

# IPO Note

April 29, 2022

## Life Insurance Corporation of India





## Issue Snapshot:

Issue Open: May 04 – May 09, 2022

Price Band: Rs. 902 – 949 (A discount of Rs.45 for all eligible employee and retail category)  
(Discount of Rs.60 for all eligible LIC Policyholders)

\*Issue Size: Rs 21008 cr (Entirely offer for sale of 221,374,920 eq sh)

Reservation for:

QIB	Upto	98,828,089 eq sh
Non Institutional	atleast	29,648,427 eq sh
Retail	atleast	69,179,663 eq sh
Employee Reservation:	Upto	1,581,249 eq sh
Policyholder Reservation:	Upto	22,137,492 eq sh

Face Value: Rs 10

Book value: Rs 13.01 (Dec 31, 2021)

Indian Embedded value Rs.539,686 cr

Bid size: - 15 equity shares and in multiples thereof

100% Book built Issue

## Capital Structure:

Pre Issue Equity: Rs. 6325.0 cr

\*Post issue Equity: Rs. 6325.0 cr

Listing: BSE & NSE

Book Running Lead Managers Kotak Mahindra Capital Company Ltd, Axis Capital Ltd, BofA Securities India Ltd, Citigroup Global Markets India Private Ltd, Nomura Financial Advisory and Securities (India) Private Ltd, Goldman Sachs (India) Securities Private Ltd, ICICI Securities Ltd, JM Financial Ltd, J.P. Morgan India Private Ltd, SBI Capital Markets Ltd

Registrar to issue: KFin Technologies Limited

## Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	100.0	96.5
Public	0.0	3.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\*=assuming issue subscribed at higher band

Source for this Note: RHP

## Background & Operations:

Life Insurance Corporation of India (LIC) has been providing life insurance in India for more than 65 years and is the largest life insurer in India, with a 61.6% market share in terms of premiums (or GWP), a 61.4% market share in terms of New Business Premium (or NBP), a 71.8% market share in terms of number of individual policies issued, a 88.8% market share in terms of number of group policies issued for the nine months ended December 31, 2021, as well as by the number of individual agents, which comprised 55% of all individual agents in India as at December 31, 2021. Its market shares in the Indian life insurance industry for Fiscal 2021 was 64.1% in terms of Gross written premium (GWP), 66.2% in terms of New business premium (NBP), 74.6% in terms of number of individual policies issued, and 81.1% in terms of number of group policies issued. It had the highest gap in market share by life insurance GWP relative to the second-largest life insurer in India as compared to the market leaders in the top seven markets globally (in 2020 for the other players and in Fiscal 2021 for its Corporation). LIC is ranked fifth globally by life insurance GWP (comparing LIC's life insurance premium for Fiscal 2021 to its global peers' life insurance premium for 2020) and 10th globally in terms of total assets (comparing its Corporation's assets as at March 31, 2021 with other life insurers' assets as at December 31, 2020).

LIC is the largest asset manager in India as at December 31, 2021, with AUM (comprising policyholders' investment, shareholders' investment and assets held to cover linked liabilities) of Rs.40.1 trillion on a standalone basis, which was (i) more than 3.2 times the total AUM of all private life insurers in India, (ii) approximately 15.6 times more than the AUM of the second-largest player in the Indian life insurance industry in terms of AUM, (iii) more than 1.1 times the entire Indian mutual fund industry's AUM and (iv) 17.0% of India's estimated GDP for Fiscal 2022. As at December 31, 2021, LIC's investments in listed equity represented around 4% of the total market capitalisation of NSE as at that date.

LIC has a broad, diversified product portfolio covering various segments across individual products and group products. Its individual products comprise (i) participating insurance products and (ii) non-participating products, which include (a) savings insurance products; (b) term insurance products; (c) health insurance products; (d) annuity and pension products; and (e) unit linked insurance products. Its individual products include specially designed products for specific segments, such as special products for women and children and Micro Insurance products. In addition, it offers riders that provide additional benefits along with the base product to cover for additional risks, such as accidental disability, death, critical illness and premium waiver on the death of the proposer. Its Corporation's individual product portfolio in India comprises 32 individual products (16 participating products and 16 non-participating products) and seven individual riders. Its group products comprise (i) group term insurance products, (ii) group savings insurance products; (iii) group savings pension products; and (iv) group annuity products and its Corporation's group product portfolio in India comprises 11 group products.



LIC's omni-channel distribution platform for individual products currently comprises (i) individual agents, (ii) bancassurance partners, (iii) alternate channels (corporate agents, brokers and insurance marketing firms), (iv) digital sales (through a portal on its Corporation's website), (v) Micro Insurance agents and (vi) Point of Sales Persons-Life Insurance scheme. It has the largest individual agent network among life insurance entities in India, comprising approximately 1.33 million individual agents as at December 31, 2021, which was 6.8 times the number of individual agents of the second largest life insurer. As at December 31, 2021, it had 2,048 branch offices and 1,559 satellite offices in India, covering 91% of all districts in India. Its multichannel distribution platform for group products comprises (i) its employees in the sales team for group products, (ii) individual agents, (iii) bancassurance partners and (iv) alternate channel partners (other corporate agents and brokers). In addition to its life insurance operations in India, LIC has one branch in each of Fiji, Mauritius and the United Kingdom and subsidiaries in Bahrain (with operations in Qatar, Kuwait, Oman and the United Arab Emirates), Bangladesh, Nepal, Singapore and Sri Lanka in the life insurance industry. For Fiscal 2019, Fiscal 2020, Fiscal 2021 and the nine months ended December 31, 2021, on a consolidated basis, its premium from outside India represented 0.93%, 0.99%, 0.73% and 0.69%, respectively, of its total premium.

The tables below set forth certain of LIC's key operating and financial performance parameters for its insurance business on a consolidated basis (except as indicated) as at and for the periods indicated.

Particulars	As at and for the year ended March 31,			As at and for the nine months ended December 31, 2021
	2,019	2020	2021	
Premium (consolidated)	3,402,946.15	3,828,114.50	4,058,508.02	2,857,299.55
Of which:				
<b>Premium (in India)</b>	<b>3,371,300.19</b>	3,790,135.63	4,028,881.36	2,837,532.82
Of which:				
(i) First year premiums	316,765.61	584,464.99	343,409.95	222,153.27
(ii) Single premiums and consideration for annuities granted	1,123,613.97	1,218,277.07	1,511,822.20	1,045,623.78
(iii) NBP ((i)+(ii))	1,440,379.58	1,802,742.06	1,855,232.15	1,267,777.05
(iv) Renewable premiums	1,962,566.57	2,025,372.44	2,203,275.87	1,589,522.50
Total annualised premium equivalent ("APE") (in India)	405,655.75	479,723.36	455,879.19	299,233.16
Individual APE (in India)	314,476.64	352,974.11	322,705.91	209,044.00
Operating expenses related to insurance business to premium ratio (as a % of premium) (consolidated)	8.33%	8.99%	8.66%	9.54%
Conservation Ratio	92.19%	88.79%	84.48%	93.72%

(Rs.in million, except percentages and ratios)

## Objects of Issue:

The objects of the Offer are to (i) achieve the benefits of listing the Equity Shares on the Stock Exchanges; and (ii) carry out the Offer for Sale of up to 221,374,920 Equity Shares by the Selling Shareholder (President of India, acting through the Ministry of Finance, Government of India). Further, LIC expects that the proposed listing of its Equity Shares will enhance its visibility and brand image as well as provide a public market for the Equity Shares in India. The Selling Shareholder will be entitled to the entire proceeds of the Offer after deducting the Offer expenses and relevant taxes thereon. LIC will not receive any proceeds from the Offer.

## Competitive Strengths

**Fifth largest life insurer globally by GWP and the largest player in the fast growing and underpenetrated Indian life insurance sector:** LIC is ranked fifth globally in terms of life insurance GWP (comparing its Corporation's life insurance premium for Fiscal 2021 to its global peers' life insurance premium for 2020), and 10th globally in terms of total assets (comparing its Corporation's assets as at March 31, 2021 with assets of other life insurers as at December 31, 2020). It 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 and the nine months ended December 31, 2021. For Fiscal 2021, LIC issued approximately 21 million individual policies in India, representing approximately 75% market share in new individual policy issuances. The second largest player in the industry issued 1.66 million individual policies and had a 5.9% market share for Fiscal 2021. For Fiscal 2021, its market share in the Indian life insurance industry was 66.2% based on NBP, and NBP was 1.96 times the total private life insurance sector and 8.9 times the NBP for the second-largest player in the Indian life insurance industry. For the nine months ended December 31, 2021, LIC's market share in the Indian life insurance industry was 61.4% based on NBP, and its 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. Nowhere in the top seven markets globally is the difference in market share between the largest and the second largest life insurer as stark as in India (in 2020 for the other players and in Fiscal 2021 for LIC), with the second largest player having only 8.0% market share of GWP in India compared to its market share of 64.1% market share in terms of premium (or GWP) in India for Fiscal 2021.



**Trusted brand and a customer-centric business model:** LIC was incorporated in 1956 and up to 2000 it was the only life insurance provider in India, which made LIC, as a brand, synonymous with life insurance in India. The brand 'LIC' was recognized as the third strongest and 10th most valuable global insurance brand in 2021. The brand 'LIC' was also recognised by WPP Kantar as the second most valuable brand in the report "BrandZ™ Top 75 Most Valuable Indian Brands" for 2018, 2019 and 2020. The brand 'LIC' has won the Reader's Digest Trusted Brand Award numerous times and the prestigious Outlook Money Award Gold Award in Editor's Choice Category as the "Most Trusted Brand in Insurance" twice. Its strong brand name and early-mover advantage is the key driver in maintaining its leading position in the Indian life insurance industry.

The trust in the brand 'LIC' is evidenced by the 279.11 million in force policies under individual business being serviced in India as at December 31, 2021. The trust in the brand 'LIC' is further evidenced by the fact that approximately 75% of individual policies sold by LIC in India in the nine months ended December 31, 2021 were to sold to customers who had not purchased any life insurance policies from LIC prior to April 1, 2021.

**Cross-cyclical product mix that caters to diverse consumer needs and an individual product portfolio that is dominated by participating life insurance policies:** LIC's policies address consumers' needs through the four principal stages of life, namely, beginning of savings, career and marriage, family needs and retirement planning and retirement and asset drawdown. It has a broad, diversified product portfolio covering various segments across individual products and group products. Its individual product portfolio in India comprises 32 individual products (16 participating products and 16 non-participating products) and seven individual optional rider benefits. Its group product portfolio in India comprises 11 group products and is well placed to serve customers across age brackets with a comprehensive product portfolio, while maintaining a strong connect across age groups. Customers in the age bracket 27 to 40 years old accounted for approximately 42% and 42% of individual policies sold in Fiscal 2021 and the nine months ended December 31, 2021, respectively.

