

29th India Fellowship Seminar

June 1-2, 2018

Review of recent Insurance IPOs, Stock growth prospects of Indian Insurance companies, comparison and contrast with international markets

Group 12

Guide – Mr. Subhendu Kumar Bal

- 1. Gaurav Nautiyal**
- 2. Rajeshwarie VS**



Agenda



- Review of recent insurance IPOs
 - Need for IPOs & Benefits
 - Guiding Regulations
 - Valuation challenges & Different Methodologies
 - Role of Actuaries and applicable Professional standards
- Stock growth prospects
 - Recent IPOs and subsequent share performance
 - Business growth-Industry, Innovation, Govt. Initiative & Technology
- Comparison and Contrast with International markets

Need for IPO

- Issuance of fresh shares or offer for sale
- Helps companies in:
 - Raising capital to expand operations
 - Providing liquidity to shareholders
 - Improving capital adequacy
 - Improving brand image
 - Listed stocks used in making acquisitions
 - Reward Employees

Benefits for Industry

- Improved disclosure standards and their periodicity
- Optimum price discovery for cost of capital
- Improves the Capital adequacy of companies
- Marketing and publicity improves insurance awareness
- Insurance seen as additional “uncorrelated asset class”
- Helps meet the regulatory compulsion to divest promoter stake

IPO Regulations

- Mandatory to have IRDAI permission before approaching SEBI
- Applicable to all insurance companies granted certificate of registration by IRDAI
- IRDAI Regulations
 - i. Life insurance(F. No. IRDAI/Reg/22/112/2015)
 - ii. Non Life insurance(F. No. IRDAI/Reg/21/111/2015)
 - iii. Listed Indian Insurance companies Guidelines,2016

Considerations for IRDAI

- Applicant assessment for approving IPO includes:
 - i. Period of business existence
 - ii. History of regulatory compliance.
 - iii. Regulatory solvency margin in last 6 quarters.
 - iv. Compliance with disclosure requirements and Corporate Governance guidelines.
 - v. Policyholder protection record
 - vi. Embedded value report by independent actuary (for Life insurance)

Approval Conditions

- Approval may specify: Extent of dilution, Maximum allotment classes of foreign investors, Minimum lock in period, Required disclosures, Modification in AOA
- Approval **NOT** a validation of representations by applicant
- Approval may NOT be granted if :
 - Applicant company is not compliant
 - Dilution may lead to Non-Indian control
 - Approval detrimental to policyholder interest/business

Valuation challenges

- Normal company valuations measure past performance numbers
- Insurance company valuation additionally require expected profitability of the business and the projection of new business
- A life insurer valuation requires assessing:
 - Adjusted net asset value
 - Value of in-force business
 - Value of future new business.
- Valuations involve complex calculations and a number of variables and assumptions

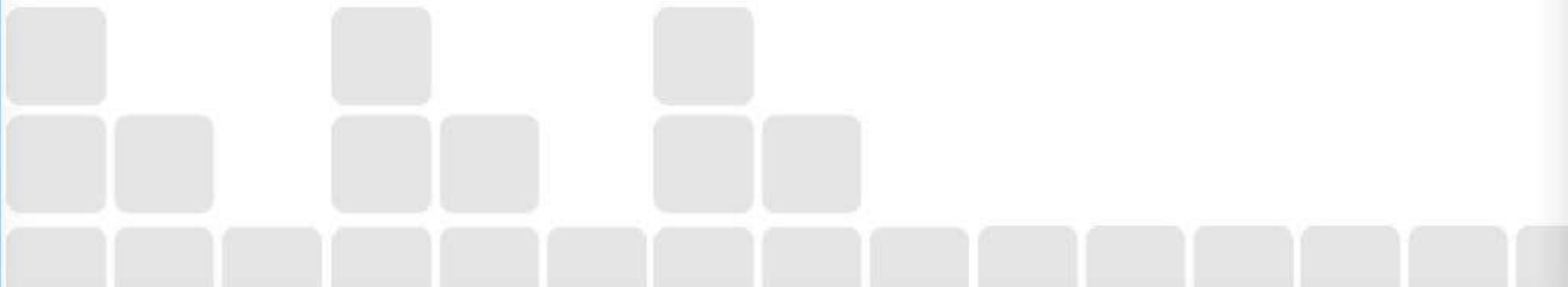
SEBI-Listing Requirements



- Within 1 year of getting IRDA approval, company has to file DRHP
- Securities and Exchange Board of India (SEBI) requirements for IPOs as specified in ICDR Regulations 2009
- Prospectus to include:
 - i. Overview for insurance industry
 - ii. Risk Factors specific to the applicant
 - iii. Financial Statements
 - iv. Embedded Valuation (Life)
 - v. Particulars of issue
 - vi. Information about the issuer
 - vii. Legal and other information
 - viii. Information in respect of policy holder protection, grievance redressal etc.

