

BULLISH CALL FPIs have more than doubled holdings in some cos the past year, drawn by stability in a crowded blue chip space

Foreign Investors See Growth in Insurance, Increase Stakes

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ET Intelligence Group: Foreign portfolio investors (FPIs), normally good at spotting long-term structural bets, are keen on India's insurance businesses.

Although large private insurers have significant FPI investments, the quantum of increase in FPI holdings over the past year reflects the bullishness of overseas funds.

In the one year to June, FPI stakes in SBI Life and ICICI Lombard General Insurance more than doubled to 19.4% and 18.5%, respectively.

In the past 18 months, there has been a structural shift, with strategic investors identifying insurance as a sunrise industry.

For FPIs that have little scope to enhance stake in crowded blue-chip ideas, the stability of insurance has become a major draw.

According to various estimates, in the next 2-3 years, India's insurance industry is expected to expand 12-15% annually.

An ASSOCHAM-APAS study says that India's life insurance industry registered 11% on-year growth in new business premium in FY18.

It generated \$30 billion in revenue, and premiums for non-life insurance rose by 17.5% in FY18.

Furthermore, new Sebi regulations on mutual funds (ban on upfront commissions and change in expense ratio) have worked in favour of generating sales for insurance products. The Insurance Regulator

FPI Holdings in Insurance Companies

	Quarter				
	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
SBI Life Insurance	4.31	4.45	4.87	14.06	19.42
ICICI Lombard General Insurance	7.20	10.71	12.20	13.20	18.53

(Figures in %)

FACTORS IN FAVOUR

While Sebi has banned upfront commissions and regulated expense ratios for MFs, Irdai has not changed norms for sales of insurance products

ry and Development Authority of India has not changed norms related to sales of insurance products, enhancing their demand with distributors of financial products.

The ban of upfront commission on selling mutual funds does not offer much incentive for distributors.

It is estimated that a distributor gets 70-100 basis points (0.7-1%) commission (trailing) after selling large mutual fund schemes.

In contrast, a distributor gets 6-7% upfront commission, in addition to commissions, from regular premium selling unit linked insurance

plans (ULIPs).

Industry veterans say that traditional products, entailing five-year payment schedules, would fetch distributor commissions of 15-35%.

In general insurance (non-life), which include crop, motor vehicle and health, innovative plans have ensured profitable growth. In both life and general insurance, private players have edged ahead of state-run peers. According to estimates, private insurers have more than 48% market share in general insurance and 29% in life insurance. Given these factors, FPIs have increased their bets on insurers.

Considering FY21 financials, SBI Life Insurance is trading at price to embedded value of 2.4, which is quite attractive when compared to its peers that are trading four times.

ICICI Lombard General Insurance is trading at a price to earnings multiple of 29, a level considered fairly valued. Given the growth in both life and general insurance products, valuations in these companies are expected to rise in the coming quarters.