-9.9	7.2	4.7	2.3	1.6	1.5
Brazil	0.5	-3.5	-3.3	1.3	1.3	1.4	-4.1	4.7	0.3	1.6	2.1	2.1
Russia	0.7	-2.0	0.5	1.8	2.8	2.0	-3.1	4.5	2.8	2.1	1.8	1.7
South Africa	1.8	1.2	0.4	1.4	0.8	0.2	-7.0	4.6	1.9	1.4	1.3	1.3

Note: GDP growth is based on constant prices, Data represented is for calendar years, P: Projected

Source: IMF (World Economic Outlook – January 2022 update)

Along with being one of the fastest growing economies in the world, India ranks fifth in the world in terms of nominal GDP in calendar year 2020. In terms of purchasing power parity (PPP), India is the third largest economy in the world, only after China and the United States.

While recovery in global economies is visible, the current war between Russia and Ukraine poses a significant downside risk to global growth.

Key downside risks to the global outlook

1. The war between Russia and Ukraine could dent the incipient global recovery and result in a further spike in oil and commodity prices, thereby exacerbating already existing inflationary pressures
2. Supply demand mismatch on account of the ongoing pandemic has resulted in increased inflation rates across key economies. Further rise in inflation could lead to extended price pressures.
3. Emergence of new covid variants
4. Vaccine access and spread: While vaccination programs across the globe are underway, lower than expected rate of vaccination remains a key monitorable

GDP Ranking of key economies across the world (2020)

Country	GDP Rank	% share (World GDP)	GDP PPP	PPP Rank	% share (World

			(internatio nal $trillion)		GDP,PPP)
United States	1	24.7%	21.4	2	15.8%
China	2	17.4%	23.5	1	18.3%
Germany	3	4.5%	4.6	4	3.4%
United Kingdom	4	3.2%	3.2	9	2.3%
India	5	3.1%	9.6	3	6.7%
France	6	3.1%	3.3	8	2.3%
Italy	7	2.2%	2.7	10	1.9%
Canada	8	1.9%	1.9	14	1.4%
Korea	9	1.9%	2.2	13	1.7%
Russia	10	1.8%	4.3	5	3.1%

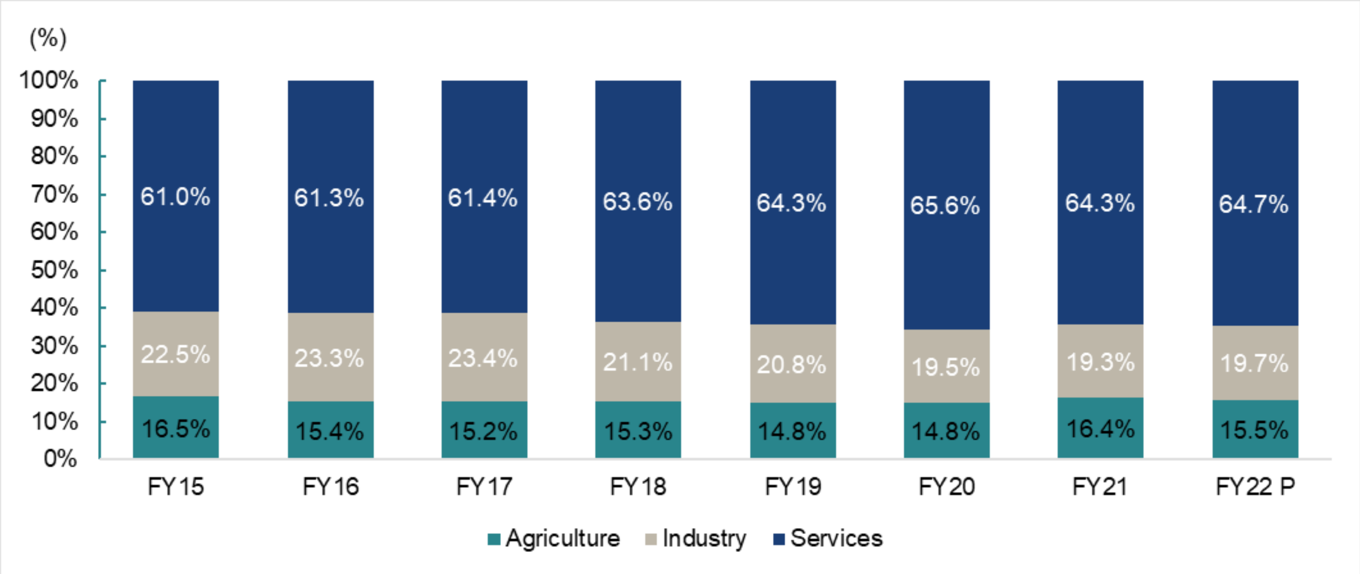
Note: Japan is not considered in the key economies as data for 2020 is not available; PPP data is for 2019

Source: World Bank, CRISIL Research

Contribution of various sectors to GDP

As compared to various developed economies, which witnessed a good contribution from manufacturing and industry first and subsequently in services, the Indian transformation story has been different. A notable feature of Indian economy has been the services sector's rising contribution to the overall output of the economy. Over the last three fiscal years ending fiscal 2020, the service sector has grown at a rate of ~7%, thereby taking the contribution of services sector to 62.9% in terms of Gross Value Added (GVA) at constant prices. In fiscal 2021, overall GVA contracted by ~6.5% with industry and services sector contracting by ~7.4% and ~8.4% respectively.

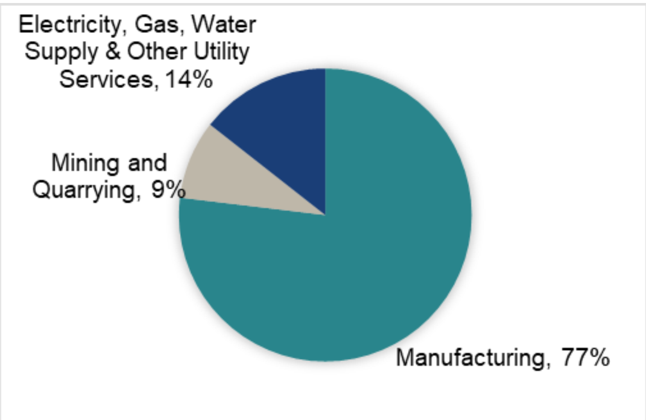
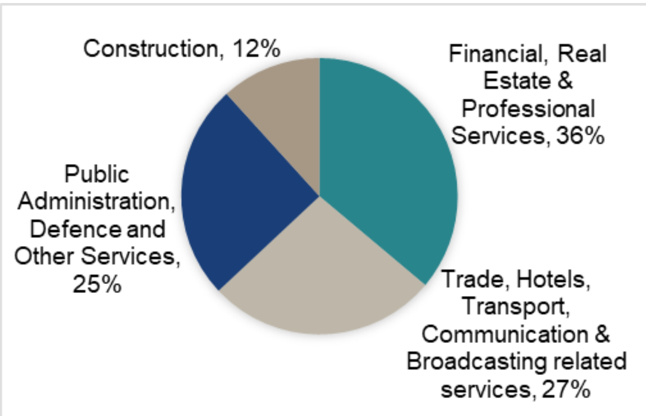
Share of sector in GVA at constant prices



Note: P - Projected

Source: RBI; CRISIL Research

Industry and services sector can be further classified into sub-sectors. In industry, majority of the contribution comes from manufacturing sector which contracted by ~5% and in the services sectors, highest contribution comes from financial, real estate and professional services segment which witnessed a muted growth of ~1%. Within services sector - Trade, Hotels, Transport, Communication and Services related to broadcasting were severely hit as they witnessed a contraction of ~15% followed by construction which contracted by ~6% in fiscal 2021.

Share of sub-sectors in GVA by Industry (FY21)	Share of sub-sectors in GVA by Services (FY21)
	

Source: RBI, CRISIL Research

Risks to growth

- **Covid-19 cases increasing, a third wave this fiscal:** The second Covid-19 wave had a sobering impact over the Indian economy that was beginning to warm up after the most severe contraction since Independence. The rash of afflictions that followed forced states to lock down, hurting consumer and business confidence yet again. Globally, the number of Covid cases is again exhibiting a rising trend since the end of October 2021, and the discovery of the Omicron variant has added to the uncertainty on this account. Any resurgence in Covid cases due to the presence of new variants and/or tardy vaccination in various pockets can have a debilitating impact on economic activity and thereby growth.

- **Elevated inflation:** Significant cost-push pressures on account of surging international commodity prices and supply disruptions has raised cost of production for manufacturing firms. Pass-through to consumer prices could further pose as a headwind to recovery in demand.

- **Premature tightening of global monetary policies:** Resurgence of inflation globally could lead major central banks to unwind their extraordinary easy monetary policies sooner than expected. This could hit sentiment, possibly leading to capital outflows from the Indian economy and some tightening in domestic financial conditions.

- **Geopolitical developments:** External developments, most importantly the US-China trade war, have proved to significantly impact global GDP growth as well as export earnings and capital flows to emerging markets such as India. While there is some respite with the signing of Phase 1 of the US-China trade deal, several issues remain unresolved. Any re-escalation of tensions could again work adversely. Geopolitical developments in the Middle East could also disrupt crude oil supply and prices, likely hurting a wide range of domestic macroeconomic parameters, including current account deficit, inflation, and GDP growth.

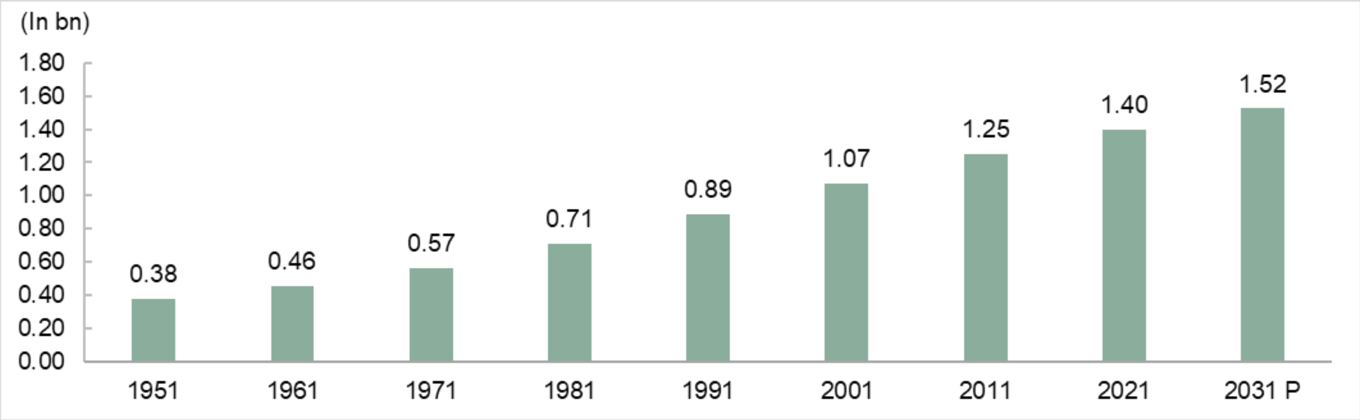
- **Persistent stress in financial sector**: This has been one of the major drags on GDP growth. Liquidity issues faced by NBFCs and risk aversion amongst lenders has hampered credit growth as well as transmission of monetary policy easing. While credit growth is expected to improve in the current fiscal with stronger GDP growth, the system is expected to continue to face uncertainty over asset quality with the Covid-19 pandemic continuing to cast its shadow on the economy. Easing of constraints and risk aversion in the financial system is critical for pick-up in growth.

Key growth drivers

India has world's second largest population

As per Census 2011, India's population was ~1.25 billion, and comprised nearly 245 million households. The population, which grew at nearly 1.5% CAGR between 2001 and 2011, is expected to increase at 1.1% CAGR between 2011 and 2021, to 1.4 billion. The population is expected to reach 1.5 billion by 2031 and number of households are expected to reach ~376 million over the same period.

India's population growth trajectory



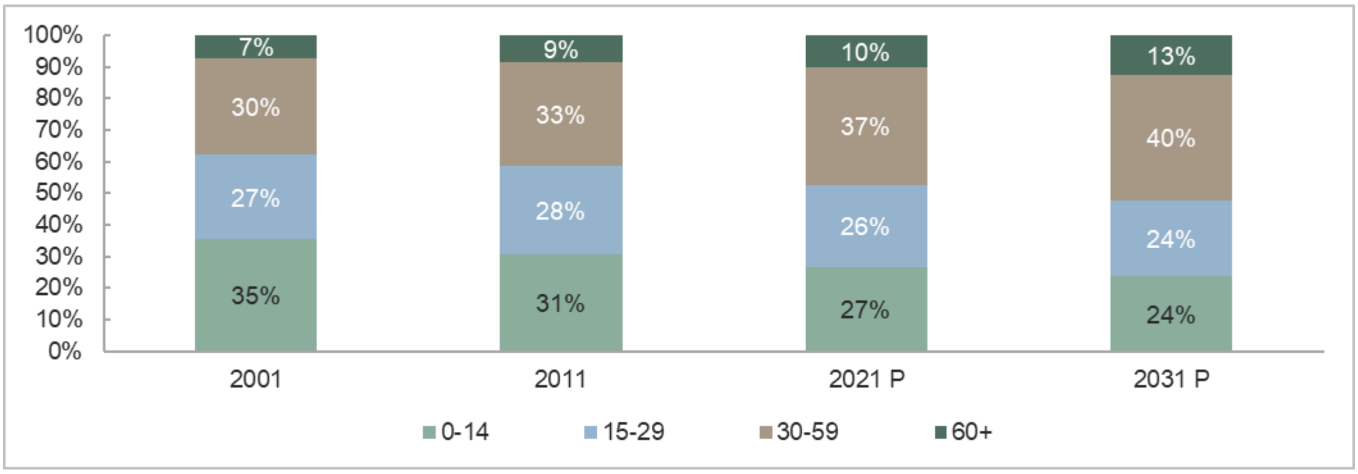
Note: P: Projected

Source: United Nations Department of Economic and Social affairs, CRISIL Research

Favourable demographics

As of CY 2020, India has one of the largest young populations in the world, with a median age of 28 years. About 90% of Indians will still be below the age of 60 by calendar 2021 CRISIL Research forecasts that 63% of them will be between 15 and 59 years. In comparison, in calendar year 2020, the United States (US), China and Brazil had 77%, 83% and 86%, respectively, of their population below the age of 60.

India's demographic dividend



Note: E: Estimated

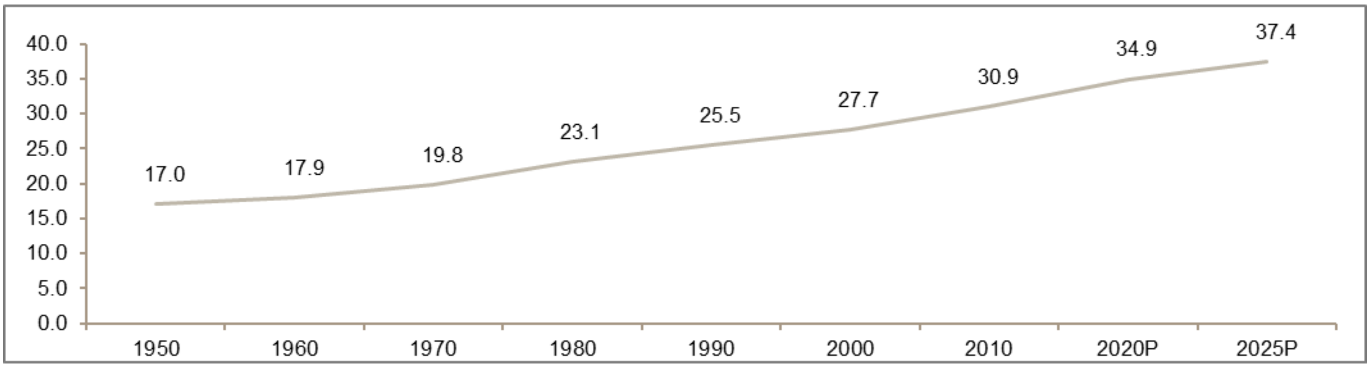
Source: United Nations Department of Economic and Social affairs, CRISIL Research

Urbanisation

Urbanisation is one of India's most important economic growth drivers as it will drive substantial investments in infrastructure development, which, in turn, is expected to lead to job creation, development of modern consumer services and increased ability to mobilise savings. The country's urban population has been rising consistently over the decades. In 1950, it was 17% of total population. As per the 2018 revision of World Urbanization prospects, it was estimated at 34% for India. This is expected to reach 37% by 2025.

Urban population as a percentage of total population

(%)

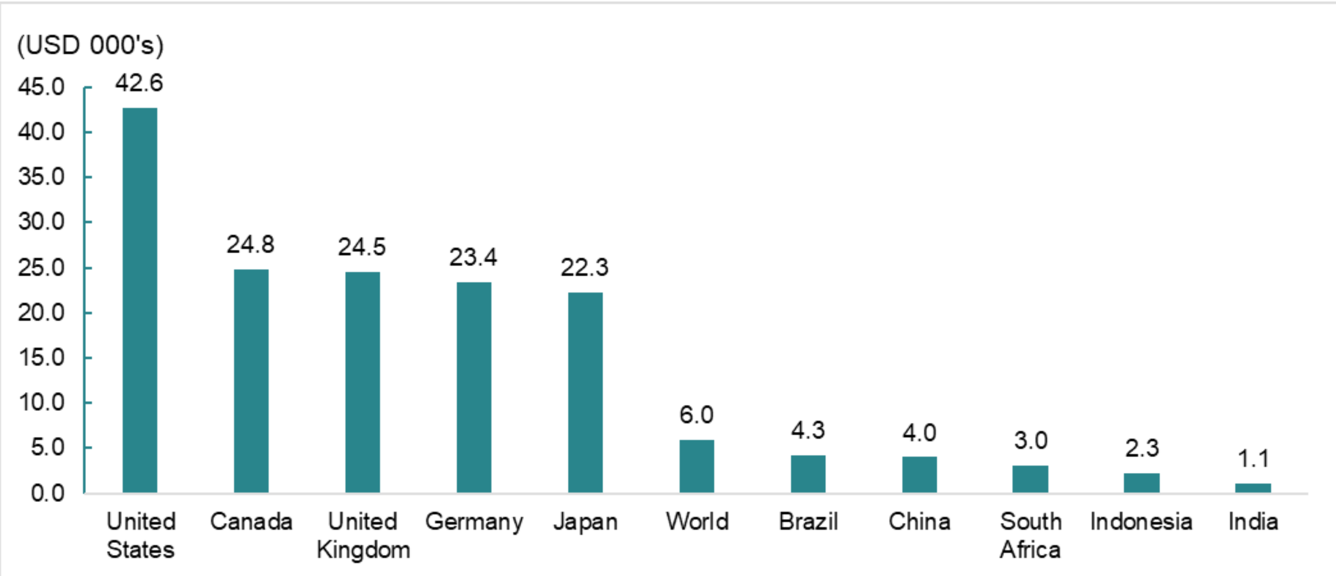


Note: P - projected

Source: Census 2011, World Urbanization Prospects: The 2018 Revision (UN)

In terms of household final consumption expenditure per capita, India stands at the lowest position compared to major developed and developing economies. With increasing urbanisation, incomes are expected to increase, which will lead to higher consumption expenditure going forward.

Household Final Consumption Expenditure per capita



Source: World Bank, CRISIL Research

Increasing per capita GDP

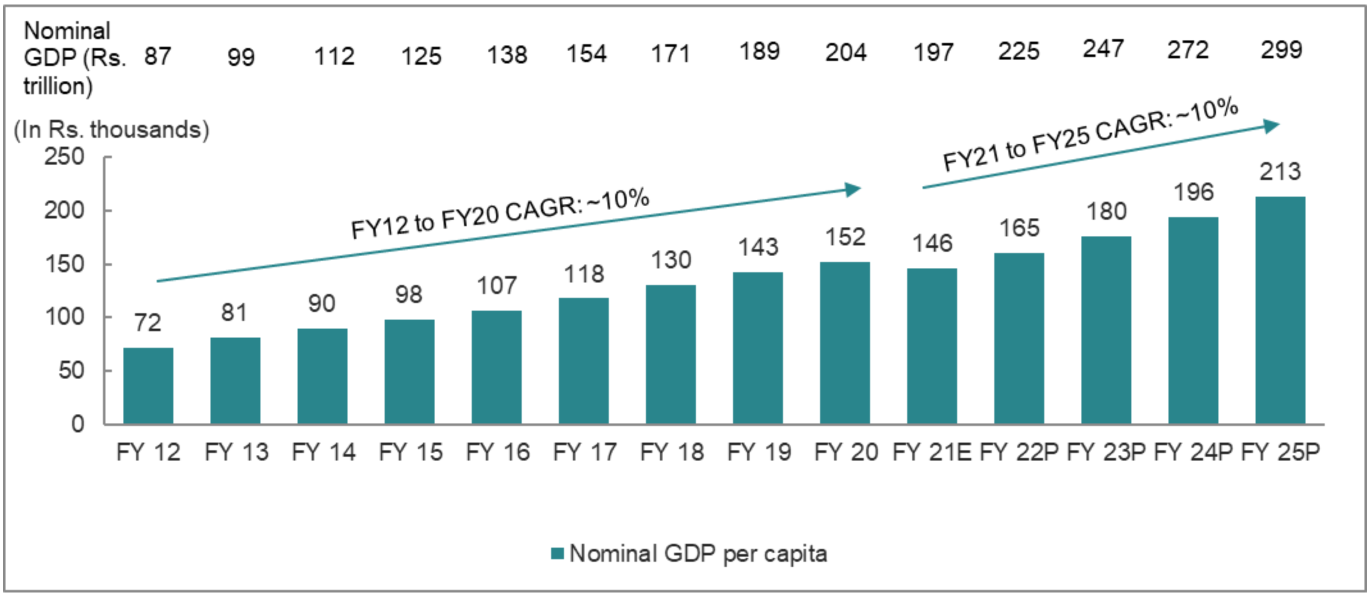
Per capita income is estimated to have contracted by 8% in Fiscal 2021 compared to a growth of 2.9% in the preceding Fiscal. CRISIL forecasts that the per capita income will gradually improve with a pick-up in GDP growth and sustained low inflation. This will be an enabler for domestic consumption. As per IMF estimates, India's per capita income (at constant prices) is expected to grow at 6.2% compound annual growth rate (CAGR) from Fiscals 2021-25.

Per capita income	Level in FY21 (INR thousands)		Growth at constant prices (%)									
	Current prices	Constant prices	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21 E	FY25P
	146	100	3.3	4.6	6.2	6.7	6.8	5.7	5.8	2.9	-8.0	6.2*

Note – E: Estimated, (*) - 4-year CAGR growth (FY21-FY25), As per IMF estimates of April 2021

Source – Ministry of Statistics and Program Implementation (MOSPI), International Monetary Fund (IMF), CRISIL Research

Trend in Nominal GDP per capita (at current prices)



Note: P- Projected

Source: MOSPI, World Bank, CRISIL Research

State wise per capita GDP

State	Share in country's	Per capita NSDP	Per capita GDP	Population (000's)

	GDP	(Rs. 000's)	growth	
Maharashtra*	13%	192	9%	128,488
Tamil Nadu	9%	219	11%	82,492
Uttar Pradesh	9%	70	11%	228,463
Karnataka	8%	231	12%	69,856
Gujarat*	7%	196	12%	69,106
West Bengal	6%	116	11%	104,364
Rajasthan	5%	118	9%	78,378
Andhra Pradesh	5%	170	12%	58,984
Telangana	5%	228	13%	37,725
Madhya Pradesh	4%	100	13%	83,041
Delhi	4%	389	10%	19,195
Haryana	4%	264	12%	28,987
Kerala*	4%	204	11%	38,196
Bihar	3%	47	11%	119,026
Punjab	3%	167	9%	31,721
Odisha	3%	107	13%	47,993
Chhattisgarh	2%	98	8%	29,208
Jharkhand	2%	80	11%	37,718
Assam*	2%	83	11%	35,680
Uttarakhand*	1%	199	10%	11,533
Himachal Pradesh	1%	195	10%	7,849

Jammu & Kashmir*	1%	92	8%	14,340
Goa*	0.4%	430	9%	1,668
Tripura	0.3%	124	10%	4,201
Chandigarh*	0.2%	320	12%	1,207
Puducherry	0.2%	237	8%	1,427
Meghalaya	0.2%	92	8%	3,392
Sikkim	0.2%	426	15%	698
Manipur*	0.1%	75	11%	3,265
Nagaland*	0.1%	117	12%	2,262
Arunachal Pradesh*	0.1%	140	8%	1,582
Mizoram*	0.1%	148	9%	1,255

Note: (*) As of FY19

Source: RBI, CRISIL Research

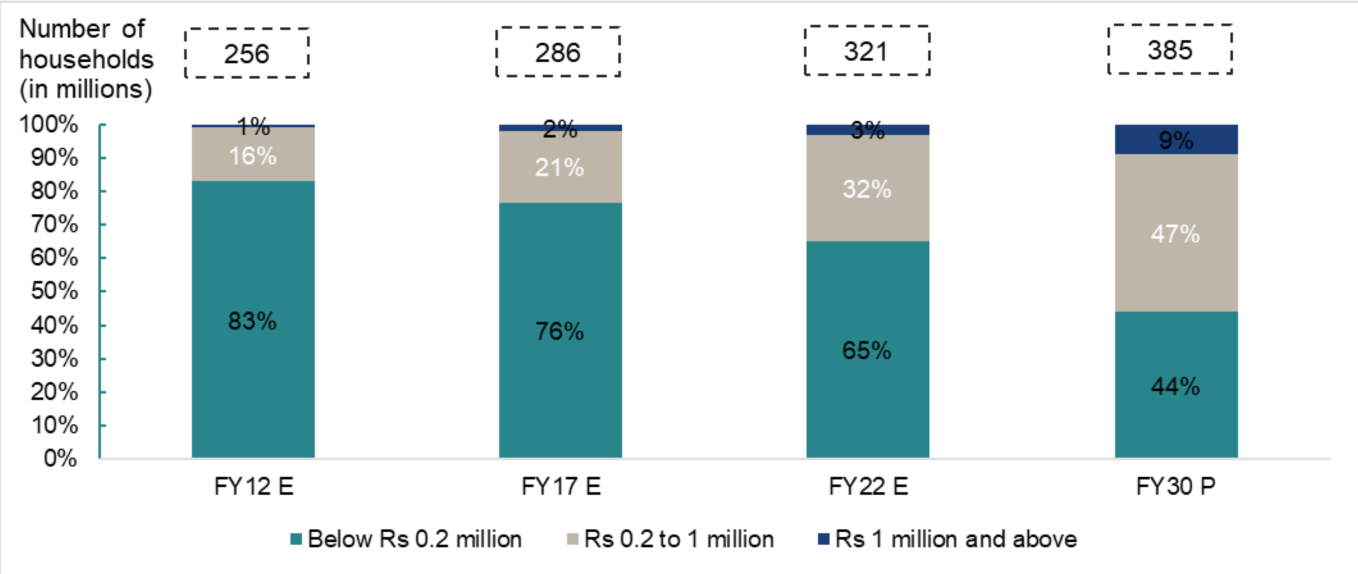
Rising Middle India population to propel economic growth

An estimated 83% of households in India had an annual income of less than Rs. 0.2 million in fiscal 2012. This proportion has reduced to reach 76% in fiscal 2017 and is estimated to touch 65% in fiscal 2022, with continuous increase in the GDP and household incomes. Proportion of Middle India (defined as households with annual income of between Rs. 0.2 to 1 million) has been on a rise over the last decade and is expected to grow further with rise in disposable incomes.

To illustrate, CRISIL Research estimates that there were 41 million households in India in this category as of fiscal 2012, and by fiscal 2030, they are projected to increase to 181 million households translating into a CAGR of 9% over this time period. This growth in the number of middle income households is expected to lead to enhanced opportunities for retail and MSME financiers as well as consumer goods marketers. A large number of these households, which have entered the Middle Income bracket in the last few years, are likely to be from semi-urban and rural areas. The rise in incomes in these areas is also evident when one observes the trend in share of deposits coming into banks. As of March 2021, districts outside the top 200 districts, accounted for 30% of total deposits, up from the 25% share as of the same period in 2015.

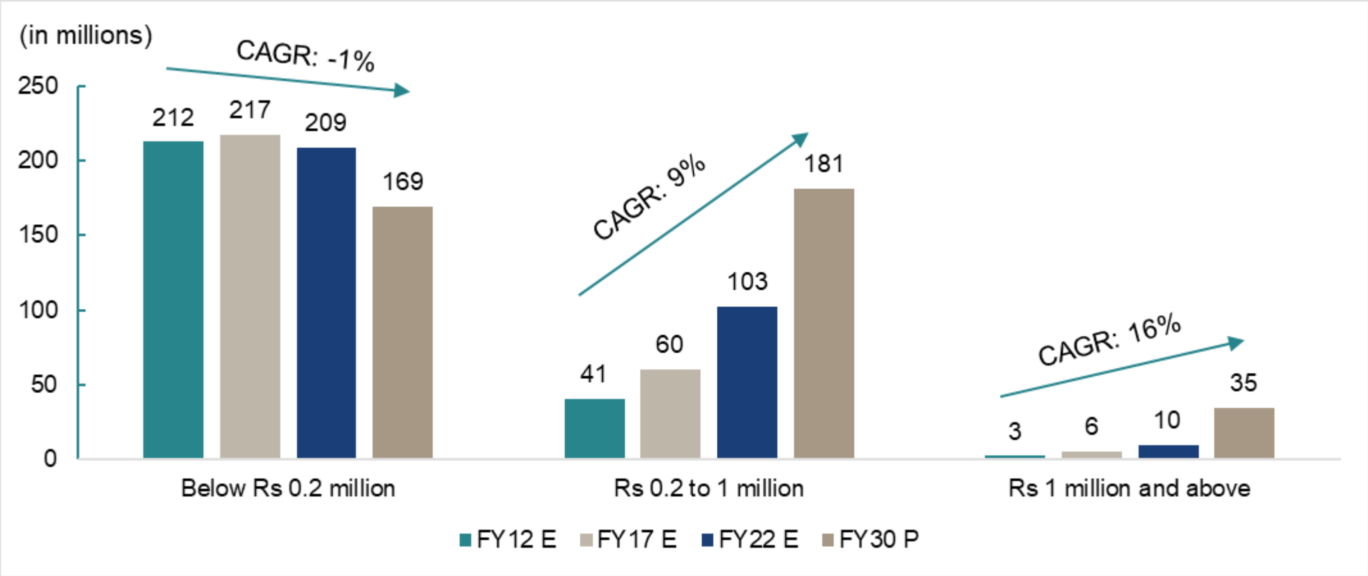
Consistent improvement in the literacy levels, increasing access to information and awareness, increase in the availability of basic necessities such as electricity, cooking gas, toilets and improvement in road infrastructure has led to an increase in aspirations of Middle India, which is likely to translate into increased opportunities for financial service providers. In fact, some of these trends are already visible. Smart phone ownership, internet users and the proportion of users accessing social media is increasing at a breakneck speed. Smaller cities and towns (with population less than 1 million) account for a significant portion of sales of e-retailers.

Household distribution by income



Note: E: Estimated, P: Projected, The boxes on top og each bar in the chart represent the total number of households in millions
Source: CRISIL Research

Middle India households to witness high growth over fiscal 2012 to fiscal 2030



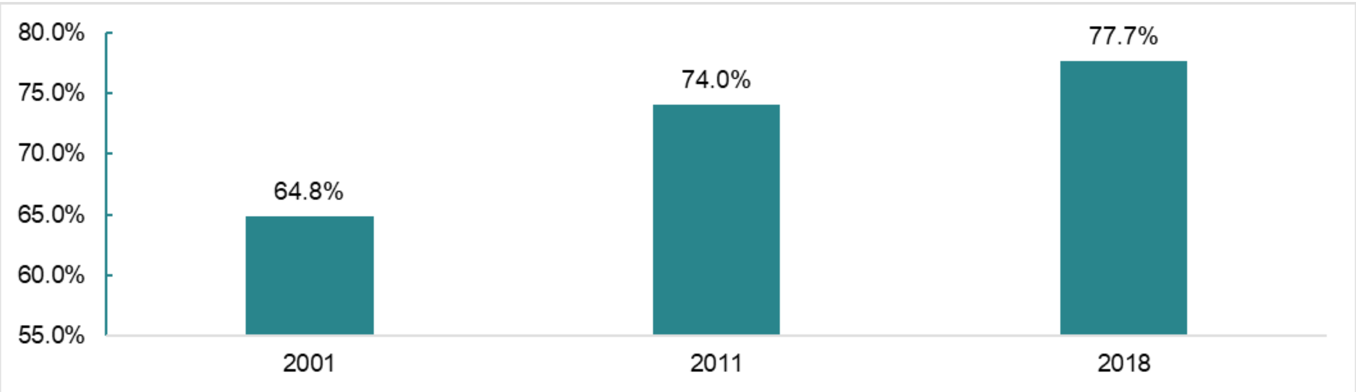
Note: E: Estimated, P: Projected

Source: CRISIL Research

Financial penetration to rise with increase in awareness of financial products

Overall literacy in India is at 77.7% as per the results of recent NSSO survey conducted in 2018 which is still below the world literacy rate of 86.5%. However, according to the National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019, only 27% of Indian population is financially literate indicating huge gap and potential for financial services industry. The survey defines financial literacy as combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.

Overall literacy rate on a rise in India



Source: Census 2011, NSO Survey on household social consumption (2017-18), CRISIL Research

With increasing financial literacy, mobile penetration, awareness and the Prime Minister's Jan DhanYojana bank accounts (scheme aimed at bringing the unbanked under the formal banking system), there has been a rise in the participation of individuals from non-metro cities in banking. With more people attached to the formal banking sector, the demand for financial products in smaller cities has seen a major uptick in recent years. Going forward, CRISIL expects financial penetration to increase on account of increasing financial literacy.

Digitisation aided by technology to play pivotal role in growth of economy

Technology is expected to play an important role by progressively reducing the cost of reaching out to smaller markets. India has seen a tremendous rise in fintech adoption in the past few years and has the highest fintech adoption rate globally of 87% which is significantly higher than the global average rate of 64% *(Source: InvestIndia)*. Among many initiatives by the government, the Unified Payments Interface (UPI) is playing a pivotal role towards financial inclusion. It provides a single-click digital interface across all systems for smartphones linked to bank accounts and facilitates easy transactions using a simple authentication method. The volume of digital transactions has also seen a surge in the past few years, driven by increased adoption of UPI. Apart from financial services industry, digitisation in other industries like retail will also play an important role in growth of economy.

UPI usage data statistics

As of month end	No of banks live on UPI	Volume of transactions (million)	Amount of transactions (Rs. billion)	YoY growth (on value basis) in transactions (%)
March 2018	91	178	242	764%
March 2019	142	800	1,335	452%
March 2020	148	1,247	2,065	55%
March 2021	216	2,731	5,048	210%
September 2021	259	3,654	6,543	98%

Source: National Payments Corporation of India (NPCI)

Over the years, India has witnessed a strong push from government to improve the digital payments infrastructure in the country. Recently, on August 2, 2021, a digital payment instrument, namely e-RUPI, was launched. This instrument is developed over the existing UPI platform by National Payments Corporation of India (NPCI), in collaboration with Department of Financial Services, Ministry of Health and Family Welfare and the National Health Authority. e-RUPI is a cashless and contactless instrument for digital payment. It is a QR code or SMS string-based e-voucher, which is delivered to the mobile of the beneficiaries. The users of this seamless one-time payment mechanism will be able to redeem the voucher without a card, digital payments app or internet banking access, at the merchants accepting e-RUPI. e-RUPI would be shared with the beneficiaries for a specific purpose or activity by organizations or Government via SMS or QR code.

Measures to counter the pandemic's onslaught on growth

Reserve Bank of India goes all out to combat the crisis

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) slashed the repo rate by 115 basis points (bps) to address financial market stress in the wake of the pandemic and the subsequent lockdown. In an unusual move, the MPC also asymmetrically slashed the reverse repo initially by 90 bps and by another 25 bps and 40 bps subsequently. The repo and reverse repo rates now stand at 4.00% and 3.35%, respectively. To tide over any unwarranted volatility, the MPC also increased borrowing limits under the marginal standing facility (MSF) of the liquidity adjustment facility window from 2% to 3%. The MSF rate now stands at 4.25% (down from 5.40%).

The RBI also announced a host of other measures to address financial market stress due to the pandemic / lockdown:

- **Reducing debt servicing burden through moratorium period:** The RBI initially permitted lending institutions to allow a moratorium of three months on repayment of instalments for term loans outstanding as on March 1, 2020 and defer interest payments due on working capital facilities outstanding. The moratorium was further extended by another three months till August 31, 2020. However, the banks were instructed to provide 10% additional provisioning for availing this benefit, which could be later adjusted against the provisioning requirements for actual slippages. These measures are intended to boost confidence in the economy and provide relief to the borrowers

- **Loan restructuring:** The central bank constituted a committee which identified 26 sectors for restructuring which included aspects related to leverage, liquidity and debt serviceability to be factored by the lending institutions while finalising resolution plans for borrowers. However, only those borrower accounts would be eligible for resolution which were classified as standard, but not in default for more than 30 days with any lending institution as on March 1, 2020

- **Enhancing liquidity**: Apart from reducing repo and reverse repo rate, the RBI reduced the cash reserve ratio (CRR) requirements of all banks by 100 bps to 3% of net demand and time liabilities (NDTL). Further, the minimum daily CRR balance maintenance was reduced to 80% from 90% till June 26, 2020. In view of the exceptionally high volatility in domestic financial markets, the RBI also increased MSF borrowing limit from 2% to 3% of bank's NDTL up to June 30, 2020

- **Supporting financial market liquidity:** The RBI initially announced targeted long-term repo operations (TLTROs) of up to three years' tenure for a total of up to Rs. 1 trillion. Liquidity availed under the scheme by banks had to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures. Subsequently, TLTROs worth Rs. 500 billion were announced specifically for non-banking financial companies (NBFCs) and micro finance institutions (MFIs), with 50% targeted towards small and mid-sized firms. Investments made by banks under this facility would be classified as held to maturity (HTM), and also be excluded under the large exposure framework. In addition,the government announced a Rs. 450 billion partial credit guarantee scheme and Rs. 300 billion special liquidity scheme, aimed at addressing the concern over credit risk perception on mid and small size non-banks.

- **Pushing credit growth:** The RBI decided to postpone the implementation of net stable funding ratio to October 1, 2021 to encourage banks to lend in these challenging times. Deferring the last tranche of capital conservation buffer to October 1, 2021 was also a step in the same direction. The central bank also announced Rs. 500 billion refinancing facility for NABARD (Rs. 250 billion), SIDBI (Rs. 150 billion) and NHB (Rs. 100 billion) to increase credit availability to microfinance, micro, small and medium enterprises (MSMEs) and the housing sector
- **Addressing rupee volatility:** Banks in India which operate International Financial Services Centre banking units have been allowed to participate in the Non-deliverable Forward (NDF) market with effect from June 1, 2020
- **Regulatory changes:** With regards to the moratorium provided on loans, the RBI clarified these measures would not result in asset quality downgrade, nor would it affect the credit history of borrower
- **Measures during second wave of COVID-19:** On May 5, 2021, RBI announced several measures to protect small and medium businesses, individual borrowers from the adverse impact of the intense second wave of COVID-19 across the country. RBI also made provisions for banks to advance loans to businesses and restructure loans for enhancing liquidity in the system to help mitigate the crisis. Restructuring framework 2.0 was announced wherein individuals, small businesses and MSMEs having aggregate exposure of up to Rs. 250 million, who have not availed restructuring under any of the earlier restructuring frameworks (including under the Resolution Framework 1.0 dated August 6, 2020), and who were classified as 'Standard' as on March 31, 2021 are eligible to be considered. Restructuring under the proposed framework may be invoked up to September 30, 2021 and shall have to be implemented within 90 days after invocation. Further, for small businesses and MSMEs restructured earlier, banks and NBFCs have also been permitted, as a one-time measure, to review the working capital sanctioned limits, based on a reassessment of the working capital cycle, margins, etc. The RBI also permitted modification of plans under Restructuring framework 1.0 by increasing the period of moratorium and/or extending the residual tenor up to a total of 2 years.

  Additionally, the RBI incentivised small finance banks (SFBs) to increase credit flow to small borrowers in two ways: one, by opening a special long-term repo operation (SLTRO) window of Rs. 100 billion for small finance banks (SFBs) for extending loans of up to Rs. 1 million to individuals and small businesses; and two, by classifying on-lending by SFBs to small MFIs with assets as less than Rs. 5 billion as priority sector lending. The facility will be available till October 31, 2021 and the RBI will hold an auction every month for this facility. In the may auction, the response from SFBs was muted where only Rs. 4 billion was auctioned out of the 100 billion facility. This was majorly because of ample liquidity with the small finance banks owing to lower credit demand in Fiscal 2021.

In June 2021, the RBI further enhanced the exposure limit for availing restructuring under restructuring framework 2.0 from Rs. 250 million to Rs. 500 million.

‘Aatmanirbhar’ package is a timely relief amid the pandemic

Liquidity boost for NBFCs

The government announced a Rs. 450 billion partial guarantee scheme (for NBFCs) and Rs. 300 billion special liquidity scheme for NBFCs, housing finance companies (HFCs) and MFIs, aimed at covering the concern of credit risk perception on mid and small size non-banks.

Change in MSME definition

To bring in more enterprises under the ambit of MSMEs and the relief package being offered by the regulator, the government revised the MSME investment limit across each category and introduced an alternate/additional criteria of turnover buckets to the definition. It further helped remove the difference between the definition of manufacturing based and services based MSMEs. Given below is the composite revised definition of MSMEs in comparison to the old existing one:

Existing and revised definitions of MSMEs

Existing MSME classification			
Criteria : Investment in plant and machinery or equipment			
Classification	Micro	Small	Medium
Manufacturing enterprises	Investment < Rs. 2.5 million	Investment <Rs. 50 million	Investment <Rs. 100 million
Services enterprises	Investment <Rs. 1 million	Investment <Rs. 20 million	Investment <Rs. 50 million
Revised MSME classification			
Composite Criteria : Investment and annual turnover			
Classification	Micro	Small	Medium
Manufacturing and Services enterprises	Investment <Rs. 10 million and Turnover <Rs. 50 million	Investment <Rs. 100 million and Turnover <Rs. 500 million	Investment <Rs. 500 million and Turnover <Rs. 2.5 billion

Source: Ministry of MSME, CRISIL Research

Collateral-free loans to MSMEs (Rs. 3 trillion)

Banks and NBFCs are directed to offer up to 20% of entire outstanding credit to MSMEs. MSMEs with up to Rs. 250 million outstanding credits and Rs. 1 billion turnover are eligible for these loans. It will have four-year tenure with a moratorium of 12 months on principal payment and can be availed till October 31, 2020. The government will provide complete credit guarantee cover to lenders on principal and interest amount.

Subordinate debt to MSMEs (Rs. 200 billion)

The government is also facilitating the provision of Rs. 200 billion as subordinate debt for stressed assets of MSMEs. It will also provide Rs. 40 billion as partial credit guarantee support to banks for lending to MSMEs.

Equity infusion in MSMEs (Rs. 500 billion)

The government has committed to infuse Rs. 500 billion in equity of MSMEs having growth potential and viability. It will also encourage MSMEs to list on stock exchanges.

Clearing MSME dues; guarantee scheme

The government has requested central public sector enterprises to release all pending MSME payments within 45 days. It will boost transaction-based lending by fintech enterprises. Under the Emergency Credit Line Guarantee Scheme (ECLGS), banks will offer Rs. 3 trillion government guaranteed loans to MSME borrowers that are not non-performing assets (NPAs) to address short-term liquidity concerns and boost the MSME sector.

Global tenders disallowed up to Rs. 2 billion

The government will not allow foreign companies in government procurement tenders of value up to Rs. 2 billion. This is likely to ease the competition faced by the MSMEs against foreign companies.

Loan interest subvention scheme (Rs. 15 billon)

Under this scheme, the government has provided 2% interest subvention for loans given under Mudra-Shishu scheme. These loans are up to the ticket size of Rs. 50,000 and are mostly given by NBFC-MFIs benefiting low income groups customers.

Special credit facility for street vendors (Rs. 50 billon)

The government announced this scheme to facilitate easy access of credit to street vendors to offset the adverse effect of pandemic on their livelihoods.

‘Aatmanirbhar 3.0’ stimulus package rolled out to boost economy in November 2020

The finance minister, on November 12, 2020, announced a stimulus package. Under the package, 12 stimulus measures were rolled out to boost employment in the formal and informal economy, help housing infrastructure, enhancing ease of doing business, extending the deadline for the Credit Line Guarantee Scheme, etc. The announcement was made a day after the government announced a Rs. 2 trillion production-linked incentives (PLIs) scheme for boosting identified manufacturing sectors. The government also announced some fresh projects, collaterally boosting employment in the country.

An additional outlay of Rs. 180 billion for PM AwaasYojana (PMAY) Urban was announced, which will help ground 1.2 million houses and complete 1.8 million houses. The move is expected to create additional 7.8 million jobs and improve production and sale of steel and cement, resulting in a multiplier effect on the economy. Stimulus packages worth Rs. 2.65 trillion were announced by the government.

Following are the twelve announcements made in the Aatmanirbhar 3.0 stimulus package:

1. Aatmanirbhar Bharat RozgarYojana: Aatmanirbhar Bharat RozgarYojana, operational during October 1, 2020 to June 2021 to incentivise creation of new employment opportunities during COVID recovery phase.

2. Emergency credit line guarantee scheme 2.0: Launch of an emergency credit line guarantee scheme 2.0 for guaranteed credit to 26 stressed sectors. Tenure of additional credit under ECLGS 2.0 to be 5 years, including 1 year of moratorium on principal repayment. Emergency credit line guarantee scheme extended till March 31 2021.

3. PLI scheme: Introduction of the PLI scheme in 13 key sectors for enhancing India's manufacturing capabilities and exports.

4. PMAY **–** Urban**:** Rs. 180 billion will be provided over the Budged Estimates for 2020-21 for PM AwaasYojana (PMAY) - Urban through additional allocation and extra-budgetary resources. This is over and above Rs. 80 billion already budgeted this year.

5. Support for construction and infrastructure - Relaxation of earnest money deposit (EMD) and performance security on government tenders.

   - Performance security on contracts to be reduced to 3% instead of 5-10%
   - EMD will not be required for tenders and will be replaced by Bid Security Declaration
   - Relaxations will be given till December 31, 2021

6. Demand booster for residential real estate income-tax relief for developers and home buyers: Increase in the differential from 10% to 20% for the period from the date of the announcements to June 20, 2021 for only primary sale of residential units of value up to Rs. 2 billion.

7. Government will invest Rs. 60 billion as equity in the NIIF debt platform. Infra project financing of Rs. 1.1 trillion will be provided by the government.

8. Government will provide support to farmers with Rs. 650 billion for subsidisedfertilisers

9. Boost for the rural employment -Enhanced outlays under PM GaribKalyanRozgarYojana: Rs. 400 billion was additionally provided in Atmanirbhar Bharat 1.0. Further outlay of Rs. 100 billion to be provided for PM GaribKalyanRozgarYojana in the current fiscal.

10. Boost for exports – Rs. 30 billion to EXIM Bank for lines of credit: Rs. 30 billion will be released to EXIM Bank for promotion of project exports through lines of credit under the IDEAS scheme.

11. Capital and industrial stimulus: Rs. 102 billion additional budget outlay will be provided towards capital and industrial expenditure.

12. Research and development grant for COVID-19 vaccine development: Rs. 9 billion provided for COVID Suraksha Mission for research and development of an Indian COVID-19 vaccine to the Department of Biotechnology

‘Kamath Committee’ identifies 26 sectors for loan restructuring

On August 7, 2020, the RBI announced the constitution of a committee under the chairmanship of KV Kamath to make recommendations on the required financial parameters for a ‘Resolution framework for COVID-19 related stress. On September 4, the committee submitted the report which included aspects related to leverage, liquidity and debt serviceability for 26 sectors which could be factored by the lending institutions while finalising a resolution plan for a borrower. However, only those borrower accounts would be eligible for resolution which were classified as standard, but not in default for more than 30 days with any lending institution as on March 1, 2020. Under this framework, the resolution may be invoked not later than December 31, 2020 and must be implemented within 90 days from date of invocation for personal loans and 180 days for other exposures.

Scope of ECLGS Scheme further expanded post the COVID-19 wave

Recently in September 2021, with a view to support various businesses impacted by the second wave of COVID 19 pandemic, the timeline for **Emergency Credit Line Guarantee Scheme (ECLGS) has been extended till March 2022** or till guarantees for an amount of Rs. 4.5 lakh crore are issued under the scheme, whichever is earlier. Further, the last date of disbursement under the scheme has also been extended to June 2022. As of September 24, 2021, loans sanctioned have crossed Rs. 2.86 trillion under the scheme.

In June 2021, the government increased the overall admissible guarantee limit from Rs. 3.0 trillion to Rs. 4.5 trillion. Along with this, the limit of admissible guarantee and loan amount is increased from 20% to 40% of outstanding for COVID-affected sectors like Hospitality sector, Travel & Tourism sector, Leisure & Sporting sector and Civil Aviation sector, subject to a maximum of Rs.200 crore per borrower.

Earlier, in May 2021, the Government announced the following further modifications to the ECLGS scheme:

- The scope was expanded to cover loans up to Rs. 20 million to hospitals/nursing homes/clinics/medical colleges for setting up on-site oxygen generation plants with interest rate capped at 7.5%

- Additional ECLGS assistance of up to 10% of the outstanding loans as on February 29, 2020 to borrowers covered under ECLGS 1.0 was allowed

- Civil Aviation sector was included in the list of sectors covered
- Ceiling of Rs. 5 billion of loan outstanding for eligibility under ECLGS 3.0 was removed, subject to maximum additional ECLGS assistance to each borrower being limited to 40% or Rs. 2 billion, whichever is lower
- Borrowers who had availed loans under ECLGS 1.0 of overall tenure of 4 years comprising of repayment of interest only during the first 12 months with repayment of principal and interest in 36 months were allowed to increase the tenure to 5 years (repayment of interest only for the first 24 months with repayment of principal and interest in 36 months thereafter)

Earlier, in March 2021, the Government had made the following modifications to the scheme

- The scope of ECLGS was expanded to cover business enterprises in hospitality, travel & tourism, leisure & sporting sectors which had, as on February 29, 2020, total credit outstanding not exceeding Rs. 5 billion and were less than or equal to 60 days past due as on that date.
- The validity of ECLGS was extended up to June 30, 2021 or till guarantees for an amount of Rs. 3 trillion are issued.

Healthcare-related measures

India's COVID-19 emergency response and health system preparedness package of Rs. 150 billion is proposed to be spent in three phases and for immediate COVID-19 Emergency Response an amount of Rs. 77 billion has been provisioned and rest for medium-term support (1-4 years) to be provided under mission mode approach. To address immediate needs in wake of the pandemic, a separate health-worker life insurance cover of Rs. 5 million under Pradhan MantriGaribKalyanYojana (PMGKY) was also announced to offer support to families of frontline health workers fighting the virus.

In addition to emergency funding for the pandemic response, the economic package includes long-term measures to improve healthcare infrastructure. The government's emphasis on healthcare offers substantial opportunities for private investment to create affordable healthcare facilities and services. To boost private investment in social infrastructure, the government has announced an outlay of Rs. 81 billion with viability gap funding (VGF) limits enhanced from 20% to 30% of project cost, for both the center and states to attract private investments in the social infrastructure space.

VGF support will aid in the development of hospitals and healthcare centers under public private partnership (PPP). It creates an investment opportunity of ₹150-200 billion under the social infrastructure space. Support to private investments via enhanced VGF will help grow the current health infrastructure by 4-5%. Increased public expenditure on health (National Health Policy targets public health expenditure at 2.5% of GDP by 2025) also means increased government focus on development of health systems and research centers. Development of healthcare infrastructure will gain preference in the current situation with a rise in healthcare spending / demand in India.

Key structural reforms: Long-term positives for the Indian economy

Financial inclusion

According to the World Bank's Global Findex Database 2017, the global average of adult population with an account (with a bank, financial institution, or mobile money providers) was ~69% in 2017. India's financial inclusion has improved significantly between 2014 and 2017, with the adult population with bank accounts rising from 53% (as per Global Findex Database 2014) to 80% in 2017 with concentrated efforts by the government to promote financial inclusion and the proliferation of supporting institutions. That said the rise in the number of bank accounts has not translated into a corresponding increase in the number of transactions and fruitful usage of those accounts. As per the World Bank's Global Findex Database 2017, 40% of the accounts did not make any deposit or withdrawal in the past year (2016), which indicates that although the account penetration has improved, usage of accounts is yet to improve.

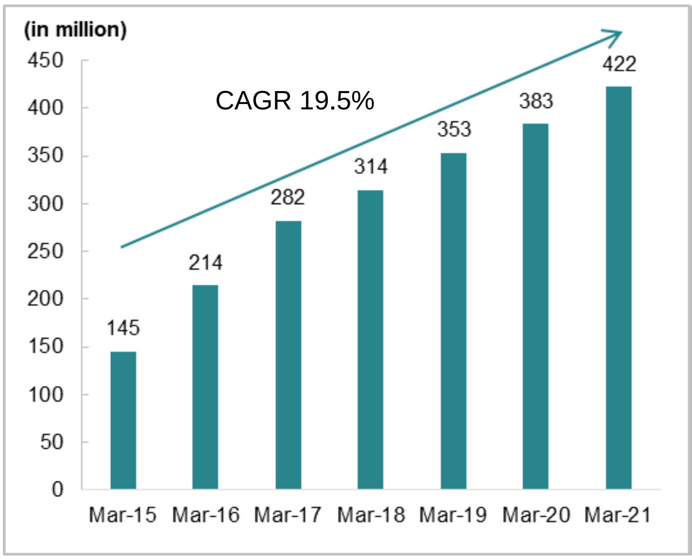
As per the Global Findex Database 2017, ~50% of the world's unbanked adults are in India, Bangladesh, China, Indonesia, Mexico, Nigeria and Pakistan. Of the world's total unbanked adults (~1.7 billion), 415 million are from just two countries – India (11% or 190 million) and China (13% or 225 million), because of their huge population.

The three key initiatives launched by the government to promote financial inclusion are the Pradhan Mantri Jan DhanYojana (PMJDY), Pradhan MantriJeevanJyotiBimaYojana (PMJJBY) and Pradhan MantriSurakshaBimaYojana (PMSBY). The government has also launched the Pradhan MantriSurakshaBimaYojana (PMSBY), which is an accident insurance policy and offers an accidental death and full disability cover of Rs. 0.2 million at a premium of Rs. 12 annually. As per the Government of India, more than 100 million people have registered for these two social security schemes.

1. **Pradhan Mantri Jan DhanYojana (PMJDY)** – This scheme, launched in August 2014, is aimed at ensuring ensure that every household in India has a bank account which they can access from anywhere and avail of all financial services such as savings and deposit accounts, remittances, credit and insurance affordably. PMJDY focuses on household coverage compared with the earlier schemes that focused on coverage of villages. It aims to extend banking facilities to all within a reasonable distance in each sub-service area (consisting of 1,000-1,500 households) across India.

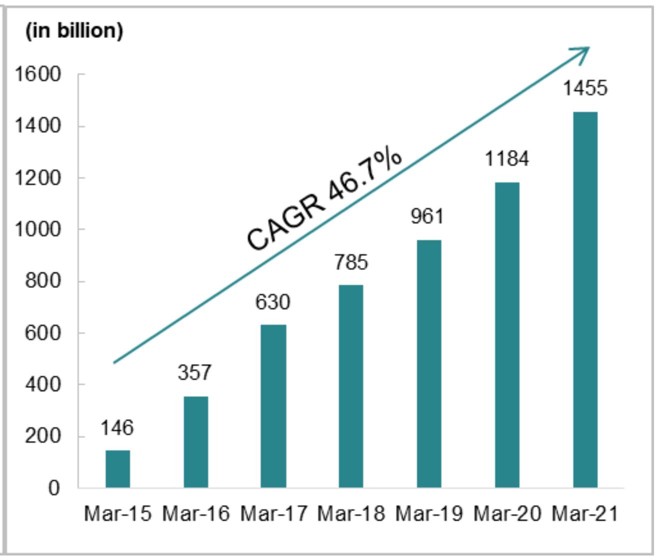
   As on March 31, 2021, 422 million PMJDY accounts had been opened, of which, 66% were in rural and semi-urban areas, with total deposits of Rupees 1,455 billion.

Number of PMJDY accounts



Source: PMJDY; CRISIL Research

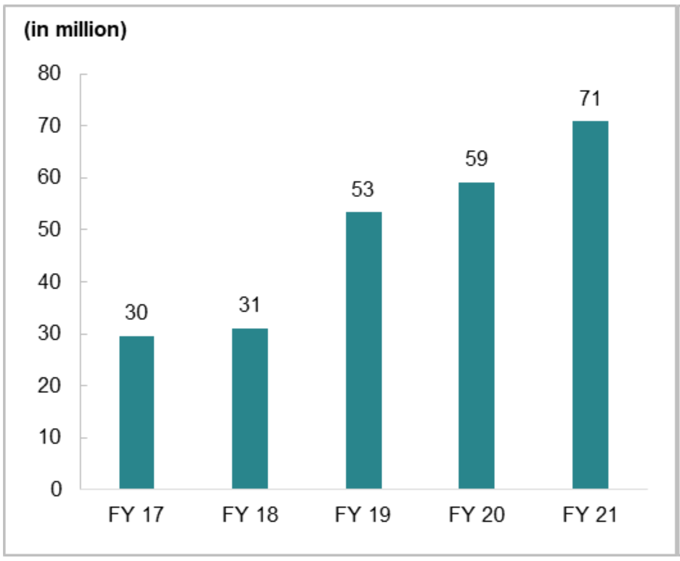
Total balance in PMJDY accounts



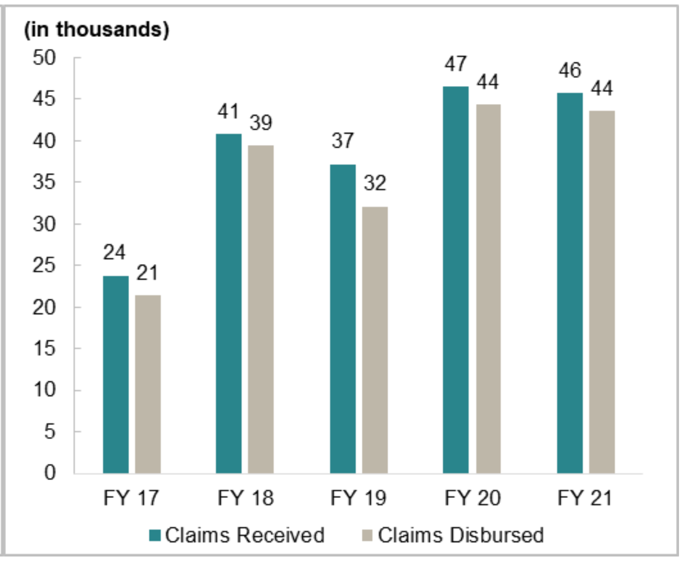
Source: PMJDY; CRISIL Research

2. **PMJJBY (Pradhan MantriJeevanJyotiBimaYojana)** – This scheme was launched in May 2015, is aimed at creating a universal social security system, targeted especially for the poor and the under-privileged. PMJJBY is a one-year life insurance scheme, renewable from year to year that offers a life cover of Rs. 0.2 million for death due to any reason and is available to people in the age group of 18 to 50 years (life cover up to 55 years) at a premium of Rs. 330 per annum per member. This scheme is offered /administered through LIC and other Indian private life insurance companies.

Cumulative enrolments in PMJJBY



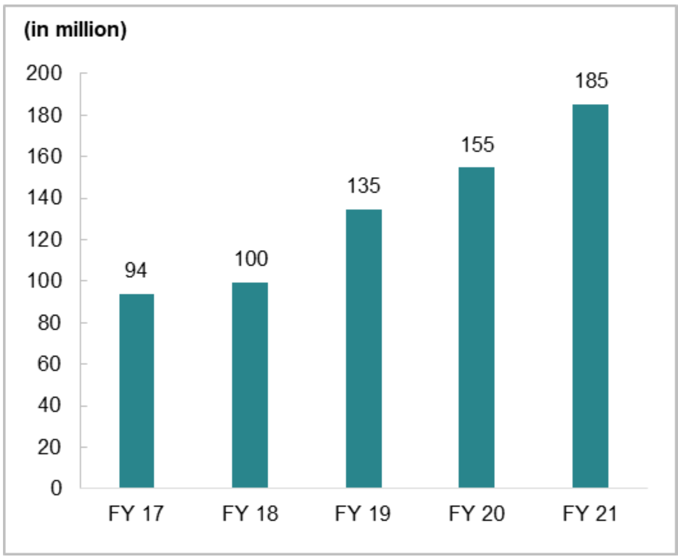
Number of Claims Received and Disbursed



Source: PMJJBY; CRISIL Research *Source: PMJJBY; CRISIL Research*

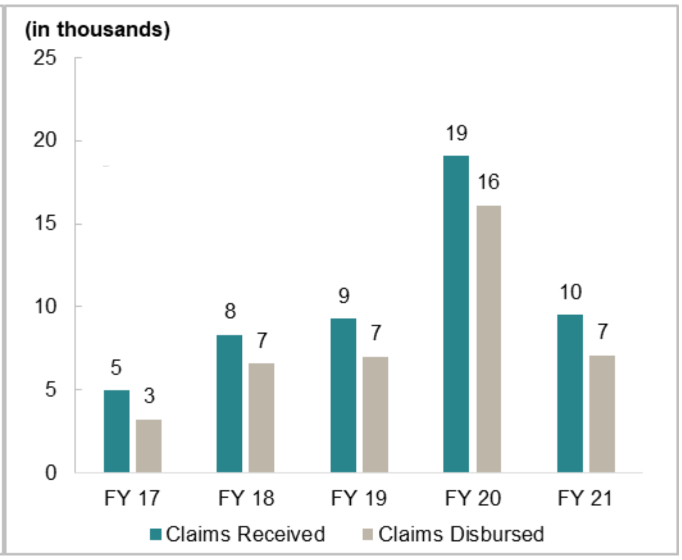
3. **PMSBY (Pradhan MantriSurakshaBimaYojana)** -This scheme was launched along with PMJJBY in May 2015, is aimed at creating a universal social security system, targeted especially for the poor and the under-privileged. PMSBY is a one-year accidental death and disability insurance cover, renewable from year to year that offers an accidental death and full disability cover of Rupees 0.2 million and Rupees 0.1 Million for partial disability. This cover is available to people in the age group of 18 to 70 years at a premium of Rupees 12 per annum per member. The scheme is being offered by Public Sector General Insurance Companies or any other General Insurance Company who are willing to offer the product on similar terms with necessary approvals.

Cumulative enrolments in PMSBY



Source: PMSBY; CRISIL Research

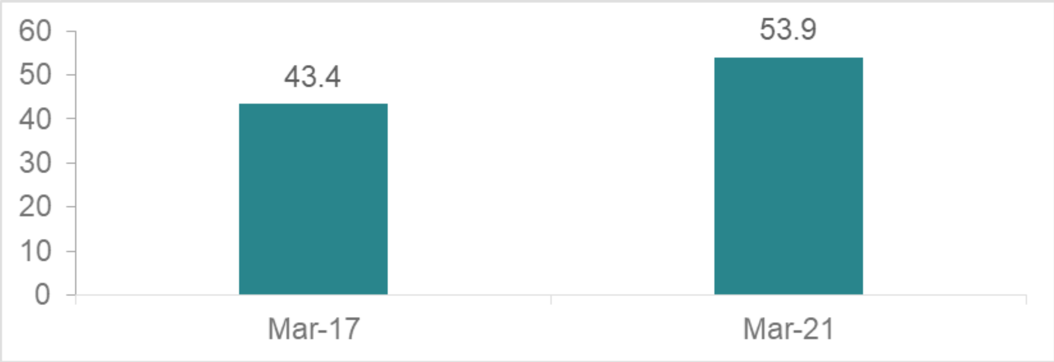
Number of Claims Received and Disbursed



Source: PMSBY; CRISIL Research

In August 2021, RBI introduced an annual index to measure and improve the extent of financial inclusion in the country. The index covers details of banking, investments, insurance, postal and pension sector while arriving at the score. The index comprises of three broad parameters viz., Access (35% weightage), Usage (45% weightage), and Quality (20% weightage) with each of these consisting of various dimensions, which are computed based on a number of indicators. In total, the index has 97 indicators which are responsive to ease of access, availability and usage of services and quality of services. The index also captures the quality aspect indicated by factors such as financial literacy, consumer protection, and inequalities and deficiencies in services. The index, which has been constructed without any base year, captures broad aspects of financial inclusion in a single value ranging between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion.

India's Financial Index Score



Source: RBI

GST implementation

Introduced on July 1, 2017, the GST is an indirect tax regime that subsumed multiple cascading taxes levied by the central and state governments. Its implementation has spawned structural changes in the supply chain and logistics network in the country. The crux of the GST mechanism is input tax credit, which ensures more players in the supply chain come under the tax ambit. As supply from only registered taxpayers will get input tax credit, businesses and stakeholders will insist on registration of their suppliers and traders, leading to an increase in the share of organised participants. The GST regime has been stabilising fast and is expected to bring more transparency and increase in formalisation, eventually leading to higher economic growth.

Ayushman Bharat

Ayushman Bharat was launched by Government of India in 2018 to achieve the vision of Universal Health Coverage (UHC) as recommended by the National Health Policy 2017. This initiative has been designed to meet Sustainable Development Goals (SDGs) and its underlining commitment, which is to "leave no one behind." Ayushman Bharat is an attempt to move from sectoral and segmented approach of health service delivery to a comprehensive need-based health care service. Ayushman Bharat adopts a continuum of care approach, comprising of two inter-related components, which are –

a. Health and Wellness Centres (HWCs)

In February 2018, the Government of India announced the creation of 150,000 Health and Wellness Centres (HWCs) by transforming the existing Sub Centres and Primary Health Centres. These centres are to deliver Comprehensive Primary Health Care (CPHC) bringing healthcare closer to the homes of people. They cover both, maternal and child health services and non-communicable diseases, including free essential drugs and diagnostic services.

b. Pradhan Mantri Jan ArogyaYojana (PM-JAY)

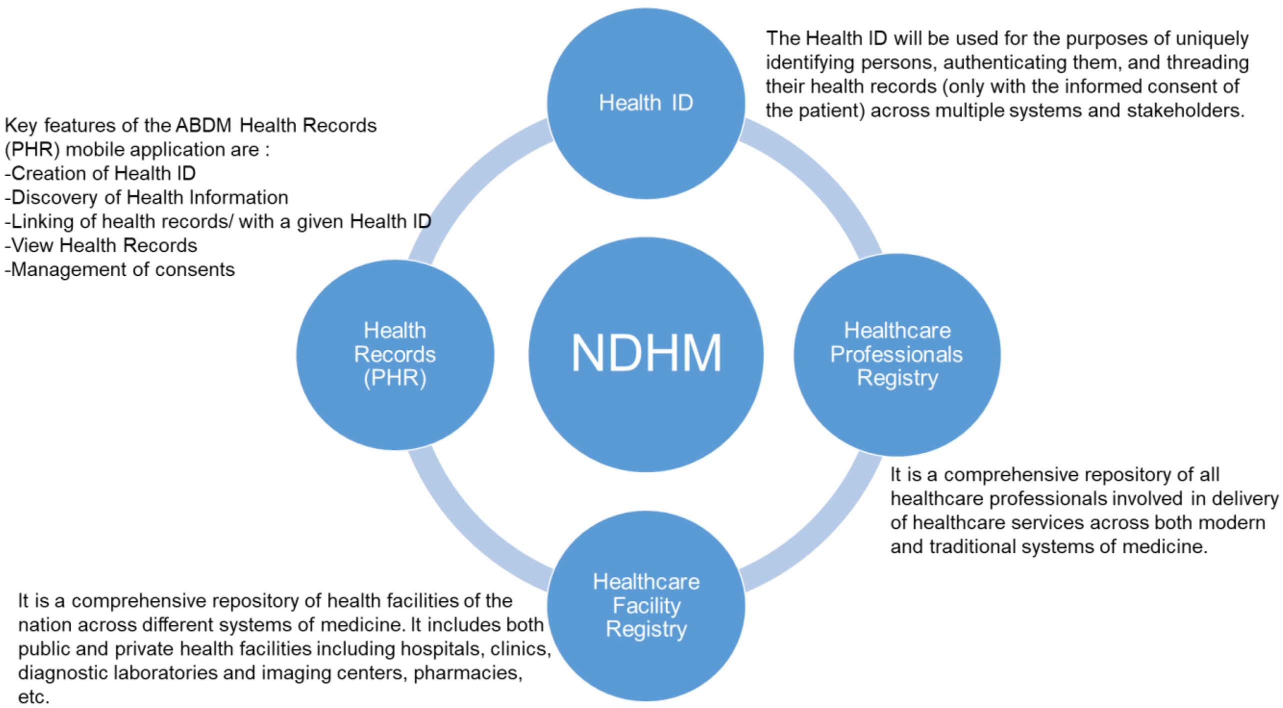
The PMJAY was launched on September 23, 2018 with the objective of providing affordable healthcare. PMJAY will provide volume momentum to the sector, with the scheme providing healthcare cover of Rs. 0.5 million per family (on floater basis) for secondary and tertiary care hospitalization to over 107.4 million poor and vulnerable families (approximately 500 million beneficiaries) that form the bottom 40% of Indian population. The actual coverage would be greater on account of states extending the scheme to even some sections of the uncovered populace.

NHDM to boost digital adoption in Indian healthcare system

The National Health Policy in 2017 recognised the integral role of technology (eHealth, mHealth, Cloud, Internet of things, wearables, etc) in the healthcare delivery. It stated that a National Digital Health Authority (NDHA) will be set up to regulate, develop and deploy digital health across the continuum of care. The policy advocated extensive deployment of digital tools for improving the efficiency and outcome of the healthcare system.

In September 2021, the Ministry of Health and Family Welfare, Government of India launched the National Digital Health Mission (NDHM) (also called Ayushman Digital Health mission) with the aim to provide the necessary support for integration of digital health infrastructure in the country. The Ayushman Bharat Digital Mission (ABDM) aims to develop the backbone necessary to support the integrated digital health infrastructure of the country. It will bridge the existing gap amongst different stakeholders of Healthcare ecosystem through digital highways. The mission compromises of below digital systems:

Components of NDHM



Source: National Health Authority (NHA), CRISIL Research

PLI scheme to boost manufacturing in the long run

The government has budgeted ~Rs. 2 trillion to give incentives to the locally manufacturing units to 13 key sectors. By incentivising production subject to achieving the desired scale, the scheme aims to spawn a handful of globally competitive large scale manufacturing units in the identified sectors. Furthermore, the government also hopes to reduce India's dependence on raw material imports from China.

As per CRISIL Research's analysis, the PLI scheme holds the potential to generate Rs. 2.2 trillion worth of capex over the scheme period (3-4 years). Of this, nearly 55% of the capex would be concentrated in the three sectors of ACC (advance chemistry cell) battery, automotive, and specialty steel. Asset-light sectors such as telecom, mobile, and IT hardware are expected to incur relatively lower capex. However, many incentives have been doled out to attract investments in order to plug the import bill in these high growth segments. Further, the back-end value chain of these segments will eventually set up shop locally in the medium term.

