Willis Towers Watson

India Market Life Insurance Update

India | Issue 76

Introduction

We are pleased to release our 76th quarterly newsletter on the life insurance industry in India, covering developments during the period September to November 2019.

As per data released by the Insurance Regulatory and Development Authority of India (IRDAI), the life insurance industry booked weighted new business premium collection of INR792 billion in the first eight months of FY2019-20, recording a year-on-year growth of 64.7%. The strong growth posted by industry is largely driven by the triple digit year-on-year growth of state-owned insurer, **Life Insurance Corporation of India (LIC)**. Private life insurers recorded a growth of 17.9% in the period April to November 2019.

The listed players are now aiming to achieve the regulatory minimum public shareholding of 25%, as prescribed by Securities and Exchange Board of India (SEBI). **HDFC Life** and **SBI Life** witnessed notable stake sales during the reporting period. Reportedly, amongst other non-listed life insurers, shareholders of **Star Union Dai-ichi Life**, **PNB MetLife** and **Max Life** are eyeing to sell stakes in the coming months**.**

The Government of India has announced consolidation of 10 public sector banks (PSBs) into four large banks. The proposed merger is expected to come into effect from 1st April 2020. The merger is likely to impact promoters' stakes in life insurers for PSBs.

IRDAI has issued a circular outlining the guidelines for preparation of financial statements by life insurers and on insurance advertisements. To enhance innovation in the industry, IRDAI has also invited applications for Regulatory Sandbox which can be used to carve out a safe and conducive environment to experiment with innovative approaches (including Fin-Tech solutions). A committee has been constituted by the regulator with a tenure of one year for the scrutinisation of the applications received.

The reporting period also witnessed 5 new non-linked product launches across the life insurance industry. In a bid to boost digital infrastructure, insurers are looking to partner with payment banks and entities with app-based services. The industry was abuzz with such tie ups along with a couple of entities obtaining broking and corporate agency license to sell insurance products.

We provide an overview on these and other market developmentsin this edition of the newsletter. We hope you continue to find the newsletter interesting and informative and look forward to receiving your feedback.

Willis Towers Watson – Insurance Consulting and Technology, India

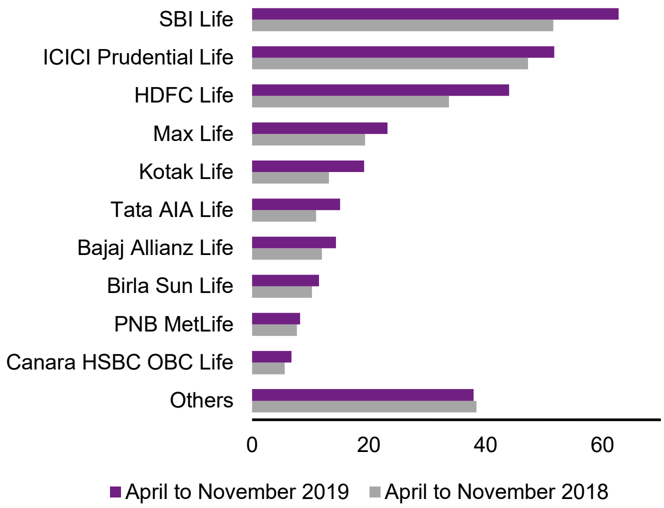
In this issue

Industry statistics

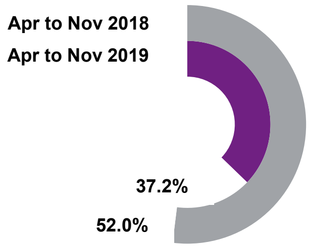
"Private insurers witnessed a year-on-year growth of 17.9% in weighted new business premium collections in the period April to November 2019. State owned LIC outpaced the private players with triple digit growth of 115.3%, spurred by its group business, skewing the overall industry growth to 64.7% during the period."

Industry new business performance

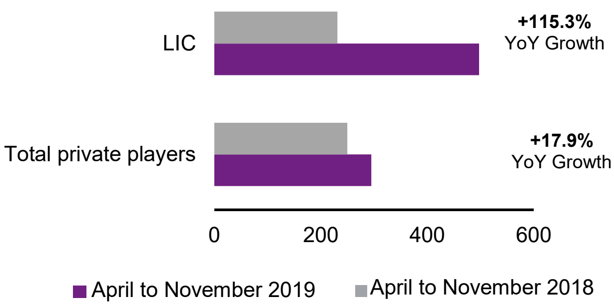
Weighted new business premium collections of private life insurers (in INR billion)



Market share of private life insurers



Weighted new business premium collections (in INR billion)



Source: IRDAI, Willis Towers Watson analysis

Statistics released by the IRDAI suggest that the life insurance industry in India collected weighted new business premiums of INR792 billion in the first eight months of FY2019-20, implying a growth of 64.7% over the corresponding period last year. Weighted new business premiums are calculated as 100% of regular premium and 10% of single premium.

The massive growth for the industry is driven by state-owned **LIC** which witnessed a growth of 115.3% in its weighted new business premium collections. This amplified LIC's market share in terms of weighted new business premium to 62.8% for the period April-November 2019 from 48.0% for the same period last year. LIC observed higher growth rates than the private insurance sector under both individual and group segments.

Meanwhile, private life insurers recorded a year-on-year growth of 17.9% in their weighted new business premium collections. However, due to much higher growth reported by LIC, the market share of private insurers shrank to 37.2% from 52.0% last year. The private players recorded a rise in their individual and group business by 15.9% and 29.7% respectively.

