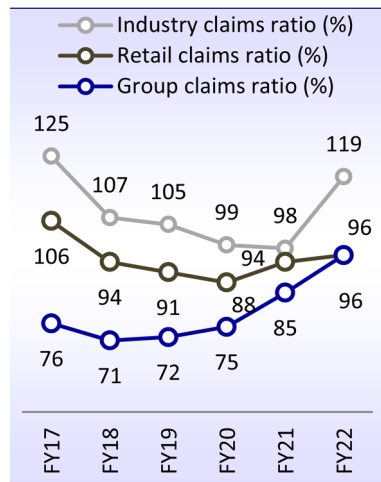


# Indian Insurance Sector

## Retail health claims ratio trends



Source: GIC, MOFSL

## Strong momentum in protection; price hikes have not affected health insurance growth

- Over the past couple of quarters, there has been a strong uptick in the demand for retail term insurance and retail health insurance. We conducted channel checks to analyze the factors fueling this surge in demand and to assess its sustainability.
- In terms of protection, the demand growth is being driven by innovative products and marketing campaigns centered around “Zero cost” (Return of premium product), simplified underwriting practices, and increased traction from various channels beyond online distribution (higher ticket size of ROP products). The momentum is here to stay, given the stark under-penetration in terms of the number of people covered by insurance and the prevalence of underinsurance among those who do have insurance.
- Retail health demand continues to be healthy and there is an increasing trend of portability from PSU to Standalone Health Insurers (SAHIs) – other than STARHEAL. There has been no material impact of price hike implemented by insurance companies, indicating limited price elasticity. Sum assured growth has been in the 10-15% range at the time of renewal.
- STARHEAL is a complete proxy story on the growing retail health demand and given the company’s initiatives, we envisage the product and distribution mix getting more profitable. This will drive a 47% earnings CAGR over FY23-25. Combined ratio and ROE are likely to see meaningful improvement over this period. We reiterate our BUY rating on the stock with a one-year price target of INR760.
- Among the private life insurers, our preference remains strongly in favor of SBILIFE, supported by 1) substantial growth potential within the SBI channel, 2) exceptional cost management, reflected in the best-in-class EOM ratios, 3) healthy RoEV of 20%+ and 4) reasonable valuation at 1.9x FY25E P/EV. We reiterate our BUY rating on the stock with a one-year price target of INR1,570.

## Retail protection – strong demand for ROP; digital growth has been weak

- Over the past one year, there has been a healthy jump in the ticket size of retail protection plan. This has been on the back of rising demand for ROP products.
- The number of policy growth has not been as strong as the premium growth but increasingly customers are subscribing for higher sum assured.
- The stronger demand for ROP is stemming from innovative marketing techniques such as “Premium back at no extra cost”, “Zero cost insurance”, and others. Customers are recognizing value in these propositions and subscribing to it. This has also been supported by rising awareness of need for pure term plans.
- In the past three quarters, insurance companies have adopted a more flexible approach to underwriting across geographic, income, and occupational categories. These measures include 1) resuming underwriting in pin codes that were previously considered unfavorable, 2) reducing the minimum income threshold for underwriting policies and, 3) extending higher sum assured levels for non-medical underwriting among other initiatives.
- With the ticket size under ROP products being significantly higher than that of regular term plans, other channels such as Agency and Brokers have seen increased propensity to sell these products.

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- Digital search for term insurance plans have not demonstrated any encouraging signs. The count has been more or less steady against the strong growth seen in other financial products.

#### **Health insurance – demand continues to be healthy in spite of price hikes**

- Over the past six months, SAHIs and general insurance companies have increased the premium rates for retail health insurance plans by about 15-25%. However, it has had no material impact on demand.
- Post the COVID pandemic, the price elasticity of customers has declined meaningfully due to heightened awareness of the importance of having sufficient health insurance coverage. Consequently, we have observed an average 10-15% increase in the sum assured upon policy renewals.
- There has been an increase in customers transitioning from PSU multi-line insurers to SAHIs, with the exception of STARHEAL. STARHEAL has been reluctant in accepting portability customers due to their relatively lower profitability than other customer segments.
- The multi-line private players have been selective with regards to cohorts they wish to serve. On the other hand, SAHIs, with their singular segment focus, have expanded their footprint across various customer groups.
- Post the EOM regulations, there has been no major change in commission payout. However, the incentives and commissions are now merged into the commission line.
- Currently, insurance companies are not in a position to dictate norms such as generic medicines or standardized surgery/treatment costs. However, with a regulatory push, this can be a reality over the next few years.