LIC's cross-cyclical business mix is dominated by participating life insurance policies. Although its participating products dominate its portfolio, it also has a large market share in health insurance and annuity products. In health insurance provided by life insurance players, LIC had a market share in India of 46.9%, 53.6% and 54.4% in terms of GWP for Fiscal 2020, Fiscal 2021 and for the nine months ended December 31, 2021, respectively. In annuity products, it had a market share in India of 84.7%, 76.9%, and 68.7% in terms of GWP for Fiscal 2020, Fiscal 2021 and December 31, 2021, respectively. LIC's growth in non-participating protection individual NBP, non-participating savings individual NBP, ULIP and annuity/pension individual NBP in India from Fiscal 2019 to Fiscal 2021 was a CAGR of 15.46%, 30.78%, 369.75% and 10.95%, respectively.

**Presence across India through an omni-channel distribution network with an unparalleled agency force:** LIC's omni-channel distribution platform for individual products currently comprises (i) individual agents, (ii) bancassurance partners, (iii) alternate channels (corporate agents, brokers and insurance marketing firms), (iv) digital sales (through a portal on LIC's website), (v) Micro Insurance agents and (vi) Point of Sales Persons-Life Insurance scheme. As at December 31, 2021, LIC had the following distribution network for individual products in India:

- 1.33 million individual agents;
- 70 bancassurance partners;
- 215 alternate channel;
- A portal on LIC's website for digital sales;
- 2,128 active Micro Insurance agents; and
- 4,769 Point of Sales Persons-Life Insurance scheme.

LIC's individual policies are primarily distributed by its individual agents. Key metrics for its agent network in India include:

- Largest agent network among life insurance entities in India. As at December 31, 2021, its individual agency force accounted for 55% of the total agent network in India and was 6.8 times the number of individual agents of the second largest life insurer in terms of agent network.
- Industry leading agent network growth in India, with the number of LIC's agents in India increasing at a CAGR of 7% between March 31, 2019 and March 31, 2021 compared to the next best player's agency force CAGR of 5% and the average of the private player's agency force CAGR of 4% during the same period.
- Most productive agent network in the Indian life insurance sector, as evidenced by the fact that for the nine months ended December 31, 2021 and Fiscal 2021, LIC's agents had an average NBP of Rs. 260,069 and Rs. 412,934 per agent, respectively, compared to the average NBP of Rs. 108,888 and Rs. 124,892 per agent for the median of the top five private players, respectively
- It has the highest Million Dollar Round Table ("MDRT") members among all the Indian corporates operating in financial services industry, with a total of 721 MDRT members for 2021.





- High longevity of agents - 59.38% of its individual agents in India have acted for LIC for more than five years as at December 31, 2021.
- 81% of LIC's agents in India recruited in Fiscal 2021 were within the 18 to 40 years old group.

LIC large agency network also enables it to cater to larger sections of society in urban and rural regions and not only the well-banked population in India. It has a wide presence across India and distribute its policies in all 36 states and union territories. As at March 31, 2021, LIC had offices in 91% of districts in India as compared to 81% for the entire private sector combined and had 2,390 offices located in Tier III and Tier IV centres, while private players only had 583 in aggregate in those centres, and it had 177 offices located in Tier V & VI centres, while private players had 55 in aggregate in those centres. LIC's individual NBP generated through bancassurance in Fiscal 2021 was higher than the individual bancassurance NBP of 16 private life insurance players and the individual NBP of 14 private life insurance players. As at September 30, 2021, its bancassurance partners had a total of 51,633 branches in India as compared to the 38,026 branches of the bancassurance partners of the largest private player.

**Harnessing technology capabilities to support customer connect and drive operating efficiencies:** LIC has developed technological capabilities that helps to provide a great customer experience and drive operating efficiencies. It has added technological capabilities across the customer journey from purchase to payments to claims processing. As at December 31, 2021, LIC's portal had 18.60 million registered users and its Corporation's mobile app for policyholders, available on both Android and iOS platforms, had 5.13 million registered users. Given its focus on and investments in information technology, it is well-positioned to capitalise on the increasing digitisation of the Indian economy.

LIC has two apps for intermediaries to use at the pre-purchase stage:

**Sales App** – This application provides intermediaries lead management, financial need analysis, quotes and illustrations, e-proposal and content management.

**LIC Quick Quotes App** – This application provides intermediaries with premium quotation and benefit illustration, with a facility to compare quotes and view variations.

It has three online on-boarding digital platforms through which its intermediaries can register new proposals for insurance and issue new policies:

**e2e**, which is an online customer on-boarding portal, enables Senior Business Associates to register new proposals for insurance and complete the process of underwriting and acceptance of risk for customers instantly, with immediate issuance of first premium receipt;

**i-proposals**, which facilitates the new proposal data capture by Senior Business Associates, select Development Officers, LIC Associates, Chief Life Insurance Advisors, empowered agents and the online submission of the proposal data to the servicing branch office for underwriting and completion of acceptance process; and

**AtmaNirbhar Agents New Business Digital App ("ANANDA")**, which was implemented in November 2020, is a completely paperless digital platform for procurement of insurance business. This is a digital platform for all LIC's sales channels, including agents, Chief Life Insurance Advisors and Development Officers, which facilitates them to complete the entire new business procurement process end to end online in a seamless, paperless manner, anytime and anywhere. ANANDA is available as a mobile app and as a web portal.

**Largest asset manager in India with an established track record of financial performance and profitable growth:** LIC is the largest asset manager in India as at December 31, 2021, with AUM (comprising policyholders' investment, shareholders' investment and assets held to cover linked liabilities) of Rs. 40.1 trillion on a standalone basis, which was (i) more than 3.2 times the total AUM of all private life insurers in India, (ii) approximately 15.6 times more than the AUM of the second-largest player in the Indian life insurance industry in terms of AUM, (iii) more than 1.1 times the entire Indian mutual fund industry's AUM and (iv) 17.0% of India's estimated GDP for Fiscal 2022. Its policyholders' funds have a well-diversified investment portfolio. As at December 31, 2021, on a standalone basis, LIC's policyholders' investment portfolio included 38.09% central government securities, 24.56% equity securities, 24.25% state government securities and 8.35% corporate bonds.

LIC has a proven track record of strong financial performance, as demonstrated by the following metrics:

- Net profit on sale/redemption of policyholders' investments (profit on sale/redemption of investments minus loss on sale/redemption of investments) (Policyholders' Account) was Rs. 238,972.08 million, Rs. 193,874.82 million, Rs. 398,096.31 million and Rs. 364,627.79 million in Fiscal 2019, Fiscal 2020, Fiscal 2021 and the nine months ended December 31, 2021 on a consolidated basis, respectively.
- GWP on a consolidated basis increased at a CAGR of 9.21% from Fiscal 2019 to Fiscal 2021.



- LIC has a market share of 62.5% and 61.8% compared to 8.5% and 8.8% market share of the second best player in the market by renewal premium for Fiscal 2021 and the nine months ended December 31, 2021, respectively.
- NBP on a consolidated basis increased at a CAGR of 13.49% from Fiscal 2019 to Fiscal 2021.
- For Fiscal 2021, LIC issued approximately 21 million individual policies in India, representing approximately 75% market share in new individual policy issuances.
- Expense ratios on a standalone basis are lower than that of the top five private players in India as a whole. For Fiscal 2019, Fiscal 2020, Fiscal 2021 and December 31, 2021 LIC's operating expenses as a percentage of total premium ("Operating Expense Ratio") on a standalone basis was 8.4%, 9.0%, 8.7%, and 9.6% respectively, compared to the median of the top five private players' Operating Expense Ratio of 13.0%, 13.0%, 11.9% and 12.1%, respectively
- It is the best-in-class of Indian life insurance players in terms of profitability, with Rs. 28,890.1 million surplus transferred to the shareholders' account in Fiscal 2021 on a standalone basis, relative to the private players, for which the highest surplus transferred to the Shareholders' Account in Fiscal 2021 was Rs. 19,848.6 million.
- PAT on a consolidated basis increased from Rs. 26,273.78 million for Fiscal 2019 to Rs. 29,741.39 million for Fiscal 2021, representing a CAGR of 6.39%.

**Robust risk management framework:** LIC has a risk management framework where risk identification, risk measurement and risk mitigation are undertaken through structured procedures and various Board-approved policies and controls. It has an enterprise risk management ("ERM") cell with the Chief Risk Officer heading the cell and a team of officers supporting him at different levels. Its ERM cell provides a framework for evaluating and managing risks inherent in itself through risk and control self-assessment, incident management and top risk-key risk indicator analysis. The ERM cell is working on the implementation of the IT solution package for monitoring various risks LIC's encounters in its business processes. LIC proactively manages its financial risks through, among other things:

- Diversification of investment portfolio across asset classes, with significant exposure to sovereign and state owned entities;
- Regular monitoring of interest rates to address market volatility;
- 95.90% of LIC's debt portfolio in India is invested in sovereign and AAA-rated debt as at December 31, 2021;
- Stress and resilience testing of the investment portfolio;
- Matching of assets and liabilities on a quarterly basis at the line of business level where line of business liabilities account for over 5% of total liabilities;
- Conservative management of reserves;
- LIC price its products using prudent assumptions; and
- LIC also proactively review the business mix to maintain alignment with customer needs and preferences.

LIC's large, geographically diversified customer base and a participating product dominated portfolio serve as a natural hedge. In addition, its lower policy ticket sizes reduce volatility. For Fiscal 2021 and the nine months ended December 31, 2021, its average NBP per individual policy on a standalone basis was Rs. 26,892 and Rs. 28,325, respectively, compared to the NBP per individual policy of the median of the top five private players of Rs. 96,619 and Rs. 114,667, respectively.

**Highly experienced and qualified management team, distinguished Board and strong corporate governance framework:** LIC has an experienced and qualified management team. All of its Key Managerial Personnel have more than 20 years' experience in the insurance industry, with experience in different parts of India, in different capacities (both in administrative and marketing positions), and has headed branches, divisions and zones in India. The experience of its Key Managerial Personnel is a key competitive advantage and will help it to implement its business strategies and adapt to evolving consumer preferences and changes in its business and regulatory environment. It has a strong corporate governance framework, with a multi-layered supervisory structure from the Government, the Board and its sub-committees, the Central Management Committee and the Policyholders' Protection Committee.