SBI Life has retained its position as the market leader amongst private insurers with a growth of 21.6% in weighted new business premium collections, higher than the growth observed by the private life insurance industry. **Canara HSBC OBC Life** has made its way to the top 10 private life insurers (by weighted new business premium), replacing **Reliance Nippon Life**. All the top 10 private players have achieved a positive year-on-year growth.

Kotak Life witnessed the highest growth rate of 45.9% among the private players, followed closely by **Future Generali Life** with 44.7% growth, which helped the insurer climb the rankings by 3 steps from 17 to 14. On the contrary, **Pramerica Life** has recorded a fall of 63.6% in its weighted new business premium collections, leading to a fall in its ranking by 6 positions from 12 to 18.

In its research report released this year, **CARE Ratings** projects the industry to continue to grow at around 14%-15% per annum. The momentum is expected to be maintained in the life insurance industry due to factors such as growing awareness, increasing urbanisation, product innovation, multi-channel distribution, tax benefits, etc.

Market update

"Notable bulk transactions have been observed by listed players - **SBI Life** and **HDFC Life**, with promoters divesting stakes in their respective insurers over the reporting period. The stake sales are targeted to achieve the regulatory minimum public shareholding of 25% as per SEBI regulations. The share prices of all the three listed insurers have hit their 52 week-high in October 2019. Media reports further suggest potential stake sales by shareholders of **Star Union Dai-ichi Life**, **PNB MetLife** and **Max Life** in the months to come. Following the government's announcement of consolidating ten PSBs into four large banks, PSBs with promoters' stake in life insurers may seek stake dilutions."

Stake transfers

SBI Life noted a series of transactions by its promoters and other large institutional shareholders during the reporting period. Notable stake transfers are summarised below:

- State Bank of India (SBI) has raised approximately INR35 billion by selling 4.5% stake in SBI Life through an offer for sale. The offer was oversubscribed nearly two times, with investors bidding for 85.2 million shares as opposed to 45 million on offer at a clearing price of INR783 per share. The sale has resulted in a fall of SBI's stake in the insurer from 62.1% to 57.6%. This transaction was undertaken to achieve the regulatory minimum public shareholding of 25% as per SEBI regulations.

- Private equity firm, Carlyle group reportedly raised INR28.1 billion by divesting 3% stake in SBI Life through a block trade. A total of 30 million shares were sold at INR938 per share to institutional investors in the open market. Earlier this year, Carlyle group had acquired 9.2% stake in SBI Life for INR54.5 billion.

- Private Equity firm KKR has divested 0.55% stake in SBI Life for INR5.3 billion through a block deal on stock exchanges. The transaction involved selling 5.46 million shares at INR976.25 per share. This marked KKR's third transaction this year where it divested stake in the insurer, reducing its holding to 0.22% from 1.95%.

UK's Standard Life has offloaded 4.95% stake in **HDFC Life**, reducing its total holding in the insurer to 14.73%. The promoter fetched INR57.5 billion from the sale of 100 million shares to institutional investors through open market transactions. In a move to align its public shareholding to a regulatory minimum of 25%, this transaction marked the fifth sale in the last two years. Standard Life is a co-promoter in HDFC Life along with HDFC with total promoter holdings of 69.5% post the transaction.

Potential Transactions / Company News

Media reports indicate that Bank of India is looking to raise INR12 billion by selling 27% stake in **Star Union Dai-ichi Life**, which is a joint venture between Bank of India, Union Bank of India and Dai-ichi life with holdings of 28.96%, 25.10% and 45.94% respectively. Reportedly, the stake sale is being undertaken to raise additional capital and reduce the bank's holding in the insurer down to nearly 2%. The transaction is expected to be completed by the end of the financial year.

M Pallonji Group is reportedly planning to exit from **PNB MetLife** by divesting its entire stake of 17.15% in the insurer. Media reports suggest that M Pallonji Group's total stake is likely to be valued at INR20-25 billion.

Reports suggest that Hero Corp is eyeing to purchase up to 10-15% stake in Max Financial Services Limited (MFSL) from Analjit Singh, founding promoter of Max Group. MFSL is a holding company of **Max Life, with a promoter stake of 71.79%**. This transaction is expected to enable MFSL to deleverage its balance sheet through a decrease in promoters' shareholding and propel Sunil Kant Munjal, founder promoter of Hero Corp to the board of MFSL. The implied valuation of Max Life as at 29 November 2019 is INR189.5 billion, at the share price of INR504.9 and implied Embedded value multiple (P/EV) is 1.94 times.

Embedded Value of Listed Insurers

All the three listed life insurers have recorded an increase in their Indian Embedded Values (IEV) over HY1 FY20. **SBI Life** has witnessed the highest year-on-year growth of 24.0% among the three insurers, followed by **HDFC Life** and **ICICI Prudential Life** which recorded growth of 22.8% and 17.8% respectively. The total IEV of the three companies increased by 21.5% from INR555.4 billion at the end of HY1 FY19 to INR674.9 billion at the end of HY1 FY20.

For **SBI Life**, the Value of New Business (VNB) has increased by 32.8% from INR6.4 billion in HY1 FY19 to INR8.5 billion in HY FY20, with protection and annuity business reportedly expanding by 59% and 315% respectively on new business premium basis. In addition to this, SBI Life has achieved another milestone by crossing the 1 trillion market capitalisation mark for the first time this year in November.