#### **SBILIFE, our preferred pick in the life insurance space**

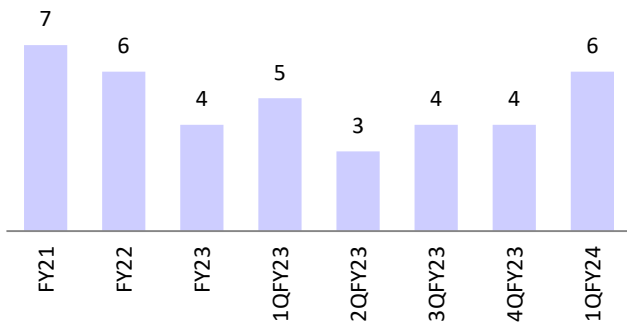
In the life insurance sector, the adverse effects of taxation on INR0.5m+ premium policies has not been as severe as initially expected. The share of non-par, which had declined in 1QFY24, is expected to recover through the course of the year. This, along with the increasing share of protection and annuities, will help the VNB margins trend higher. SBILIFE is our preferred pick in this space, on the back of 1) a substantial growth potential in the SBI channel, 2) exceptional cost management reflected in the best-in-class EOM ratios, 3) healthy RoEV of 20%+ and 4) reasonable valuation at 1.9x FY25E P/EV. Over FY23-25, we expect VNB CAGR of 17% for SBILIFE, with RoEV of 21% in FY25. We reiterate our BUY rating on the stock with a one-year price target of INR1,570.

#### **STARHEAL to witness a profitable growth in the near future**

We remain optimistic on the overall growth prospects for STARHEAL, backed by: a) its strong growth potential in the retail health segment due to its under-penetration, b) healthy earnings growth, owing to normalization of claims ratio, and c) limited cyclical risk (commercial lines and motor insurance have high cyclical risks). We expect the company's overall gross premium to report 19% CAGR over FY23-25, driven by 20% CAGR in retail health business and 10% CAGR in group business. Claims ratios are likely to normalize to ~64% with combined ratio at ~93%. These are likely to propel STARHEAL's profitability over FY23-25 (47% CAGR over FY23-25). We reiterate our BUY rating on the stock with a one-year TP of INR760 (premised on 33x FY25E EPS).

**Exhibit 1: HDFC Life - Share of protection in APE (%)**

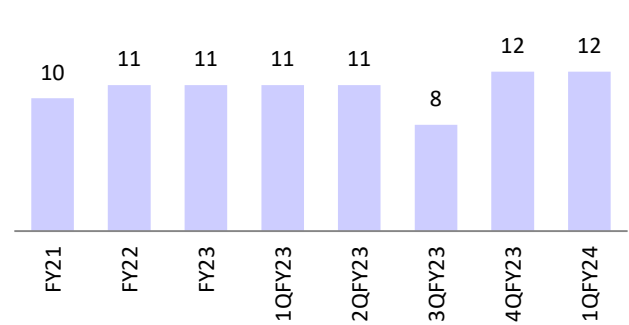
■ HDFC life - Protection share in total APE (%)



Source: MOFSL, Company

**Exhibit 2: SBI Life - Share of protection in APE (%)**

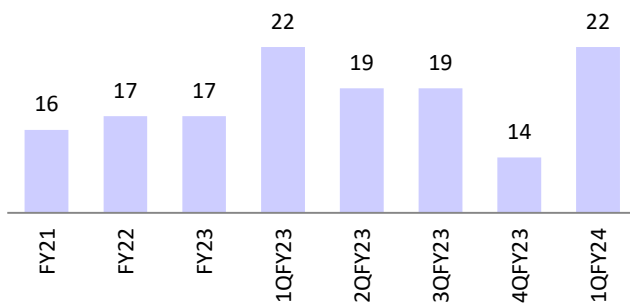
■ SBI life - Protection share in total APE (%)



Source: MOFSL, Company

**Exhibit 3: IPRU Life - Share of protection in APE (%)**

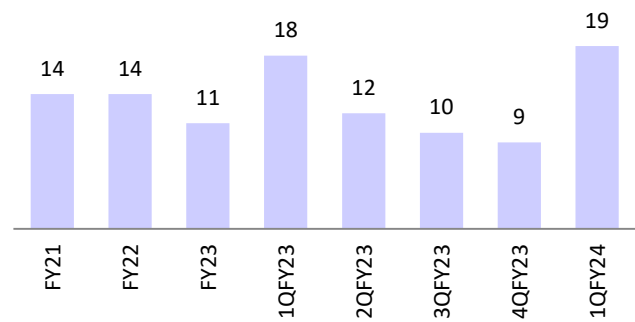
■ IPRU life - Protection share in total APE (%)



Source: MOFSL, Company

**Exhibit 4: Max Life - Share of protection in APE (%)**

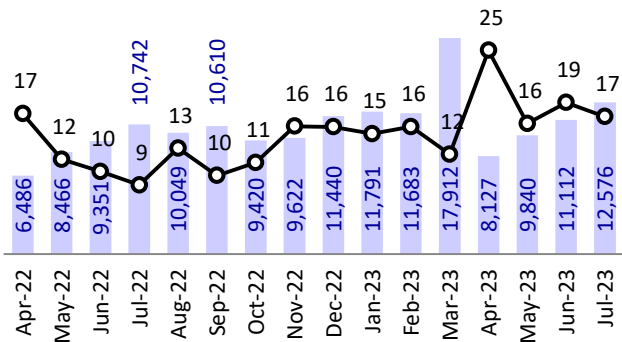
■ Max life - Protection share in total APE (%)