Overall, the scheme is thus expected to provide a boost to economic growth over the medium-term and create more employment opportunities as many sectors covered are labour intensive in nature.

Thrust on affordable housing

The residential real estate segment saw two policy changes – Real Estate (Regulation and Development) Act (RERA) and Goods and Services Tax (GST) -- which had a direct impact on the sector's demand-supply dynamics. Consequently, new launches dropped sharply, with developers focussing on completing ongoing projects. The sector had been battling weak demand for the past couple of years, and one of the key reasons was unaffordability, as developers focused on the middle and premium income-category projects. However, government initiatives have prompted developers to explore affordable housing as a new area. Going ahead, about half of the incremental supply being added in urban stock is expected to be via affordable housing. Additionally, the formalisation of the industry is likely to bring in more transparency, leading to an increase in consumer demand.

In a major relief to real estate sector, the government has extended the timelines of RERA projects by six months for projects expiring on or after March 25, 2020. Further, in affordable housing, it has extended the deadline to March 31, 2022 for first time homebuyers to avail additional Rs. 150,000 interest deduction on home loans.

PMAY U and G have been focused to provide affordable housing for lower income group and Economic weaker section households which is nothing but affordable housing in country. The government remains focused on the PMAY U and G, and as of July, 2021, construction of close to 18.5 million homes across urban and rural regions have been completed.

IBC a key long-term structural positive

The Insolvency and Bankruptcy Code (IBC) is a reform that will structurally strengthen the identification and resolution of insolvency in India. Until November 2019, financial service providers were not covered under the IBC framework. In November 2019, the government notified the rules on applicability of IBC will cover NBFCs (including housing finance companies) with an asset size of Rs. 5 billion or more. The IBC enhances the credit enforcement structure and provides certainty around the timeframes for insolvency resolution. It attempts to simplify legal processes, preserve value for creditors and provide them with greater certainty of outcome. With this reform, the RBI has sent a strong signal to borrowers to adhere to credit discipline and also encourage banks to break resolution deadlocks by introducing definite timelines. IBC will enhance investors' confidence when investing in India. Internationally, recovery rates have improved significantly after the implementation of bankruptcy reforms, as can be seen in the following table:

Country	Year of bankruptcy reform	Pre-reforms		Five years post-reforms	
		Recovery rate (%)	*Time (years)*	*Recovery rate (%)*	*Time (years)*
Brazil	2005	0.2	10.0	17.0	4.0
Russia	2009	28.2	3.8	42.8	2.0
China	2007	31.5	2.4	36.1	1.7
India	2016	26.0	4.3	43*	1.6*

*Note: * As of 2019*

Source: World Bank, CRISIL Research

Reduction in corporate tax rates to boost capital base of financial institutions

On September 20, 2019, the Finance Minister announced Taxation Laws (Amendment) Ordinance 2019 to make certain amendments in the Income Tax Act, 1961, to allow any domestic company an option to pay income tax at the rate of 22%, subject to the condition that they will not avail of any exemption/incentive. The effective tax rate for these companies will be 25.17% inclusive of surcharge and cess. Also, such companies will not be required to pay minimum alternate tax.

A company that does not opt for the concessional tax regime and avails of the tax exemption/incentive will continue to pay tax at the pre-amended rate. However, these companies can opt for concessional tax regime after expiry of their tax holiday/exemption period. After the exercise of the option they will be liable to pay tax at the rate of 22% and the option, once exercised, cannot be subsequently withdrawn. Further, in order to provide relief to companies which continue to avail of exemptions, the rate of minimum alternate tax has been reduced from 18.5% to 15%.

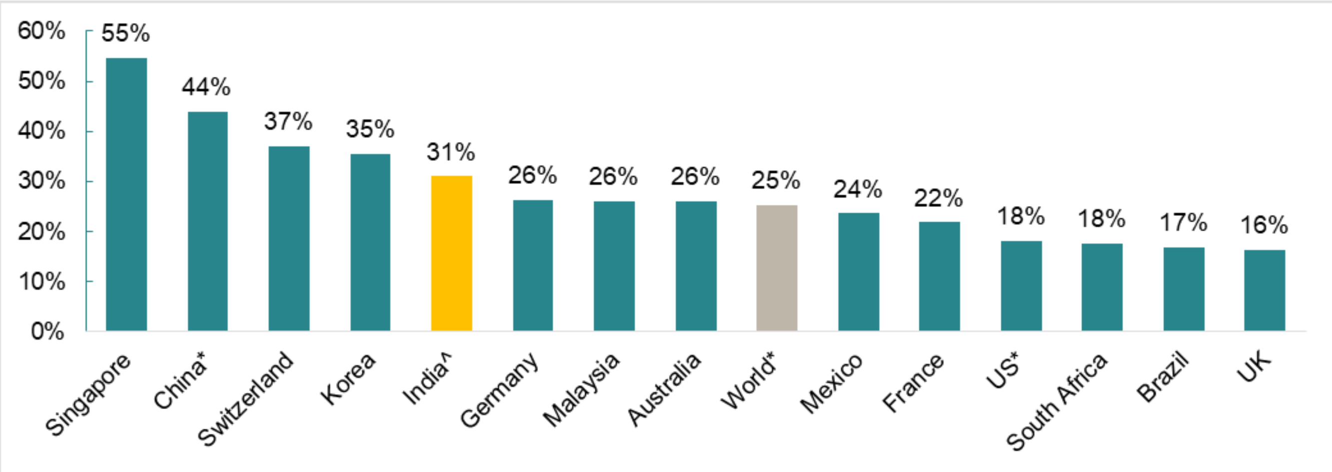
In addition, to stabilise the flow of funds in the capital market, the provision of not applying additional surcharge as per the Finance Act, 2019, on capital gains arising out of sale of equity share in a company or unit of equity oriented fund or business trust liable for securities transaction tax, in the hands of an individual, Hindu undivided family (HUF), association of persons (AOP), body of individuals (BOI) and artificial judicial person (AJP). The enhanced surcharge will also not apply to capital gains on sale of any security, including derivatives, in the hands of foreign portfolio investors. Also, to provide relief to listed companies that have announced share buyback before July 5, 2019, tax on the buyback of shares will not be charged as per these latest amendments.

The recent amendments could boost the capital base of the financial institutions and help revive growth in the financial services sector, which has been battling with high NPAs, increasing defaults and liquidity concerns. This move could also revive the private capex cycle leading to credit growth in the economy.

Household savings to increase

India's slowing economy took a toll on much-needed savings too, with the savings rate touching a 15-year low in fiscal 2019 to 30.6%, and household savings also falling. Indian households contribute to about 60% of the country's savings. But India remains favourable compared with most other emerging market peers.

Gross Domestic Savings rate: India vs other countries (CY 2020)



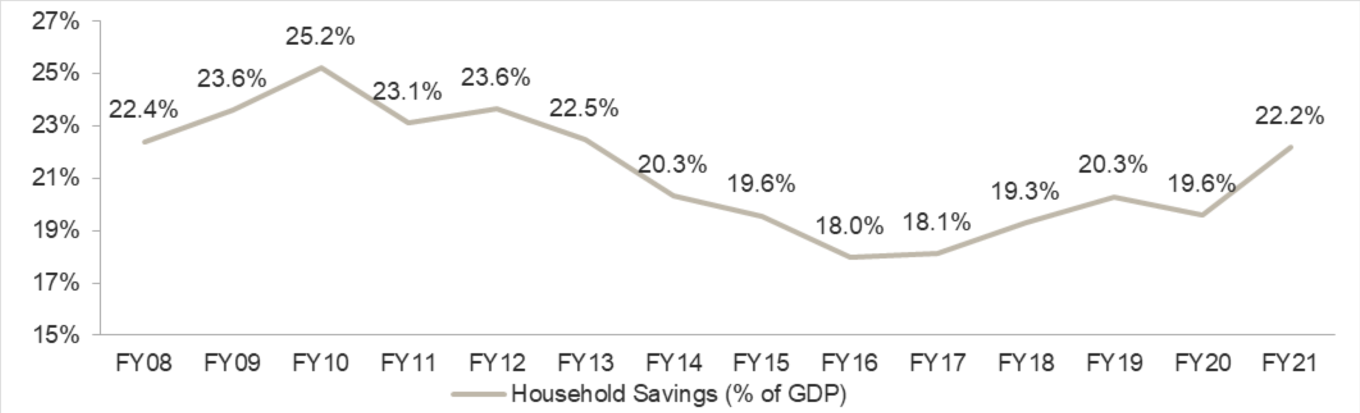
Note: Gross Domestic Saving consists of savings of household sector, private corporate sector and public sector, (*) Data for CY 2019, (^) Data as of March 2021

Source: World Bank, Handbook of Statistics on Indian Economy 2020-21, RBI, MOSPI, CRISIL Research

According to World Bank, the savings rate, or the proportion of gross domestic savings (GDS) in GDP in the Indian economy has trended down in the past decade. India's GDS peaked at 36.8% of GDP in Fiscal 2008 and dipped to 32.0% in Fiscal 2009. That was largely on account of a sharp slowdown in public savings, as the Government resorted to Fiscal stimulus to address the external shock from global financial crisis (GFC).

Specifically, household savings as a percentage of GDP has been sliding since fiscal 2012, with its share as a proportion of GDP falling significantly from 23.6% in fiscal 2012 to 18.0% in fiscal 2016. The household savings as percentage of GDP rose to 22.2% in fiscal 2021.

Household savings as a percentage of GDP has increased in Fiscal 2021



Note: E: Estimated

Source: Ministry of Statistics and Programme Implementation (MOSPI), RBI, CRISIL Research

Gross domestic savings trend

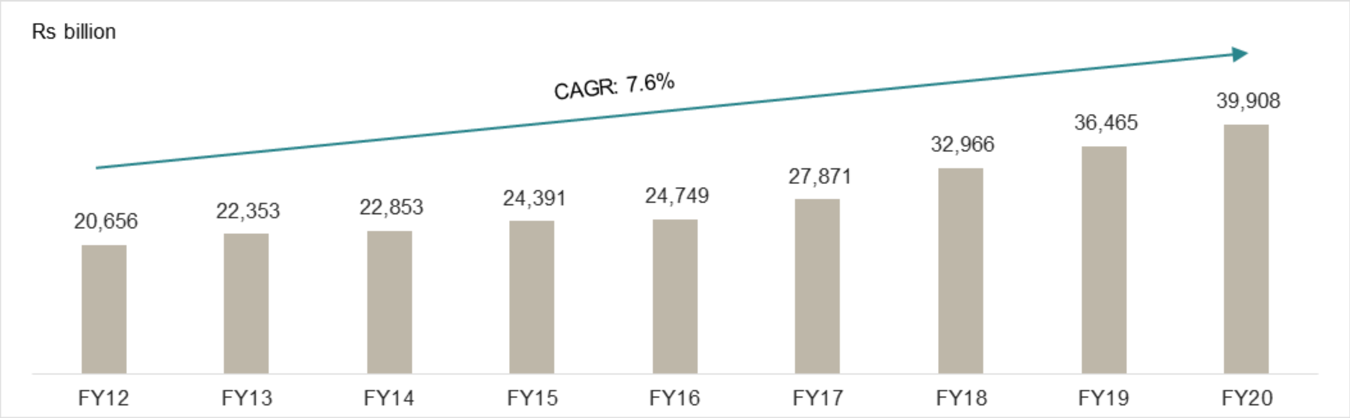
Parameters (Rs. billion)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	**FY21**
GDS	33,692	36,082	40,200	42,823	48,251	54,807	60,003	59,959	55,924
GDP (At current prices)	99,440	112,335	124,680	137,719	153,917	170,900	188,997	200,749	198,009
Percentage of GDP	33.9%	32.1%	32.2%	31.1%	31.3%	32.1%	31.7%	29.9%	28.2%
Household sector savings (net financial savings, savings in physical assets and in the form of gold and silver ornaments)	22,353	22,853	24,391	24,749	27,871	32,966	38,446	39,291	43,906
Percentage of GDP	22.5%	20.3%	19.6%	18.0%	18.1%	19.3%	20.3%	19.6%	22.2%
Gross financial savings	10,640	11,908	12,572	14,962	16,147	20,564	22,636	23,991	31,089
Financial liabilities	3,304	3,587	3,768	3,854	4,686	7,507	7,712	7,866	8,052
Savings in physical assets	14,650	14,164	15,131	13,176	15,946	19,442	23,094	22,735	20,484

Savings in the form of gold and silver ornaments	367	368	456	465	465	467	427	431	384

Note: The data is for financial year ending March 31; Physical assets are those held in physical form, such as real estate, etc.

Source: MOSPI, National Accounts National Accounts Statistics, CRISIL Research

Household savings growth

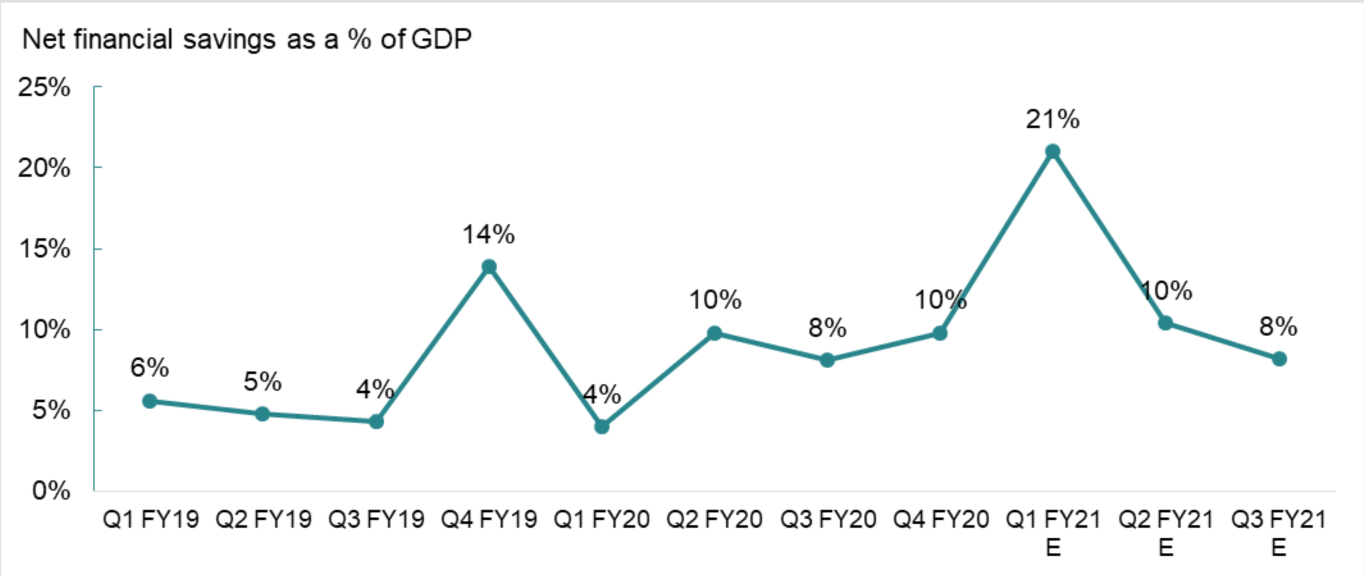


Note: The data is for financial year ending March 31

Source: MOSPI, CRISIL Research

CRISIL Research expects India to continue being a high savings economy. The preliminary estimates of household financial savings for fiscal 2021 indicates a significant increase in savings, which is in line with the increase in household savings observed in other major economies post-COVID-19. The significant increase in household financial savings in India counter-seasonal and possibly reflected the impact of COVID-19-led reduction in discretionary spending and the associated was forced saving as well as a surge in precautionary saving on concerns relating to income flows in the near-term. Preliminary estimates for second quarter of fiscal 2021 indicate that the net household financial savings regressed closer to the pre-pandemic levels to 10.4 per cent of gross domestic product (GDP) after touching the unprecedented high of 21% in the first quarter of the fiscal. This reversion was mainly driven by the increase in household borrowings from banks and NBFCs accompanied by a moderation in household financial assets in the form of mutual funds and currency. As economy is revived in third quarter of fiscal 2021, with increasing consumption, rate of financial savings dropped to 8% in the quarter.

Quarterly trend in net household financial savings as a percentage of GDP



Note: E – Preliminary Estimates

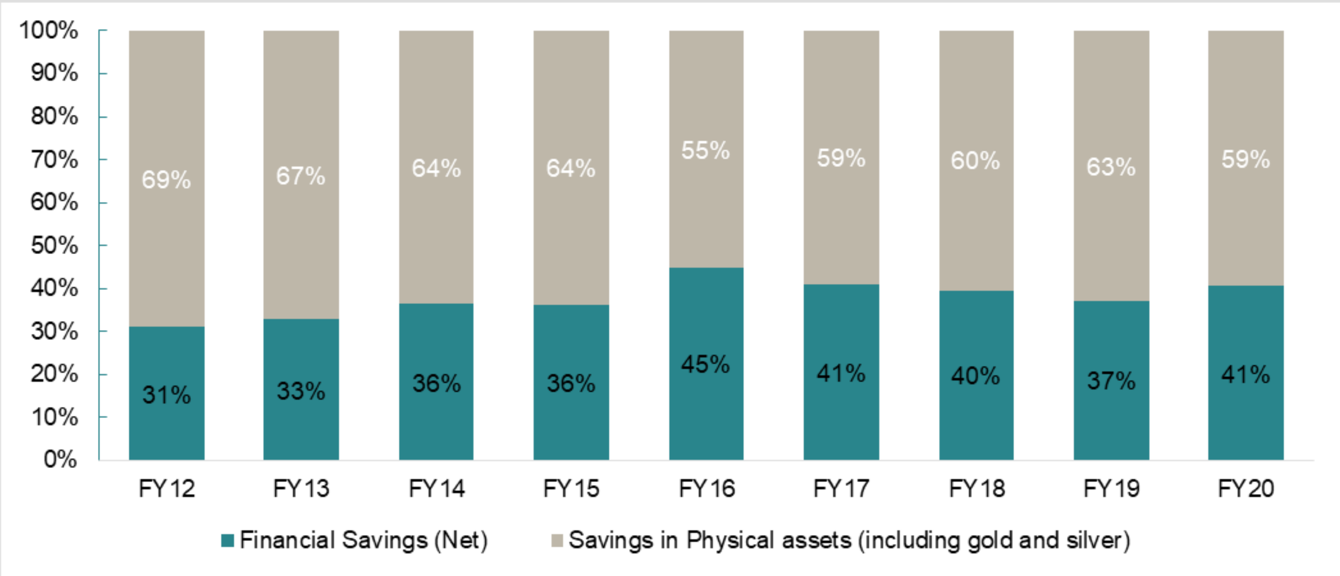
Source: RBI, CRISIL Research

CRISIL is also sanguine on savings rate increasing in the medium-term, as households become more focused post the pandemic-induced uncertainty on creating a nest egg for the future.

Share of financial assets in overall savings to increase

While households' savings in physical assets has declined to 59% in fiscal 2020 from 69% in fiscal 2012, financial savings has witnessed an uptrend to 41% in fiscal 2020 from 31% in fiscal 2012.

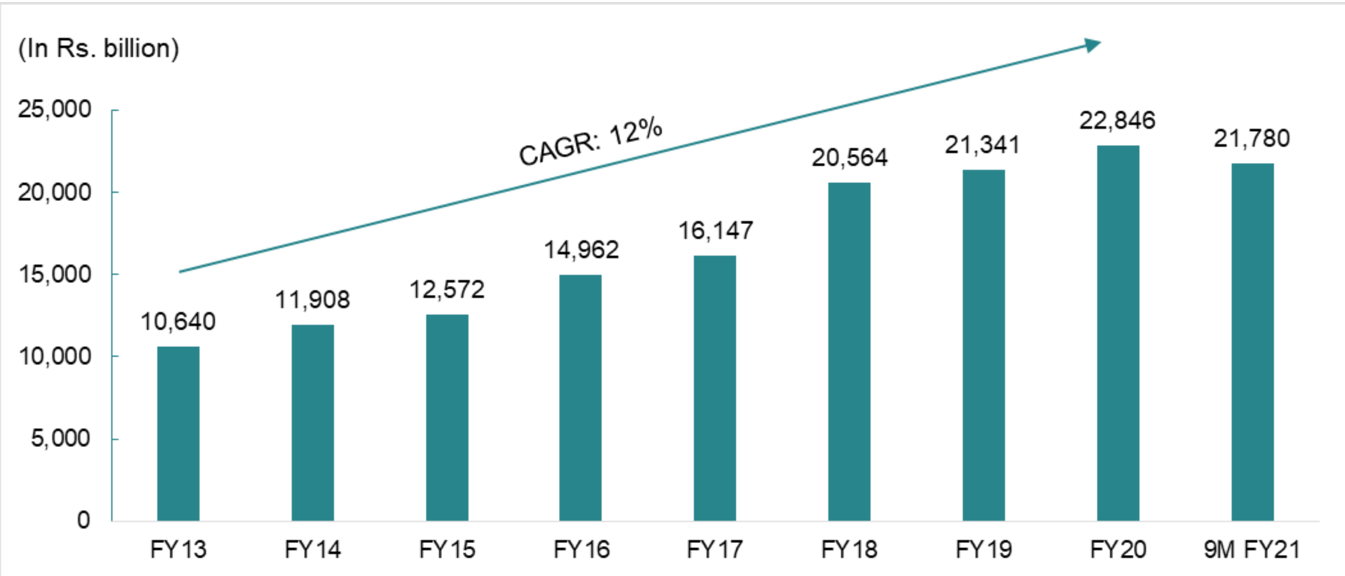
With volatility in the financial markets post COVID and the prevalent lower rates of return in the fixed income products on account of accommodative stance of the central bank, some proportion of savings is expected to continue to remain in the physical assets. In the long-term, with increase in financial literacy, CRISIL expects the share of financial assets as a proportion of net household savings to increase over the next five years, thereby boosting investments in assets such as insurance and mutual funds.



Note: The data is for financial year ending March 31

Source: Handbook of Statistics on Indian Economy 2018-19, RBI, MOSPI, CRISIL Research

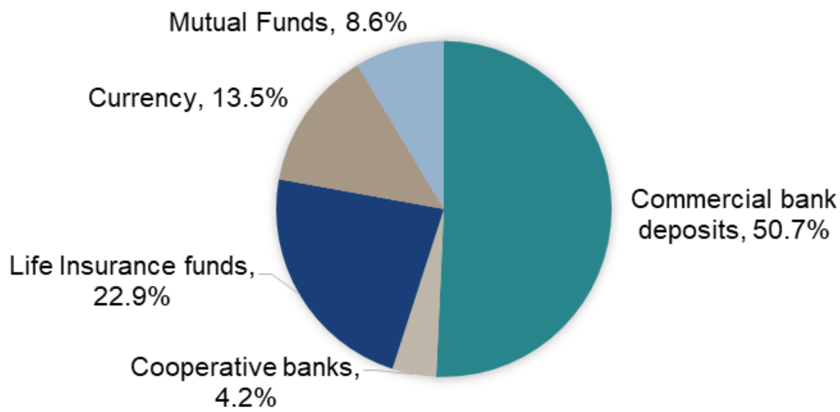
Trend in gross financial savings over the years



Source: RBI, CRISIL Research

As of December 2020, household gross financial assets amounted to Rs. 188 trillion and comprised majorly of commercial banks deposits with more than half of the assets towards them followed by life insurance funds with 24% share.

Composition on household financial assets (December 2020)



Source: RBI, CRISIL Research

Rural economy is becoming structurally far more resilient

At a time when the Indian economy has been severely impacted by the COVID-19 pandemic, the rural economy, which accounts for almost half of India's GDP, has been a harbinger of hope. Rural India emerged relatively unscathed from the first COVID-19 wave due to lower spread of the pandemic in these areas, agricultural activity continuing unhindered, additional support offered by the government by increasing allocation under the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) and disbursing funds under the PM-Kisan scheme, and the relatively lower contribution of services, most badly hurt due to the pandemic, in the rural GDP. Further, higher Government procurement of food grains to support the Pradhan MantriGaribKalyan Anna Yojana, also spurred higher production.

The second wave of COVID-19 has had some impact in rural India, thereby hurting household balance sheets. This, along with the progress of the monsoons and sowing activity in respect of kharif crops, would influence rural incomes in the near-term.

Nevertheless, CRISIL Research believes that the rural economy is far more resilient today due to two consecutive years of good monsoon, increased spends under MNREGA and irrigation programmes, direct benefit transfer (DBT), the PM-Kisan scheme, PM UjwalaYojana for cooking gas, PM AwasYojana for housing, and Ayushman Bharat scheme for healthcare. To supplement this, there has been a continuous improvement in rural infrastructure such as electricity and roads. These Government initiatives have led to lesser leakages and higher incomes in the hands of the rural populace, thereby enhancing their ability and willingness to spend on discretionary products and services.

Through Direct Benefit Transfer, the government has transferred more than Rs. 5.5 trillion in fiscal 2021 under 318 schemes. In the coming years as well, CRISIL Research expects DBT transfers to continue to increase at a healthy pace, as the government tightens focus on making subsidies available directly in the account of the intended beneficiaries.

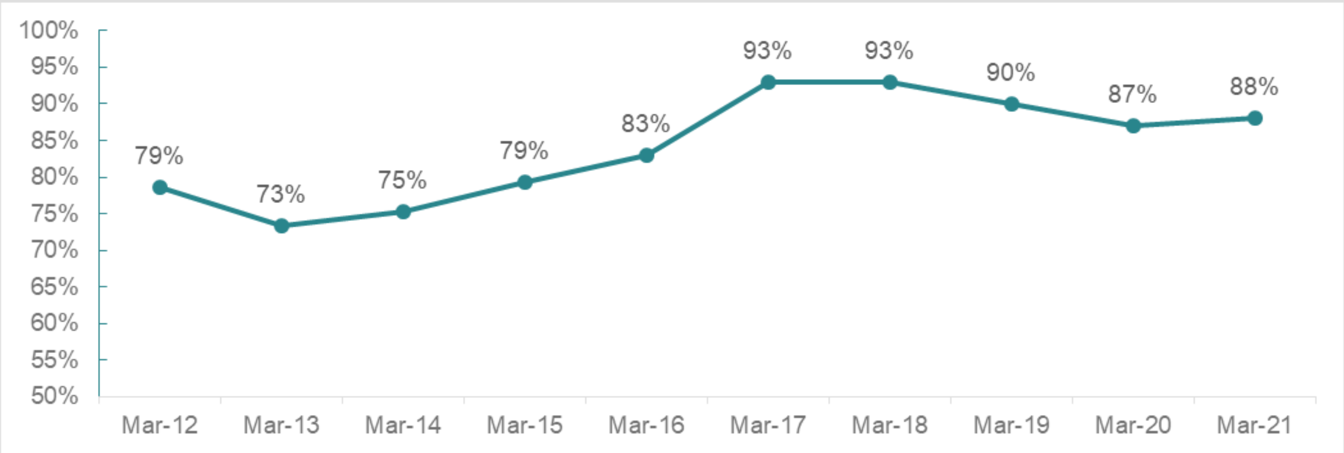
The structural changes, combined with a positive macro environment, will improve rural business prospects, provide business opportunities for the banking and financial services sector and drive the long term growth of the economy.

Digitisation: Catalyst for the next growth cycle

Technology is expected to play a pivotal role in taking the financial sector to the next level of growth, by helping surmount the challenges stemming from India's vast geography, which makes physical footprints in smaller locations commercially unviable. Technology is conducive for India, considering its demographic structure where the median age is less than 30 years. The young population is tech savvy and at ease with using it to conduct the entire gamut of financial transactions. With increasing smartphone penetration and faster data speeds, consumers are now encouraging digitisation as they find it more convenient. Digitisation will help improve efficiency and optimise cost. Players with better mobile and digital platforms will draw more customers and emerge as winners in the long term.

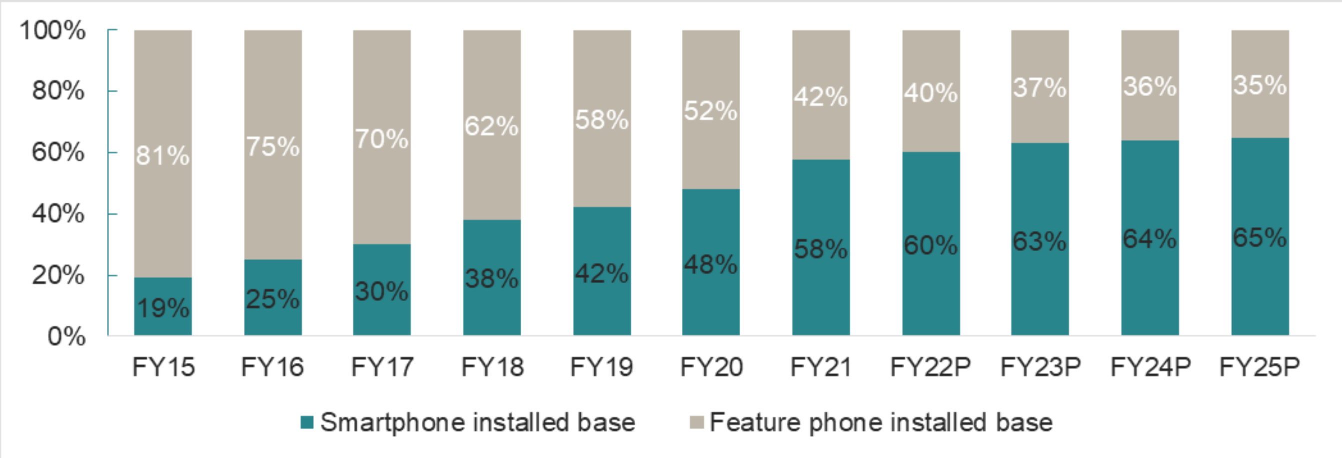
Mobile penetration: Higher mobile penetration, improved connectivity and faster and cheaper data speed, supported by Aadhaar and bank account penetration have led India to shift from being a cash-dominated economy to a digital one.

Tele-density in India



Source: TRAI, CRISIL Research

Data-savvy and younger users to drive adoption of smartphones



Note: P: Projected

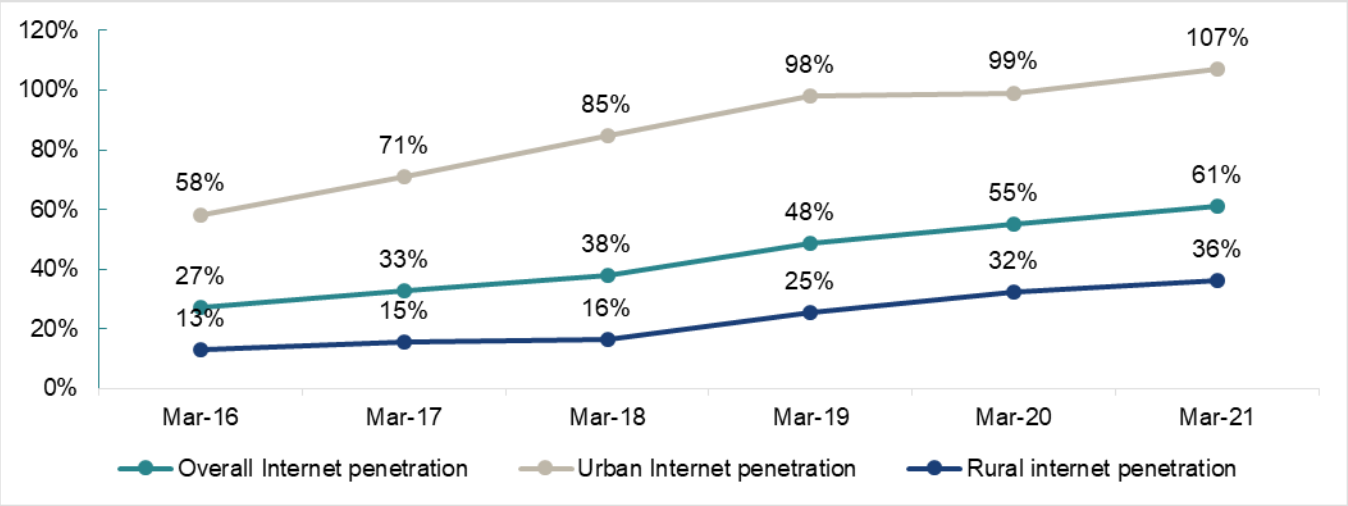
Source: CRISIL Research

Internet penetration: India has witnessed a dramatic surge in internet users over the past few years with internet penetration as a percentage of total population touching ~60% as of fiscal 2021 compared to less than 30% in fiscal 2016. This growth has largely been fuelled by the availability of smartphones at cheaper price points and availability of 4G connectivity at affordable prices.

CRISIL Research expects the total number of internet subscribers in the country to reach 1000 million by fiscal 2025 from 795 million as of December 2020, resulting in ~75% internet penetration. By 2025, complete transition of 2G and 3G data services to 4G is expected. This can be attributed to increased demand for data, competitive pricing of 4G services and availability of affordable handsets.

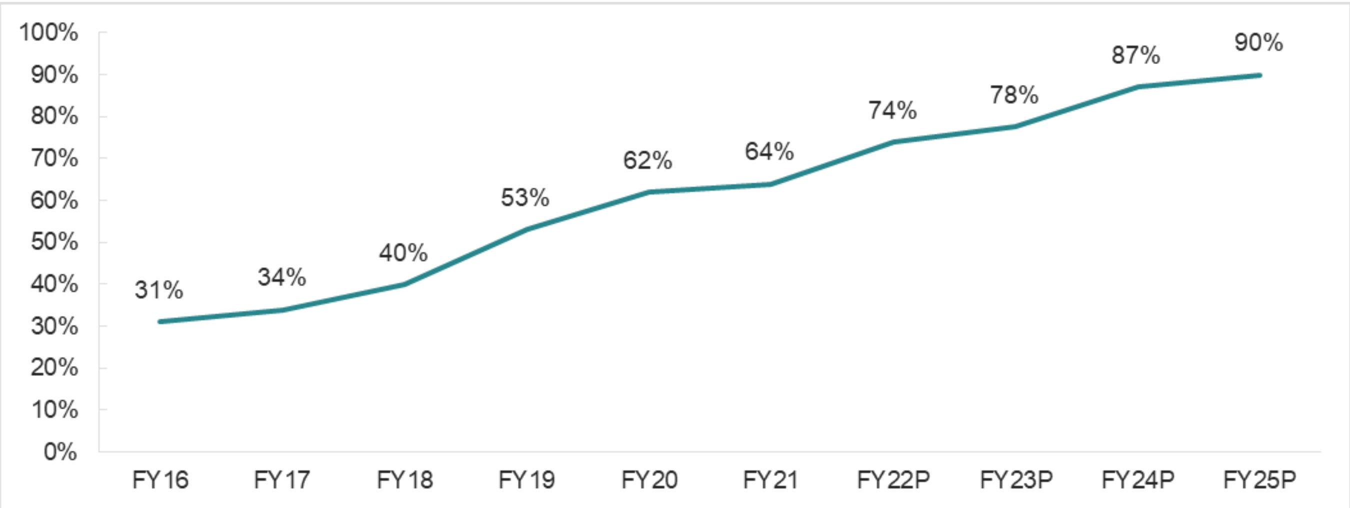
While internet penetration in urban areas has crossed 100%, in rural areas, the penetration is still below 40%. Nonetheless, the number of data subscribers in rural areas has almost tripled to 308 million subscribers as of December 2020 compared to 111 million subscribers as of March 2016 (Source: TRAI).

Internet penetration continues to increase



Source: TRAI, CRISIL Research

Data subscribers as a proportion of wireless subscribers to increase significantly through FY25



Note: P: Projected

Source: Telecom Regulatory Authority of India (TRAI), CRISIL Research

Rise in 4G penetration and smartphone usage

The digital revolution has paved the way for digital payments. India had 1,181 million wireless subscribers as of March 31, 2021, and the number is growing at a steady pace every year. The reach of mobile network, internet and electricity is also expanding the digital payments footprint to remote areas. This is likely to increase the number of digital payment transactions. However, in semi urban and rural areas, internet, 4G and smartphone penetration is still lower compared to urban areas

All-India mobile and data subscriber base

	FY16	FY17	FY18	FY19	FY20	FY21P	FY22P	FY23P	FY24P	FY25P
Wireless subscribers (million)	1034	1170	1183	1162	1157	1181	1178	1191	1195	1203
Data subscribers (million)	322	401	473	615	720	756	*860*	*925*	*1042*	*1077*
Data subscribers as a proportion of wireless subscribers	31%	34%	40%	53%	62%	64%	74%	78%	87%	90%
4G data subscribers (million)	8	131	287	478	645	719	842	901	1022	1070
4G data subscribers proportion	2%	33%	61%	78%	90%	95%	98%	97%	98%	99%

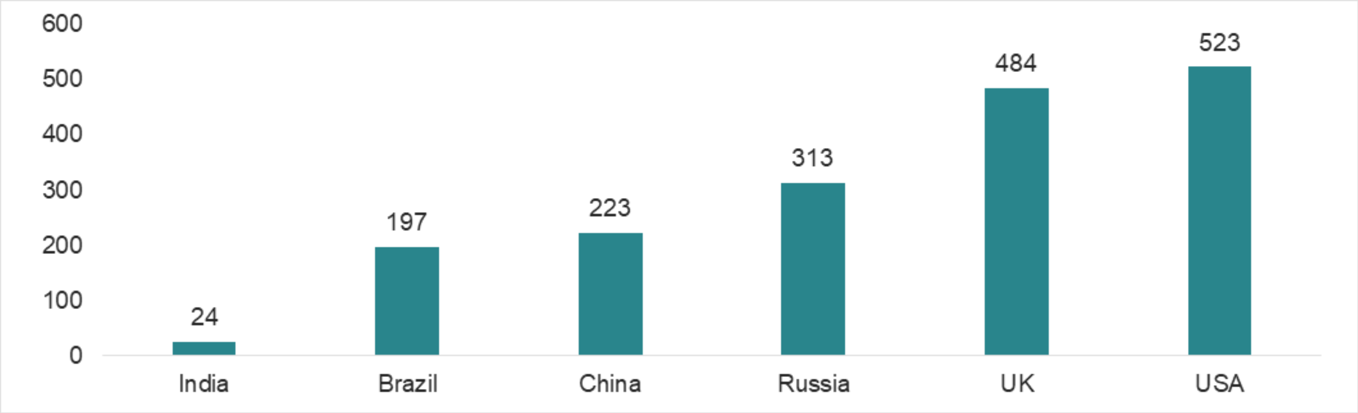
Note: P: Projected

Source: TRAI, CRISIL Research

Mobile data consumption in India has grown ~25 times in the past five fiscals at a CAGR of ~90%. The proportion of data subscribers is hence expected to rise to ~90% in fiscal 2025 from ~62% at FY 20. India's 4G data rates are among the lowest in the world. So, a combination of affordable handsets, growing consumer preference for data on the go and affordable data tariffs are set to accelerate the adoption of wireless internet in India, leading to a 4G data subscriber proportion at ~100%.

Digital payments and per capita transactions in India are among the lowest compared with similar countries. The government has taken multiple initiatives to give a boost to digitalisation in the country. This includes biometric identification of all Indian citizens through the Aadhaarprogramme, financial inclusion through the ‘Jan DhanYojana’, launch of Aadhaar-enabled payment systems, and push to online tax filings. UPI, which is based on the immediate payment service or IMPS platform, allows a user to transfer money from one bank account to another bank account instantly, and is seen as the next big leap in digital payments. Recent initiatives aimed at addressing the structural issues around lending requirement including GST filings, government launched UPI 2.0.

Number of non-cash payments transactions per capita, per annum (CY 2019)



Source: Bank of International Settlements, CRISIL Research

Consumers are increasingly finding transacting through mobile convenient. CRISIL Research expects the share of mobile banking and prepaid payment instruments to increase dramatically over the coming years. In addition, CRISIL Research expects improved data connectivity, low digital payment penetration and proactive government measures to drive digitalisation in the country, transforming it into a cashless economy.

According to data from Bank of International Settlements, share of digital transacitons (includes credit transfer, direct debits, cards and e-money payments and excludes cash and cheque based transactions) for various economies has increased between calendar year 2015 and calendar year 2019. In India as well, share of digital transactions has increased over the years, but is still lower than many developed economies.

Change in share of digital transactions in terms of volume and value across countries

	Share of digital transactions in terms of volume		Share of digital transactions in terms of value	
Year	**2015**	**2019**	**2015**	**2019**
Australia	89%	94%	91%	94%
Brazil	85%	91%	91%	95%
Canada	52%	55%	52%	59%
China	71%	97%	89%	95%
Germany	91%	91%	98%	98%
India	39%	75%	47%	73%
Indonesia	67%	67%	89%	91%

Japan	95%	97%	91%	94%
Korea	98%	99%	76%	84%
Russia	71%	86%	96%	97%
South Africa	72%	78%	95%	95%
UK	90%	95%	99%	99%
USA	83%	90%	66%	74%

Note: Total transactions include credit transfer, direct debits, cards and e-money payments, cash withdrawals and deposits and cheque based transactions. Digital transactions include credit transfer, direct debits, cards and e-money payments and excludes cash and cheque based transactions

Source: Bank of International Settlements, CRISIL Research

Global Insurance Overview

Emerging markets driving global insurance

Growth in the global life insurance industry was almost stagnant for a few years after the financial crisis in 2008. Before the crisis (CYs 2003-2007), the total premium of the global life insurance industry grew at 4% CAGR (in nominal dollar terms) during calendar year 2003 to 2007. However, there was a revival in growth was witnessed from CY 2014, primarily driven by China.

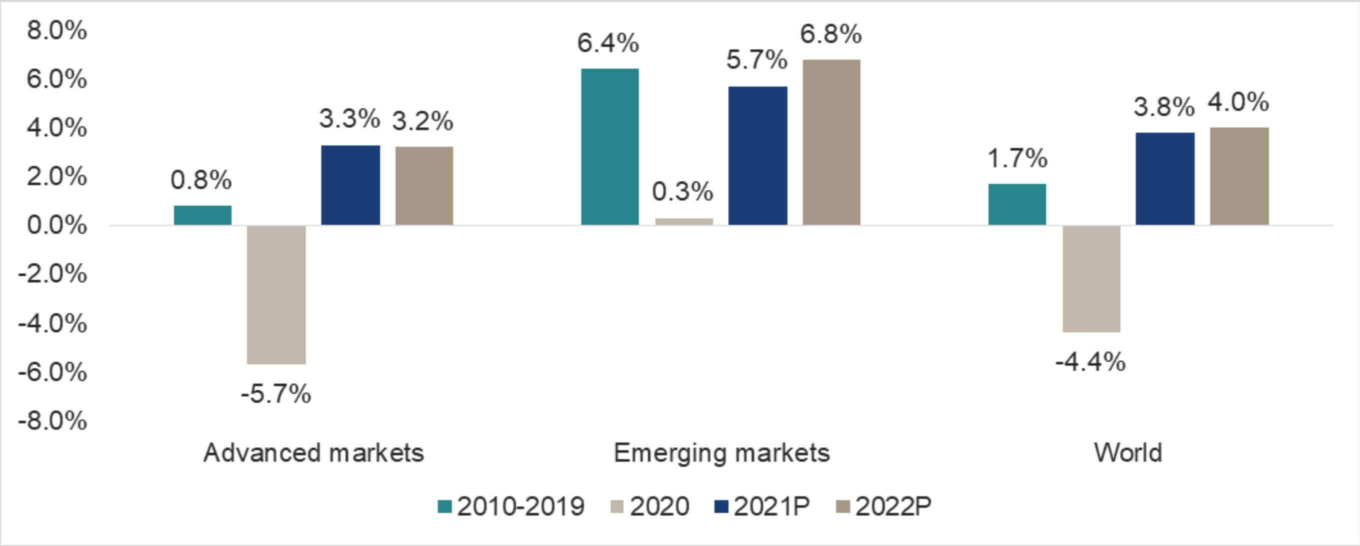
During CYs 2014-2019, the global life insurance premiums grew at a CAGR of 1.7%. Growth in this period was primarily driven by emerging markets which grew at 8% CAGR during 2014-2019. On the other hand, life insurance premiums for advanced markets grew at a CAGR of 0.3% during the same period.

In CY 2020, the global life insurance market contracted by 3.1% to $2.79 trillionfrom $2.88 trillion in CY 2019 (in nominal terms) due to the impact of the COVID-19 pandemic in markets across the globe and consequent weakness in life savings business which represents 81% of the global life portfolio. The advanced markets were hit harder as they contracted by 3.9% as compared to emerging markets, which witnessed a de-growth of ~0.3% in 2020. The reason for resilience of emerging markets was China, where premiums rose by 5.5% due to its strong economic recovery, solid demand for risk protection, quicker adoption of digital channels and insurers' active approach to engage with customers.

According to Swiss Re, the global life premium is expected to rebound strongly from the COVID-19 shock, with annual growth of 3.8% in CY 2021 and 4.0% in CY 2022 (in real terms). The recovery is expected to come from rising demand for risk protection owing to COVID-19 effect on consumer risk awareness. Life savings business is also expected to benefit from stronger financial markets and steady recovery in consumer incomes.

Emerging markets are expected to continue to be the key driving force globally with a 5.7% and 6.8% growth rate in CYs 2021 and 2022, respectively, according to Swiss Re. This growth will be driven by improved economic prospects, fast roll out of vaccine, rising risk awareness, adoption of digital channels and further liberalisation of the life insurance sector. Advanced markets are also expected to grow at 3.3% and 3.2%, respectively, in the same period due to higher household incomes as labour markets recover, more fiscal support and greater awareness of financial risk associated with mortality.

Life insurance real premium growth (%)

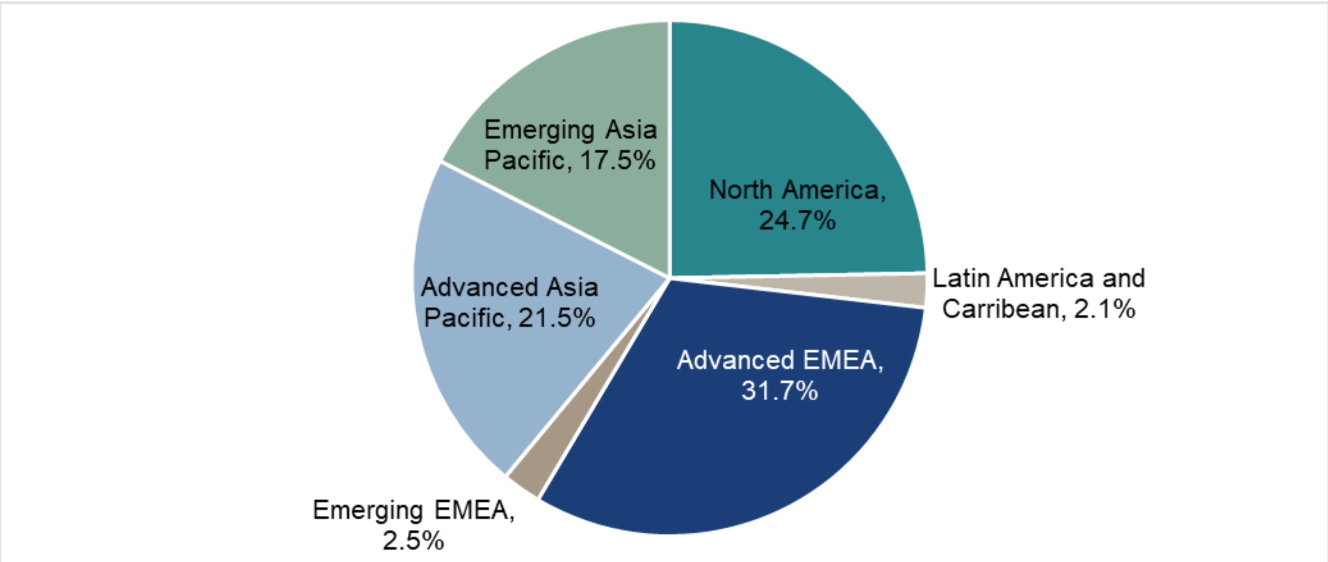


Note: P: Projected

Source: Swiss Re, sigma No 3/2021, CRISIL Research

Asia Pacific (Advanced Asia Pacific and Emerging Asia Pacific) is the largest market for life insurance, accounting for 39% of the premium collected followed by Europe, Middle East and Africa (EMEA) region.

Region-wise share of life insurance market (as of 2020)



Source: Swiss Re, sigma No 3/2021, CRISIL Research

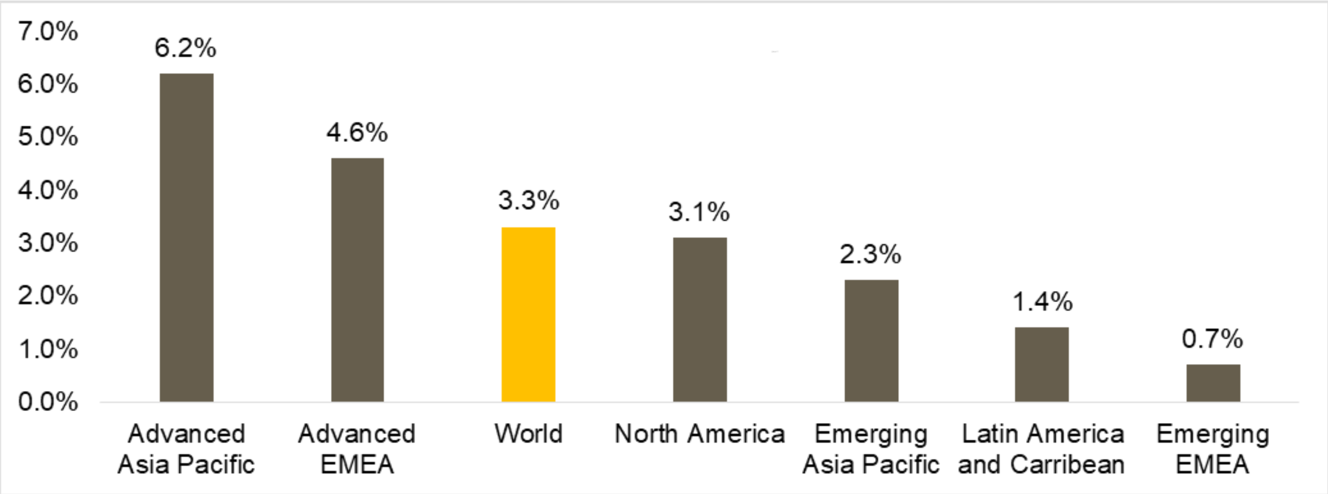
The global life insurance market in 2020 continued to consolidate around the US, China and Japan. These three countries together accounted for 46% of the global market in 2020, higher than a year ago (44% in 2015). The growth in market share of the top three countries was primarily driven by China, which witnessed ~11% CAGR between 2015 and 2020 in life insurance premium (in nominal US dollar terms) between 2015 to 2020.

Key Business Drivers

Under penetration in emerging markets presents huge growth opportunity

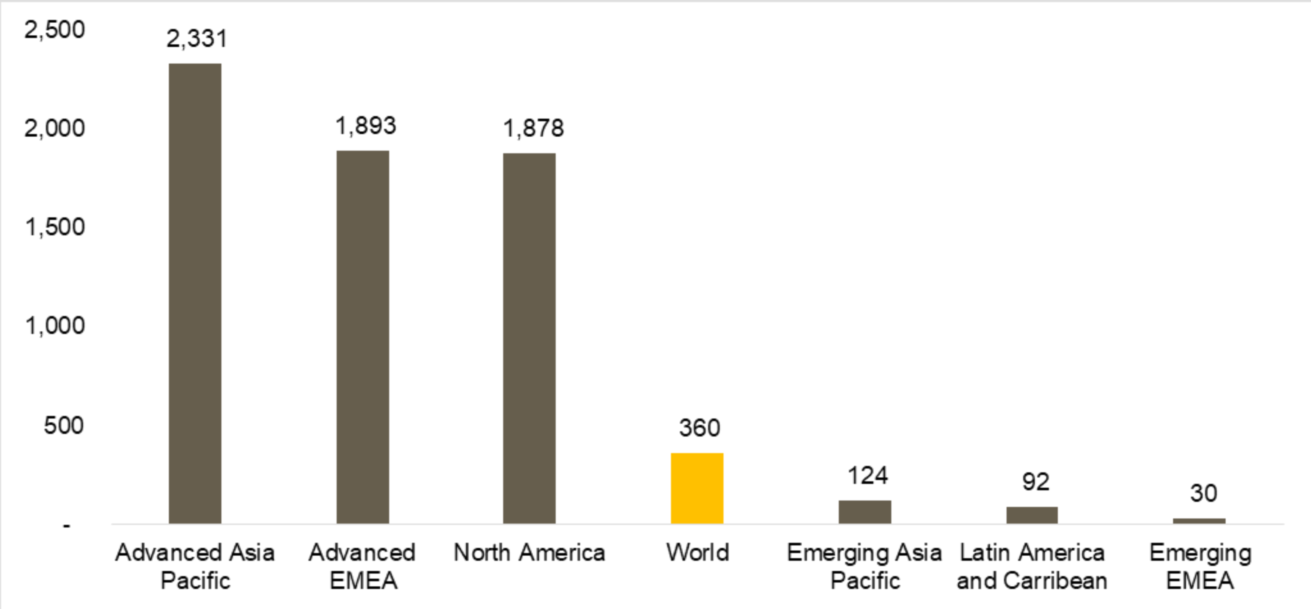
Despite a strong growth in emerging markets over the last ten years, indicators such as insurance penetration (premium as a percentage of gross domestic product or GDP) and insurance density (premium per capita) indicate that emerging markets (Emerging Asia Pacific and Emerging EMEA) are still underinsured as compared to global average of 3.3%, thereby presenting a huge potential for growth.

Region-wise insurance penetration in life insurance business (premium as a % of GDP) (2020)



Source: Swiss Re, sigma No 3/2021, CRISIL Research

Region-wise insurance density in life insurance business (premium per capita in USD) (2020)



Source: Swiss Re, sigma No 3/2021, CRISIL Research

Heightened risk awareness the key tailwind for life insurance demand

The COVID-19 pandemic has been a major catalyst for heightened awareness of health, mortality and financial concerns among the consumers. It has boosted perception of insurance as a means to mitigate unpredictable life events. According to Swiss Re survey (*Swiss Re COVID-19 Consumer survey 2021: Views of insurance in Asia Pacific one year on*), consumers in Asia Pacific region felt under insured and have higher intent to purchase new insurance covers as life returns to normalcy, suggesting that strong demand for life insurance is likely to persist, thereby driving growth for life insurance market. Among the 7,000 respondents of the survey, 64% of the respondents expressed heightened concern about their personal health because of virus outbreak and 33% of the respondents felt underinsured for income protection loss resulting from disease, long term disability or death of a main household bread winner. In terms of priorities for buying additional insurance, medical insurance (48%) tops the list followed by income protection (41%), critical illness (40%) and life insurance (34%).

Launch of newer products to drive business for insurers

The prolonged period of low interest rates, perpetuated by policy responses to the COVID-19 pandemic, has dented the attractiveness of life insurance products from a yield perspective. In response to new realities, life insurers have started to design new products that are less dependent on interest rates and more resilient. In number of markets, these enhancements are under way. European life insurers, for example, have expanded their portfolios with hybrids of unit-linked and traditional products and offer innovative investment-linked products that provide a lower than 100% paid premium protection while giving the policyholder access to riskier assets with higher potential upside. These products, which provide a combination of protection features and enhanced preparedness in light of demographic shift, would also drive growth for life insurers.

Expanding distribution models to enhance reach and improve effectiveness

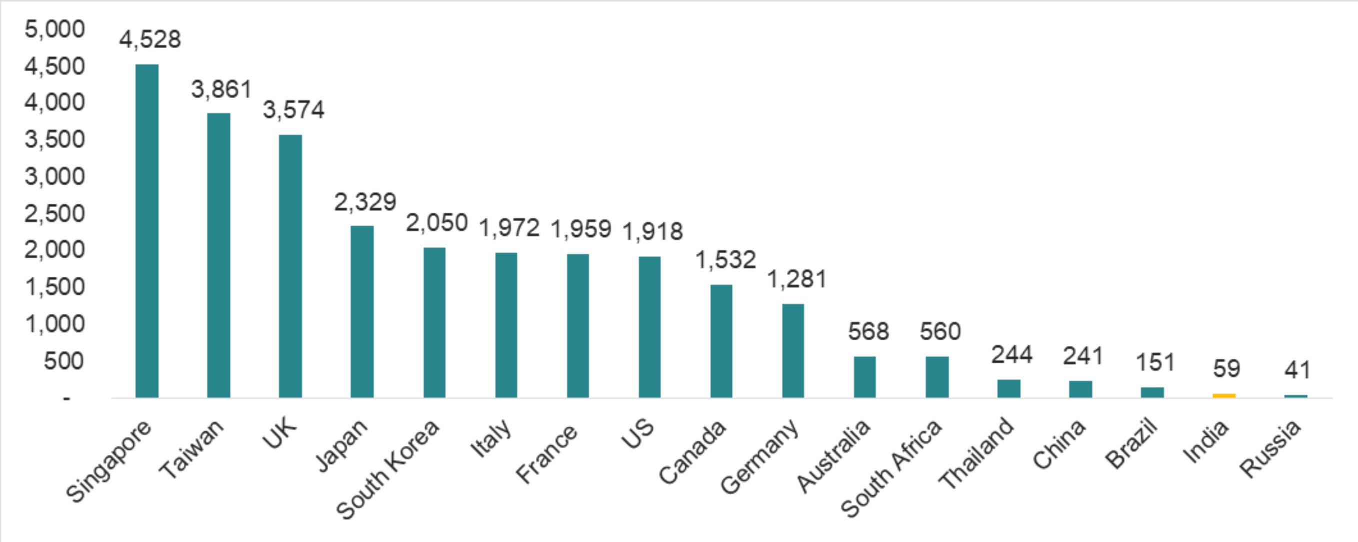
With increasing internet penetration and digitalization, players are now venturing into newer distribution models that bring life insurance to customers where they bank, shop and work. In order to ensure this, insurers are collaborating with aggregators to enhance and deepen their reach and focus on building in-house models that are digitally compatible as well as customer centric. For example, virtual advice model is being offered by many players, as customers continue to adapt online and mobile based channels for service interactions, but also prefer human touch for understanding the product features and facilitating purchase of the most appropriate product. These models allow insurers to build, leverage and get real time feedback using advanced predictive models on lead prioritization and make a sale. In China, for example, Ping An Life Insurance has been leveraging technology to address challenges posed by the agency channel – including recruitment, training and servicing models. The company is moving towards a technology-assisted model which has led to reduction in average underwriting time and increase in premium per agent over the years.

Indian market is still underinsured compared to major economies

India's life insurance penetration stood at 3.2% in CY 2020 compared with 4.4% in 2010. Therefore, penetration has substantially declined since fiscal 2010 due to a slowdown in economic growth and tepid growth in the insurance business in the first half of the 2010-2020 decade due to regulatory changes. At 3.3%, the global average life insurance industry's penetration is slightly higher than India's insurance penetration. Among Asian countries, life insurance penetration in Thailand, South Korea and Singapore were at 3.4%, 6.4%, and 7.6%, respectively, in CY 2020. In comparison, China, with a much higher level of per capita income than India, had a penetration of 2.4% as of 2020. Hence, this suggests the untapped potential of the Indian life insurance market. The penetration of the Indian industry is not comparable to developed markets, such as the United States and Australia, where mandatory pension contributions are not included in the insurance pie.

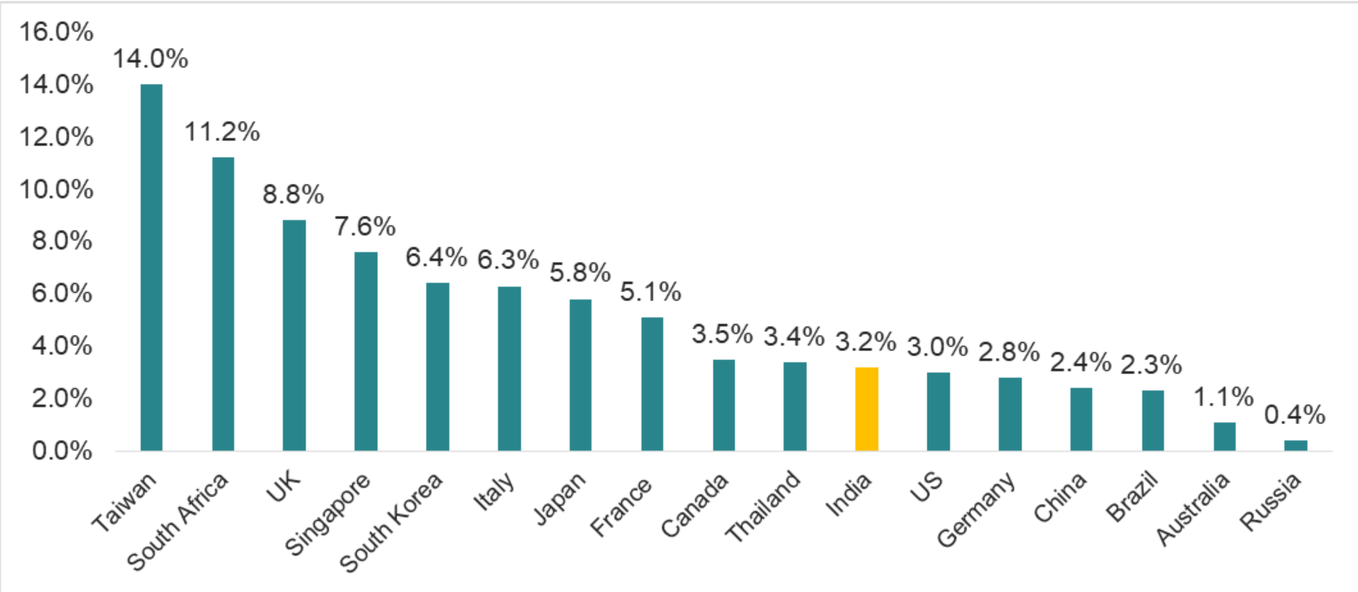
Furthermore, due to the higher share of savings than protection in premium, CRISIL Research believes the actual protection provided by insurance in India would be much lower compared with even other developing markets. At $59 in CY 2020, insurance density in India remains very low compared with other developed and emerging market economies. China's insurance density was $241 as of 2020.

Life insurance industry density (premium per capita in USD) for different economies (as of CY 2020)



Source: Swiss Re, sigma No 3/2021, CRISIL Research

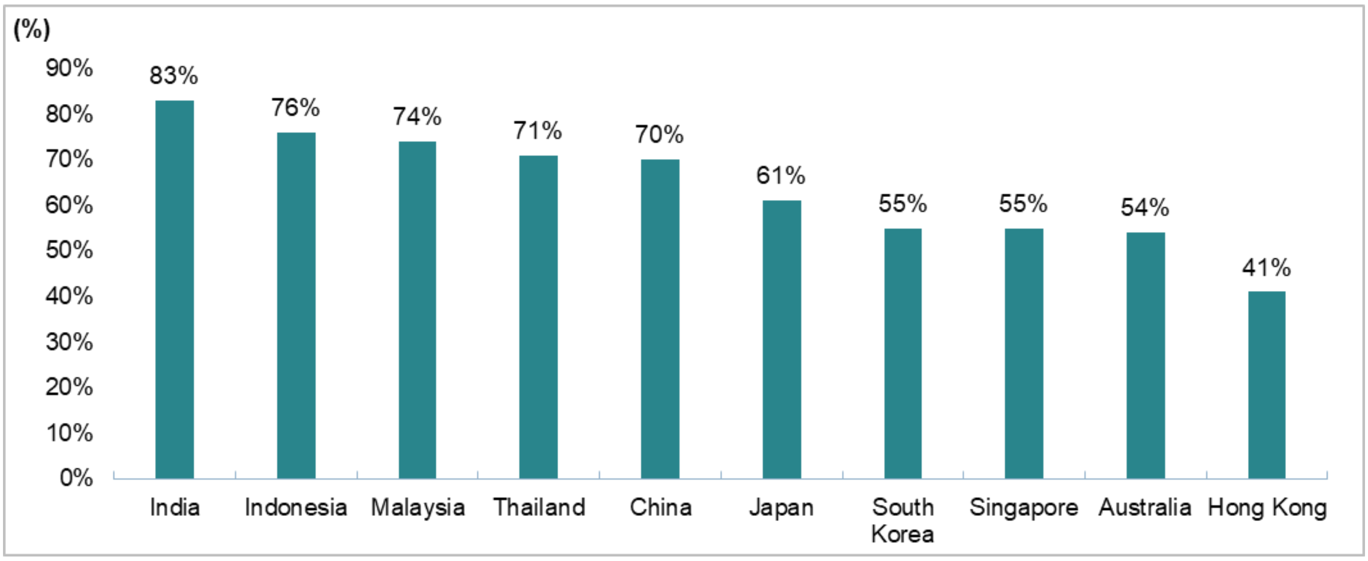
Life insurance industry penetration for different economies (as of CY 2020)



Source: Swiss Re, sigma No 3/2021, CRISIL Research

India's protection gap was $16.5 trillion as of 2019, which was much higher compared with its Asian counterparts. The protection gap for India was 83% as of 2019, the highest amongst all countries in Asia-Pacific, as per the Swiss Re report "Closing Asia's Mortality Protection Gap – July 2020". This means that for $100 of insurance protection requirement, insurance was only taken for $17 as of 2019. This indicates the absence of protection coverage for a large part of the population.

Protection gap for different countries as of CY 2019

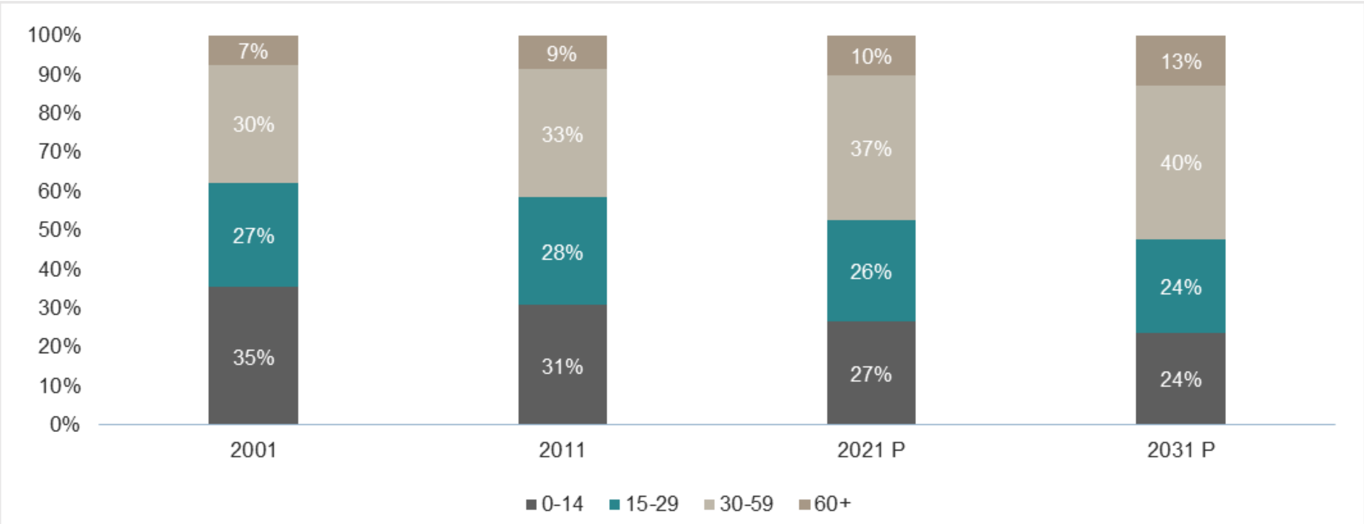


Source: Swiss Re - Closing Asia's Mortality Protection Gap – July 2020, CRISIL Research

Increasing insurable population to fuel industry growth

As of 2021, India has one of the largest share of young population in the world, with a median age of 28 years. About 90% of Indians will still be below the age of 60 by calendar 2021. CRISIL Research estimates that 63% of India's population will be between the age of 15 and 59. In comparison, in 2021, the United States (US), China and Brazil had 77%, 82% and 86%, respectively, of their population below the age of 60.

India's demographic dividend



Note: P: projected

Source: United Nations Department of Economic and Social affairs, CRISIL Research

Profitability in life insurance sector to return to its pre-pandemic levels

In 2020, the profitability of life insurance players was adversely impacted due to the COVID-19 pandemic which led to elevated mortality rates and volatile financial markets. However, according to Swiss Re, profitability of life insurance sector is expected to return to pre-pandemic levels in 2021, with recovery across all lines of business. COVID-19 related claims are expected to decline with the rollout of vaccines and preventive measures in place. However, the resumption in elective surgeries and routine care deferred/paused due to the pandemic will offset some of this decline. Favourable financial market conditions will also augment investment results in 2021, thereby improving profitability.

Insurers with strong balance sheet and healthy solvency conditions continue to grow

In 2020, financial market volatility resulted in investment losses and reduced the average solvency positions of insurers. However, despite the volatility, insurers have been able to wade through the situation due to their strong solvency ratios. For example: global insurers such as Nippon Life Insurance, China Life Insurance and Life Insurance Corporation of India maintained a solvency ratio of 1048%(December 2020), 269% (December 2020) and 176% (March 2021) respectively, thereby reflecting their balance sheet strength, which has allowed them to grow amidst the turbulent times.

Low interest rates a key concern for life insurers globally

The low interest rate environment is a key concern for life insurers globally because their assets and liabilities are heavily exposed to interest rate movements. In particular, their investments are concentrated in fixed income securities that return interest, mostly bonds. Moreover, their liabilities are also sensitive to interest rates. Specifically, many products offered by life insurers, such as annuities, have a guaranteed rate of return. For life insurers, earnings is mostly derived from the spread between investment returns and what they credit as interest on consumer products. During time of low interest rates, the spread gets compressed, which not only reduces the net income for the insurer, but also puts them at the risk of being unable to meet their guaranteed obligations to policyholders.

Persistent low interest rates can also affect life insurer's liquidity. As part of asset-liability management (ALM), life insurers strive to match cash inflows with outflows to avoid ALM mismatch and interest rate risk. During periods of low interest rates, cash flows can be badly mismatched, exposing insurers to losses from potentially stressed asset sales to meet its obligations.