HDFC Life has reported a VNB growth of 56.9% from INR6.1 billion over HY1 FY19 to INR9.6 billion over HY1 FY20. With focus on protection business, the insurer has reported a 23% year-on-year growth for term business on new business premium basis.

ICICI Prudential Life has witnessed a growth of 20.2% in VNB, rising from INR5.9 billion in H1 FY19 to INR7.1 billion in H1 FY20. This growth has been reportedly attributed to a significant increase in protection business by 86.8% on annualised premium equivalent basis over the same period.

The share prices of all the three listed insurers hit their respective 52 week-highs in October 2019. Additionally, HDFC Life, ICICI Prudential Life and SBI Life have also made their debut on the widely tracked Morgan Stanley Capital International (MSCI) index.

Disclosures by listed life insurers as at 30 September 2019

All figures are in INR billion

Metric	SBI Life	ICICI PruLife	HDFC Life
Indian Embedded Value *(A)*	246.9 (199.1)	226.8 (192.5)	201.2 (163.8)
Value of new business*	8.5 (6.4)	7.1 (5.9)	9.6 (6.1)
VNB Margin	18.1% (17.3%)	21.0% (17.5%)	27.5% (24.3%)
Market capitalisation *(B)* (based on share price as at 29 Nov 2019)	960.1 (511.6)	721.4 (479.1)	1,153.1 (788.6)
EV multiple = *B/A*	3.9x (2.6x)	3.2x (2.5x)	5.7x (4.8x)

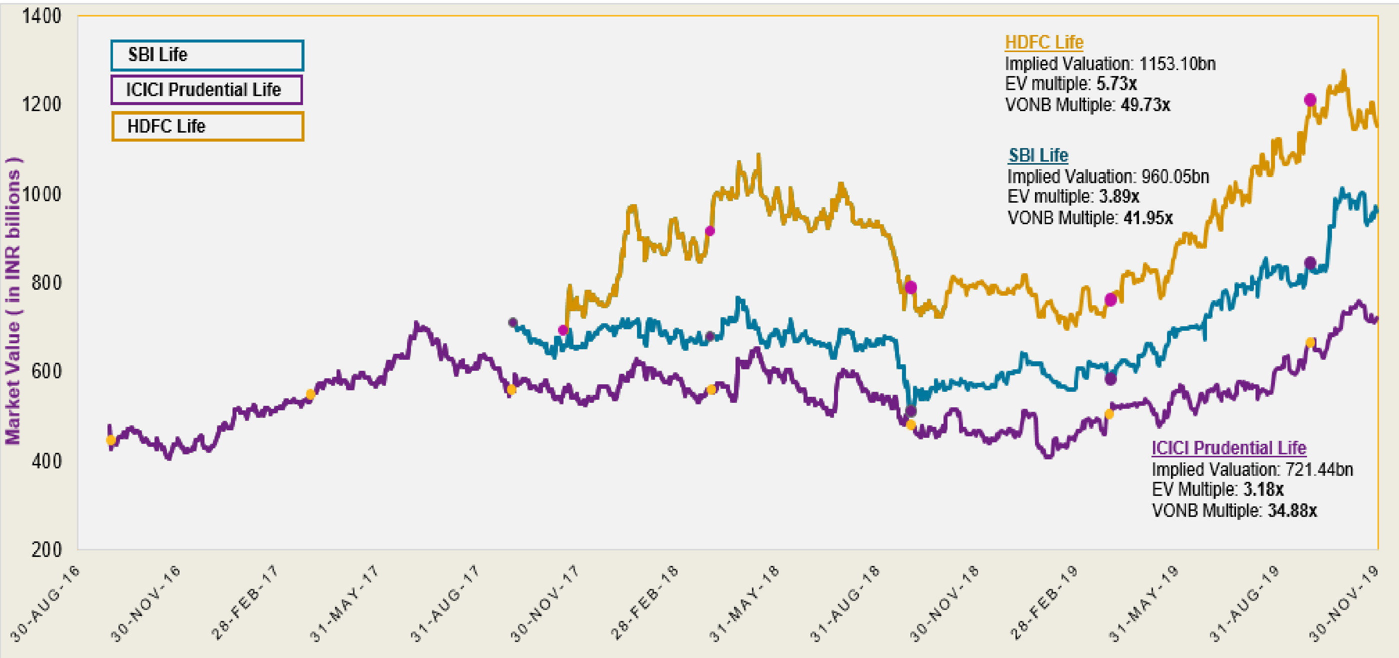
Previous year figures mentioned in brackets

**Value of new business is for six months period from 1 April 2019 to 30 September 2019*

Source: Willis Towers Watson analysis using publicly available data

Share Price Analysis

Market sentiment appears to be with the listed insurance players with their share prices hitting their 52-week high during October 2019. The EV multiple, calculated as the ratio of market capitalisation to disclosed embedded value as at 30 November 2019, is included in the chart below.



Appointments and key role changes

The government of India has initiated the process of appointing whole-time member-actuary and member-distribution at the IRDAI. The appointed member actuary shall be responsible for vetting insurance product proposals filed with the regulator and the member for distribution shall be responsible for looking after distribution regulations and sales channels. The tenure of Pournima Gupte and Sujay Banarji, current member for actuary and member for distribution respectively, is coming to an end in January 2020.

LIC has appointed Mr. Mukesh Kumar Gupta and Mr. Raj Kumar as Managing Directors. Mr. Gupta was previously serving as the Executive Director for Personnel and Mr. Kumar was serving as the Executive Director for International Operations for the insurer.

