Insurance Sector 21th August 2026

Executive Summary:

Background:

We have consistently highlighted in our market communications our bullish stance on the **financialization of household savings**, driven by low structural penetration and the ongoing **secular shift in Indian household wealth from physical assets to financial instruments.** Insurance remains one of the key beneficiaries of this financialization trend, given the **large profit pools generated by savings and annuity products**.

However, over the past decade, the broader financialization theme has **underperformed** investor expectations, barring capital market intermediaries. Since listing between **FY18 and FY19**, life insurance companies have severely underperformed the broader market, delivering an annualized growth rate of **<10% CAGR**, compared to **~12% CAGR** for the NIFTY 500 index.

Over this period, the listed **insurance universe has expanded** meaningfully beyond traditional life players to include:

- Pure-play standalone general and health insurance companies
- Digital insurance aggregation platforms
- Specialized niche underwriters
- Reinsurers
- Insurance distributor

While, persistent regulatory interventions and policy uncertainty have weighed on market sentiment, **driving valuations well below their historical medians**. This prevailing pessimism and the resulting **valuation de-rating** make the case for an attractive entry point at current levels.

We believe Indian Insurance sector is an excellent contra opportunity for investors:

The Indian listed insurance universe remains heavily weighted toward life insurance companies, which account for **~80% of the total listed insurance sector market capitalization**.

Most Indian life insurance companies listed between **FY18 and FY19** at an average valuation multiple of **~4x Price-to-Embedded Value (P/EV)**. In the years following their listings, the sector's **Annualized Premium Equivalent (APE)** grew at a healthy, double-digit CAGR. However, despite this strong operational performance, the sector has undergone a continuous valuation de-rating, with average multiples contracting from **~4x P/EV to ~1.5x P/EV** today.

Name	Mar Cap Rs.Cr.	Price to Embedded Value Current	Price to Embedded Value 9Y Average	Premium / Discount
Life Insurance Corporation	5,22,318	0.7	0.7	1.5%
SBI Life Insurance	1,79,323	2.1	2.5	-18%
HDFC Life Insurance	1,18,020	1.8	3.7	-52%
ICICI Pru Life Insurance	73,556	1.4	2.1	-34%
Max Life Insurance	53,510	1.8	1.6	7%
Average		**1.5**	**2.1**	**-28%**

Source: Screener.in; Pravia Research

The key driver behind this de-rating has been a series of regulatory shifts and policy interventions introduced by the regulator, which created a persistent overhang on sector valuations. As a result of this regulatory friction, market sentiment toward the Indian life insurance space has become excessively pessimistic, making the sector **uncrowded**.

A similar trend has played out in the general and health insurance spaces, where sequential policy headwinds caused prolonged sector underperformance, leaving the broader insurance space **uncrowded**.

We believe market concerns are genuine while short term which provides long term opportunity:

The Indian life insurance sector is anticipating a structural overhaul of distribution and commission frameworks by the **Insurance Regulatory and Development Authority of India (IRDAI)**. The proposed regulatory shift moves away from high upfront agent payouts toward a **staggered, persistency-linked remuneration model** spread over the life of a policy. This reform is designed to curb mis-selling and lower elevated customer acquisition costs across the industry.

While these consumer-centric **regulations are a positive step** for long-term industry, insurance companies and their distribution partners will face an extended adjustment period. We believe the **need of the insurance products is here to stay** and which has long runway for growth due to low penetration.

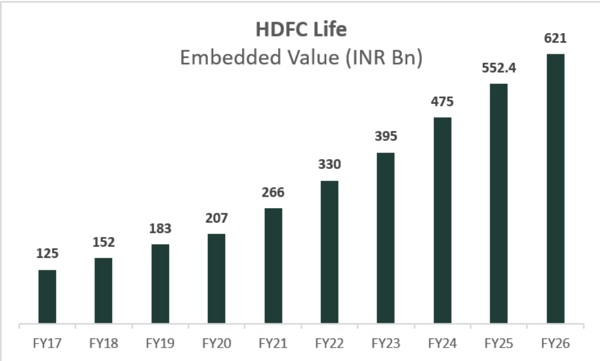
Consequently, we view current regulatory headwind as a **near-term operational uncertainty** that presents an attractive **entry opportunity for contrarian investors**.