Role of Actuaries in Listing

- Embedded value calculation
- Accounts verification
- Liability Valuation
- Supporting due diligence
- Risk disclosures
- Capital requirements assessment



APS -10: Guiding Valuation

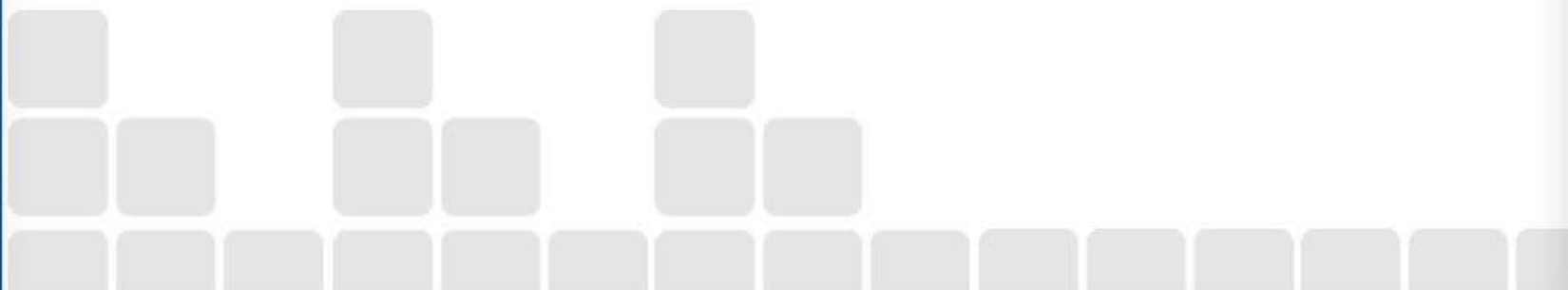
- Applicable to actuaries Reviewing/Reporting embedded value for life insurance company during IPO
- The practice standard covers
 - Considerations in appointing the Reporting & Reviewing actuaries
 - Valuation method
 - Valuation assumptions
 - Report and disclosures
 - Working with advisors
 - Any other considerations
- Sets out the minimum required disclosures in:
 - Methodology adopted
 - Assumptions adopted for valuation
 - Sensitivities of Indian Embedded Value

Embedded Value

- Measures economic value of shareholder capital and profits expected from in force business.
- Does not include value of new business expected to be written in the future
- Across the globe different methods are used for EV calculation
 - Traditional EV or European EV - USA, Canada, China, Singapore, Hong Kong and many Asian insurers
 - 42% European insurers use the Market Consistent EV
32% European Insurers follow the SII guidelines for EV
 - IEV by Indian Companies

EV Reporting Methods

Traditional Embedded Value	Indian Embedded Value
No requirements to conform to any stated benchmarks	APS 10 requires that the EV should be within specified materiality limits.
Uses a risk discount rate typically higher than risk free rate	Risk free rate is used with an explicit allowance for CRNHR.
No prescribed standard for cost of guarantees	Stochastic approaches are required and explicit disclosures required