## Business Strategy:

**Capitalize on the growth opportunities in the Indian life insurance sector:** The favorable demographic tailwinds supporting India's growth story, combined with the under penetration of life insurance in India, are key factors for the multi-decadal growth in the life insurance industry in India. The GWP for life insurers in India is forecasted to grow at 14-15% CAGR from Fiscal 2021 to Fiscal 2026 to reach Rs.12,400 billion. At this level of premium, life insurance as a proportion of GDP is projected to reach 3.8% by Fiscal 2026, up from 3.2% in Fiscal 2021. The NBP of the Indian life insurance industry is expected to grow at a CAGR of approximately 18% from Fiscal 2021 to Fiscal 2026 for individual business as compared to a CAGR of 17% for group business over the same period. With the kind of scale, size, reach and scalability LIC has achieved over the years, it is well-positioned to capitalize on the expected growth of the Indian life insurance sector. Its plans include:

- Increasing market share of the bancassurance channel by tying up with more bank partners and improving their productivity by providing them with digital solutions for on-boarding customers for its products.



- Increasing direct sales of individual products on LIC's website by increasing the marketing of its website and adding more products that are available for purchase on the website.
- Improving the share of non-participating products by increasing the focus on sales of ULIP, protection products, pension/annuity products and health insurance.
- Recruiting more millennial agents in light of the changing demographic dynamics
- Increasing upselling and cross-selling to individual customers and beneficiaries of group products to cover varied financial needs.
- Increasing the average ticket size of products
- Increasing the productivity of intermediaries by furthering competency-building initiatives.
- Increasing focus on group protection plans.

**Further diversify product mix by increasing the contribution of the non-participating portfolio:** While LIC's participating products will continue to be a strong focus, it intends to continue diversifying the product mix by addressing customer needs at every stage of life and increasing sales of its existing non-participating products as well as launching new non-participating products, in particular term insurance, health insurance, pension/annuity products and ULIP products. It also plans to increase the training given to intermediaries on non-participating products and incentivize the sale of non-participating products by offering easier access to higher-level agent club membership for sales of these products. Further, it plans to increase the marketing of its non-participating products.

There is already significant demand for annuity/pension products in India, with 82.7% of the country's employed population working in the unorganized sector. The elderly population (aged 60 and above) in India will increase from 116.8 million in 2015 to 316.8 million by 2050 and the share of the elderly in India's population will almost double from 9% in 2015 to 17% by 2050 which will result in an increase in demand for pension/annuity products. LIC's NBP from pension/annuity products in India increased 33.17% from Rs.152,368.80 million for Fiscal 2020 to Rs.202,913.18 million for Fiscal 2021. Its NBP from pension/annuity products in India was Rs.88,743.98 million for the nine months ended December 31, 2021.

LIC has been putting more focus on selling ULIPs, which resulted in a 729.34% increase in its NBP from ULIPs in India from Rs.911.38 million for Fiscal 2020 to Rs.7,558.50 million for Fiscal 2021. Despite this large increase, LIC has plenty of scope to increase sales of ULIPs. LIC's market share of NBP in the linked segment in India was 2.8% for Fiscal 2021. However, LIC witnessed approximately 715% year-on-year increase in linked segment NBP from Rs.932.6 million for Fiscal 2020 to Rs.7,598.1 million for Fiscal 2021.

**Reinforce omni-channel distribution network and increase its productivity:** LIC intends to continue strengthening its omni-channel distribution network for individual products and increase its productivity. It plans to strategically expand its individual agency network, improve its agents' productivity and maintain its focus on improving the quality of agents it recruits and their longevity. It plans to hire more millennial and post-millennial agents by running social and digital media campaigns as well as other advertising campaigns to increase awareness of career opportunities as an insurance agent in the millennial and post-millennial segments and conducting more online recruitment. LIC has an agents' pre-recruitment mobile application that facilitates the registration process for candidates aspiring to become one of its agents. LIC will continue to train its agents to help increase their productivity and the average ticket size of the products they sell. It will continue to create programs to motivate and recognize high and consistent performers amongst the agency force, including using campaigns and awarding membership in one of its seven different agents' clubs. It plans to increase the number of Point of Sales Persons-Life Insurance scheme to better meet the needs of potential customers. It intends to find additional partners in the bancassurance (bank) channel and alternate channels (brokers, insurance marketing firms and other corporate agents) and improve their productivity by providing all of them with digital solutions for on-boarding customers for its policies.

It also plans to increase direct sales of individual products on its website by increasing the marketing of website and leveraging social media platforms to reach the millennial segment and adding more products that are available for purchase on LIC's website.

**Continue leveraging technology to aid growth, drive operating efficiencies and provide digital support:** LIC plans to continue to implement various technological and digital initiatives to increase productivity, train its agents and employees, improve cost efficiencies, provide better customer experience, provide a seamless customer on-boarding process and enhance digital channels for payments. Its commitment is to harness technological and digital capabilities for customer convenience. It plans to make greater use of analytics to further drive productivity of its agency channel, deliver enhanced service levels, support customer connection with services and drive operating efficiencies. It also plans to continue to promote the use of digital modes of payment to increase the share of premiums collected through digital modes.

**Maximize value creation through various commercial and financial levers as well as changes to LIC's surplus distribution policy:**

*Commercial levers to increase revenue and profit:* Persistency Ratio is the proportion of business that is retained from the business underwritten and is measured in terms of the number of policies and premiums underwritten, further subdivided for individual



products based on (i) regular premium and limited premium and (ii) single premium and fully paid-up premium. LIC plans to increase its Persistency Ratios through the following:

Increasing the number of policies that are revived by LIC through launch of revival campaigns and encouraging convenient modes of payment, such as payment through Electronic National Automated Clearing House.

Plans to continue to engage with its policyholders, directly and through intermediaries, to retain the policies that are being served.

*Financial levers to optimize yield on investment:* LIC plans to continue to strive for a dynamic and strategic asset allocation amongst the different asset classes allowed within the regulatory framework, depending upon the market cycles and conditions, with a view to improve the yield on investments.

*Changes in surplus distribution policy and bifurcation of funds:* Prior to September 30, 2021, LIC had one fund – a participating fund. An amendment to the Life Insurance Corporation Act in the Finance Act, 2021, which was notified on June 30, 2021, resulted in LIC having a participating fund and non-participating fund since September 30, 2021. Section 28 of the Life Insurance Corporation Act, which was amended by Parliament and given effect to by the Government vide its Gazette notification dated March 29, 2012, provides that 90% or more of the valuation surplus, as the Government may approve, shall be allocated to or reserved for the policyholders. The Government, vide letter dated November 13, 2013, allowed LIC to continue with the existing surplus distribution pattern of 95:5 between policyholders and the Shareholders, while retaining the flexibility to reduce it to 90:10 between policyholders and the Shareholders in the future. This amendment brought LIC to be in line with the private players in India, who were already permitted to allocate the surplus in participating funds between policyholders and Shareholders in the ratio of 90:10.

In line with the Insurance Regulatory and Development Authority of India (Distribution of Surplus) Regulations, 2002, the top five private players 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, each of the top five private players allocated approximately 10% of the participating policyholders' account surplus to its shareholders in Fiscal 2021. The increasing allocation of the surplus of the participating fund to the shareholders and the 100% allocation to Shareholders of the nonparticipating business (previously at 5%, which was flowing through the declaration of bonuses for the participating business in lieu of a single fund as per Section 24 of the Life Insurance Corporation Act) results in a higher allocation of the surplus to Shareholders.

## Industry:

### Overview of The Indian Insurance Industry

#### Evolution of life insurance industry

The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate the life insurance 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 policyholders, the earlier legislations were consolidated and amended by the Insurance Act, 1938 with comprehensive provisions to regulate 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 the nationalization of the life insurance industry gathered momentum when a bill to amend the Life Insurance Act, 1938 was introduced in the Legislative Assembly in 1944. However, life insurance in India was nationalized much later on January 19, 1956. The Parliament of India passed the Life Insurance Corporation Act on June 19, 1956, and the Life Insurance Corporation of India (LIC) was created on September 1, 1956, with the objective of spreading life insurance, in particular to rural areas and to socially and economically disadvantaged classes with a view to reach all insurable persons in the country, providing them with adequate financial coverage against death at a reasonable cost.

LIC had five zonal offices, 33 divisional offices, 212 branch offices and a 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 NBP in 1957, the corporation crossed Rs. 10 billion in NBP in the Fiscal Year 1969-70, and in another 10 years it crossed the Rs. 20 billion NBP mark.

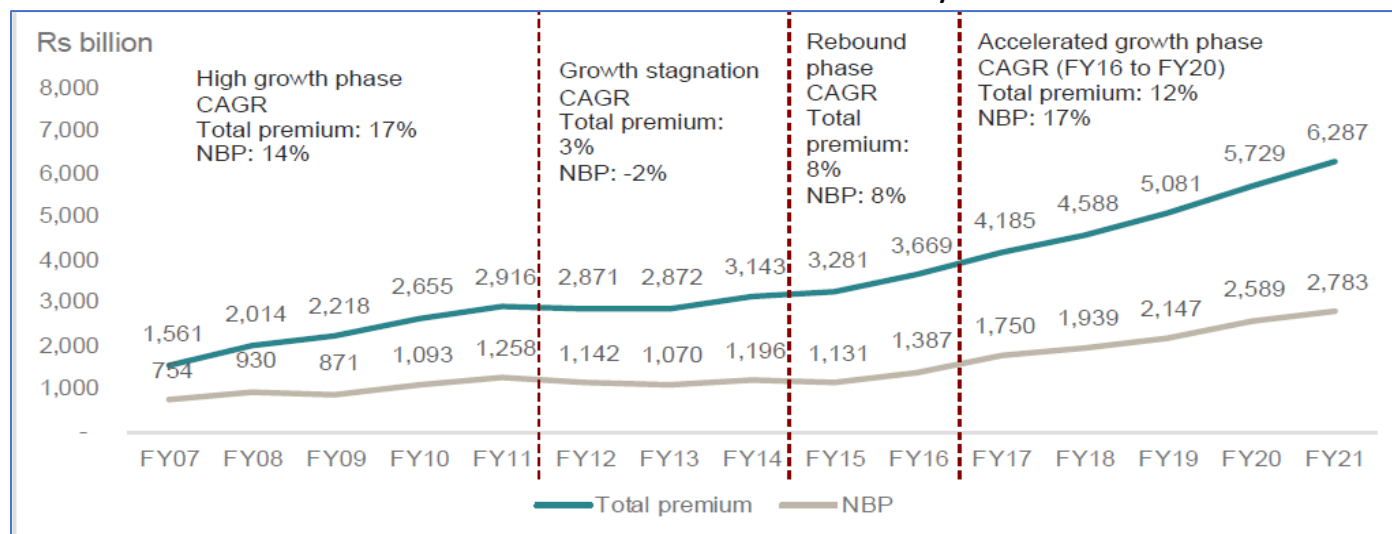
Today, LIC continues to be the largest life insurer even in the liberalized scenario of Indian insurance being opened up to private players. LIC is the largest life insurer in India in terms of GWP, NBP, number of individual policies issued, and number of group policies issued for Fiscal 2021. LIC had 286 million in force policies under Individual Business (within India) as at March 31, 2021, which is greater than the 4th largest country population-wise as of CY 2020. 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 the aggregate industry NBP.