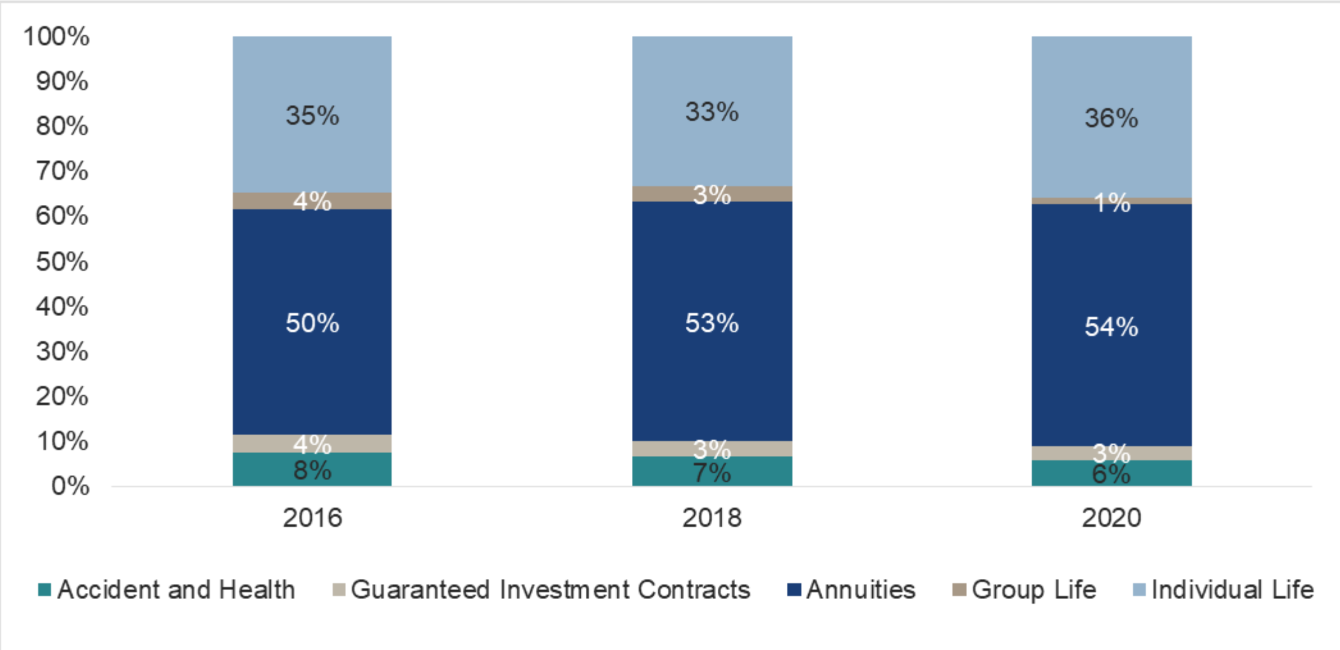
Apart from low interest rates, there are other factors that impact the profitability of life insurance companies in different regions across the globe. For example, China issued many regulations (in September 2020 and January 2021) governing aspects of product updates, investment allocation and risk management with an intent to promote higher quality growth for the sector. This will necessitate the life insurers to develop new products, invest in distribution channels and infrastructure leading to rising operational costs. For many life insurers in China, gains of previous years came from selling short-dated products with high guaranteed returns. However, now the regulators want the insurers to reduce focus on short-term investment products with single premium and increase focus on long-term products with regular premium protection. In the short term, the January 2021 regulations (*List of Banned Life Insurance Products, Reform Plan on the Main Supervisory Responsibilities of Life Insurance Companies*) issued by China Banking and Insurance Regulatory Commission (CBIRC) could impact the profitability of the players negatively, but better margins from selling long-term products will stabilize the profitability of life insurance players in China over a period of time.

Trends in Global Life Insurance Industry

Global players shift towards hybrid and unit linked products

Insurers are realizing the need to develop more flexible product solutions, and modify existing products to be more customer focused and personalised as consumers continue to seek the right combination of protection and savings relevant to their personal context. In some markets, life insurers have already began transforming their portfolio towards a wide variety of hybrids and unit-linked products that are more capital efficient and perform well in low rate environment. For example, In USA, annuities product is growing at a faster pace as comapred to traditional life insurance product given the aging US population.

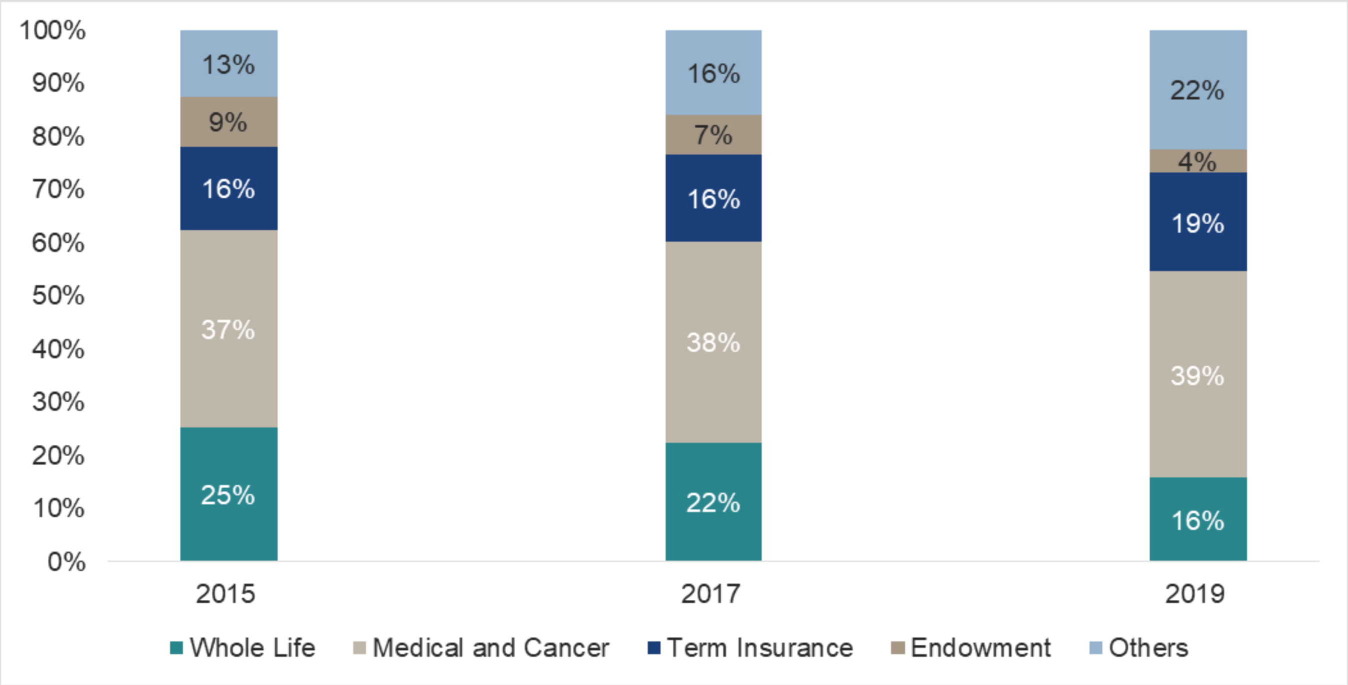
USA Product Mix - Annuities product grow at a faster pace than traditional life insurance (2020)



Source: Company Reports, Annual NAIC Filings, CRISIL Research

In Japan, the customer needs are shifting away from death protection and towards life protection products (medical, cancer and income products etc.). Thus life insurers are seeking to develop and launch newer products with value added services to boost revenues. Nippon Life Insurance, a leading Japanese life insurer, now offers coverage for death, medical and nursing care, savings and retirement, and children-focused plans to supply customers with a comprehensive and well balanced product suite. In January 2020, justInCase, Inc. launched Japan's first peer-to-peer (P2P) cancer insurance product, Warikan Hoken, an innovative product wherein the monthly premium is determined based on the member count and the number of claims during the prior month. In this case, the monthly premiums could be as low as 0 if there is no claims paid in a particular month.

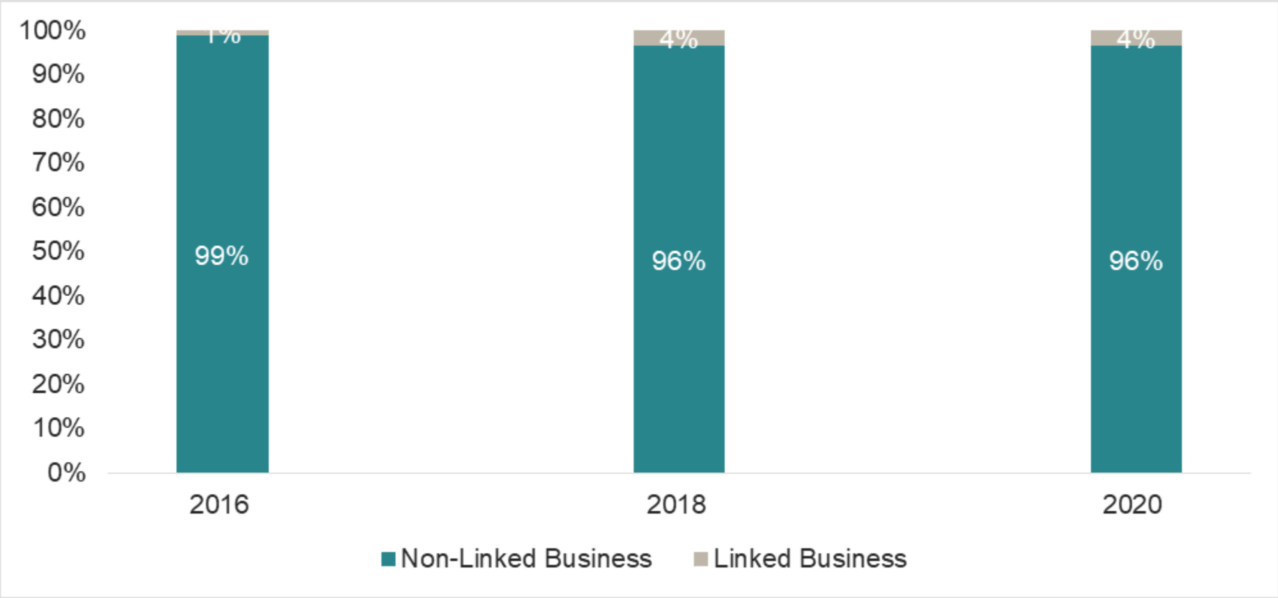
Product mix in Japan (% of policies in Individual life new insurance business)



Source: Life Insurance Association of Japan (LIAJ), CRISIL Research

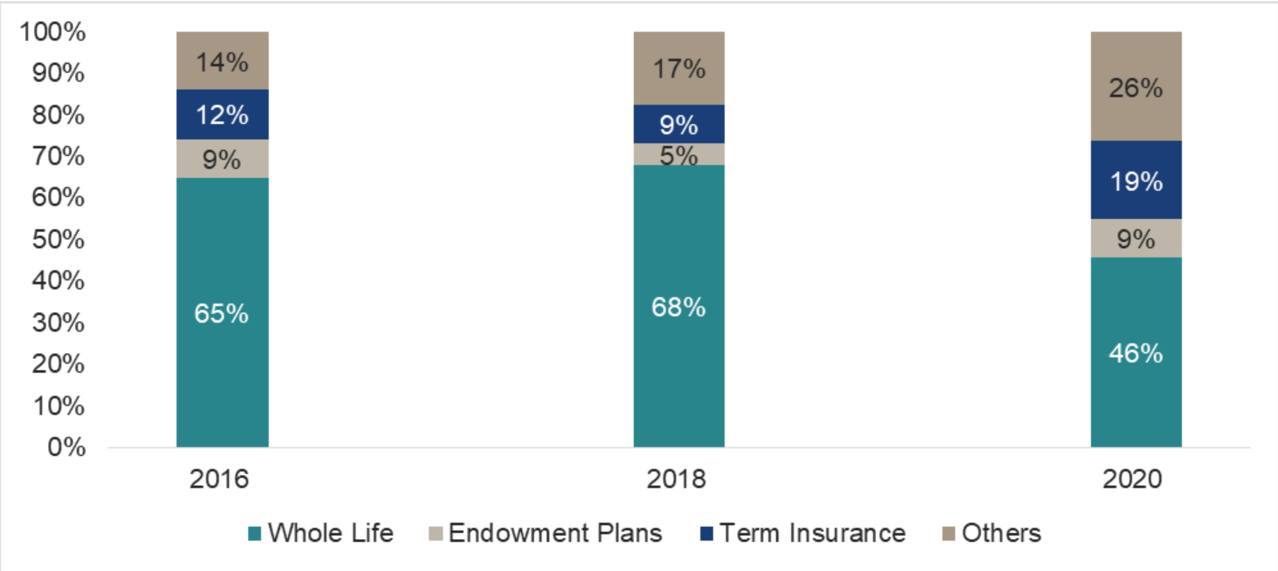
In Hong Kong, the share of linked business has increased from 1% in CY 2016 to 4% in CY 2020 in terms of number of policies in the individual life new business. The share of annuities and other market linked product in terms of policies in individual life and business has also witnessed a growth to reach 26% in CY 2020 from 14% in CY 2016. Other shifts in life insurance include tailoring solutions based on consumer's life stages, as well as adding value added services and non-monetary benefits.

Hong Kong product mix (% of Policies in Individual life new business)



Source: Insurance Authority, CRISIL Research

Hong Kong product mix Change (% of Policies in Individual life new business)

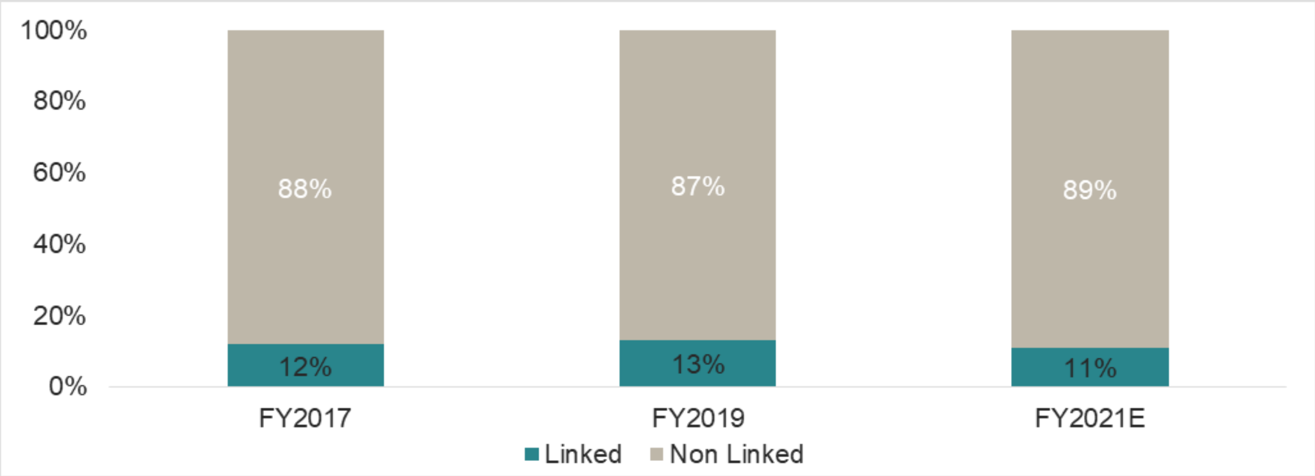


Note: Others include annuities and market linked products

Source:Insurance Authority, CRISIL Research

In contrast, the share of linked products in India is estimated to have marginally reduced to 11% in fiscal 2021 from 13% in fiscal 2016. However, according to "*IRDA Working Report on Index Linked Products (released in February 2021)*", Index-linked insurance products (ILIPs) in life insurance could make a comeback in India as it is a good alternative to ULIPs and could help the insurers to manage their asset liability management risks.

India product mix (% of new life insurance business premium)



Note: E: Estimated

Source: IRDA, CRISIL Research

Insurers continue to rely on agency channel for generating business

As customer preferences and behaviours shift, the way in which insurers traditionally distribute their products is becoming less efficient. Life insurance companies have spent large sums of money and resources to acquire customers, from investing in setting and scaling up agency channels, to upfront money being paid for bancassurance deals, to paying for digital partnerships now. Over the years, while there have been technological advancements and modernisation efforts, the digital distribution of life insurance products has not yet scaled significantly.

Agency and bancassurance distribution models continue to dominate the industry across most markets around the world owing to the need for human touch to understand customer needs and explain to customers the features of policies and enable them to select the right policies.

For example, in China, the top two players Ping An Insurance and China Life Insurance Company sourced 83% and 82% of their gross premiums, respectively, through the agency channel in CY 2020. They are able to serve their large client base through an agent network of 1.02 million and 1.48 million individual agents, respectively. In fact, the cumulative contribution of the agent channel for the top two Chinese life insurers has increased in the last four years to reach 83% in CY 2020, from around 74% in CY 2016.

On the back of the strength of their agency channel, Ping An Insurance and China Life Insurance Company have witnessed consistent growth in premium collections as well as their market capitalisation. Ping An Insurance witnessed a 15% CAGR in life insurance premium from $42 billion in 2016 to $74 billion in 2020. During the same period, the market capitalisation of the company has increased from $189 billion to $221 billion. China Life Insurance witnessed a similar trend with market capitalisation increasing from $91 billion to $143 billion between CY 2016 and CY 2020. The life insurance premiums of the company witnessed a 7% CAGR during the same time to reach $69 billion from $52 billion.

In Philippines, approximately 54% of the life insurance and variable products was sold through licensed individual or general agents in 2018. This shows the dependence of life insurers on agency channels. Sales through bancassurance channel and brokers are the other key channels of distribution and accounted for ~34% and ~8% of the total life insurance & variable products sold, respectively in 2018. The combined share of these three intermediaries constitute about 95% of the total sales of the said products.

According to Japan Institute of Life Insurance, sales representatives have traditionally been the primary sales channel of life insurance in Japan accounting to 59.4% at end of fiscal 2015. However, sales channel are becoming more diverse in line with diversifying insurance products and consumer needs. In Japan, the share of agency channels in total number of new policies sold has increased from 13.7% in fiscal 2015 to 17.8% in fiscal 2018. Given these circumstances, major life insurance companies are strengthening their structure for agency sales by launching group companies to handle products suitable for agency channel. For example, Sumitomo Life Insurance Company established a subsidiary Medicare Life Insurance Company and Nippon Life Insurance launched Hanasaku Life Insurance Company to expand agency channel sales. Nippon Life Insurance, the leading Life Insurer in Japan, operates through a strong network of 55,000 sales representatives, 99 Nissay Plazas, 300 financial institutions and 18,266 agencies to serve its 14.5 million customers.

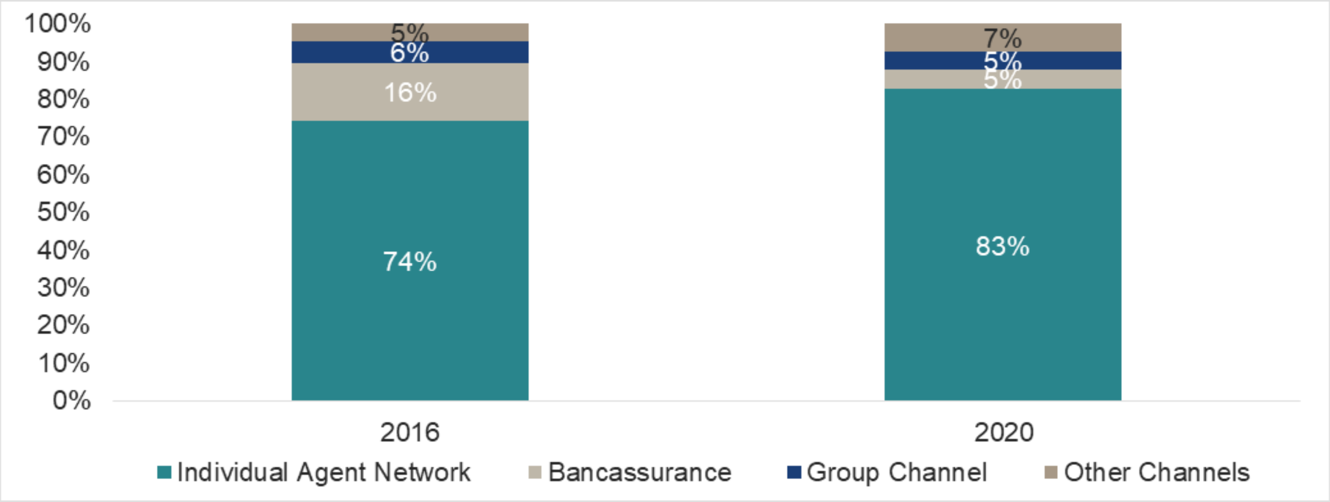
In India, Life Insurance Corporation of India (LIC) has the largest network of 1.33 million individual agent sales force as at December 31, 2021, which accounted for 55% of the total agent network in the country and was 6.8 times the numbers of agents of the second largest life insurer in terms of agent network. On the back of its 65 years of lineage and its extensive and well-entrenched agent network, which allows LIC to cater to larger sections of the society in urban and rural regions and not only the well-banked population in the country, LIC commands a share of 64% in individual life insurance premiums.

In the Indian market as a whole (including LIC and private players), the share of new business generated for individual life insurance through bancassurance channels has increased from 24% in FY2016 to 29% in FY2021 owing to higher dependence of Indian life insurance players, especially private players on banking channel to market their product. The private players have relatively higher dependence on bancassurance for new business, with their share increasing from 52% in FY2016 to 55% in FY2021.

While the agency channel will remain the bedrock of distribution for most life insurers, with accelerated digital adoption and technological advancements, the focus of life insurers in the next few years will be on improving productivity and efficiency by focusing on using Omni-channel strategy and leverage both digital and feet-on-street in equal measure. The resulting agency channel of the future will thus be a hybrid that utilises both digital and physical resources.

In the case of bancassurance, even though insurance companies pay large sums of money upfront, only a few partnerships flourish. With time, the insurance companies have learned that it’s difficult to get the bank resources to focus on insurance sales, given they already have other key result areas to drive, leading to subdued growth in insurance sales through bancassurance. For example, in China, the share of bancassurance channel has significantly reduced from 16% in 2016 to 5% in 2020. Japan has witnessed a marginal decline in bancassurance channel between 2015 and 2018. As branch walk-ins fall and digital transactions become the preferred route for customers, CRISIL Research believes that globally bancassurance models will also change, with insurance remaining a push product and even digital sales will require significant effort. Instead of wanting to be present in every bank branch, the focus of life insurance partners will shift to being present on every digital bank platform.

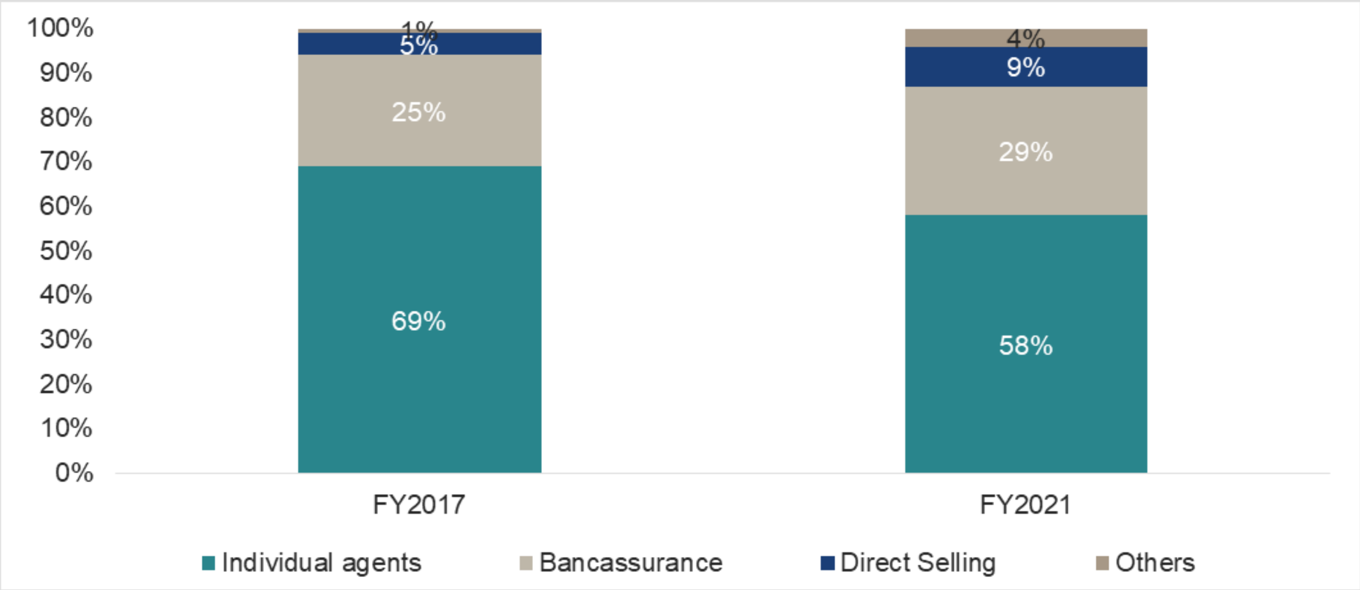
China Life Insurance distribution channel mix (% of written premium)



Note: Data includes data for China Life Insurance and Ping An Insurance which accounts for 41% of the total life insurance market in China as of 2020. Other channels include agrregators and digital channels

Source: Company Reports, CRISIL Research

Indian life Insurance distribution channel mix (% of new business premium)



Note: Other channels include Brokers, IMFS and micro-agents, Direct selling also includes business through online and refererral channel

Source: IRDA, Company Reports, CRISIL Research

Share of agency channel in various countries

Country	Share of agency channel in distribution mix
China	**83%**
India	**58%**
Philippines	**54%**

Japan	**18%**

Note: For China, data includes data for China Life Insurance and Ping An Insurance which accounts for 41% of the total life insurance market in China as of 2020. For China, the share of agency channel is based on written premiums.

For India, the share of agency is based on new business premiums

For Philippines, the share of agency channel is based on total premium

For Japan, the share of agency channel is based on total number of new policies sold

Source: Philippines Insurance Commission Annual Report 2018, Japan Institute of Life InsuranceCompany Reports, IRDA, CRISIL Research

Number of agents for various global players

Country	Company	Number of agents (in million)
China	China Life Insurance Company	**1.48**
China	Ping An Insurance	**1.02**
India	Life Insurance Corporation (LIC)	**1.35**

Source: IRDA, Company Reports, CRISIL Research

Digital transformation in Insurance

Insurance Regulatory Sandbox: In-order to facilitate innovation in the insurance sector by leveraging technology along with protection of policyholder's interest, IRDAI notified the IRDAI (Regulatory Sandbox) Regulations, 2019 dated July 26, 2019. The IRDAI adopted Regulatory Sandbox approach for a period of two years, which provided testing ground for new business models, processes and applications that may not necessarily be covered fully by or are not fully compliant with existing Regulations. On 7th April 2021, IRDAI extended the validity of the regulatory sandbox for a period of 2 years

Further, various research and development activities have been carried out by life insurers like Bajaj Allianz, Canara HSBC OBC, ICICI Prudential, SBI Life and TATA AIA, revolving around customer needs, customer relationship management and other digital servicing experience to policyholders to enhance experience. For example, Bajaj Allianz Life Insurance Company has devised solutions like 'Whatsapp BOT' and'i-Serv' which enables insurer to respond to customer queries on whatsapp and ICICI Prudential has deployed "Humanoid" which is an AI based conversational tool which reminds policyholders for renewal premium. Also players like Canara HSBC OBC and SBI Life Insurnace implemented robotic process automation enabling faster service delivery and WhatsAppbased messagingby maintaining all the required security and safety.

Collaboration with Insurtechs: The global insurance industry, like every other industry, is focused on leveraging the benefits of a digital environment which has led to development and adoption of Insurtech. Insurtechs, initially were considered a threat to legacy players, but this opinion seems to have changed for good and some incumbents have started to collaborate and partner with insurtechs. For example, in November 2018, Allianz Life Ventures and Securian Financial invested in OnRamp Insurance Accelerator by Gener8tor. In June 2019, the accelerator shortlisted 5 insurtechs which offered solutions for predicting customer churn, underwriting claims and digitizing direct mail. In 2019, Prudential Financial purchased Assurance IQ, a data science and machine learning based insurance provider, which gave the insurer access to customers who needed life coverage and other insurance products. The platform matched consumers with the live agent or sales process that was best suited to their needs, resulting in better customer outcomes that led to higher levels of engagement and conversion.

Key areas of digital transformation in life insurance

Digital customer journeys

- Improvement in full digital underwriting and sale
- One stop platform to manage and respond to issues
- Virtual advice models

Enhanced partner journeys

- Acceleration in development of sales support tools, helping non-insurance experts to distribute insurance
- Transformation of buying experience for end customers

Data and analytics

- Exploitation of vast amount of data for personalization, targeted marketing and improving commercial effectiveness

Artificial intelligence

- AI and ML models to analyse unstructured flow of information and recommend actions for faster and smarter claim assessment

Source: CRISIL Research

Growth of Web Aggregators: The pandemic has presented opportunities for distribution channels through web aggregators in the insurance space. In addition to the standard price comparison of insurers, the aggregators are also offering personal finance advice to customers. With progressions in artificial intelligence, more sophisticated financial advice is being provided online, thereby enabling more complex products also to be sold through these channels. Web aggregators have also helped the companies to reach out to younger customers who tend to prefer digital and the questionnaire style underwriting, thus providing comfort to customers who are discouraged by prospect of a medical test. The shift has also caused insurers to reduce their own direct sales as aggregators become more prominent and become a more effective bridge to the customer-facing side of the business.

Digitalisation of key processes: COVID-19 has undoubtedly been a catalyst of change in the underwriting environment and the industry has accelerated efforts to move towards more efficient and frictionless practices. Most insurers have added some form of COVID-19 questions while underwriting new business. Insurers have also started offering virtual examination where a specialist could ask questions and take measurements via telephone or video conference, thereby eliminating the need for in-person medical examination. Artificial intelligence techniques such as text mining, Natural Language Processing (NLP) and Artificial Neural Networks (ANN) are increasingly being used in a bid to make underwriting more streamlined. These techniques help to increase the speed and accuracy with which applications can be reviewed and processed which in turn make the process efficient. Apart from underwriting, players in the industry have also started to use technology across the value chain for faster claim processing and fraud management.

Key technologies impacting the value chain of insurance

Underwriting

- Insurers are moving to **questionnaire based underwriting** methods and are offering **virtual examination** where a specialist could ask questions and take measurements via telephone or video conference, thereby eliminating the need for in-person medical examination
- Monitor customer behaviours using **connected devices** and telematics

Claim processing

- **Artificial intelligence techniques** such as text mining, Natural Language Processing (NLP) and Artificial Neural Networks (ANN) are increasingly being used for risk prevention and faster claim assessment
- Share data across the network to all parties through **blockchain** improves service delivery and reduces time for claim processing

Fraud management

- **Advanced data analytics** helps improve risk assessment of the customers and prevent frauds by gauging customer behaviour
- **Blockchain** and **Open API** allows connecting to external databases, which helps in detecting patterns of fraudulent activities

Source: CRISIL Research

Digital Initiatives of some Global Insurers

Digital technology is a new force that is driving massive changes in the insurance sector. For insurers, the changing landscape of insurance (use of mobile and internet) and the way customers interact with them using newer form of engagements (social media) has led to a flurry of technological advancements in the industry. The insurers are now harnessing digital technology to scale their business model and provide a hassle-free experience to their customers. The extent of adoption of digitalisation varies from one insurer to another. Some insurers have looked collectively at the process, ecosystem and the technology while others have looked at only addressing the specific issues.

Digital initiatives of some insurers

Company Name	Country	Key Digital initiatives

Ping An Insurance Company	China	• Ping An Insurance is one the global companies which is well known for its technological advancement and initiatives. In 2014, it stated an initiative '***Ping An Direct'*** for providing digital retail financial service to its customers. • It also has a platform that includes tools for big data analytics, customer and behavior segmentation and dynamic pricing. The data driven operational platform offers an overview of business operations through features including multi-dimensional dashboards to facilitate prediction, early warning, root cause analysis, problem diagnosis, tracking and intervention. • The company has also created an '***AI Customer Visit Assistant'***, which provide Ping An Life sales agents with online business development support, including virtual reality based customer meetings, person-to-person drills and real time assistance. The virtual assistant was used for ~17 million times and facilitated over 3.8 million online customer visits in 2020.
China Life Insurance Company	China	• China Life Insurance has accelerated transformation and upgrade, and digitalized operations across its value chain over the years. In 2019, the firm launched a five-year plan, named '***Dingxing Project'*** to push on operational efficiency and using technology to improve sales. The main goals of this project is focused towards standardizing and centralization of firm's network of offices and building new architecture for the legacy systems. • In 2020, the company developed new technologies such as mobile services and digital field offices, which enabled frequent interaction between the company, its agents and customers to provide convenient, efficient and precise financial and insurance services to customers. To further its business, China Life Insurance also joined a group of 11 insurers to establish the **'Conservation and Claims Consortium Blockchain'**, which used blockchain technologies to offer one-stop claims applications for processing. • The company has also launched an online agent recruitment, online agent training and online business development using digital technologies. Using the program, about 1,55,000 AI online training sessions were conducted to train its agent on how to use digital tools in the sales value chain in 2020 .
Metlife Inc.	USA	• In 2011, Metlife Inc. launched **'*Metlife Innovation Office'*** with a mission to drive innovation across the global enterprise. Through this innovation group, the company has created an ecosystem to improve customer experiences, generate new sales approach and new products and improve internal processes. • In 2018, Metlife announced launch of two Insurtech investment programs for startup companies – ***Metlife Digital Ventures*** *and* ***Metlife Digital Accelerator in collaboration with Techstars***. This was aimed to deliver solutions and offer a differentiated customer experiences and disrupt the insurance industry. In 2020, Metlife Inc. selected 10 insurtech for its accelerator program, many of which used artificial intelligence and machine learning to analyze consumer behavior, predict likelihood of life-changing events in the lifecycle of

		customer and provide advisory services (mobile-based robotic financial advisory service).
Life Insurance Corporation of India	India	• In 2019, it launched LIC Mitra, a voice enabled Chabot, which helps the customer to get information about their policy without any human interaction to further support its sales and service function. • The company also put in place a video conferencing system that can connect with any company agent remotely via mobile phone for servicing its customer amidst COVID-19 restrictions. • For achieving operational efficiency, LIC has an in-house Core Insurance Package '**eFEAP**' which has fully digitized the internal operations from new business procurement to claim settlement. This software is integrated with the SMS and e-mail gateways and Enterprise Document Management System (EDMS) to facilitate servicing and information delivery to the customers. LIC also has a **COMIS** system which provides real time MIS and data analytics for aiding managerial decisions.

Nippon Life Insurance	**Japan**	• In fiscal 2019, Nippon Life launched the '**Next Value Project**', a digital five year plan to accelerate and promote digitization of insurance value chain through use of cutting edge technology. Some of the goals of the plan included boosting work efficiency, enhancing customer experience, increasing productivity, expanding existing business and launching new business.
		
		• In line with the above plan, the company established an open innovation hub, Nippon Life X, to create new business for Nippon Life Group. The company also plan to integrate face to face activities and digital technology to improve effectiveness of sales agents.
		
		• On March 19, 2021, Nippon Life Insurance announced its mid-term management plan "Going Beyond" in order to support the future of its customers and society through "People, Services and Digital Technology". Some of the key initiatives are listed below:
		
		    ○ Allocate smartphones for all sales representative to increase sales activities by better equipping with digital technology to enable remote policy procedures through screen sharing system
		
		    ○ Review insurance underwriting standards

HDFC Life Insurance Company	**India**	• HDFC Life has committed to a 'Default to Digital' agenda, which is aimed at transforming their operating model from a product-centric approach to a customer-centric approach. • The pillars of customer centricity include – Journey simplification, Service simplification, Partner integration, Platform and ecosystem and Data labs that are enabled through use of Cloud computing, artificial intelligence and machine learning. This led to introduction of WISE, a sales enablement tool, which allows independent agents to acquire new customers digitally in the virtual presence of HDFC Life representative. • These digital initiatives have helped HDFC Life enhance sales journey and achieve digital renewal collections of 87% based on renewal premiums.

Source: Company Reports, Company Websites, CRISIL Research

Key success factors

Track record in servicing customers and honouring claims: Among different success factors, trust on the company, track record of servicing customers and proactive claim settlement is a key factor due to the fact that prompt and timely settlement of claims help in enhancing confidence of policyholders in life insurance companies, thereby increasing customer stickiness as also renewal premiums for the insurer.

Offering differentiated products and competitive pricing: Insurance has long functioned as a legacy industry with limited innovation. With new upstarts threatening disruption, by offering innovative schemes such as differentiated policies and products, the insurers need to quickly adopt and develop innovative products tailor made for customers. With the industry becoming highly competitive, creating newer and innovative products has become critical for players in the business. Instilling a customer-first culture will enable the insurers to interact and engage with customers to better understand the emerging needs of customers in the market. These insights can help the insurers to create a competitive advantage in developing innovative solutions.Increasing competitiveness in the industry has also led to pricing pressure on insurance players. Offering differentiated products along with competitive premiums is critical to maintain market share and position in the industry.

Strong distribution network: For life insurance companies, creating and maintaining a well-entrenched distribution network is paramount to market their product effectively and generate new business. The pandemic induced shift to remote connectivity has forced insurers to think differently about how technology can provide new avenues to prospect, engage with and service customers. Thus, it is essential to re-skill profiles of employees and agents manning the distribution channels in order to ensure they can fulfil the requirements of the customer.

Efficient underwriting and cost management: Along with a strong distribution network, the ability to manage the same efficiently with optimum mix of different products and distribution channels as well as prudent underwriting factoring in risks across customer cohorts is critical for life insurers to maintain their profitability.

Taking new approaches to customer engagement: Insurers are increasingly exploring new customer engagement approaches to tap into growth opportunities. For example: with rising demand of health and well-being products, players such as Ping An (in China) and AIA (in Hong Kong) have created health ecosystems that connect customer to partners in order to facilitate access of health information and related services. Additionally, engagement opportunities through reward and well-being programs incentivize customers to interact with insurers and allow them to capture data and learn more about customer preference and insurance needs.

Enterprise risk management illustrates best practices for insurers

Over the years, the life insurance industry has been confronted with changes in the area of demographic profile and longevity, convergence in financial services industry, changing product requirements and customer preferences, unpredictable volatility in financial markets, emergence of newer products, changes in technology and rise of insurtechs, heath related concerns, as well as various structural changes. Hence, risk management in the life insurance business is a complex problem. It arises from various known and unknown sources like macroeconomic changes, credit spreads and investment market volatility, natural catastrophes, claims and pricing or inadequacy in reserve/ solvency margins. Some of the risks are tabulated below:

Risks	**Description**
Muted market growth prospect	• Lack of potential for premium growth in a market, either because it is mature or due to adverse macroeconomic conditions, with high inflation resulting in near-zero (or negative) real growth
Exposure to natural catastrophes	• Markets with material exposure to climate risk, notably, earthquakes, hurricanes, and other natural disasters
Investment Performance Risk	• Investment in high-risk assets pose a threat to insurance companies impacting their investment incomes and hence profitability. High-risk assets typically include equities (listed and unlisted), real estate, fixed-income investments or deposits in institutions that are rated 'BB+' or lower, and unrated bonds and loans • Financial market risk, interest rate volatility, currency exchange risks and geopolitical risks may also impact the performance of the investments
Government and Regulatory risk	• Markets exposed to changes in government or regulatory policies, often resulting in material impacts on insurers' business models and/or profitability
Litigious legal system	• A sector where litigation often leads to lengthy court cases, increasing the tail of an insurer's liabilities, and consequently, resulting in unpredictable claims settlements

During recent years, a new concept has been gaining momentum and is called enterprise risk management (ERM) which is an extension of financial risk management (FRM). ERM focuses on non-financial contingencies in addition to financial factors. ERM is a broader concept and takes into account factors like human resources, distribution channels, corporate governance and technology. Some of the global players use this framework for managing their risks by forming defence strategies at three different levels. The first line of risk is managed at the business unit level, the second line of defence is monitored by various ERM committees and the third line of risk management is managed by internal audit and independent consultant reviews. This risk management framework comprehensively includes risk identification, risk evaluation, risk management, risk monitoring and risk communication.

LIC is dominant as compared to other insurers in their respective country

The life insurance industry is capital-intensive and the gestation period is also very long, which has resulted in only few players being present in the industry in most markets and the larger players within each market having significant market share.

In China, for example, the life insurance market is dominated by Ping An Insurance and China Life Insurance Company, each having a market share of 21% and 20% respectively. Similarly, in Malaysia, AIA BHD and Great Eastern Life Insurance – the two largest life insurers – cumulatively accounted for ~37% of premium garnered by the industry in CY 2020. In Japan, the largest life insurer, Nippon Life Insurance Company, has a market share of 16.2% as of CY 2020. Other key players include Dai-ichi Life Insurance, Japan Post Insurance and Meiji Yasuda Life.

However, nowhere in the world is the difference in market share between the largest and the second largest life insurer as stark as in India, with the second largest player having only 8.0% market share of GWP compared to LIC's market share of 64.1% by GWP for fiscal 2021.

LIC's market share in India is unparalleled globally, with no other life insurance player in any other country enjoying such a market high share. CRISIL Research belives this is owing to LIC's enormous agent network (which comprised 1.33 million individual agents as at December 31, 2021, which accounted for 55% of the total agent network in the countryand was 6.8 times the numbers of agents of the second largest life insurer), strong track record, immense trust in the LIC brand and its more than 65 years of lineage.

The market share distribution in the United States is quite unlike other parts of the world, with the top 15 life insurers accounting ~60% of the total market in 2020. NorthWestern Mutual Life Insurance Company is the top life insurer in the US with a market share of 8.4%, logging $15.72 billion of total life insurance premiums written in 2020. Metlife Inc. (7.6% market share) climbed over New York Life Insurance Company (7.5% market share) to the second spot with $14.2 billion premiums written in 2020.

Market share of largest insurers (% of total life insurance premium)

Country	Top Insurers Globally	Market share within country (2016)	Market share within country (2020)
United States	NorthWestern Mutual Life Insurance Company	8.4%*	8.4%
	Metlife Inc.	9.6%*	7.6%
China	Ping An Insurance Company	16.7%	21.3%
	China Life Insurance Company	20.7%	20.0%
Japan	Nippon Life Insurance	15.1%	16.2%
	Japan Post Insurance Co. Ltd.	14.2%	15.4%
India	Life Insurance Corporation of India	71.8%^	64.1%#
	SBI Life Insurance Ltd.	5.0%^	8.0%#
United Kingdom	Aviva PLC	14.7%	23%
	Lloyd Banking Group	19.8%	18.6%
South Korea	Samsung Life Insurance	21.3%	14.8%
	Hanwha Life Insurance	12.6%	12.7%
Malaysia	AIA BHD	20.5%	20.6%
	Great Eastern Life Insurance	18.8%	16.6%

Note: The market share is calculated on total life insurance gross premiums, * Share in 9M2016, ^Share for fiscal 2017, # Share for fiscal 2021

Source: Company Reports, CRISIL Research

Global positioning of LIC

Globally, Allianz S.E is the largest life insurer in the world in terms of life insurance premium and is second in terms of total assets. This is largely due to its presence in multiple geographies like Europe, USA and Asia Pacific. Amongst the top global insurers, LIC is the only Indian player. The company is ranked fifth globally in terms of life insurance premium and tenth in terms of total assets.

Sl. No.	Company Name	Country	Gross Written Premium in USD Millions (2020)	Total Assets in USD Millions (2020)	Life Insurance Premiums USD Millions (2020)
1	Allianz SE	Germany	99,583	12,72,014	88,853
2	Ping An Insurance	China	1,15,635	13,80,851	74,134
3	China Life Insurance	China	88,734	6,16,291	69,651
4	AssicurazioniGeneraliS.p.A	Italy	84,845	6,53,652	58,268
5	Life Insurance Corporation of India*	India	56,405	5,07,333	56,405
6	Nippon Life Insurance	Japan	39,838	7,05,002	39,838
7	AXA S.A	France	1,12,698	9,65,747	37,829
8	Japan Post Insurance	Japan	24,369	6,33,845	34,223
9	Dai-chi Life Holdings	Japan	41,644	5,59,853	27,024
10	NorthWestern Mutual	US	19,323	3,08,767	15,720
11	Metlife Inc.	US	49,486	7,95,146	14,200
12	People's Insurance Company of China	China	75,447	1,82,038	13,665

*Note: Players are arranged in terms of life insurance premiums, *Data as of FY21*

Source: Company Reports, CRISIL Research

Peer Benchmarking

In this section, we have compared global life insurers operating across a cross section of developed markets like United States, Germany, France, Japan and United Kingdom and developing markets like China, India, South Korea and Malaysia on the basis of publicly available information.

The players included in our peer benchmarking are as follows:

- Ping An Insurance
- Allianz SE

- AXA S.A.
- MetLife Inc.
- Nippon Life Insurance
- Aviva PLC
- China Life Insurance Company
- Life Insurance Corporation of India (LIC)
- Samsung Life Insurance
- NorthWestern Mutual Life Insurance Company
- AIA BHD Malaysia

Amongst the peer set, LIC's dominance is unparalleled globally with no other life insurance player in any country enjoying such high share in its geography.

LIC ranks fifth in terms of net premium earned amongst the peer set analysed

LIC ranks fifth in terms of net premium earned, with premium of USD 56 billion, in fiscal 2021. Over a period of 12 months ending 2020, AXA S.A. (USD 113 billion), Ping An Insurance (USD 110 billion), Allianz SE (USD 909 billion), China Life Insurance Company (USD 88 billion) are the only global peers having a net premium higher than LIC. In terms of growth, Ping An Insurance has grown at a CAGR of 15% over the last four years, followed by China Life Insurance Company (9%) and LIC (6%).

LIC is the 8th largest life insurer in terms of assets amongst the peer set analysed

Ping An Insurance is the largest insurer in terms of total assets followed by Allianz SE. and AXA S.A. Life Insurance Corporation is the eight largest player with total assets of USD. 507 billion at end of fiscal 2021. It has witnessed a CAGR growth of 8% between fiscal 2017 and 2021. At end of December 2020, Ping An Insurance, China Life Insurance Company and Samsung Life Insurance Company are the only peers which has witnessed a higher CAGR growth of 14%, 12% and 9% respectively between 2016 and 2020 in terms of total assets.

Group financial performance of key life insurers (2020)

Players	Total Assets (USD Mn)	CAGR Growth (FY16-FY20)	Net Premium Earned (USD Mn)	CAGR Growth (FY16-FY20)	Total PAT (USD Mn)	CAGR Growth (FY16-FY20)

Ping An Insurance	13,80,851	14%	1,09,797	15%	23,096	22.0%
Allianz SE	1,272,014	5%	90,857	2%	8,560	-0.7%
AXA S.A.	9,65,507	-3%	1,12,698	-0.1%	3,997	-14.4%
Metlife Inc.	7,95,146	-3%	42,034	3%	5,418	67.0%
Nippon Life Insurance	7,05,002	4%	39,838	-6%	1,609	-17.4%
Aviva PLC	6,57,338	4%	34,595	4%	3,986	37.5%
China Life Insurance Company	6,16,291	12%	87,633	9%	7,285	27.5%
Life Insurance Corporation of India	5,07,333*	8%^	54,865*	6%^	406	5.1%
Samsung Life Insurance	3,09,270	9%	15,837	4%	1,163	-9.1%
NorthWestern Mutual Life Insurance Company	3,08,767	5%	19,323	2%	425	-14.9%
AIA BHD Malaysia	14,927	8%	2,463	8%	110	-14.2%

Note: 1) *Data as of FY 2021, ^ CAGR growth of FY17-F21, Companies are arranged in decreasing order of total assets

2) Exchange rates: 1 USD= 6.9 Chines Yuan, 1 USD =4.4 Malaysian Ringgit, 1 USD = 0.77 GBP, 1 USD = 116.9 Japanese Yen, 1 USD = Rs. 73.5047 (Indian Rupee), 1 USD = 1175 South Korean Won , 1 USD = 0.83 Euro

Source: Company Reports, CRISIL Research

LIC has the highest RoE amongst the global peers

In fiscal 2021, LIC has the highest RoE of 82% amongst its peers. This is followed by Ping An Insurance (19.5%), Aviva PLC (14.8%) and China Life Insurance (11.9%).

Group Profitability (2020)

Players	Return on Total Assets		Return on Equity	
	2016	2020	2016	2020
Ping An Insurance	1.3%	1.7%	17.4%	19.5%
Allianz SE	0.8%	0.7%	10.7%	8.8%
AXA S.A.	0.7%	0.4%	8.3%	4.4%
MetLife Inc.	0.2%	0.9%	1.0%	7.7%
Nippon Life Insurance	0.7%	0.3%	0.8%	3.9%
Aviva PLC	0.3%	0.9%	4.4%	14.8%
China Life Insurance Company	0.7%	0.6%	6.2%	11.9%
Life Insurance Corporation of India*	0.1%^	0.2%*	375%^	82.0%*
Samsung Life Insurance	0.5%	0.7%	2.4%	3.4%
NorthWestern Mutual Life Insurance Company	0.4%	0.3%	3.4%	1.4%
AIA BHD Malaysia	1.9%	0.7%	19%	9.0%

*Note: * Data for fiscal 2021, ^ Data for fiscal 2017; ROE for a fiscal (n) calculated as profit after tax for thethe fiscal (n) divided by [average equity of fiscal (n)] and the [previous fiscal (n-1)]*

Source: Company Reports, CRISIL Research

Indian Life Insurance Industry

Overview

India is the fifth largest insurance market in Asia and has exhibited consistent growth in insurance premiums

Based on life insurance premium, India is the tenth largest life insurance market in the world and the fifth largest in Asia, based on Swiss Re's sigma No 3/2021report for July 2021. The size of the Indian life insurance industry was Rs. 6.2 trillion on total-premium basis in fiscal 2021, up from Rs. 5.7 trillion in fiscal 2020. The industry's total premium has grown at 11% CAGR in the last 5 years ending fiscal 2021.

Within the premium bucket, new business premium (NBP) grew at 15% CAGR during fiscal 2016 to 2021, to ~Rs. 2.78 trillion. In fact, in fiscal 2021 – a year ravaged by the COVID-19 pandemic, the NBP of the industry rose by 7.5%. Within the NBP, group business premium grew at ~15.4% CAGR from fiscal 2016 to 2021, whereas individual premium rose ~14% CAGR during the same period.

The industry, which is regulated by the Insurance Regulatory and Development Authority of India (IRDAI), an autonomous body set up in in 1999 (received statutory status in April 2000), has gained considerable traction with the entry of private players in 2000. Earlier the life insurance industry had only one player – LIC was incorporated in 1956 and up to 2000 it was the only life insurance provider in India, which LIC synonymous with life insurance in Indian households. Post privatisation in CY 2000, 10 private players had entered the space by CYf2001. There are currently 24 life insurance companies in India, with Life Insurance Corporation (LIC) being the sole public player.

LIC, the government-owned life insurance corporation, is the oldest life insurance company in India with a lineage of over 65 years. Even after two decades where private players were allowed to enter the sector, as of December 31, 2021, LIC is the largest life insurer in India in terms of total premiums (or Gross Written Premium - GWP), with a market share of 61.6%, new business premium (or NBP), with a market share of 61.4%, number of individual policies issued, with a market share of 71.8%, and number of group policies issued, with a market share of 88.8%, CRISIL Research believes LIC's large market share is primarily due toLIC's enormous agent network (which comprised 1.33 million individual agents as at December 31, 2021, which accounted for 55% of the total agent network in the country and was 6.8 times the numbers of agents of the second largest life insurer), strong track record, immense trust in the LIC brand and its more than 65 years of lineage.

Nonetheless, private sector[1] players have made substantial investments, and have played a key role in increasing the awareness and spread of insurance. Private players together enjoyed a market share of 36% on total premium basis in fiscal 2021.

[1]The term 'private sector' refers to all companies other than LIC, even if these are majority owned by public-sector companies.

The government has, over the years, taken proactive measures to encourage private sector participation in the insurance sector, starting from opening up the sector to private sector in 2000 and subsequently progressively allowing investments to flow into the sector in a much smoother manner. Also, the Parliament, in March 2021, passed the Insurance Amendment Bill 2021 to increase the foreign direct investment (FDI) limit in the insurance sector to 74% from 49% of paid-up equity capital previously, which will attract higher foreign capital and increase insurance penetration in India.

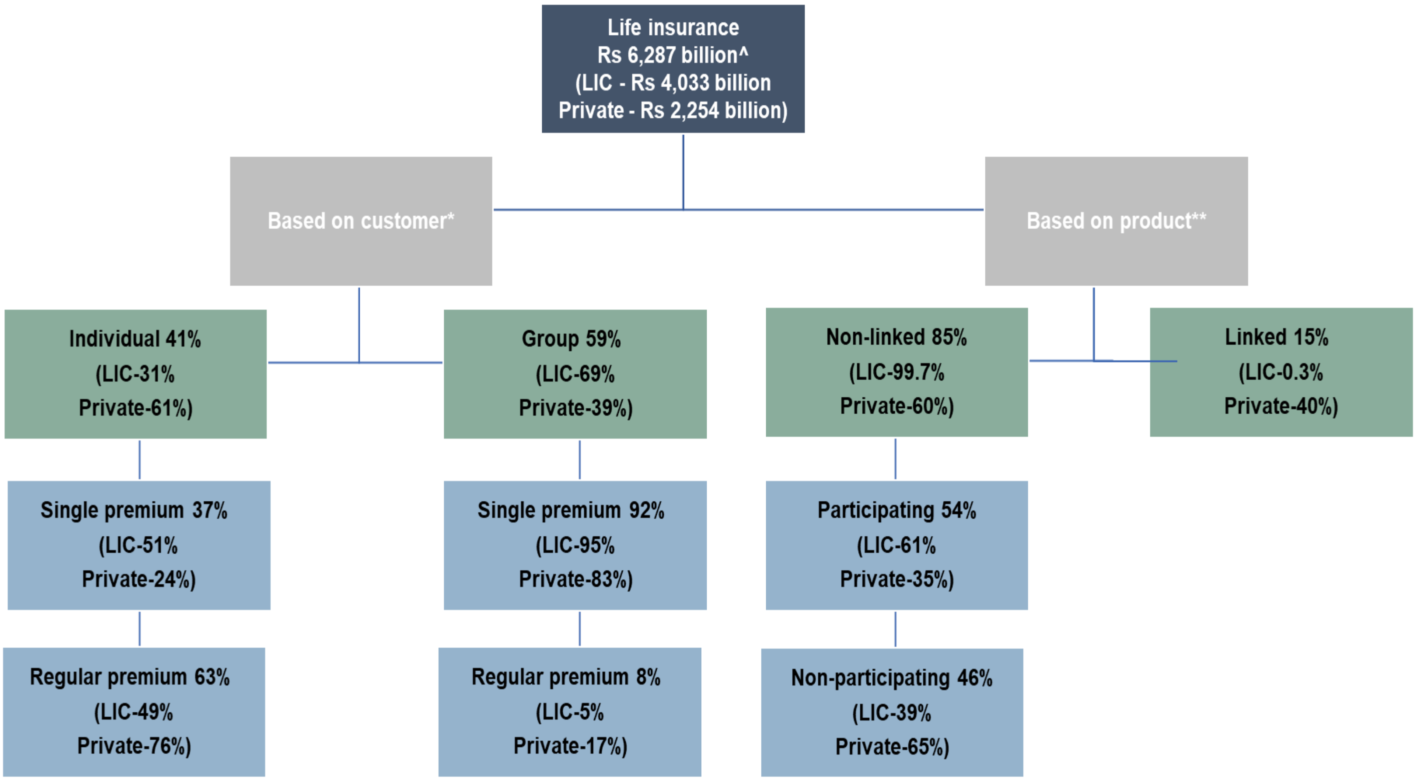
Life insurance products can be classified on the basis of products and customer segments. Historically, life insurance products were savings oriented. But after 2000, there was a shift from largely participating products to multiple products.

Non-linked products are traditional products with a protection and savings element built in or only pure-protection products. Non-linked savings products can be further segregated into participating products and non-participating products. Participating products have variable returns, as these partake in the profits of the participating business of the company. Linked products' returns, on the other hand, are tied to the performance of debt and equity markets and are also savings-cum-protection products. Linked products started gaining traction from fiscal 2007.

For fiscal 2021, non-linked products, though, were more popular, accounting for 86% of the total premium collected. However, the share of non-linked products was much lower for private players, constituting 57% of the total premium for fiscal 2021.

The industry provides individual and group policies. Premium payments can be made in one go (called single premium) or on a regular basis. Individual business accounted 73% of total premium and 41% of total new business premium for fiscal 2021.

Types of life insurance products, by product and customer types



^ Classification based on total premium (premium acquired from old policyholders and premium from new policies issued during the year) in fiscal 2021

** Classification based on new business premium (premium acquired from new policies for a particular year) in fiscal 2021*

*** Estimated on the basis of player-wise analysis*

Source: Insurance Regulatory and Development Authority of India (IRDAI), CRISIL Research

Classification of insurance products

Life insurance products primarily meet a variety of insurance needs such as for protection, savings, market linked savings, pension and health related benefit requirement of customers for individuals as well as groups. Insurance companies have to design products to efficiently fulfil these requirements.

The following are the major categories of insurance products:

Participating products

Under such products, an insurer invests the amount received in the form of premiums in a pooled participating fund to pay for certain fixed benefits as well as to share the surplus in the form of bonus as a discretionary benefit. The distribution of regular bonus can be in the form of Reversionary bonus. The reversionary bonus is changeable from year to year for future years during the currency of the policy as experience emerges from the life cycle of the policy. However, there other forms of bonus such as Terminal bonus and Loyalty Additions. Therefore, policies under participating products provide a minimum guaranteed return that is payable on death or maturity plus additional discretionary benefit in the form of bonuses as a share from better than expected experience emerging in the form of surplus. Bonuses once declared, vest in a policy and becomes a guarantee.

Non-participating products

Non-participating products provide a fixed amount of benefits on contingent event(s) covered under the product. The policyholders do not participate in a profit or losses of the underlying business and therefore the product is also known as without profit product. Since all the benefits are guaranteed, the element of discretionary benefits like in case of participating products does not exist. This category includes pure term products (mainly covering death benefit only), savings product (providing survival benefits in addition to death cover), Immediate or Deferred Annuity (providing series of payments).

Unit-linked insurance products

ULIP is a long-term investment product. The returns under ULIP are directly linked to changes in the underlying investment, and the investment risk and reward therefore is directly attributable to the policyholder. Therefore, unlike non-linked products, a ULIP holder can monitor the performance of the policy through net asset value (NAV) released by the companies regularly. The policyholders have the flexibility to choose the proportion of equity and debt in their investment portfolio based on their risk profile, and switches can be made between different asset classes available under the product, based on the customer's assessment of market conditions and risk appetite. Customers can also choose the level of life cover allowed within a product. These products can have variety of features within this business class.

Health Insurance Products

Life Insurers are allowed to sell defined benefit health insurance products to cover health related risks. Health insurance products may cover a specific disease such as cancer or a combination of diseases and the benefits are payable in case of staying in hospital or on undergoing various surgeries.

Group protection products

On group platform, the product may be protection or savings under Linked and Non-linked category. Group term plans provide benefits of life insurance coverage to a group of individuals; the sum assured is paid to the member's nominee upon the death of the member. The policies are offered to group such as employer-employee, non-employer-employee, banks, professional and microfinance institutions. Typically, group products have a one-year term and need to be renewed upon expiry. However, the product can be under regular premium and may be allowed to be accepted in lumpsum. There can also be other variety of products such as coverage against loans, such as car loan, home loans, and education loans. The creditors' protection products are typically long term and aligned to the tenure of the loan, and the death cover is aligned to the outstanding loan cover over the term of the loan.

Other group products

- Group gratuity plans help the employer reduce business cost and take care of employer's long-term gratuity expenses by earning a return on the employer's money.
- Group leave encashment schemes help the employer manage future leave encashment liability in case of an employee's death, retirement or resignation/termination, in addition to providing security.
- Group superannuation products help employees save for retirement and provide them with a corpus at the time of retirement.
- Government sponsered schemes

Riders

Riders are add-on covers to the base policy at an additional cost to facilitate additional benefits linked to accident, critical illness, premium waiver benefit etc. By virtue of the rider(s), the additional risk can be availed by the policyholders optionally at lower cost. The objective of the rider is to facilitate, diversify additional benefits to customers. The rider benefits and eligibility criterion for a customer are subject to certain regulatory terms and conditions.

Evolution of life insurance industry

The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the policyholders, the earlier legislations were consolidated and amended by the Insurance Act, 1938 with comprehensive provisions to regulate the insurers.

The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to regulate the insurance industry. The demand for nationalization of life insurance industry gathered momentum when a bill to amend the Life Insurance Act, 1938 was introduced in the Legislative Assembly in 1944. However, it was much later on the 19 January 1956, that life insurance in India was nationalized. The Parliament of India passed the Life Insurance Corporation Act on the 19 June 1956, and the Life Insurance Corporation of India (LIC) was created on 1st September 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes with a view to reach all insurable persons in the country, providing them adequate financial cover against death at a reasonable cost.

LIC had 5 zonal offices, 33 divisional offices and 212 branch offices, apart from its corporate office in the year 1956. Subsequent to its nationalisation, re-organization of LIC took place and large numbers of new branch offices were opened in order to expand the operations and place a branch office at each district headquarter. From about Rs. 2 billion of new business sum assured in 1957, the corporation crossed Rs. 10 billion in the year 1969-70, and it took another 10 years for LIC to cross Rs. 20 billion mark.

Today, LIC continues to be the largestlife insurer even in the liberalized scenario of Indian insurance being opened up to private players. LIC is the largest life insurer in India in terms of GWP, NBP, number of individual policies issued and number of group policies issued for fiscal 2021. LIC had 286 million in force policies under Individual Business (within India) as at March 31, 2021, which is greater than the 4th largest country (Indonesia) population-wise as of CY 2020. Further, as at December 31, 2021, LIC had a market share of 61.4% in NBP (individual and group) as compared to next largest competitor who had a market share of 9.16% basis NBP (individual and group). NBP for LIC in fiscal 2021 was over Rs. 1.8 trillion, representing 66% of aggregate industry NBP.

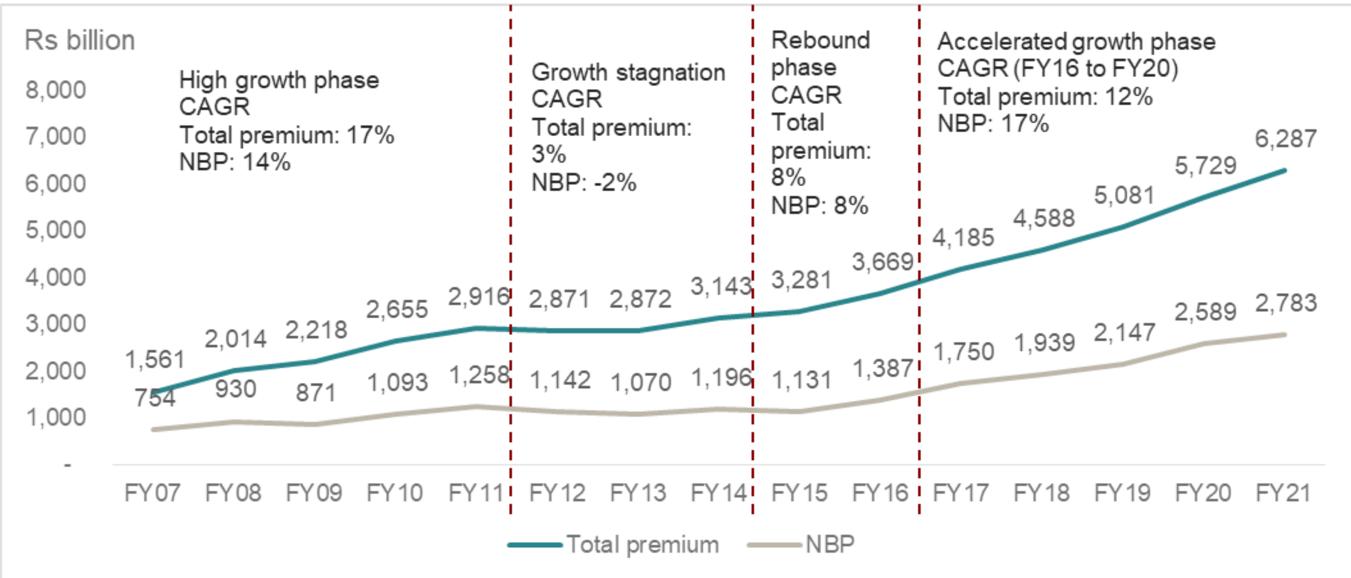
The Indian life insurance industry had only one player – LIC – during CY 1956 to CY 2000. However, post-privitisation in CY 2000, private players started entering the industry and by 2000-01, four private players had setup operations. HDFC Standard Life was the first private company to enter the industry in 2000-01, followed by ICICI Prudential Life, Max Life Insurance and Aditya Birla Sunlife Insurance in the same year. Only four new private players entered between 2002 to 2005, post which there was a surge again, with eight players setting up businesses till CY 2009. Edelweiss Tokio Life Insurance was the last entrant in the industry in 2011. Out of the 23 private players registered with IRDAI as on March 31, 2021, 20 players have joint ventures (JVs) with foreign partners. Also, in September 2021, HDFC Life announced that it will acquire Exide Life Insurance.

Timeline of private players' entry into life insurance industry

2000-2001	2002-2005	Post 2005
• Bajaj Allianz Life Insurance • Birla Sunlife Insurance • Exide Life Insurance • HDFC Life Insurance • ICICI Prudential Life Insurance • Kotak Mahindra Life • Max Life Insurance • PNB MetLife India Insurance • SBI Life Insurance • TATA AIA Life Insurance	• Aviva Life Insurance • Reliance Nippon Life Insurance • Sahara India Life Insurance • Shriram Life Insurance	• Aegon Life Insurance • Bharti Axa Life Insurance • Canara HSBC OBC Life Insurance • Pramerica Life Insurance • Edelweiss Tokio Life Insurance • Future Generali Life Insurance • Ageas Federal Life Insurance • IndiaFirst Life Insurance • Star Union Dai-ichi Life Insurance

Source: IRDAI

Trend in total premium for overall industry



Source: IRDAI Annual report, Company report, CRISIL Research

Robust growth of life insurance industry during fiscal 2007 to 2011

Total premium and NBP witnessed strong CAGR of 17% and 14%, respectively between fiscals 2007 and 2011, owing to aggressive foray by private players. Growth for private players was driven by ULIP sales amid a buoyant capital market. Hence, the share of private players in total premium increased from 18% in fiscal 2007 to 30% in fiscal 2011[2].

Industry underwent a transition during fiscal 2011 to 2014

After the sharp growth during fiscal 2007 to 2011, the industry saw a sudden slowdown over the subsequent three years. Regulatory changes by the IRDAI with respect to linked products, decline in financial savings rate and weak performance of the equity markets led to the deceleration.

The IRDAI's guidelines in June 2010[3], streamlining the expenses charged on linked products, resulted in a decline in upfront commission of linked products, thereby making sales of these products less lucrative for intermediaries. The move affected the growth of private players because of their high exposure to linked products; linked products constituted 71% share of private players' portfolio mix in fiscal 2011. Between fiscals 2011 and 2014, total premium of private players declined at 4% CAGR as compared to 5% CAGR for LIC.

The drop in total premium of linked products was sharper at 30% CAGR between fiscal 2011 to 2014, leading to private players losing market share. While LIC's total premium from linked products also dropped at a much higher rate of ~59% CAGR, its share of linked products in portfolio was only 19%, for fiscal 2011. Hence, ~13% CAGR growth of the non-linked products segment during the period helped LIC substantially offset the sharp drop in premium from linked products.

Rebound phase between fiscal 2014 to fiscal 2016

After the slowdown between fiscals 2011 and 2014, the total premium of the industry grew at 8% CAGR in the subsequent two fiscals. This was on account of subdued growth of the overall industry even in fiscal 2015, with total premium growing by 4% year-on-year, before recording a strong 12% growth in fiscal 2016. Even for LIC, growth in total premium was muted at merely ~1% year-on-year in fiscal 2015, before recording a strong 11% year-on-year growth in fiscal 2016.

Furthermore, for private players, growth was driven by linked as well as non-linked products, with both products recording double-digit growth in both fiscals. Growth was because of expectations of improvement in economic growth, cooling inflation, increase in financial savings, and healthy returns provided by equity and debt markets during this period.

[2]Market Shares and Growth rates mentioned in the report are as on end fiscal date unless specified. For example – Market share in fiscal 2007 denotes market share as on March 31, 2007. Further, 17% CAGR growth for total premium between fiscals 2007 and 2011 denotes growth between March 31, 2007 and March 31, 2011.

[3] IRDAI Circular: IRDA/ACT/CIR/ULIP/102/06/2010 dated June 28, 2010

Accelerated growth post fiscal 2016

Post fiscal 2016, the industry has witnessed a paradigm shift with the awareness as well as the adoption of insurance growing at an accelerated phase despite economic growth and financial savings in this period being rather sombre. Total life insurance premium grew at a robust 12% CAGR during fiscal 2016 to 2020, which was much faster than the 6% annual growth witnessed in India's nominal GDP during this period. This has been made possible with high growth in the new business premium in the same period. These double-digit growth numbers are attributable to factors such as rising income levels, increasing awareness/education about the products, tax benefits, product innovation and customisation by the players and emergence of new distribution channels such as online sales making the entire purchase process much easier for customers.

Subdued growth post COVID-19 impact

Growth in new business premium in the first quarter of fiscal 2021 declined year-on-year as lockdowns disrupted operations. The life insurance industry, which mainly depends on in-person interaction, has adopted more digital ways of selling products and services in the past one year amid the pandemic.

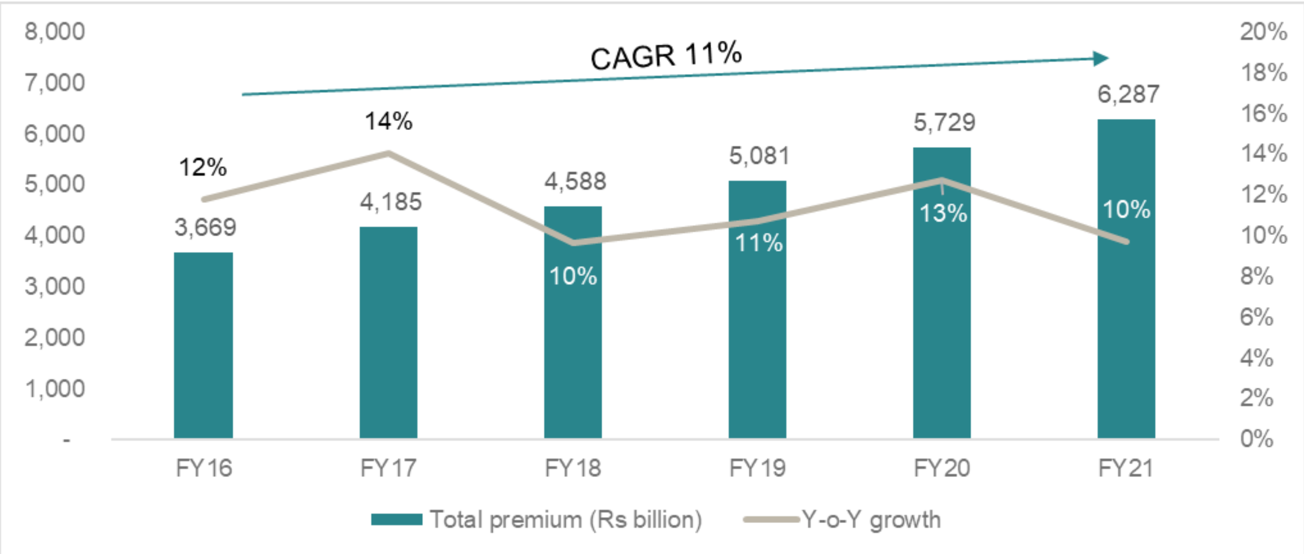
In fiscal 2021, amid the COVID-19 pandemic, the new business premium (NBP) witnessed a temporary slump as the cash position of people wasunstable. Despite this, the inclination of people to avoid unforeseen risks amid COVID-19 caused NBP to grow 7.5% to Rs. 2.78 trillion in fiscal 2021 compared with Rs. 2.58 trillion in fiscal 2020. However, this growth was significantly lower than the ~21% growth in fiscal 2020.