Mr. Ashish Vohra has been reappointed to the role of Executive Director and the Chief Executive Officer at **Reliance Nippon Life**, for a period of 3 years.

Mr. Kamlesh Rao has replaced Mr. Pankaj Razdan as the Managing Director and Chief Executive Officer at **Aditya Birla Sun Life**. Prior to this, Mr. Rao was serving as the Managing Director and Chief Executive Officer of the retail arm of Kotak Securities Limited.

Aviva Life has appointed Mr. Ali Onder Lulu as its Chief Distribution Officer. Aviva Life has also included Mr. Chetan Singh in its board of directors. Mr. Singh is also a part of the Aviva Leadership Team and has been leading strategy, M&A and investor relations activities for Aviva PLC.

Mr. Avdhesh Gupta has replaced Mr. Saisrinivas Dhulipala as the Appointed Actuary at **Bajaj Allianz Life**. He was previously working as the Principal Consultant in actuarial services with PricewaterhouseCoopers.

Mr. Kedar Patki has succeeded Mr. Satishwar Balakrishnan as the Chief Financial Officer of **IndiaFirst Life**. He was previously holding the role of Chief Financial Officer at **IDBI Federal Life.** Mr. Satishwar Balakrishnan has been appointed as Chief Financial Officer at **Aegon Life**.

Mr. Santosh Kumar has replaced Mr. K. K. Singhalbeen as the Chief Financial Officer at **Sahara India Life**.

Bharti AXA Life has appointed Mr. Rajesh Sud as the Managing Director- Financial Services for Bharti Enterprises replacing Mr. Soumen Ghosh. He would be leading both the financial arms of Bharti group, namely Bharti AXA General and Bharti AXA Life Insurance. Prior to this, he was the Executive Vice Chairman and Managing Director at **Max Life**.

Stake of Public Sector Banks (PSBs) in life insurers in light of merger of PSBs

In August 2019, the Government of India has announced consolidation of ten Public Sector Banks (PSBs) into four large banks. The objective was to integrate banks with weak operating metrics with stronger, more efficient banks and increase national banking presence. The merger is expected to come into effect from 1st April 2020.

Five of these ten PSBs are promoters in life insurance companies in India. Existing IRDAI guidelines prevent an entity from being a promoter (entity holding more than 10% stake) of more than one insurance company within the same segment. There is no restriction on investing in multiple insurance companies if the stake is less than 10%. Hence, to be compliant with IRDAI norms, affected PSBs may have to reduce their stakes in the life insurance companies.

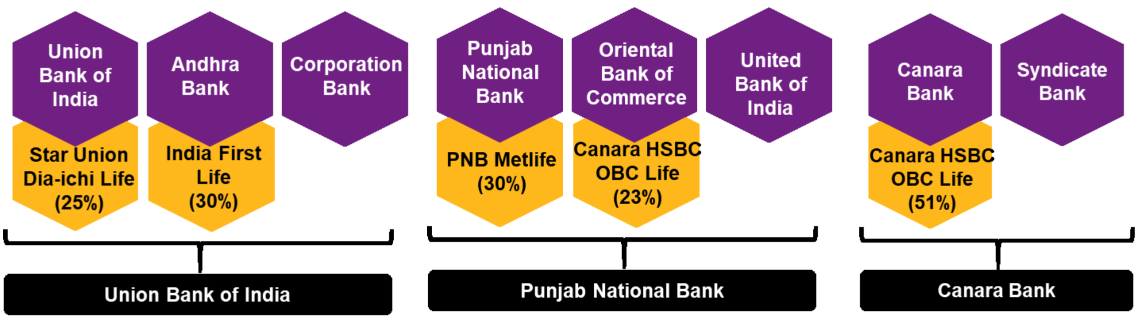
The graphic below lists the stakes of affected PSBs in their respective life insurance companies, along with the anchor entity into which they will amalgamate.

According to the merger plan, Union Bank of India will be taking over Andhra Bank and Corporation Bank. Union Bank of India holds around 25% stake in **Star Union Dai-ichi Life** while Andhra bank holds nearly 30% stake in **IndiaFirst Life**.

Reportedly, Andhra Bank is looking to divest 20.5% stake in **IndiaFirst Life**, with private equity firm Warburg Pincus being the frontrunner for the same. This will increase the latter's stake to 46.5% in the insurer. The transaction is reportedly expected to raise INR7 billion for Andhra Bank.

Similarly, Punjab National Bank, Oriental Bank of Commerce and United Bank of India will be amalgamated into one entity - Punjab National Bank. At present, Punjab National Bank and Oriental Bank of Commerce have stakes worth 30% and 23% in **PNB MetLife** and **Canara HSBC OBC Life** respectively. To ensure compliance with promoters' stake-holding norms, more stake transfers are likely to happen in the coming months.

Recent media reports also suggest that IRDAI is planning to allow PSBs to own more than 10% in more than one insurer in the same segment, provided the bank restricts management control to only one insurer.



** Source: Public Disclosures, September 2019. Stake holdings are rounded to nearest 1%.*

Regulatory update

The reporting period witnessed the notification of several key orders and circulars by the IRDAI. This includes a circular on guidelines to be followed in the preparation of financial statements by life insurers and another on insurance advertisements. The insurance industry looked poised to experience growth and innovation, with IRDAI inviting applications for Regulatory Sandbox and constituting a committee for the scrutinisation of the applications received.