The Indian life insurance industry had only one player – LIC – during CY 1956 to CY 2000. However, post- privatization 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.

**Trend in Total Premium for Overall Industry**



**Trend in NBP for top six players in industry**

INR Million	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	9MFY22
<b>LIC</b>	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
<b>SBI Life</b>	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
<b>HDFC Life</b>	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
<b>ICICI Prudential Life</b>	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
<b>Max Life</b>	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
<b>Bajaj Allianz Life</b>	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

**Trend in renewal premium for top six 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

## Robust Growth of Life Insurance Industry During Fiscals 2007 to 2011

Total premium and NBP witnessed strong CAGR of 17% and 14%, respectively, between Fiscals 2007 and 2011, owing to the aggressive foray by private players. Growth for private players was driven by ULIP sales amid a buoyant capital market. Share of private players in total premium increased from 18% in Fiscal 2007 to 30% in Fiscal 2011. To note, market share and growth rates are as on end fiscal date unless specified, e.g., 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.

## Industry Underwent a Transition During Fiscals 2011 to 2014

After the sharp growth during Fiscals 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, 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, the total premium of private players declined at 4% CAGR as compared to 5% CAGR for LIC. The IRDAI guidelines issued in June 2010 referred to in the CRISIL Report are IRDAI Circular: IRDA/ACT/CIR/ULIP/102/06/2010 dated June 28, 2010. The drop in total premium of linked products was sharper at 30% CAGR between Fiscals 2011 to 2014, leading to private players losing market share. While LIC's total premium from linked products also dropped, its share of linked products in portfolio was only 19% for Fiscal 2011. Approximately 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 Fiscals 2014 to 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. 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 driven by expectations of improvement in economic growth, cooling inflation, increase in financial savings, and healthy returns provided by equity and debt markets during this period.

## Accelerated Growth Post-Fiscal 2016

Post-Fiscal 2016, the industry witnessed a paradigm shift with the awareness of insurance growing at an accelerated phase. Total life insurance premium grew at a robust 12% CAGR during Fiscals 2016 to 2020, which was much faster than the 6% annual growth witnessed in India's nominal GDP during this period. The double-digit growth was attributable to factors such as rising income levels, increasing awareness/education about products, tax benefits, product innovation and customisation by the players and emergence of new distribution channels, such as online sales making the purchase process much easier for customers.

## Subdued Growth Post-COVID-19

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, NBP grew by approximately 7.5% to Rs. 2.78 trillion compared to Rs. 2.58 trillion in Fiscal 2020.



## Key Regulations in the Sector

1999-2005	2006-2011	2012-2016	2017-2021
<p>2000: IRDAI set up as a statutory body to regulate the Insurance Industry</p> <p>2000: Insurance industry privatised; 26% equity from foreign owners permitted</p> <p>2002: Corporate agents allowed to sell insurance products</p> <p>2002: Broker channel introduced</p> <p>2005: IRDA passes micro-insurance regulations</p>	<p>2007: Amendment to Insurance Broker Regulation</p> <p>2010: Major changes in regulations for linked products</p> <p>Product charges capped</p> <p>Cap on surrender charges</p> <p>Increase in lock-in period</p> <p>2011: Licensing of Bancassurance Agents</p>	<p>2013: Corporate agents allowed to tie up with more than one insurer</p> <p>2013: Linked and non-linked product regulations</p> <p>2013: Reinsurance Regulations; Prescription on level of reinsurance</p> <p>2015: Insurance Amendment Law, 2015</p> <ul style="list-style-type: none"> <li>Foreign Ownership increased from 26% to 49%</li> <li>Agents Can be Appointed by Insurers</li> </ul> <p>2016: Permission to set up insurance marketing firm</p>	<p>2017: Investment by Private Equity funds in Indian Insurance Companies</p> <p>2017: Insurance Web Aggregators Regulations</p> <p>2019: New and innovative campaign "Sabse Peheley Insurance"</p> <p>2019: Linked and non-linked products regulations</p> <p>2020: Issuance of Electronic Policies</p> <p>2021: Foreign Ownership increased from 49% to 74%</p> <p>2021: Saral Jeevan Bima &amp; Saral Pension; Standard life insurance products</p>
IMPACT	IMPACT	IMPACT	IMPACT
<p>The number of companies increased to 15 by fiscal 2005</p> <p>Insurance density improved from 9.1 in fiscal 2002 to 15.7 in fiscal 2005</p>	<p>Due to leniency in regulation, the amount of commission paid logged a CAGR of 21% during fiscal 2006 to fiscal 2010</p> <p>Total premium clocked a CAGR of 26% during the period</p>	<p>Linked insurance premium saw a slowdown due to change in the commission structure</p> <p>Players with strong banking channels leverage their network to gain market share</p>	<p>Customer awareness and insurance penetration has increased due to innovative campaigns and digital initiatives</p> <p>Increased investment in life insurance companies through private equity/ FDI</p>

### Key Recent Initiatives Taken by Regulators

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 policyholder in accessing various services including timely payment of premium, settlement of claim. In this regard, IRDAI on March 23, 2020, issued directions pertaining to following activities: (i) functioning of offices; (ii) grace period for payment of premiums; (iii) claim payments with regards to COVID-19; and (iv) 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 March 30, 2020:

**Safety measures:** Insurers shall 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.; and, 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; 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; and 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, and 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; and, due to the prevailing lockdown situation, an additional 21 days was allowed in respect of all complaints which were received on or after March 15, 2020 and up to April 30, 2020.

**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, Nirmala Sitharaman, 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. Further, in March 2022, department for promotion of industry and internal trade (DPIIT) notified government of India's decision to allow up to 20% FDI in Life Insurance Corporation (LIC) as the current FDI policy does not apply to LIC since it is administered by LIC Act. 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: (i) because of better availability of more capital than earlier, the insurance companies can increase impetus on business growth and diversification of their portfolio; and (ii) more options available to consumers with an increase in competition, which also leads to better offers for them.

## Indian Life Insurance Industry

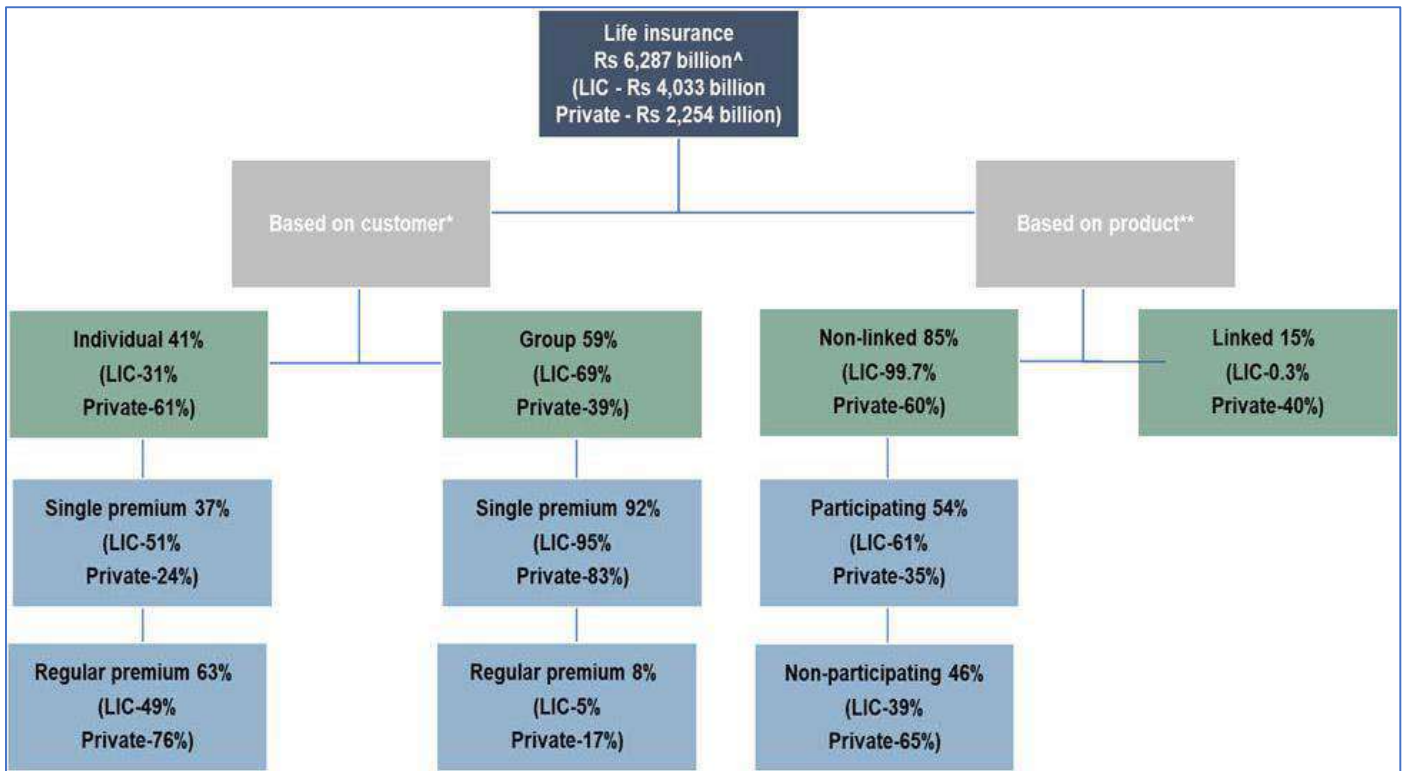
### Overview

**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, as per Swiss Re's sigma No 3/2021 report for July 2021. The size of the Indian life insurance industry was Rs. 6.2 trillion based on total premium 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 five years ending in Fiscal 2021. New business premiums (NBP) grew at 15% CAGR during Fiscals 2016 to 2021, to approximately Rs. 2.78 trillion. In fact, in Fiscal 2021 – a year impacted by the COVID- 19 pandemic, the NBP of the industry rose by 7.5%. Within the NBP, group business premium grew at approximately 15.4% CAGR from Fiscals 2016 to 2021, whereas individual premium rose approximately 14% CAGR during the same period. Life insurance products can be classified on the basis of products and customer segments. Historically, life insurance products were savings oriented. Non-linked products are traditional products with a protection and savings element built in or 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 savingscum- protection products. For Fiscal 2021, non-linked products accounted for 86% of the total premiums. The share of non-linked products was lower for private players, constituting 57% of the total premium for Fiscal 2021.