Total premium has grown at 11% CAGR in last five years ending FY21

The life insurance premiumhas grown at 11% CAGR from fiscals 2016 to 2021. The double-digit growth in premium can be attributed to expansion in the distribution network, introduction of different government schemes and financial inclusion drive (Jan DhanYojana, etc.). These factors have increased awareness about the need for insurance and propelled industry growth.

Amongst the different player groups, LIC, which holds the maximum 64% share in total life insurance premium, grew at 9% CAGR from fiscals 2016 to 2021, compared with 18% CAGR growth of private insurers during the same period.

Strong growth in total premium for the life insurance industry



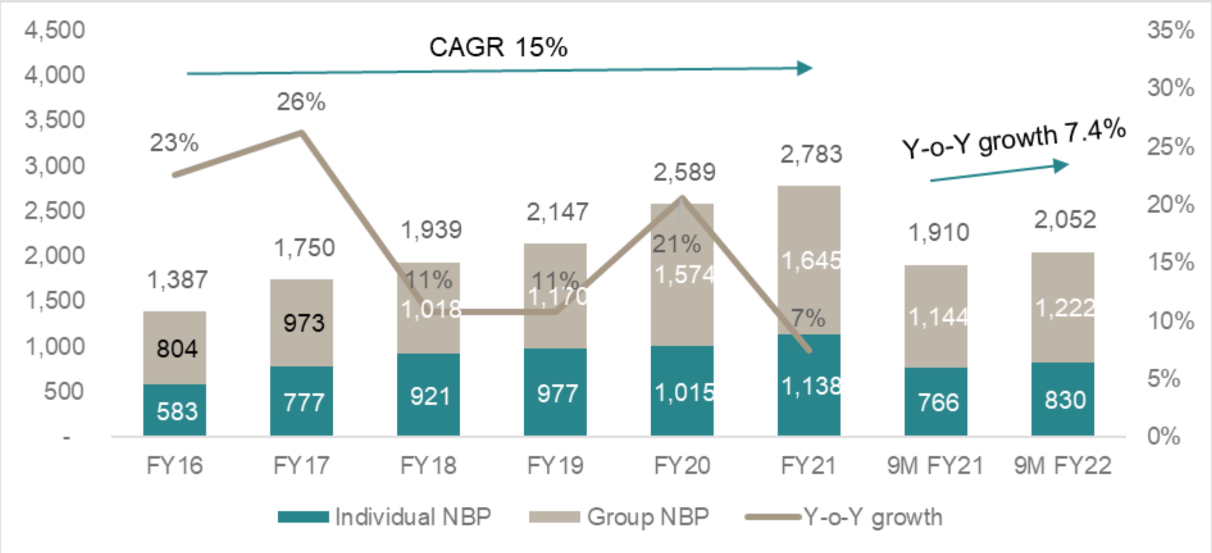
Source: IRDAI Annual report, Company reports, CRISIL Research

New business premiumhas grown at 15% CAGR in the past five years with LIC and private insurers growing at 14% and 18% CAGR respectively. In fiscal 2021, amid the COVID-19 pandemic, the new business premium (NBP) witnessed a temporary slump as the cash position of people has been unstable. Despite this, the increased tendency amongst people to provide a nest egg for their loved ones in the event of them not being there amid COVID-19 and increasing penetration of the products in the online channel caused NBP to grow ~7% to Rs. 2.78 trillion in fiscal 2021 as compared with Rs. 2.58 trillion in fiscal 2020. This growth was significantly lower than the ~21% growth in fiscal 2020, reflecting the growth pressures due to the decline in India's real GDP.

This growth in new business premium in fiscal 2021 was driven by the private sector, which grew at a much faster pace of 16.3% compared with 3.5% growth in the public sector. This growth of private insurers was largely driven by increase in term plan premium as reinsurers increased their rates and tightened underwriting norms in the wake of COVID-19.

While during the nine months of fiscal 2022, NBP growth remained low for the industry with y-o-y growth of 7.4%, growth in NBP for private insurers remained strong at ~30%. Majority of this growth in NBP came after June 2021 after the second wave of COVID-19. Total NBP Q1FY22 which stood at Rs. 527 billion increased ~1.5 times over the next three months to Rs. 793 billion in Q2FY22 and Rs. 732 in Q3FY22.

Trends in new business premium growth

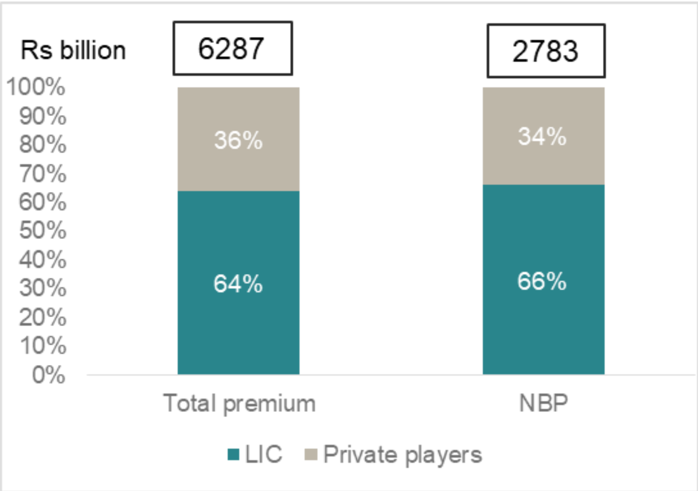


Source: LI Council New Business Performance report, CRISIL Research

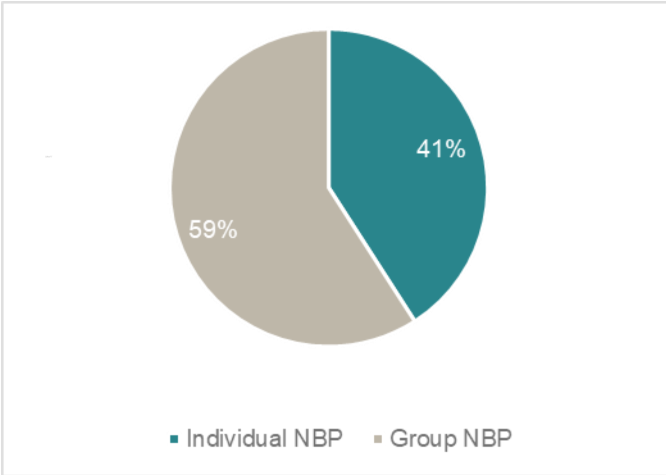
Private life insurance players have grown faster than the overall industry

Life insurance premiums have grown at a CAGR of 11% in the last 5 years ending FY21. This growth in premium was due to the strong surge in premium of private players as the premium zoomed at 18% CAGR during the last 5 years (FY15-FY21), admittedly on a low base, while the growth of LIC has been relatively lower at 9% for the same period. However, when looking at growth, the high base of LIC needs to be kept in perspective.

Share of different player groups in life insurance in fiscal 2021

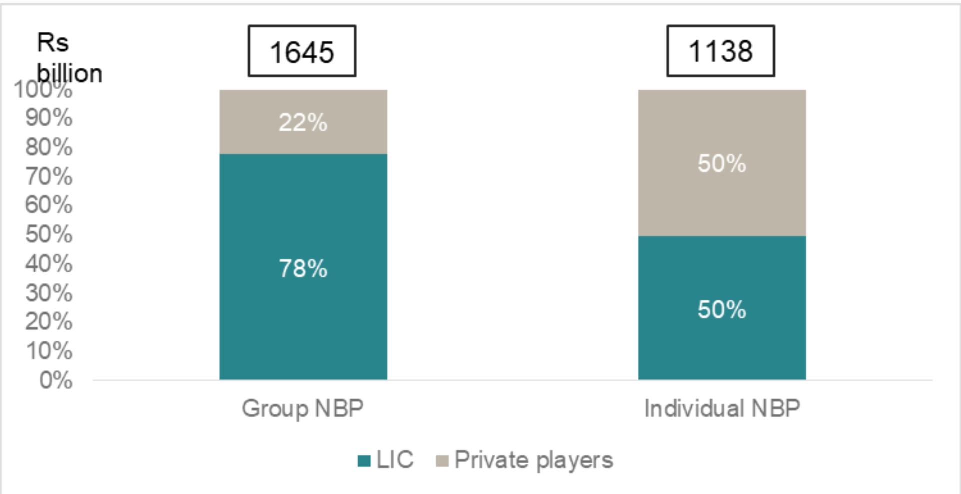


Share of different segments in NBP in fiscal 2021



Source: IRDAI Annual report, LI Council New business premium report, Company reports, CRISIL Research

LIC accounts for 78% market share in group new business premium for fiscal 2021



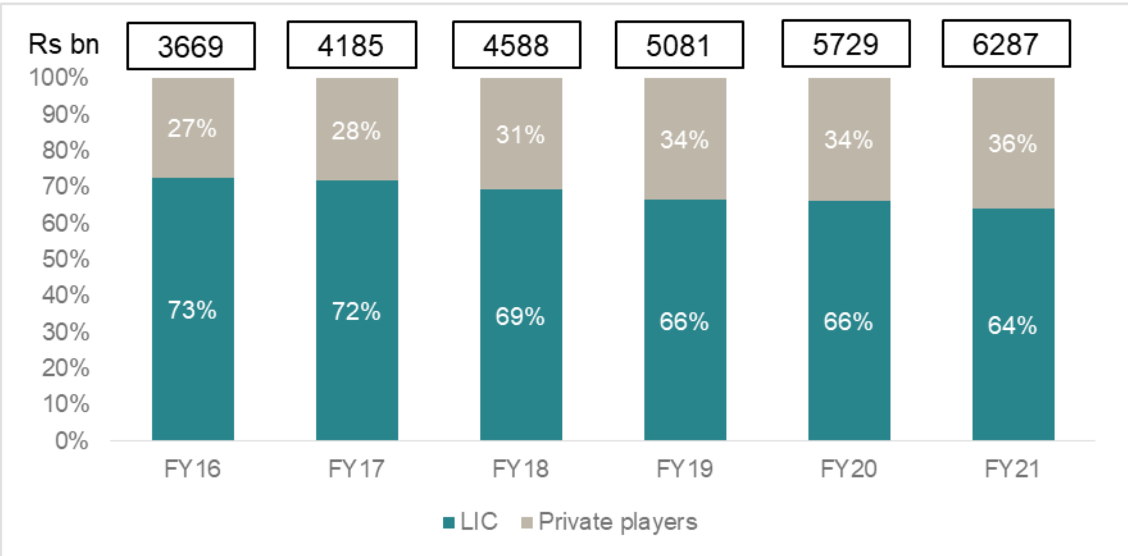
Source: LI Council New business premium report, CRISIL Research

LIC continues to account for around two-thirds of the industry's premium

LIC accounts for ~2/3rd market share in terms of both total premium and new business premium in the life insurance industry for fiscal 2021. This high share of LIC is largely due to vast reach through its individual agent network especially in rural areas, wide range of products and a sense of trust created by brand LIC among individuals given it is the sole public sector life insurer in the market. However, private players have been gaining market share, supported by their diversified product mix and strong distribution through bancassurance partners.

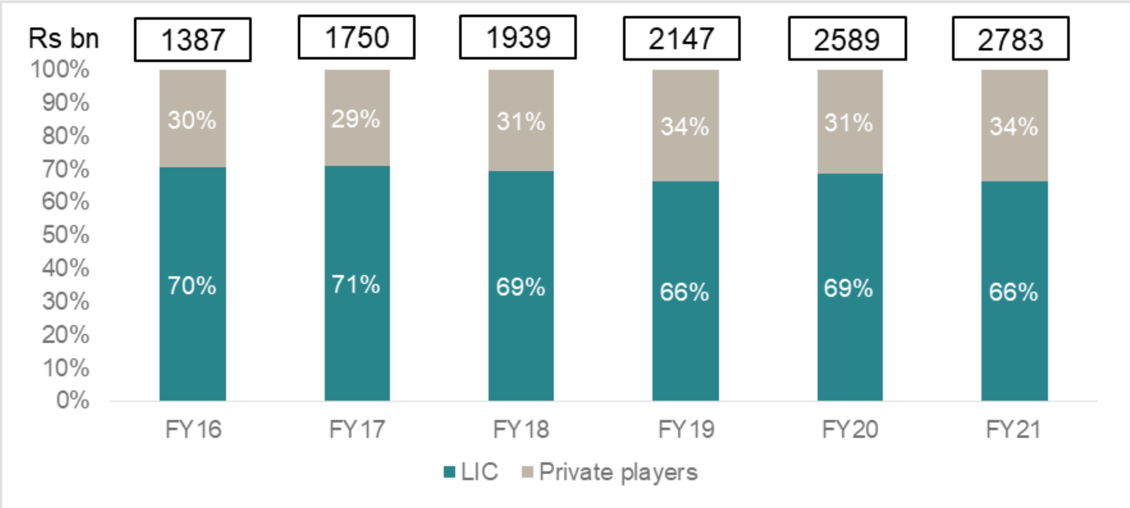
In group NBP, LIC continues to dominate the market, accounting for more than 75% of the market share for fiscal 2021. Private players have increased their focus towards individual NBP and increased their market share from 44% in fiscal 2016 to 50% for fiscal 2021.

Market share of private players and LIC (total premium)



Source: IRDAI Annual report, Company reports, CRISIL Research

Market share of private players and LIC (NBP)



Source: LI Council New business premium report, CRISIL Research

Impact of COVID-19 pandemic on life insurance Industry

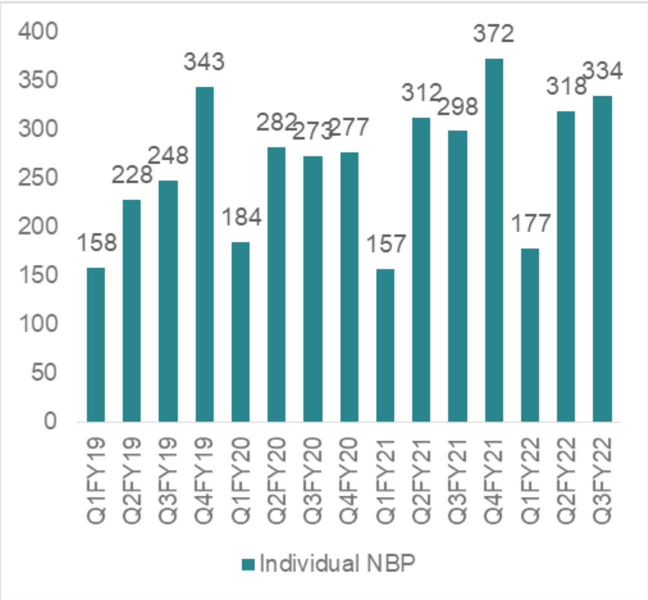
Growth in new business premium declined 19% year-on-year in the first quarter of fiscal 2021 as lockdowns disrupted operations. The life insurance industry, which mainly depended on in-person interaction, has adopted more digital ways of selling products and services in the past one year amid the pandemic. NBP has witnessed year on year growth of 7% in fiscal 2021 as compared to 21% in the previous year. This growth in NBP was largely driven by growth in private players' premium.

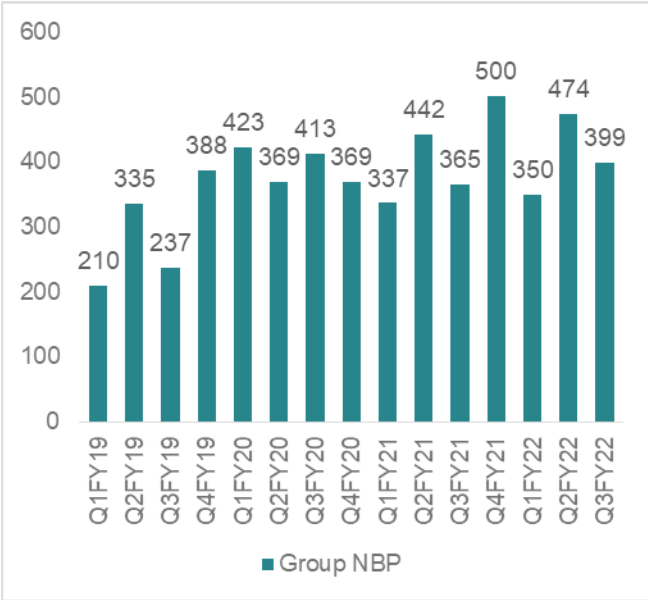
The financial impact of the pandemic also led to people valuing the protection and fallback offered by life insurance products in tough times. Change of perception for life insurance as a product that can help provide for the needs of ones' loved ones in case of unfortunate death enabled individual NBP to grow at a relatively better pace as compared to group NBP. Individual NBP grew at 12% in fiscal 2021 as compared to 4% growth in group NBP.

The quarterly NBP data also indicates a perceptible shift in the attitude and awareness towards life insurance. Individual NBP in the fourth quarter of fiscal 2021, at Rs. 372 billion, was even higher than in the pre-pandemic times; group insurance NBP also reflects a similar trend. The trend has continued in fiscal 2022 as well, with individual NBP and group NBP for the industry touching Rs. 318 billion and Rs. 474 billion, respectively, translating into a growth of 13% and 28%, respectively, as compared to the same quarter in fiscal 2020 (when the pandemic was not prevalent).

Individual number of lives covered in the fourth quarter of fiscal 2021, at 11.8 million, was even higher than in the pre-pandemic times; group insurance NBP also reflects a similar trend.

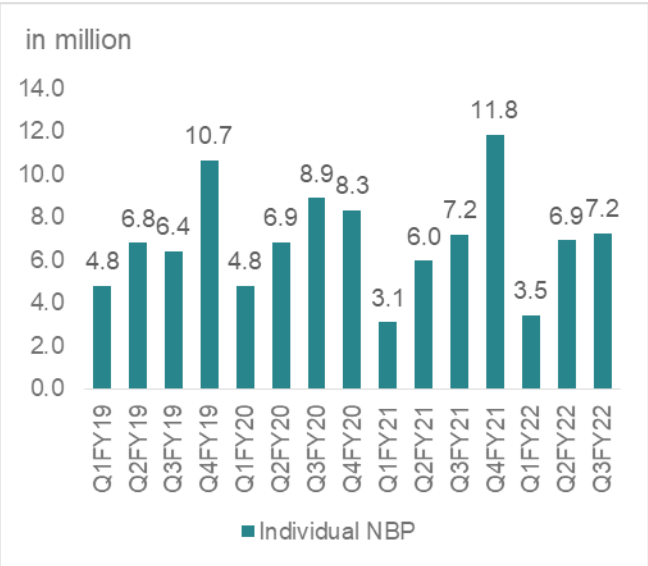
New business premium growth impacted in first half of fiscal 2021; Individual NBP witnessed relatively better growth after Q2FY21

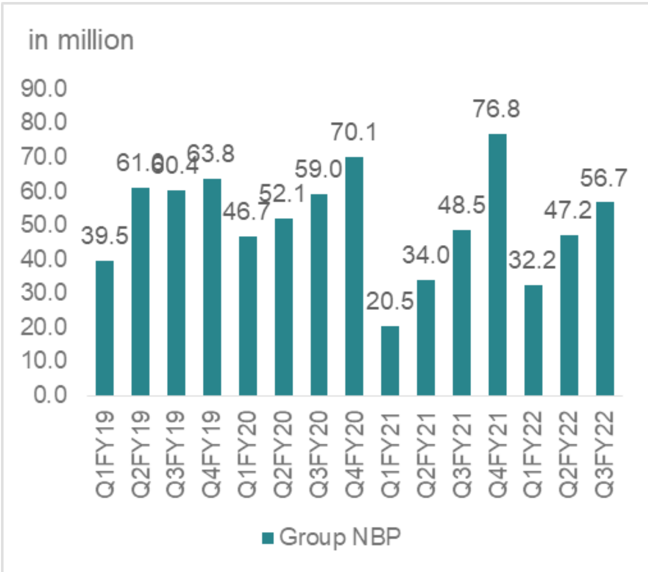




Source: LI Council New Business Performance report, CRISIL Research

Number of lives covered/ policies issued impacted in first half of fiscal 2021





Source: LI Council New Business Performance report, CRISIL Research

In terms of claims, number of claims increased for insurers during the period. The amount of COVID death claims paid over and above the normal death claims will impact the balance sheet or solvency ratios of companies to some extent. COVID-19 has also led to insurers reworking their mortality assumptions and strengthen their underwriting norms. Also, as reinsurers hiked their rates and tightened their policies, the pricing of product offerings, especially group term policies, has increased.

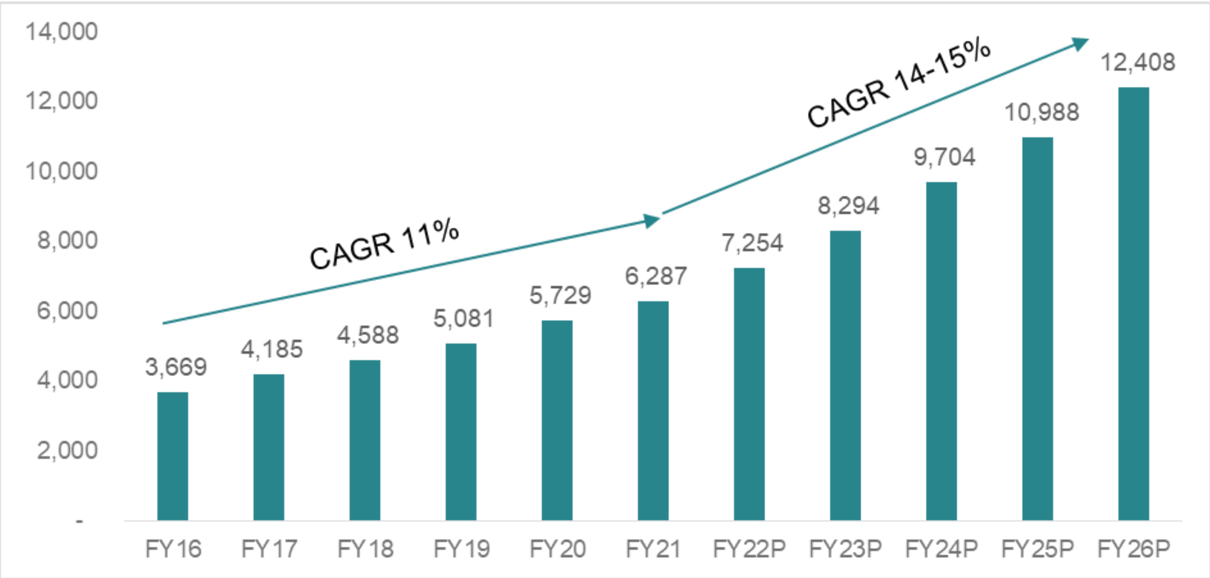
Total premium to cross Rs. 12 trillion by fiscal 2026

CRISIL Research forecasts the total premium for life insurers to grow at 14-15% CAGR over the next five years. Consequently, the total premium is expected to grow by ~ 2 times from Rs. 6,287 billion in fiscal 2021 to close to Rs. 12,400 billion by fiscal 2026. At this level of premium, life insurance as a proportion of GDP is projected to touch 3.8% by fiscal 2026, up from 3.2% in fiscal 2021. NBP is expected to grow at a CAGR of 17-18% during the same period ending FY26. Further in the long term, life insurance NBP is expected to grow at robust growth of 14-16% CAGR between fiscal 2021 to fiscal 2032.

The combination of high GDP growth (9.5% in fiscal 2022 and more than 6% till 2025), higher share of the younger population (between ages 15-59) around 63%, rapid urbanization, focus on financial inclusion and increasing preference towards financial savings with increasing financial literacy, are all key factors to propel the growth of Indian life insurance sector.

Structural factors such as the large proportion of insurable population, higher economic growth leading to rising incomes, increase in financial savings, increasing awareness about the utility of insurance, focus on financial inclusion and increasing adoption of insurance through digital channels is expected to drive the growth of life insurance in India. The introduction of standard life insurance scheme by the government and financial inclusion drive (Pradhan MantriJeevanJyotiBimaYojana, etc.) are expected to further aid market growth.

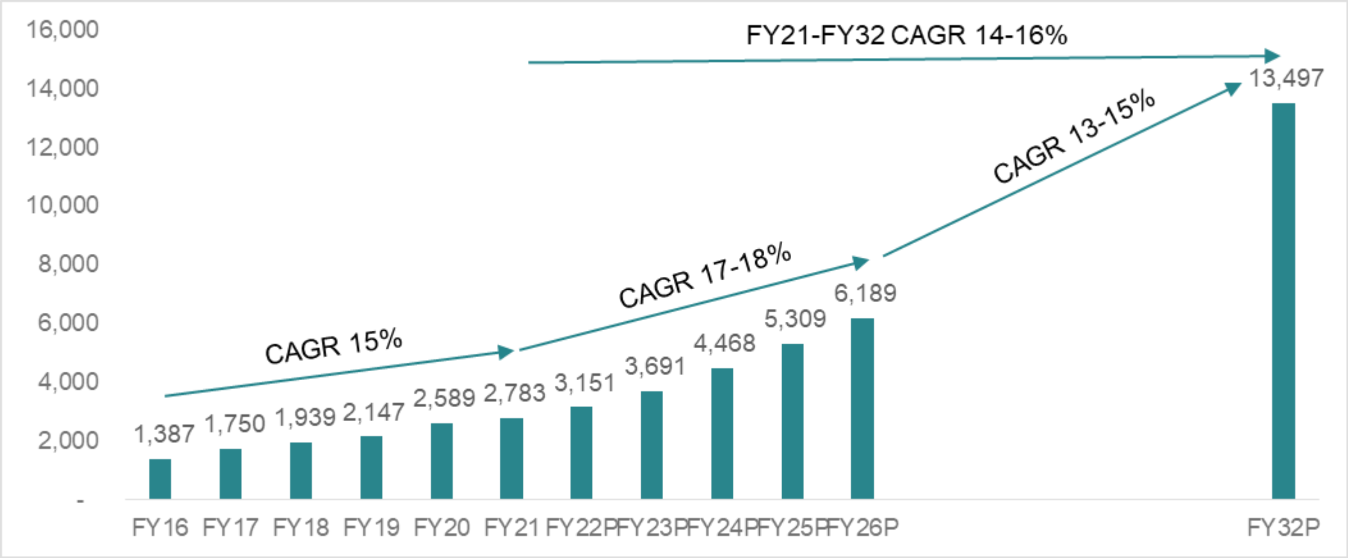
Projected growth in total premium over next five years (Rs. billion)



Note: P = Projected

Source: IRDAI Annual reports, Company reports, CRISIL Research

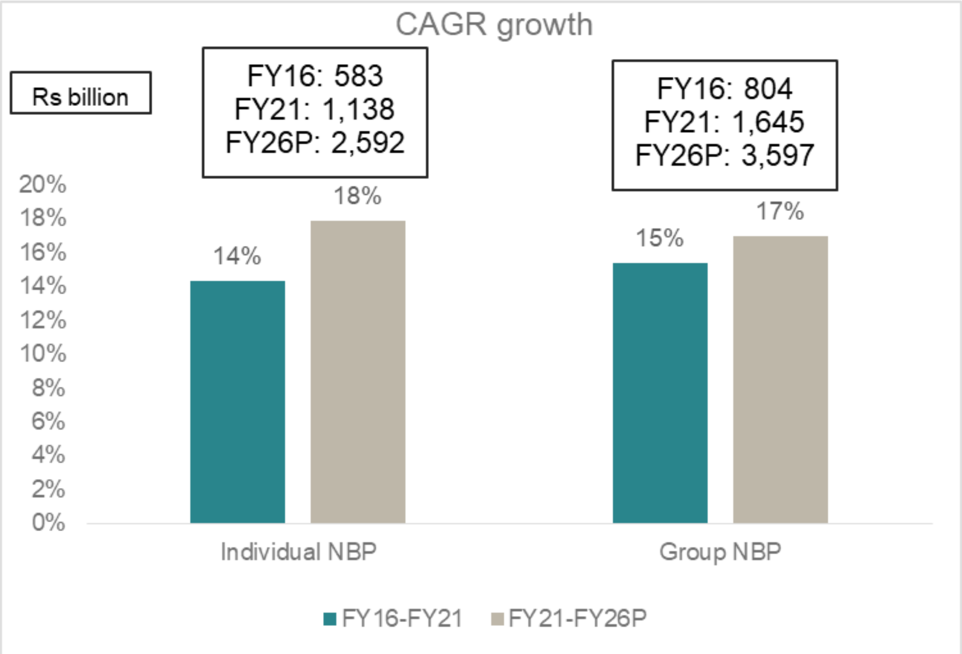
Projected growth in new business premium (Rs. billion)



Note: P = Projected

Source: IRDAI monthly business reports, CRISIL Research

Growth in individual and group new business premium



Note: P = Projected

Source: FY16-FY21: IRDAI monthly business reports, FY21 – FY26P: CRISIL Research estimates

Within life insurance industry new business premium, CRISIL Research expects individual business to grow at a slightly higher CAGR of ~18% from fiscal 2021 to 2026 as compared to 17% CAGR growth in group business.

COVID-19 has increased the awareness of life insurance, which will lead to more and more individuals opting for life insurance and that too at an early stage after they start earning.

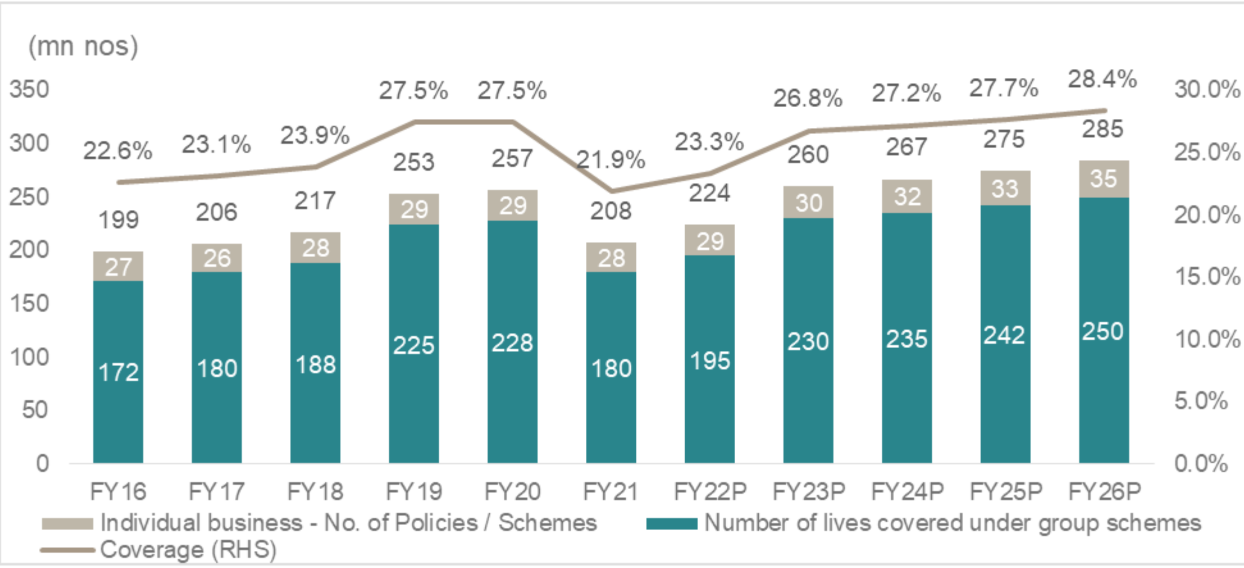
Life insurance companies in India enable customers to opt for disciplined savings to provide for meeting ones' life goals, provide suitable coverage in the event of the insured falling sick, and also protect customers from the risk of outliving their savings or passing away early. Rising awareness on the need and benefits of insurance amongst customers, continuous innovation on the product side, and increase in reach as well as distribution network of insurers is expected to facilitate strong growth of the industry.

Furthermore, digital innovation is going to be the key to increase productivity of the core business, optimize costs, enhance customer experience, improve business quality and unlock partnerships with digital players outside insurance. Insurers in India are thus redefining business by deploying business intelligence (BI) and analytics which offers data visualization, self-service, data discovery with data governance and predictive planning. Increasing digitization is helping insurers in improving their risk selection, pricing, underwriting, ability to service and pay claims.

Life insurance coverage

The number of lives covered under life insurance increased from 199 million for fiscal 2016 to 257 million for fiscal 2020. However, number of lives covered declined significantly in fiscal 2021, largely due to impact of COVID 19 on group insurance business. Going forward, number of lives covered is expected to increase in both individual and group business due to increasing awareness, expanding distribution channels and enhanced product offerings. Number of lives covered are projected to increase from 208 million in fiscal 2021 to ~285 million in fiscal 2026 accounting for ~28% of total adult population.

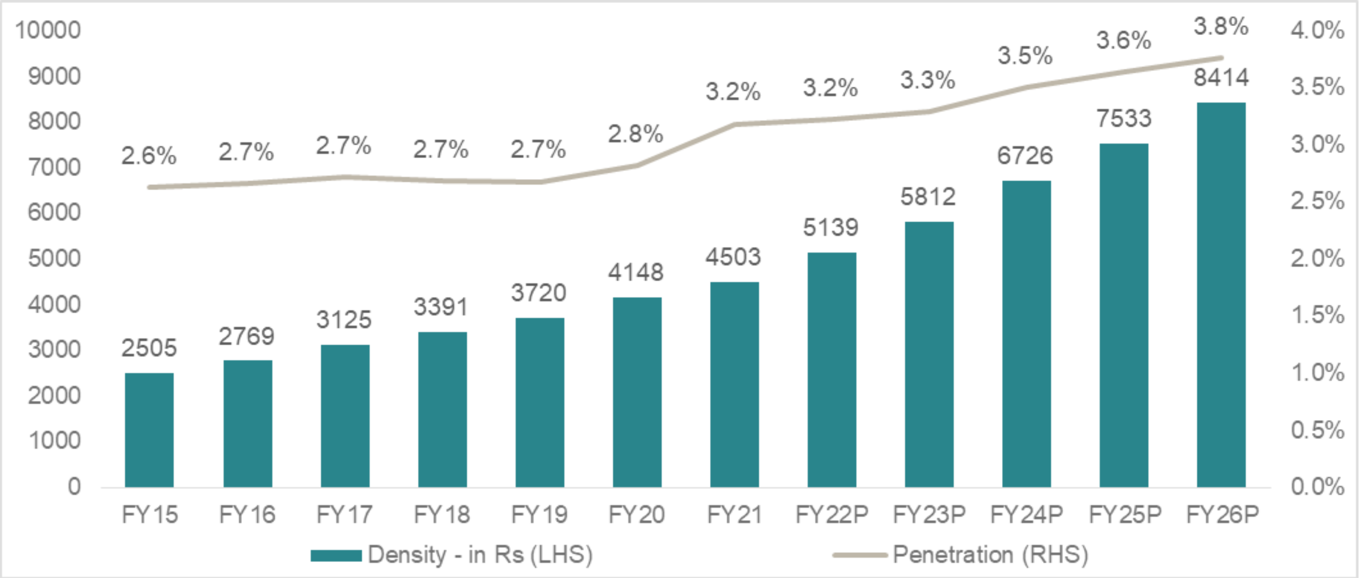
Number of lives covered in life insurance in India



Note: P = Projected; Coverage is calculated as number of lives covered as a % of adult population (18+)

Source: IRDAI Annual reports, Company reports, CRISIL Research

Penetration and density for Indian life insurance industry



Note: P = Projected; Density is calculated as total premium/ total population; Penetration is calculated as total premium/ nominal GDP

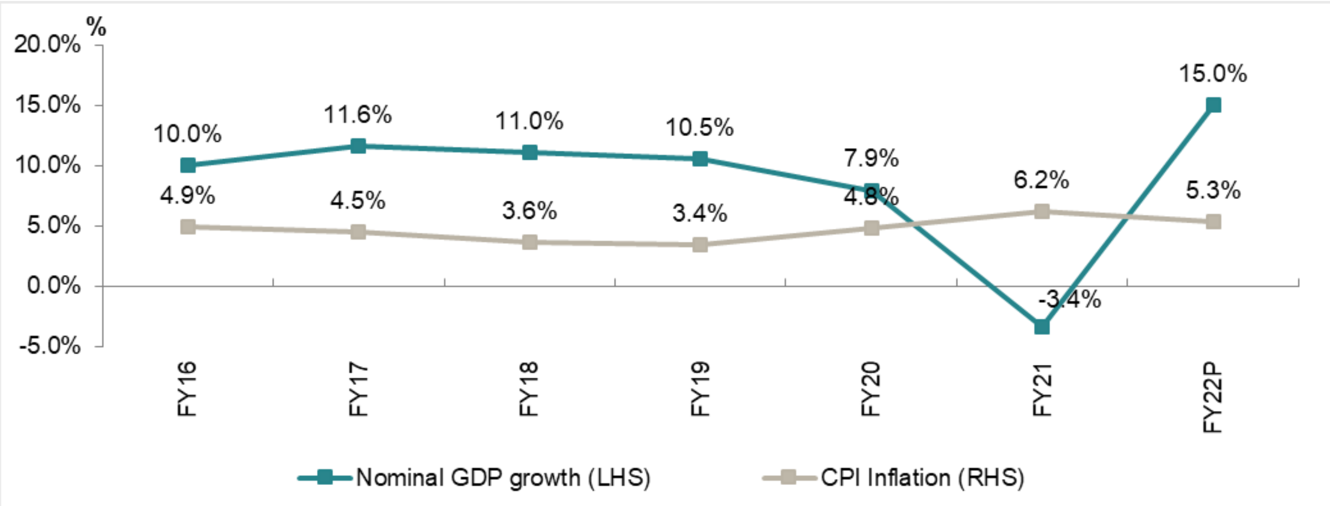
Source: IRDAI Annual reports, Company reports, MOSPI, CRISIL Research

Growth drivers

Healthy GDP growth and rising incomes

CRISIL Research forecasts India's economy to grow at 9.5% (in real terms) in fiscal 2022, up from de-growth of 7.3% in the previous fiscal, supported by improved consumption demand. Softer interest rates and inflation will also likely aid consumption. Faster growth in GDP should translate into rising income, which, in turn, is favourable for growth in life insurance.

CPI inflation and nominal GDP (%)



Source: RBI, CRISIL Research

Savings rate to rebound; Insurance to remain a significant part of financial savings

CRISIL Research expects India to remain a high savings economy. Household savings as a percentage of GDP declined over fiscals 2012-2016, falling significantly from 23.6% in fiscal 2012 to 18.0% in fiscal 2016. Since then, the household savings as a percentage of GDP rose slightly to 19.6% in fiscal 2020. CRISIL Research estimates the household savings rate to have increased further in fiscal 2021 on account of the decline in discretionary spending amid the pandemic.

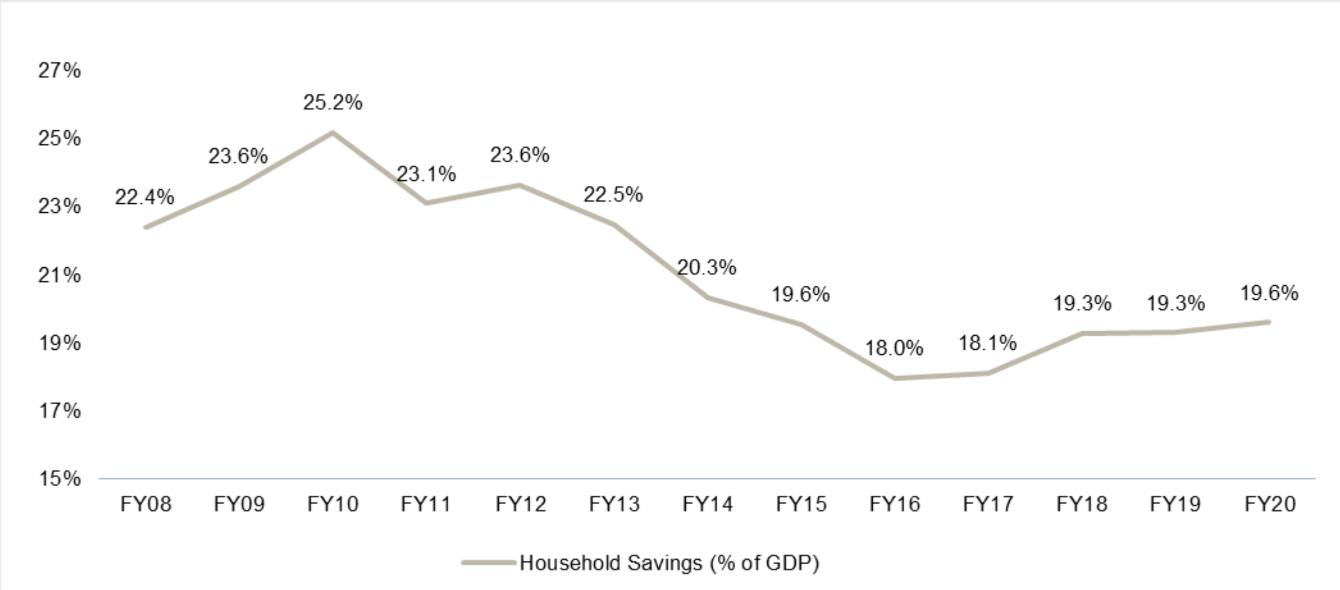
Financial savings rate stood at 11.2% for fiscal 2020 and RBI estimates for April to December 2020 indicate that the financial savings rate increased further to 15.5% in the aftermath of the pandemic. Further, the savings in insurance products increased by 440 basis points from fiscal 2020 to nine months ended of fiscal 2021, as compared to a 720 basis points decrease in bank deposits during the same period.

COVID-19 has prompted people to become more inclined towards saving and purchasing all-encompassing life covers, which will likely to increase demand for life insurance in India. Apart from demand from individuals, the government has also increased its focus on offering innovative products for live covers. For example, in December 2020, Uttarakhand announced its plan to offer COVID-19 Insurance Policy to international tourists.

Going forward, with the economic growth expected to gradually revive, CRISIL Research expects India's household savings rate to also increase at a modest pace. Furthermore, given their experience during the pandemic, households will focus on saving more to be better prepared to tackle future exigencies.

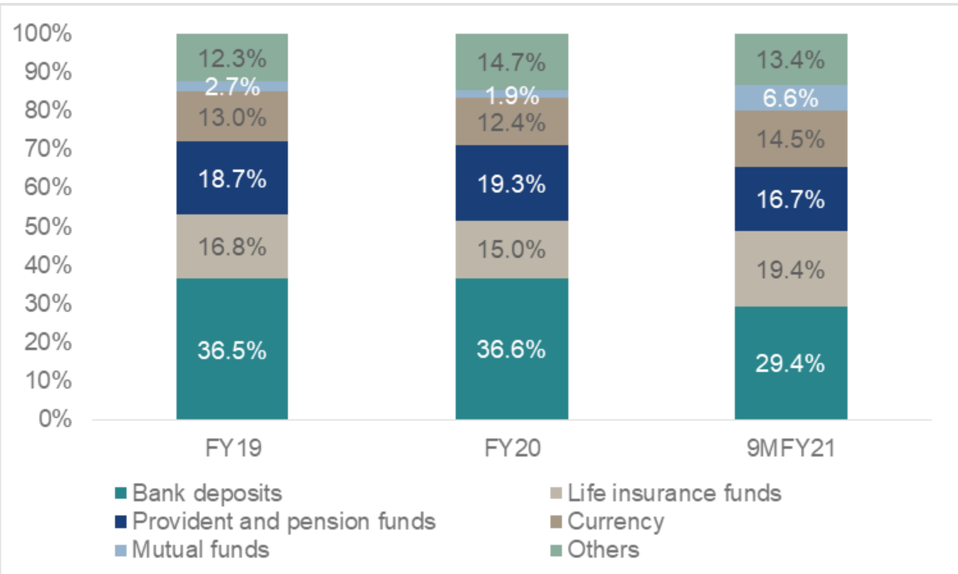
Insurance is expected to continue to remain a key constituent of financial savings in India.

Household Savings rate trend



Source: Ministry of Statistics and Programme Implementation (MOSPI), RBI, CRISIL Research

Share of life insurance in incremental household financial savings

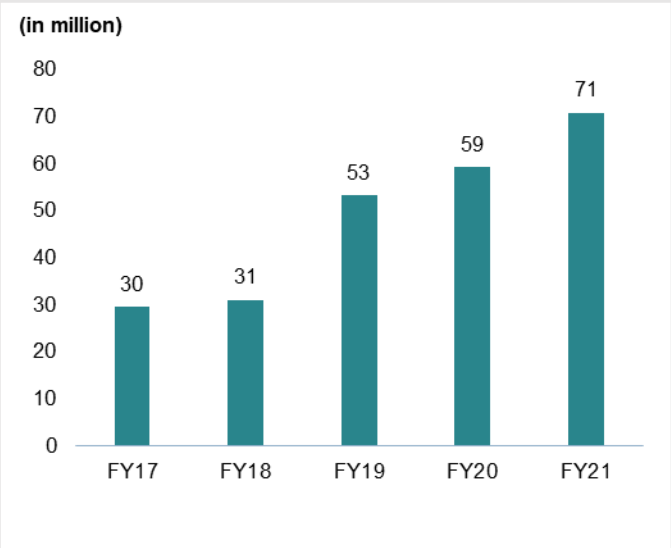


Source: Ministry of Statistics and Programme Implementation (MOSPI), RBI, CRISIL Research

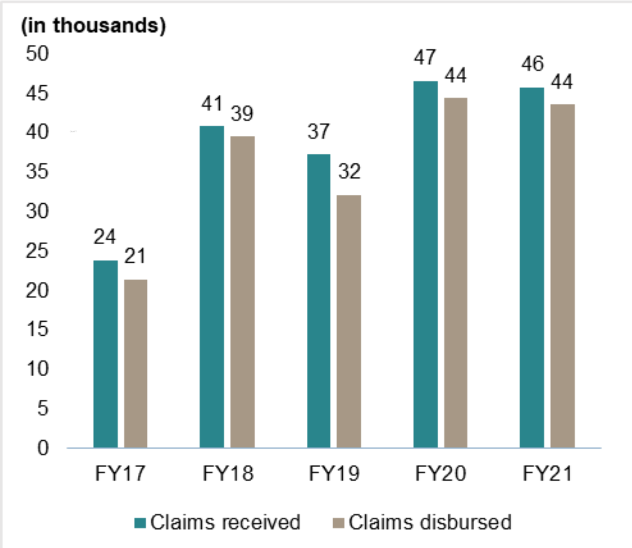
Financial inclusion initiatives - Pradhan MantriJeevanJyotiBimaYojana (PMJJBY)

This scheme was launched in May 2015 to create a universal social security system, especially for the poor and the under-privileged. PMJJBY is a one-year life insurance scheme that can be renewed each year, which offers a life cover of Rs. 0.2 million for death due to any reason and is available to people in the age group of 18-50 years (life cover up to 55 years) at a premium of Rs. 330 per annum per member. This scheme is offered/administered through LIC and other Indian private life insurance companies. Due to such government-focussed schemes and expansion in the distribution network, insurance penetration, especially in rural and semi-urban regions, is expected to increase.

Cumulative enrolments in PMJJBY



Number of claims received and disbursed

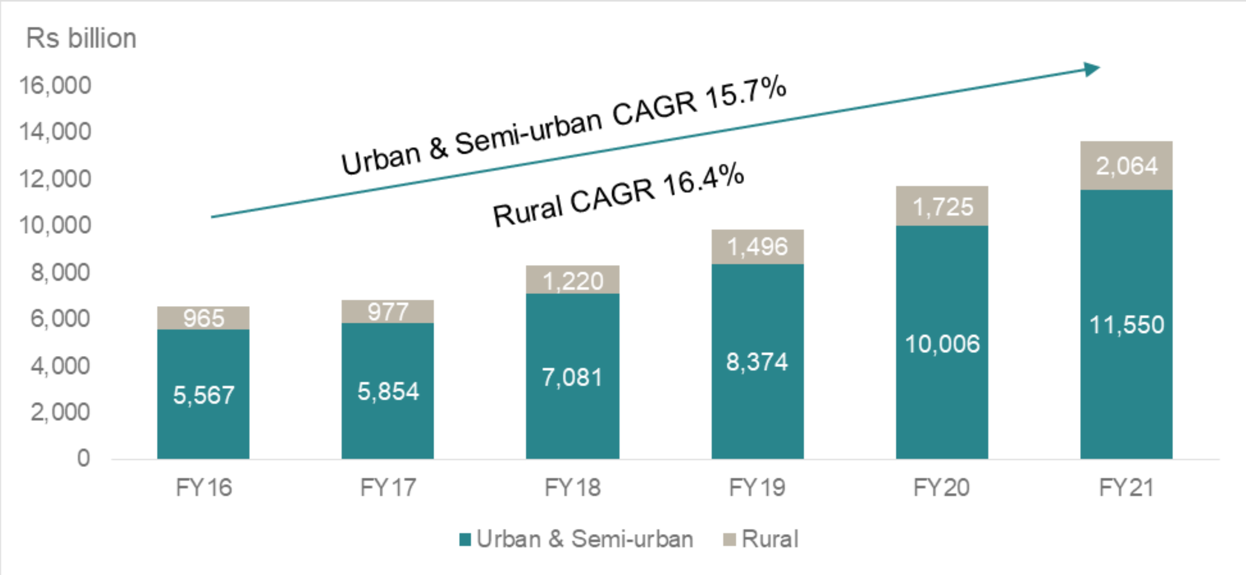


Source: PMJJBY; CRISIL Research

Demand from semi-urban and rural areas to support growth for life insurance players

On the lending side, the retail loans outstanding credit of banks increased considerably in the urban & semi-urban as well as rural areas at 15.7% and 16.4% CAGR, respectively, during fiscal 2016 to 2021. Therefore, the increasing use of organised channel by consumers increases customer awareness and also provides opportunities for life insurance players to cross-sell. Further, increasing knowledge about financial instruments will aid growth from urban & semi-urban as well as rural areas.

Credit growth trend in urban & semi-urban and rural regions for retail loans

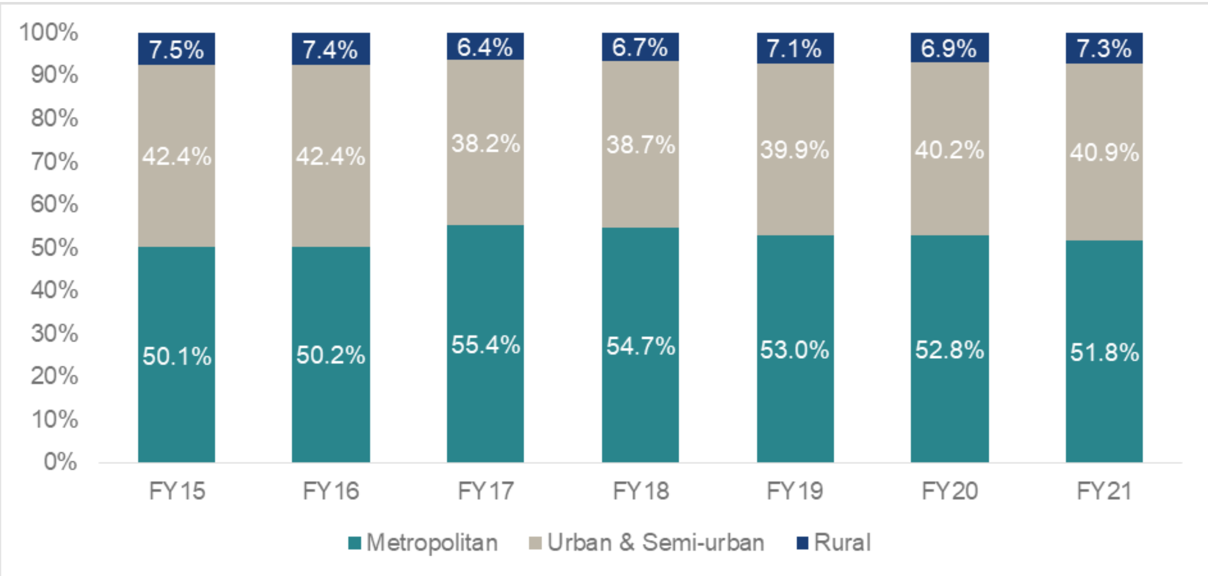


Source: RBI, CRISIL Research

Metropolitan region grew at 17.3% CAGR between fiscal 2016 to fiscal 2021. Going forward, the focus on financial inclusion by the government will also increase geographical spread.

Going forward, life insurance players will look to tap the rural regions for premium growth along with urban & semi-urban and metropolitan regions. Players with a strong distribution network in the rural region & semi -urban and urban are likely to have an advantage over their competitors.

Share in retail loans across different regions

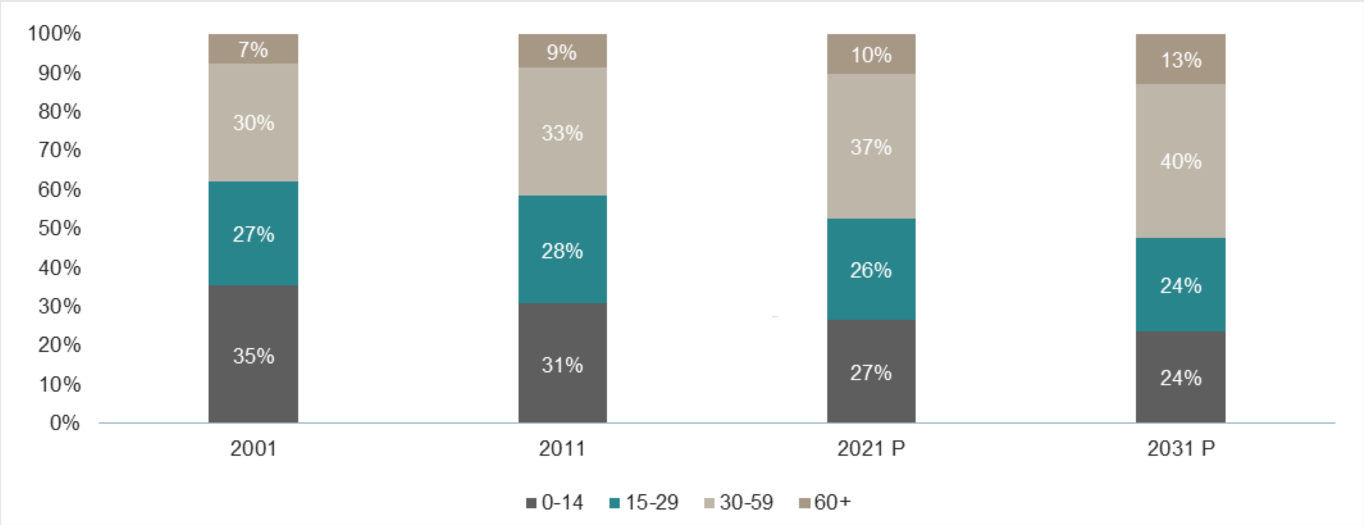


Source: RBI, CRISIL Research

Increasing insurable population to fuel industry growth

For 2021, India has one of the largest share of young population in the world, with a median age of 28 years. About 90% of Indians will still be below the age of 60 by calendar 2021. CRISIL Research estimates that 63% of India's population will be between the age of 15 and 59. In comparison, in 2021, the United States (US), China and Brazil had 77%, 82% and 86%, respectively, of their population below the age of 60.

India's demographic dividend



Note: P: projected

Source: United Nations Department of Economic and Social affairs, CRISIL Research

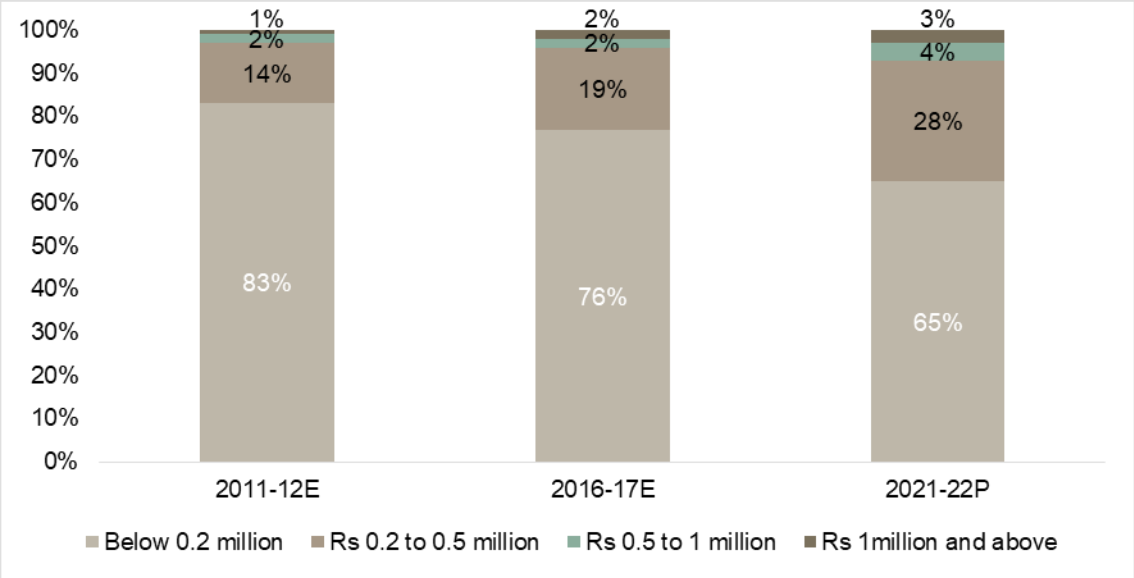
Rising income levels to make insurance products more affordable

Even though insurance is considered a non-discretionary expense, considering that an estimated 83% of households in India had an annual income of less than Rs. 0.2 million in fiscal 2012, affordability of insurance products remains a major constraint.

Growth in household incomes and, consequently, disposable incomes are critical to the overall growth in demand for insurance products in India. The share of households falling in middle or upper middle-income bracket of Rs. 0.2 million to Rs. 0.5 million and Rs. 0.5 million to Rs. 1 million has increased from 16% in fiscal 2012 to 23% in fiscal 2017 and is estimated up to 35% in fiscal 2022, providing potential target segment for insurance service providers.

Going forward, amongst various income segments, middle and upper middle segment is expected to drive growth. Within these segments, Rs. 0.5 million to Rs. 1 million income segment bucket is expected to increase at a much faster pace as compared to others and this will help fuel demand for insurance products, especially life insurance products going forward.

Income demographics



Note: E = Estimated; P = Projected

Source: CRISIL Research

Advancements in diagnosis and treatments to reduce mortality rate

The healthcare industry, similar to other industries, is constantly evolving with advancements in technology. Developments in information technology have helped create systems, which ensure faster and reliable services. On one hand, these systems help increase the reach and quality of healthcare delivery systems across the country. However, on the other hand, they also enable healthcare delivery providers to improve efficiency by helping them in resource planning and maintaining patient records. CRISIL Research believes that with the advent of 5G, smartphone penetration and increasing health conscious population, digital healthcare penetration will grow significantly, which, in turn, will also improve mortality rate.

Emergence of digital distribution channels

Given the increase in internet and mobile penetration, digital distribution of life insurance products will also play a bigger role going ahead. For fiscal 2021, around 9.2% of individual NBP came through the direct, web-aggregators and online mode, and this percentage is bound to increase significantly in the coming years. This development into a web-/app-based model will further drive scalability and reduce costs for insurers.

Besides, increasing digitisation will help in increasing the penetration of insurance players as:

- Processes such as purchase of insurance products and filing claims can be done remotely
- Applications can be developed or modified to facilitate financial literacy, which could be especially effective in small towns and rural areas
- By digitalising the insurance process, clients in remote areas will not worry about maintaining physical documentation. Further, online premium payments can also be done effortlessly through digital modes

While new digital distribution channels are emerging, individual agents and banks as distributors also play an active role and the one-stop-shop model of providing multiple services through the optimum utilisation of technology is clearly sustainable. Thus, it is vital for life insurance companies to continue to use the agency and the bancassurance channel in selling the insurance policies. Given the awareness of life insurance in India, the array of policy options available, the requirement of an individual to help customers select the right policy as per their need would persist. Digital distribution would thus help complement the physical distribution channel and make the process more efficient.

National Digital Health Mission (NDHM)

The Ministry of Health and Family Welfare, Government of India has formulated the National Digital Health Mission (NDHM) in September 2021 with the aim to provide the necessary support for integration of digital health infrastructure in the country. This visionary initiative, stemming from the National Health Policy, 2017 intends to digitize healthcare in India. National Health Authority (NHA) has been entrusted with the role of designing strategy, building technological infrastructure and implementation of "National Digital Health Mission".

Its vision is to create a national digital health ecosystem that supports universal health coverage in an efficient, accessible, inclusive, affordable, timely and safe manner and a seamless online platform through the provision of a wide range of data, information and infrastructure services, duly leveraging open, interoperable, standards-based digital systems, and ensures the security, confidentiality and privacy of health-related personal information.

Key opportunities in NDHM are –

- The current strong public digital infrastructure provides opportunities to streamline healthcare information through digital management.
- The experience of AB-PMJAY can be leveraged to expand the reach of digital health to all residents and develop an open and inter-operable health management system that empowers residents, healthcare providers, the Government and researchers.
- Emerging technologies such as artificial intelligence, the internet of things (IoT), blockchain and cloud computing provide additional opportunities for facilitating a more holistic digital health ecosystem, that can increase the equitable access to health services, improve health outcomes and reduce costs.

NDHM is expected to not only improve healthcare information but also enable life & health insurers to utilize a wealth of digitally sourced health data for risk analysis and employ digital underwriting solutions, such as sales platforms with integrated medical underwriting technologies.

Customer needs and attitude towards financial security

The pandemic has created unforeseen challenges for businesses across the world. The life insurance industry is no exception, having sustained a significant decline in business in the first six months of calendar 2020. Nevertheless, insurance companies weathered the crisis well and are now enjoying a strong rebound, thanks to innovative steps to meet the changing needs and behaviour of customers.

The pandemic has spurred more people to consider insurance as a necessity to cover for morbidity risk, loss in earnings capacity and/or tackle unforeseen emergencies. So, while life insurance may be quite some way away from becoming a pull product, it is definitely moving towards becoming a nudge product. Such changes in consumer mind-set have led players to adapt and introduce pandemic-specific covers, customised policies as per customer expectations and requirements, enhance focus on selling protection plans that are generally more profitable, enable digital access to services, and enhanced claim settlement mechanisms.

Key vectors of customer centric growth and customer stickiness for different insurance products

While trust and products along with pricing are key factors that customers continue to look at while comparing insurers, customers are also increasingly evaluating the ease with which a policy can purchased and claims are settled while comparing insurers. With the advent of newer technologies, the need to visit an agent with several documents in hand has reduced. Insurers are also using lots of digital tools to not only secure new customers but also retain their existing customer base. Making the process for paying renewal premium easier and efficiency in claims processing results in favourable outcome in the minds of the policyholder and also aids in enhancing customer stickiness.

As customers are increasingly demanding convenience while transacting as well as customised products relevant to their context, insurers are moving towards adopting a digital services model, enabling customers to complete the entire insurance processes online (from discovery of information to advice and purchase) either on their own or with the help of a service provider/agent (also called as assisted digital model). With this shift towards digital channels, players globally are also investing in cybersecurity. Given the increased incidence of malicious and fraudulent activities online, an investment in top-of-the line cybersecurity offerings is essential.

In life insurance industry, customer stickiness also varies from one product to another. For example, it is observed that unit linked products (ULIPs) tend to have higher stickiness when the equity markets are performing well but stickiness tends to decline during periods of market volatility. Term insurance products, on the other hand, have relatively higher stickiness, given that benefit accrues to the insured only if they remain with the policy. However, even in the case of term insurance, changes in the personal situation of the insured, lack of engagement with the insured and change in the trust and perception of the insurer in the eyes of the insured can impact stickiness.

Rising need for pension funds

A CRISIL Research study[1] indicates that elderly population (aged 60 and above) in India will increase from 116.8 million in 2015 to 316.8 million by CY 2050. With this, the share of the elderly in India's population will almost double from 9% in CY 2015 to 17%. The frailty of the demographic dividend thus rings an alarm bell for the long term – it tells us that the cost of providing for the elderly is going to increase and thus there is a need to further develop the pension architecture in the country. According to the report, the overall cost to the government to meet its pension and retirement benefits requirement is expected to remain constant at 1% of GDP till CY 2050 and subsequently it will decline gradually.

Pension penetration in India is estimated to be very low at under 30% of the population above retirement age, compared to over 70% for other Asian peers like Japan, China and Republic of Korea. A key reason for India's low pension penetration has been the large share of the unorganised sector – about 82.7% (as per NSSO survey 2011-12) of the country's employed population. In view of this, the government has initiated measures to bring the large unorganised chunk into the pension fold.

In recent years, the government has focused on formalisation of the economy through implementation of the Goods and Services Tax and stricter implementation of tax measures. As for pension coverage, the government launched the Atal Pension Yojana (APY) in 2015, targeted at low income group individuals in the unorganised sector. The plan aims to provide subscribers with a fixed pension ranging from Rs. 1,000 to Rs. 5,000 per month. The benefit is fixed in this case, whereas the contribution varies depending on the age and the amount of pension one opts for.

Contributions in Atal Pension Yojana (in Rs.)					
Age (in years)	**1000**	**2000**	**3000**	**4000**	**5000**
18	42	84	126	168	210
20	50	100	150	198	248
25	76	151	226	301	376
30	116	231	347	462	577
35	181	362	543	722	902
40	291	582	873	1164	1454

Source: NSDL, CRISIL Research

[1] Securing life's second innings Opportune time to create a sustainable pension system (March 2019)

State-wise analysis of the life insurance industry

As at March 31, 2021, total life insurers together covered 92% of all districts in the country. Further, public sector life insurer (LIC) had offices in 669 districts out of 735 districts in the country and covered 91% of all districts. On the other hand, the private sector insurers had offices in 596 districts covering 81% of all districts in the country. (Source: IRDAI Annual report 2020-21)

Top five states constitute ~64% of market share basis new business premium

Share of top five states has been fairly high in terms of new business premium for group and individual life insurance combined. Out of these, the state of Maharashtra accounts for nearly 25% of the new business premium collected in fiscal 2021. In between fiscals 2016 and 2021, its share has been almost constant, but the new business premium collected has grown at 14.2% CAGR. The top 5 states, including Karnataka, Delhi, West Bengal and Tamil Nadu apart from Maharashtra too have grown at a fair rate of 14.8% CAGR cumulatively.

Trend in state-wise share for top 15 states (based on NBP)

State share	FY16	FY17	FY18	FY19	FY20	FY21
Maharashtra	25.2%	25.3%	25.2%	24.9%	24.6%	24.9%
Karnataka	10.6%	10.2%	9.7%	10.0%	9.1%	11.7%
Delhi	12.0%	11.1%	11.3%	12.2%	9.6%	11.4%
West Bengal	8.4%	8.5%	8.2%	9.2%	8.7%	8.5%
Tamil Nadu	7.0%	8.4%	7.5%	6.3%	14.8%	7.5%
Uttar Pradesh	4.5%	4.3%	4.9%	5.0%	4.6%	4.8%
Gujarat	3.9%	4.9%	4.6%	4.8%	3.8%	4.6%
Telangana	3.6%	3.6%	4.1%	3.2%	3.2%	3.2%
Kerala	3.2%	3.5%	3.2%	2.9%	2.8%	3.1%
Bihar	1.9%	1.8%	2.1%	2.1%	1.8%	2.3%
Andhra Pradesh	2.3%	2.2%	2.2%	2.5%	2.1%	2.3%
Rajasthan	2.2%	2.6%	2.1%	2.2%	2.2%	2.0%
Odisha	1.6%	1.8%	1.9%	2.0%	1.7%	2.0%
Assam	1.7%	1.5%	1.5%	1.6%	1.5%	1.8%
Haryana	1.3%	1.2%	1.6%	1.8%	1.7%	1.6%

Note: Top 15 taken basis NBP for fiscal 2021

Source: IRDAI, CRISIL Research

In terms of individual business too, the top 5 states comprise of ~49% share across India. This share has been largely stable across last 5 years and comprises of states like Maharashtra, West Bengal, Uttar Pradesh, Gujarat, and Tamil Nadu.

Details of Top 15 states

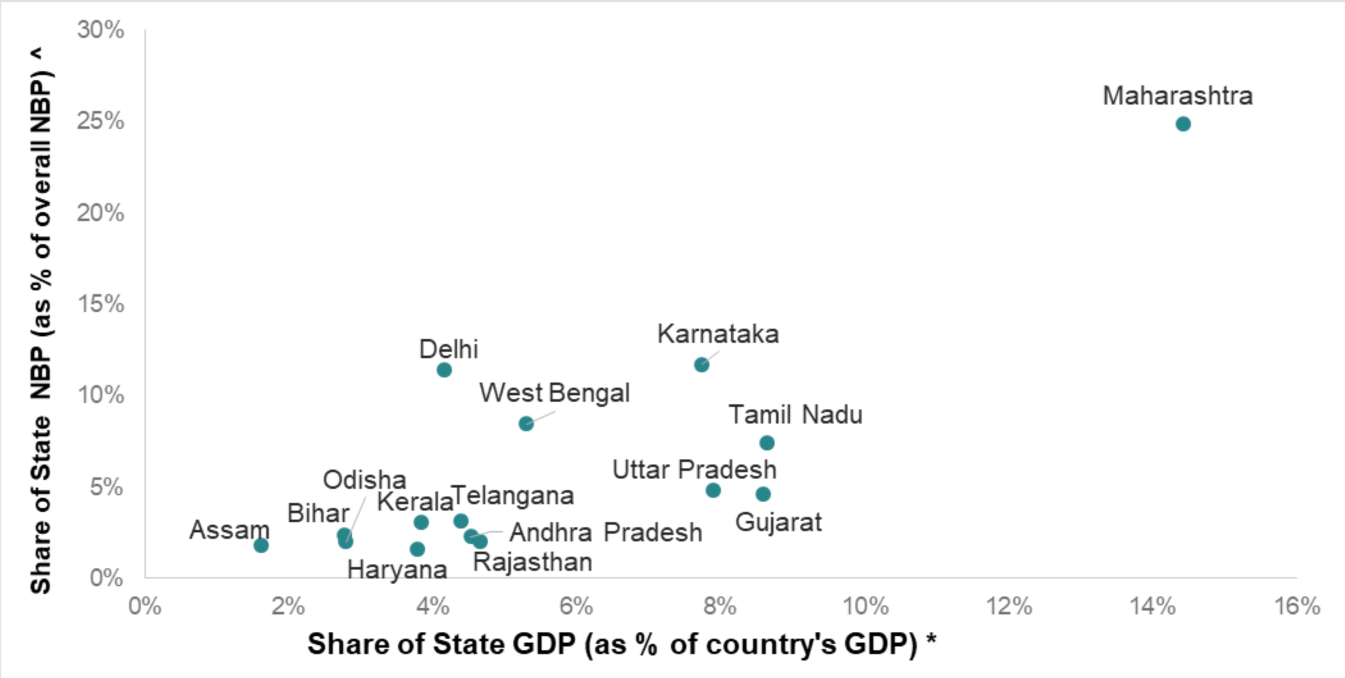
State share	Real GDP (FY21) – Rs. billion	GDP growth - CAGR (FY17-FY21)	Population density (2011)	Population - 2011 (000's)	Real per capita income (FY21) – Rs.	New Busines Premium (FY21 – Rs. Cr)
Maharashtra*	21,341	5.7%^	365	1,12,374	1,52,566	67,967
Karnataka	11,138	4.3%	319	61,095	1,49,825	32,021
Delhi	5,790	3.1%	11,320	16,788	2,54,001	31,247
West Bengal*	7,932	6.7%^	1,028	91,276	71,757	23,114
Tamil Nadu	13,394	6.6%	555	71,147	1,56,389	20,385
Uttar Pradesh	10,926	1.9%	829	1,99,812	41,023	13,193
Gujarat*	12,742	9.1%^	308	60,440	1,65,359	12,617
Telangana	6,435	6.1%	NA	NA	1,47,397	8,665
Kerala*	5,686	5.4%^	860	33,406	1,49,563	8,386
Bihar*	4,150	8.7%^	1,106	1,04,099	31,287	6,422
Andhra Pradesh*	6,688	7.4%^	308	84,581@	1,13,927	6,263
Rajasthan	6,432	1.9%	200	68,548	72,297	5,441
Odisha	3,770	2.8%	270	41,974	74,669	5,436
Assam*	2,488	7.2%^	398	31,206	62,796	5,002
Haryana	5,281	3.7%	573	25,351	1,63,992	4,398

Note: Top 15 taken basis NBP for fiscal 2021; (*) – For FY20, (^) CAGR FY17 to FY20; Population density is as provided by RBI taken from Census data – calculated as population per sq. km.; In 2011, data for Andhra Pradesh includes Telangana

Source: IRDAI, CRISIL Research

Comparison of life NBP and GDP across different states shows are linear relationship. States like Maharashtra, Tamil Nadu and Karnataka have relatively higher share in GDP also have high share in life insurance NBP, thus indicating that as GDP in India continue to increase across states, we are also likely to witness a corresponding increase in the life insurance business.