Orders/ Press Releases

IRDAI (Regulatory Sandbox) Regulations, 2019

The Insurance Regulatory and Development Authority of India (IRDAI) has accelerated the drive on Regulatory Sandbox as it invited online applications for the same during the reporting period. A committee has been formed with a tenure of one year to support the process of scrutinising the diverse applications received. As per the terms of reference, the committee would recommend suitable applications and would assess the progress of the experimentations. The committee may invite subject matter experts to evaluate the design and the outcomes of the experimentation.

A summary of guidelines issued so far in respect of this has been presented below.

In wake of the technological innovations being made by insurers and intermediaries, the IRDAI came up with 'Regulatory Sandbox' in order to better manage risks, increase efficiency and enhance value for customers. This involved setting up a conducive environment with relaxed regulations to experiment with fin-tech solutions and study international practices on the subject matter.

The primary objective of the Regulatory Sandbox is to foster growth and innovation in the insurance sector, allowing the InsureTech sector enough flexibility in dealing with regulatory requirements and at the same time focusing on policyholder protection. The strategy is to promote innovations in various categories such as insurance solicitation or distribution, insurance products, underwriting, policy and claims servicing.

The IRDAI published a set of operational guidelines pertaining to the regulatory sandbox. Specifically,

- Applicants need to demonstrate that their proposal will help increase insurance penetration or provide enhanced policyholder services.
- Both, the applicants and the IRDAI need to appoint a single point of contact and all communications should be routed through these points of contacts.
- IRDAI might consider granting limited regulatory relaxation depending on whether the proposal promotes innovation in the insurance industry in India.
- The customers participating in the proposal should be clearly informed and their prior consent regarding their willingness to participate in the proposal should be obtained.
- The applicant should specify the potential inherent risks and the measures taken to eliminate or mitigate those risks.
- The proposal should be approved by the highest decision-making power with reference to the applicant and measures should be in place to closely monitor the implementation and report the status of the proposal to the highest decision-making power or Board on a periodic basis.
- The applicant may continue offering the service or product in the market on lines of any other services and products under the applicable regulatory framework with necessary approval of the IRDAI. If the policyholder does not continue with the service or the product, then the existing liabilities should be honoured in accordance with the agreed terms and conditions.
- Policyholders' personal information should be kept confidential and the applicant should ensure that adequate systems are in place to prevent any misuse of information.
- Policyholders' grievances should be addressed by the applicant and that too within the time frame specified by the IRDAI.
- Further, expenses incurred on the sandbox proposal should be maintained separately and presented as a line item in the applicant's Annual Report. For insurers, such expenses should be charged to the shareholders' accounts or its equivalent.

The proposal would initially be tested on a sample cohort of customers not exceeding 10,000 and with total premium collections not amounting to more than INR5 million.

Circulars

Guidelines on preparation of Financial Statements by Life Insurers

IRDAI has issued a circular outlining certain directions to be followed by the life insurance companies in the preparation of their financial statements. The move is reportedly aimed at enhancing the uniformity, comparability and fair presentation of the financial position of the insurers in the financial results presented by them.

The first direction is related to the presentation of Excess of Expenses of Management ("excess"), arising in case of actual expenses of management exceeding the allowable limits specified in IRDAI (Expenses of Management of Insurers transacting Life Insurance business) Regulations, 2016. In view of the observation that some insurers were presenting the operating expenses in the Revenue Account (Policyholders' Account) net of the excess and thus not presenting the exact expense overrun position, the IRDAI has issued the following:

- The gross amount of operating expenses actually incurred during the period should be reported under Schedule-3 and Revenue Account, without deducting the excess.
- This excess amount should be shown as a separate sub-line item under income section of Revenue Account. This should be reported as "Contribution from Shareholders Account towards Excess EoM".
- In the Profit and Loss Account (Shareholders' Account), the excess should be reported as a separate sub-line item below the line "expenses other than those directly related to insurance business".
- In a similar way, the contribution towards the remuneration of Managing Director/ Chief Executive Officer/ Whole Time Directors over and above the specified limits allowed to be charged to the Policyholders' Account, should be shown as a separate line item in the Profit and Loss Account.

The other guidelines were as follows:

- IRDAI has advised insurers to strictly adhere to the formats of financial statements specified in the IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 and should not add/delete line items to/from the prescribed format. Any new line item that needs to be disclosed separately may be shown under "Others" in Revenue Account, P&L Account and/or the relevant schedule of the financial statements, by giving the details of particulars of each item.
- Rewards and remuneration to agents, brokers and other intermediaries should be reported as a part of the head "Commission", below the line "Net Commission" in the financial statements.

Guidelines on Insurance Advertisements

The IRDAI has issued a master circular on advertising rules for insurance companies in order to reduce mis-selling and promote simplicity and transparency of insurance sales communications. The circular has been issued under Section 34 (1) of the Insurance Act, 1938 (read with Section 14 (1), 14 (2) (e) of the IRDA Act, 1999). Following are some of the key guidelines mentioned in the circular:

- All conditions (including cost of guarantee or charges) under which guaranteed benefits are applicable should be clearly and prominently disclosed in insurance advertisements. In case of elaborate conditions, the text on guarantees should be accompanied by the phrase "Conditions Apply" and the conditions should be distinctly mentioned.
- For unit-linked life insurance products, the actual asset mix of the various underlying funds compared against the asset composition of approved asset pattern for unit linked funds should be disclosed on the web portal of respective insurers at least on a half-yearly basis.
- Any statement of fact, promise or projection should disclose all the relevant assumptions along with significant limitations/criteria. Benefits or features only applicable under extreme exceptional scenarios should not be prominently displayed.
- Where there is a reference to the insurer's past performance, it should be mentioned that the past performance is not necessarily an indication of future performance.
- Advertisements aimed at inducing the public to purchase a product should necessarily include details of the nature and type of product, risks involved, exclusions, benefit illustrations and commitment of the insurer and policy holder under the contract (like minimum amount to be invested, lock-in period, etc.).
- Illustrations should cover both 4% p.a. and 8% p.a. investment return scenario or such rates as prescribed by the IRDAI periodically. Both the illustrations should have equal prominence in terms of display.
- In case of internet communications, insurers should ensure that the viewers can view the full text of the key features, terms and conditions or any other applicable risk information. There should also be a provision for the recipients to unsubscribe from the mailing list in case of email communications.
- Confirmation should be taken from the prospective policyholders that they have read the entire text, disclosures, terms and conditions, etc. while applying for insurance online. Helpline facility should be available and hardcopy of the necessary information should be provided on request.
- Where any claim of rating/award is used, it should only be based on those which have been declared by entities which are independent of the insurers and its affiliates. The source of such rating/award should be clearly disclosed in the advertisements.

- There should be no claim of ranking by the insurer based on any criteria like premium income, number of policies, claim settlements, etc.

- Any death claims paid ratio used in the advertisements should be based on annual figures only; reflecting the entire financial year and should be sourced from latest IRDAI annual report or latest annual audited final figures submitted to IRDAI. The ratios should be based on number of policies only. Further, the data for individual and group policies should not be clubbed together and advertisements for group products should only reflect group ratio and individual products should only reflect individual ratio. For advertisements promoting the insurer's brand without reference to products, only individual death claims paid ratio should be used.

Distribution update

According to the statistics released by the IRDAI, the life insurance penetration increased merely by 69 basis points from 2.15% in 2001 to 2.74% in 2018. To boost penetration, insurers are eyeing to modernise tie-ups by partnering with payment banks and entities providing app-based services. The reporting period also witnessed a few traditional tie-ups along with a couple of entities obtaining broking and corporate agency license to sell insurance products from the IRDAI. Further developments in the distribution landscape during the reporting period have been summarised below.

SBI Life has partnered with Repco Home Finance Ltd to offer its products to latter's customers. The insurer aims to reach customers in new geographies through RHFL's network of 148 branches and 27 satellite centres spread across the country.

Bajaj Allianz Life has entered into a bancassurance agreement with Axis Bank. This is reportedly one of the biggest distribution arrangements for Bajaj Allianz Life.

State insurer, **LIC** has reportedly renewed its bancassurance agreement with Karnataka Vikas Grameen Bank (KVGB). KVGB has a network of 636 branches and a customer base of around 8 million spread across the country.

PNB MetLife is reportedly planning to double its agency network by increasing the number of branches to about 200 in next two years' time**.** The insurer has also partnered with Religare Health to offer its customers health insurance policies bundled with life insurance products.

BSE-Ebix Broking Insurance Broking Pvt. Ltd., the joint venture between Bombay Stock Exchange and EBIX, has received in-principle approval from the IRDAI to distribute insurance products. The venture will reportedly commence its operations after receipt of certificate of license from the IRDAI. It plans to facilitate distribution of insurance products through its Point of Sales (PoS), wealth management advisors and various distribution outlets.

InstantPay has reportedly been granted a corporate agency license by the IRDAI. As per reports, the company is planning to sell life insurance products in tier-2 and tier-3 cities in next few months through its platform of 0.1 million merchants. It also aims to increase its reach by deploying additional manpower in the current and next financial year.

Life Insurers believe technology is the way forward for the industry. The reported period witnessed various developments by insurers to digitalise distribution landscape. Some of the key updates are as follows:

- **ICICI Prudential Life** has signed a contract with Airtel Payments bank to leverage latter's vast distribution network and digital reach to meet the insurance needs of customers at affordable rates.
- **Aegon Life** has reportedly joined hands with Paytm to offer life insurance products to payment bank's customers in a hassle-free manner.
- **HDFC Life** along with its agency partner, iProspect, has collaborated with Google to get target prospective customers using machine learning based automation in Google Ads. As per a report, this approach has delivered an 84% increase in leads and 50% increase in lead quality to the insurer while reducing the cost by around 46%.
- **Canara HSBC OBC Life** has tied up with IndianMoneyInsurance.com to sell its products using the latter's online digital platform.
- **IndiaFirst Life** has entered into a strategic partnership with Spice Money for distribution and marketing of "Insurance Khata", a micro-insurance plan targeted at the informal sector.
- **Bharti AXA Life** has partnered with Bharti Airtel to offer insurance protection to latter's subscribers with every pre-paid recharge of the prescribed amount. The cover is offered till the validity of the recharge plan.

Products update

"During the reporting period, there were five new product launches across the life insurance industry; all of which were non-linked products."

The life insurance industry witnessed around five new product launches during the reporting period.

Along with the newly registered products, some modifications to existing products have also been witnessed during the reporting period. There were 36 products with modifications made to their existing versions out of a total of 43 products approved by IRDAI in the stated period. The main reason for this is due to recent developments in the Linked and Non-Linked Insurance Products Regulations. The key revisions are summarised below:

- Death benefit has been floored to seven times the annualised premium for regular premium products and 1.25 times for single premium products.
- Revival period has been extended for both linked and non-linked products. For non-linked products it has been extended to five years from the current two years whereas for linked products it has been extended to three years from the current two years.
- The period to acquire a guaranteed surrender value has been reduced from three to two years for non-linked products. Guaranteed surrender value factors have also been revised for non-linked products.
- For linked products, settlement option period has been set at 5 years or original policy term whichever is lower; and fund switches have been allowed during this period.