Life insurance companies offer 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



**Total Premium has Grown at an 11% CAGR in the Last Five Years Ending Fiscal Year 2021** Life insurance premium has grown at an 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 drives. These factors have increased awareness about the need for insurance and propelled industry growth. LIC holds a 64% share by total life insurance premium and grew at 9% CAGR from Fiscals 2016 to 2021. Private insurers grew at a 18% CAGR growth during the same period.

Strong growth in total premium for the life insurance industry



New business premium has 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, NBP grew approximately 7% reflecting the impact of the economic slowdown. During the first nine months of Fiscal 2022, NBP growth remained low for the industry with y-o-y growth of 7.4%.

Trends in new business premium growth



**LIC continues to account for around two-thirds of the industry's premium** LIC accounts for approximately 2/3rd market share in terms of both GWP and NBP in the life insurance industry for Fiscal 2021, driven by its individual agent network especially in rural areas, wide range of products and a sense of trust created by brand LIC among individuals. Private sector players, however, have been gaining market share, supported by their diversified product mix and strong distribution through bancassurance partners. Private players have increased their focus towards individual NBP and increased their market share from 44% in Fiscal 2016 to 50% in Fiscal 2021. In group NBP, LIC continues to dominate the market, accounting for more than 75% of the market share for Fiscal 2021

## Global Life Insurance Industry

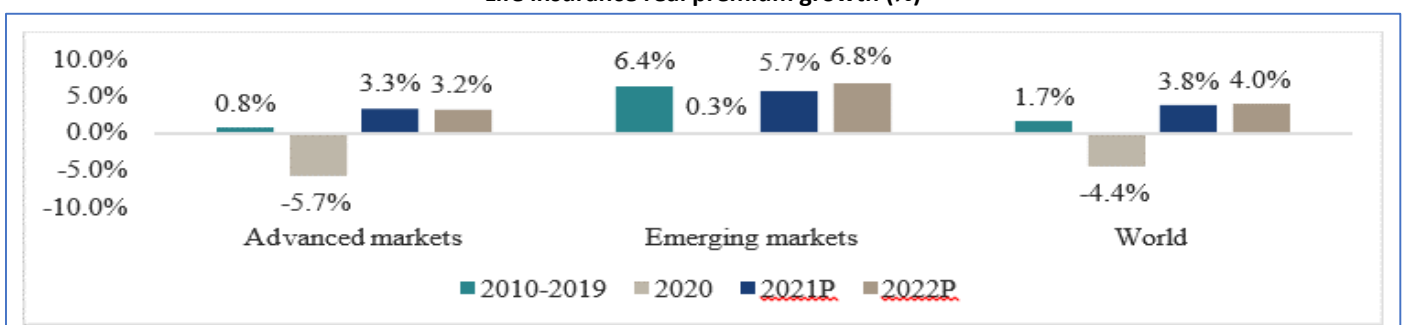
**Emerging markets driving global insurance** Growth in the global life insurance industry was almost stagnant for a few years after the financial crisis in 2008. During CYs 2003-2007, the total premium of the global life insurance industry grew at 4% CAGR (in nominal dollar terms). However, there was a revival in growth from CY 2014. During CYs 2014-2019, 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 compared to a CAGR of 0.3% for advanced markets during the same period.

In CY 2020, the global life insurance market contracted by 3.1% to \$2.79 trillion from \$2.88 trillion in CY 2019 (in nominal terms) due to the impact of COVID-19 and the consequent weakness in the life savings business, which represents 81% of the global life portfolio. Advanced markets were hit harder, contracting 3.9% as compared to approximately 0.3% for emerging markets. The reason for the 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's effect on consumer risk awareness. Life savings business is also expected to benefit from stronger financial markets and steady recovery in consumer incomes.

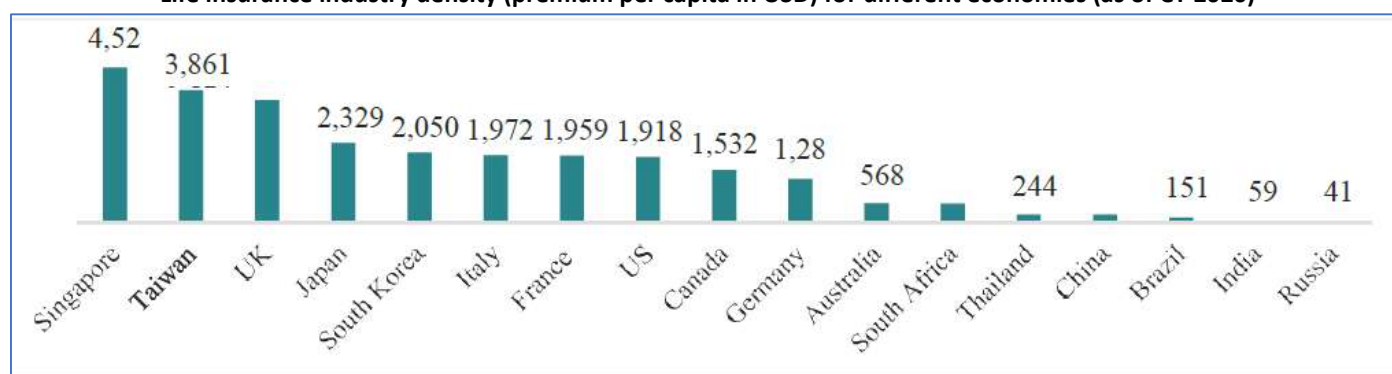
Emerging markets are expected to continue to be the key driving force globally with a 5.7% and 6.8% growth rate in CYs 2021 and 2022, respectively, according to Swiss Re. This growth will be driven by improved economic prospects, fast roll outs of vaccines, rising risk awareness, adoption of digital channels and further liberalisation of the life insurance sector.

Life insurance real premium growth (%)

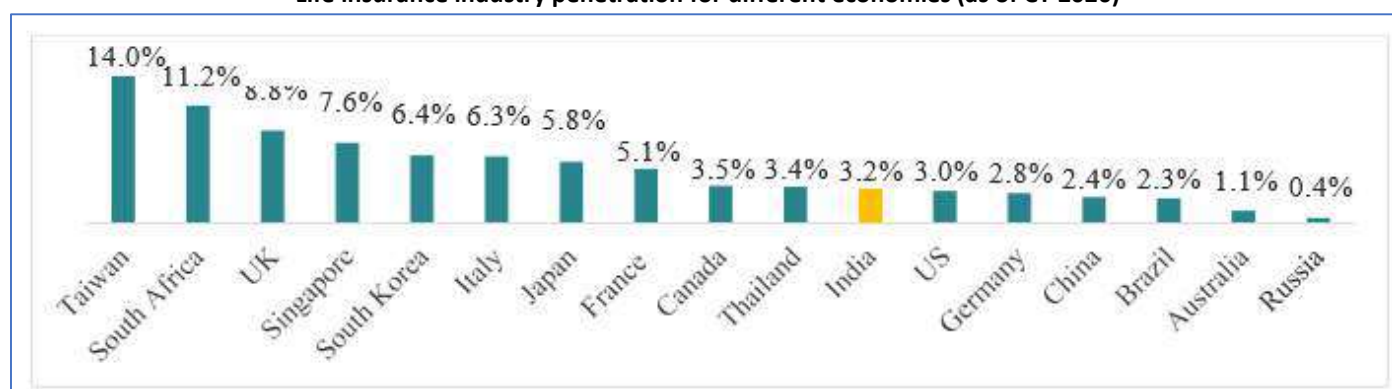


**Indian market is still underinsured compared to major economies** India's life insurance penetration stood at 3.2% in CY 2020 compared to the global average of 3.3%. Among Asian countries, life insurance penetration in Thailand, South Korea and Singapore were at 3.4%, 6.4%, and 7.6%, respectively, in CY 2020. 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 life insurance premiums, 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.

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



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



India's protection gap was \$16.5 trillion as of CY 2019, which was much higher compared to its Asian counterparts. The protection gap for India was 83% as of CY 2019, the highest amongst all countries in Asia-Pacific, as per the Swiss Re report "Closing Asia's Mortality Protection Gap – July 2020".

## 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 begun transforming their portfolio towards a wide variety of hybrids and unit-linked products that are more capital efficient and perform well in a low rate environment. For example, in the US, annuity products are growing at a faster pace as compared to traditional life insurance products given the aging US population.

In Japan, 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 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 are no claims paid in a particular month. In Hong Kong, the share of linked business has increased from 1% in CY 2016 to 4% in CY 2020 in terms of the 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 also grew to reach 26% in CY 2020 from 14% in 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.

### **Insurers continue to rely on agency channel for generating business**

Life insurance companies globally have invested heavily to acquire customers, including for scaling up agency channels, entering into bancassurance deals and digital partnerships. 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 interaction to understand customer needs and to 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 their agency channel in CY 2020. They are able to serve their large client base through a 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 premiums with Ping an Insurance growing at a 15% CAGR over CY 2016 to CY 2020 and China Life Insurance growing at a 7% CAGR during the same period.

In India, LIC has the largest agent network of 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 number of agents of the second largest life insurer. Its 65 years of lineage and its extensive and well-entrenched agent network allows LIC to cater to larger sections of the society in urban and rural regions and not just the well-banked population in the country.

For the overall Indian market, the share of new business generated for individual life insurance through bancassurance channels increased from 24% in Fiscal 2016 to 29% in Fiscal 2021. Private players have relatively higher dependence on bancassurance for new business, with their share increasing from 52% in Fiscal 2016 to 55% in Fiscal 2021.

While the agency channel will remain the bedrock of distribution for most life insurers, with accelerated digital adoption and technological advancements, life insurers in the next few years will focus on improving productivity and efficiency by focusing on using an omni-channel strategy and leveraging both digital and physical sales methods.

### **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, 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 April 7, 2021, IRDAI extended the validity of the regulatory sandbox for a period of two 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 Insurance implemented robotic process automation enabling faster service delivery and WhatsApp based messaging by 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. For example, in November 2018, Allianz Life Ventures and Securian Financial invested in OnRamp Insurance Accelerator by Gener8tor. In June 2019, the accelerator shortlisted five 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.