Relationship between GDP and life insurance NBP

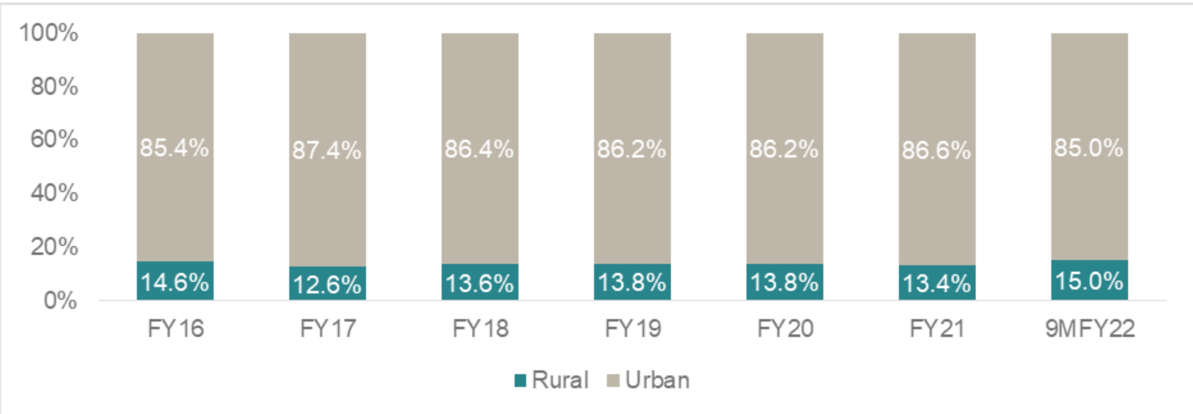


Note: Top 15 taken basis NBP for fiscal 2021; (*) – For FY20; (^) For FY21

Source: IRDAI Handbook on statistics, Company reports, MOSPI, CRISIL Research

The market share of the Urban region in individual life insurance NBP has been more than 85% since fiscal 2016 and was 86.6% for Fiscal 2021.

Share of urban vs rural in individual life insurance NBP



Source: Company reports, CRISIL Research

Penetration of distribution network across states

In terms of penetration of distribution network, Delhi, is the most penetrated region both in terms of insurance agents and branches (offices of life insurance companies and all scheduled commercial banks) per 1000 population. For fiscal 2021, Delhi had 3.5 individual agents per 1000 population followed by Kerala (2.6) and Haryana (2.6). On the other hand, regions like Bihar and Uttar Pradesh had the lowest numbers of insurance agents and branches per 1000 population indicating relatively lower penetration of distribution network of life insurance.

Insurance agents per 1000 population

States	FY16	FY17	FY18	FY19	FY20	FY21
Delhi	3.8	3.8	3.9	3.7	3.0	3.5
Haryana	2.0	2.0	2.0	2.3	2.3	2.6
Kerala	2.5	2.5	2.5	2.6	2.5	2.6
Odisha	1.6	1.7	1.8	1.8	1.8	2.2
Maharashtra	2.2	2.1	2.0	2.1	2.0	2.1
Gujarat	1.7	1.8	1.8	1.8	1.9	2.1
Karnataka	1.5	1.8	1.8	1.9	1.9	2.0
Tamil Nadu	1.7	1.9	1.8	1.9	2.0	2.0
Assam	1.6	1.6	1.6	1.7	1.7	1.9
Andhra Pradesh*	1.7	1.7	1.7	1.7	1.8	1.9
West Bengal	1.7	1.7	1.7	1.7	1.8	1.8
Rajasthan	1.4	1.3	1.3	1.3	1.5	1.6
Bihar	0.9	1.0	0.9	1.0	1.0	1.0
Uttar Pradesh	1.1	1.1	1.1	1.1	1.1	0.1

Note: Top 15 taken basis NBP for fiscal 2021; (*) Including Telangana state; Population numbers are estimated on the basis of 2011 Census

Source: IRDAI Handbook (Table 35: State-wise distribution of Individual Agents of Life insurer), Census, CRISIL Research

Penetration of branches (offices of life insurance companies and all scheduled commercial banks) per 1000 population

Penetration of branches (%)	FY16	FY17	FY18	FY19	FY20	FY21
Delhi	0.22	0.23	0.22	0.22	0.23	0.22
Kerala	0.20	0.20	0.20	0.20	0.20	0.20
Haryana	0.19	0.20	0.20	0.20	0.20	0.20
Karnataka	0.17	0.17	0.17	0.17	0.17	0.17
Tamil Nadu	0.15	0.16	0.16	0.16	0.16	0.16
Andhra Pradesh	0.14	0.15	0.15	0.15	0.15	0.15
Gujarat	0.13	0.13	0.13	0.14	0.14	0.14
Odisha	0.12	0.12	0.12	0.12	0.12	0.12
Maharashtra	0.12	0.12	0.12	0.12	0.12	0.12
Rajasthan	0.10	0.11	0.11	0.11	0.11	0.11
West Bengal	0.10	0.10	0.10	0.10	0.10	0.10
Assam	0.09	0.09	0.10	0.10	0.10	0.10
Uttar Pradesh	0.09	0.09	0.09	0.09	0.09	0.09
Bihar	0.07	0.07	0.07	0.07	0.07	0.07

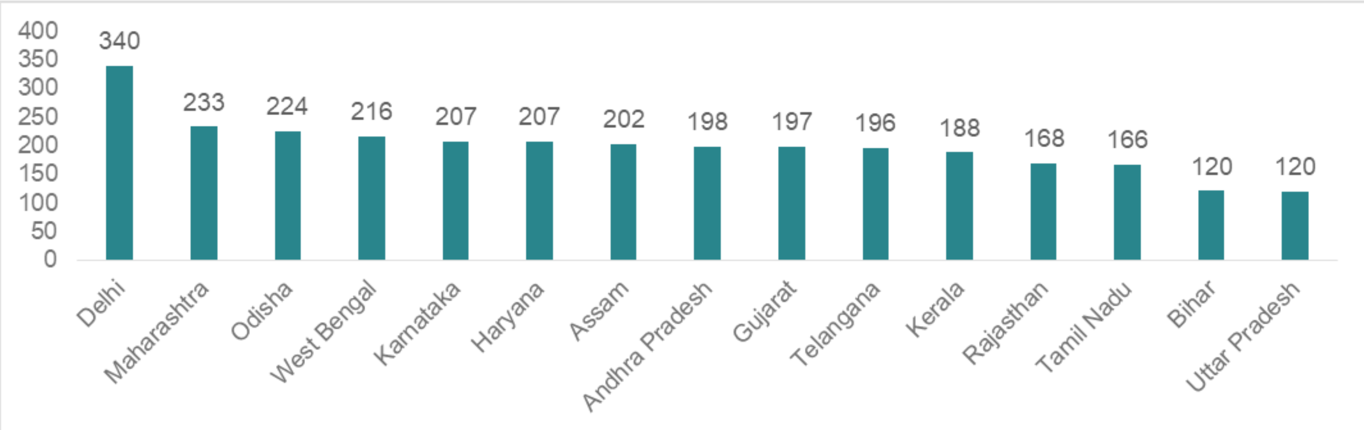
Note: Top 15 taken basis NBP for fiscal 2021; (*) Including Telangana state; Population numbers are estimated on the basis of 2011 Census

Source: IRDAI Handbook (Table 35: State-wise distribution of Individual Agents of Life insurer), Census, CRISIL Research

Penetration of life insurance across states

Amongst the top 15 states, for fiscal 2021, total number of individual policies (NBP basis) from fiscal 2016 to fiscal 2021 per 1000 adult population is highest for Delhi at 340 policies followed by Maharashtra and Odisha at 233 and 224 respectively. On the other hand states like Bihar and Uttar Pradesh had low penetration at 120 policies per 1000 adult population.

Penetration of life insurance in volumes – total number of individual policies (NBP basis) issued in last five years to adult population



Note: Top 15 taken basis NBP for fiscal 2021; Population numbers are estimated on the basis of 2011 Census; Population with 18+ age is considered as adult population

Source: IRDAI Handbook (Table 35: State-wise distribution of Individual Agents of Life insurer), Company reports, Census, CRISIL Research

Insurance penetration has increased over the years for across states. Amongst the top 15 states, for fiscal 2021, insurance penetration is high in states like Delhi at 5.4%, followed by Maharashtra, West Bengal and Karnataka. Gujarat on the other hand has the lowest insurance penetration at 0.78%.

On the other hand, Bihar, Uttar Pradesh and Rajasthan has the lowest new business premium per capita of Rs. 532, Rs. 569 and Rs. 684 respectively. Delhi has the highest NBP per capita of more than Rs. 16,000 followed by Maharashtra (Rs. 5,212) and Karnataka (Rs. 4,516). Premium per capita for these states is relatively higher largely due to high share of group business.

Insurance penetration – new business premium as a percentage of state gross domestic product

Insurance penetration (%)	FY16	FY17	FY18	FY19	FY20	FY21
Delhi	3.49%	3.79%	4.04%	4.58%	4.06%	5.40%
Tamil Nadu	1.00%	1.42%	1.30%	1.13%	3.00%	1.57%
Maharashtra	2.11%	2.45%	2.56%	2.63%	2.98%	NA
West Bengal	1.92%	2.27%	2.28%	2.67%	2.86%	2.92%
Karnataka	1.78%	1.90%	1.84%	1.97%	2.05%	2.87%

Assam	1.21%	1.31%	1.32%	1.48%	1.63%	NA
Telangana	1.08%	1.23%	1.41%	1.13%	1.28%	1.34%
Kerala	0.98%	1.27%	1.20%	1.14%	1.28%	NA
Bihar	0.87%	1.00%	1.19%	1.21%	1.12%	1.53%
Odisha	0.77%	0.92%	1.00%	1.12%	1.10%	1.37%
Uttar Pradesh	0.68%	0.74%	0.90%	0.96%	1.02%	1.21%
Andhra Pradesh	0.63%	0.71%	0.71%	0.84%	0.82%	0.96%
Rajasthan	0.54%	0.77%	0.67%	0.73%	0.81%	0.85%
Haryana	0.43%	0.48%	0.64%	0.73%	0.79%	0.83%
Gujarat	0.61%	0.87%	0.82%	0.87%	0.78%	NA

Note: NA = Not Available; Top 15 taken basis NBP for fiscal 2021; Insurance penetration = GDP (constant prices)/ New business premium

Source: IRDAI Handbook (Table 6 & 7: State wise individual and group new business underwritten), Company reports, MOSPI, CRISIL Research

Insurance density – new business premium per capita

Premium per capita (In Rs)	FY16	FY17	FY18	FY19	FY20	FY21
Delhi	9,171	10,574	11,745	13,885	12,999	16,038
Maharashtra	2,890	3,610	3,923	4,225	4,950	5,212
Karnataka	2,242	2,677	2,776	3,123	3,361	4,516
Tamil Nadu	1,243	1,862	1,821	1,669	4,646	2,435
West Bengal	1,190	1,484	1,563	1,920	2,151	2,182
Kerala	1,232	1,686	1,669	1,663	1,904	2,163
Gujarat	841	1,290	1,335	1,516	1,441	1,799
Andhra Pradesh*	896	1,091	1,287	1,280	1,423	1,521
Haryana	644	789	1,101	1,317	1,530	1,495
Assam	689	779	836	970	1,087	1,381
Odisha	497	675	774	919	944	1,116
Rajasthan	413	611	548	618	716	684
Uttar Pradesh	288	342	427	479	522	569
Bihar	230	280	354	393	386	532

Note: Top 15 taken basis NBP for fiscal 2021; (*) IncludingTelangana state; Insurance density = New business premium/ Population; Population numbers are estimated on the basis of 2011 Census

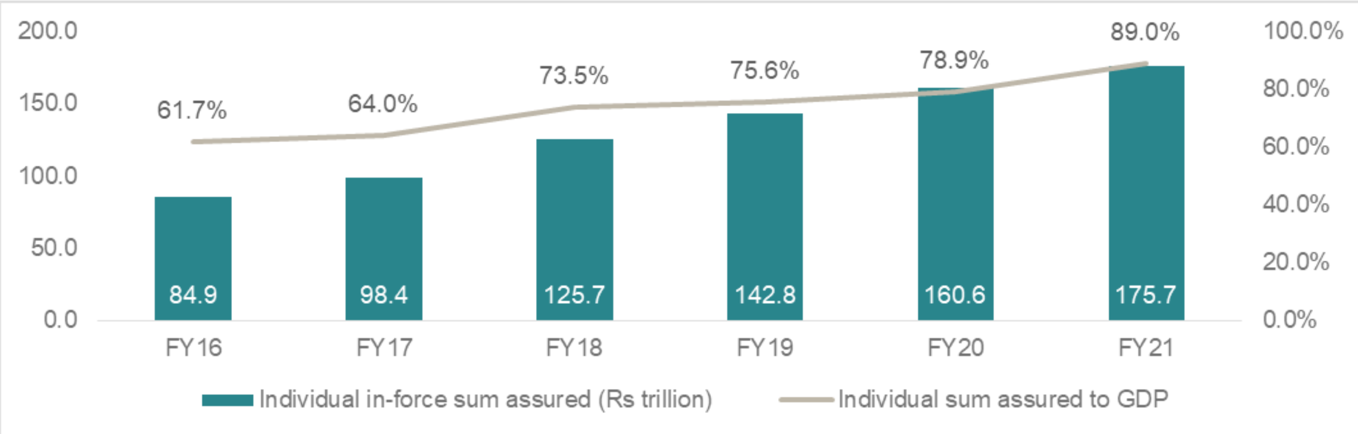
Source: IRDAI Handbook (Table 6 & 7: State wise individual and group new business underwritten), Company reports, Census, CRISIL Research

Movement in key industry parameters

Life insurance coverage has increased appreciably

The total sum assured under the individual life insurance business was Rs. 170.5 trillion for fiscal 2021 in India which is ~89% of India's GDP. The sum assured for individual insurance has increased at 15.7% CAGR from fiscals 2016 to 2021. The total number of individual policies in force was 332 million for fiscal 2021, whereas the total number of individual new policies issued was ~28 million in fiscal 2021.

Trend in individual in-force sum assured

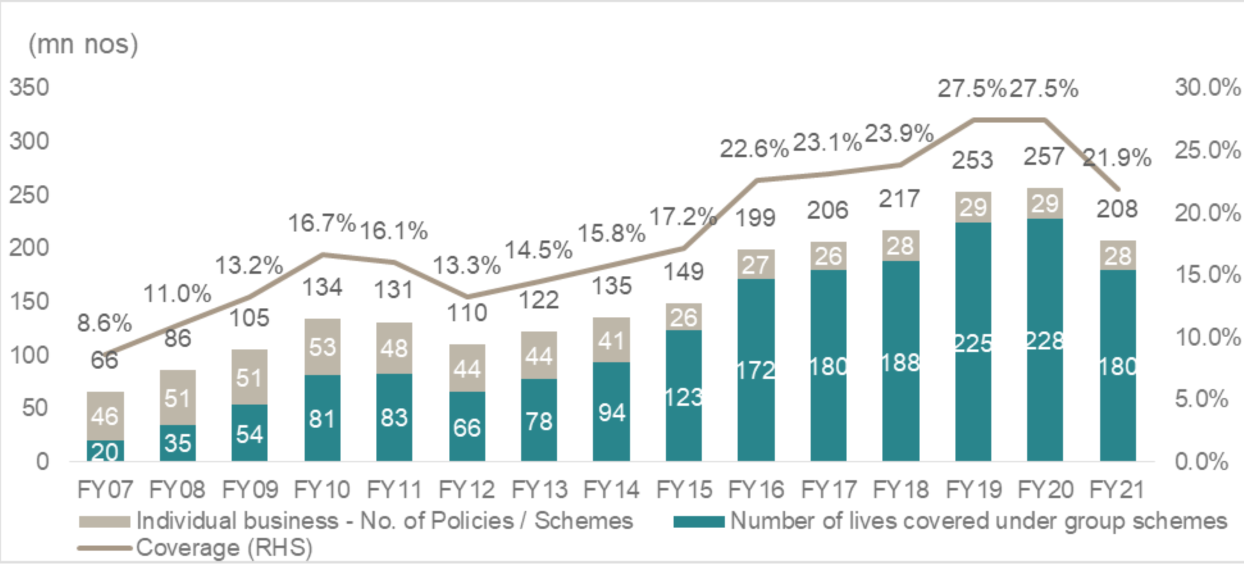


Source: IRDAI – Handbook of statistics, Life Insurance Council, CRISIL Research Estimates

Life insurance coverage under group and individual new business schemes

The number of lives covered in life insurance under both individual and group schemes has increased exponentially over the last 15 years from 66 million to 208 million between fiscal 2007 to fiscal 2021. LIC have a lower growth in no. of lives covered under group policies on account of the larger focus on the individual segment via its widespread agency business. Over the last five years, growth in number of lives covered remained strong till fiscal 2020, however, the no. of lives covered fell in fiscal 2021 on account of the pandemic to cover 208 million lives across the industry witnessing a fall of ~28% from fiscal 2020.

Proportion of lives covered to population increased to 27.5% from 22.6% from fiscal 2016 to 2020 but reduced to 21.9% in fiscal 2021.



Note: Coverage is calculated as number of lives covered as a % of adult population (18+)

Source: IRDAI Annual reports, CRISIL Research

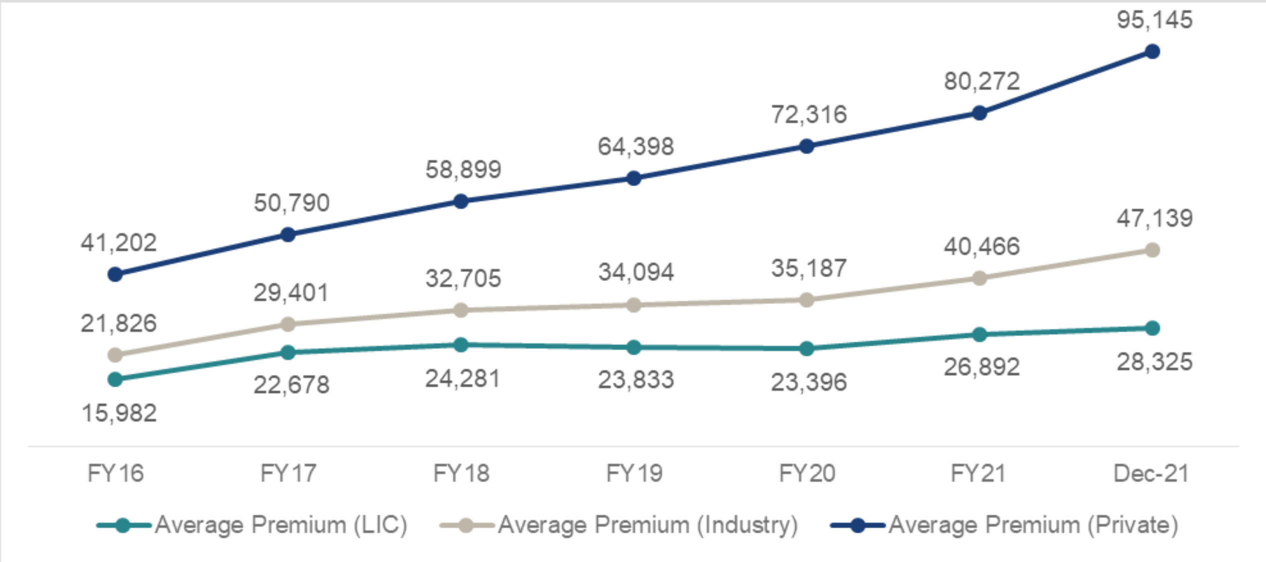
Average premium has grown at a healthy pace for the industry

The key difference between individual business and group business in life insurance is the need to create a strong customer franchise and a well-entrenched distribution network for scaling up in the individual business. While group business brings in large business for the insurer, individual business leads to more consistent and sticky business for insurers and comes at a better pricing compared to group insurance. Over the years, customer awareness towards the limitations of group cover has propelled customers to purchase individual policies for themselves and their families. Apart from this, individual policies are also more convenient to customise basis ones need and wants as compared to corporate plans.

Average premium (NBP divided by total policies issued) for the industry increased at 13% CAGR, from fiscals 2016 to 2021. LIC's average premium has grown at 11% CAGR from fiscal 2016 to fiscal 2021 owing to a large number of customers being catered to having smaller policies and lower proportion of ULIP in overall premium. Growth of private players was slightly higher at 14% CAGR during the period, despite the higher base. Average premium of unit-linked insurance plans (ULIP) is higher than average ticket size of traditional policies leading to higher average premium for private players in comparison to LIC. LIC increased its focus on ULIP plans in fiscal 2022, which is reflected in the increase in the average premium in nine months of fiscal 2022, which saw an annualised increase of 22% over fiscal 2021.

Increase in tax exemption for investment in life insurance policies (and other investment products as mentioned in Section 80C of Income Tax Act, 1961), from Rs. 0.1 million to Rs. 0.15 million in fiscal 2015, led to expansion in ticket size of even traditional investment policies as insurance is viewed more as a savings-cum-protection product than a pure protection product in India. Higher ticket size of linked insurance products was due to buoyant capital market performance and better returns of the product in the past.

Average premium for private players and industry (NBP individual business – in Rs)



Source: IRDAI – monthly business figures, CRISIL Research

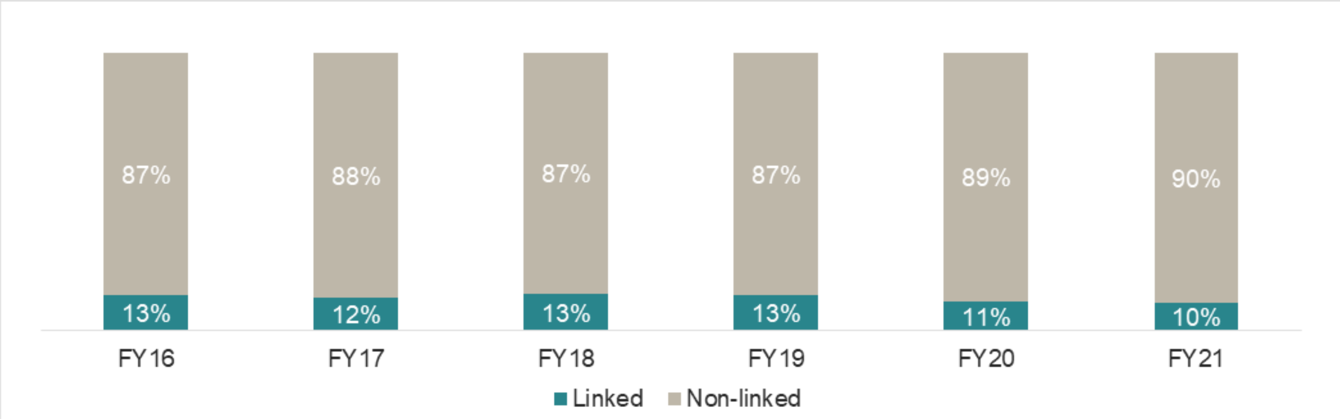
Fresh demand for non-linked products on the rise

Share of linked insurance products on NBP basis shrank radically from 55% in fiscal 2010 to 10% in fiscal 2013, as IRDAI regulations and changing fundamentals led to a change in the portfolio mix of insurance players. Slowdown in economic growth and tepid returns from capital markets (2.5% CAGR in Nifty 50 between fiscal 2010 to fiscal 2013) also impacted the demand for linked insurance products. Preference for linked products rebounded post fiscal 2014 on NBP basis, primarily on account of better market outlook.

Share of linked insurance products on NBP basis shrank from 13% in fiscal 2016 to 11% in fiscal 2021, as absence of LIC in these products has further dented share of linked products in overall market. Additionally, the applicability of income tax over the return generated from ULIPs where annual premium is over Rs. 2.5 lakh announced in Budget 2021 has dented incremental big-ticket demand from newer customers.

However, ULIP being a long-term protection plus investment product as against other products which may be single premium in nature, has seen its share in renewal premiums increase on year and reach to 18% in fiscal 2021 from 13% in fiscal 2016.

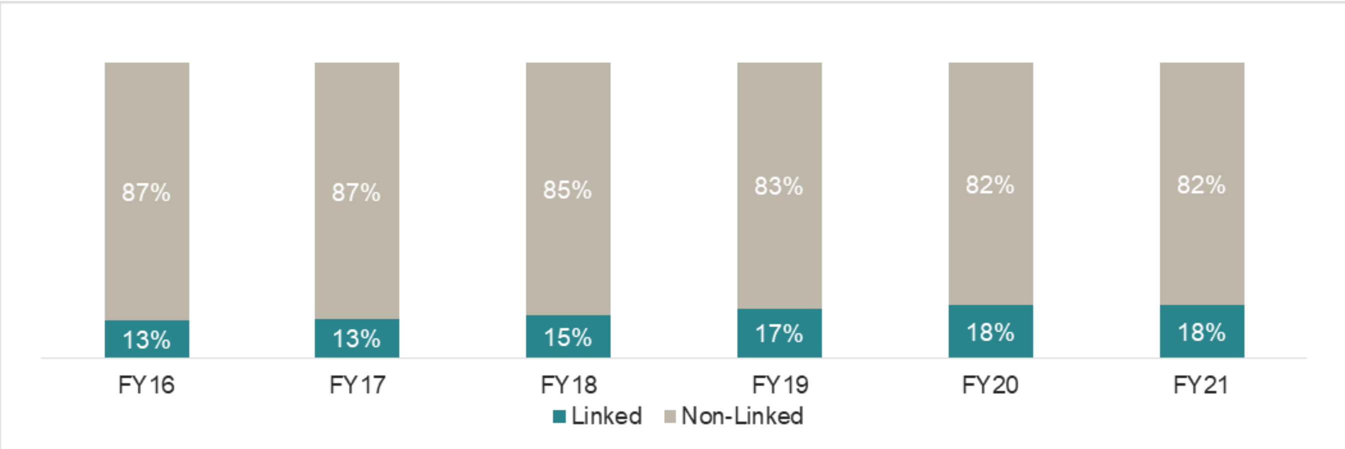
Share of linked products remain low for the industry (new business premium basis)



Note: Data for FY21 is estimated based on playerwise analysis(Data for Aviva, Bharti Axa, and Exide Life Insurance is not available)

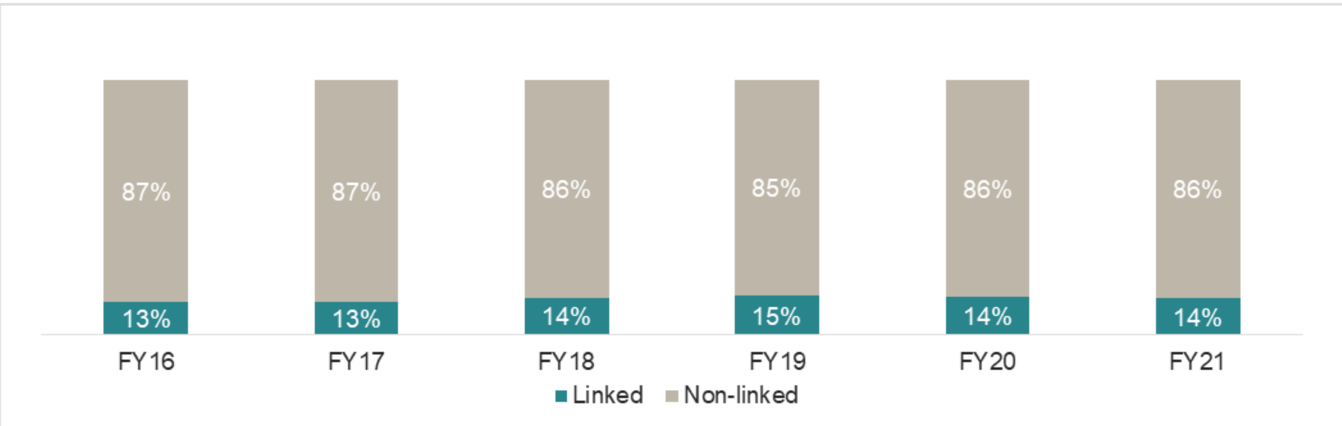
Source: IRDAI – handbook of statistics, Company reports, CRISIL Research

Overall industry's product mix based on renewal premium



Source: IRDAI – handbook of statistics, Life Insurance Council – MIS report, CRISIL Research

Overall Industry's product mix based on total premium

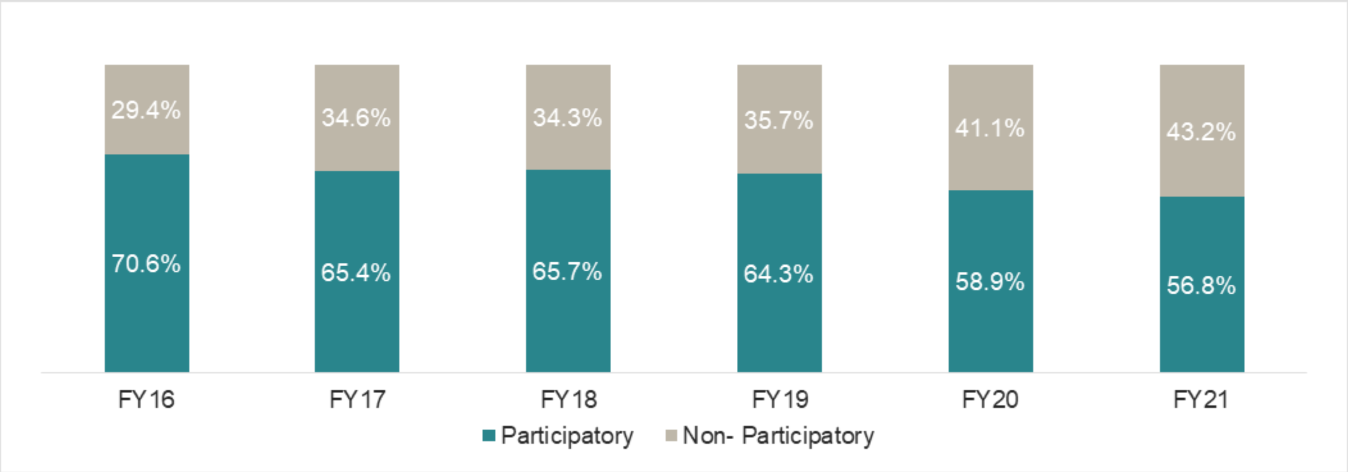


Note: Data for FY21 is estimated based on playerwise analysis (Data for Aviva, Bharti Axa, and Exide Life Insurance is not available)

Source: IRDAI – handbook of statistics, Company reports, CRISIL Research

While non-linked products are traditional products with a protection and savings element built in or only pure-protection products. Non-linked savings products can be further divided into participating products and non-participating products. Participating products have variable returns, as they partake in the profits of the participating business of the company.

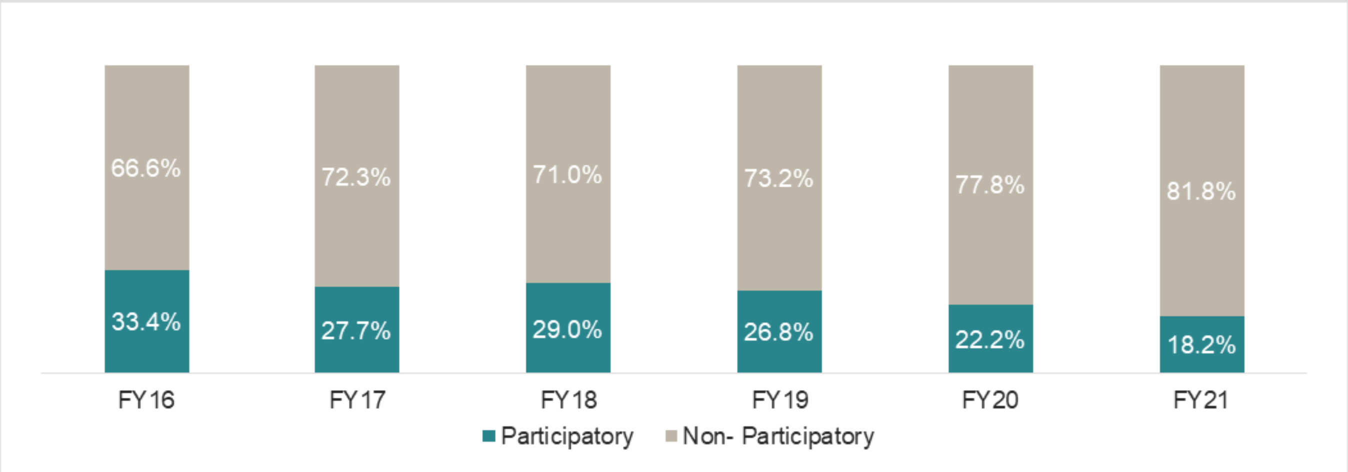
Non-linked product mix based on total premium



Note: Calculated on the basis of LIC and top 5 private players (Bajaj Allianz, HDFC Life, ICICI Prudential, Max Life and SBI Life) which account for 89% of industry total premium in fiscal 2021

Source: Company reports, CRISIL Research

Non-linked product mix based on new business premium



Note: Calculated on the basis of LIC and top 5 private players (Bajaj Allianz, HDFC Life, ICICI Prudential, Max Life and SBI Life) which account for 89% of industry total premium in fiscal 2021

Source: Company reports, CRISIL Research

Next growth drivers of the life insurance industry - protection, non-par savings and annuities products

Majority of the leading insurers have increased their focus on non-participating saving, protection and annuity products, taking into account the evolving market need. This has enabled higher growth for insurers. For example, protection plans are products that provide full protection and financial stability to policyholder's family in case of any unforeseen events. Earlier, individuals used to think about insurance as an investment rather than a security However, over the years, customers and insurers have shifted their focus towards protection products.

Furthermore, with effect from April 2021, it was announced that income earned on contribution beyond Rs. 0.25 million per annum in ULIPs will now become taxable. While the tax incidence was for investment beyond the threshold, it reduced incentive for contribution beyond a point in ULIPs, which also has led to shift in demand towards protection and other savings/ annuities products.

Currently, the penetration of products like protection, non-par savings and annuities as a proportion of total addressable population is modest, but the awareness of these products has increased manifold since the onset of the COVID-19 pandemic. Going forward, due to increasing push by insurance companies, leveraging of online platforms and increasing awareness about the benefits of these products, CRISIL Research expects demand to gain traction and act as the major growth drivers for the industry.

Share of protection products in new business premium for some large private players

Share of protection products	FY17	FY18	FY19	FY20	FY21
HDFC Life	22.0%	26.0%	27.0%	27.6%	19.6%
ICICI Prudential*	3.9%	5.7%	9.3%	15.1%	16.2%
Max Life	7.0%	8.0%	10.0%	13.0%	14.0%
SBI Life	4.8%	5.5%	11.9%	12.5%	11.9%

Note: (*) Based on new business annualised premium equivalent (APE)

Source: Company annual reports; CRISIL Research

Share of annuity products in new business premium for LIC and some large private players

Share of annuity products	FY18	FY19	FY20	FY21
LIC	19.8%	20.3%	21.2%	21.1%
HDFC Life	9.0%	17.3%	15.6%	19.5%
ICICI Prudential*	0.4%	0.9%	1.4%	3.5%
Max Life	3.0%	2.3%	3.7%	7.8%
SBI Life#	0.8%	0.8%	2.8%	6.0%

Note: (*) Based on new business annualised premium equivalent (APE); (#) Based on total premium

Source: Company annual reports; CRISIL Research

Shift in channels of distribution of policies

The life insurance players have significantly leveraged banking channels to market their products from fiscal 2018 onwards. This gradually led to an increase in share of bancassurance channel and a decline in the share of individual agents in distribution of individual life insurance products. Share of bancassurance channel rose from 23.8% of NBP in fiscal 2016 to 29.0% of NBPin fiscal 2021, in the individual business, driven majorly by private players which either have major holdings from the banks or have empanelled banks as their corporate agents.

Lately, due to impetus on technology by the industry and the push provided by COVID-19, share of direct selling and others including web aggregators, etc,. has increased with time and the companies have in turn been able to reduce their dependency on the agency channel thus passing on some benefits to the customers and have helped to increase the profitability of the players. The direct channel accounted for close to 9% of individual life insurance premium in fiscal 2021.

Individual agents, however, continue to account for as much as 58% of the individual life insurance premium for fiscal 2021 due to the personal connect that they can establish especially with individual customers. They can provide hand holding to these customers, make them understand the various advantages of the policies and differences amongst various products, advice on suitability of the product basis the customer's needs, premium reminders, cheque collection etc. Thus, individual agents will continue to be the dominant channel in the Indian market where the consumers are used to their services and serve the above purposes.

New business premium by distribution channels for the industry (individual life insurance product)

	FY16	FY17	FY18	FY19	FY20	FY21
Individual agents	68.3%	68.8%	65.9%	62.3%	60.8%	58.2%
Corporate agents – Banks	23.8%	23.5%	25.2%	27.0%	26.7%	29.0%
Corporate agents – Others	1.4%	1.3%	1.3%	1.4%	1.6%	1.7%
Brokers	1.6%	1.3%	1.3%	1.4%	1.7%	1.4%
Direct selling	4.8%	5.1%	6.2%	7.6%	8.8%	8.9%
Web Aggregators-	0.0%	0.0%	0.0%	0.1%	0.3%	0.3%
Others	0.0%	0.0%	0.1%	0.1%	0.2%	0.5%

**Direct selling also includes business through referral and online channel*

Others include POS, IMF, IMFS, Others and Micro Agents

Source: IRDAI – handbook of statistics, Company Reports, CRISIL Research

LIC still an agent-driven business; private players moving to banking channels to market products

High share of agents in the individual business is due to LIC's strong selling through this channel. In fiscal 2016, individual agents contributed 96.5% of the retail business to LIC, which has gradually decreased to 93.8% for fiscal 2021. However, it still remains a significant proportion of the retail business done by LIC and it has been able to drive it on the back of significant trust built on the company amongst retail customers. For private players however, it becomes difficult to establish this business dominated by this channel and hence the corporate agency channel is the preferred solution.

New business premium by distribution channels for LIC (individual life insurance product)

	FY16	FY17	FY18	FY19	FY20	FY21
Individual agents	96.5%	96.0%	95.6%	95.8%	94.7%	93.8%
Corporate agents – Banks	2.2%	2.4%	2.6%	2.5%	2.8%	3.1%
Corporate agents – Others	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Brokers	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Direct selling	1.1%	1.5%	1.6%	1.5%	1.9%	2.2%
Web Aggregators	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Others	0.1%	0.0%	0.0%	0.1%	0.5%	0.7%

**Direct selling also includes business through referral and online channel*

Others include IMFS and Micro Agents

Source: IRDAI – handbook of statistics, Company Reports, CRISIL Research

Group business is sourced directly by the insurers

As against the individual business, group business across the industry is dependent on the direct selling team of the insurers and they dominate a significant share of business sourced through various channels. Although, some insurers are lately having increased dependence on corporate channels and brokers for their group life insurance business, the major share is still sourced through their own teams, with direct selling accounting for ~91% of group NBP in fiscal 2021.

New business premium by distribution channels for the industry (group life insurance product)

	FY16	FY17	FY18	FY19	FY20	FY21
Individual agents	1.7%	1.6%	1.0%	1.9%	1.5%	2.1%
Corporate agents – Banks	1.7%	1.8%	2.4%	4.2%	4.4%	4.9%
Corporate agents – Others	1.0%	0.3%	1.3%	2.0%	1.5%	1.2%
Brokers	0.6%	0.7%	1.0%	1.0%	0.8%	1.0%
Direct selling	95.0%	95.6%	94.4%	90.8%	91.7%	90.8%
Web Aggregators	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Others	0.0%	0.0%	0.0%	0.1%	0.2%	0.1%

**Direct selling also includes business through referral and online channel*

Others include IMFS and Micro Agents

Source: IRDAI – handbook of statistics, Company Reports, CRISIL Research

Group business for LIC is sourced by direct selling

Since the group business is majorly dominated by LIC, the share of various distribution channel for LIC largely mirrors that of the entire industry. LIC operates in the group business majorly through only two channels – direct selling and individual agents. Individual agents accounted for a miniscule 2.4% of LIC's group NBP in fiscal 2021.

New business premium by distribution channels for LIC (group life insurance product)

	FY16	FY17	FY18	FY19	FY20	FY21
Individual agents	1.9%	1.8%	1.0%	2.2%	1.6%	2.4%
Corporate agents – Banks	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Corporate agents – Others	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Brokers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Direct selling	98.0%	98.2%	99.0%	97.8%	98.3%	97.5%
Web Aggregators	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

**Direct selling also includes business through referral and online channel*

Others include IMFS and Micro Agents

Source: IRDAI – handbook of statistics, Company Reports, CRISIL Research

Agent network and life insurance business

Individual agents have significantly higher share in individual NBP at ~58% share for fiscal 2021 in distribution channel mix. As stated earlier, this is mainly because an individual is mainly influenced or dependent on an agent to purchase life insurance in order to understand and identify best suitable policy based on his needs and wants.

Due to variations of products with respect to coverage, variations, policy inclusions/ exclusions and various other specific customer-related factors, it becomes more important for insurers to have on board trained individual agents to assist customers while selecting any policy.

In terms of individual business premium growth, players witnessed strong co-relation with increase in number of agents. From fiscal 2019 to 2021, number of individual agents for life insurance industry saw a CAGR of 6% from 219 thousand to 246 thousand as compared to 8% CAGR growth in individual business premium during the same period.

The chart below depicts the linearity between growth in premiums and growth in the agent network on the ground. While the importance of the online channel is expected to increase in the post-COVID scenario, CRISIL Research believes that agents will continue to remain the pre-dominant mode of garnering life insurance business in individual category, given the need for customers' to be assisted in choosing the right product.

Co-relation between growth in number of agents and individual life insurance premium

	Total Number of agents	Individual business NBP (RsBn)

	FY19	FY20	FY21	Dec 21	CAGR FY19-Dec21	FY19	FY20	FY21	Dec 21	CAGR FY19-FY21
LIC	11,79,229	12,08,826	13,53,808	13,29,448	3.5%	510	512	564	358	5%
Private players	10,15,518	10,69,640	11,01,268	10,88,718	2.0%	467	503	574	472	11%

Source: LI Council Individual agent data and new business performance, CRISIL Research

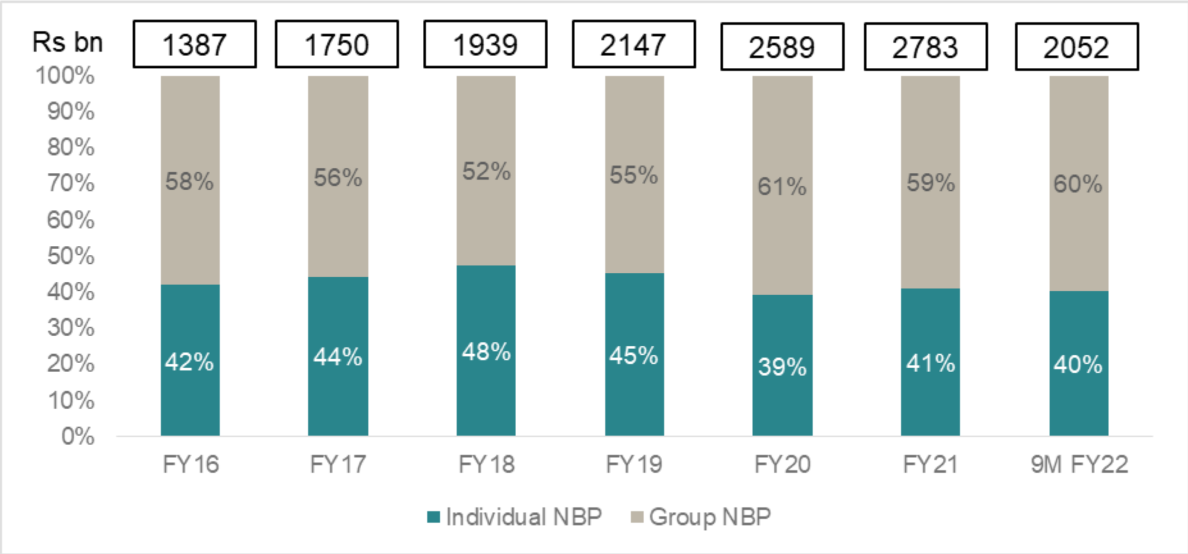
Increase in number of individual agents has direct co-relation with increase in NBP for individuals

Source: LI Council Individual agent data and new business performance, CRISIL Research

LIC dominant in group insurance with close to 80% market share; Private players have higher business from individual business segment customers

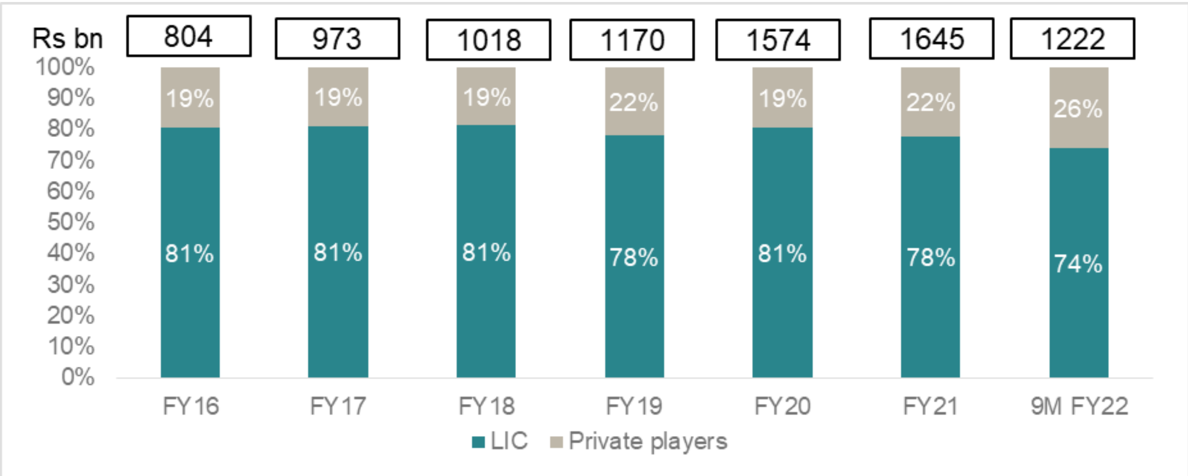
In terms of segments, the share of group NBP in total NBP has increased by four percentage points from 58% in fiscal 2016 to 60% in 9M FY22. LIC continues to dominate the group NBP segment with 78% market share for fiscal 2021. On the other hand, private players have increased their market share in individual NBP from 44% in fiscal 2016 to 50% in fiscal 2021 and further to 57% in 9M FY22.

Group NBP accounts for ~60% share for fiscal 2021



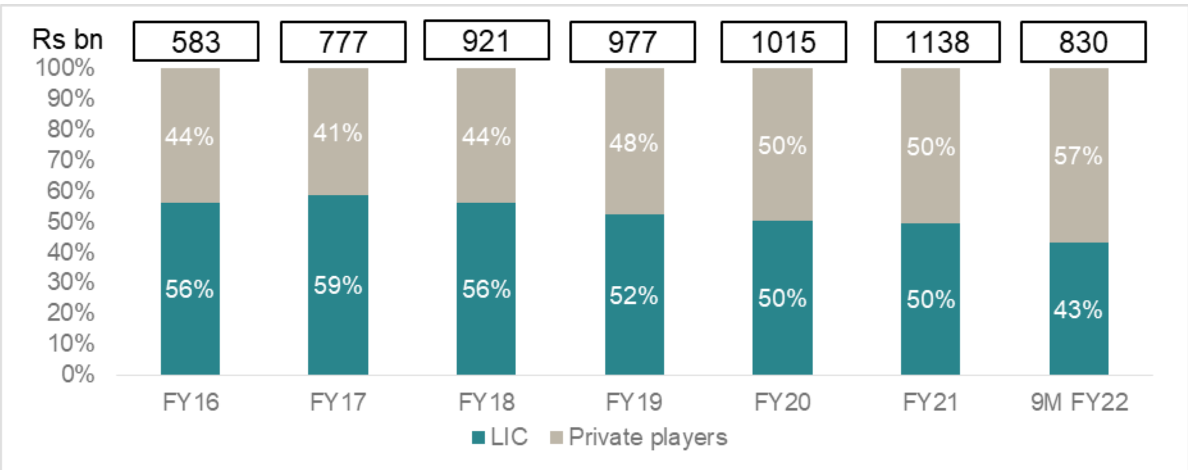
Source: LI Council New Business Performance report, CRISIL Research

Market share of private players and LIC (Group - NBP)



Source: LI Council New business premium report, CRISIL Research

Market share of private players and LIC (Individual - NBP)

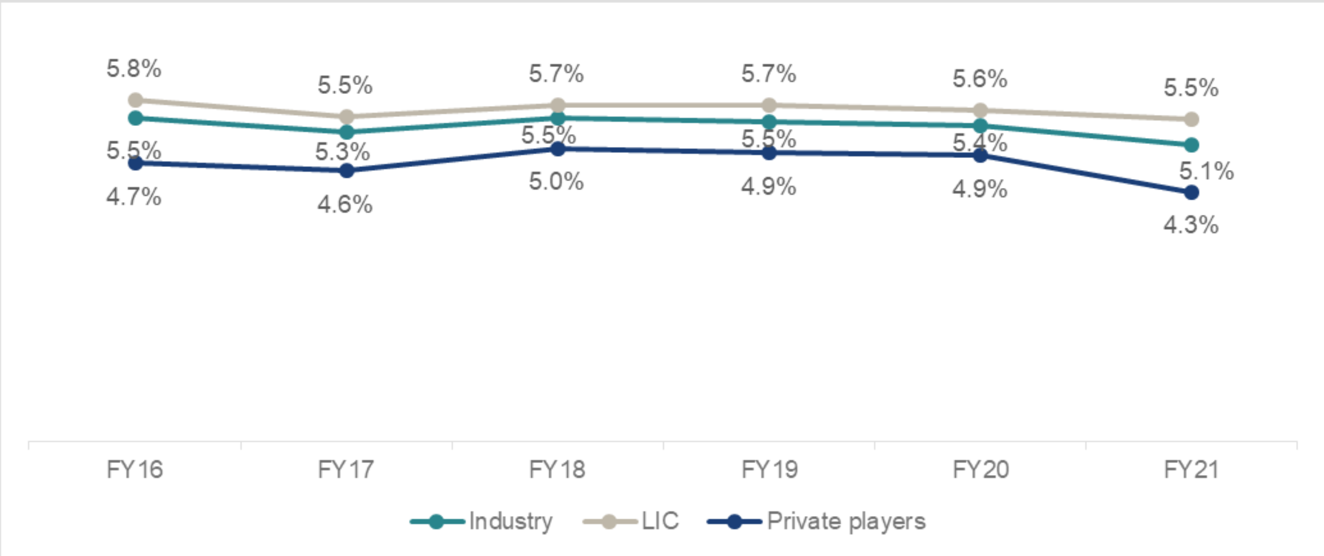


Source: LI Council New business premium report, CRISIL Research

Decline in commission expense ratio in fiscal 2021 across industry

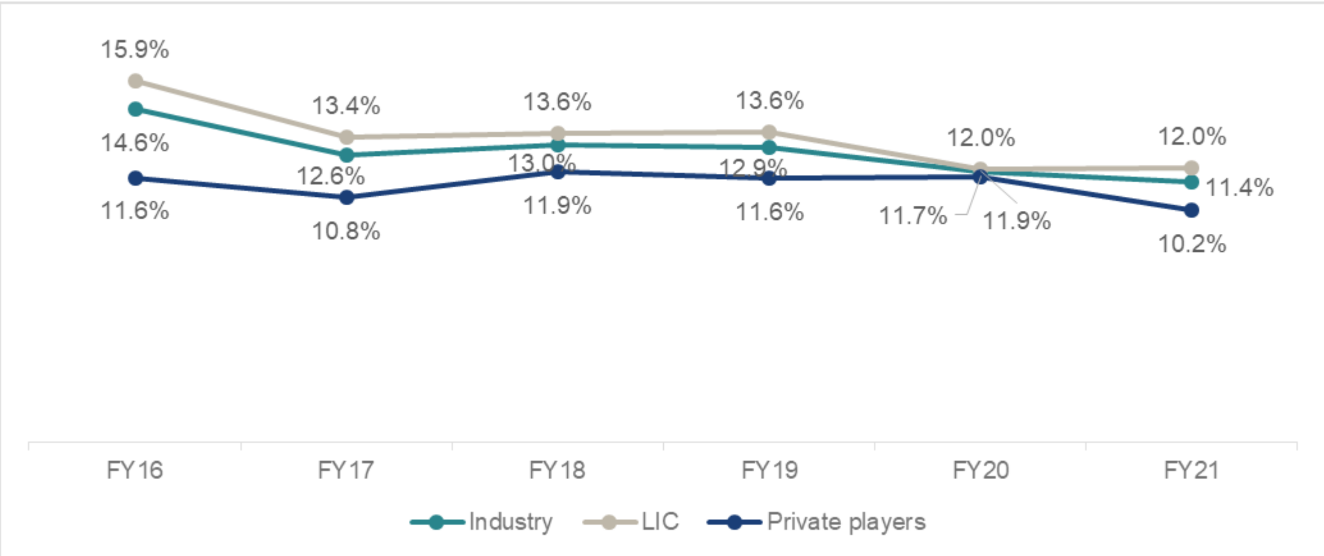
Commission expense ratio on a total premium basis has declined in fiscal 2021 in comparison to previous years on account of significant increase in business being sourced through direct channel. Due to IRDAI's new regulations in 2010, which capped the commission on linked products, commissions have substantially declined since then. But, with LIC sourcing a significant amount of individual business through individual agents, its commission ratio is higher than that of private players. However, with gradual shift towards direct business and other channels, this ratio is coming down for LIC as well as the entire industry.

Commission expense ratio (as % of total premium) of private players lower than LIC's



Source: IRDAI – handbook of statistics, Company Reports, CRISIL Research

Commission expense ratio (as % of NBP)

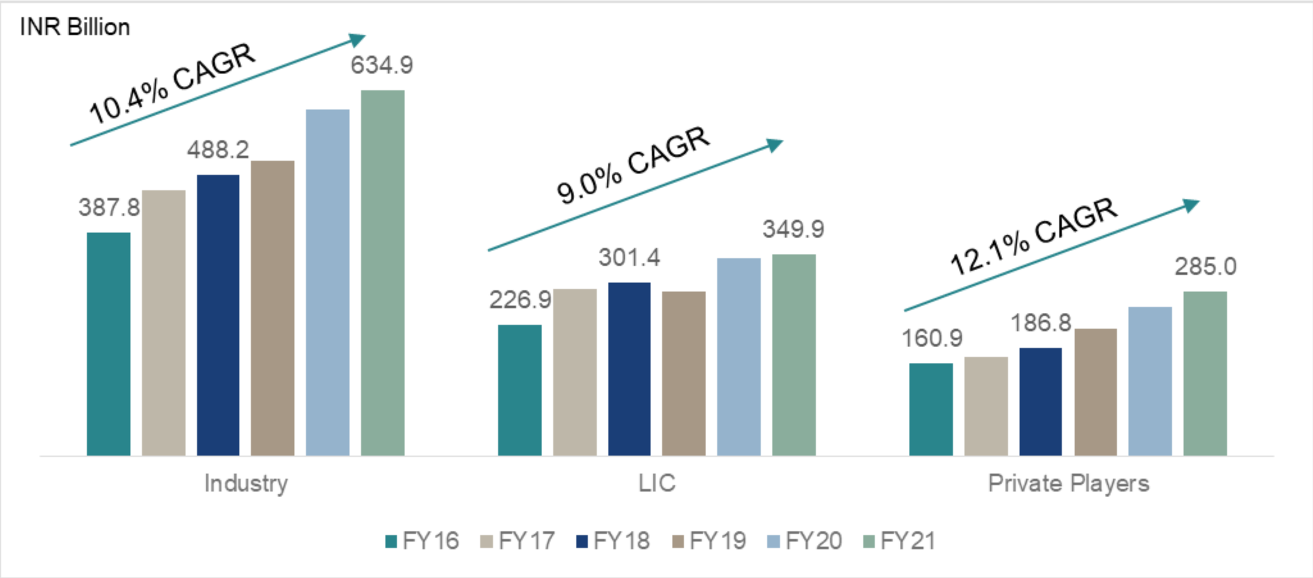


Source: IRDAI – handbook of statistics, Company Reports, CRISIL Research

Operating expense ratio for LIC is low in comparison to the industry

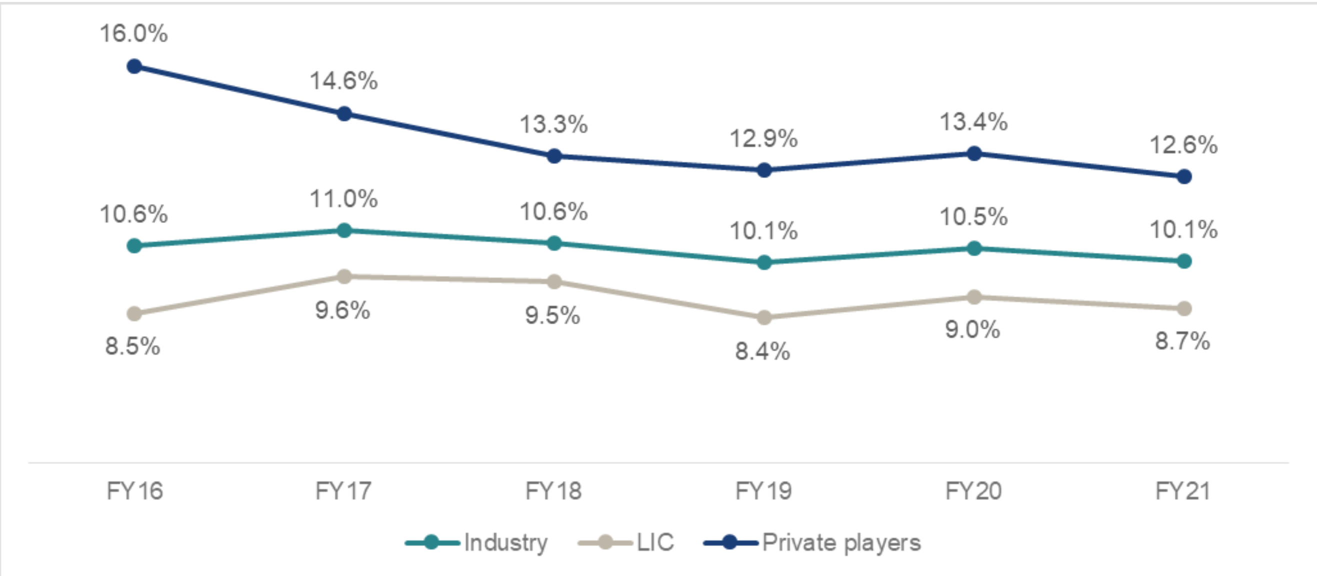
LIC's expense ratio is considerably lower than that of private players on account of it being in mature phase and having already incurred upfront costs. For private players in the industry as well, the operating costs are coming down on account of higher dependence on technology and fintech tie-ups for multiple operations.

Trend in operating expense for industry, LIC and private players



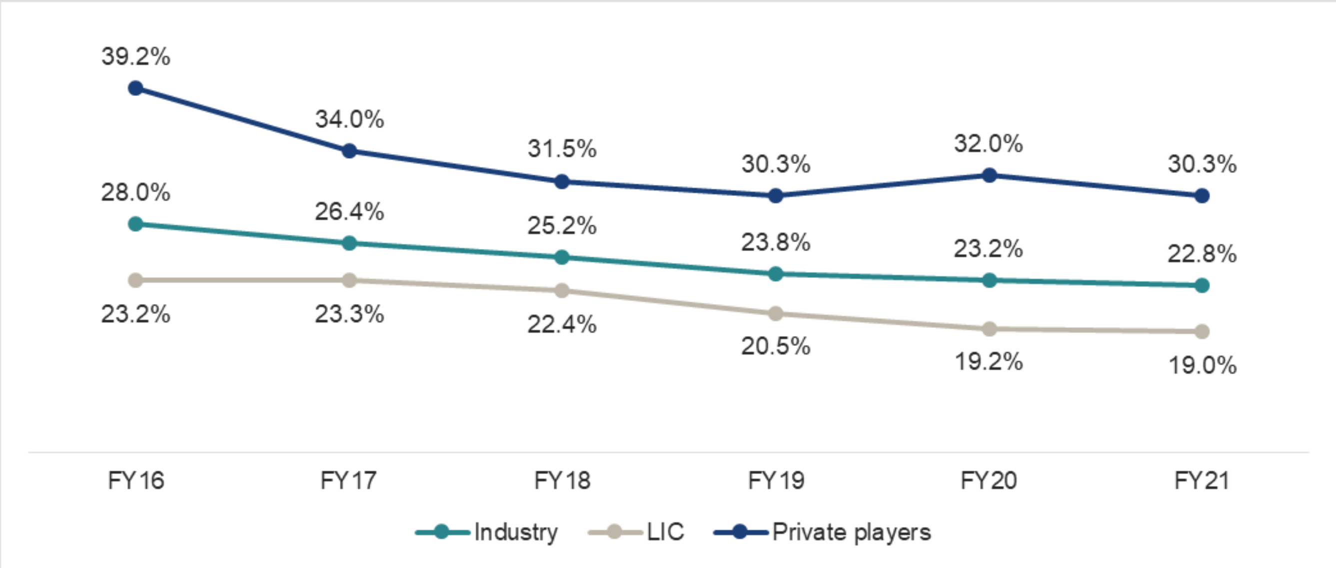
Source: IRDAI – handbook of statistics, Company Reports, CRISIL Research

Operating expense ratio (as % of total premium)



Source: IRDAI – handbook of statistics, Company Reports, CRISIL Research

Operating expense ratio (as % of NBP)

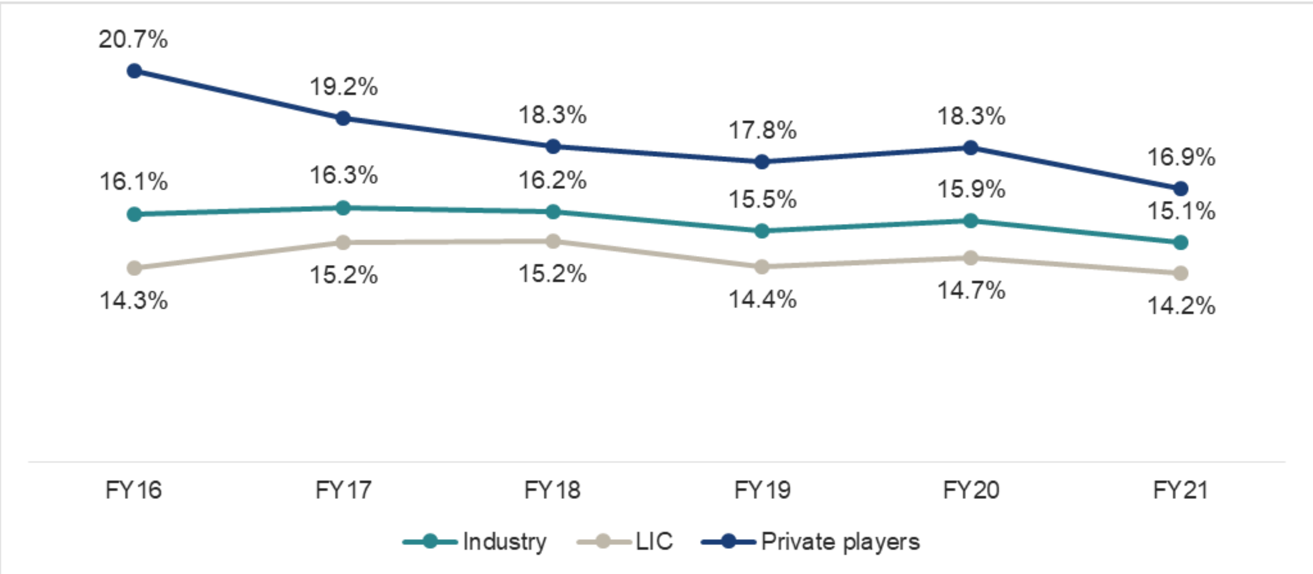


Source: IRDAI – handbook of statistics, Company Reports, CRISIL Research

Sharp decline in total cost ratio as a % to new business premium

Due to high expense and commission cost in relation to business, total cost ratio of private players has remained high as compared to LIC. However, on account of consolidation, with respect to branch expansion and other cost rationalisation, the overall cost is gradually decreasing across the industry. However, LIC's overall cost remains substantially lower than that of private players, due to significantly lower operational cost.

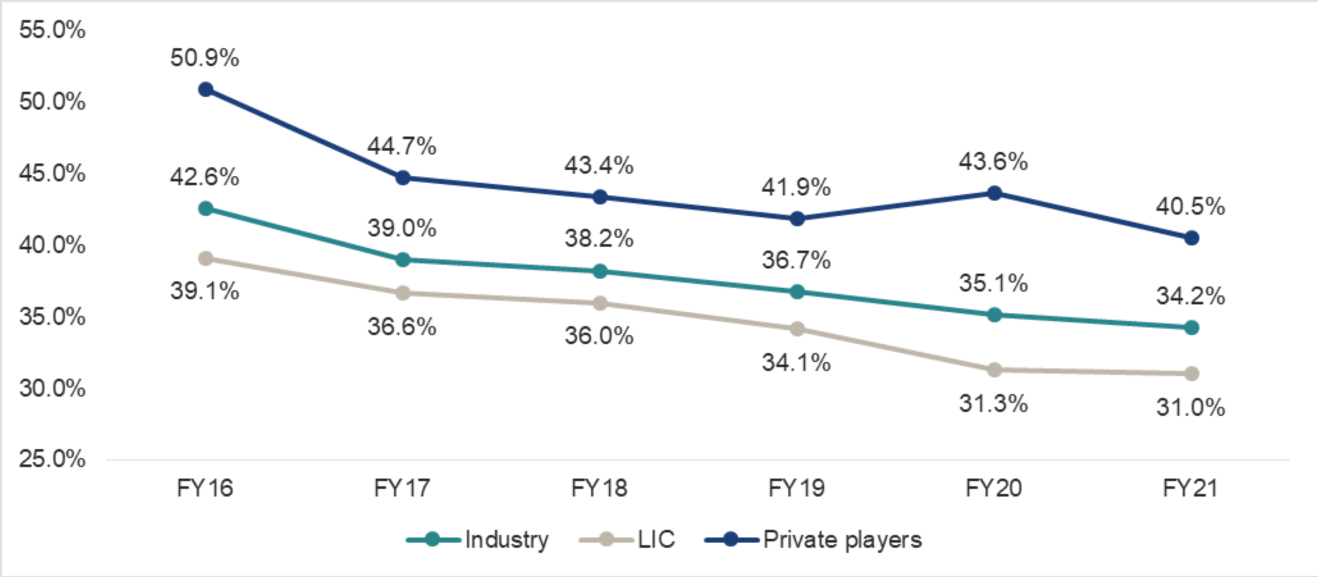
Total cost ratio (as % of total premium)



Note: Total Cost = Commission + Operating Expense

Source: IRDAI, CRISIL Research

Total cost ratio (as % of NBP)



Note: Total Cost = Commission + Operating Expense

Source: IRDAI, CRISIL Research

Host of new products and riders approved by IRDAI in the last few years

Improving the existing offering and bringing in newer products is a constant process in the life insurance industry. Every year a host of new products are brought in by players, who try to entice customers and capture market share. The successful products are slowly replicated by other players as well, and thus product innovation and engineering remains a continuous and evolving process in the industry

Total number of products offered by major players

Life Insurance Company	Total number of products			
	Mar-18	Mar-19*	Mar-20	Mar-21
LIC	42	45	42	45
SBI Life	40	42	35	39
HDFC Life	45	49	48	48
ICICI Prudential Life	30	37	36	39
Max Life	24	25	24	27
Bajaj Allianz	37	42	35	40

Note: (*) Number is as at April; Data for all insurance companies are not covered here; These companies account for 89% of total life insurance premium for fiscal 2021

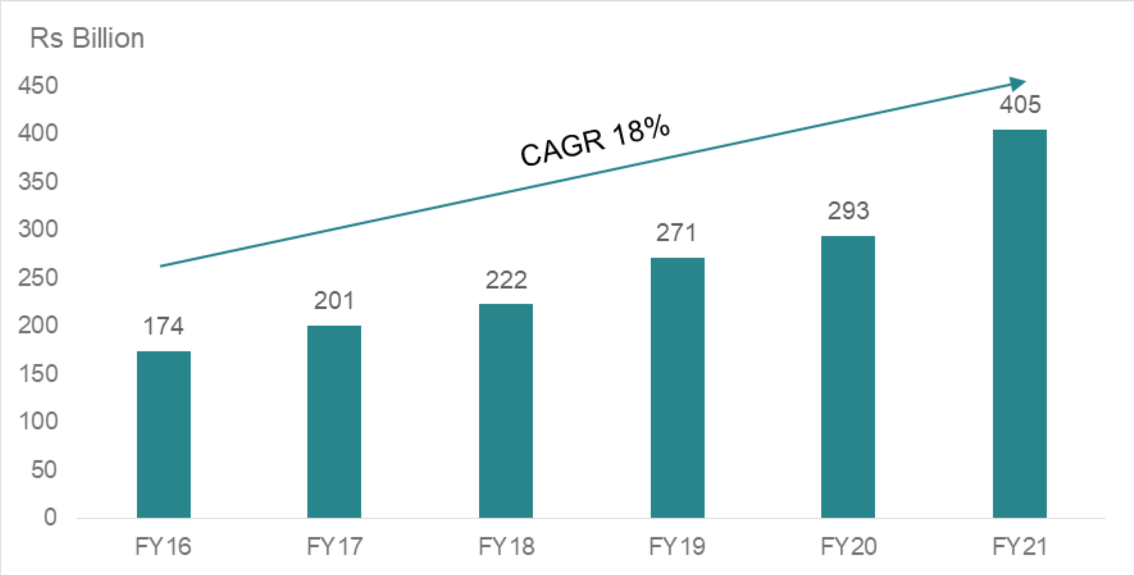
Source: LI Council Industry Information - Product of Life Insurers, CRISIL Research

Claims increased at a faster rate than premium during the five years to FY21

Death claims settled by life insurance players increased at 18% CAGR during fiscals 2016 to 2021, whereas the total premium increased at 11% CAGR during the same period. The claim settlement ratio (claims settled/claims received) consistently improved – from 97.2% to 98.5% till fiscal 2018, however, it reduced to marginally to 97% in fiscal 2020 and subsequently again increased to 98.5% in fiscal 2021.