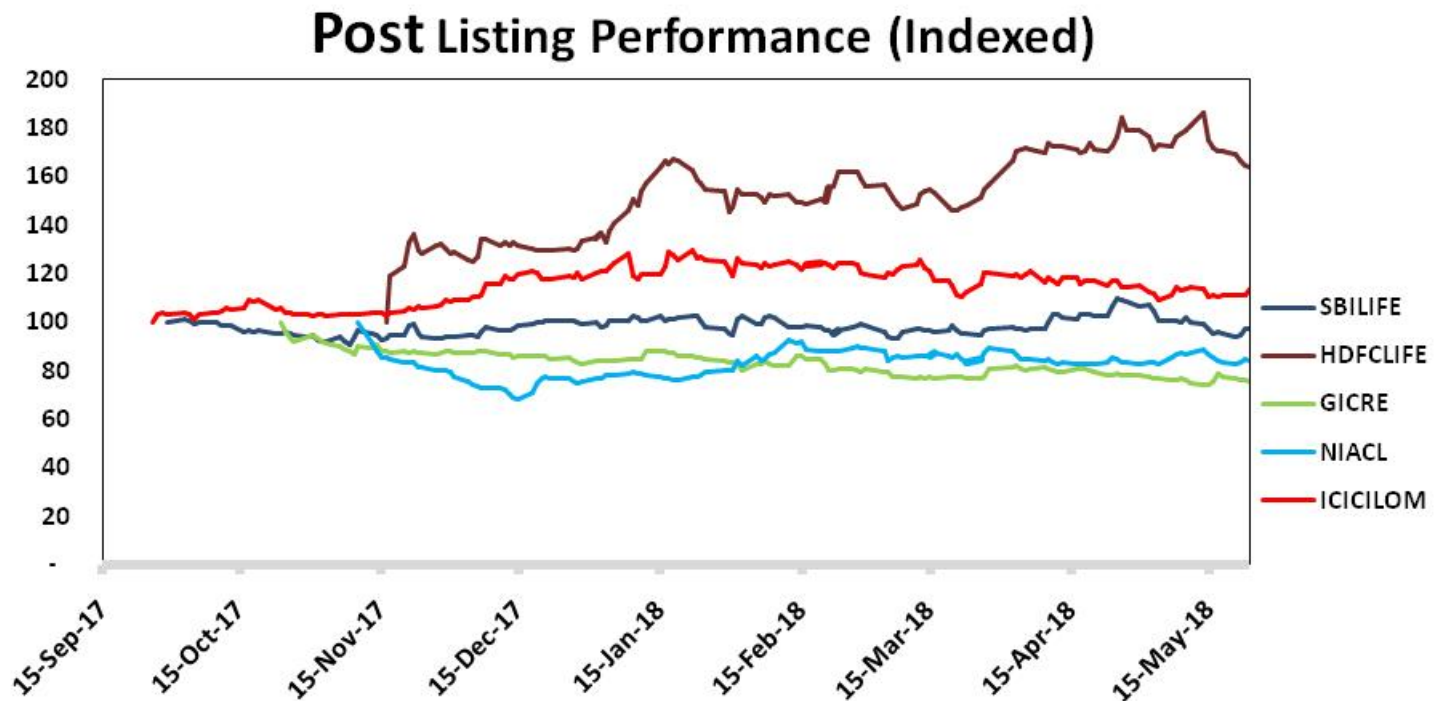
Recent IPOs

Business	Company Name	Date of Listing	Amount Raised (INR Cr)	Implied valuation at issue price (INR Cr)	Oversubscription
Life	ICICI Prudential	Sep-16	6,057	47,956	10.42
Life	SBI Life	Oct-17	8,400	70,000	3.58
Life	HDFC Life	Nov-17	8,695	58,083	4.9
Non-Life	ICICI Lombard	Sep-17	5,700	30,000	2.97
Non-Life	GIC Re	Oct-17	11,372	79,980	1.37
Non-Life	New India Assurance	Nov-17	9,600	65,934	1.19

- Strong performance of stock markets supported these issues

*Data From Economic times/Financial Express

Share Price Movement



*Data from NSE Website

Comparison of listed life insurers

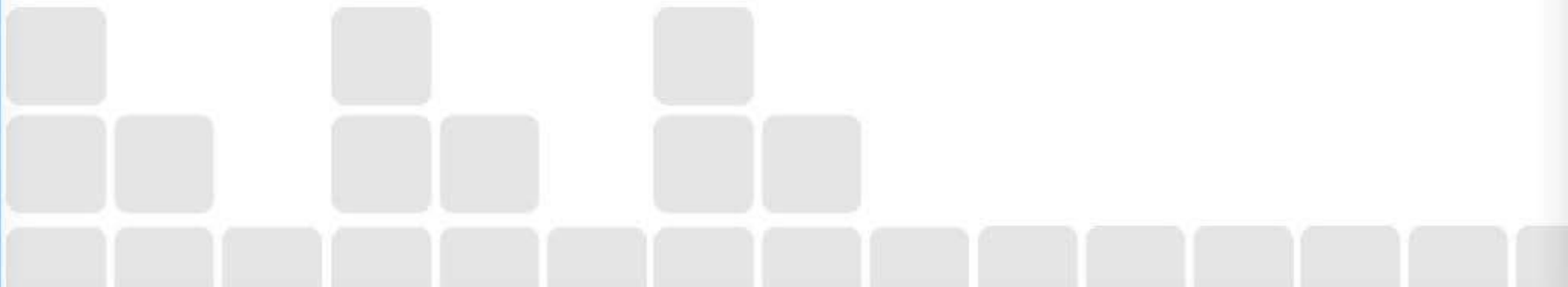
(Amounts in INR Cr)