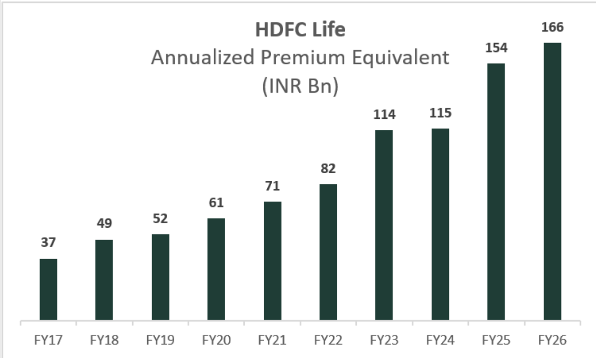
In the meantime, the business fundamentals have compounded while not reflected in market capitalization: Case in point is HDFC Life Insurance Ltd.

Between **FY17 and FY26**, HDFC Life Insurance Limited delivered strong operational growth, expanding its **Embedded Value (EV)** and **Annualized Premium Equivalent (APE)** at a **19.5% CAGR** and **18% CAGR**, respectively.

However, market capitalization sharply decoupled from underlying business fundamentals over the same period, growing at a modest **~3.3% CAGR** (expanding from

INR 91,000 Cr to INR 122,000 Cr). This dynamic highlights the severe valuation multiple contraction experienced across the sector despite steady operational execution.





Source: HDFC Annual reports, Pravia Research

Key Risks:

Regulatory Overhang: We acknowledge that the insurance sector remains susceptible to frequent and persistent regulatory interventions.

Reinvestment and Macroeconomic Risks: Volatility in benchmark interest rates and broader global macroeconomic uncertainties pose risks to investment yields earned on accumulated policyholder funds.

Valuation is a key driver for our positivity towards the compounding sector:

We believe the insurance sector can sustain its historical growth trajectory supported by low domestic penetration, with expected underlying businesses compounding at **high-teen rates**. While we maintain a measured stance rather than an aggressively bullish outlook, we view the sector as a steady, reliable **compounding opportunity** at current valuation levels.

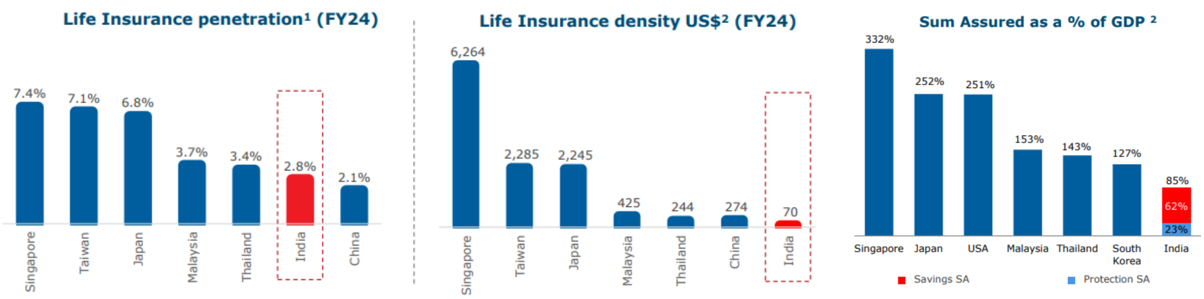
Regarding policy, we do not anticipate near-term regulatory certainty. Given the inherent nature of the insurance business, the sector will likely remain subject to ongoing regulatory interventions. However, the **current valuation compression presents a compelling risk-reward profile**, reinforcing our interest in this long-term compounding theme.

Detailed note on Positivity towards Indian Insurance Sector:

We believe insurance is a **structural growth opportunity** in India due to genuine need of the product and low penetration. Insurance is a structurally strong, underpenetrated sector with significant long-term growth drivers such as **rising disposable income, urbanization, health awareness, and increasing motor ownership**.