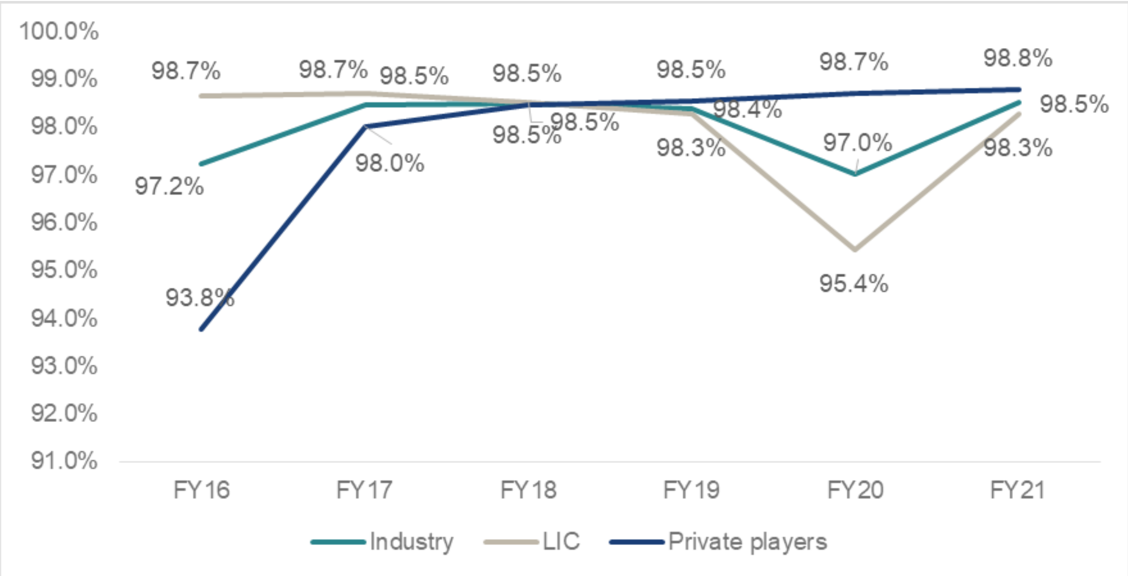
Claim settlement remained high for LIC at around 98-98.5% between fiscal 2016 to 2019 but it reduced slightly in fiscal 2020 before increasing back to 98.3% in fiscal 2021. On the other hand, death claims settlement ratio remained below industry for private players during fiscal 2016 and fiscal 2017 but it was more than industry from fiscal 2019 till fiscal 2021.

Total claims settled by life insurers



Source: IRDAI Handbook on Indian Insurance Statistics 2019-20 (Table 13: Individual death claims of life insurers & Table 14: Group death claims of life insurers), LI Council MIS reports, CRISIL Research

Total death claim settlement ratio for the life insurance industry

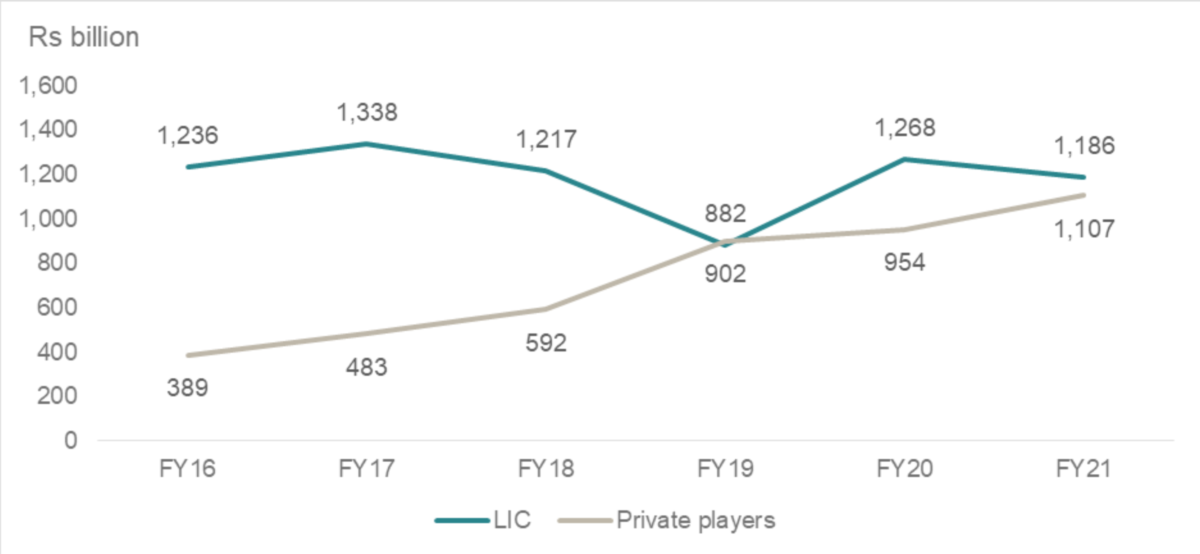


Source: IRDAI Handbook on Indian Insurance Statistics 2019-20 (Table 13: Individual death claims of life insurers & Table 14: Group death claims of life insurers), Company reports, CRISIL Research

Net new cash *(total premium minus net benefits paid)* increasing post FY19

Net new cash additions for the industry saw a decline post fiscal 2017 due to relatively slow growth in total premium. However, the benefits paid to policyholders saw a surge during fiscals 2017 to 2020. The benefits paid increased at ~14% CAGR, compared with ~11% CAGR in total premium between fiscal 2017 to fiscal 2020. For LIC, the gap was much wider, as total premium grew at 8% CAGR during the same period; however, the benefits paid increased at ~15% CAGR. In fiscal 2020, there was significant improvement in net new cash additions for LIC as well as the industry on revival in premium growth and relatively slow growth in benefits paid. Consequently, in fiscal 2021, net cash additions growth was again adversely impacted, largely on account of COVID19.

Net new cash additions for private players and industry



Source: IRDAI Handbook on Indian Insurance Statistics 2019-20 (Summary of Indian life insurance section), LI Council MIS report, Company reports, CRISIL Research

Strengths and potential opportunities due to strong asset management capability, agency force, and large book of existing investors

Total investment book of life insurers grew at a CAGR of 13% from Rs. ~25 trillion to Rs. ~46 trillion between fiscal 2016 to fiscal 2021. The top 6 insurers together accounted for ~93% of the total investment book of the industry as at March 2021, with LIC alone accounting for ~76%.

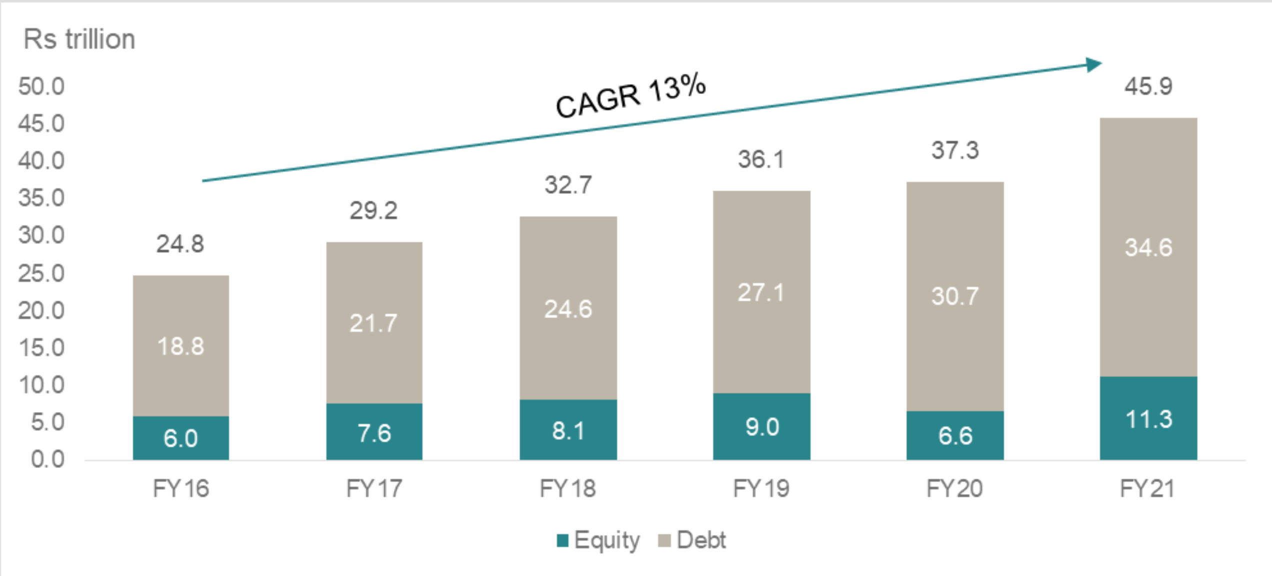
Large book of existing investors along with strong, proven asset management capability over a period of time gives an insurance company the flexibility to deal with volatility associated with ups and downs in economic cycles. and also attract more clients.

Further, due to variations of products with respect to coverage, policy inclusions/ exclusions, riders and various other specific customer-related factors that influence choice of policy, it becomes more important for insurers to have strong agency force to aid customers in selecting the appropriate product as per their needs, which in turn will support investment book growth. The agency force also maintains relationship with existing customers.

Mix of investment books of life insurers

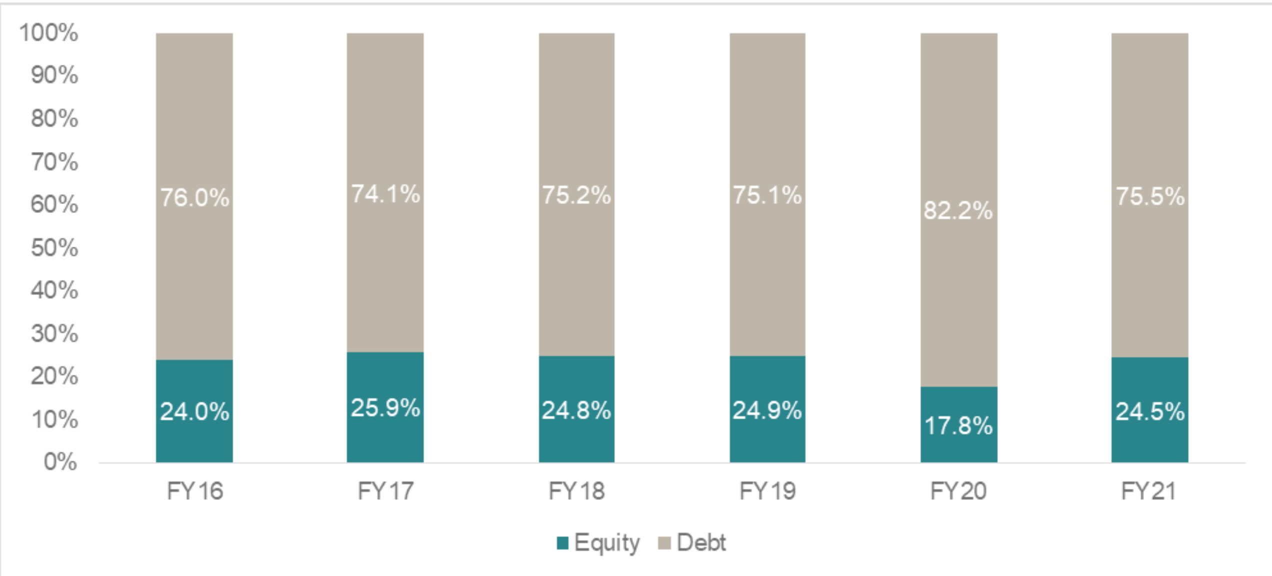
Considering the nature of the business and the need to protect any downside risk, it is observed that debt accounts for a larger portion of the investment portfolio of life insurers. The share of equity in the total investment portfolio of life insurers has declined gradually from 25.9% for fiscal 2017 to 24.5% for fiscal 2021. LIC has more than 70% of its investments portfolio in debt, whereas the corresponding percentage is 55-60% in the case of private players. Insurance companies invest high amounts in infrastructure bonds, due to the long-term nature of their liabilities. The total investment of the life insurance sector in infrastructure was Rs. 4.5 trillion for fiscal 2021.

Trend in investment book of life insurers



Source: LI Council MIS reports, CRISIL Research

Investment book mix



Source: LI Council MIS reports, CRISIL Research

Business model of players in the life insurance industry

The business model of life insurers revolves around levying a charge to policy holders' for covering the risks faced by them and making a spread on the amount invested by them on behalf of policy holders. For doing so, insurers offer a wide suite of savings, annuity and protection products to customers. These products are aimed at covering various risks faced by policy holders' pertaining to mortality, longevity, morbidity and impact of interest rates on investment portfolio.

Just as is the case globally, the life insurance industry in India is also highly capital intensive, as players need to be able to manage day-to-day operational expenses and satisfy policy holders' claims out of the premium income as well as investment income. The business has a long gestation period and one needs to build scale before seeing any meaningful returns. This leads to them being acquired by larger players or global giant or an entity with wide distribution network and some experience in the industry. In short, the industry is consolidating and expanding continuously.

Business models of the life insurance players can broadly be classified basis their distribution preference and striking the right balance between distribution reach and depth, along with efficient underwriting of risk, is critical for success in the industry.

Two broad models in the Indian context are life insurers dependent on the bank-based corporate agent network and the individual agent-led distribution network. Within this, there are players that are either bank promoted that reap the benefits of wide distribution network of the promoter entity, and others that do not have a bank-based promoter but have a bancassurance partner that acts as a corporate agent for the bank.

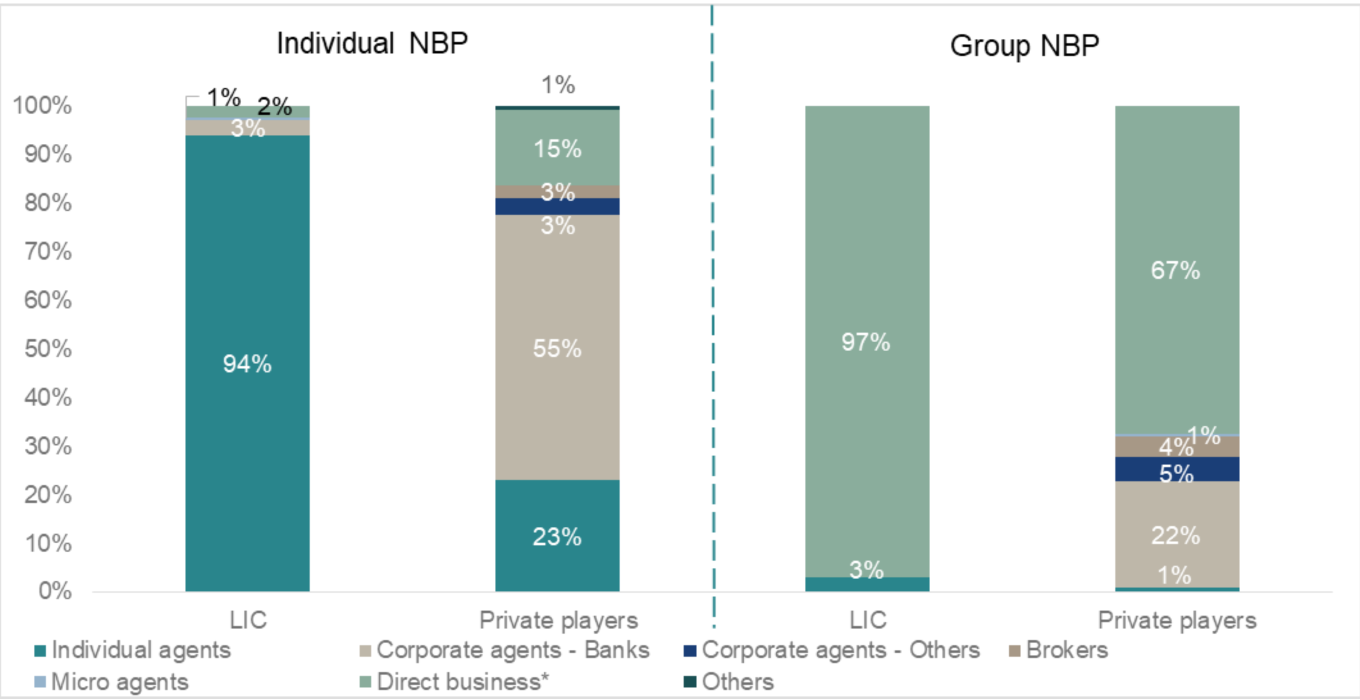
Within players' dependent on the individual agent network, they are further having business model focussed on group or individual businesses or an equal mix of both. Thus, the business model of the life insurance industry in India can be broadly classified as:

1. Bank promoted entities
2. Non-bank promoted entities having banking partners
3. Group focused players with individual agent network
4. Individual focused players with individual agent network
5. Players focused on both group as well as individual business

Focus on a specific distribution channel does not mean that players do not use other channels; it merely indicates higher focus on a specific channel as it helps in optimising costs, especially fixed costs and customer acquisition costs. LIC, for example, mainly relies on its agent network for individual business (94% of NBP in fiscal 2021), thereby keeping its costs in this respect variable, and direct sales through its team for group business.

Private players having extremely high focus on individual business that are reliant on individual agents for distribution have been suffering from low productivity and higher fixed costs and are looking for ways to adjust the cost structure in form of higher variable costs making it better for their profitability. Earlier, due to higher proportion of surrenders, the profitability used to be high for these players on account of the hefty surrender fee collected from the customers. But after the regulator tightened the surrender guidelines and lowered surrender fees on policies in June 2010, these players have found their going to be tough.

Distribution mix for fiscal 2021 by player type



*Note: *Direct business also includes business through referral and online channel; Others include POS, IMF, IMFS, Others and Micro Agents*

Source: Company Reports, CRISIL Research

Strategy / practices to balance pricing & underwriting

While insurers compete on various planks including product, distribution and partnerships, trust and claim settlement, pricing is one the most critical factors impacting competitive advantage in the life insurance industry. It thus becomes vital for insurers to find the right balance in their pricing schemes and underwriting policies to mitigate the risk. In other words, insurers need a well-designed policy to attract new business, retain existing business and also at the same time be overcome challenges on account of mortality risk. Insurers are therefore increasingly making use of both traditional and non-traditional data and leveraging technology through usage of artificial intelligence and machine learning while underwriting customers. For pricing policies, along with their own experience and assessment of competition, insurers also often rely on the pricing of reinsurers as a reference point.

Comparison of individual business v/s group business

The key difference between individual business and group business in life insurance is the need to create a strong customer franchise and a well-entrenched distribution network for scaling up in the individual business. While individual policies offer better services in terms of customized or innovative products, group business brings in large business for the insurer thus increasing profitability. Group policies are more structured based on corporate needs and also convenient in terms of claim processing as compared to individual policies which can be customized and they require handholding from individual agents and relationship managers as they are complex to understand.

Parameters	Individual business	Group business
Definition	Individual life insurance is one that an individual person buys for self	Group insurance is simply insurance that a company buys for its employees.
Distribution	Policies are often purchased with the guidance of an insurance agent or bank employees as customers need to sift through various available plans and associated premium costs	The employer selects the plan, or plans, to offer to employees, often with the aid of the insurer and/or insurance broker
Customized products	An individual can customize products basis his needs and wants and insurance requirements	Cannot be customized to individual needs and wants.
Innovative products	Individual business segment has witnessed rapid innovation in products. Insurers are offering a suite of products – participating-non participating products, ULIPs, pension products – tailored to meet the customers' needs.	Policies under group business are generally standardized at organization level

Source: CRISIL Research

Trade-off between future growth platforms vs VNB

To minimise distribution costs, enhance user experience and shift their business models to more conducive and efficient cost structures, several private players such as Bajaj Allianz, Tata AIG, PNB MetLife, LIC, ICICI Prudential and HDFC Life are investing in platforms. Insurers have invested in platforms like lead management systems (LMS), Visual IVR, tele or video-based underwriting and chatbots. These platforms are expected to aid these players move to a more efficient variable cost with low upfront payment structures in the future and reduce client acquisition as well as servicing costs. These platforms, basis their analytical capabilities and other functionalities, also aid insurers in improving client stickiness. The resultant improvement in persistency ratios after spending a good chunk of costs upfront in terms of acquisition fees will help insurers in their quest to enhance profitability.

In the near term however, while the investment into these platforms is taking place, it becomes imperative to maintain profitability. Till the break-even of the investment in these futuristic platforms takes place, the VNB margins may be relatively suppressed. For larger players however, this point is not so much of a sticking issue due to the higher capital buffers and strong parentage support in addition to existing profitability of their businesses.

Digitization to be at the core of industry transformation

Advanced technology has already become an integral part of the insurance industry. Nowadays, an individual can easily compare different life insurance quotes across various players just by clicking a button. Managing coverage or checking the policy status can also be easily done via mobile app or insurer website.

Evolving digital trends coupled with changing customer and other stakeholder expectations is demanding transformation of existing business models. New and innovative business models across verticals will generate greater value and deliver better services for customers. Insurers are increasing focus towards technology to engage with consumers, and to provide real-time and convenient access to information.

Digital transformation offers insurers opportunities to rethink business operations in order to enhance customer satisfaction, reduce cost and prevent errors. For example, on the selling side, insurance has traditionally been sold on the basis of trust and relationships, but with technological progress, speed, flexibility and innovation will be brought into the equation.

Players looking to tap digital platform to push sales as well as improve operational efficiency

With increasing internet penetration, the use of digital medium to conduct financial transactions has substantially increased over the years. The first major digital adoption for the life insurance industry was issuance of insurance policy in electronic form. Players have tied up with platforms such as National Securities Depository Ltd NSDL and Central Depository Services India Ltd (CDSL), to enable policyholders to hold insurance policies in electronic form. Further, some players have also entered into contracts with digital players, to enable customers to make payments through their preferred channels.

Increasing use of online platform has also led to voluntary sharing of lot of financial-related information by consumers. Therefore, players are developing various tools to leverage the use of such data, which will help them to target the right set of prospective customers. Further, by analysing customer data, players also try to pitch the right set of products to customers. Post selling the policies, the players undertake predictive analysis to identify the probability of a customer renewing the policy. Therefore, effective use of technology will not only help players to identify right set of customers, but also to retain customers for longer period of time.

Though customers use digital medium to study and compare various life insurance products, final sale of policy is still being largely conducted through the intermediaries. On the other hand, the process of underwriting and data verification is undergoing transition, with customers not required to share physical documents with their agents. This helps in substantially reducing the turnaround time and also enhances channel productivity.

Thus, the digital channel is aiding customers to make informed decisions, which will help in increasing the persistency ratio for players in long run and will also reduce mis-selling of policies. However, over the long run, as percentage of end-to-end sales of insurance policies (customer identification to sale of policy) increases, operational efficiency of players will substantially improve, due to lower operating costs. Hence, players in the Indian life insurance industry are increasingly looking to increase sales and increase operational efficiencies.

Key areas in insurance processes where digitalisation is finding application

Contactless on-boarding	Distribution	Underwriting and risk management	Claim processing
• Smarter ways to on-board customers such as paperless login with digital consent, electronic payments and application tracker • Leverage analytics for providing pre-approved offerings to customers for whom no medical tests are required	• AI-driven chatbots to solve customer queries, fill out applications forms and walk customers through some predefined process • Lead management system (LMS) with data analytical models enabling sales team to tap in to existing opportunities • Customers can get most of their queries and requests addressed instantly at their fingertips through visual IVR or speech IVR	• Tele or video based medical assessment • Implementation of AI to evaluate various customer data thus enabling more efficient policy underwritting	• Companies use multiple digital enablers like WhatsApp, mobile app or websites where customer could register, download and upload documents without needing any physical assistance • Insurers are employing robotic process to automatically validate death certificates and reduce the turnaround time

Source: CRISIL Research

Regulatory focus on digitalisation in insurance sector

With the COVID-19 impacting worldwide, IRDAI also have moved in line with changing time to digitise the insurance industry. IRDAI has introduced the various steps to facilitate alternate modes of digital contact, particularly with respect to policy servicing and claims, in order to ensure continuity of business operations. IRDAI has brought the following measures:

Paperless KYC – IRDAI has allowed insurance companies to avail Aadhaar Authentication services of the Unique Identification Authority of India. As a result, KYC is done in just 2 minutes which requires user to provide OTP from Aadhaar registered mobile number.

E-consent of proposal – Due to COVID-19, the traditional approach of filling physical proposal forms, obtaining wet signatures and the subsequent movement of physical papers has been affected. IRDAI has allowed insurers to obtain customers' consent without signature on the hard copy. Insurers will have to send the completed proposal form on registered e-mail ID or mobile number of customers in the form of an e-mail or message link. Customers have to click on the confirmation link to validate the OTP shared.

Issuance of e-policies – In 2016, IRDAI had said that if policies are solicited through an electronic mode, insurers were required to send the policy electronically and also dispatch a hard copy. Exemption for a physical copy was provided only where the policy was issued using an e-insurance account (eIA). Insurers were unable to send the policy contracts on time due to the pandemic and hence IRDAI has allowed Insurers to send all life and health insurance policies electronically to the policyholder’s e-mail ID. The free look period can be started only after the receipt of policy contracts; however, now Insurers shall confirm the date of receipt of the e-policy through a call or other means and preserve the proof so that the free-look period can be calculated from that date.

Competitive Scenario and trends in player group wise market share

Life Insurance industry in India can be classified into three player groups namely LIC, Top 10 private players and others.

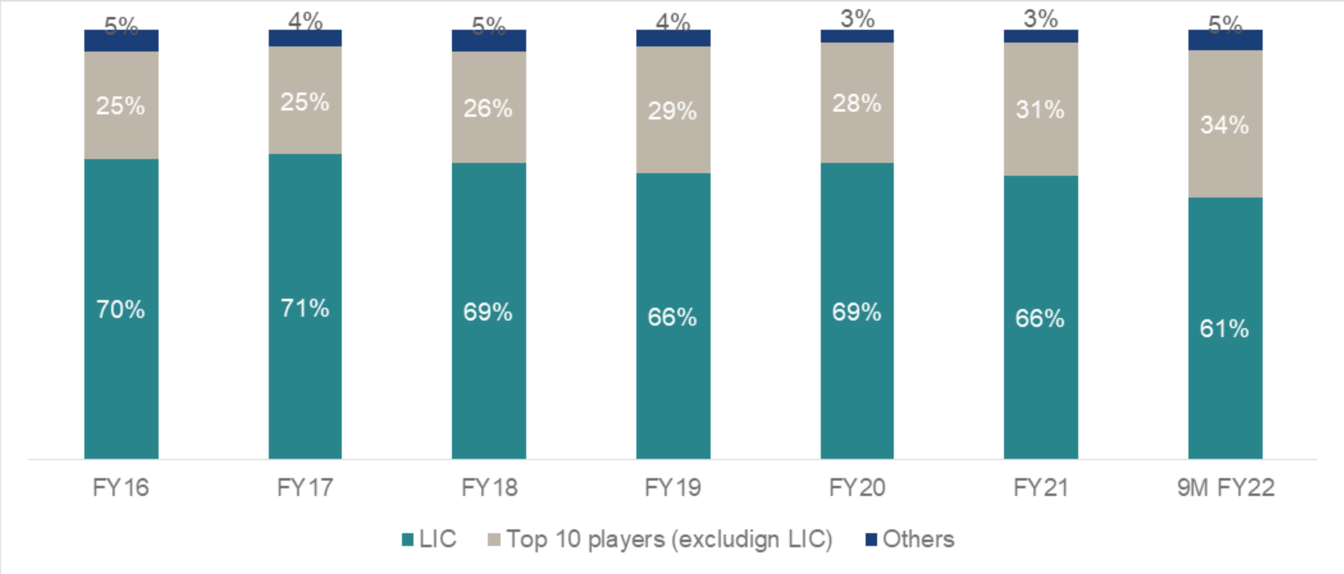
LIC, along with the top 10 players[4] in the private space, have been gaining further heft in the last few years owing to their strong distribution network and superior ability to invest in improving customer experience and operational efficiency. LIC accounted for 66% market share on NBP basis in the industry in fiscal 2021 followed by the top 10 private players accounting for ~31% market share on NBP basis. On the other hand, the share of 'others' dropped from 5% in fiscal 2016 to 3% in fiscal 2021. The share of these player groups during 9M FY22 is 61% for LIC, 34% for top 10 players and 5% for others.

LIC and the top 10 players are well off in comparison to others due to their size, reach, tie-ups, distribution network and partnerships and experience in the Indian market context. Furthermore, the financial performance of smaller players and balance sheet size, in most cases, does not give them the heft and flexibility to expand their geographic footprint aggressively.

This has led to consolidation of players in the life insurance industry in India. For example, HDFC Life (the 3rd largest insurer in terms of total premium in fiscal 2021) acquired Exide Life Insurance (the 14th largest insurer in terms of total premium in fiscal 2021) in September 2021 in a pointer towards the need for scale and enhancing efficiencies. Industry is expected to witness further consolidation in the coming years, as weaker players would find the going difficult.

[4] Top and bottom 10 players are considered based on the new business premium earned every year; hence, the set might not be the same through the years.

Smaller players losing out to market leaders



Note: Market share depicted above is on NBP basis

Source: Life Insurance Council, CRISIL Research

LIC, on account of its well-established individual agent network and government support as also customer trust, has been able to dominate the industry in terms of market share although private players have been present for over two decades now. The outperformance of most of the other top players has been primarily on account of companies leveraging on the strength of their own banking channels or bancassurance partnerships. Therefore, players such as SBI Life, HDFC Life, ICICI Prudential Life, and PNB MetLife, who have strong captive banking channels, have enjoyed a head start over other players in the segment.

In April 2021, Axis Bank, the third largest private bank in India, announced that it had become a co-promoter of Max Life Insurance Company, the fourth largest private life insurer, after the collective acquisition of 12.99% stake through its group entities. Although Axis Bank was a bancassurance partner for Max Life for over a decade, the transaction signifies the intent of both parties to further leverage on each other's' strengths to offer better value to customers by leveraging products, distribution network, technology and the customer base.

Going forward as well, CRISIL Research expects the industry to remain fairly consolidated due to high entry barriers created by the market position of existing players, the need for a strong and well-entrenched distribution network through either a large bank partner/partners or the agency channel, and the need for continuous capital infusion in the first few years at least to meet regulatory solvency requirements.

Key levers to maximise value from the in-force book

Optimising the in-force book helps insurers with better margins, improved growth and lower capital costs. This requires insurers to focus on product pricing, operational efficiency, financial effectiveness and structural factors.

Key levers which insurers can use to maximise value can be classified into transactional levers, structural levers and operational levers:

- Getting the most value from a transaction lever requires well-developed portfolio management to identify which parts of the book to exit or keep. Divesting book can accrue long-term value for insurers by improving their solvency ratio or by freeing up capital to redeploy in new business with higher profitability.
- Structural levers are primarily aimed at improving product mix, pricing risk appropriately and reducing capital requirements. Optimising the product mix by balancing growth and profitability considerations and usage of superior pricing models leveraging technology and actual experience are some steps that could be taken in this regard.
- Operational levers include strategic outsourcing of non-core functionalities, expense reduction exercises, and client relationship maximisation. This can help with the newer policy acquisitions and maximising the profitability of new business as well. For the in-force policies, wherein the premium is covering the policy servicing costs, if the servicing costs go down, it automatically will enhance value in the in-force book for the insurers.

Competition from other avenues of investment and low persistency key challenges for the industry

Life insurers face a host of risks ranging from operational risks (related to persistency, mortality, expense management, and frauds) to economic risks (related to linkage to equity markets, interest rates, credit risks), regulation, and competition risks as they vie with other avenues for customer attention. Besides, insurers also battle with geopolitical risks, environment and climate related risks, and social risks such as changes in attitude towards family.

Life insurance industry faces competition from other financial saving instruments

Insurance faces competition from other modes of financial savings, such as mutual funds, bank deposits, and small-savings instruments, besides physical savings. Similar to the trend of the life insurance industry, the AUM of the mutual fund industry grew at 35% CAGR from fiscals 2006 to 2010, and then saw a sudden slowdown at 10% CAGR from fiscals 2010 to 2016. However, growth revived in between fiscals 2016 and 2021, as the AUM increased at 21% CAGR to reach over Rs. 31 trillion as at March 2021.

Life insurance products provide dual benefits by providing protection to customers, and also by acting as a long-term savings instrument, which is not provided by any other financial instrument.

Insurance companies will have to focus on increasing customer awareness, improving the value proposition, increasing transparency, and keeping costs competitive to make their products a vital part of the customers' financial plans.

Despite the regular growth in AUM of mutual fund industry, the net inflows into the industry are influenced by prevailing market conditions. For e.g., the net inflows started dropping following the implementation of GST and the IL&FS liquidity crisis and were at their lowest post the onset of the pandemic. However, the inflows revived post the market conditions improved and the market rallied with a large proportion of individual investors flocking to invest into mutual funds. On the other hand, the new business premium flowing into the life insurance industry has been stable and not dependent on market conditions and has grown every year since fiscal 2016. Thus, life insurance industry appears more resilient to turbulence as compared to mutual funds.

Comparison of flows in mutual fund and life insurance industries

	In Rs. billion	FY16	FY17	FY18	FY19	FY20	FY21
Mutual fund industry	AUM	12,328	17,546	21,360	23,796	22,262	31,428
	Net flows	1,342	3,430	2,718	1,097	873	2,147

	Retail Investors (AUM)	2,758	3,965	5,295	6,299	4,223	7,050
Life insurance industry	AUM	25,021	28,542	31,891	35,331	38,903	44,800
	New Business Premium	1,387	1,750	1,939	2,147	2,589	2,783
	Individual NBP	583	777	921	977	1,015	1,138
	Group NBP	804	973	1,018	1,170	1,574	1,645
	Total Premium	3,669	4,185	4,588	5,081	5,729	6,287

*Source: IRDAI monthly business figures (*New Business Premium, Individual NBP & Group NBP)*; IRDAI – handbook of statistics and Annual Report* (Total Premium and Life Insurance AUM)*; AMFI*

In the table below, we have compared the features of unit-linked insurance plans (ULIPs) offered by life insurers and equity-linked savings schemes (ELSS) offered by mutual funds. Investors willing to expose their capital to equity markets can opt for both products. The key differentiator between the two is the flexibility ULIPs offer to decide equity exposure based on risk appetite and change exposure based on market conditions. However, unlike ELSS, which is a pure investment product, ULIP is a protection-cum-investment product.

ULIP vs ELSS

ULIP (Unit-linked insurance plan)	ELSS (Equity-linked saving scheme)
Protection-cum-investment product sold by insurance companies	Pure investment product with no offered insurance
Investments in equity, debt or hybrid fund based on risk-taking appetite of policyholder	100% exposure to equity markets
Investments exempted from taxation under section 80C of income tax	Investments exempted from taxation under section 80C of income tax
Lock-in period of five years	Lock- in period of three years
Investors have the option to switch their invested funds based on market conditions – as many switches as per wish during policy year	Investors do not have the option to switch funds and must remain invested for minimum of three years

Controlling persistency ratios

With customer retention being one of the most important drivers of long-term value creation and profitability, private insurance companies have substantially improved their persistency ratios over the past few years. Given the minimum premium-paying term of five years for all regular-premium products, the 61st month persistency is very critical. Maintaining the 13th and 61st month persistency is the key as they are widely tracked and followed and are good indicators of customer retention ability of life insurers.

Since the cost of new customer acquisition is high, maintaining the persistency ratio is imperative for the players and major players have shown improvement in terms of the same in the past few years' basis accelerated efforts towards the same. With increasing competition, rapid product engineering and development, etc., factors coming into play, maintaining a similar improvement in the persistency will remain a key challenge and monitorable for life insurance industry.

Players to find it challenging to keep claims fraud in check

With rapid modernisation of the insurance industry, and penetration of insurtech and mobile adoption, there have been considerable progress in the way insurers work. The biggest challenges for insurers regarding fraud is going to be to manage the consumer data and protect it from attacks. Additionally, inadequate data access from external sources to appraise customers, ascertaining the quality of own data collected through various mediums, integration for data exchange with other insurers for fraud detection, keeping up with modus operandi of the latest digital fraudsters, outdated fraud detection systems and the investment to control claims from these frauds are going to be challenging for the entire industry on the whole.

Downturn in equity markets will adversely impact profitability for life insurance players

The performance of the life insurance players is strongly linked to the performance of equity markets. Thus, the poor performance of equity markets will adversely impact returns as well as fund management charges due to the drop in value of AUM. Further, the pessimism due to downturn will influence the demand for ULIPs, thereby impacting the premium growth.

Change in regulatory norms might disrupt business environment

The cap on commission structure on the sale of linked as well as non-linked products is set by IRDAI. Any change in the commission structure may have an impact on various factors including pricing of the product and profitability for players. In 2010, the IRDAI introduced a cap on the commission to be paid on sale of linked products, which had a material impact on the product proposition of life insurance players. Further in 2016, the IRDAI mandated insurers to have a board approved policy for payment of commission or remuneration or reward, to insurance agents and insurance intermediaries.

Events impacting profitability & solvency of life insurers

The life insurance industry faces several risks due to rapidly evolving customer behaviour, changing demographic profile, increasing competition and dynamic macroeconomic conditions. The financial conditions and future prospects of insurers may be significantly affected by factors such as market fluctuations, changes in tax rates or in interest rates. Even as the ongoing COVID-19 pandemic continues to pose several challenges for life insurers, there are new risks related to ESG (environmental, social and governance) issues. One of the most prominent ESG risks is that of climate change and its potentially far-reaching consequences. Apart from climate change, there are emerging risks associated with public health trends such as increase in obesity related disorders and demographic changes such as population urbanisation and ageing. These structural changes impact the industry in terms of growth, mortality, persistency and solvency. Life insurers also need to bring in significant amount of capital, especially in the initial few years until the business reaches stability stage.

Insurers need to thus assess each of these factors impacting their profitability and solvency, evaluate the potential impacts of these factors on their business and implement requisite measures to mitigate these risks.

Key imperatives for Indian insurers to become future ready

Large untapped insurance market, changing customer preferences, growing population of tech-savvy customer and emerging technological initiatives have disrupted the insurance industry globally. Customers increasingly expect insurers to provide personalized offerings through variety of digital channels. Therefore, it has become imperative for insurers to become future ready and respond to these changes.

Technology to be leveraged to provide new solutions: Indian insurers need to be more agile and increasingly leverage artificial intelligence, machine learning, telematics, connected devices and big data analytics to enhance the value proposition to customers as well as enhancing efficiency in claims processing, underwriting, loss prevention and fraud management, just as is the trend globally.

Direct purchase of individual policies will gain traction: Given the increasing usage of the internet in India and ubiquitous availability of mobile broadband, direct purchase of insurance policies online will grow exponentially. Given the limited awareness of insurance in India and plethora of options available, many these policies would, however, still be sold through assisted service, i.e., sold digitally but with the assistance of a physical representative. Insurers thus need to be flexible in their approach and target customer based on both digital as well as assisted model. For example, in China, the top two players Ping An Insurance and China Life Insurance Company source more than 80% of their gross premiums through agency channel. Despite the rapid progress of technology and ubiquitous broadband availability, they serve their large client base through more than 1 million agents each.

Think partnerships: With rapid changes in technology and continuous innovation, it is imperative for insurers to be flexible and collaborate with technology partners, wherever required, to counter legacy data systems and complex internal processes. They also could get access to a much broader set of customers and participants and thus improve their offerings. For example, insurers in India are collaborating with fintech, digital wallets and other e-commerce platforms, which enables them to increase reach and grow their market share with innovative products. For example, insurers like LIC, SBI Life, ICICI Prudential and Max Life Insurance have tie up with insurtech, GramCover, providing last-mile access in onboarding rural customers. SBI Life Insurance also has a tie up with Vymo, an AI-enabled personal assistant for sales, to aid it in lead conversion. These partnerships are aiding incumbent insurers in improving their existing products and processes, expanding the market as also deepening penetration.

Industry’s SWOT analysis

Strengths
- Strong promoters (JVs)
- Tax benefits avaialble for investment in insurance products in India
- Success of individual agent and bancassurance model
- Operational efficiency of larger players like LIC

Weakness
- Misselling insurance products erodes trust among consumers
- Low persistency ratios

Opportunities
- Low insurance penetration, high share of household savings coupled with favourable demographic profile
- Creation of demand by increasing awareness among consumers
- Higher digital adoption by customers and distributors
- Increasing need for pension plans, micro-insurance and pure protection products
- Opportunity to tap the general insurance market if permitted by the regulator

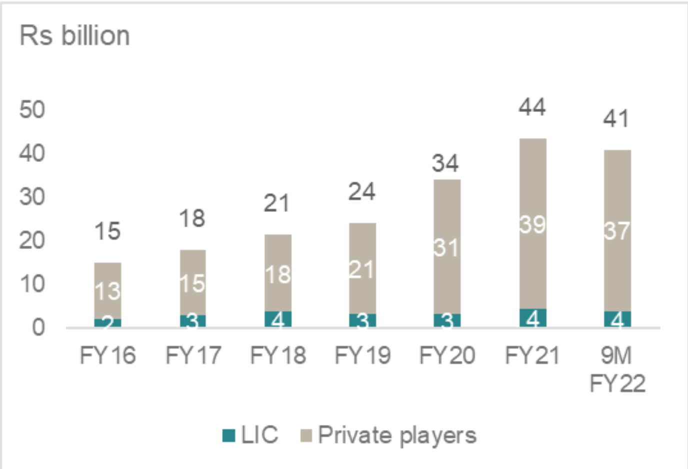
Threats
- Competition from other avenues such as mutual funds
- Changes in regulation that might impact either the commission structure or foreign investment into the sector
- Impact of ongoing pandemic on household income and long term savings
- Continuously changing consumer demands which frequent modification in offerings

Reinsurance in life insurance space

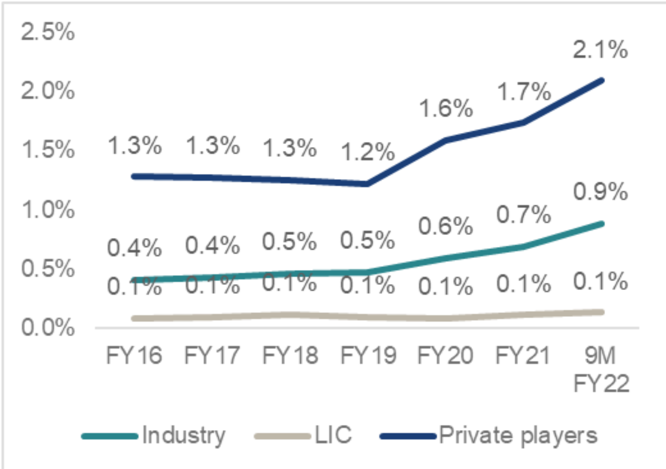
During fiscal 2021, Rs. 4.4 billion was ceded as reinsurance premium by LIC as compared to private insurers which together ceded Rs. 39.1 billion as premium towards reinsurance. Total life reinsurance premiums in India year on year grew at 28% in fiscal 2021, largely driven by growth in LIC's life reinsurance premiums which grew at 35%. Re-insurance ceded share is, however, higher for private players on an aggregate basis as compared to LIC. Over the years, share of private players in total life reinsurance ceded has increased from 85% in fiscal 2016 to 90% for fiscal 2021.

Re-insurance rates increased in fiscal 2021 and is further expected to rise in fiscal 2022 on account of surge in COVID-19 claims especially after the second wave in March/ April 2021.

Premiums ceded to reinsurers

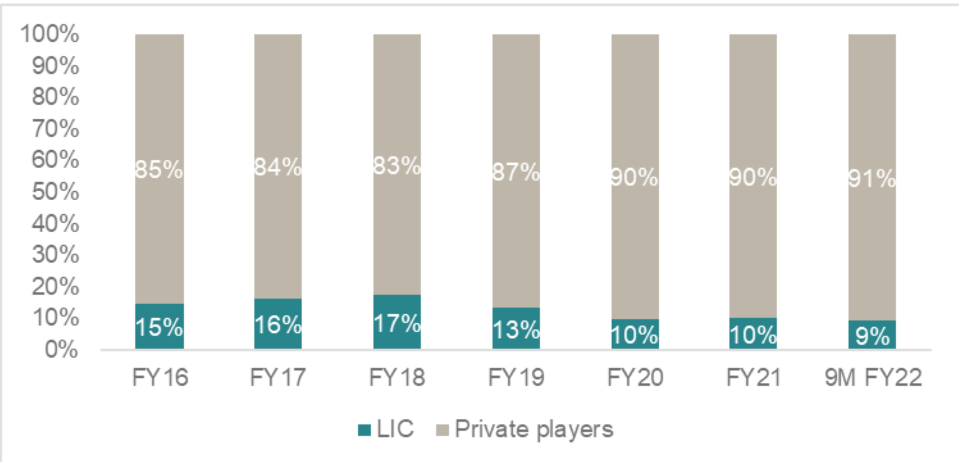


Reinsurance ceded as a % of total premium



Source: IRDAI Annual report, Company reports, CRISIL Research

Re-insurance ceded higher for private companies on an aggregate basis as compared to LIC



Source: IRDAI Annual report, Company reports, CRISIL Research

Micro Insurance

Insurance Regulatory and Development Authority of India (IRDAI) has created a special category of insurance policies called micro-insurance policies to promote insurance coverage among economically vulnerable sections of society. Earlier, LIC contributed the most both in terms of policies sold and number of micro-insurance agents. However, with the notification of the IRDAI (Micro-insurance) Regulations 2005, by the IRDAI, there has been a steady growth in the number of products catering to the needs of the poor. Insurance companies are now offering already approved general insurance products as micro-insurance products with the approval of the IRDAI, if the sum assured for the product is within the range prescribed for micro-insurance.

Some of the main features of micro insurance policies available in India are as follows:

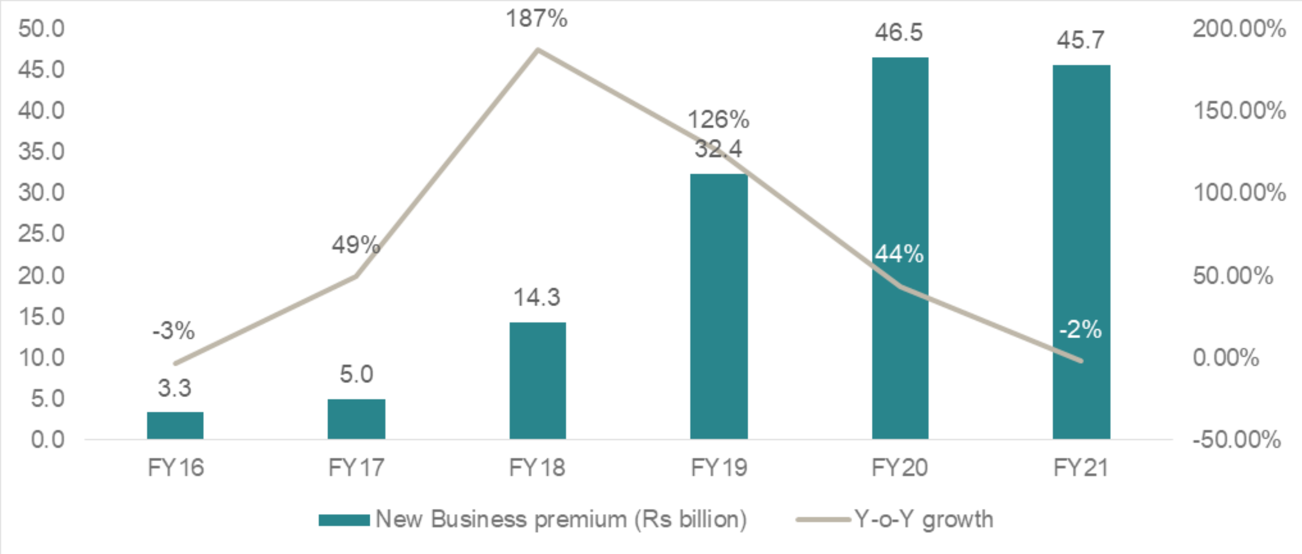
- There are different types of micro insurance plans available in the market. These plans can be life insurance or general insurance plans
- The sum insured under micro insurance plans is restricted to up to Rs. 2,00,000. This is done to ensure that premiums are low and affordable for the targeted population segment.
- IRDAI has made it mandatory for life and general insurance companies to sell a specific portion of micro insurance policies every year to promote the penetration of micro insurance in the rural sector which would create social welfare
- Specialised micro insurance agents are appointed to sell micro insurance plans
- The premiums are very low under micro insurance policies and can also be collected weekly in some cases

In fiscal 2021, the new business premium from micro insurance business for the industry was Rs. 45.7 billion and has grown at a whopping CAGR of 69% from fiscal 2016 to fiscal 2021. Over the years, private sector insurers have increased their share in the micro insurance pie, largely driven by group business, and they together accounted for 90% of new business premium for fiscal 2021. LIC on the other hand reduced its focus on group micro insurance and reduced its number of schemes for the same which resulted in decreasing market share in overall micro insurance industry.

Despite the strong growth, the penetration of micro insurance plans is still low due to lack of awareness and the need for critical mass for the products to be commercially viable for the insurer. Therefore, it is observed that group policies account for majority share of over 90% in micro insurance.

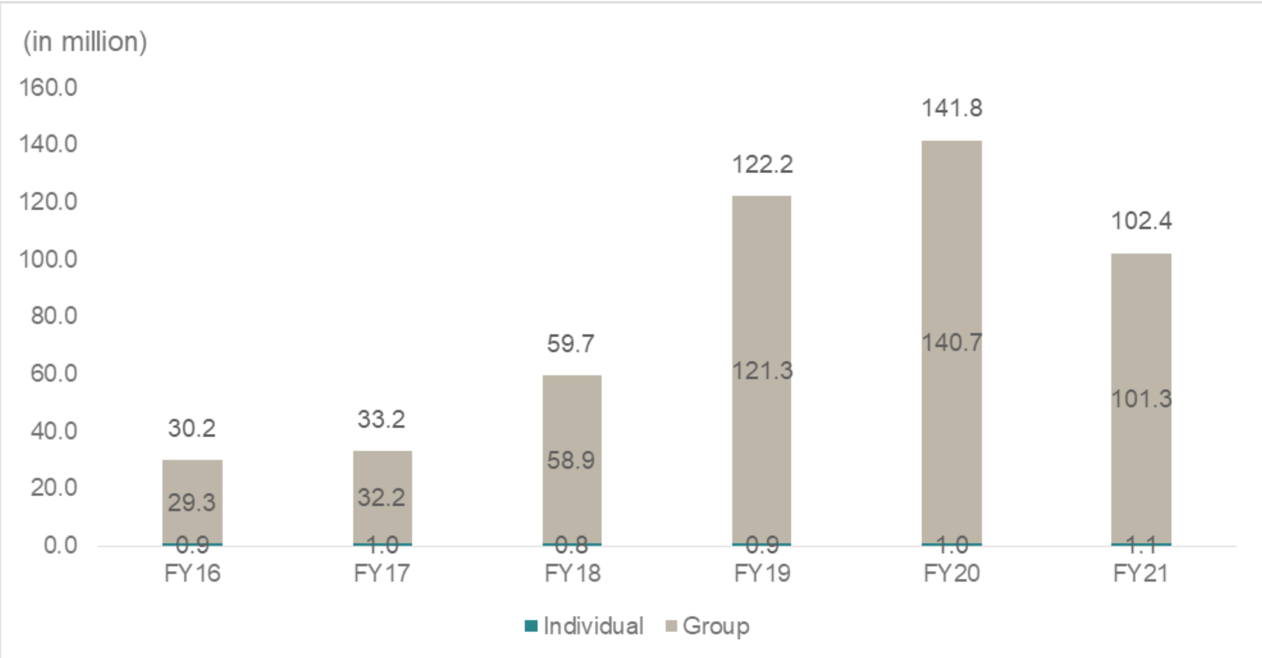
Going forward, these products are expected to witness increased uptake with rising awareness, expansion of distribution channels and higher focus from both public and private sector companies.

Trend in new business premium trend in Micro-Insurance portfolio



Source: IRDAI Handbook on Indian Insurance Statistics 2019-20 (Table 36: New business under Micro-Insurance portfolio), IRDAI Annual report, CRISIL Research

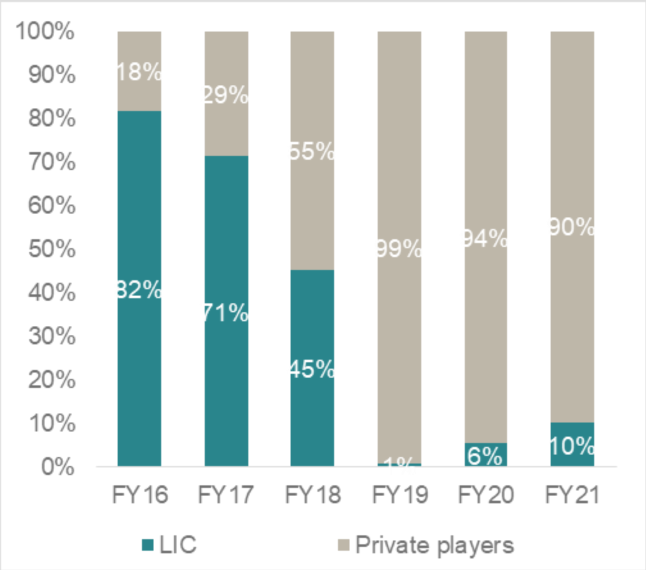
Trend in number of lives covered under micro insurance new business premium

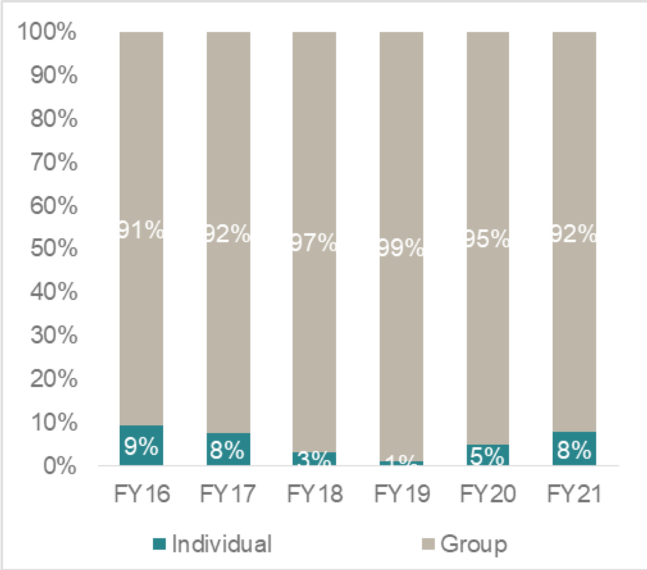


Source: IRDAI Handbook on Indian Insurance Statistics 2019-20 (Table 36: New business under Micro-Insurance portfolio), IRDAI Annual report, CRISIL Research

Private players have increased market share in micro insurance by increasing their focus on group business

Group business accounts for majority share in Micro insurance





Source: IRDAI Handbook on Indian Insurance Statistics 2019-20 (Table 36: New business under Micro-Insurance portfolio), IRDAI Annual report, CRISIL Research

Industry regulations

IRDAI − Statutory regulator for life insurance business since CY 2000

The life insurance industry is regulated by the Insurance Regulatory and Development Authority of India (IRDAI). In 1993, the government set up a committee led by the former RBI governor, RN Malhotra, to propose recommendations for reforms in the insurance sector. Based on the recommendations of the Malhotra committee report in 1999, IRDAI was formed as an autonomous body to regulate the insurance industry in India. IRDAI received statutory status in April 2000.

Before the 1999, the life insurance business was directly controlled by the government under the Insurance Act, 1938, with only one player operating in the sector – Life Insurance Corporation of India (LIC). LIC had absorbed all the 245 Indian and foreign insurers operating in India in 1956, as the government passed an ordinance to nationalise the sector. It enjoyed total monopoly till late 1990s. The government set up the Malhotra Committee in 1993 for reforms in the life insurance sector. As per the recommendation of the Malhotra Committee, Insurance Regulatory and Development Authority (IRDA) was set up as an autonomous body under the IRDA Act, 1999.

Numerous regulatory changes with the inception of IRDAI

The key objective of IRDAI is to regulate and promote competition through the opening up of the insurance market and to protect the interest of policyholders and ensure the orderly growth of the insurance industry. The government opened the industry to private participation in August 2000, allowing 26% foreign ownership in insurance companies. The regulation immediately led to the launch of four private life insurance companies in fiscal 2001, and 23 private life insurance companies were eventually set up by fiscal 2012. However, there have been no additions thereafter.

Key regulations in the sector

1999-2005	*2006-2011*	2012-2016	2017-2021
2000: IRDAI set up as a statutory body to regulate the insurance industry 2000: Insurance industry privatised; 26% equity from foreign owners permitted 2002: Corporate agents allowed to sell insurance products 2002: Broker channel introduced 2005: IRDA passes micro-insurance regulations	2007: Amendment to Insurance Broker Regulation 2010: Major changes in regulations for linked products Product charges capped Cap on surrender charges Increase in lock-in period 2011: Licencing of Bancassurance Agents	2013: Corporate agents allowed to tie up with more than one insurer 2013: Linked and non-linked product regulations 2013: Reinsurance Regulations; Prescription on level of reinsurance 2015: Insurance Amendment Law, 2015 • Foreign Ownership increased from 26% to 49% • Agents can be appointed by insurers 2016: Permission to set up insurance marketing firm	2017: Investment by Private Equity funds in Indian Insurance Companies 2017: Insurance Web Aggregators Regulations 2019: New and innovative campaign “Sabse Peheley Insurance” 2019: Linked and non-linked products regulations 2020: Issuance of Electronic Policies 2021: Foreign Ownership increased from 49% to 74% 2021: Saral Jeevan Bima & Saral Pension; Standard life insurance products
IMPACT	IMPACT	IMPACT	IMPACT
The number of companies increased to 15 by fiscal 2005 Insurance density improved from 9.1 in fiscal 2002 to 15.7 in fiscal 2005	Due to leniency in regulation, the amount of commission paid logged a CAGR of 21% during fiscal 2006 to fiscal 2010 Total premium clocked a CAGR of 26% during the period	Linked insurance premium saw a slowdown due to change in the commission structure Players with strong banking channels leverage their network to gain market share	Customer awareness and insurance penetration has increased due to innovative campaigns and digital initiatives Increased investment in life insurance companies through private equity/ FDI

Source: IRDAI, CRISIL Research

Key initiatives taken by regulators

Life insurance industry went through plethora of developments during COVID19

Every year, the Indian insurance industry goes through various changes in order to provide more customer-centric products and also promote the orderly growth and development of the industry. Particularly in 2020, the regulator undertook number of steps to make sure that the coverage of life insurance increases by offering simple and standardised policy options to customers in the wake of COVID-19. Below are some of the key changes –

COVID-19 Global Pandemic Related Instructions to Life Insurers

This circular had reference to various measures that were being taken by Central and State Governments including lockdown of certain states impacting the normal functioning of offices and the possible difficulties to policyholders in accessing various services including timely payment of premium, settlement of claim.

In this regard, IRDAI on 23rd March 2020 issued directions pertaining to following activities –

- Functioning of offices
- Grace period for payment of premiums
- Claim payments with regards to COVID-19
- Periodic reports

Comprehensive COVID-19 related instructions to all insurers

In order to meet the challenges on account of the developing situation owing to COVID-19, the IRDAI issued the following instructions on 30th March 2020:

Safety measures:

- Operate offices with absolutely necessary staff so as to maintain essential insurance services including claims settlement, authorisation for hospitalisation, renewal of insurance policies and such other activities
- In all the operating offices, extreme care needs to be taken by all concerned to maintain prescribed hygiene, social distancing etc.
- To the extent possible, work from home may be adopted by facilitating the same for the staff of insurers, intermediaries and agents

Communication to key stakeholders:

- Insurers shall prominently display on their website a dedicated help line number for policyholders and another help line number for other stakeholders including agents and intermediaries
- Insurers shall also display the contact number of the officer who can be approached, if the concerns of any of the policyholders and other stakeholders are not resolved through the dedicated help line numbers
- Insurers may also display FAQs for COVID-19 claims on their websites

Monitoring of the situation:

- Insurers shall put in place a Business Continuity Plan (BCP) which inter alia deals with processes, transactions, reporting and customer services to be handled in a seamless manner
- Insurers shall set up a Crisis Management Committee, comprising of key personnel to monitor the current situation on real time basis and to take appropriate timely decisions

Products: Insurers were strongly encouraged to devise appropriate insurance products that would provide protection from risks arising out of COVID-19.

Policy Servicing and Claims:

- Insurers shall make special efforts to enable the policyholders to pay premium using digital methods
- Claims arising on account of COVID-19 should be processed expeditiously

- Due to the prevailing lockdown situation, an additional 21 days was allowed in respect of all complaints which were received on or after 15th March 2020 and upto 30th April 2020

Additional grace period and settlement options for maturity payout of Unit Linked Policies

Due to various operational constraints and difficulties being faced by policyholders due to nationwide three-week lockdown and social distancing norms, IRDAI in April 2020, provided additional 30 days grace period for life insurance policies whose premiums fall due in March and April 2020. As the lockdown was further extended up to mid May 2020, keeping in view the difficulty faced by some policyholders to renew the policies in time, the IRDAI then further extended grace period up to 31st May 2020 for all policies where premium was due in the month of March 2020.

Also, where unit linked policies mature and fund value is to be paid in lump sum, life Insurers were allowed to offer onetime option regardless of whether such option exists or not in the specific product. The Life Insurers however had to exercise all due care and diligence to explain clearly the possible downside risk of continued fluctuation of fund value based on daily NAV and clear consent was to be obtained from the policyholder. This was allowed for unit linked policies maturing up to 31st May 2020.

Group Credit Life Schemes – Modifications to align the coverage with the moratorium announced by Reserve Bank of India

IRDAI made certain modifications in the Group Credit Life Master Policies issued by life insurers so as to align the cover available under such schemes with the revised loan repayment schedule in respect of members who have availed the facility of moratorium announced by RBI in the wake of the COVID-19 pandemic. The following instructions were issued by IRDAI -

- Life Insurers offering group credit life insurance schemes, where under, the members have availed moratorium on payment of EMIs are allowed to suitably modify the term and sum assured under such schemes, against collection of additional premium as may be required, in respect of such members, so that they may continue to be covered as per the revised loan repayment schedule.
- The permission to make such modifications shall be subject to the following conditions:
    - The provision is allowed only in cases where the members have opted for moratorium in terms of RBI's announcements.
    - The modification shall be limited to the extent required to ensure that the coverage under the scheme matches the revised loan repayment schedule.
    - The cover for the extended period shall be priced on the same terms as the original cover.
    - The member enrolment form, the authorization for processing claim payment through the Master Policy Holder (in cases where the Master Policyholder is one of the regulated entities) and the Certificate of Insurance as originally submitted / issued, as the case may be, shall continue to remain valid for the scheme as modified.
    - The difference in stamp duty shall be remitted as applicable and a suitable endorsement shall be made on the Master Policy Document.
- The compliance to these instructions may be subjected to verification by the Inspection Department.

Issuance of Electronic Policies

In the wake of emerging situation of COVID-19 global pandemic and taking into account the desirability of adopting digital means of doing business in the interests of policyholders and other stakeholders, IRDAI allowed an exemption under Proviso to Regulation 4 (iii) of the IRDAI (Issuance of e-insurance policies) Regulations, 2016 from the requirement to issue the policy document and copy of proposal form in physical form. The exemption was subject to -

a) Life Insurer confirming the date of receipt of electronic policy document by the policyholder and preserving the proof so that Free Look period may be calculated from that date.

b) Thirty (30) days Free Look period may be allowed for all such electronic policy documents.

c) Return of electronic policy document by mail by policyholder with clear intention of cancellation of policy shall be valid for Free Look Cancellation.

d) Express consent of the policyholder to receive electronic policy bond is required. If a policyholder insists on hard copy, the same has to be issued without any charges.

e) Policy document shall be sent to the email id submitted by the proposer.

These exemptions were valid for all policies issued during FY21 and is extended untill September 30, 2021.

Dispensing with physical signature on proposal forms

COVID-19 outbreak impacted the traditional manner of canvassing life insurance policies by agents and intermediaries. In particular, the filling-in of the physical proposal forms, obtaining wet signatures on them and subsequent movement of such physical papers, etc., are severely affected. Therefore, in August 2020, IRDAI allowed Life Insurers to obtain the customer's consent without requiring wet signature on the hard copy of the proposal form, for the business solicited by insurance agents / intermediaries. This facilitation was allowed on an experimental basis till 31st December, 2020, and was limited to pure risk products, i.e., products that do not involve any savings element.

Extension of time limit applicable to Public Disclosures

In view of the lockdown and restrictions imposed to contain the spread of the COVID 19 pandemic, IRDAI had extended the time limit for furnishing various returns and reporting compliances by insurers, on 4th April, 2020 to mitigate any hardships. The time limit for furnishing all quarterly, half-yearly and annual returns for the period ending on 31st March 2020 was extended by 30 days.

It was also clarified that the time limit for ensuring compliance with the directions regarding Public Disclosures on websites by insurers for the period ending 31st March 2020 is also extended by 30 days.

Standard life insurance

Today, there are plethora of term insurance products easily available in the market with different terms and conditions. This makes it difficult for customers to make an informed choice and make the right selection of the product. To address this problem, IRDAI mandated that all life insurers offer a standard individual term life insurance plan from 01 January 2021 called 'Saral Jeevan Bima'. Further, the IRDAI also mandated all life insurers to offer a standard individual immediate annuity product, "Saral Pension" from 1 April 2021 onwards. Such a product will help the customers to make an informed decision which will also lead to reductions in the mis-selling and potential disputes during claim settlement.

SabsePehle Life Insurance

In order to create awareness, Life Insurance Council of India, in October 2019, came up with a new and innovative campaign at mass level to spread awareness about the importance of life insurance. The goal of this campaign is to make customers more aware of the benefits of having a life insurance coverage. To support this initiative, all the 24 life insurance companies have joined in hands to raise awareness about the significance of life insurance.

The campaign highlights how one can take necessary precautions to safeguard themselves in day-to-day routine. Similarly, one should take a life insurance cover to protect their future financial needs. The aim of this campaign is to reach maximum population and encourage people to buy appropriate life insurance product and cover.

However, in India, very few people are aware of the need of life insurance and the reasons for the same are -

- Most people consider life insurance as an investment option and not as a necessity
- Individuals consider life insurance as just a tax saving option
- Unlike vehicle insurance, it is not mandatory to have life insurance

Key regulatory changes

Passage of the Insurance Law (Amendment) Act, 2015

The government made certain key changes in the insurance industry through the passage of the Insurance Law (Amendment) Act, 2015, in March 2015. The Act aims to open up the sector further for foreign investments while ensuring that control of management still remained in the hands of the Indian partners. The Act also tried to bring clarity to certain regulatory aspects of the insurance sector. Some of the key features of the Act are:

- Definition of 'insurance intermediary' under section 2 of the Insurance Regulatory and Development Authority Act, 1999 to include 'corporate agents'
- Constitution of Life Insurance Council, a representative body of the insurer, to carry on the life insurance business in India
- No person shall act as an insurance agent for more than one life insurer, one general insurer, one health insurer and one of each of the other mono-line insurers
- Insertion of Section 27E to prohibit investment of the funds of the policyholders outside India directly or indirectly

Stricter action if norms and regulations are violated

The Act imposed stricter penalties on life insurance companies for failing to meet the required rules as mandated by the IRDAI. Some of the violations, which attracted stricter penalties were:

- Failure to maintain required solvency margin
- Non-disclosure of mandatory data with IRDAI
- Payment of commission to unlicensed insurance agents
- Any false statement in documents furnished by the company
- Failure to comply with the provisions of the Insurance Act or rules and regulations, prescribed that if any insurer fails to comply with the provisions shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less (as compared to prior to the amendment penalty not exceeding five lakh rupees for each such failure and punishable with fine)

Omission of redundant clauses and amendment of some others

The Act also amended and omitted certain clauses such as

- Omission of clause which required Indian promoters to reduce their stake to 26% within 10 years of inception
- The amendment allowed the facility to provide loans to the company's full-time employees
- The record can now be maintained only electronically without any need for maintenance of "register or record"
- The Act introduced 'beneficiary nominees' and 'collector nominees'; previously, the nominee was only a recipient of claims and not the beneficiary

Limitation of tie-ups for individual agents

The agent cannot do business with more than one life insurer, one general insurer, one health insurer, and one of each of the other mono-line insurers.

Repudiation on insurance policy only for a period of three years

No policy can be repudiated on any ground, including mis-statement of facts after three years, post the commencement of the policy by the company.

Guidelines for corporate governance

To facilitate prudent corporate governance among insurance companies, IRDAI put in place some guidelines in May 2016. The guidelines encompass structure and composition of the boards of insurance companies, committees of the board, their responsibilities and meetings, appointment of MD/CEO, directors and key management persons (KMPs), appointment of auditors, reporting and disclosure requirements.

Further, few listed players in the industry have also started publishing ESG reports. The disclosures mandated by IRDAI ensures strong transparency by players across the industry and thereby also leads adherence to the Governance framework in-line with ESG principles.

While several insurance companies have put in place mechanisms for effective corporate governance, IRDAI's guidelines envisage harmonisation of corporate governance across insurance companies.

Some of the key features of the guidelines are:

- A minimum lock-in period of five years for transfer of shares from the date of commencement of business for the promoters
- Mandatory Committees for audit, investment, risk management, policyholder protection, nomination and remuneration and CSR[5] for all the insurance players
- Setting up of a liability asset management Committee for life insurance companies
    - The Board should have a minimum of three independent directors; this requirement though is relaxed to two independent directors for the initial five years from the grant of certificate of registration to insurers. Insurance companies that had less than three independent directors as on the date of notification of the guidelines were required to ensure that they complied with this requirement within one year.
- Mandatory to set-up a 'with profits' committee for life insurance companies comprising an independent director from the Board, the Chief Executive Officer, the appointed actuary of the company and an independent actuary. The with-profits Committee will carry out functions to determine the following:
    - Asset share of participating policies at the policy level
    - Investment income attributable to the participating fund of policyholders; and
    - Expenses allocated to participating business
- The Board of Directors is required to formulate a policy to control conflict of interest

The Life Insurance Corporation of India (LIC) is governed and regulated as per *The Life Insurance Corporation Act, 1956*. Therefore, certain provisions of IRDAI's corporate governance guidelines may not be applicable to LIC if the same is inconsistent with the provisions of *The Life Insurance Corporation Act, 1956.*

More power to the IRDAI

The Act empowers IRDAI to frame regulations to govern key aspects of the operations of an insurance company such as investments, solvency, commissions and expenses.