	ICICI Prudential	SBI Life	HDFC Standard Life
Date of listing	29-09-2016	03-10-2017	17-11-2017
Market Cap (as on 15-Dec-2017)	54,376	68,865	76,562
Embedded Value	17,210	18,082	14,011
Market Cap/ EV multiple	3.16	3.81	5.46
VNB Margin	11.70%	15.60%	22.40%

Source: Livemint,
Market Cap from Bloomberg

Share Growth Prospects

- Growth in Industry
- New Business Margin growth
- Controlling expense ratio



Growth Prospects - Industry Factors

- Demographic factors - Growing middle class, young insurable population and growing awareness
- Increasing income and purchasing power
- Indian market expected to quadruple in size over the next 10 years, (IBEF - Ministry of Commerce and Industry)
- Great potential with lower penetration against global numbers

Growth Prospects-Innovation & Competition

- Advanced products meeting customer demands of Savings and Protection.
- Adoption of international practices to expedite product innovation, multi-distribution, better claims management
- Entry of new insurers to improve the existing efficiency and business models

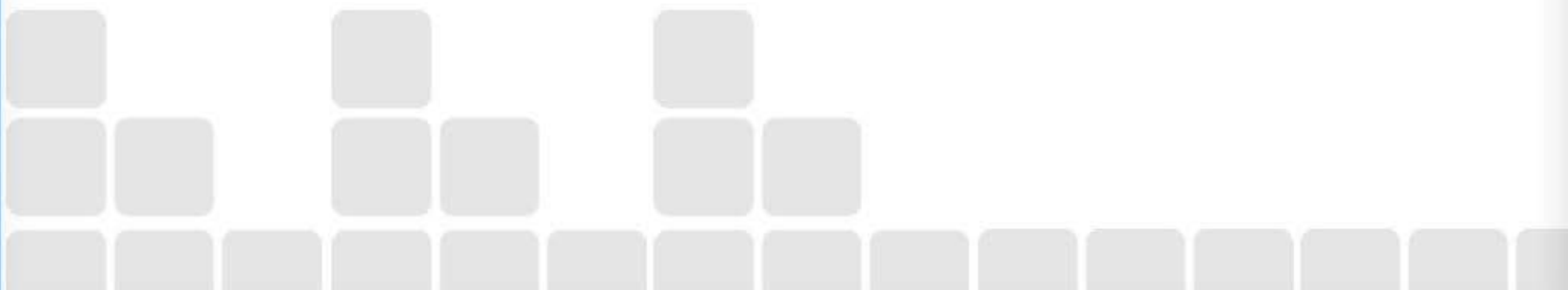
Growth Prospects-Govt. Initiatives

- Launch of various schemes by Government like Pradhan Mantri Jeevan Jyoti, Jeevan Suraksha, Pension scheme, Jan Dhan Yojna etc.
- Public listing of Government-owned companies and reduction in Government's stake

Growth Prospects-Trends

- Technology-led disruptive ideas changing the face of business
- Telematics use in the industry to help determine the premium

Greater use of technology, may lead to increased profitability



India versus Global Insurance

- Indian insurance is almost two centuries old now, but still not as pervasive as Western countries.
- Insurance penetration: Percentage of insurance premium to GDP
- India's current insurance penetration rate stands at 3.49%, far below the global average of 6.28%*
- Higher share of life insurance business in total premium
- With 17% of the world's population, the Indian insurance market accounts for less than 1.5% of the world's total insurance premium

* Economic Survey of India 2018

India versus Global Insurance

- Better quality of life & reduced risks lead to a higher Life expectancy in developed countries
- Better Data availability in developed countries help in accurate risk assessment
- Larger pool of policyholders reduces outcome randomness
- Differences in product terms, eg. Health insurance
 - Mandatory versus Optional
 - Scenario coverage range
- Such factors lead to differences in Premium rates

Comparison with Global Markets

According to the 2017 - Mid year report on Insurers by Milliman:

- EV: Ping An posted the highest increase - 16%, China Taiping 14% and AIA Hong Kong (12%)
- VNB:AIA reported growth of 40%.
- NBM: China Pacific from 33% to 42%, however decline for Aviva from 51% to 39 %.
- Indian insurers during the same period -
 - The listed companies used IEV
 - IEV increase for SBI Life was 32%, 16% for ICICI Prudential
 - Small changes in NBM, NBM in the range 10% -20%.

Thank you!