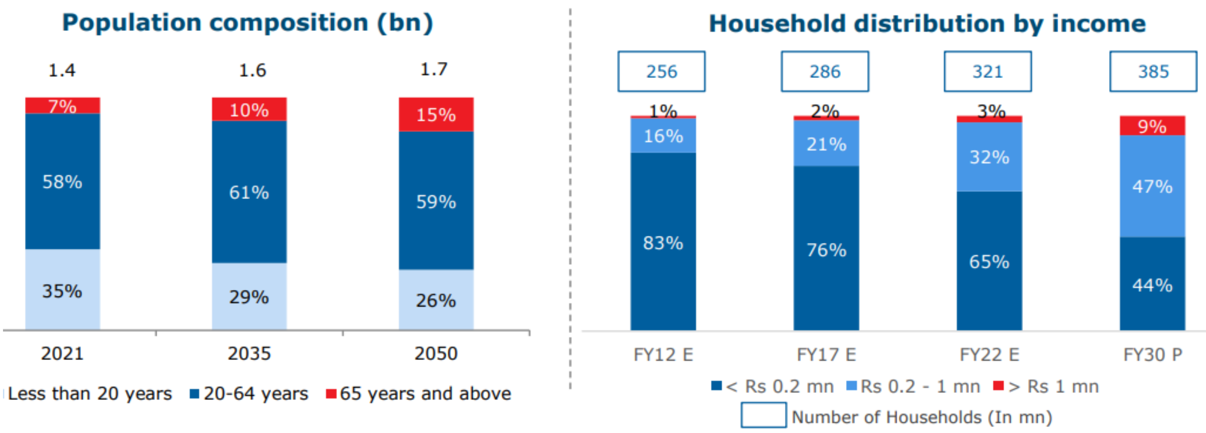
Growth drivers of the Indian Insurance Sector:

1. Life Insurance Under-Penetration:



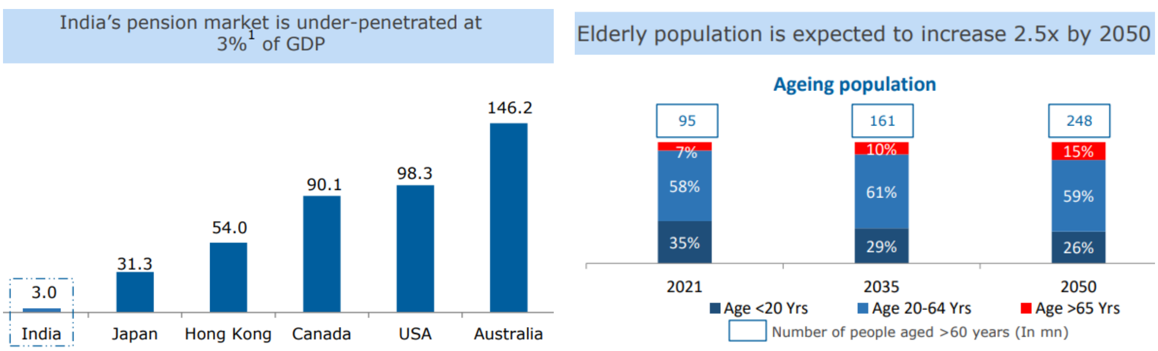
Source: HDFC Life Insurance Company Presentation

2. Favourable demographics + Rising per capital income:



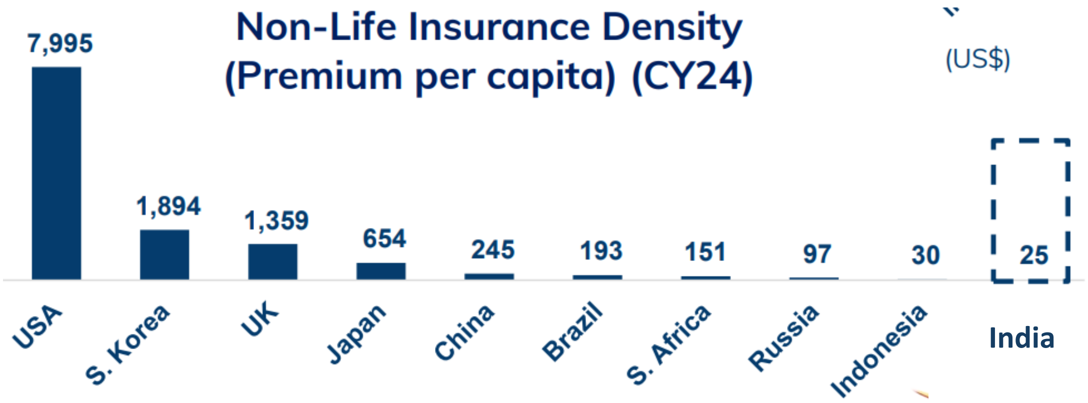
Source: HDFC Life Insurance Company Presentation

3. Pension Low Penetration + India's Ageing Population:



Source: HDFC Life Insurance Company Presentation

4. **Low Non-Life Insurance Density (Premium per capita) (CY24)**



Source: ICICI Lombard General Insurance Company Presentation

Key Products of Insurance Sector:

- Term Life Insurance: Pure protection policy
- Endowment Plans: Life coverage with guaranteed savings
- Unit Linked Insurance Plans (ULIPs): Insurance + Capital market investment
- Retirement / Annuity Plans: Helps build a pension pool
- Health Insurance: Covers medical cost
- Motor Insurance: Third-Party Liability; Comprehensive Motor Cover
- Home / Property Insurance: Protects residential property
- Travel Insurance: Covers unexpected financial losses during travel
- Commercial / Corporate Insurance: Tailored for businesses and enterprises

Insurance sector is trading at an all-time low valuation:

The life insurance sector is traditionally valued on a **Price-to-Embedded Value (P/EV)** multiple. Embedded Value (EV) represents the present value of future cash flows from existing, active policies plus net asset value.

Currently, listed Indian life insurers are trading at near **all-time low P/EV multiples**. The top five listed life insurance companies trade at an average P/EV of **1.5x**, representing a **28% discount** to their nine-year historical average of **2.1x**.

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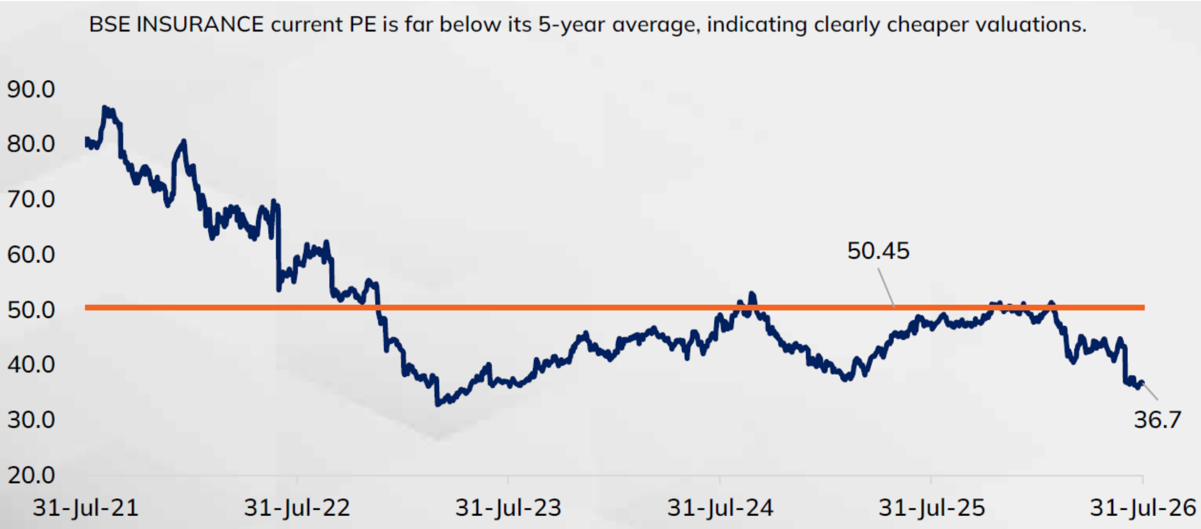
BSE Insurance Index Price to Earnings (P/E) is Trading at five-year low valuation:



Source: BSE Indices, ICICI BSE Insurance ETF

The Indian insurance sector has witnessed significant regulatory restructuring:

The regulatory restructuring undertaken by authorities aims to curb mis-selling, strengthen cybersecurity, and align financial reporting with global standards.

RBI Regulations:

1. Ban on Direct Insurer Incentives (2026): Prohibited insurance companies from directly incentivizing bank personnel, dismantling aggressive commission-driven sales tactics in bank branches.

2. Prohibition of Forced Bundling (2026): Banned banks from making loan approvals or opening bank accounts conditional on the mandatory purchase of an insurance product.

IRDAI Regulations:

1. Open Architecture Expansion for Bancassurance (2023–2024): Expanded the tie-up caps, allowing banks to partner with up to 9 life, 9 general, and 9 health insurers to give customers broader choices.

2. Master Circular on Health Insurance Reforms (2024): Abolished the 65-year age ceiling for purchasing new health policies, reduced maximum pre-existing disease waiting periods from 4 years to 3 years, and enforced 3-hour cashless claim approvals.

3. Revised Surrender Charge Norms (2024–2025): IRDAI mandated higher Special Surrender Values (SSV) starting from the very first policy year (effective October 1, 2024), compressing New Business margins for life insurers between FY24 and FY25.