**Growth of Web Aggregators:** The pandemic has presented opportunities for distribution through web aggregators in the insurance space. In addition to the standard price comparison of insurers, the aggregators also offer personal finance advice and education to customers enabling more complex products also to be sold through these channels. Web aggregators have also helped companies reach out to younger customers who tend to prefer digital platforms and the questionnaire style of underwriting.

**Digitalisation of Key Processes:** COVID-19 has been a catalyst of change in the underwriting environment and the industry has accelerated efforts to move towards more efficient and frictionless practices. Insurers have 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 and artificial neural networks are increasingly being used to make underwriting more streamlined. These techniques help increase the speed and accuracy with which applications can be reviewed and processed. 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 Success Factors

**Track record in servicing customers and honouring claims:** Among different success factors, trust in the company, good a track record of servicing customers and proactive claim settlements are key to increasing customer stickiness and renewal premiums for the insurer.

**Offering differentiated products and competitive pricing:** With the industry becoming highly competitive, creating innovative and customized products has become critical for insurers. Instilling a customer-first culture will enable insurers to engage with customers to better understand the emerging needs of customers in the market. These insights can help insurers 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 maintaining 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 marketing their products effectively and generating 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. It is essential to re-skill profiles of employees and agents manning the distribution channels in order to ensure that they can fulfil the requirements of the customer.

**Efficient underwriting and cost management:** The ability to manage a strong distribution network efficiently with the optimum mix of different products and distribution channels as well as prudent underwriting that factors 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 customers 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.

**LIC is Dominant as Compared to Other Insurers in Their Respective Countries** The life insurance industry is capital intensive with a long gestation period, which has resulted in only few players being active in the industry across 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, with market shares of 21% and 20% respectively. In Malaysia, AIA BHD and Great Eastern Life Insurance – the two largest life insurers – cumulatively accounted for approximately 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.

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 large market share.

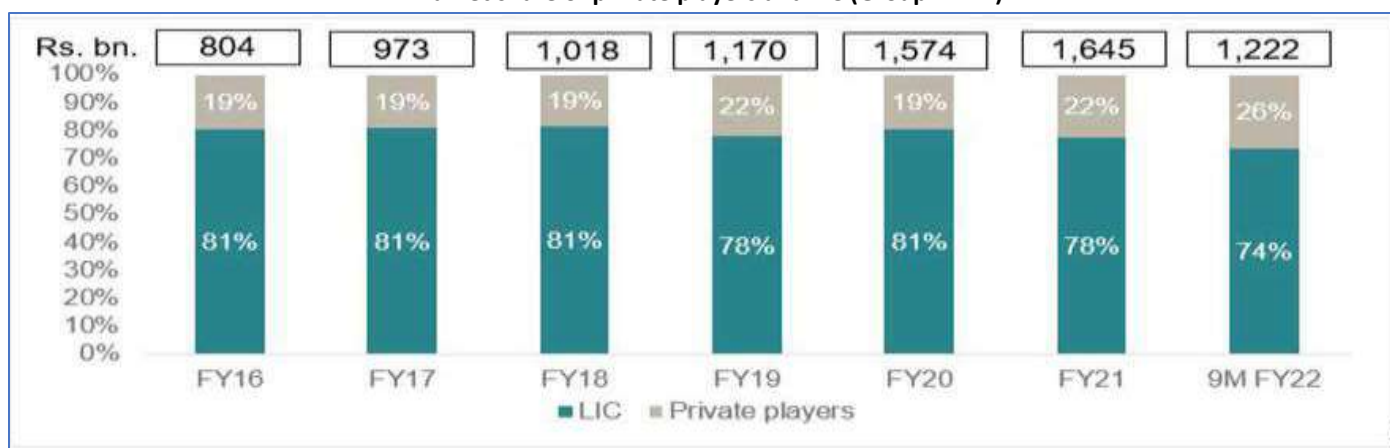
The market share distribution in the United States is quite unlike other parts of the world, with the top 15 life insurers accounting approximately 60% of the total market in 2020. NorthWestern Mutual Life Insurance Company is the top life insurer in the US with a market share of 8.4% followed by Metlife Inc. with a 7.6% market share and New York Life Insurance Company with a 7.5% market share as of 2020.

**LIC dominant in group insurance with approximately 80% market share** In terms of segments, the share of group NBP in total NBP has increased from 58% in Fiscal 2016 to 60% in December 31, 2021. 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 December 31, 2021.

**Group NBP accounts for approximately 60% share for Fiscal 2021**

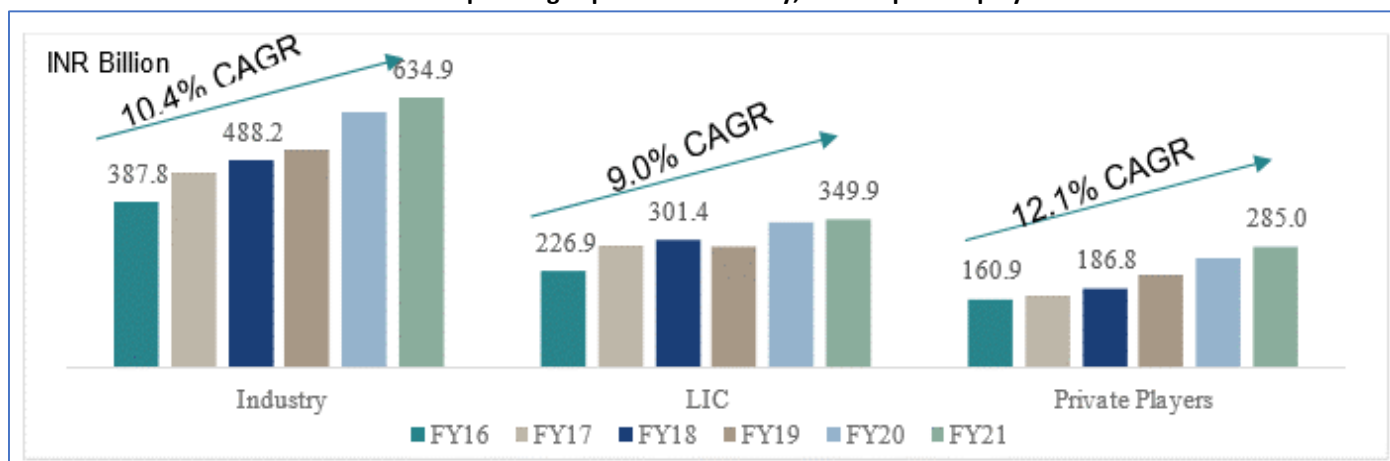


**Market share of private players and LIC (Group - NBP)**



**LIC has a favourable operating expense ratio in comparison to the industry** LIC's expense ratio is considerably lower than that of private players on account of it being a mature business. 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**



Operating expense ratio (as % of total premium)



**Sharp decline in Total Cost Ratio as a percentage to new business premium** Due to high expense and commission cost in relation to business, Total Cost Ratio of private players has remained high 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. LIC's overall cost remains substantially lower than that of private players.

Total Cost Ratio (as % of total premium)



**Digitization to be at the core of industry transformation** Advanced technology has already become an integral part of the insurance industry. Customers can now 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 the insurer's website. Evolving digital trends coupled with changing customer and other stakeholder expectations is driving transformation of existing business models. Insurers are increasing their focus towards technology to engage with consumers, and to provide real-time and convenient access to information. Digital transformation offers insurers opportunities to enhance customer satisfaction as well as reduce costs. While insurance has traditionally been sold on the basis of trust and relationships, technology allows bringing progress, speed, flexibility and innovation into the process.

**Players looking to tap digital platform to push sales as well as improve operational efficiency:** With increasing internet penetration, the use of digital mediums to conduct financial transactions has substantially increased over the years. The first major digital adoption for the life insurance industry was the issuance of insurance policy in electronic form. Players have tied up with platforms such as National Securities Depository Limited and Central Depository Services (India) Limited, 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 platforms has also led to voluntary sharing of a lot of financial-related information by consumers. Insurers are able to leverage the use of such data and target the right set of prospective customers by analysing customer data, insurers are also able to offer the right set of products to customers. Additionally, predictive analysis allows insurers to identify the probability of a customer renewing the policy and accordingly take steps to increase renewals and retention.



Though customers use digital mediums to study and compare various life insurance products, the final sale of policies is still being largely conducted through traditional insurance intermediaries. On the other hand, the process of underwriting and data verification is undergoing a digital transition, with customers not being required to share physical documents with their agents. This helps in substantially reducing the turnaround time and also enhances channel productivity. Digital channel is aiding customers to make informed decisions, which will help in increasing the persistency ratio for players in the long run and also reduce mis-selling of policies. Over the long run, as end-to-end sale and servicing of insurance policies increase, operational efficiency of players will substantially improve, due to lower operating costs.

### **Regulatory focus on digitalisation in insurance sector**

In light of the COVID-19 pandemic, IRDAI has introduced 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:

**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 digitally which requires the user to provide an OTP sent to their 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 was curtailed. IRDAI has allowed insurers to obtain customers' consent through an OTP using the registered e-mail ID or mobile number of the customer without having to rely on a physical signature.

**Issuance of e-policies** – In 2016, IRDAI mandated that if policies are solicited through an electronic mode, insurers were required to send the policy electronically and also dispatch a hardcopy. Exemption for a physical copy was provided only where the policy was issued using an e-insurance account (eIA). Since insurers were unable to send the policy contracts on time due to the pandemic, IRDAI 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 but insurers must 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.

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

Basis the evolving market need, insurers have increased their focus on non-participating saving, protection and annuity products. Over the years, customers and insurers have shifted their focus towards protection products from savings led products.

Additionally, with effect from April 2021, income earned on contribution beyond Rs. 0.25 million per annum in ULIPs was made become taxable reducing the incentive for ULIPs and driving a shift 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, growth of online platforms and increasing awareness, CRISIL Research expects demand for these products to gain further traction.