Apart from regular insurance products, the industry has witnessed an increasing popularity of bite-size or sachet insurance products in the recent past. These are non-comprehensive plans which focus on specific needs of customers and come with a low premium and low cover. Examples of such products launched in the reporting period are as follows –

- Bharti AXA Life has collaborated with Airtel to provide a term insurance to latter's pre-paid subscribers. The plan provides a cover of INR0.4m on a recharge of INR599 and is valid for a period of three months. The cover then gets renewed on subsequent recharges.
- HDFC Life has tied up with Axis Mutual Fund to provide life cover on systematic investment plans (SIP). The cover is provided on company's Retirement Savings fund under a specific SIP variant and starts one year after the first SIP instalment has been paid.

Company-wise new product launches during the period September to November 2019 are summarised in the table below:

Company name	Product name	Product description
Exide Life	Exide Life Sampoorna Jeevan	Non- linked; participating limited pay endowment plan with an option to avail life cover till either 75 or 100 years of age. It offers choice to select from four benefit pay-out options – Option A provides guaranteed lump sum benefit at the end of policy term, Option B provides guaranteed income benefit starting from end of premium payment term till maturity, Option C provides guaranteed lump sum benefit at age 60 followed by a guaranteed income benefit till end of policy term and Option D provides guaranteed income benefit starting from age 60 till end of policy term along with a guaranteed lump sum at maturity. The product also offers flexibility to pay out accrued bonuses in five different ways.
Exide Life	Exide Life Saral Bachat	Non-linked; non-participating endowment plan that provides flexibility to choose from two pay-out options at maturity – Option A provides guaranteed lump sum benefit at the end of policy term. Option B provides a guaranteed regular income benefit starting from maturity for a specific pay-out period which is dependent on policy term.

Company name	Product name	Product description
HDFC Life	HDFC Life Sanchay Par Advantage	Non-linked; participating limited pay inheritance endowment plan offering life cover up to 100 years of age. It also provides flexibility to choose from two pay-out options– Option A provides immediate income by way of cash bonuses, if declared, payable from first year till maturity and a guaranteed maturity benefit at the end of policy term. Option B provides deferred cash bonuses, if declared, payable from first year after premium payment term till maturity along with a guaranteed income benefit (payable till a maximum of 25 years or till maturity, whichever is earlier) and a guaranteed benefit at the end of policy term.
ICICI Prudential Life	ICICI Pru Precious Life	Non-linked; non-participating term insurance plan that is designed to provide life cover to the people with existing medical conditions such as obesity, diabetes, high BP, asthma, and even to those who have successfully recovered from cancer or any other surgeries. The plan offers four benefit pay-out options – lump sum, regular income, a combination of lump sum and regular income; and increasing income options. It also offers another variant – Life Plus that covers accidental death benefit in addition to death benefit.
Star Union Dai-ichi	SUD Life Century Star	Non-linked; non-participating limited endowment plan with fixed premium term of seven years. The plan offers flexibility to choose the policy term from 12 years to 16 years.

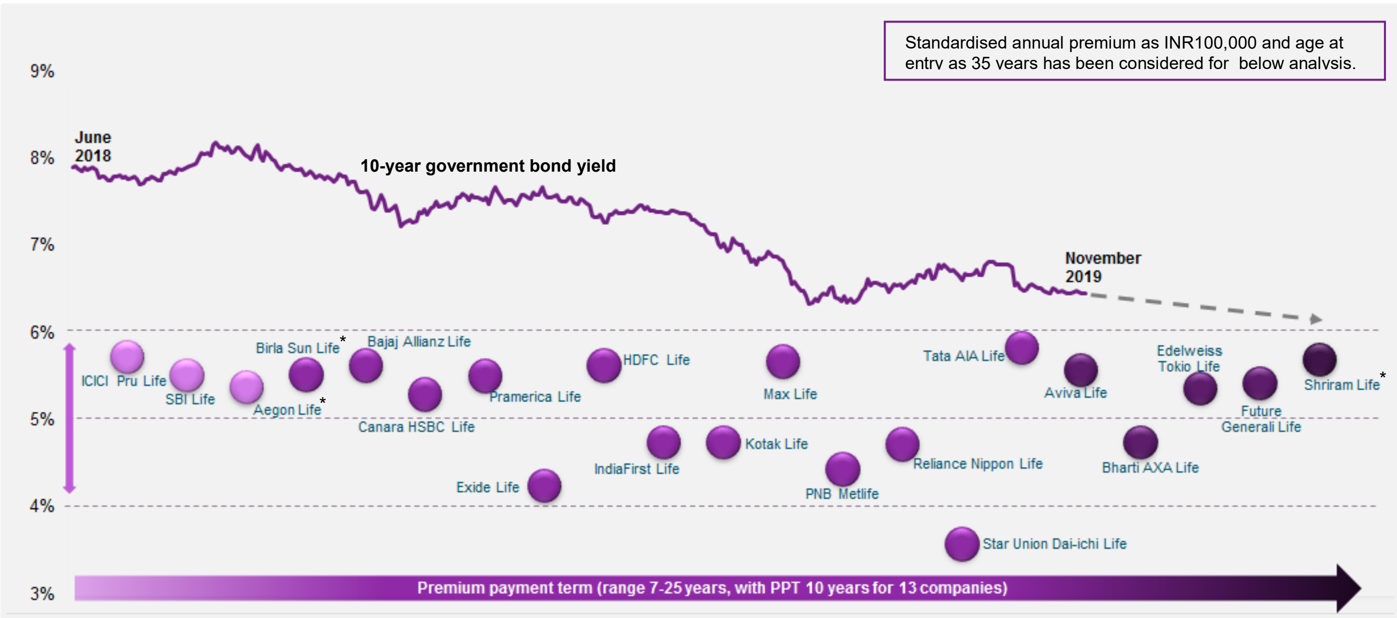
Guaranteed savings products – Reducing margins between offered and earned returns