4. Accounting Changes: Regulator mandated all insurers to adopt **Indian Accounting Standards (Ind AS)**. This major regulatory shift was approved on **March 30, 2026**, and

became effective on **April 1, 2026.** This will change the accounting fundamentals meaningfully for the companies.

Other Regulations:

1. GST Transition (FY25–FY26): GST Council exempted individual retail health insurance premiums from 18% GST starting late 2025, requiring insurers to recalibrate pricing, invoicing systems, and input tax credit (ITC) mechanics between FY25 and FY26.

2. Taxation of High-Value Life Policies (Finance Act 2023): Government withdrew tax exemptions for policies maturity payouts for non-ULIP traditional life policies where aggregate annual premiums exceed ₹5 lakh.

3. 100% FDI (2025–2026): Raised foreign direct investment limits from 74% to 100% under the automatic route

Investment Recommendation: BSE Insurance Index Fund

Index Methodology:

Parameters	BSE Insurance
Universe	BSE 1000
Stock Selection Process	Constituents of BSE 1000 Index that are classified under Insurance Industry
No. of stocks	13
Reconstitution	Semi-Annually
Review	Quarterly
Index Weighing methodology	Float-Adjusted Market Cap Weighted

Portfolio of BSE Insurance Index:

Sr. No.	Company Name	%	Owner	Type	LMS
1	SBI LIFE INSURANCE COMPANY LIMITED	24.8%	PSU	Life	Large
2	HDFC LIFE INSURANCE COMPANY LIMITED	19.8%	Private	Life	Large
3	ICICI LOMBARD GENERAL INSURANCE COMPANY	13.5%	Private	General	Mid
4	MAX FINANCIAL SERVICES LIMITED	13.2%	Private	Life	Mid
5	LIFE INSURANCE CORPORATION OF INDIA	7.0%	PSU	Life	Large
6	ICICI PRUDENTIAL LIFE INSURANCE	6.1%	Private	Life	Mid
7	STAR HEALTH AND ALLIED INSURANCE	4.4%	Private	General	Small
8	GENERAL INSURANCE CORPORATION OF INDIA	3.7%	PSU	General	Mid
9	GO DIGIT GENERAL INSURANCE LIMITED	2.6%	Private	General	Small
10	NIVA BUPA HEALTH INSURANCE COMPANY	1.8%	Private	General	Small
11	THE NEW INDIA ASSURANCE COMPANY	1.4%	PSU	General	Small
12	CANARA HSBC LIFE INSURANCE COMPANY	1.1%	PSU	Life	Small
13	MEDI ASSIST HEALTHCARE SERVICE LIMITED	0.8%	Private	Others	Small

Source: Scheme Information Document of ICICI BSE Insurance ETF

Owner Classification	%
Private	62%
PSU	38%

Type Classification	%
Life	72%
General	27%
Others	1%

LMS	%
Large	52%
Mid	36%
Small	12%

Key Risks: Largely regulatory in nature

- **Awaiting regulations on commissions**: Regulator is reviewing the commission & distribution structures for the sector.
- **Capital Floor for Investment in Non-Standard Assets**: Draft is proposed on revised solvency capital weightings and asset allocation constraints. This creates uncertainty regarding how insurers can deploy surplus funds into higher-yielding assets.
- **Delay in Revision of Motor Third-Party (TP) Tariff Framework**: There is continuous debate on the annual revision mechanism for mandatory Motor Third-Party insurance rates. Any Delay or sub inflationary rate hike is an uncertainty.
- **Unresolved Standardized Pricing Caps on Healthcare Network Providers**: This will lead to uncontrolled medical inflation and arbitrary hospital billing which will have negative impact on health insurance providers.

Conclusion:

We remain positive on Indian insurance sector as we believe it has structural growth drivers on the back of low penetration along with genuine need for its products.

We also **acknowledge the regulatory risks** associated with the sector which creates uncertainty. While the entry valuations provide **high margin of the safety** as a counter to the risk. Additionally, Insurance is one of the key priorities of the government under "**Insurance for all by 2047**" which provide long term policy comfort to the sector.

While to capitalize on the sector-wide valuation discount, we recommend allocations to the broader Indian insurance sector via the **BSE Insurance Index ETF** (e.g., ICICI Prudential BSE Insurance ETF) with an **18-to-24-month investment horizon.**

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