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

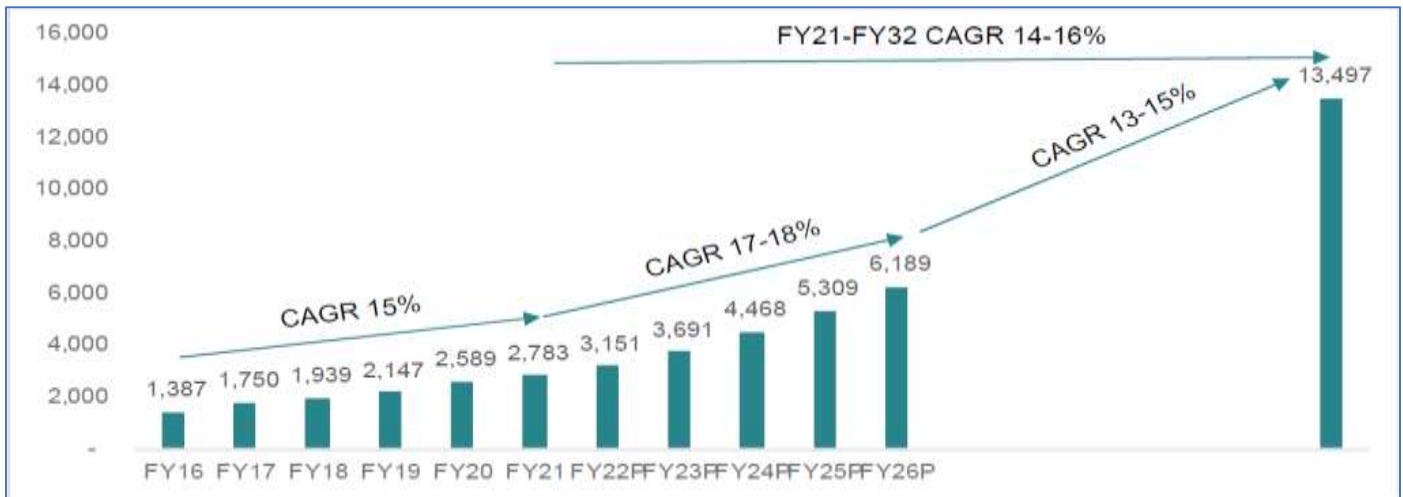
Total investment book of life insurers grew at a CAGR of 13% from approximately Rs. 25 trillion to approximately Rs. 46 trillion between Fiscal 2016 to Fiscal 2021. The top six insurers together accounted for approximately 93% of the total investment book of the industry as at March 2021, with LIC alone accounting for approximately 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 the volatility of economic cycles and 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.

### **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. At this level of premium, life insurance as a proportion of GDP is projected to reach 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 Fiscal 2026. 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.



Projected growth in new business premium (Rs. billion)



## Rising need for pension funds

A CRISIL Research study\* indicates that the elderly population (aged 60 and above) in India will increase from 116.8 million in 2015 to 316.8 million by CY 2050, almost doubling from 9% in CY 2015 to 17% of the total population. 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 until CY 2050 and subsequently it will decline gradually. *\*Securing life's second innings opportune time to create a sustainable pension system (March 2019).*

Pension penetration in India is estimated to be very low at under 30% of the population being above retirement age, compared to over 70% for other Asian peers like Japan, China and 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 GST and stricter implementation of tax measures. As for pension coverage, the government launched the Atal Pension Yojana (APY) in 2015, which is targeted at low-income 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.

**Competition from other avenues of investment and low persistency key challenges for the industry** Life insurers face risks ranging from operational risks (related to persistency, mortality, expense management, and fraud) to economic risks (related to linkage to equity markets, interest rates, credit risks), regulation, and competition risks. Insurers also battle with geopolitical risks, environment and climate related risks, and social risks such as changes in attitude towards family.

**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 in 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 the mutual fund industry, the net inflows into the industry are influenced by prevailing market conditions. For example, the net inflows started dropping following the implementation of GST and the IL&FS liquidity crisis and were at their lowest after the onset of the pandemic. However, the inflows revived after market conditions improved and the market rallied with a large proportion of individual investors flocking to invest in 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. Life insurance industry has shown to be more resilient to turbulence as compared to mutual funds.



**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 has adopted more digital ways of selling products and services in the past one year amid the pandemic. NBP witnessed year on year growth of 7% in Fiscal 2021 as compared to 21% in the previous fiscal year. 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 reaching 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).

**LIC's product portfolio more immunized to capital market cycles compared to peers** Non-linked products constituted 99.8% of LIC's portfolio in Fiscal 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 approximately a 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. LIC has a 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 Fiscal 2016 to approximately 89% in Fiscal 2021. 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.

**LIC generates a major proportion of its premium through individual agents' channel** LIC's individual agents' network contributed approximately 94% of its NBP in Fiscal 2021. LIC is also generating growth through other channels. The individual NBP generated through LIC's banca channel in Fiscal 2021 was higher than the individual banca NBP of 16 other private life insurance players and the individual NBP of 14 private life insurance players. As at December 31, 2021, 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 and group) generated by 11 private life insurance players was lower than the NBP (individual) generated by LIC through its banca network.

**LIC has the largest and most productive agent network in India** LIC's agent network is wider than entire private life insurance player's agent network in India. 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. 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 and the average of the private player's agency force CAGR of 4% during the same period. Further, LIC also had the highest agent productivity both by premiums (approximately INR 413,000 and INR 260,000 per agent in Fiscal 2021 and December 31, 2021, respectively) and number of policies (15.3 and 9.0 policies on average in Fiscal 2021 and December 31, 2021, respectively). In Fiscal 2021, LIC also recorded the highest NBP per employee and direct NBP generated per employee. LIC had 721 MDRT members in calendar year 2021, which was the most among all Indian corporates operating in the financial services industry and ranked 32th globally. LIC had 19,393 agents (including 721 MDRT members) who met the criteria for MDRT agent status in calendar year 2021.

## Key Concerns

- The ongoing COVID-19 pandemic could adversely affect all aspects of LIC's business, including: (i) restricting the ability of its agents to sell products; (ii) significantly increasing expenses due to changes in laws and regulations and investing in new methodologies to overcome the restrictions brought in to address the spread of COVID-19 and the adverse changes in population mortality/morbidity or utilization behaviours; (iii) adversely affecting investment portfolio; (iv) adversely affecting operational effectiveness; and (v) heightening the risks LIC face in its business.
- LIC's brand name, reputation and perception are critical in maintaining its leading position in the Indian life insurance industry and any unfavourable publicity concerning it could have an adverse effect on its brand name and consequently adversely affect the business, financial condition, results of operations and cash flows.



- Adverse persistency metrics or an adverse variation in persistency metrics could have a material adverse effect on the financial condition, results of operations and cash flows.
- Segregation of the single consolidated 'Life Fund' of LIC into two separate funds, viz., a participating policyholders' fund and a non-participating policyholders' fund, effective September 30, 2021, may adversely affect the business, financial condition, results of operations and cash flows.
- Certain investments of LIC's pension and group and life annuity funds, which had previously been invested in Approved Investments, have been re-classified as other investment and as such other investments have not been transferred to the Shareholders' funds at amortised cost after 90 days, LIC is not in compliance with the IRDAI Master Circular on Investments version two issued in May 2017.
- LIC is governed by the Life Insurance Corporation Act and the rules and regulations framed thereunder and it is not subject to the Companies Act. Shareholders of its less rights as compared with the shareholders of a company under the Companies Act.
- LIC's individual agents procure most of its individual new business premiums. If it is unable to retain and recruit individual agents on a timely basis and at reasonable cost, there could be a material adverse effect on its results of operations.
- LIC holds 25.34% of the paid-up equity share capital of Infrastructure Leasing and Financial Services Limited ("IL&FS"). However, IL&FS has not been considered as an associate for the purpose of consolidation in its consolidated financial statements.
- If actual claims experienced and other parameters are different from the assumptions used in pricing LIC's products and setting reserves for its products, it could have a material adverse effect on the business, financial condition and results of operations.
- Interest rate fluctuations may materially and adversely affect LIC's profitability. In addition, the limited amounts and types of long-term fixed income products in the Indian capital markets and the legal and regulatory requirements on the types of investment and amount of investment assets that insurance entities are permitted to make could severely limit its ability to closely match the duration of its assets and liabilities and thereby decrease its interest rate risk.
- Is exposed to misconduct and fraud by LIC's employees and intermediaries and any such instances could adversely affect its reputation, business, financial condition, results of operations and cash flows.
- There is significant technical complexity involved in embedded value calculations and the estimates used in the Embedded Value Reports could vary materially if key assumptions are changed or if LIC experience differs from its assumptions used to calculate its Indian Embedded Value.
- A significant proportion of LIC's total new business premiums are generated by participating products and single premium products, and any significant regulatory changes or market developments that adversely affect sales of such products could have a material adverse effect on the business, financial condition, results of operations and cash flows and may also require to make changes to its existing product designs.
- LIC is a Domestic Systemically Important Insurer and a financial conglomerate, which subjects it to enhanced regulatory supervision measures.
- There are material outstanding legal proceedings involving LIC and one of its Subsidiaries.
- LIC faces significant competition and its business, financial condition, results of operations and cash flows could be materially harmed if it is unable to compete effectively.
- The changes in LIC's surplus distribution policy may reduce the attractiveness of its participating products, which could have an adverse effect on the business, financial condition, results of operations and cash flows.
- Customer preferences and market trends for life insurance, health insurance and pension products may change, and LIC may be unable to respond appropriately or in time to sustain its business or its market share in the markets in which it operate.



- Business could be adversely affected if LIC is unable to obtain regulatory approvals or licenses in the future, or maintain or renew its existing regulatory approvals or licenses.
- If LIC does not meet solvency ratio requirements, it could be subject to regulatory actions and could be forced to raise additional capital.
- LIC is exposed to many types of operational risks, the occurrence of any of which could have a material adverse effect on the business, financial condition, results of operations and cash flows.
- Failures of or inadequacies in information technology systems could have a material adverse effect on LIC business, financial condition, results of operations and cash flows.
- Business involves the use, transmission and storage of confidential information and the failure to properly safeguard such information could result in violations of data privacy laws and regulations and lead to reputational harm and monetary damages, which could have a material adverse effect on LIC's business, financial condition, results of operations and cash flows.
- LIC may be unable to implement growth strategies, which could have a material adverse effect on the business, financial condition, results of operations and cash flows.
- Higher than expected operating expenses related to LIC's insurance business could have a material adverse effect on the results of operations.
- LIC's investments are subject to (i) credit risks, (ii) concentration risks and (iii) liquidity risks, which could have a material adverse effect on its financial condition, results of operations and cash flows.
- LIC has limited, if any, experience in investing in certain asset classes that have recently been permitted, and it could lack experience in investing in other asset classes that may be permitted in the future by the IRDAI.
- A significant portion of LIC's individual premium in India is concentrated in certain states. Any significant reduction in premiums from any of these states could have a material adverse effect on the business, financial condition, results of operations and cash flows.
- If LIC's bancassurance partners prefer to promote other insurers' products or terminate their agreements with it, it could have an adverse effect on its results of operations.
- Any inability to verify the accuracy and completeness of information provided by or on behalf of LIC's customers and counterparties for pricing and the underwriting of its insurance policies, handling claims and maximizing automation may subject it to fraud, misrepresentation and other similar risks, which could adversely affect its business, financial condition and results of operations.
- Depends on Key Managerial Personnel and other skilled personnel, and the loss of their services could have a material adverse effect on the business, financial condition, results of operations and cash flows.
- Relies on third-party service providers in several areas integral to LIC's operations and hence do not have full control over the services provided to it or its customers.
- LIC is subject to complex regulatory requirements and if it fails to comply with these regulatory requirements, its operations could be disrupted or it may become subject to significant penalties.
- LIC is subject to periodic inspections by the IRDAI. Inspection by the IRDAI is a regular exercise for all insurance companies and it may be subject to inspections from the IRDAI in the future.
- The occurrence of natural or man-made disasters and catastrophes, such as the COVID-19 pandemic, could materially increase LIC's liabilities for claims by policyholders and result in losses in its investment portfolios, which could in turn have a material adverse effect on the financial condition results of operations and cash flows.