Guaranteed savings products offer a guaranteed return to policyholders along with death cover. With increasing demand from customers for high-guarantee long-term savings products, life insurers are seen innovating in this segment. Due to a decreasing trend noted in 10-year government bond yields, the margin between offered and earned returns is reducing for life insurers, putting higher emphasis on the need for better financial risk management to ensure future solvency for insurers.

Insurers are making conscious efforts to strengthen their non-participating portfolio and are writing increasing amounts of new business owing to higher new business margins, bigger ticket sizes and higher customer demand for the same. As per the quarterly disclosures, on new business premium basis, the listed life insurers (**SBI Life**, **HDFC Life** and **ICICI Pru Life**) recorded more than 3x growth in non-participating savings business. On the other hand, the 10-year government bond yields have been on a sluggish trend, reducing by ~140 basis points between June 2018 and November 2019 (6.4% as at 29 November 2019).

The highest customer internal rate of return (IRR) across all products in the non-participating savings portfolio for various life insurers has been summarised in the chart below, along with the trend of 10-year government bond yields in the last 18 months. In order to calculate IRRs for different products across life insurers, inputs such as age, gender and annual premium have been kept same to enable parallel comparison. The colour of bubble in the chart indicates the relative premium payment term (PPT) chosen to calculate the IRR, with a darker colour representing a higher PPT and vice versa. PPT has a range of 7 to 25 years, with the same as 10 years for 13 companies out of 21 companies covered in our analysis.

Amongst the top ten life insurers based on weighted new business premium collections, eight are offering guaranteed returns over 5% p.a., with overall 14 life insurers out of 21 offering such level of returns. **Tata AIA Life** offering the highest customer IRR of ~5.85% amongst the companies covered in our analysis. Life insurance companies generally back their liabilities using coupon paying government and corporate bonds, as a measure of returns earned on investments, it can be seen that the level of 10-year government bond yield is showing a sluggish trend thereby decreasing the margin/spread of life insurers between returns earned and returns offered.



Source: Product brochures by companies, Willis Towers Watson analysis.
** Annual premium for Aegon Life and Birla Sun Life is INR50,000 whereas for Sriram Life is INR150,000*

Due to associated high volatility and decreasing trends of government bond yields, insurers are looking at various risk mitigating strategies of managing such emerging risks using asset and/or liability profiles. Following are some risk mitigating strategies currently being deployed:

- Asset side
  - Use of derivatives such as Interest Rate Futures (IRF), Interest Rate Swaps (IRS) and Forward Rate Agreement (FRA).
  - Use of unconventional assets such as party-paid bonds, STRIPS and institutional fixed recurring deposits.
  - Strategic Asset Allocation (SAA) with an objective of return maximisation.

- Liability side and others
  - Cash-flow matching, for example using cash-flows generated from short-term products to fund investments for long-term guarantees.
  - Stochastic analysis using real-world simulations.
  - Scenario testing and stress testing.

IRDAI and RBI have been active in issuing several guidelines in relation to management of interest risk faced by insurers, following are some recent developments noted on the regulatory front:

- In 2018, IRDAI released an exposure draft on “Insurance Regulatory and Development Authority of India (Reinsurance) Regulations, 2018” which allows an insurer to submit alternative risk transfer proposals to the IRDAI, paving way for raising capital via financial reinsurance.
- IRDAI Guidelines on Interest Rate Derivatives, 2014 allows insurers to invest in IRF, IRS, FRAs etc. to hedge interest risk, only on the business already underwritten by the insurer – implying investment in derivatives for expected new business to be written is not permitted.
- With an objective to foster a thriving environment for management of interest rate risk, RBI released guidelines in June 2019 titled *“Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019”*. These are intended to rationalise interest rate derivative regulations to achieve consistency and ease of access.
- RBI’s circular allows life insurance companies to hedge their interest rate risk by entering into Over The Counter (OTC) contracts with banks that have investments in long-term government bonds.

Contact details

For further information, please contact your Willis Towers Watson Consultant or:

Vivek Jalan
Head of Insurance Consulting and Technology
Willis Towers Watson India

vivek.jalan@willistowerswatson.com

Kunj Behari Maheshwari
Head of Life Insuance – Insurance Consulting and Technology
Willis Towers Watson India
kunj.maheshwari@willistowerswatson.com

Gurgaon

2nd Floor, Tower B, Unitech Business Park
South City 1, Sector – 41
Gurgaon – 122 002
Tel: 91 (124) 432 2800
Fax: 91 (124) 432 2801

Research and editorial team

Vivek Jalan
Kunj Behari Maheshwari
Shubham Jain
Gayathri Khanna
Komal Aggarwal
Akhil Jain
Kriti Mittal

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 colleagues in more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.