Source: MOFSL, Company

**Exhibit 5: STARHEAL GWP growth**

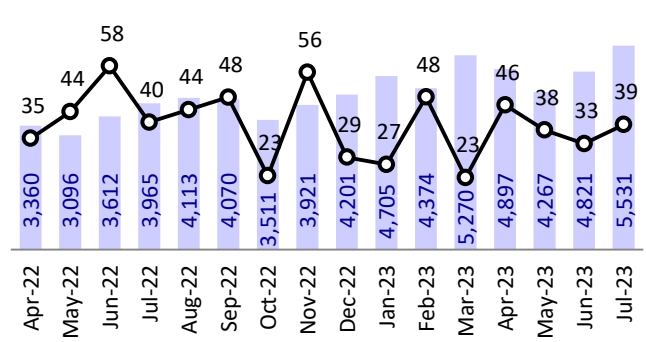
■ GWP - Star Health (INR m) — YoY growth (%)



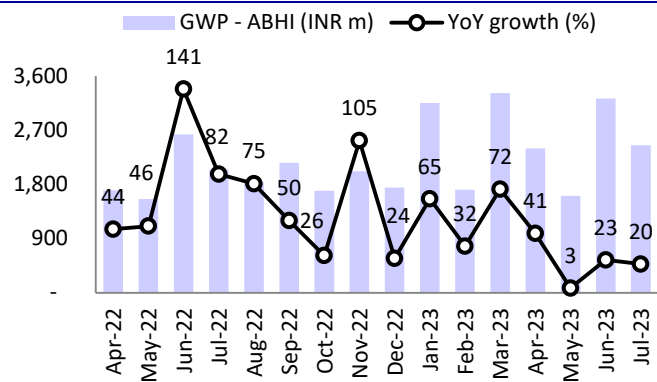
Source: GIC, MOFSL

**Exhibit 6: CARE GWP growth**

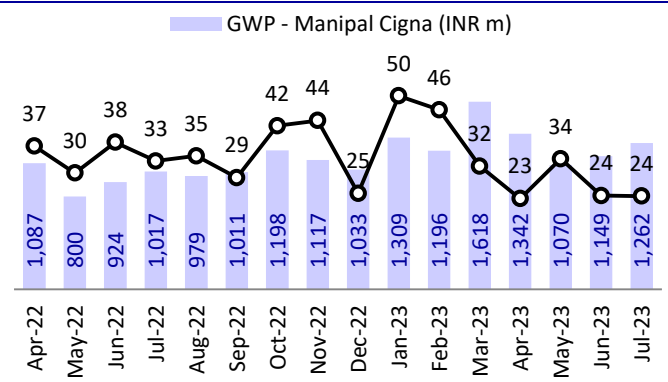
■ GWP - Care (INR m) — YoY growth (%)



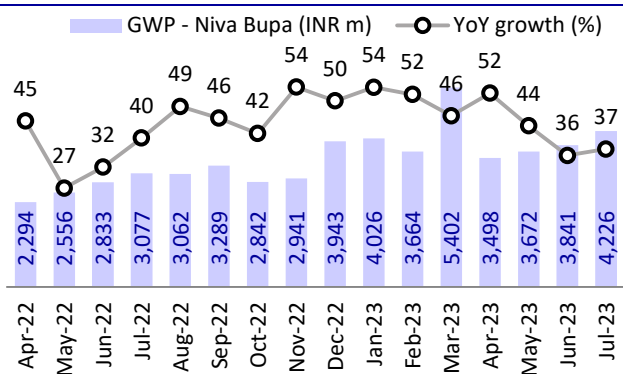
Source: GIC, MOFSL

**Exhibit 7: ABHI's GWP growth**

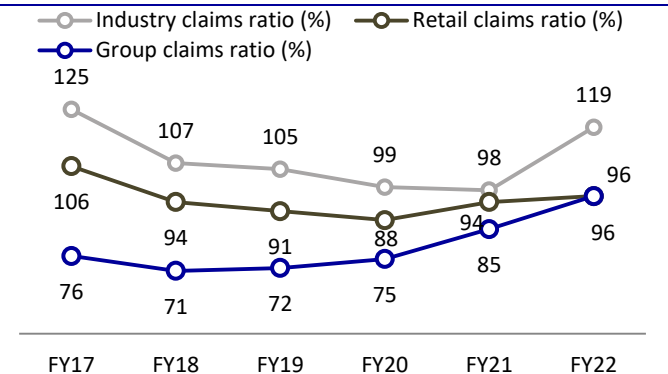
Source: GIC, MOFSL

**Exhibit 8: Manipal Cigna's GWP growth**

Source: GIC, MOFSL

**Exhibit 9: Niva Bupa GWP growth**

Source: GIC, MOFSL

**Exhibit 10: Trend in claims ratio**

Source: GIC, MOFSL

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SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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