

Life Insurance Sector

Channel Check Update

December 14, 2023

Decoding the commission structure of banca partners

Key Points

We have analysed commission trends for banca partners of life insurers in our coverage universe by interacting with bank RMs.

Key highlights include:

- Most banks follow a points-based reward system with no separate incentive for selling insurance products. Apart from monetary benefits/bonus, banks are willing to reward employees with domestic/international trips.
- While high-ticket NPAR sales remained muted, ULIP saw strong growth in 1HFY24 on the back of buoyant markets. PAR/NPAR products remain popular among low-ticket size categories. Term insurance/RoP plans continue to see good traction.
- A high share of low ticket size NPAR, new launches (NPAR/RoP product) and tie-ups with PSUs to drive annuity sales place SBI Life in a favourable position to deliver growth. We reiterate BUY on SBI Life with a revised target price (TP) of Rs1,685 (2.5x FY25E P/EV).

No separate incentives for insurance; ULIP popular in 1H: We interacted with the Bank RMs (Relationship Managers) of key banca partners of private life insurers to gauge the trend in commissions after six months of the new EoM (Expense of Management guidelines) being implemented.

Some key takeaways from our channel checks:

- Banks visited have no separate incentive programs for selling insurance products (Axis Bank, Yes Bank & RBL Bank). Targets involve multiple/bundle of products such as CASA, credit cards, LAP, home loans, etc. Banks have adopted a points system wherein RMs receive points for selling different products which are then used to calculate incentives.
- Apart from cash incentives, banks hold contests where RMs achieving sales targets are rewarded with domestic trips/international offsite trainings (hosted by Million Dollar Round Table).
- Bank RMs do not focus on a specific product, but advise customers based on their needs. For instance, RMs suggest a ULIP product to a market-savvy customer while traditional products are pitched to customers willing to park funds for a long time.
- NPAR/guaranteed products have a more favourable commission structure as it is a long-tenure product. However, over the past few months, ULIP products have seen high demand across most tie-ups because of strong market performance and increasing financial awareness. Moreover, bank RMs are also focusing on ULIPs due to the change in tax regime for NPAR products for high ticket sizes. In the lower ticket segments (not affected by the tax change), majority of the products sold are in PAR/NPAR category.
- Within term insurance, Return on Premium (RoP) plans are the most popular.
- While LIC's products have sub-par features compared to private players, it is seeing strong traction in the Annuity segment.

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Our channel checks indicate that with the change in tax regime for high-ticket NPAR products, ULIP was a key growth driver in 1HFY24, reflecting in SBI Life's growth (ULIP contributed 57.6% to 2QFY24 APE). However, we expect growth in 2HFY24 to be driven by low ticket size NPAR/Protection and Annuity segments, with SBI Life as the key beneficiary. We reiterate SBI Life as our top pick in the sector as it is seeing growth momentum, driven by: (1) a stable product mix (steady ULIP/NPAR) and a growing portfolio of Protection and Annuity products (2) ready access to the country's biggest banca network (SBI with ~22k branches) with a ramp-up in banca/agency productivity and (3) favourable cost ratios (total cost ratio of 9.4% in FY23 vs. 16-21% for peers) to absorb the new EoM guidelines. We raise our TP to Rs1,685 with a revised multiple of 2.5x FY25E P/EV (2.4x P/EV earlier).

Exhibit 1: Valuation methodology of SBI Life

<u>Appraisal Value Framework</u>	<u>Value (Rs mn)</u>
FY25 VNB	67,405
VNB Multiple	16.7x
Structural Value - (A)	1,128,737
Embedded Value, F24E - (B)	558,182
Appraisal Value- (A) + (B)	1,686,919
No. of shares o/s (#)	1,000.9
Value per share (Rs)	1,685
Implied P/EV, F25	2.5x

