Insurers lap up equities worth around ₹90,000 crore in 2022

Flows were driven by corrections, mainly in the first half of year

ASHLEY COUTINHO
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DOMESTIC INSURERS, LED by Life Insurance Corporation of India (LIC), stepped up equity purchases last year amid relentless selling by foreign portfolio investors (FPIs), especially in the first half.

Domestic institutional investors (DIIs) shopped for equities worth ₹2.75 trillion last year, a historical high. Of this, close to ₹90,000 crore of net buying, also a record, was by non-mutual funds, largely comprising insurance players.

The DII pie consists of banks, pension funds and other local financial institutions, but MFs and insurance companies contribute to the bulk of the equity purchases.

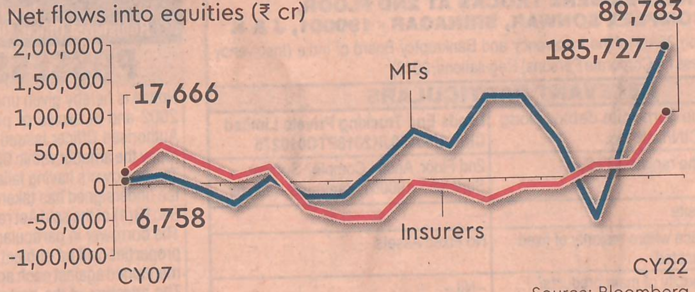
The domestic money provided a semblance of stability to the market during periods of volatility last year, especially in the first half. The benchmark Nifty 50 index slid 9.1% in the six months to June as FPIs offloaded shares worth over $28 billion. The index was up 4.3% last year.

Insurers, especially LIC, are known to be contra-players; they buy when the market mood is bearish and sell when valuations turn rich; as these players typically deploy money for a longer time horizon of 10-15 years.

Life insurers garnered about

ON A HIGH

Both MFs and insurers have poured in record sums in 2022



Source: Bloomberg

₹2.7 trillion of new business in the first nine months of FY23. As per Irdai reports, the renewal premium collected in FY22 was about ₹3.7 trillion.

"Such premiums are invested in financial markets, including equity. With the market being buoyant, there has been an uptake of ULIPs (unit-linked insurance plans) where premiums are significantly invested in equity. Such high amounts of total premium collected, coupled with favourable market conditions, would have led to higher equity investment," said Rushabh Gandhi, deputy CEO, IndiaFirst Life Insurance.

LIC may also have ramped up share purchases to cushion the market against steep falls ahead of its initial public offering in May last year, said market watchers. The value of LIC's holding in companies listed on the NSE stood at ₹10.27 trillion for the quarter ended September, up 7.8% from the end of CY21. LIC continues to command a lion's share of investments in equities by insurance companies, with a 69% share in the September quarter, according to primeinfobase.com

During April-December last year, individual weighted received premium (WRP) for private life insurance players grew 18.6% YoY. Individual WRP for LIC grew 11.9% YoY in the same period.

Sales of life insurance products are typically seasonal, with about two-thirds of the business coming in the second half of a financial year. After reporting a modest growth over July-October last year, the industry has been witnessing a pick-up for the past few months, with growth coming back to double digits. "We expect growth to pick up gradually, given healthy demand for annuity and non-par policies and a recovery in the protection and ULIP business on the back of a healthy performance of capital markets," said a recent note by Motilal Oswal Financial Services.

In the past few years, private insurers have been focusing on protection and traditional plans, which means an equity exposure of 10-20%, although ULIPs remain a large part of their sales. The asset allocation in ULIP products varies from customer to customer, but typically about 75% is invested in stocks.

Indian equities are expected to remain volatile in the backdrop of geopolitical tensions between Russia and Ukraine, and uncertainty around interest rate actions by global central banks.