- The rate of growth of the life insurance and health insurance industries in India may not be as high or as sustainable as LIC anticipates.
- LIC may be unable to obtain external reinsurance on a timely basis at reasonable costs and is exposed to concentration risk with individual reinsurers.
- Insurance volumes in India typically increase significantly in the last quarter of each Fiscal Year due to customers capitalising on income tax advantages that life insurance products offer. As such, its results of operations and cash flows for any given period are not necessarily indicative of its annual results of operations and cash flows.
- Any downturn in the macroeconomic environment in India could adversely affect LIC's business, financial condition, results of operations and cash flows.
- Financial instability in other countries may cause increased volatility in Indian financial markets and, directly or indirectly, adversely affect the Indian economy and LIC's business, financial condition, results of operations and cash flows.
- Fluctuations in the exchange rate between the Rupee and other currencies could have an adverse effect on the value of the Equity Shares in those currencies, independent of LIC's results of operations.

## Profit & Loss

Particulars (Rs in million)	9MFY22	FY21	FY20	FY19
<b>Premiums earned - net</b>				
Premium	28,57,300	40,58,508	38,28,115	34,02,946
Reinsurance ceded	-3,880	-4,523	-3,359	-3,230
<b>Sub-Total</b>	<b>28,53,419</b>	<b>40,53,985</b>	<b>38,24,755</b>	<b>33,99,716</b>
<b>Income from Investments</b>				
Interest, Dividends & Rent - Gross	18,90,850	23,95,650	22,20,501	20,00,210
Profit on sale/redemption of investments	4,28,624	4,61,868	3,13,617	3,02,412
(Loss on sale/redemption of investments)	-63,996	-63,771	-1,19,742	-63,440
Transfer/Gain on revaluation/change in fair value	7,059	61,458	13,987	11,253
<b>Other Income</b>				
Amounts written back	2	2,855	8,190	2,683
Interest Earned	0	1,02,000	1,50,661	38,478
Commission, exchange and brokerage	0	12,951	20,106	6,129
Sundry Receipts	6,834	10,052	23,919	10,632
Contribution from Shareholders' Account towards others	0	48	61	22
<b>TOTAL</b>	<b>51,22,792</b>	<b>70,37,094</b>	<b>64,56,055</b>	<b>57,08,096</b>
Commission	1,55,381	2,23,582	2,15,483	2,04,826
Operating Expenses related to Insurance Business	2,72,673	3,51,622	3,44,259	2,83,316
<b>Other Expenses</b>				
Exchange (Gain)/Loss	3	-50	-24	13
Interest Expended	0	88,674	1,32,875	34,315
Payments to and provisions for employees	0	24,549	33,637	6,501
Outsourcing expenses	0	4,001	6,184	1,522
Rent, taxes and lighting	0	3,570	4,559	1,085
Depreciation	0	3,021	3,992	922
Others	0	10,796	16,096	3,965
GST on Fund Management charges & other charges	557	932	983	1,098
Provisions for Doubtful debts	-2,135	1,01,819	1,08,882	1,14,520
Provision for taxation	80,021	91,705	1,08,256	55,568
<b>Provisions (other than taxation):</b>				
For diminution in the value of investments (net)	-15,200	56,620	23,905	10,093
Provision for Required Solvency Margin	0	0	0	0
Others	-65,421	-85,317	1,11,716	31,399
<b>TOTAL</b>	<b>4,25,879</b>	<b>8,75,526</b>	<b>11,10,800</b>	<b>7,49,143</b>
Benefits paid (net)	23,46,199	28,84,891	25,54,795	25,23,808
Interim Bonuses Paid	24,700	22,291	16,734	16,514
Change in valuation of liability in respect of life policies				



Gross	23,93,574	32,11,340	29,66,284	25,35,855
Transfer to/ (from) Provision for Linked Liabilities	-95,279	4,343	-91,103	-93,123
Transfer to Funds for Future appropriation	11,037	31	0	1
Transfer to Funds for Discontinued Policies	254	54	35	59
<b>TOTAL</b>	<b>46,80,485</b>	<b>61,22,950</b>	<b>54,46,744</b>	<b>49,83,114</b>
<b>SURPLUS/(DEFICIT)</b>	<b>16,428</b>	<b>38,618</b>	<b>-1,01,489</b>	<b>-24,161</b>
Add: Share of Profit in Associates	22,281	11,634	5,744	6,684
(Less)/Add: Minority Interest	-30	-4,465	63,727	25,162
<b>TOTAL SURPLUS/(DEFICIT)</b>	<b>38,679</b>	<b>45,786</b>	<b>-32,018</b>	<b>7,685</b>

## Consolidated Statement of Profit & Loss Account Shareholders' Account (Non-technical Account)

Particulars (Rs in million)	9MFY22	FY21	FY20	FY19
<b>Amounts transferred from/to the Policyholders account (Technical Account)</b>	<b>16,378</b>	<b>29,626</b>	<b>26,955</b>	<b>25,995</b>
<b>Income from Investments:</b>				
Interest, Dividends & Rent – Gross	975	178	352	374
Profit on sale/redemption of investments	227	61	21	126
(Loss on sale/redemption of investments)	-6	-9	-19	-45
<b>Total</b>	<b>17,573</b>	<b>29,856</b>	<b>27,310</b>	<b>26,450</b>
Expenses other than those directly related to the Insurance business	4	5	5	4
Contribution to Policyholders' Account towards others	0	48	61	22
For diminution in the value of investments (net)	0	0	59	0
<b>Total</b>	<b>4</b>	<b>52</b>	<b>124</b>	<b>26</b>
<b>Profit/(Loss) before tax</b>	<b>17,570</b>	<b>29,803</b>	<b>27,185</b>	<b>26,424</b>
Provision for Taxation	417	62	80	150
<b>Profit/Loss after tax</b>	<b>17,153</b>	<b>29,741</b>	<b>27,105</b>	<b>26,274</b>
<b>APPROPRIATIONS</b>				
Balance at the beginning of the year	1,129	633	686	2,074
Proposed final dividend	0	151	26,997	27,254
Dividend distribution on tax	0	7	0	33
Transfer to General Reserve	288	29,006	150	279
Transfer to Other Reserve	6	82	11	95
Profit carried forward to the Balance Sheet	17,988	1,129	633	686
Earnings per Share- Basics	2.71	4.7	4.29	4.15
Nominal Value of Share	10	10	10	10

## Balance Sheet

Particulars (Rs in million) As at	9MFY22	FY21	FY20	FY19
<b>SOURCES OF FUNDS</b>				
<b>SHAREHOLDERS' FUNDS:</b>				
Share Capital	63,250	1,000	1,000	1,000
Reserves and Surplus	24,986	67,055	8,917	7,984
Credit/(Debit) Fair Value Change Account	1,408	785	102	-888
Minority Interest (Shareholders)	1,019	993	963	878
<b>Sub-Total</b>	<b>90,663</b>	<b>69,832</b>	<b>10,981</b>	<b>8,974</b>
Borrowings	37	37	25,34,136	26,94,006
<b>Policyholders' Funds:</b>				
Credit/(Debit) Fair Value Change Account	38,21,598	27,29,450	-43,166	21,66,953
Policy Liabilities	3,66,00,694	3,42,07,270	3,10,28,155	2,80,56,931
Minority Interest (Policyholders)	43	209	1,71,332	1,88,364
Funds For Discontinued Policies				
Discontinued On Account Of Non Payment Of Premium	552	337	333	327
Others	169	170	185	191
Insurance Reserves	1,48,768	1,27,115	1,14,149	1,30,959
Provision For Linked Liabilities	2,34,274	3,29,592	3,25,353	4,16,509
<b>Sub-Total</b>	<b>4,08,06,135</b>	<b>3,73,94,179</b>	<b>3,41,30,478</b>	<b>3,36,54,239</b>
Funds For Future Appropriations	11,070	33	287	133
<b>Total</b>	<b>4,09,07,868</b>	<b>3,74,64,045</b>	<b>3,41,41,746</b>	<b>3,36,63,346</b>
<b>APPLICATION OF FUNDS</b>				
<b>INVESTMENTS:</b>				



Shareholders	51,867	4,264	4,008	3,694
Policyholders	3,84,36,173	3,49,84,407	2,95,79,078	2,87,76,867
Assets Held to Cover Linked Liabilities	2,34,670	3,29,750	3,21,699	3,35,669
Loans	11,11,411	10,87,637	23,74,347	24,98,803
Fixed Assets	34,631	34,740	1,45,718	1,45,676
<b>CURRENT ASSETS</b>				
Cash And Bank Balances	2,18,273	3,60,783	6,31,526	6,78,995
Advances And Other Assets	15,01,465	14,93,661	19,41,965	18,32,788
<b>Sub-Total (A)-Current Assets</b>	<b>17,19,738</b>	<b>18,54,444</b>	<b>25,73,491</b>	<b>25,11,784</b>
<b>CURRENT LIABILITIES</b>				
Provisions	5,31,147	6,81,715	6,50,317	4,02,823
	1,49,476	1,49,483	2,06,278	2,06,323
<b>Sub-Total (B)-Current Liabilities</b>	<b>6,80,623</b>	<b>8,31,197</b>	<b>8,56,595</b>	<b>6,09,146</b>
<b>Net Current Assets (C) = (A - B)</b>	<b>10,39,115</b>	<b>10,23,247</b>	<b>17,16,896</b>	<b>19,02,638</b>
<b>Total</b>	<b>4,09,07,868</b>	<b>3,74,64,045</b>	<b>3,41,41,746</b>	<b>3,36,63,346</b>

(Source: RHP)

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