[5] CSR is not included as a mandatory activity per the LIC Act, 1956 and hence the same is not applicable to LIC

Investment by Private Equity firms in unlisted Life Insurance companies

In-order to streamline regulations pertaining to private equity investments, the IRDAI introduced new regulation (Investment by Private Equity funds in Indian Insurance Companies) in December 2017. The regulation laid down the following rules for private equity investment:

- Private equity fund can directly invest in an unlisted Life insurance company (only in the capacity of investor and not promoter) if the holding does not exceed 10% of the paid up equity share capital of life insurance company
- Private equity fund can also invest in an unlisted life insurance company in capacity of a promoter through a Special Purpose Vehicle (SPV)
    - Issuance of fresh equity beyond 25% in the SPV will require prior approval of the IRDAI
    - The investment through SPV will be subjected to lock-in period of five years. The lock in period shall be applicable on SPV and also on the shareholders of the SPV. Provided that the above said lock in period shall not be applicable on the shareholders of SPV holding less than 10% capital of SPV

FDI Cap increased from 49% to 74%

The Parliament, in March 2021, passed the Insurance Amendment Bill 2021 to increase the foreign direct investment (FDI) limit in the insurance sector to 74% from 49% of paid-up equity capital previously. This measure was first announced by the Finance Minister, NirmalaSitharaman, in the Union Budget February 2021. The move followed the raise in FDI limits to 100% in insurance intermediaries, which was announced in July 2019 and effected in September 2019. This move will attract higher amounts of foreign capital, which will aid in increasing insurance penetration in India. Higher FDI limits will also enable more global insurance firms and their best practices entering India thus increasing higher competition and better pricing of insurance products. There are several other benefits on increasing the cap which includes following –

- Because of better availability of more capital than earlier, the insurance companies can increase impetus on business growth and diversification of their portfolio
- More options available to consumers with an increase in competition, which also leads to better offers for them

Guidelines on Insurance e-commerce

The IRDAI aspart of its developmental mandate, issuedinsurance e-commerce guidelines to promote e-commerce ininsurance space which is expected to lower the cost of transacting insurance businessand bring higher efficiencies and greater reach.For the purposes of these guidelines an insurance agent is not permitted to set up a separate insurance self-network platform and instead can use respective insurer’s self-network platform, if available. However, the insurer shall be responsible for compliance of these guidelines on behalf of the insurance agents.

Stewardship Code for Insurers in India

The code is in the form of a set of principles which the insurance companies need to adopt and were made applicable from FY18. As per the code, insurer should have a board approved stewardship policy which should identify and define the stewardship responsibilities that the insurer wishes to undertake and how the policy intends to fulfill the responsibilities to enhance the wealth of its policyholders who are ultimate beneficiaries. However, a revised guidance on stewardship code was prepared and placed herewith as Revised Guidelines on Stewardship Code for Insurers in India in Fedruray 2020.

Insurers should formulate a policy for Stewardship based on the principles indicated in these guidelines and get the approval of their Boards for implementation of the same. The principles and the guidance for the implementation are given below:

- Insurers should formulate a policy on the discharge of their stewardship responsibilities and publicly disclose it
- Insurers should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilitles and publicly disclose it
- Insurers should monitor their investee companies
- Insurers should have a clear policy on intervention in their investee companies
- Insurers should have a clear policy for collaboration with other institutional investos, where required, to preserve the interests of the policyholders (ultimate investors). which should be disclosed
- Insures should have a clear policy on voting and disclosure of voting activity
- Insures should report periodically on their stewardship activity

Public Disclosures by Insurers

The IRDAI had issued circular “Public Disclosure by Insurers” on 26th May 2011 and guidelines on “Periodic Disclosures” were also issued on 9th April 2010. However, the revised instructions on Public Disclosure by Insurers which will supersede the provisions of the earlier circular were issued in September 2021.

The revised instructions shall come into effect from the financial year 2021-22 and the uploading of disclosures on website shall be on quarterly basis from the period ending 30th September, 2021 whereas publishing in Newspapers will be on half yearly basis from the period ending 30th September, 2021.

Key regulatory changes pertaining to customers

Unit Linked Insurance Products Regulations, 2019

The regulations stated that unit Linked insurance products shall be offered only under non-par individual products and non-par group products. Some of the key changes were:

1. Enhanced period for revival of ULIP policies
2. Enhanced proportion available for commutation of pension products
3. Option to buy an annuity from any other insurance company for pension plans
4. The difference between the maximum and minimum charges collected by Insurers during the first five years of a unit linked policy can now vary up to 3 times, double from the erstwhile 1.5 times limit.
5. Change in Minimum Death Benefit definition
6. Discontinuance terms changed

Non-Linked Insurance Products Regulations, 2019

These Regulations are applicable to all the products offered by the life insurers under the non-linked platform. The product structure was classified as participating products and non-participating products. The product filing documents required to clearly mention the following classification: a) Par/Non-par b) Life/Pension/General Annuity/Health. c) Individual/Group d) Savings/Pure risk premium product.

Some of the key changes in the regulations were:

1. A non-linked policy will now acquire a surrender value on receipt of at least two consecutive policy years' premium, and such surrender value is subject to the premium paying term of the policy
2. Policyholders have a period of five years to revive a non-linked policy
3. Change in minimum Death Benefit definition
4. Minimum policy term of one month allowed under Individual Pure Risk premium product, Group term, Group credit and Micro Insurance product as against earlier minimum term of 5 years
5. Option to buy annuity from any other insurance company for pension plans
6. Enhanced proportion available for commutation of pension products
7. Fund based Group products allowed as traditional savings insurance products in lieu of VIP platform

Issuance of policies in electronic form on meeting requisite criteria

IRDAI issued a regulation in June 2016 on issuance of electronic insurance policies, wherein it made it mandatory for the players to issue policies in the electronic form if the sum assured or annual premium exceeded a pre-set amount. IRDAI also permitted players to offer discounts in premium rates to policyholders for electronic insurance policies in accordance with the rates filed under the product-approval guidelines.

Tighter rules on expense management

In May 2016, the IRDAI issued regulations to control the expenses incurred by the life insurance company to acquire customers. For insurance companies in operation for more than 10 years, the regulator capped the expense at 80% of first-year premium and 15% of renewal premium for players in respect of policies with premium payment term of 10 years and above. For players with less than 10 years of operations, the IRDAI provided a higher cap on expense due to high costs involved in the first few years of operations. The expense was capped at

90% of first-year premium and 20% of renewal premium the IRDAI provided a higher cap on expense due to high costs involved in the first few years of operations. The expense was capped at 90% of first-year premium and 20% of renewal premium for players in respect of policies with premium payment term of 10 years and above. The respective caps are higher for pure protection products.

Expenses cap for products other than pure-risk products

Premium payment term	% of first-year premium	% of renewal premium
5 -7 years	70	18
8-9 years	80	19
10 and above	90	20
5 -7 years	60	15
8-9 years	70	15
10 and above	80	15

Source: IRDAI

Anti Money Laundering/Counter' Financinq of Terrorism (AML/CFT)

In order to discharge the statutory responsibility to detect possible attempts of money laundering or financing of terrorism, IRDAI issued guidelines on Anti Money Laundering/Counter' Financinq of Terrorism (AML/CFT) on 28th September 2015. As per the guidelines,every Life Insureris required to have an AML/CFT program which should, at a minimum, include:

- Internal policies, procedures, and controls
- Appointment of a Principal compliance officer and a designated director
- Recruitment and training of employees/agents
- InternalControl/Audit

Key regulatory changes pertaining to distribution

Registration of Insurance Marketing Firm Regulations, 2015

These regulations cover –

- Registration of Insurance Marketing Firm by engaging Insurance Sales Person (ISP) for the purpose of soliciting and procuring Insurance Products of two Life, two General and two Health Insurance companies at any point of time, under intimation to the IRDAI.
- Insurance Servicing Activities of the Insurance Marketing Firm
- Marketing of other financial products through the Financial Service Executive (FSE) engaged by the Insurance Marketing Firm

In terms of remuneration payable to the Insurance Marketing Firm, the Insurer shall make all remuneration for soliciting and procuring insurance policies undertaken by an Insurance Marketing Firm, to the concerned Insurance

Marketing Firm only, and not to any other person or entity. In addition, the Insurance Marketing Firm may receive fees or charges from life insurance companies only in the form of service charges for recruitment, training and mentoring of their ISPs. These fees or charges shall not exceed 50% of first year commission and 10% of renewal commission received by IMF. No such payment shall be made in case of general/health insurance business. The life insurance companies shall have to disclose to the IRDAI upfront at the time of filing their products under file & use guidelines on payment of such fees or charges to the Insurance Marketing Firm.

Point of Sales Person-Life Insurance

An Insurer or an insurance intermediary authorized to solicit and market life insurance business can engage a “Point of Sales Person”.A “Point of Sales Person- Life Insurance” engaged by an insurance intermediary can sell the Point of Sales – Life Products of all such Insurers whose life insurance products the respective intermediary is authorized to sell.

In order to give added fillip in providing easy access to life insurance to people at large and to enhance insurance penetration and density, the IRDAI issued the guidelines in November 2016.

The “Point of Sales Person” can sell Life Insurance Products filed with and approved by the IRDAI which may be –

- Pure Term Insurance product with or without return of premium
- Non-linked (Non-Participating) Endowment product
- Immediate Annuity Product
- Any other product / product category, if permitted by the IRDAI.

The Life Insurers and Insurance Intermediaries are required to make suitable provision in their policy administration system to capture the Aadhaar Card number or the PAN card number details of the “Point of Sales Person – Life Insurance”. Further, the “Point of Sales Person- Life Insurance” when engaged by the insurer shall place business with that insurer subject to compliance of rules and procedures of that insurer.

Corporate agents allowed to tie up with multiple insurance players

The IRDAI notified IRDAI (Registration of Corporate Agents) Regulations, 2015, introducing the requirement for corporate agents to obtain registration from the IRDAI. Previously, Corporate Agents were only required to obtain a license from the IRDAI. A corporate agency registration is valid for a period of 3 years from the date of issuance, unless the same is suspended or cancelled by the IRDAI. The grant and renewal of a corporate agency registration is subject to the applicant meeting the eligibility criteria prescribed. Depending on the type of registration (i.e. General, Life, Health) a corporate agent is permitted to act as a corporate agent for a maximum of three life, three general and/ or three health insurers and is required to adopt a board approved open architecture policy on the same A Corporate Agent (Composite) is allowed to tie up with up to three life, three general and three health insurers.

Introduction of web aggregators

In order to monitor the content on the websites of web aggregator insurance companies, the IRDAI introduced the Insurance Web Aggregators Regulations in May 2017. Web aggregators are companies registered under the

Companies Act and approved by IRDAI, which maintain or own a website and provide information on insurance products of different insurers. As of 27th December 2021, there are 24 web aggregators registered with IRDAI.

Duties and functions of web aggregators

- Web aggregators shall display information pertaining to the insurers who have signed the agreement with them
- Web aggregators are not allowed to promote or push any particular product of a particular company, either through their website or through distance marketing approaches
- No charges are to be paid for generation of leads through web aggregators; in case of sales conversion, web aggregators will earn remuneration as applicable to insurance intermediaries
- Use only RBI licensed payment gateways for collection and transfer of premium to insurers

Ensure the information systems, (both hardware and software) including aggregation website(s) / portals, lead management systems and data centres hosting the website(s) / portals / LMS are in compliance with generally accepted information security standards

ESG and its relevance in Life Insurance Industry

Introduction to ESG

The principles of environment, social and corporate governance (ESG) are increasingly at the centre of investment decisions across the globe. At the core of ESG framework is the recognition that companies can influence the shape of the environment in which they operate. Corporates can impact their very own sustainability over the long-run along with that of society, if not operated in a responsible manner. Increasing frequency of natural disasters due to climate change and increasing importance of being socially responsible while doing business are making it imperative for corporates to adopt ESG framework.

The framework evaluates the impact of company's operations on the environment and society. The core foundation of ESG philosophy is to ensure that corporates adopt measures which will have help fight climate change, promote inclusive growth & promote diversity within organisation and eventually transition to a more sustainable model of growth.

Key pillars and tenants of ESG

Environmental

- Impact of company's operations on environment
- Waste generation and management
- Steps taken by company to mitigate climate risks
- Risks and costs involved in transitioning to a low-carbon economy over long-run

Social

- Human right's protection of company's employees
- Gender diversity and ensuring equal opportunity for all
- Contribution towards society
- Evaluating social risks emanating from investment*

Governance

- Strong Independent board and committees
- Ensuring board independence
- Setting up strong compliance framework
- Maintaining transparency with all stakeholders through regular communication
- Investment framework in adherance to ESG framework*

Source: Industry reports, CRISIL Research

Environmental risks accounts for four of the top five risks according to the 2021 World Economic Forum's Global risk report. In 2010, none of the top 5 risks were environment-related, whereas in 2015 the same increased to 3. With the increasing threat from environment related catastrophes, the parameter is considered today as a major investment risk by asset managers' worldwide and accounted for while making investment decisions.

Top 5 global risks over the years as per World Economic Forum (in terms of likelihood)

	2010	2015	2021
1	Asser price collapse	Involuntary migration	Extreme Weather
	Slowing Chinese economy	Extreme weather	Climate Action Failure
	Chronic disease	Climate action failure	Human environmental damage
	Fiscal crisis	Interstate conflict	Infectious diseases
5	Global governance gaps	Natural catastrophe	Biodiversity loss

Environmental Risk

Source: World Economic Forum, The Global Risks Report

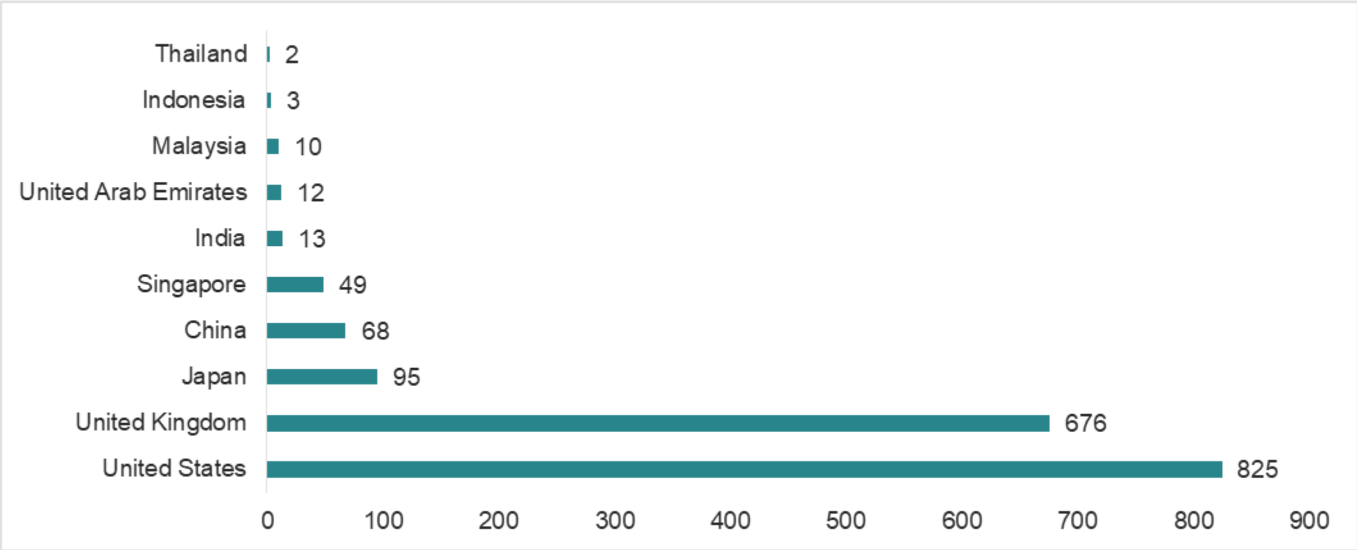
Global adoption of ESG framework

The UN Global Company and UNEP Finance Initiative in partnership with global institutions developed 'Principles for Responsible Investment' ("UN PRI") to develop framework for sustainable practices in-line with the ESG philosophy. The principles were developed under the guidance of United Nations

In 2016, UN PRI laid out six principles governing responsible investment

- Incorporate ESG issues into ownership policies and practices
- Seek appropriate disclosures on ESG from entities in which asset managers invest
- Promote acceptance and implementation of principles within ESG industry
- Work together to enhance effectiveness in implanting the principles
- Report activities and progress towards implementing principles
- Incorporate ESG issues into investment analysis and decision-making processes

Corporate Signatories from some countries

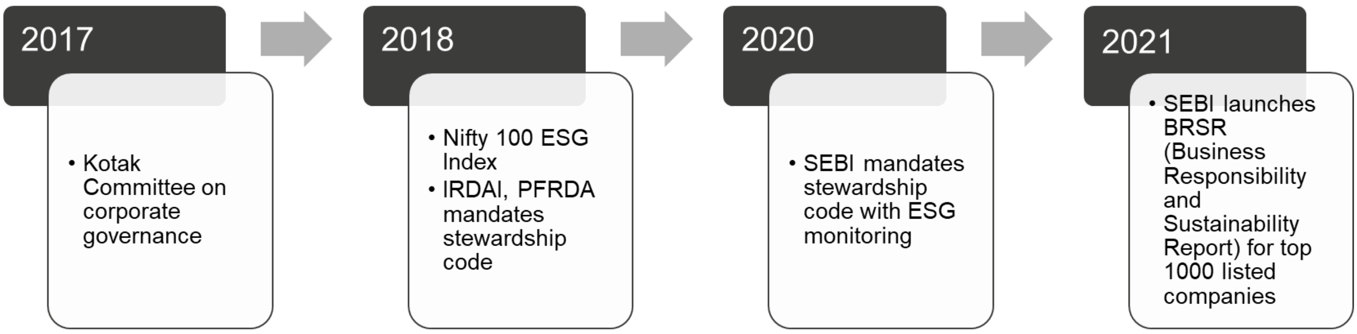


Source: UN PRI, CRISIL Research

As of August 2021, 4,235 global corporates from different countries are signatories to the UN PRI. The Indian corporates are also steadily looking to re-align their business models to the 6 core principles outlined by the PRI. As of August 2021, 13 Indian corporates are signatories with majority of them (10) on-boarding from 2020 onwards. The signatories are required to submit their report to the UN PRI every year on investment activities**.** The continuation of membership is subject to the corporate achieving minimum requirements laid down by UN PRI.

ESG framework: Domestic Perspective

The pace of adoption of ESG in India has accelerated in recent years with support from the Government, investors, shareholders and corporates.



Note: PFRDA: Pension Fund Regulatory and Development Authority; IRDAI: Insurance Regulatory and Development Authority

Source: CRISIL Research

SEBI vide its circular “Business responsibility and sustainability reporting by listed entities” on May 10, 2021 also made it mandatory for the top 1000 listed entities by market capitalisation to publish report from Fiscal 2023 onwards in respect of ESG parameters. The key parameters to be covered in the report are as follows:

- General corporate disclosure encompassing following parameters
  - Employee details
  - Gender diversity
  - CSR details
  - Transparency and Disclosure compliance: Grievance redressal mechanism
  - Sustainability issues pertaining to environment due to business operations and approach to mitigate risk
- Disclosures towards adoption of ‘National Guidelines on Responsible Business Conduct’ (NGRBC) released by Ministry of Corporate affairs in December 2018 and adherence to the 9 core principles laid down by MCA
  - The principles cover parameters related to transparency, employee wellness & diversity, enabling inclusive growth & equitable development, responsibility towards all stakeholders and environment protection

ESG in life insurance industry

The purpose of the life insurance industry is inherently aligned with social benefits to the society. All life insurance players seek to provide financial protection to individuals to cover risks to life/income and/or meet customer’s long-term financial goals. Therefore, maintaining trust among all stakeholders through transparency and efficient governance is key to all players in the industry.

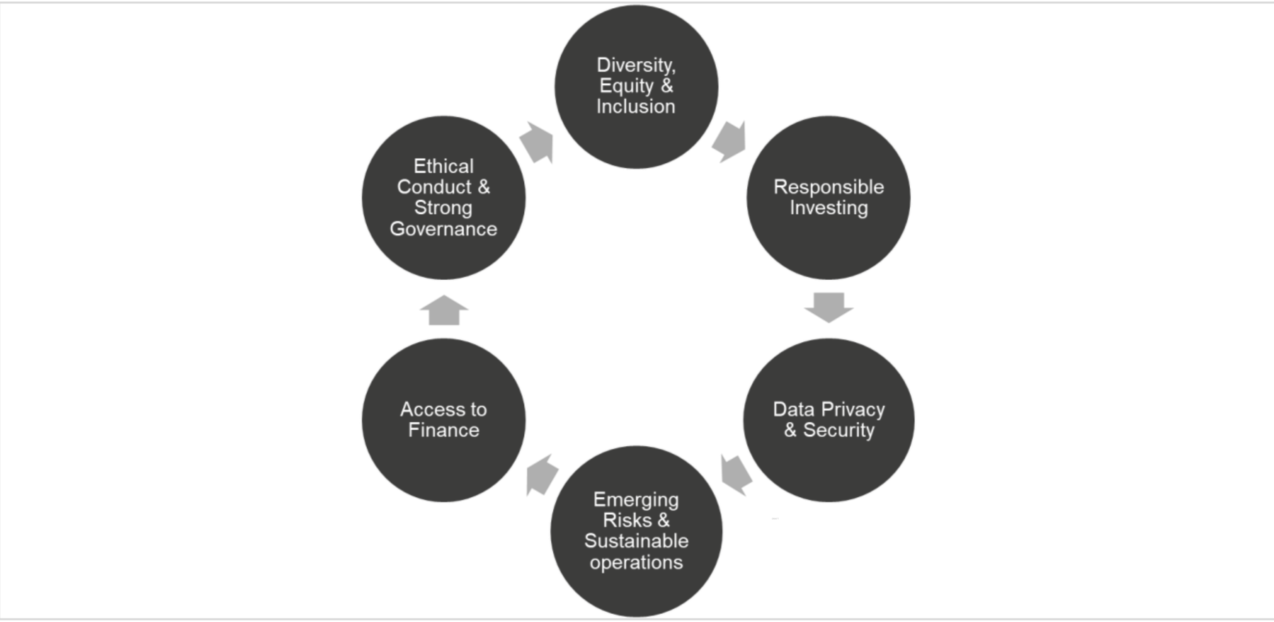
In-order to ensure transparency and system trust, the industry regulator (IRDAI) mandates all players to release quarterly public disclosures covering the key operational parameters of the player including critical details such as:

- Claims received, settled and repudiated
- Grievances received
- Benefits paid

On the investment side as well, life insurance companies are increasingly evaluating the companies in which they invest from the ESG prism.

Further, few listed players in the industry have also started publishing ESG reports. The disclosures mandated by IRDAI ensures strong transparency by players across the industry and thereby also leads adherence to the Governance framework in-line with ESG principles.

Core principles followed by life insurance players while reporting ESG disclosures



Source: Company reports, CRISIL Research

The key disclosures with reference to players' alignment with ESG principles are as follows:

1. Environment

The life insurance companies do not have significant impact on the environment as the operations are not energy intensive. However, further efficiency can be brought by reducing paper usage. The purchase of a life insurance policy by a customer involves sharing of documents related to KYC, medical history and insurance forms. Shift to digital processes for submitting documents, video-based identification of user for KYC helps in reducing paper consumption. COVID-19 pandemic has already accentuated the shift to digital for majority of the players in the industry. Further, the issuance of policies in demat form can also reduce paper usage.

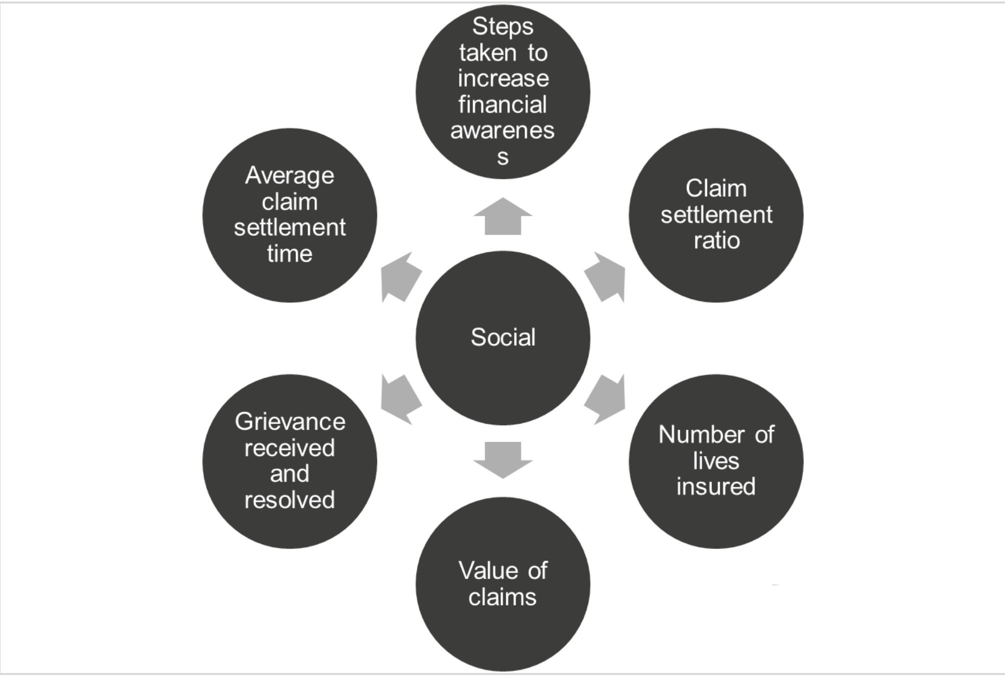
Areas encompassed by listed Indian players for Environment-related disclosures
The listed players have formed their environment framework majorly on three pillars – Replace, Reduce, Reuse & Recycle The disclosures under this framework are related to: • Responsible Energy consumption • Water conservation • Reduction of waste and recycle & reuse wherever possible • E-waste management • Reducing carbon footprint • Other waste management initiatives • Digitisation

Source: Company Reports & ESG disclosures

2. Social

The risks pertaining to mortality and morbidity if not covered can expose families/communities to financial risks. As of fiscal 2021, the penetration and density of life insurance in India was 3.2% and $59, respectively, which is substantially lower than Asian peers such as Thailand, South Korea and Singapore. The core business of life insurance players, which is to provide financial protection and aid customers meet long-term financial needs, addresses the societal needs. The life insurance industry is continuously working towards increasing the penetration and thereby covering any social risks due to lack of adequate insurance cover. However, all players need to ensure high claim settlement and redress customer grievances in a timely manner.

Indicative Key parameters to gauge societal impact of life insurance players



Source: CRISIL Research

Data pertaining to all the above parameters except average claim settlement time are disclosed by the players on quarterly basis on their respective company websites.

Areas encompassed by listed Indian players for societal-related disclosures

The listed players in Indian Life Insurance segment have focus on the following areas in societal related disclosures:

- Human capital development
- Financial inclusion
  - Designing and offering products in a responsible way
  - Increasing awareness about insurance products among the people
  - Empower customers
- Corporate citizenship and philosophy
- Disaster support
- Data privacy and security
- Promoting inclusive growth
- Inclusive Growth
- Customer centricity
- Customer satisfaction

Source: Company Reports & ESG disclosures

3. Governance

The Insurance Regulatory and Development Authority of India (IRDAI) laid down corporate governance guidelines in 2016 to be followed by all life insurance players. The guidelines include the framework for setting up mandatory committees such as:

- Audit Committee
- Investment Committee
- Risk management Committee
- Policyholder protection Committee
- Nomination and remuneration Committee
- Corporate social responsibility Committee

IRDAI has also laid down parameter for assessing 'fit and proper' criteria, which is confirmed by Directors at time of appointment and confirmed annually thereafter. Further, in 2017, the IRDAI implemented a Stewardship code for all the insurance companies to ensure vigilant monitoring of portfolio companies

The listed players or the players looking to list on exchanges are also required to align with the SEBI (LODR) Regulation, 2015 with reference to board structures.

With reference to the governance pertaining to asset management, players which want to align with ESG framework will have to take into account the risks such as climate change, long-term sustainability while evaluating investment opportunities. As the philosophy is still in a nascent stage, charting out a long-term strategy to steadily adopt the ESG framework in investments will be key for all players.

Areas covered by listed Indian players for Governance-related disclosures
The Governance framework by listed players has been designed on three major pillars: 1. Corporate Governance 2. Business Ethics 3. Responsible Investing <u>Corporate Governance</u> • Corporate governance philosophy • Board effectiveness • Board evolution • Code of business conduct • Compliance programme • Tax policy structure • Business continuity planning <u>Business Ethics</u> • Business ethics risk assessment • Principles of sustainable Insurance • Responsible product offering • Governance mechanisms • Ethical market conduct <u>Responsible Investing</u> • Investment framework • Integration of ESG • Stewardship policy • Risk management

Source: Company Reports & ESG disclosures

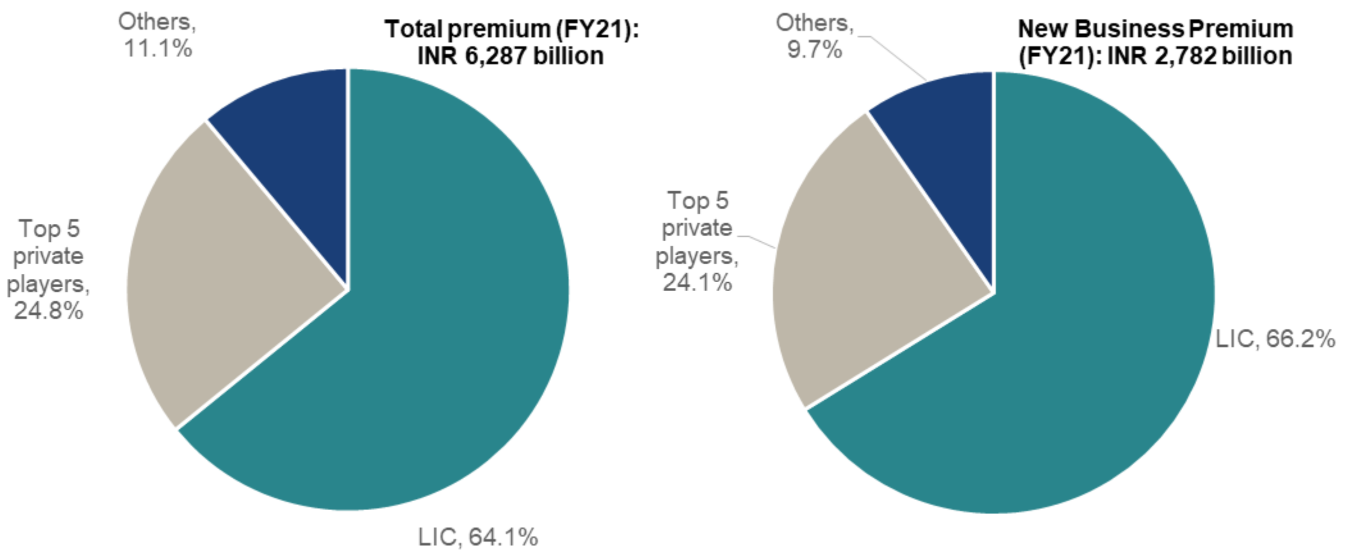
Peer Benchmarking

Comparison of top 6 players in Life Insurance Industry

In this chapter, we have compared the performance of Life Insurance Corporation of India ("LIC") and top 5 private players based on total premium (as of FY21). All the operational and key financial indicators are on standalone basis. The top 5 private players are: SBI Life Insurance Company ("SBI Life"), HDFC Life Insurance Company ("HDFC Life"), ICICI Prudential Life Insurance Company ("ICICI Prudential Life"), Max Life Insurance Company ("Max Life") and Bajaj Allianz Life Insurance Company ("Bajaj Allianz Life")

LIC and the top 5 private players together constituted ~89% of the market share on total premium basis in FY21. LIC alone enjoyed a 64.1% market share (on total premium basis) and 66% market share (on NBP basis) in the industry in FY21. On the profitability front, the top 6 players constituted 90% of the industry's profit in FY21.

Market share of LIC, top 5 private players and other players[1] in the industry (as of FY21)



Source: Company public disclosures, CRISIL Research

Note: [1]Other players include 18 private players operating in the industry as of FY21

LIC – a dominant and major force in the Indian life insurance industry

LIC enjoyed market share of 61.6% on total premium basis and 61.4% on new premium basis ("NBP") in the industry premium in 9M FY22. LIC's NBP was 1.59 times the total private life insurance sector and 6.7 times the NBP for the second-largest player in the Indian life insurance industry in 9M FY22. On account of its significance to the industry, IRDAI categorised LIC as a 'systemically important insurer' in September 2020 and hence, the company is subject to enhanced regulatory supervision.

LIC generated total premium of ~INR 4 trillion in FY21 recording 8.6% CAGR between FY16 and FY21. Its total premium receipts in FY21 were more than double the total premium garnered by the next 5 private players put together. On the NBP front, LIC recorded a robust 13.5% CAGR during the FY16-21 period. SBI Life was the fastest growing player on total premium basis during the aforesaid period, whereas HDFC Life was the fastest growing player on NBP basis among the players in the set.

LIC issued around three-fourths of the new individual policies issued in the industry in FY21

LIC issued ~21 million individual policies in FY21, enjoying a staggering ~75% market share in new policy issuances. The second largest player in the industry – SBI Life – issued 1.66 million individual policies in FY21 and had 5.9% market share in FY21. In the group segment, LIC enjoyed a higher marker share (compared to individual business) of ~81% in new policy issuances in FY21.

Total Premium – FY21	Total Premium (INR billion)	Customer Mix (Basis total premium)	
		Individual	Group
LIC	4,032.9	66.5%	33.5%
SBI Life	502.5	81.7%	18.3%
HDFC Life	385.8	73.7%	26.3%
ICICI Prudential Life	357.3	85.2%	14.8%
Max Life	190.2	96.8%	3.2%
Bajaj Allianz Life	120.2	68.3%	31.7%
Others	698.3	86.3%	13.7%
Private players total	2,254.3	83.9%	16.1%
Total	6,287.3	72.6%	27.4%

Source: Company public disclosures, Life Insurance Council (New Business Performance), CRISIL Research

Note: The customer mix data is calculated basis data disclosed by the players in L-36 schedule on premium paying policies

New Business Premium – FY21	NBP (INR billion)	Customer Mix (Basis NBP)	
		Individual	Group
LIC	1,841.7	30.6%	69.4%
SBI Life	206.3	60.6%	39.4%
HDFC Life	202.4	50.0%	50.0%
ICICI Prudential Life	130.3	60.2%	39.8%
Max Life	68.3	91.2%	8.8%
Bajaj Allianz Life	63.1	40.1%	59.9%
Others	270.6	67.2%	32.8%
Private players total	941.0	61.0%	39.0%
Total	2,787.0	40.9%	59.1%

Source: Life Insurance Council (New Business Performance), CRISIL Research

Renewal Premium – FY21	Renewal Premium (INR billion)	Customer Mix (Basis Renewal Premium)	
		Individual	Group
LIC	2,188.57	96.6%	3.4%
SBI Life	296.30	96.4%	3.6%
HDFC Life	184.80	99.5%	0.5%
ICICI Prudential Life	225.07	100.0%	0.0%
Max Life	121.92	100.0%	0.0%
Bajaj Allianz Life	57.20	99.5%	0.5%
Others	426.42	97.4%	2.6%
Private players total	1,311.74	98.3%	1.7%
Total	3,500.3	97.3%	2.7%

Source: Company public disclosures, Life Insurance Council (New Business Performance), CRISIL Research

Note: The customer mix data is calculated basis data disclosed by the players in L-36 schedule

Premium paying policies[1] – FY21	Total Policies		NBP policies[#]		Renewal policies*	
	Individual	Group	Individual	Group	Individual	Group
LIC	211,982,912	120,090	20,975,439	31,795	191,007,473	88,295
SBI Life	7,229,466	1,943	1,656,377	514	5,573,089	1,429
HDFC Life	4,786,345	631	982,007	256	3,804,338	375
ICICI Prudential Life	3,629,696	4,303	661,511	2,885	2,968,185	n.a
Max Life	3,395,952	409	644,627	409	2,751,325	n.a
Bajaj Allianz Life	3,282,526	498	427,003	238	2,855,523	260
Others	14,020,000	6,785	2,781,345	3,107	11,238,655	3,678
Private players total	36,343,985	13,151	7,152,870	7,409	29,191,115	5,742
Total	248,326,897	133,241	28,128,309	39204	220,198,588	94,037

Note: Total policies calculated as summation of NBP policies and Renewal policies; [1]Only includes new business and renewal policies which are currently paying premium. Does not include all in-force policies

Source: (*) Company public disclosures (L-36), (#) Life Insurance Council, CRISIL Research

Premium – FY 21	Single Premium (INR billion)	Market share (Single Premium)	Non-Single* (INR billion)	APE (INR billion)
LIC	1503.9	77.4%	337.8	n.a
SBI Life	102.9	5.3%	103.4	114.5
HDFC Life	133.3	6.9%	69.1	83.7
ICICI Prudential Life	49.7	2.6%	80.6	64.6
Max Life	19.9	1.0%	48.3	49.6
Bajaj Allianz Life	36.6	1.9%	26.5	n.a

Source: Company public disclosures, Annual Reports, Life Insurance Council (New Business Performance), CRISIL Research

Note: n.a: not available; (*) Also includes Yearly Renewable Group Premium

APE (INR billion)	FY19	FY20	FY21	9M FY22
LIC	n.a	n.a	n.a	n.a
SBI Life	97.0	107.4	114.5	101.7
HDFC Life	n.a	74.1	83.7	67.1
ICICI Prudential Life	78.0	73.8	64.6	51.3
Max Life	n.a	n.a	49.6	37.5
Bajaj Allianz Life	n.a	n.a	n.a	n.a

Note: n.a: not available

Source: Company public disclosures, Annual Reports, Life Insurance Council (New Business Performance), CRISIL Research

Premium CAGR (FY19-FY21)	Total premium	NBP	Renewal premium
LIC	9.3%	13.8%	6.0%
SBI Life	23.4%	22.3%	24.2%
HDFC Life	15.0%	16.3%	13.6%
ICICI Prudential Life	7.5%	12.1%	5.1%
Max Life	14.2%	15.0%	13.8%
Bajaj Allianz Life	16.5%	13.2%	20.5%

Source: Company public disclosures, IRDAI Handbook, Life Insurance Council (New Business Performance), CRISIL Research

Premium CAGR (FY11-FY21)	Total premium	NBP	Renewal premium
LIC	7.1%	7.8%	6.5%
SBI Life	14.5%	10.5%	18.7%
HDFC Life	15.7%	17.4%	14.0%
ICICI Prudential Life	7.2%	5.2%	8.5%
Max Life	12.6%	12.7%	12.5%
Bajaj Allianz Life	2.3%	6.2%	-0.7%

Source: Company public disclosures, IRDAI Handbook, Life Insurance Council (New Business Performance), CRISIL Research

Total Premium – 9M FY22	Total Premium (INR billion)	Customer Mix (basis total premium)	
		Individual	Group

LIC	2840.5	66.6%	33.4%
SBI Life	412.5	80.1%	19.9%
HDFC Life	315.4	71.0%	29.0%
ICICI Prudential Life	257.5	82.0%	18.0%
Max Life	144.1	94.5%	5.5%
Bajaj Allianz Life	104.1	67.2%	32.8%
Others	537.2	83.1%	16.9%
Private players total	1770.8	80.1%	19.9%
Total	4611.3	71.8%	28.2%

Source: Company public disclosures, Life Insurance Council (New Business Performance), CRISIL Research

Note: The customer mix is calculated basis data disclosed by the players in L-36 schedule on premium paying policies

New Business Premium – 9M FY22	**NBP (INR billion)**	**Customer Mix (Basis NBP)**	
		Individual	Group
LIC	1260.2	28.4%	71.6%
SBI Life	187.9	61.8%	38.2%
HDFC Life	171.9	47.2%	52.8%
ICICI Prudential Life	102.5	62.3%	37.7%
Max Life	52.9	89.3%	10.7%
Bajaj Allianz Life	59.0	42.5%	57.5%
Others	218.0	63.4%	36.6%
Private players total	792.2	59.5%	40.5%
Total	2052.3	40.4%	59.6%

Source: Life Insurance Council (New Business Performance), CRISIL Research

Renewal Premium – 9M FY22[1]	**Renewal Premium (INR billion)**	**Customer Mix (Basis Renewal Premium)[2]**	
		Individual	Group
LIC	1580.4	97.2%	2.8%
SBI Life	224.6	95.5%	4.5%
HDFC Life	143.5	99.6%	0.4%
ICICI Prudential Life	155.0	97.3%	2.7%
Max Life	91.3	97.8%	2.2%
Bajaj Allianz Life	45.1	99.6%	0.4%
Others	319.1	95.7%	4.3%
Private players total	978.6	96.8%	3.2%
Total	2559.0	97.1%	2.9%

Source: Company public disclosures, Life Insurance Council (New Business Performance), CRISIL Research

Note: [1]Renewal premium calculated as difference between total premium and New Business Premium;;[2] The customer mix data is calculated basis data disclosed by the players in L-36 schedule

Premium Paying Policies[1] – In 9M FY22	**Total Policies**	**NBP policies#**	**Renewal policies***

	Individual	Group	Individual	Group	Individual	Group
LIC	168,014,437	75,971	12,648,184	25,170	155,366,253	50801
SBI Life	6,862,180	1088	1,310,792	203	5,551,388	885
HDFC Life	3,566,852	138	639,298	138	2,927,554	0
ICICI Prudential Life	2,676,707	978	451,327	978	2,225,380	0
Max Life	2,531,205	50	411,630	50	2,119,575	0
Bajaj Allianz Life	2,063,410	151	308,065	151	1,755,345	0
Others	10,147,836	3,673	1,835,799	1,647	8,312,037	2026
Private players total	27,448,190	6,078	4,556,911	3,167	22,891,279	2911
Total	195,862,627	82,049	17,605,095	28,337	178,257,532	53,712

Note: Total policies calculated as summation of NBP policies and Renewal policies; [1]Only includes new business and renewal policies which are currently paying premium. Does not include all in-force policies

Source: (*) Company public disclosures (L-36), (#) Life Insurance Council, CRISIL Research

Risk Retention Ratio	FY19	FY20	FY21
LIC	99.91%	99.91%	99.89%
SBI Life	99.70%	99.24%	99.03%
HDFC Life	99.10%	98.52%	98.80%
ICICI Prudential Life	98.90%	98.30%	97.90%
Max Life	98.92%	98.73%	98.53%
Bajaj Allianz Life	99.40%	99.20%	99.20%

Note: Risk retention ratio = (Premium earned – Reinsurance ceded) / Premium earned

Source: Company public disclosures, CRISIL Research

Reinsurance ceded as % of total premium	FY19	FY20	FY21	9M FY22
LIC	0.09%	0.09%	0.11%	0.13%
SBI Life	0.30%	0.76%	0.97%	0.61%
HDFC Life	0.90%	1.48%	1.20%	1.38%
ICICI Prudential Life	1.14%	1.65%	2.13%	3.05%
Max Life	1.08%	1.27%	1.47%	2.06%
Bajaj Allianz Life	0.60%	0.76%	0.82%	1.09%

Source: Company public disclosures, CRISIL Research

Market Share – FY21	Total Premium	New Business Premium	Renewal Premium	No. of Policies - Individual	No. of Policies - Group
LIC	64.1%	66.2%	62.5%	74.6%	81.1%
SBI Life	8.0%	7.4%	8.5%	5.9%	1.3%
HDFC Life	6.1%	7.2%	5.2%	3.5%	0.7%
ICICI Prudential Life	5.7%	4.7%	6.5%	2.4%	7.4%
Max Life	3.0%	2.4%	3.5%	2.3%	1.0%

Bajaj Allianz Life	1.9%	2.3%	1.6%	1.5%	0.6%
Others	11.2%	9.8%	12.2%	9.8%	7.9%
Private players total	35.9%	33.8%	37.5%	25.4%	18.9%

Source: Company public disclosures, Life Insurance Council (New Business Performance), CRISIL Research

Market Share 9M FY22	Total Premium	New Business Premium	Renewal Premium	No. of Policies - Individual	No. of Policies - Group
LIC	61.6%	61.4%	61.8%	71.8%	88.8%
SBI Life	8.9%	9.2%	8.8%	7.4%	0.7%
HDFC Life	6.8%	8.4%	5.6%	3.6%	0.5%
ICICI Prudential Life	5.6%	5.0%	6.1%	2.6%	3.5%
Max Life	3.1%	2.6%	3.6%	2.3%	0.2%
Bajaj Allianz Life	2.3%	2.9%	1.8%	1.7%	0.5%
Others	11.6%	10.6%	12.5%	10.4%	5.8%
Private players total	38.4%	38.6%	38.2%	25.9%	11.2%

Source: Company public disclosures, Life Insurance Council (New Business Performance), CRISIL Research

Growth (1-Year growth) - Year ending FY21	Total Premium	New Business Premium	No. of Policies growth- Individual	No. of Policies - Group
LIC	6.3%	3.5%	-4.2%	10.1%
SBI Life	23.7%	24.3%	6.8%	-25.1%
HDFC Life	18.0%	16.4%	9.6%	-80.9%
ICICI Prudential Life	6.9%	5.5%	-13.6%	61.7%
Max Life	17.5%	22.3%	8.1%	-59.4%
Bajaj Allianz Life	23.3%	21.9%	37.1%	167.4%

Source: Company public disclosures, Life Insurance Council (New Business Performance), CRISIL Research

Growth (3-Year growth) - Year ending FY21	Total Premium	New Business Premium	No. of Policies growth- Individual	No. of Policies - Group
LIC	8.2%	11.0%	-0.5%	5.0%
SBI Life	25.6%	23.4%	5.1%	-28.8%
HDFC Life	17.9%	21.3%	-2.2%	-23.5%
ICICI Prudential Life	9.7%	12.6%	-7.5%	76.2%
Max Life	15.0%	16.2%	4.7%	-7.0%
Bajaj Allianz Life	16.6%	13.7%	11.5%	22.6%

Source: Company public disclosures, Life Insurance Council (New Business Performance), CRISIL Research

Growth (5-Year growth) - Year ending FY21	Total Premium	New Business Premium	No. of Policies growth- Individual	No. of Policies - Group
LIC	8.6%	13.5%	0.4%	1.0%

SBI Life	26.0%	23.8%	5.4%	0.4%
HDFC Life	18.8%	25.6%	-3.1%	-16.6%
ICICI Prudential Life	13.3%	14.0%	2.7%	49.3%
Max Life	15.6%	18.8%	7.0%	-0.9%
Bajaj Allianz Life	15.3%	17.0%	10.4%	1.7%

Source: Company public disclosures, Life Insurance Council (New Business Performance), CRISIL Research

Parameters - As of March 31, 2021	Number of lives covered Individual	Number of lives covered- Group
LIC	194,192,519	52,496,938
SBI Life	7,229,466	24,278,047
HDFC Life	4,826,832	39,940,140
ICICI Prudential Life	3,537,413	25,065,566
Max Life	3,205,506	-
Bajaj Allianz Life	2,954,682	23,189,308

Source: Company public disclosures, CRISIL Research

Note: The lives covered data is calculated basis data disclosed by the players in L-36 schedule on premium paying policies

Conservation Ratio	As of March 2021	As of March 2020
LIC	84.5%	88.8%
SBI Life	87.5%	85.1%
HDFC Life	85.9%	80.3%
ICICI Prudential Life	82.0%	76.0%
Max Life	83.0%	79.8%
Bajaj Allianz	88.0%	80.6%
Median for the top 5 private players	85.9%	80.3%

Note: Conservation ratio represents the total renewal premium collected in the current year divided by first year premium and renewal premium collected in the previous year (Conservation Ratio)

Source: Company public disclosures, CRISIL Research

Traditional insurance policies segment a strong LIC foothold

In FY20, the market share of LIC in non-linked products was 77.3% on total premium basis. As compared to other private players in the set, LIC has significant focus only on traditional policies. Among the players in the set, HDFC Life had the second highest share of 4.4% in non-linked products segment in FY20.

LIC's product portfolio more immunized to capital market cycles compared to peers

Non-linked products constituted 99.8% of LIC's portfolio in FY 2020. No other players amongst the peer set compared reported more than 70% of its premium through non-linked products. The ULIP portfolio of all life players witnesses some downturn in demand when the capital market cycle is not favourable. For example, in fiscal 2020 when the capital market witnessed some downturn (Nifty 50 saw ~26% drop during March 2019 to March 2020 and excluding the drop in March 2020, a mere 1.5% rise during March 2019 to February 2020) all private players witnessed substantial downturn in premium from linked products. In fact, two players from the set, ICICI Prudential Life and Max Life reported negative NBP growth from linked products. To protect the returns of existing policy holders from market volatility, private players also provide switch options to customers, wherein the policy holder can switch to debt-oriented funds during such cycles. However, the incremental demand for such products is impacted during such period.

LIC has strong focus on traditional non-linked products where demand is not linked to market cycles. Further, the demand for non-linked products has been on the rise with its share in NBP increasing from 87% in FY16 to ~89% in FY21

While having a pre-dominantly non-linked product portfolio makes LIC's premium income less susceptible to volatility in equity markets, on the investment side, insurers with higher non-linked portfolio bear higher risks compared to insurers with higher linked portfolio.

Product Mix - Based on Total Premium – 9M FY22	Linked	Non-Linked	Participating (Within Non-Linked)	Non-Participating (Within Non-Linked)
LIC	0.8%	99.2%	62.8%	37.2%
SBI Life	55.2%	44.8%	28.3%	71.7%
HDFC Life	25.5%	74.5%	25.2%	74.8%
ICICI Prudential Life	55.6%	44.4%	29.2%	70.8%
Max Life	29.0%	71.0%	51.9%	48.1%
Bajaj Allianz Life	31.0%	69.0%	29.4%	70.6%
Median of the top 5 private players	31.0%	69.0%	29.2%	70.8%

Source: Company public disclosures, CRISIL Research

Product Mix - Based on Total Premium – FY21	Linked	Non-Linked	Participating (Within Non-Linked)	Non-Participating (Within Non-Linked)
LIC	0.3%	99.7%	60.9%	39.1%
SBI Life	56.6%	43.4%	34.9%	65.1%
HDFC Life	29.1%	70.9%	28.0%	72.0%
ICICI Prudential Life	63.4%	36.6%	35.2%	64.8%
Max Life	30.9%	69.1%	59.8%	40.2%
Bajaj Allianz Life	36.4%	63.6%	36.6%	63.4%
Median of the top 5 private players	36.4%	63.6%	35.2%	64.8%

Source: Company public disclosures, CRISIL Research

Product Mix - Based on Total Premium – FY20	Linked	Non-Linked	Participating (Within Non-Linked)	Non-Participating (Within Non-Linked)

LIC	0.2%	99.8%	60.3%	39.7%
SBI Life	57.9%	42.1%	43.5%	56.5%
HDFC Life	34.2%	65.8%	28.1%	71.9%
ICICI Prudential Life	69.8%	30.2%	39.9%	60.1%
Max Life	31.2%	68.8%	71.2%	28.8%
Bajaj Allianz Life	39.3%	60.7%	42.4%	57.6%
Median of the top 5 private players	39.3%	60.7%	42.4%	57.6%

Source: Company public disclosures, CRISIL Research

Product Mix - Based on Total Premium – FY19	Linked	Non-Linked	Participating (Within Non-Linked)	Non-Participating (Within Non-Linked)
LIC	0.2%	99.8%	67.0%	33.0%
SBI Life	57.4%	42.6%	51.2%	48.8%
HDFC Life	38.8%	61.2%	32.7%	67.3%
ICICI Prudential Life	73.5%	26.5%	42.5%	57.5%
Max Life	31.5%	68.5%	78.0%	22.0%
Bajaj Allianz Life	38.0%	62.0%	41.8%	58.2%
Median of the top 5 private players	38.8%	61.2%	42.5%	57.5%

Source: Company public disclosures, CRISIL Research

Product Mix - Based on New Business Premium – FY 21	Linked	Non-Linked	Participating (Within Non-Linked)	Non- Participating (Within Non-Linked)
LIC	0.4%	99.6%	19.2%	80.8%
SBI Life	41.6%	58.4%	8.0%	92.0%
HDFC Life	13.5%	86.5%	13.6%	86.4%
ICICI Prudential Life	43.1%	56.9%	11.9%	88.1%
Max Life	28.4%	71.6%	39.7%	60.3%
Bajaj Allianz Life	23.5%	76.5%	11.6%	88.4%
Median of the top 5 private players	28.4%	71.6%	11.9%	88.1%

Source: Company public disclosures, CRISIL Research

Product Mix - Based on New Business Premium – FY 20	Linked	Non-Linked	Participating (Within Non-Linked)	Non-Participating (Within Non-Linked)
LIC	0.1%	99.9%	20.2%	79.8%
SBI Life	48.7%	51.3%	13.6%	86.4%
HDFC Life	16.1%	83.9%	7.9%	92.1%
ICICI Prudential Life	55.2%	44.8%	15.9%	84.1%

Max Life	29.7%	70.3%	57.5%	42.5%
Bajaj Allianz Life	30.1%	69.9%	15.1%	84.9%
Median of the top 5 private players	30.1%	69.9%	15.1%	84.9%

Source: Company public disclosures, CRISIL Research

Product Mix - Based on New Business Premium – FY 19	Linked	Non-Linked	Participating (Within Non-Linked)	Non-Participating (Within Non-Linked)
LIC	0.0%	100.0%	27.7%	72.3%
SBI Life	53.0%	47.0%	27.2%	72.8%
HDFC Life	24.7%	75.3%	7.7%	92.3%
ICICI Prudential Life	65.4%	34.6%	18.3%	81.7%
Max Life	33.3%	66.7%	71.7%	28.3%
Bajaj Allianz Life	30.1%	69.9%	15.1%	84.9%
Median of the top 5 private players	33.3%	66.7%	18.3%	81.7%

Source: Company public disclosures, CRISIL Research

Market Share Based on Total Premium (FY21)	Linked	Non-Linked	Participating (Within Non-Linked)	Non-Participating (Within Non-Linked)
LIC	1.6%	75.3%	84.3%	64.5%
SBI Life	31.3%	4.1%	2.6%	5.8%
HDFC Life	12.4%	5.1%	2.6%	8.1%
ICICI Prudential Life	24.9%	2.4%	1.6%	3.5%
Max Life	6.5%	2.5%	2.7%	2.2%
Bajaj Allianz Life	4.8%	1.4%	1.0%	2.0%

Source: Company public disclosures, IRDAI, CRISIL Research

Market Share Based on Total Premium (FY20)	Linked	Non-Linked	Participating (Within Non-Linked)	Non-Participating (Within Non-Linked)
LIC	0.9%	77.9%	84.9%	68.8%
SBI Life	28.5%	3.5%	2.7%	4.6%
HDFC Life	13.6%	4.4%	2.2%	7.3%
ICICI Prudential Life	28.3%	2.1%	1.5%	2.9%
Max Life	6.1%	2.3%	2.9%	1.5%
Bajaj Allianz Life	4.6%	1.2%	0.9%	1.6%

Source: Company public disclosures, IRDAI, CRISIL Research

Market Share Based on Total Premium (FY19)	Linked	Non-Linked	Participating (Within Non-Linked)	Non-Participating (Within Non-Linked)
LIC	1.1%	79.0%	85.3%	68.7%
SBI Life	25.2%	3.3%	2.7%	4.2%
HDFC Life	15.1%	4.2%	2.2%	7.4%
ICICI Prudential Life	30.2%	1.9%	1.3%	2.9%
Max Life	6.1%	2.3%	2.9%	1.4%
Bajaj Allianz Life	4.5%	1.3%	0.9%	2.0%

Source: Company public disclosures, IRDAI, CRISIL Research

LIC accounts for ~77% in annuity segment as of fiscal 2021; SBI Life and ICICI Prudential Life accounts for majority share in linked segment

In health insurance segment, LIC had market share of 63.1% on NBP basis in fiscal 2021. Within annuity segment, LIC continue to account for majority share of ~77% as of fiscal 2021 followed by HDFC Life at 7.6% and SBI Life at 5.9% during the same period.

In terms of linked segment, SBI Life and ICICI Prudential Life accounts for market share of ~32% and ~25% respectively on total premium basis as of fiscal 2021. LIC on the other hand had market share of 2.8%on NBP basisin linked segment during the same period. However, LIC witnessed a stupendous ~715% on-year increase in linked segment NBPfrom INR 932.6 million for Fiscal 2020 to INR 7,598.1 million for Fiscal 2021.

Health Premium – FY21	Total Premium (INR million)	New Business Premium (INR million)	Market Share – Total Premium	Market share - NBP
LIC	3382.3	1021.0	53.6%	63.1%
SBI Life	94.4	26.4	1.5%	1.6%
HDFC Life	728.2	126.0	11.5%	7.8%
ICICI Prudential Life	416.1	124.3	6.6%	7.7%
Max Life	447.5	128.7	7.1%	7.9%
Bajaj Allianz Life	112.0	13.4	1.8%	0.8%
Others	1128.8	179.6	17.9%	11.1%
Private players total*	2926.9	598.3	46.4%	36.9%
Total	6309.2	1619.3	100.0%	100.0%

Note: (*) Excluding Aviva and Exide Life as data for FY21 is not available

Source: Company public disclosures, CRISIL Research

Health Premium – FY20	Total Premium (INR million)	New Business Premium (INR million)	Market Share – Total Premium	Market share - NBP
LIC	4,140.7	1,047.4	46.9%	43.4%

SBI Life	80.1	31.0	0.9%	1.3%
HDFC Life	1,268.7	631.1	14.4%	26.2%
ICICI Prudential Life	1,196.4	95.8	13.5%	4.0%
Max Life	492.0	251.4	5.6%	10.4%
Bajaj Allianz Life	120.1	25.8	1.4%	1.1%
Others	1,538.0	328.5	17.4%	13.6%
Private players total	4,695.3	1,363.6	53.1%	56.6%
Total	8,836.00	2,411.00	100.0%	100.0%

Source: IRDAI Handbook on statistics, CRISIL Research

Annuity Premium	FY20		FY21		9M FY22	
	Total Premium (INR billion)	Market share	Total Premium (INR billion)	Market share	Total Premium (INR billion)	Market share
LIC	385.3	84.7%	395.9	76.9%	237.4	68.7%
SBI Life	11.3	2.5%	30.2	5.9%	26.4	7.7%
HDFC Life	27.0	5.9%	39.3	7.6%	36.4	10.5%
ICICI Prudential Life	10.4	2.3%	23.0	4.5%	21.2	6.1%
Max Life	4.0	0.9%	6.8	1.3%	6.1	1.8%
Bajaj Allianz Life	0.9	0.02%	0.7	0.1%	4.2	1.2%
Others	16.7	3.7%	19.0	3.7%	13.7	4.0%
Private players total	69.4	15.3%	119.0	23.1%	108.0	31.3%
Total	454.7	100%	514.7	100%	345.5	100.0%

Source: Company public disclosures under L-1, L-4, and L-36, CRISIL Research

Linked Premium – FY21	Total Premium (INR billion)	New Business Premium (INR billion)	Market share – Total Premium	Market share – NBP
LIC	14.1	7.6	1.6%	2.7%
SBI Life	284.6	85.9	31.3%	30.5%
HDFC Life	112.4	27.1	12.4%	9.6%
ofICICI Prudential Life	226.7	57.0	24.9%	20.2%
Max Life	58.8	19.4	6.5%	6.9%
Bajaj Allianz Life	43.8	14.8	4.8%	5.3%
Others	164.4	66.7	18.5%	24.8%
Private players total	890.7	270.9	98.4%	97.3%

Source: IRDAI Handbook on statistics, CRISIL Research

Linked Premium – FY20	Total Premium (INR billion)	New Business Premium (INR billion)	Market share – Total Premium	Market share – NBP
LIC	7.6	0.9	0.9%	0.3%

SBI Life	235.3	80.8	28.5%	29.6%
HDFC Life	111.9	27.8	13.6%	10.2%
ICICI Prudential Life	233.5	69.0	28.3%	25.3%
Max Life	50.5	16.6	6.1%	6.1%
Bajaj Allianz Life	38.4	15.6	4.6%	5.7%
Others	153.3	62.2	18.5%	22.8%
Private players total	822.9	271.9	99.1%	99.7%
Total	830.5	272.8	100%	100&

Source: IRDAI Handbook on statistics, CRISIL Research

SBI Life recorded the most efficient operational metrics; LIC the third best among peers in FY21

SBI Life recorded the lowest commission ratio of 3.5% (as a percentage of total premium) in FY21, thereby leading to significantly lower operational costs as compared to peers. The high % of business through bancassurance ("banca") channel (65.4% in FY21) substantially aids operational efficiency for the company.

The commission paid to individual agents is typically more as compared to banca channel leading to slightly higher commission ratio for players such as LIC and Bajaj Allianz Life in the set. Though banca channel aids efficiency and broader growth, individual agents help achieve scale and granularity in the retail business. LIC has been able to achieve the scale of its business on the back if its strong agent network.

The operating expense ratio was the lowest for SBI Life at 4.8%, followed by ICICI Prudential Life at 7.5% for fiscal 2021. LIC recorded the third lowest operating expense ratio at 8.7% in the aforesaid period. The average ratio for the private life insurance players was 12% as of fiscal 2021.

Expense ratios (as % of total premium) -FY 21	Commission ratio	Operating expense ratio	Total cost ratio
LIC	5.5%	8.7%	14.2%
SBI Life	3.5%	4.8%	8.3%
HDFC Life	4.4%	11.9%	16.3%
ICICI Prudential Life	4.2%	7.5%	11.7%
Max Life	6.5%	14.2%	20.7%
Bajaj Allianz Life	4.8%	16.0%	20.8%
Median of Top 5 private players	4.4%	11.9%	16.3%

Source: Company public disclosures, CRISIL Research

Note: Total cost ratio calculated as summation of commission ratio and operating expense ratio

Expense ratios (as % of total premium) - 9M FY 22	Commission ratio	Operating expense ratio	Total cost ratio
LIC	5.4%	9.6%	15.0%
SBI Life	3.5%	5.1%	8.6%

HDFC Life	4.2%	12.1%	16.2%
ICICI Prudential Life	4.3%	9.2%	13.6%
Max Life	6.3%	15.1%	21.4%
Bajaj Allianz Life	4.9%	18.3%	23.2%
Median of Top 5 private players	4.3%	12.1%	16.2%

Source: Company public disclosures, CRISIL Research

Note: Total cost ratio calculated as summation of commission ratio and operating expense ratio

Expense ratios (as % of total premium) -FY 20	Commission ratio	Operating expense ratio	Total cost ratio
LIC	5.6%	9.0%	14.7%
SBI Life	4.0%	5.9%	9.9%
HDFC Life	4.6%	13.0%	17.6%
ICICI Prudential Life	4.7%	8.5%	13.3%
Max Life	6.3%	14.5%	20.8%
Bajaj Allianz Life	4.3%	18.1%	22.4%
Median of Top 5 private players	4.6%	13.0%	17.6%

Source: Company public disclosures, CRISIL Research

Note: Total cost ratio calculated as summation of commission ratio and operating expense ratio

Expense ratios (as % of total premium) -FY 19	Commission ratio	Operating expense ratio	Total cost ratio
LIC	5.9%	8.4%	14.4%
SBI Life	4.1%	6.4%	10.5%
HDFC Life	3.9%	13.0%	16.9%
ICICI Prudential Life	5.2%	8.3%	13.4%
Max Life	6.8%	13.2%	20.0%
Bajaj Allianz Life	3.7%	17.3%	21.0%
Median of Top 5 private players	4.1%	13.0%	16.9%

Source: Company public disclosures, CRISIL Research

Note: Total cost ratio calculated as summation of commission ratio and operating expense ratio

Expense ratios (as % of NBP) - FY 21)	Commission ratio	Operating expense ratio	Total cost ratio
LIC	12.0%	19.0%	31.0%
SBI Life	8.6%	11.7%	20.3%
HDFC Life	8.5%	22.8%	31.3%
ICICI Prudential Life	11.3%	20.3%	31.7%
Max Life	18.0%	39.6%	57.5%

Bajaj Allianz Life	9.2%	30.5%	39.7%
Median of Top 5 private players	9.2%	22.8%	31.7%

Source: Company public disclosures, CRISIL Research

Note: Total cost ratio calculated as summation of commission ratio and operating expense ratio

Expense ratios (as % of NBP) - 9M FY22	Commission ratio	Operating expense ratio	Total cost ratio
LIC	12.2%	21.5%	33.8%
SBI Life	7.7%	11.2%	18.9%
HDFC Life	7.7%	22.1%	29.8%
ICICI Prudential Life	10.9%	23.2%	34.1%
Max Life	17.2%	41.3%	58.4%
Bajaj Allianz Life	8.7%	32.2%	40.9%
Median of Top 5 private players	8.7%	23.2%	34.1%

Source: Company public disclosures, CRISIL Research

Note: Total cost ratio calculated as summation of commission ratio and operating expense ratio

Expense ratios (as % of NBP) - FY 20)	Commission ratio	Operating expense ratio	Total cost ratio
LIC	12.0%	10.7%	22.6%
SBI Life	9.8%	7.8%	17.6%
HDFC Life	8.7%	16.0%	24.7%
ICICI Prudential Life	12.7%	10.6%	23.3%
Max Life	18.3%	19.4%	37.7%
Bajaj Allianz Life	8.1%	22.5%	30.6%
Median of Top 5 private players	9.8%	16.0%	24.7%

Source: Company public disclosures, CRISIL Research

Note: Total cost ratio calculated as summation of commission ratio and operating expense ratio

Expense ratios (as % of NBP) - FY 19)	Commission ratio	Operating expense ratio	Total cost ratio
LIC	14.0%	9.3%	23.4%
SBI Life	9.8%	8.9%	18.6%
HDFC Life	7.6%	15.8%	23.3%
ICICI Prudential Life	15.5%	10.7%	26.1%
Max Life	19.2%	18.0%	37.2%

Bajaj Allianz Life	6.7%	21.5%	28.2%
Median of Top 5 private players	9.8%	15.8%	26.1%

Source: Company public disclosures, CRISIL Research

Note: Total cost ratio calculated as summation of commission ratio and operating expense ratio

Commission paid to individual agents as % of NBP higher for LIC

Commission paid to individual agents as % of NBP from individual products sold by individual agents is higher for LIC at 41.5% and 44.2% as of fiscal 2021 and 9M FY22 as compared to 21.9% and 20.1% for median of top 5 private players during the same period.

Commission paid to individual agents as % of NBP from individual products sold by individual agents	FY19	FY20	FY21	9M FY22
LIC	40.7%	43.6%	41.5%	44.2%
SBI Life	17.6%	17.1%	17.1%	16.1%
HDFC Life	18.6%	24.6%	26.0%	23.8%
ICICI Prudential Life	19.0%	22.1%	21.9%	20.1%
Max Life	32.9%	23.3%	16.7%	16.6%
Bajaj Allianz Life	17.6%	19.9%	25.1%	22.6%
Median of Top 5 private players	18.6%	22.1%	21.9%	20.1%

Source: Company public disclosures, CRISIL Research

LIC generates major proportion of its premium through individual agents' channel

All the private players in the set, look at banca as one of their major distribution channels. The share of banca channel in distribution mix is more than 40% (individual NBP basis) for all players except Bajaj Allianz Life. However, for LIC, Individual agents' network is the most significant channel contributing ~94% to its NBP in FY21.

Along with the strong contribution through agent network, LIC is also generating growth through other channels as well. The individual NBP generated through banca channel by LIC in FY21 and was higher than individual banca NBP of 16 other private life insurance players[6] and individual NBP of 14 private life insurance players. In 9M FY22, LIC's individual NBP through banca channel was higher than individual banca NBP of 12 other private life insurers and individual NBP of 11 private life insurance players. Further, the total NBP (individual + group) generated by 11 private life insurance players was lower than NBP (individual) generated by LIC through its banca network. The banca channel also contributed ~INR 18 billion to LIC's NBP in FY21 and premium through the channel grew at

[6] Without including Sahara India Life Insurance as the company did not issue any policy in FY21

~20% CAGR during FY16 to FY21.[7] During the 5-year period ending FY21, Bajaj Allianz Life recorded the fastest NBP growth of 125.5% CAGR through banca channel among the players in the set.

Channel Mix (Individual NBP)- INR billion (FY21)	Individual agents	Corporate agents - Banks	Corporate agents - Others	Direct Business	Web Aggregators	Others
LIC	529.1	17.6	0.7	12.4	n.a	4.3
SBI Life	34.6	81.7	3.5	5.1	n.a	0.0
HDFC Life	12.4	46.1	3.8	33.1	0.5	5.3
ICICI Prudential Life	19.4	36.8	4.0	13.4	0.6	5.0
Max Life	16.3	39.6	1.1	5.2	n.a	0.1
Bajaj Allianz Life	10.5	8.2	0.6	3.2	1.6	2.9
Others	**39.5**	**100.6**	**6.1**	**26.9**	**1.1**	**7.5**
Private Sector	**132.7**	**312.9**	**19.2**	**86.9**	**3.8**	**18.1**
Total	**661.8**	**330.5**	**19.8**	**99.3**	**3.8**	**22.4**

Note: n.a denotes that the player does not report the business acquisition data for the mentioned channel.

Source: Company public disclosures, CRISIL Research

Channel Mix (Individual NBP)- % (FY21)	Individual agents	Corporate agents - Banks	Corporate agents - Others	Direct Business	Web Aggregators	Others
LIC	93.8%	3.1%	0.1%	2.2%	Nil	0.8%
SBI Life	27.7%	65.4%	2.8%	4.1%	n.a	0.0%
HDFC Life	12.3%	45.8%	3.8%	32.9%	0.5%	4.7%
ICICI Prudential Life	24.7%	46.8%	5.0%	17.1%	0.7%	5.6%
Max Life	26.2%	63.5%	1.8%	8.3%	n.a	0.2%
Bajaj Allianz Life	41.6%	32.2%	2.4%	12.4%	6.2%	5.1%

Note: n.a denotes that the player does not report the business acquisition data for the mentioned channel

Source: Company public disclosures, CRISIL Research

Channel Mix (Individual)- Number of new policies (FY21)	Individual agents	Corporate agents - Banks	Corporate agents - Others	Direct Business	Web Aggregators	Others
LIC	19,647,857	212,182	24,865	88,472	Nil	1,002,063*
SBI Life	582,399	984,719	72,076	17,020	n.a	163

[7] Refer to annexure for more details

HDFC Life	145,494	475,266	52,566	257,683	6,151	50,998
ICICI Prudential Life	161,403	317,272	35,337	74,258	13,198	73,241
Max Life	133,763	365,917	6,381	134,549	n.a	4,017
Bajaj Allianz Life	135,111	174,911	24,869	32,599	35,734	59,513

Note: n.a denotes that the player does not report the business acquisition data for the mentioned channel; (*) includes micro agents

Source: Company public disclosures, CRISIL Research

Channel Mix (Individual NBP)- INR billion 9M FY22	Individual agents	Corporate agents - Banks	Corporate agents - Others	Direct Business	Web Aggregators	Others
LIC	345.7	8.4	0.3	1.5	Nil	2.3
SBI Life	30.7	76.7	3.0	5.7	0.02	0.01
HDFC Life	10.1	35.8	3.3	27.5	0.2	3.7
ICICI Prudential Life	17.9	29.0	2.6	11.6	0.2	2.6
Max Life	11.6	29.9	0.7	0.0	0.5	4.6
Bajaj Allianz Life	9.9	9.1	0.5	3.6	0.7	1.3
Others	28.6	78.0	4.9	18.3	1.0	7.4
Private Sector	108.7	258.5	14.9	66.6	2.6	19.6
Total	454.5	266.9	15.3	68.1	2.6	21.9

Note: n.a denotes that the player does not report the business acquisition data for the mentioned channel.

