

**Insurance penetration and density comparisons with regional and global peers suggest that India has a long way to go. Today, covid is a big inflexion point for the industry, which not only increased awareness of insurance, but also has forced many insurers to speed up their technology adoption.**

Buying life insurance is not just about getting a tax incentive anymore, as uncertainty has changed consumer behavior and driven them to add pure protection products in their financial plan. In spite of the macro tailwinds, the industry is not out of the woods yet and might see some near-term pressure. Due to second wave of Covid, the industry saw a spike in death claims in Q1FY22, resulting in companies taking a huge hit on their profitability to set aside reserves to mitigate the impact of elevated levels of claims. The possibility of a third wave has kept insurers on their toes. With more number of people getting vaccinated, we believe the overall impact of the third wave of covid-19 infections could be lower than the second wave of covid-19 infections. Thus, possibly lower number of claims. India has provided one COVID vaccination dose to 45.6 Cr i.e. 49% of the adult population of about 94 Cr and two doses 13.28 Cr i.e. 14% of the adult population.

While the near-term outlook is clouded by possibility of third wave, we see life insurance as an attractive long-term bet with a long runway for growth, supported by India's demographics (young & growing insurable population) and positive regulatory developments.

#### HDFC Life (structural play)

We believe the Indian insurance market has substantial growth opportunities; and HDFC Life, with its strong brand image and widespread bancassurance network, is well placed to capture these opportunities. While HDFC Life has been at the forefront of product innovation, what is really impressive is its ability to continuously rebalance its product mix based on risk, market dynamics, and customer appetite. During Q1 FY22, the company has reported APE growth of 27% YoY vs 13% for the industry supported by strong traditional product portfolio and better distribution especially bancassurance. However, APE growth was lower than pre-COVID19 levels (2% lower than Q1FY20). VNB for 1QFY22 grew by 41% YoY on the back of margin improving to 26.3% (+212bps YoY), mostly due to higher share of annuity and strong recovery in credit protect. Reserving of Rs7bn for COVID claims seems adequate currently. However, a third wave of COVID can be detrimental. We believe medium to long term prospects for the company remain intact, given its solid product portfolio (with lower ULIP mix & higher protection business), diversified distribution network and favorable macro traits in the domestic life insurance industry. Thus, we recommend investors to buy this stock, with a price target of Rs 806.

#### SBI Life (Overwhelming reach)

SBI Life Insurance is one of the largest private life insurers in India with cost leadership and strong distributes reach via 24,000-plus SBI branches, 12,000-plus partner branches (South Indian Bank, Repco Home Finance, etc.), 157,000- plus Agents and 100- plus Brokers. During Q1FY22, the company has reported APE growth of 27% YoY (benign base), led by a rebound in ULIPs/protection/annuity up 60/36/26% YoY. VNB growth was healthy at 52% YoY, with VNB margins improved to 24.1% (+400 bps YoY). Persistency improved on a YoY basis across buckets (barring 61st month), with 13th/49th month improving 300bp/325bp to 84.5%/67.0%. The company paid Covid-19 claims of Rs 5.7 Bn in Q1FY22 which is moderate given its scale and compared to the claims paid by competition. The company holds additional COVID reserves of Rs 4.4b for potential future claims. SBI Life remains well placed in the life insurance space with a shift toward a profitable product mix, extensive distribution network, low opex ratio and strong solvency ratio at 215%, against the regulatory requirement of 150%. Thus, we recommend investors to buy this stock, with a price target of Rs 1354.

#### Financial summary of Insurance

Insurance	GWP			APE			VNB Margin (%)			PAT		
	Rs Bn	Q1FY22	YoY	QoQ	Q1FY22	YoY	QoQ	Q1FY22	YoY	QoQ	Q1FY22	YoY
HDFC Life	76.6	30.6	-40.7	15.6	30.3	-45.8	26.2	190bps	-77bps	3.0	-33	-5
SBI Life	83.8	9.6	-46.4	16.2	27.6	-59.2	21.2	250bps	NA	2.2	-43	-58

Source: Dalal & Broacha Research, Company

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