Source: Company public disclosures, CRISIL Research

Channel Mix (Individual)- % 9M FY22	Individual agents	Corporate agents - Banks	Corporate agents - Others	Direct Business	Web Aggregators	Others
LIC	96.5%	2.3%	0.1%	0.4%	Nil	0.7%
SBI Life	26.4%	66.0%	2.6%	4.9%	0.02%	0.01%
HDFC Life	12.6%	44.5%	4.1%	34.1%	0.2%	4.6%
ICICI Prudential Life	28.1%	45.4%	4.0%	18.1%	0.4%	4.1%
Max Life	24.5%	63.2%	1.5%	0.0%	1.1%	9.7%
Bajaj Allianz Life	39.3%	36.5%	2.0%	14.3%	2.6%	5.2%

Note: n.a denotes that the player does not report the business acquisition data for the mentioned channel

Source: Company public disclosures, CRISIL Research

Channel Mix (Group NBP)- INR billion (FY21)	Individual agents	Corporate agents - Banks	Corporate agents - Others	Direct Business	Others
LIC	31.0	0.3	0.2	1,245.7	0.5
SBI Life	0.9	33.1	0.0	46.6	0.7
HDFC Life	1.3	14.2	10.8	72.9	2.0
ICICI Prudential Life	0.1	7.1	2.5	41.4	0.8
Max Life	0.0	4.3	0.4	1.2	0.1

Bajaj Allianz Life	0.1	9.0	0.4	26.7	1.6

Source: Company public disclosures, CRISIL Research

Channel Mix (Group NBP)- % (FY21)	Individual agents	Corporate agents - Banks	Corporate agents - Others	Direct Business	Others
LIC	2.4%	0.0%	0.0%	97.5%	0.0%
SBI Life	1.1%	40.7%	0.0%	57.4%	0.8%
HDFC Life	1.3%	14.0%	10.7%	72.1%	2.0%
ICICI Prudential Life	0.2%	13.7%	4.8%	79.8%	1.4%
Max Life	0.0%	71.8%	6.7%	20.0%	1.4%
Bajaj Allianz Life	2.4%	0.0%	0.0%	97.5%	0.0%

Source: Company public disclosures, CRISIL Research

Channel Mix (Group)- Number of lives covered (FY21)	Individual agents	Corporate agents - Banks	Corporate agents - Others	Direct Business	Others
LIC	759,720	115,284	8,322	30,580,116	101,506
SBI Life	292,258	1,055,579	10,090	8,847,044	451,731
HDFC Life	915	18,880,855	2,523,856	14,390,054	2,989,410
ICICI Prudential Life	58,603	1,708,394	1,518,765	19,825,489	2,577,734
Max Life	10,090	2,085,667	11,319	1,735,318	394,130
Bajaj Allianz Life	3,375	8,681,658	100,937	11,741,686	2,632,963

Source: Company public disclosures, CRISIL Research

Direct channel has been the fastest growing segment in individual business for all players in the set except Max Life

The rising smartphone and internet penetration has opened new digital distribution opportunities for the players. All players in the set have developed their in-house portals to enable customers to buy policies online. Further, players have also collaborated with web aggregator & online platforms for sale of their policies. For example, all the players in the peer set have collaborated with “TurtleMint”, an insurtech player, to expand their geographical reach. Further, players such as LIC, ICICI Prudential Life, Max Life, Bajaj Allianz Life and SBI Life have also collaborated with “GramCover”, which has focus on distributing insurance policies in rural India.

Among the players in the set, SBI Life recorded the fastest individual NBP growth through direct channel of ~62% CAGR during 5-year ending fiscal 2021. Bajaj Allianz Life recorded the second fastest growth with 50.4% CAGR.

Channel Mix (Individual)- 5-Year CAGR ending FY21	Individual agents	Corporate agents - Banks	Corporate agents - Others	Direct Business
LIC	10.8%	19.6%	7.8%	27.9%
SBI Life	13.0%	22.0%	72.8%	62.0%
HDFC Life	20.3%	13.1%	31.0%	49.7%
ICICI Prudential Life	7.9%	3.7%	12.0%	17.4%

Max Life	17.6%	21.3%	2.4%	13.3%
Bajaj Allianz Life	5.6%	125.5%	44.0%	50.4%

Source: Company public disclosures, CRISIL Research

LIC has the largest and most productive agent network

LIC's agent network is wider than entire private life insurance player's agent network. As of March 31, 2021, LIC had 1.35 million individuals in its agent network compared to 1.10 million individuals for the entire private life insurance industry put together. Also, the number of individual agents for LIC in India increased at a CAGR of 7% between March, 2019 and March, 2021 compared to the next best player's agency force CAGR of 5% during the same period.

Further, LIC also had the highest agent productivity of ~INR 413,000 and ~INR 2,60,000 per agent in FY21 and 9M FY22 respectively. Max Life had the second highest agent productivity at ~INR 322,000 in fiscal 2021. Also, LIC has the most productive agent network by policies sold in Indian life insurance sector, with 15.3 and 9.0 policies on average in fiscal 2021 and 9M FY22 respectively, while the agents of the next largest insurer sold 3.9 and 3.1 policies respectively over the same period. In FY21, LIC also recorded the highest NBP per employee and direct NBP generated per employee.

LIC had 721 MDRT members in CY 2021, which was the most among all the Indian corporates operating in THE financial services industry and ranked 32nd globally. LIC had 19,393 agents (including 721 MDRT members) who met the criteria for MDRT agent status in CY 2021. Among the peers in the set, HDFC Life had 306 members (ranked 62nd globally) and Max Life had 153 MDRT members (ranked 100th globally).

Parameters-FY21	Number of Individual Agents in India (As of March 31, 2021)	Number of Individual Agents in India (as of December 30, 2021 2021)	Agent Productivity for FY 2021 by NBP(1) (inINR)	Agent Productivity for FY 2021 by policies sold(2)	Agent Productivity for 9M FY22 by NBP(1) (inINR)	Agent Productivity for 9M FY22 by policies sold(2)	MDRT(3) members (CY2021)
LIC	1,353,808	1,329,448	412,934	15.3	260,069	9.0	721(5)
SBI Life	170,096	135,902	230,140	3.9	225,740	3.1	n.a.(4)
HDFC Life	112,012	112,749	112,714	1.3	90,033	0.9	306
ICICI Prudential Life	187,560	196,785	102,356	0.9	90,952	0.6	n.a.(4)
Max Life	55,217	58,224	322,442	2.6	203,962	1.3	153
Bajaj Allianz Life	88,102	93,003	124,892	1.6	108,888	1.1	n.a.(4)
Median of Top 5 private players	112,012	112,749	124,892	1.6	108,888	1.1	-

Source: Company public disclosures, Million Dollar Round Table, Life Insurance Council (Individual Agents Data), CRISIL Research

Notes:

(1) *Calculated as [NBP [for individual policies] through individual agents on a standalone basis divided by the average number of individual agents in India during the relevant period*

(2) Calculated as individual policies issued through individual agents on a standalone basis divided by the average number of individual agents in India

(3) Million Dollar Round Table (MDRT) is a global association of financial services professionals. The association has professionals from more than 500 companies across 70 countries as per its website. The membership eligibility is decided by the association every year basis commission, premium or revenue cut-off. The members have access to MDRT's client network, meetings and resources.

(4) n,a: only data for the top 100 global MDRT members is published by the association; as the player was not part of the top 100 members' list, data is not available

(5) LIC had 19,393 qualifying agents for MDRT; 721 agents availed the memebership

Parameters- FY21	Number of employees	NBP per employee (INR)	Revenue per employee (INR)
LIC	114,498	16,085,396	254,327
SBI Life	17,464	12,053,572	1,386,494
HDFC Life	20,636	9,900,198	801,340
ICICI Prudential Life	14,413	8,974,362	1,898,509
Max Life	14,000	4,876,343	453,414
Bajaj Allianz Life	n.a	n.a	n.a
Median of Top 5 private players*	-	9,437,280	1,093,917

Source: Annual Reports, Company public disclosures, CRISIL Research

Note: Employee data as reported in annual report or company websites; n.a means employee data not available
For LIC, employee data for fiscal 2020 as published in annual report considered to calculate the ratios
(*) Median is excluding Bajaj Allianz Life

Share of Group NBP highest for LIC

LIC generated 69.4% of its NBP from group customers as of FY21, which was higher than any of the top five private players. Further, LIC enjoyed a high market share of ~78% of group NBP in FY21.

LIC's NBP book has more geographical spread compared to peers

For FY 21, LIC had (a) ~51% market share in individual NBP and a, ~76% market share of new individual policies in urban India and (b) ~40% market share in individual NBP and ~71% market share of new individual policies in rural India . The strong agent network enables LIC to cater to larger section of society in urban as well as rural region and not only the well-banked population. However, the same also results in lower ticket size as compared to peers. Therefore, the average NBP per individual policy for LIC was INR 26,892 which is significantly lower as compared to its peers.

Customer Mix - FY21	Customer Mix in terms of NBP		Average NBP (INR)	
	Individual	Group	Individual	Group
LIC	30.6%	69.4%	26,892	40,184,954
SBI Life	60.6%	39.4%	75,466	158,081,907
HDFC Life	50.0%	50.0%	103,106	395,208,203

ICICI Prudential Life	60.2%	39.8%	118,623	17,972,548
Max Life	91.2%	8.8%	96,619	14,635,208
Bajaj Allianz Life	40.1%	59.9%	59,258	158,933,613

Source: Life Insurance Council (New Business Premium) CRISIL Research

Customer Mix -9M FY22	**Customer Mix**		**Average NBP (INR)**	
	Individual	**Group**	**Individual**	**Group**
LIC	28.4%	71.6%	28,325	35,832,008
SBI Life	61.8%	38.2%	88,585	353,712,376
HDFC Life	47.2%	52.8%	126,990	657,239,771
ICICI Prudential Life	62.3%	37.7%	141,374	39,539,373
Max Life	89.3%	10.7%	114,667	113,087,472
Bajaj Allianz Life	42.5%	57.5%	81,335	224,797,109

Source: Life Insurance Council (New Business Premium) CRISIL Research

Book mix – By geographic distribution (FY21)	**By Individual NBP**		**By Individual Policy**	
	Urban	Rural*	Urban	Rural
LIC	89.2%	10.8%	78.5%	21.5%
SBI Life	81.4%	18.6%	73.4%	26.6%
HDFC Life	88.4%	11.6%	78.3%	21.7%
ICICI Prudential Life	89.2%	10.8%	79.3%	20.7%
Max Life	81.0%	19.0%	76.2%	23.8%
Bajaj Allianz Life	79.2%	20.8%	71.1%	28.9%

Note: (*) Urban and rural geographies are classified by the insurance players basis latest available decennial population census (Census of India)

Source: Company public disclosures, CRISIL Research

Book Mix – By geographic distribution (9M FY22)	**By Individual NBP**		**By Individual Policy**	
	Urban	Rural	Urban	Rural
LIC	86.9%	13.1%	79.2%	20.8%
SBI Life	80.4%	19.6%	72.2%	27.8%
HDFC Life	88.3%	11.7%	78.9%	21.1%
ICICI Prudential Life	87.6%	12.4%	78.0%	22.0%
Max Life	82.7%	17.3%	78.3%	21.7%
Bajaj Allianz Life	80.5%	19.5%	71.6%	28.4%

Source: Company public disclosures, CRISIL Research

Market Share -(FY21)	**By Individual NBP**		**By Individual Policy**	
	Urban	Rural	Urban	Rural
LIC	51.3%	40.4%	76.1%	71.0%

SBI Life	10.4%	15.3%	5.6%	7.0%
HDFC Life	9.1%	7.7%	3.5%	3.4%
ICICI Prudential Life	7.1%	5.6%	2.4%	2.2%
Max Life	5.1%	7.8%	2.3%	2.4%
Bajaj Allianz Life	2.0%	3.5%	1.4%	1.9%
Median of Top 5 private players	7.1%	7.7%	2.4%	2.4%

Source: Company public disclosures, CRISIL Research

Market Share -(9M FY22)	By Individual NBP		By Individual Policy	
	Urban	Rural	Urban	Rural
LIC	44.3%	37.6%	73.3%	66.8%
SBI Life	13.3%	18.3%	6.9%	9.3%
HDFC Life	10.1%	7.6%	3.7%	3.4%
ICICI Prudential Life	8.0%	6.3%	2.6%	2.5%
Max Life	5.6%	6.6%	2.4%	2.3%
Bajaj Allianz Life	2.9%	3.9%	1.6%	2.2%
Median of Top 5 private players	8.0%	6.6%	2.6%	2.5%

Source: Company public disclosures, CRISIL Research

LIC and SBI Life have strong banca network in rural region

All the private life insurance players have significantly leveraged the banking channel to sell life insurance products. The share of corporate agents – banks for the industry increased from 23.8% in FY16 to 29.0% in FY21. Though LIC's business is primarily agent driven, the % share of individual new business from banca channel also increased from 2.2% in FY16 to 3.1% in FY21. As of September 2021, LIC had the strongest banca network with 51,633 branches, followed by SBI Life with 38,026. Further, LIC also had the highest number of rural branches at 15,362 followed by SBI Life at 11,930.

Bank Partners' Branch	Rural	Semi-urban	Urban	Metropolitan	Total
LIC	15,362	13,571	11,133	11,567	51,633
SBI Life	11,930	10,753	7,969	7,374	38,026
HDFC Life	4,202	6,249	3,931	4,267	18,649
ICICI Prudential Life	1,999	3,398	2,870	3,750	12,017
Max Life	917	1,726	1,365	1,922	5,930
Bajaj Allianz Life	3,411	5,084	3,504	3,479	15,478

Note: Data includes data for Scheduled Commercial Banks (SCBs) only

Source: IRDAI, RBI, CRISIL Research

Bank Partners' Branch	Rural	Semi-urban	Urban	Metropolitan
LIC	29.8%	26.3%	21.6%	22.4%

SBI Life	31.4%	28.3%	21.0%	19.4%
HDFC Life	22.5%	33.5%	21.1%	22.9%
ICICI Prudential Life	16.6%	28.3%	23.9%	31.2%
Max Life	15.5%	29.1%	23.0%	32.4%
Bajaj Allianz Life	22.0%	32.8%	22.6%	22.5%

Note: Data includes data for Scheduled Commercial Banks (SCBs) only

Source: IRDAI, RBI, CRISIL Research

SBI Life, Max Life and LIC have relatively lower geographic concentration in NBP

SBI Life generated the lowest % of individual NBP from its top 5 states, at 38.4% in FY21, followed by Max Life at 47.6%. From top 10 states, SBI Life generated 64.4% of its individual NBP, followed by LIC at 72.1%.

Geographic Concentration (%) Basis Individual NBP - FY21	Top 5 states	Top 10 states	Top 15 states
LIC	49.2%	72.1%	88.5%
SBI Life	38.4%	64.4%	82.5%
HDFC Life	56.4%	80.6%	91.8%
ICICI Prudential Life	54.8%	79.8%	92.2%
Max Life	47.6%	74.5%	88.9%
Bajaj Allianz Life	51.2%	72.4%	87.7%
Median of top 5 private players	47.6%	74.5%	88.9%

Source: Company public disclosures, CRISIL Research

Geographic Concentration (%) Basis Individual NBP - 9M FY22	Top 5 states	Top 10 states	Top 15 states
LIC	47.0%	71.2%	87.8%
SBI Life	38.8%	65.4%	83.7%
HDFC Life	55.9%	79.9%	91.6%
ICICI Prudential Life	52.5%	78.1%	91.9%
Max Life	48.1%	75.6%	89.3%
Bajaj Allianz Life	50.2%	72.2%	86.9%
Median of top 5 private players	50.2%	75.6%	89.3%

Source: Company public disclosures, CRISIL Research

SBI Life recorded highest 61st month persistency followed by ICICI Prudential Life; LIC third best as of March 2021

Amongst the peers analysed, SBI Life had the highest 61st month persistency at 61.6% as of March 2021, followed by ICICI Prudential life at 59.8%. As at March 31, 2021, LIC's persistency ratio by premium in India was 79.0% in the 13th month and 59.0% in the 61st month, compared to the median of the top five private players[8] in India of 87.1% in the 13th month and 54.4% in the 61st month.

Persistency ratio – FY 21	13th	25th	37th	49th	61th
LIC#	79.0%	70.0%	67.0%	63.0%	59.0%
SBI Life^	87.9%	79.4%	74.1%	68.1%	61.6%
HDFC Life^^	91.7%	84.2%	74.7%	69.6%	54.4%
ICICI Prudential Life#	87.1%	76.1%	69.2%	65.4%	59.8%
Max Life*	84.0%	68.0%	60.0%	56.0%	53.0%
Bajaj Allianz Life*	79.8%	71.3%	62.8%	54.3%	42.3%
Median of Top 5 private players	87.1%	76.1%	69.2%	65.4%	54.4%

Source: Company public disclosures, CRISIL Research

Note: The ratio is calculated by the players in-line with IRDAI circular ("Report on persistency rate and renewal rate") dated January 2014

(*) Persistency ratios reported basis the data disclosed by the players in L-22 (Analytical Ratios)

(#) Persistency ratio is in regular premium for individual products

(^) Persistency ratio is for individual products including group business where persistency is measurable

(^^) Persistency ratio is for individual products including group business and rural business where persistency is measurable

For the year ending period, SBI Life, HDFC Life, Max Life, Bajaj Allianz Life calculate the persistency ratio for policies issued during March to February cycle of the relevant period; for example, for the 13th month persistency for year ending March 31, 2021 is calculated by considering the policies issued during March 2019 to February 2020; ICICI Prudential life considers the policies issued during April to March cycle

Persistency ratio – 9M FY 22	13th	25th	37th	49th	61th
LIC	76.8%	71.7%	67.8%	65.0%	61.9%
SBI Life	83.5%	77.0%	71.5%	68.0%	49.8%
HDFC Life	86.6%	76.9%	66.9%	62.8%	53.2%
ICICI Prudential Life	84.5%	76.1%	66.5%	59.1%	53.3%
Max Life	83.0%	67.0%	60.0%	56.0%	50.0%
Bajaj Allianz Life	80.5%	73.3%	65.0%	59.7%	46.7%
Median of Top 5 private players	83.5%	76.1%	66.5%	59.7%	50.0%

Source: Company public disclosures, CRISIL Research

[8] Median for top 5 private players is basis the data disclosed in public disclosure (L-22)

Note: Persistency Ratio - Premium Basis (Regular Premium/Limited Premium Payment under Individual category); The ratio is calculated by the players in-line with IRDAI circular ("Report on persistency rate and renewal rate") dated January 2014

Persistency ratio– FY 20	13th	25th	37th	49th	61th
LIC#	72.00%	67.00%	63.00%	58.00%	54.00%
SBI Life^	86.14%	78.53%	71.56%	67.30%	59.90%
HDFC Life^^	90.06%	80.22%	73.78%	67.21%	55.05%
ICICI Prudential Life#	86.80%	78.30%	70.10%	67.30%	58.70%
Max Life*	87.00%	73.00%	64.00%	60.00%	53.00%
Bajaj Allianz Life*	79.20%	71.40%	58.40%	50.70%	40.40%
Median of Top 5 private players	86.80%	78.30%	70.10%	67.21%	55.05%

Source: Company public disclosures, CRISIL Research

Note: The ratio is calculated by the players in-line with IRDAI circular ("Report on persistency rate and renewal rate") dated January 2014

(*) Persistency ratios reported basis the data disclosed by the players in L-22 (Analytical Ratios)

(#) Persistency ratio is in regular premium for individual products

(^) Persistency ratio is for individual products including group business where persistency is measurable

(^^) Persistency ratio is for individual products including group business and rural business where persistency is measurable

Persistency ratio – FY 19	13th	25th	37th	49th	61th
LIC#	77.00%	71.00%	65.00%	60.00%	63.00%
SBI Life^	85.07%	76.65%	71.39%	66.43%	57.23%
HDFC Life^^	87.24%	80.47%	72.00%	67.67%	52.25%
ICICI Prudential Life#	86.20%	77.40%	71.00%	65.00%	58.00%
Max Life*	83.00%	71.00%	64.00%	58.00%	53.00%
Bajaj Allianz Life*	80.40%	68.40%	55.00%	47.30%	37.70%
Median of Top 5 private players	85.07%	76.65%	71.00%	65.00%	53.00%

Source: Company public disclosures, CRISIL Research

Note: The ratio is calculated by the players in-line with IRDAI circular ("Report on persistency rate and renewal rate") dated January 2014

(*) Persistency ratios reported basis the data disclosed by the players in L-22 (Analytical Ratios)

(#) Persistency ratio is in regular premium for individual products

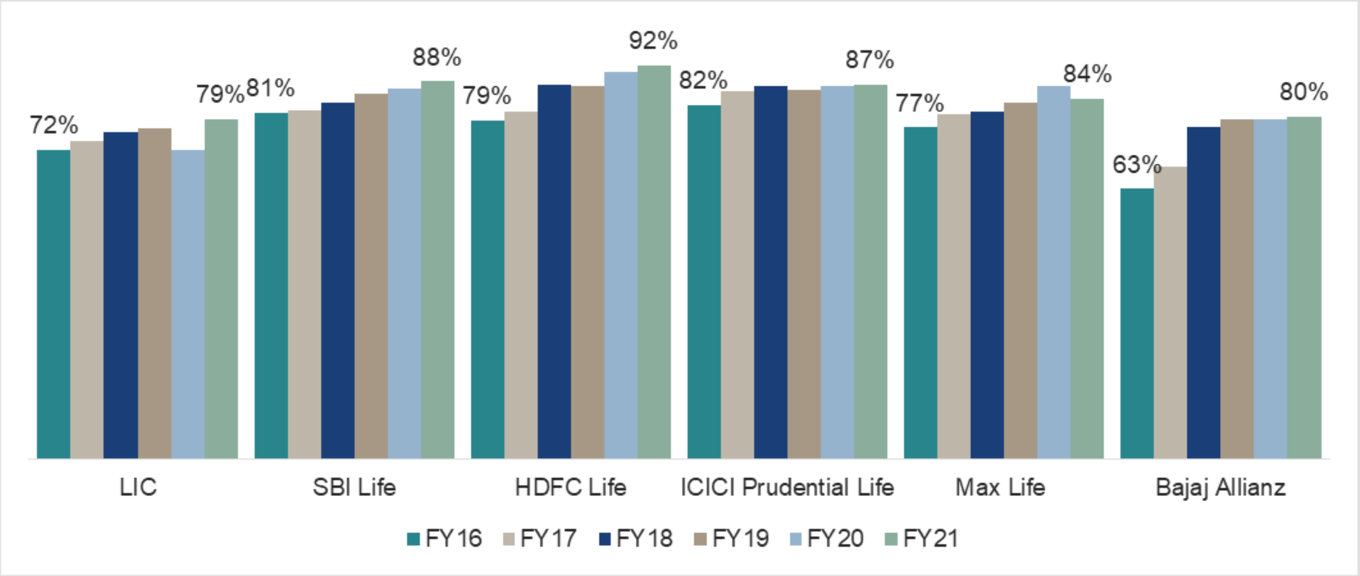
(^) Persistency ratio is for individual products including group business where persistency is measurable

(^^) Persistency ratio is for individual products including group business and rural business where persistency is measurable

61st month and 13th month persistency improved for all players in the set during FY16-21

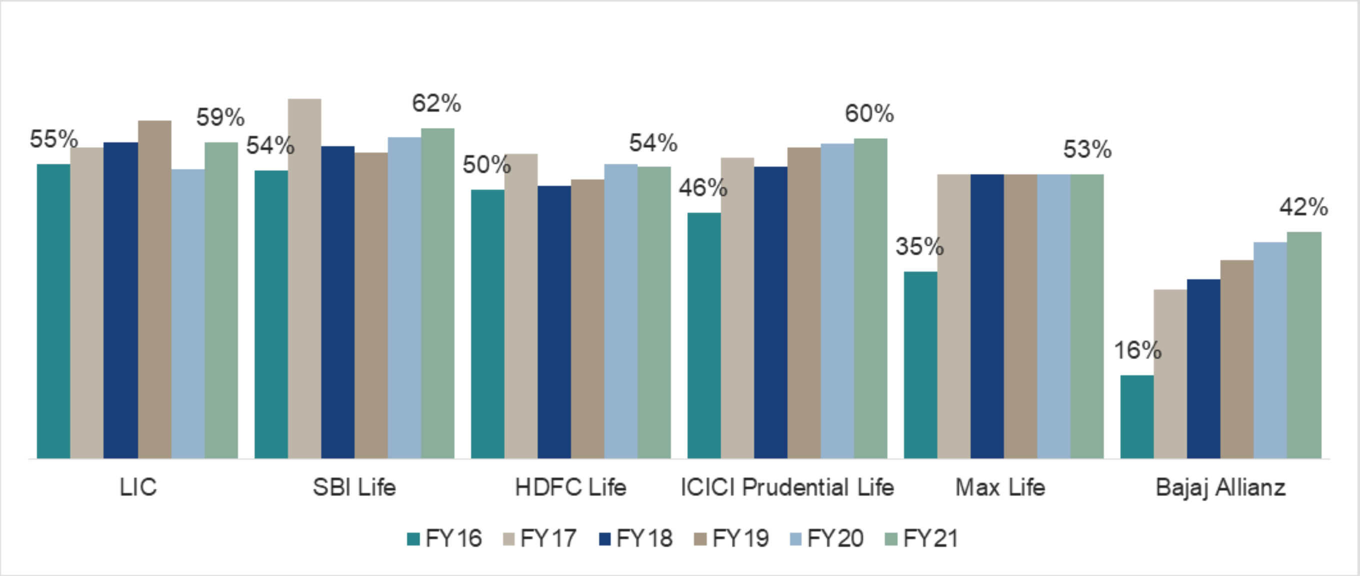
Maintaining high persistency ratio is critical to all the life insurance players' in-order to ensure long-term value creation and profitability. All the players in the set have witnessed improvement in their 13th and 61st month persistency during the last 5 years ending fiscal 2021. During FY16-21, Bajaj Allianz Life showcased the best improvement in both 13th month and 61st month persistency of ~17 percentage points and ~26 percentage points respectively.

Trend in 13th month persistency ratio for top life insurance player's basis premium



Source: Company Public Disclosures, CRISIL Research

Trend in 61st month persistency[9] ratio for top life insurance players' basis premium



Source: Company Public Disclosures, CRISIL Research

---

[9] All numbers are on year-end basis

Strong net cash generation[10] for all the top 6 players

Balancing growth, pricing and under-writing quality is critical for all life insurance players. Along with their market leadership and healthy growth, the top 6 players have also generated strong net cash flows implying robust under-writing practices.

LIC is the market leader in this metric as well generating INR ~1.2 trillion of net cash as of FY21, which is more than 4 times the net cash added by the second-best player in this metric- SBI Life generating ~INR 283 billion in the same fiscal.

LIC is the largest asset manager in India

LIC is the largest asset manager in India with managed assets worth INR 36.8 trillion as of March 31, 2021. LIC's AUM as of March 31, 2021 is more than 3 times higher than total AUM of all private life insurers in India,is approximately 16.6 times more than the AUM of the second-largest player in the Indian life insurance industry in terms of AUM (SBI Life had the second largest AUM of ~INR 2.2 trillion) and is also 1.2 times the AUM of the entire mutual fund industry in India, which had AUM of ~INR 31.4 trillion as of March 31, 2021. Further, the AUM of LIC as of March 2021 was ~19% of India's GDP for fiscal 2021. As of March 31, 2021, LIC was the largest domestic institutional investor in the Indian financial sector. LIC's investments in listed equity hadcarrying/market value of ~INR 8 trillion, which represented around 4% of the total market capitalisation of NSE as at the same date.

Parameters (FY21)	Net Cash Added (INR billion)	Net Profit/ Profit after tax (INR billion)	AUM (INR billion)	AUM (%)	Embedded value (INR billion)	Value of New business (INR billion)
LIC	1,181.9	29.0	36,761.8	77.0%	n.a	n.a
SBI Life	282.8	14.6	2,208.7	4.7%	333.9	23.3
HDFC Life	163.4	13.6	1,738.4	3.7%	266.2	21.9
ICICI Prudential Life	124.5	9.6	2,142.2	4.5%	291.1	16.2
Max Life	117.4	5.2	904.1	1.9%	118.3	12.5
Bajaj Allianz Life	58.2	5.8	737.7	1.6%	155.3	3.6

Note: n.a – not available

Source: Company public disclosures, Annual reports, CRISIL Research

Value of New business (INR billion)	FY19	FY20	FY21	9M FY22
LIC	n.a	n.a	n.a	n.a
SBI Life	17.2	20.1	23.3	22.3
HDFC Life	15.4	19.2	21.9	17.8
ICICI Prudential Life	13.3	16.1	16.2	13.9
Max Life	8.6	9.0	12.5	9.4
Bajaj Allianz Life	1.5	2.3	3.6	3.1

[10] Net cash added = Net premium – Net benefit paid

Note: n.a – not available

Source: Annual reports, CRISIL Research

Embedded value (INR billion)	FY19	FY20	FY21	9M FY22
LIC	n.a	n.a	n.a	n.a
SBI Life	224.0	262.9	333.9	n.a
HDFC Life	183.0	206.5	266.2	295.4
ICICI Prudential Life	216.2	230.3	291.1	n.a
Max Life	89.4	99.8	118.3	134.1
Bajaj Allianz Life	129.9	134.4	155.3	n.a

Note: n.a – not available

Source: Annual reports, CRISIL Research

	GDP (INR trillion) - 2020	LIC AUM as a % of GDP (FY21)
Israel	29.6	124%
Philippines	28.1	131%
Norway	26.4	139%
Singapore	24.8	149%
South Africa	24.4	151%
New Zealand	15.2	241%

Note: Values are based upon GDP in U.S. dollars converted to INR using market exchange rates (yearly average)

Source: IMF, Company reports, CRISIL Research

As of December 2021, LIC's AUM was INR 40.1 trillion. LIC's AUM as of December 31, 2021 is more than 3.2 times higher than total AUM of all private life insurers in India, it is approximately 15.6 times more than the AUM of the second-largest player in the Indian life insurance industry in terms of AUM (SBI Life had the second largest AUM of ~INR 2.6 trillion) and is also 1.1 times the AUM of the entire mutual fund industry in India, which had AUM of ~INR 37.7 trillion as of December 31, 2021. Further, the AUM of LIC as of December 2021 was 17.0% of India's estimated GDP for fiscal 2022. LIC's investments in listed equity represented around 4% of the total market capitalisation of NSE as at the same date.

Parameters (9M FY22)	Net Cash Added (INR billion)	Net Profit/ Profit after tax (INR billion)	AUM (INR billion)	AUM (%)
LIC	506.3	16.7	40,121.7	76.5%
SBI Life	171.0	8.3	2,569.0	4.9%
HDFC Life	93.3	8.5	1,947.4	3.7%
ICICI Prudential Life	37.5	5.7	2,375.6	4.5%
Max Life	108.4	2.4	1,024.7	2.0%
Bajaj Allianz Life	40.9	2.8	832.0	1.6%

Source: Company public disclosure L-3, Company reports, CRISIL Research

Parameters (FY21)	Embedded Value	AUM	Share of	AUM Mix

	(5-Year growth)	(5-Year growth)	investment in Infrastructure and Social Sector	Equity	Debt
LIC*	n.a	13.4%[1]	8.4%	20.5%	79.5%
SBI Life	21.6%	22.6%	13.0%	27.0%	73.0%
HDFC Life	21.1%	18.5%	12.7%	36.0%	64.0%
ICICI Prudential Life	15.9%	15.6%	14.8%	45.5%	54.5%
Max Life*	16.1%	20.3%	14.6%	20.0%	80.0%
Bajaj Allianz Life*	n.a	10.8%	12.5%	32.7%	67.3%

Note: (*) AUM mix split is based on company fillings in L – 29; [1]FY16 AUM for LIC calculated as addition of Investment – Shareholders, Investment – Policyholders and Assets held to cover linked liabilities

Source: Company public disclosures, CRISIL Research

Parameters	Adjusted Net-worth (INR Billion) – FY21	Value of in-force business (INR billion) – FY21	Operating Return on Embedded Valued (RoEV) – FY21	Operating Return on Embedded Valued (RoEV) – 9M FY22
LIC	n.a	n.a	n.a	n.a
SBI Life	n.a	n.a	19.1%	n.a
HDFC Life	89,840	176,330	18.5%	18.6%
ICICI Prudential Life	95,220	195,840	15.2%	n.a
Max Life	27,680	90,660	18.5%	18.1%
Bajaj Allianz Life	n.a	n.a	9.4%	n.a

Source: Company Annual Reports, CRISIL Research

Note: n,a: not available

Net worth (INR billion)	FY19	FY20	FY21	Dec-21
LIC	6.8	7.4	63.6	80.5
SBI Life	75.8	87.4	104.0	112.0
HDFC Life	56.6	68.0	86.4	91.9
ICICI Prudential Life	70.5	72.2	91.2	9.9
Max Life	27.6	25.7	30.1	30.7
Bajaj Allianz Life	96.5	97.3	107.4	109.9

Source: Company Reports, CRISIL Research

In-line with IRDAI (Distribution of surplus) Regulations, 2002, the top 5 private players in the set transfer a maximum of one-ninth of the participating policyholder's surplus to the shareholder's account. The surplus includes the bonus allocated to the participating policyholders and the interim bonus paid. Therefore, the private players in the set allocated ~10% of the participating policyholder's account surplus[11] to its shareholders in fiscal 2021. However, the amount LIC transferred to Shareholder's Account was approximately 5%[12] of the total surplus in Fiscal 2021 as against up to the 10% perrmited by the LIC act, 1956.

Parameters (FY21)	Interim and terminal bonus (INR Million)	Allocation of bonus to policyholders (INR Million)	Surplus in revenue account (INR Million)	Transfer to shareholders' accounts (INR Million)
LIC	22,290.7	548,911.9	28,890.1	28,890.1
SBI Life	897.7	13,949.2	18,074.2	16,787.6
HDFC Life	7,941.0	7,415.3	10,984.4	9,909.0
ICICI Prudential Life	1,162.3	6,082.4	21,053.7	19,848.6
Max Life	28.8	12,967.5	33,680.7	3,861.7
Bajaj Allianz Life	1,490.5	5,691.3	6,329.8	5,446.2

Source: Company Public Disclosures, CRISIL Research

Parameters (9M FY22)	Interim and terminal bonus (INR Million)	Allocation of bonus to policyholders (INR Million)	Surplus in revenue account (INR Million)	Transfer to shareholders' accounts (INR Million)
LIC	24,700.1	-	15,940.2	15,940.2
SBI Life	671.3	-	6,053.9	2,612.9
HDFC Life	4,541.5	-	6,644.5	7,043.1
ICICI Prudential Life	-	-	10,462.8	10,921.1
Max Life	30.6	13,198.1	4,009.6	1,888.1
Bajaj Allianz Life	1,407.1	-	3,228.8	2,420.1

Note: n.a – not available

Source: Company Public Disclosures, CRISIL Research

Parameters (FY20)	Interim and terminal bonus (INR Million)	Allocation of bonus to policyholders (INR Million)	Surplus in revenue account (INR Million)	Transfer to shareholders' accounts
LIC	16,733.7	512,571.2	26,977.4	26,977.4
SBI Life	755.9	12,963.3	18,947.0	14,626.5
HDFC Life	8,484.4	8,028.6	9,714.1	11,913.9
ICICI Prudential Life	739.6	5,132.6	21,869.6	19,887.1
Max Life	16.5	13,119.2	35,652.4	4,690.1

[11] Bonuses paid to policyholders + allocation of bonus + transfer to shareholder's account

[12] Considering participating as well as non-particpating accounts;

Bajaj Allianz Life	1,346.8	4,147.6	5,023.1	4,209.1

Source: Company Public Disclosures, CRISIL Research

Parameters (FY19)	Interim and terminal bonus (INR Million)	Allocation of bonus to policyholders (INR Million)	Surplus in revenue account (INR Million)	Transfer to shareholders' accounts
LIC	16,513.7	505,513.1	26,606.0	26,606.0
SBI Life	607.2	11,491.4	10,866.4	9,985.0
HDFC Life	5,742.7	7,768.1	13,507.2	12,069.0
ICICI Prudential Life	706.3	4,667.8	12,332.8	10,770.4
Max Life	13.6	12,221.2	26,899.9	4,402.2
Bajaj Allianz Life	917.8	3,780.0	9,460.9	4,801.0

Source: Company Public Disclosures, CRISIL Research

	GNPA		NNPA	
Parameters (FY21) GNPA (%)	Policyholders' funds	Shareholders' funds	Policyholders' funds	Shareholders' funds
LIC	7.78%[1]	n.a	0.05%[1]	n.a
SBI Life	0.05%[2]	0.00%	0.00%	0.00%
HDFC Life	0.07%[3]	0.00%	0.00%	0.00%
ICICI Prudential Life	0.00%	0.00%	0.00%	0.00%
Max Life	0.20%	0.28%	0.04%	0.00%
Bajaj Allianz Life	0.90%[4]	0.80%	0.00%	0.00%

Source: Company public disclosures, CRISIL Research

Note: [1]NPA for LIC is reported for debt portfolio only; [2] SBI Life GNPA (%) in policyholders' funds is for non-participating funds, the company reported NIL GNPA in other categories; [3] HDFC Life GNPA (%) is for linked non-participating funds, the company reported NIL GNPA in other categories; [4]Bajaj Allianz Life GNPA (%) for policyholder's fund constitutes its participating category only. The company reported NIL GNPA in other policyholder's funds categories

n.a: not available

Parameters (FY21) Gross Yields (%)	Life Fund	Pension Annuity & Group fund	Linked Life fund
LIC	8.3%	7.9%	10.6%
SBI Life	8.6%	8.4%	24.8%
HDFC Life	9.5%	7.9%	38.7%
ICICI Prudential Life	9.8%	9.5%	34.6%
Max Life	9.3%	8.8%	31.5%
Bajaj Allianz Life	9.9%	7.9%	34.3%

Source: Company public disclosures, CRISIL Research

Parameters (FY21) Investment	Non-linked	Linked

Yields Without Unrealised Gains (%)[1]	Participating	Non-Participating	Non-participating
LIC[#]		7.42%	
SBI Life	8.7%	8.2%	10.0%
HDFC Life	8.5%	9.5%	8.6%
ICICI Prudential Life	10.8%	9.8%	6.9%
Max Life	10.0%	8.0%	17.0%
Bajaj Allianz Life	11.1%	8.1%	10.7%

Source: Company public disclosures, CRISIL Research

Note: # Investment yield for LIC is on mean policyholders fund and does not include realized and unrealized gains; investment yields for different segments i.e non-linked participatory, non-linked non-participatory and linked non-participatory not available for LIC;

[1]As reported by players in public disclosures - L22 (this may or may not include realized gains)

Parameters (FY20) Gross Yields (%)	Life Fund	Pension Annuity & Group fund	Linked Life fund
LIC	8.19%	7.86%	-16.82%
SBI Life	8.14%	8.71%	-4.16%
HDFC Life	5.57%	8.39%	-13.05%
ICICI Prudential Life	7.28%	11.82%	-14.29%
Max Life	7.90%	7.80%	-6.44%
Bajaj Allianz Life	7.36%	7.41%	-12.80%

Source: Company public disclosures, CRISIL Research

Parameters (FY20) Investment Yields Without Unrealised Gains (%)[1]	Non-linked		Linked
	Participating	Non-Participating	Non-participating
LIC[#]		7.54%	
SBI Life	8.76%	8.92%	6.81%
HDFC Life	6.96%	9.58%	6.30%
ICICI Prudential Life	7.20%	8.50%	4.10%
Max Life	8.00%	8.00%	8.00%
Bajaj Allianz Life	7.70%	8.10%	5.90%

Note: # Investment yield for LIC is on mean policyholders fund and does not include realized and unrealized gains; investment yields for different segments i.e non-linked participatory, non-linked non-participatory and linked non-participatory not available for LIC;

[1]As reported by players in public disclosures - L22 (this may or may not include realized gains)

Source: Company public disclosures, CRISIL Research

Parameters (FY19) Gross Yields (%)	Life Fund	Pension Annuity & Group fund	Linked Life fund
LIC	8.25%	8.28%	3.92%
SBI Life	8.15%	8.53%	9.56%
HDFC Life	7.14%	7.92%	8.61%
ICICI Prudential Life	8.44%	8.08%	6.84%
Max Life	8.03%	7.52%	10.54%
Bajaj Allianz Life	7.41%	7.38%	7.92%

Source: Company public disclosures, CRISIL Research

Parameters (FY19)	Non-linked	Linked

Investment Yields Without Unrealised Gains (%)[1]	Participating	Non-Participating	Non-participating
LIC[#]		7.59%	
SBI Life	8.96%	8.70%	6.96%
HDFC Life	7.42%	8.41%	6.61%
ICICI Prudential Life	8.30%	9.10%	5.10%
Max Life	8.00%	8.00%	9.00%
Bajaj Allianz Life	8.60%	8.50%	8.90%

Note: # Investment yield for LIC is on mean policyholders fund and does not include realized and unrealized gains; investment yields for different segments i.e non-linked participatory, non-linked non-participatory and linked non-participatory not available for LIC;

[1]As reported by players in public disclosures - L22 (this may or may not include realized gains)

Source: Company public disclosures, CRISIL Research

Breakdown by credit Rating of debt securities (FY21)	Sovereign	AAA rated[1]	AA or better	Rated below AA but above A (A or better)	Rated below A but above B	Any other
LIC	86.9%	8.6%	1.9%	0.7%	0.3%	1.6%
SBI Life	65.9%	20.6%	2.8%	0.7%	0.1%	9.9%
HDFC Life	0.0%	98.0%	1.6%	0.2%	0.1%	0.2%
ICICI Prudential Life	0.0%	96.8%	2.7%	0.4%	0.0%	0.1%
Max Life	0.0%	27.6%	0.5%	0.0%	2.9%	69.1%
Bajaj Allianz Life	0.0%	29.9%	0.4%	0.0%	0.0%	69.7%

Source: Company public disclosures, CRISIL Research

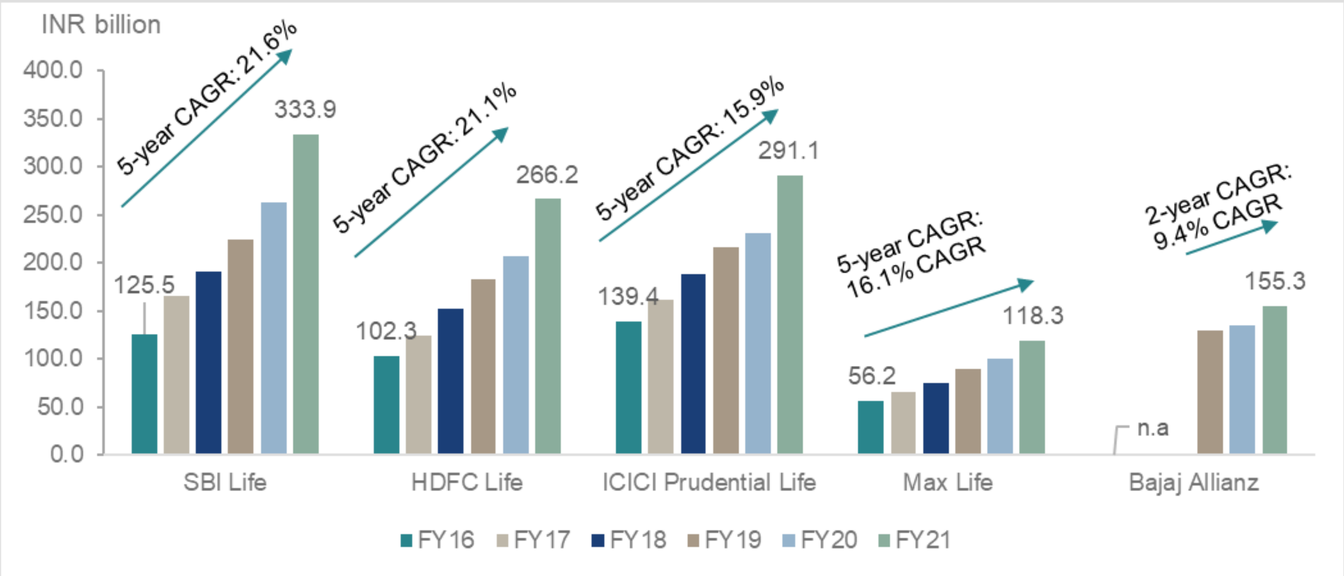
Note: [1] For HDFC Life, ICICI Prudential Life, Max Life and Bajaj Allianz Life AAA rated debt securities includes Central and State Government securities

Breakdown by credit Rating of debt securities (9M FY22)	Sovereign	AAA rated[1]	AA or better	Rated below AA but above A (A or better)	Rated below A but above B	Any other
LIC	87.76%	8.13%	2.14%	0.48%	0.32%	1.17%
SBI Life	0.00%	87.49%	2.59%	0.35%	0.04%	9.53%
HDFC Life	0.00%	98.63%	1.10%	0.14%	0.00%	0.12%
ICICI Prudential Life	0.00%	97.82%	1.95%	0.23%	0.00%	0.00%
Max Life	0.00%	28.73%	0.56%	0.00%	2.61%	68.11%
Bajaj Allianz Life	0.00%	27.00%	0.33%	0.00%	0.10%	72.57%

Note: [1] For SBI Life, HDFC Life, ICICI Prudential Life, Max Life and Bajaj Allianz Life AAA rated debt securities includes Central and State Government securities

Source: Company public disclosures, CRISIL Research

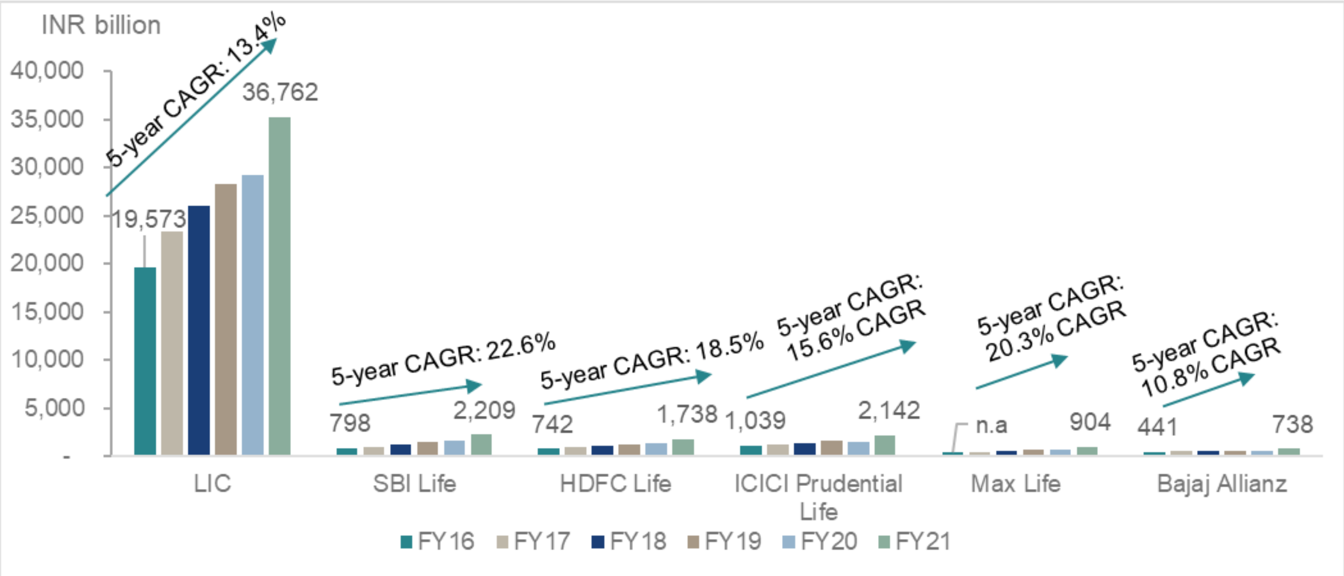
Trend in embedded value growth for top private players



Source: Company Public Disclosures, Annual Report, CRISIL Research

Note: Embedded value data is not available for LIC

Trend in AUM growth for all players in the set



Source: Company Public Disclosures, Annual Report, CRISIL Research

VNB Margin improved for all the players in the set

VNB Margin is calculated by dividing the value of new business (expected profitability of new business written during the fiscal) during the period by Annualised Premium Equivalent (APE: 100% of first-year regular premium + 10% of single premium)

The VNB margin for all the players improved substantially during FY16-21. Among the players in the set HDFC Life reported highest VNB margin of 26.1% in fiscal 2021, followed by Max Life with 25.2%

Value of New Business Margin (%)*	FY16	FY17	FY18	FY19	FY20	FY21	9M FY22
LIC	n.a	n.a	n.a	n.a	n.a	n.a	n.a
SBI Life	14.2%	15.4%	16.2%	17.7%	18.7%	20.4%	21.9%
HDFC Life	19.9%	22.0%	23.2%	24.6%	25.9%	26.1%	26.5%
ICICI Prudential Life	8.0%	10.1%	16.5%	17.0%	21.7%	25.1%	27.1%
Max Life	18.0%	19.0%	20.0%	22.0%	22.0%	25.2%	25.1%
Bajaj Allianz Life	n.a	n.a	n.a	7.0%	10.0%	12.3%	11.3%

Note: n.a = not available; (*) As reported by companies in Annual Report

Source: Company reports, CRISIL Research

Value of New Business (Growth)	1-year ending FY21	3-year ending FY21	5-year ending FY21
LIC	n.a	n.a	n.a
SBI Life	16.0%	13.3%	27.2%
HDFC Life	13.9%	14.4%	24.2%
ICICI Prudential Life	1.0%	7.7%	31.5%
Max Life	39.2%	11.0%	26.3%
Bajaj Allianz Life	59.2%	n.a	n.a

Note: n.a = not available

Source: Company annual reports, CRISIL Research

LIC generated highest return on equity and third highest dividend payout ratio among the players in the sample

The ROE (3-year average)[13] was highest for LIC at a staggering 289.6% in FY21. HDFC Life recorded the second highest ROE at 21.0%. LIC also recorded dividend payout ratio (3-year average) of 33.0%, which was the third highest among the players in the sample, next only to Max Life and ICIC Prudential Life. Bajaj Allianz Life enjoyed highest solvency ratio at 6.66 times as of March 2021. However, ROE for LIC may not be comparable to other players in the set due to its high distributable surplus to policyholders and high dividend payout during fiscal 2018 to fiscal 2020 to shareholders.

Parameters (FY21)	ROE (%) (3-year average ending FY21)	Dividend payout (%) (3-year average ending FY21)	Retention ratio (%) (3-year average ending FY21)	Solvency ratio
LIC	289.6%	33.0%	67.0%	1.76
SBI Life	17.2%	11.8%	88.2%	2.15

[13] Refer to annexure for more details

HDFC Life	21.0%	10.3%	89.7%	2.01
ICICI Prudential Life	14.4%	37.5%	62.5%	2.17
Max Life	19.8%	89.3%	10.7%	2.02
Bajaj Allianz Life	5.2%	27.4%	72.6%	6.66

Source: Company public disclosures, CRISIL Research

Note: ROE for a fiscal (n) calculated as profit after tax for thethe fiscal (n) divided by [average equity of fiscal (n)] and the [previous fiscal (n-1)]

Retention ratio calculated as (1 – [dividend payout ratio]); Solvency ratio is defined as excess assets over its liabilities. Minimum solvency ratio set by regulator is 1.5 times

Trend in EPS (Earning per Share) for peer set

EPS	FY19	FY20	FY21
LIC[1]	4.25	4.29	4.59
SBI Life	13.27	14.22	14.56
HDFC Life	6.34	6.42	6.73
ICICI Prudential Life	7.95	7.44	6.69
Max Life	2.90	2.81	2.73
Bajaj Allianz Life	33.30	29.83	38.50

Note: EPS calculated as Net profit for a fiscal (n) divided by average number of shares for fiscal (n) and fiscal (n-1);
[1]EPS for LIC across fiscals (FY19-FY21) calculated basis number of shares for the company as on December 31, 2021
Source: Company public disclosures, CRISIL Research

Solvency ratio	FY19	FY20	FY21	9M FY22
LIC	1.60	1.55	1.76	1.77
SBI Life	2.13	1.95	2.15	2.09
HDFC Life	1.88	1.84	2.01	1.90
ICICI Prudential Life	2.15	1.94	2.17	2.02
Max Life	2.42	2.07	2.02	2.07
Bajaj Allianz	8.04	7.45	6.66	6.04

Note: Solvency ratio is defined as excess assets over its liabilities. Minimum solvency ratio set by regulator is 1.5 times

Source: Company public disclosures, CRISIL Research

	Dividend Payout Ratio			Retention Ratio		
	FY19	FY20	FY21	FY19	FY20	FY21
LIC	99.0%	0.0%	0.0%	1.0%	100.0%	100.0%
SBI Life	18.2%	0.0%	17.2%	81.8%	100.0%	82.8%
HDFC Life	31.0%	0.0%	0.0%	69.0%	100.0%	100.0%
ICICI Prudential Life	74.5%	38.1%	0.0%	25.5%	61.9%	100.0%
Max Life	86.1%	143.7%	38.2%	13.9%	NM	61.8%
Bajaj Allianz Life	25.3%	28.3%	28.6%	74.7%	71.7%	71.4%

Note: NM = Not meaningful

Source: Company public disclosures, CRISIL Research

Bajaj Allianz Life registered highest claims settlement ratio, followed by HDFC Life in FY21

In FY21, Bajaj Allianz Life recorded the highest claims settlement ratio of 99.7%. The same for LIC was 98.3%. The policy complaints were lowest for SBI Life at 17.2 complaints per 10,000 policies followed by Max Life at 31.0.

The industry witnessed huge increase in number of claims in Q1FY22 on account of mortalities due to COVID-19 pandemic. Hence, all the players witnessed deterioration in claims settlement ratio due to pending/in-process settlements at the end of quarter. SBI Life and Max Life, in particular saw a sharp deterioration in their claims settlement ratio.

Policy mis-selling complaints[14] least for LIC, followed by SBI Life

The mis-selling ratio for LIC was significantly lower as compared to other players in the set at 2.1 mis-selling related complaints per 10,000 new policies sold in FY21. SBI Life recorded the second lowest mis-selling ratio at 5.8 mis-selling related complaints per 10,000 policies

Parameters (FY21)	Claims Settlement Ratio	Claims Repudiation Ratio	Policies mis-selling complaints per 10,000 policies	Total number of policy complaints per 10,000 policies	Surrender Ratio*
LIC	98.3%	0.9%	2.1	37.7	19.9%
SBI Life	96.4%	2.3%	5.8	17.2	9.4%
HDFC Life	99.4%	0.3%	17.6	35.0	17.8%
ICICI Prudential Life	98.0%	0.2%	26.4	39.0	45.4%
Max Life	99.3%	0.7%	21.6	31.0	19.4%
Bajaj Allianz Life	99.7%	0.3%	19.5	37.2	23.8%
Median of the top 5 private players	99.3%	0.3%	19.5	35.0	19.4%

Source: Company public disclosures, CRISIL Research

Note: Only death claims considered for claims settlement and claims repudiation ratio; (*) Surrender Ratio is calculated as Surrenders claims as % of total premium

Parameters (9M FY22)	Claims Settlement Ratio	Claims Repudiation Ratio	Policies mis-selling complaints per 10,000 policies	Total number of policy complaints per 10,000 policies	Surrender Ratio*
LIC	96.1%	0.8%	2.0	41.1	23.9%
SBI Life	91.9%	1.1%	7.2	16.4	12.3%
HDFC Life	99.3%	0.3%	17.4	37.0	20.7%
ICICI Prudential Life	94.9%	0.1%	29.8	47.0	57.8%

[14]Mis-selling complaints refers to the grievances reported by the policyholders under 'unfair business practices'

Max Life	95.1%	0.7%	22.3	40.0	24.2%
Bajaj Allianz Life	98.4%	0.2%	25.0	39.6	30.5%
Median of the top 5 private players	95.1%	0.3%	22.3	39.6	24.2%

Note: Only death claims considered for claims settlement and claims repudiation ratio; (*) Surrender Ratio is calculated as Surrenders claims as % of total premium

Source: Company public disclosures, CRISIL Research

Claim Settlement Ratio	FY19	FY20	FY21
LIC	98.3%	95.4%	98.3%
SBI Life	98.0%	97.0%	96.4%
HDFC Life	99.3%	99.4%	99.4%
ICICI Prudential Life	95.7%	95.4%	98.0%
Max Life	99.3%	99.3%	99.3%
Bajaj Allianz Life	99.4%	99.7%	99.7%
Median of the top 5 private players	99.3%	99.3%	99.3%

Source: Company public disclosures, CRISIL Research

LIC accounts for ~87% and ~91% market share in total maturity claims and annuity payments respectively in FY21

In FY21, LIC settled total maturity claims and annuity payments of Rs. 1,656.6 billion and Rs. 145.7 billion, respectively, accounting for a market share of ~87% and ~91%.

Total maturity claims	FY20		FY21	
	Total claims paid (INR billion)	Market share	Total claims paid (INR billion)	Market share
LIC	1511.5	88.3%	1656.6	87.1%
SBI Life	43.8	2.6%	62.0	3.3%
HDFC Life	43.9	2.6%	66.8	3.5%
ICICI Prudential Life	25.9	1.5%	37.1	1.9%
Max Life	12.4	0.7%	9.0	0.5%
Bajaj Allianz Life	18.0	1.1%	15.0	0.8%
Total industry	**1710.9**	**100%**	**1902.1**	**100%**

Source: Company public disclosures, CRISIL Research

Total annuity/ pension payments	FY20		FY21	
	Total claims paid (INR billion)	Market share	Total claims paid (INR billion)	Market share
LIC	130.2	93.2%	145.7	91.2%

SBI Life	2.2	1.6%	3.6	2.2%
HDFC Life	2.9	2.1%	4.4	2.7%
ICICI Prudential Life	2.3	1.7%	3.0	1.9%
Max Life	0.1	0.1%	0.2	0.1%
Bajaj Allianz Life	0.2	0.1%	0.2	0.1%
Total industry	**139.7**	**100%**	**159.8**	**100%**

Source: Company public disclosures, CRISIL Research

Trend in new business sum assured (INR Billion)

NBP Sum assured (INR billion)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	9M FY22
LIC	n.a	n.a	n.a	5146.4	7388.4	6474.7	8648.1	6715.0	12319.7	9338.6	8319.8	8946.1	6995.2
SBI Life	543.7	648.4	645.1	858.9	1026.6	1353.1	2800.4	2186.4	2819.9	3410.6	3651.3	5222.5	3771.2
HDFC Life	309.0	406.8	632.4	1181.2	1421.5	1815.8	2714.9	3887.6	4734.5	6058.2	9110.7	5762.4	4917.0
ICICI Prudential Life	n.a	769.9	1026.0	1076.8	928.7	1195.3	1546.3	2940.4	4171.9	5822.6	7276.5	8310.5	5781.3
Max Life	399.5	646.9	636.7	686.8	806.4	643.0	864.5	1395.4	1743.9	2559.2	3034.4	3245.0	1960.0
Bajaj Allianz Life	1829.1	2759.9	1501.1	1345.1	1073.5	1447.7	1800.9	1982.2	1983.6	2480.1	2779.9	2930.7	3379.4

Note: n.a – not available

Source: Company public disclosures (L-25), CRISIL Research

Annexure

Trend in premium for top 6 players in industry based on total premium

INR Million	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
LIC	2,034,734	2,028,893	2,088,036	2,369,423	2,396,676	2,664,442	3,004,874	3,182,232	3,375,051	3,793,896
SBI Life	129,453	131,337	104,500	107,386	128,671	158,254	210,151	253,542	329,894	406,347
HDFC Life	90,042	102,024	113,227	120,629	148,299	163,130	194,455	235,644	291,860	327,069
ICICI Prudential Life	178,806	140,216	135,382	124,287	153,066	191,644	223,540	270,688	309,298	334,307
Max Life	58,126	63,905	66,387	72,785	81,716	92,162	107,804	125,009	145,752	161,836
Bajaj Allianz Life	96,099	74,838	68,927	58,431	60,173	58,973	61,833	75,784	88,572	97,525

Source: Company public disclosures, IRDAI Handbook, CRISIL Research

Trend in NBP for top 6 players in industry

INR Million	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	9M FY22
LIC	**864,447**	**815,145**	**762,456**	**906,446**	**783,026**	**976,743**	**1,243,963**	**1,345,517**	**1,421,917**	**1,779,771**	**1,841,746**	**1,260,150**
Individual	522,036	424,673	417,204	417,776	327,861	327,890	455,907	517,439	510,122	512,278	564,065	358,258
Group	342,411	390,472	345,252	488,670	455,165	648,853	788,056	828,078	911,795	1,267,493	1,277,681	901,892
SBI Life	**75,707**	**65,266**	**51,842**	**50,670**	**55,281**	**71,066**	**101,458**	**109,653**	**137,920**	**165,918**	**206,255**	**187,920**
Individual	47,877	33,385	28,023	32,181	37,562	49,784	64,701	84,059	96,362	112,442	125,001	116,116
Group	27,830	31,880	23,820	18,489	17,719	21,282	36,757	25,594	41,558	53,476	81,254	71,804
HDFC Life	**40,654**	**38,327**	**44,356**	**40,372**	**54,932**	**64,877**	**86,962**	**113,491**	**149,715**	**173,962**	**202,425**	**171,884**
Individual	34,945	29,024	32,938	25,530	33,139	36,578	42,010	59,431	76,450	85,242	101,251	81,185
Group	5,709	9,303	11,418	14,842	21,793	28,298	44,952	54,060	73,265	88,720	101,173	90,699
ICICI Prudential Life	**78,610**	**50,787**	**48,088**	**37,613**	**53,333**	**67,659**	**78,634**	**91,181**	**102,518**	**123,481**	**130,321**	**102,475**
Individual	54,214	30,493	34,209	34,337	48,224	53,569	69,783	84,019	81,400	78,743	78,470	63,806
Group	24,395	20,294	13,880	3,277	5,110	14,090	8,851	7,162	21,118	44,738	51,851	38,670
Max Life	**20,596**	**19,081**	**18,994**	**22,610**	**25,740**	**28,819**	**36,674**	**43,480**	**51,596**	**55,836**	**68,269**	**52,855**
Individual	19,341	17,140	17,164	20,647	23,636	26,135	33,092	39,834	47,458	51,310	62,283	47,201
Group	1,255	1,941	1,831	1,963	2,105	2,685	3,582	3,646	4,137	4,526	5,986	5,654
Bajaj Allianz Life	**34,624**	**27,137**	**29,920**	**25,925**	**27,021**	**28,847**	**32,902**	**42,909**	**49,229**	**51,787**	**63,129**	**59,001**
Individual	25,885	18,023	15,269	11,783	10,569	8,910	10,657	14,558	18,012	19,992	25,303	25,056
Group	8,739	9,114	14,651	14,143	16,451	19,938	22,245	28,351	31,217	31,795	37,826	33,944

Source: IRDAI monthly data, CRISIL Research

Trend in renewal premium for top 6 players in industry

INR Million	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
LIC	1,170,287	1,213,748	1,325,580	1,462,977	1,613,650	1,687,699	1,760,911	1,836,715	1,953,134	2,014,125
SBI Life	53,746	66,072	52,658	56,716	73,390	87,188	108,693	143,889	191,974	240,429
HDFC Life	49,388	63,697	68,871	80,257	93,367	98,253	107,493	122,153	142,145	153,107
ICICI Prudential Life	100,196	89,429	87,294	86,674	99,733	123,985	144,906	179,507	206,780	210,826
Max Life	37,530	44,824	47,393	50,175	55,976	63,343	71,130	81,529	94,157	106,000
Bajaj Allianz Life	61,475	47,701	39,007	32,506	33,153	30,126	28,931	32,875	39,343	45,738

Source: Company public disclosures, IRDAI Handbook, CRISIL Research

Market Share – FY19	Total Premium	New Business Premium	No. of Policies - Individual	No. of Policies - Group
LIC	66.4%	66.2%	74.7%	80.2%
SBI Life	6.5%	6.4%	5.3%	1.9%
HDFC Life	5.7%	7.0%	3.5%	1.6%
ICICI Prudential Life	6.1%	4.8%	3.1%	3.7%
Max Life	2.9%	2.4%	2.3%	2.0%
Bajaj Allianz Life	1.7%	2.3%	1.1%	0.2%
Others	10.6%	10.9%	10.0%	10.4%
Private players total	33.6%	33.8%	25.3%	19.8%

Source: Company public disclosures, Life Insurance Council (New Business Performance), CRISIL Research

Market Share – FY20	Total Premium	New Business Premium	No. of Policies - Individual	No. of Policies - Group
LIC	66.2%	68.7%	75.9%	78.4%
SBI Life	7.1%	6.4%	5.4%	1.9%
HDFC Life	5.7%	6.7%	3.1%	3.6%
ICICI Prudential Life	5.8%	4.8%	2.7%	4.8%
Max Life	2.8%	2.2%	2.1%	2.7%
Bajaj Allianz Life	1.7%	2.0%	1.1%	0.2%
Others	10.6%	9.2%	9.8%	8.3%
Private players total	33.8%	31.3%	24.1%	21.6%

Source: Company public disclosures, Life Insurance Council (New Business Performance), CRISIL Research

Trend in ROE for peer set

	FY19	FY20	FY21
LIC	404.6%	382.6%	81.7%
SBI Life	18.8%	17.4%	15.2%
HDFC Life	24.5%	20.8%	17.6%

ICICI Prudential Life	16.4%	15.0%	11.7%
Max Life	20.4%	20.2%	18.7%
Bajaj Allianz Life	5.3%	4.6%	5.7%

Source: Company public disclosures, CRISIL Research

Market Share – FY11	Total Premium	New Business Premium
LIC	69.8%	68.8%
SBI Life	4.4%	6.0%
HDFC Life	3.1%	3.2%
ICICI Prudential Life	6.1%	6.2%
Max Life	2.0%	1.6%
Bajaj Allianz Life	3.3%	2.7%
Others	11.3%	11.4%
Private players total	30.2%	31.2%

Source: IRDAI Handbook, CRISIL Research

AUM data for FY19 and FY20

Parameter	AUM – FY19 (INR billion)	AUM – FY20 (INR billion)
LIC	29,879.2	30,743.5
SBI Life	1,410.2	1,603.6
HDFC Life	1,255.5	1,272.3
ICICI Prudential Life	1,600.0	1,530.0
Max Life	628.0	684.7
Bajaj Allianz Life	566.2	560.9

Source: Company public disclosures, Company Annual Reports, CRISIL Research

Share of Individual NBP in different geographies (fiscal 2021)

State/Union Territories	LIC	SBI Life	HDFC Life	ICICI Prudential Life	Max Life	Bajaj Allianz Life
Maharashtra	13.3%	8.3%	29.0%	24.7%	14.2%	14.7%
West Bengal	11.3%	6.0%	5.7%	6.4%	10.3%	13.5%
Uttar Pradesh	9.8%	9.4%	6.4%	5.9%	7.9%	10.4%
Gujarat	7.6%	5.3%	7.4%	7.1%	7.9%	6.6%
Tamil Nadu	7.3%	7.8%	6.9%	8.4%	6.3%	3.6%
Karnataka	6.7%	6.8%	6.7%	6.6%	5.7%	4.1%
Kerala	4.5%	5.4%	2.5%	5.1%	3.5%	3.9%
Rajasthan	3.9%	5.1%	2.4%	3.9%	3.2%	2.4%
Andhra Pradesh	3.9%	4.6%	2.2%	1.3%	4.3%	2.2%
Delhi	3.9%	2.7%	6.4%	7.9%	7.4%	6.0%

Odisha	3.6%	4.8%	1.8%	2.9%	2.9%	4.2%
Bihar	3.6%	3.9%	1.4%	2.6%	2.1%	5.3%
Madhya Pradesh	3.3%	4.1%	2.3%	2.2%	2.7%	3.6%
Assam	3.0%	2.7%	1.0%	0.9%	1.7%	3.0%
Telangana	2.9%	5.4%	3.8%	3.6%	1.0%	1.9%
Jharkhand	2.3%	2.4%	1.0%	1.1%	1.7%	2.8%
Haryana	1.8%	2.8%	4.5%	2.7%	6.7%	3.1%
Punjab	1.8%	2.7%	3.8%	2.2%	3.9%	2.7%
Chhattisgarh	1.6%	2.7%	0.8%	0.8%	1.3%	1.6%
Uttarakhand	0.9%	2.1%	1.2%	0.8%	1.3%	1.5%
Himachal Pradesh	0.8%	1.6%	0.6%	0.5%	0.5%	0.6%
Jammu & Kashmir	0.6%	0.7%	0.4%	0.4%	0.5%	0.6%
Goa	0.6%	0.4%	0.5%	0.4%	0.9%	0.4%
Tripura	0.4%	0.3%	0.1%	0.1%	0.2%	0.5%
Chandigarh	0.2%	0.3%	0.3%	0.9%	0.6%	0.2%
Puducherry	0.1%	0.2%	0.1%	0.2%	0.1%	0.0%
Manipur	0.1%	0.2%	0.2%	0.2%	0.3%	0.1%
Meghalaya	0.1%	0.4%	0.1%	0.1%	0.1%	0.0%
Nagaland	0.1%	0.2%	0.0%	0.1%	0.3%	0.0%
Sikkim	0.1%	0.1%	0.1%	0.0%	0.2%	0.2%
Arunachal Pradesh	0.0%	0.3%	0.0%	0.0%	0.1%	0.0%
Andaman & Nicobar Islands	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
Mizoram	0.0%	0.1%	0.0%	0.0%	0.1%	0.0%
Daman & Diu	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
Dadra & Nagar haveli	0.0%	0.1%	0.1%	0.0%	0.0%	0.1%
Ladakh	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Lakshadweep	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company public disclosures, CRISIL Research

Operating Expense (INR Million)	FY19	FY20	FY21	9M FY22
LIC	284,969.5	342,568.3	349,895.2	271,548.0
SBI Life	21,235.0	24,130.8	24,122.5	21,019.5
HDFC Life	38,007.7	42,669.0	45,859.7	38,035.3
ICICI Prudential Life	25,528.0	28,468.7	26,882.6	23,743.2
Max Life	19,261.3	23,441.1	27,006.3	21,804.8
Bajaj Allianz Life	15,283.3	17,632.3	19,267.7	19,015.4

Source: Company public disclosures, CRISIL Research

Commission Expense (INR Million)	FY19	FY20	FY21	9M FY22
LIC	199,962.6	213,383.4	221,699.2	154,289.0
SBI Life	13,463.5	16,249.4	17,787.8	14,530.5
HDFC Life	11,315.3	14,911.8	17,104.0	13,195.4

ICICI Prudential Life	16,038.1	15,860.2	15,002.2	11,164.7
Max Life	9,900.7	10,244.4	12,270.1	9,079.5
Bajaj Allianz Life	3,301.2	4,188.5	5,798.7	5,113.5

Source: Company public disclosures, CRISIL Research

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 5,000 primary sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.