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Channel checks

Bank	Insurance partner	Incentive program	Perks/ benefits	Most popular products
Axis Bank	Max Life, Bajaj Life, LIC & Tata Life	Point-based system; did not disclose. Targets are based on credit points, which is a % of the premium. The % varies across different products with ULIPs at 10% and SWAG product at 50%	Domestic trips/international training sessions hosted by MDRT	Max Life SWAG (NPAR), Bajaj Allianz Life Ace (PAR), LIC Jeevan Akshay/ Jeevan Shanti (annuity products)
HDFC Bank	HDFC Life	Targets to sell to 50-60% of the customers. If the target is achieved, employees are rewarded with incentives (~27% of premium) along with an adjustment in salary	-	HDFC Life Click2Protect Life (term plan)
ICICI Bank	IPRU Life	Life insurance has not been the main focus over the past 1.5 years; does not have pre-defined targets to sell insurance products, but tries to cater to customer needs	-	Usually sell 8-10 ULIP/ term plan policies per month; ULIP has been the largest-selling product over the past few months
SBI Bank	SBI Life	To keep a branch active, the bank has set monthly targets for third-party product sales depending on the size of the geography and manpower available. For instance, if an employee has sourced a premium of Rs1 lakh annually from its Smart Platina Product, he is eligible for a 5-gram silver coin. For two Smart Platina policies sold, the employee gets two silver coins and so on until five policies are sold. For every additional policy sold after five, the employee would be rewarded with an additional silver coin of 5 grams.	Staff in managerial positions are being offered all-expense paid trips for training purposes	SBI Life Smart Platina Plus (NPAR)
Yes Bank	Max Life & HDFC Life	RMs get points on the sale of insurance products. Bank has branch-wise targets to earn 0.2mn points, where the points earned are ~56% of the premium amount	Recent contest held in October where RMs achieving a set target within a set number of days were rewarded with a trip	NPAR products are in demand since the returns are guaranteed
IDFC First Bank	HDFC Life, IPRU Life & Bajaj Life	~Rs3-5 lakh target per RM per month is the normal run-rate, for which they receive incentives but not comfortable disclosing it	Trailblazer contest is currently on where RMs achieving a set target are awarded with an international trip. This involves 3 products viz. insurance, CASA and another liability product	-
RBL Bank	HDFC Life, IPRU Life & Bajaj Life	Each branch is given a quarterly target to achieve. RM-wise targets depend on experience, skills, etc. There are no specific incentives for selling insurance products separately. Targets involve multiple products such as CASA, credit cards, LAP, Home Loans, etc. Points-based system used to calculate RM incentives	-	-
IndusInd Bank	IPRU Life & Tata Life	Incentive structure based on sales of all third party products - credit cards, home loans, life and health insurance. Bank RMs prefer life insurance as it is a large ticket size, long-tenure product. Traditional/guaranteed product have higher commissions vs. ULIP (Rs1L premium for 5 years will have a WAP (Weighted Average Premium) of 150% while ULIP has a WAP of 50%, on which Bank RMs earn a commission of 20%	-	Tata AIA Fortune Guarantee (NPAR), ICICI Pru GIFT (NPAR), ICICI Pru Signature (ULIP), ICICI Pru Gold (term plan)

Source: Company, Nirmal Bang Institutional Equities Research

Explaining new EoM rules for life insurers: IRDAI has removed the individual cap on commissions paid by life insurance companies to intermediaries or agents (including banca partners) while stipulating an Expense of Management (EoM) structure that insurers have put in place. The new rules, issued by the regulator in March'23, are aimed at helping policyholders get better pricing as the regulator has asked insurers to cut expenses and pass on the benefit to customers. Previously, insurers paid 30-40% commission on each policy sold and also had a separate budget for other expenses. Now, they have a single budget, which includes operating expenses as well as the commissions with an overall cap. Moreover, earlier, there was an individual commission cap on several policies. For instance, the maximum commission payable to an insurance agent or intermediary for first-year premium was 40% for term plans. As per the new rules, the EoM ceiling on pure risk plans (policies with premium payment terms of 10 years & above) is 100% for the first-year premium and 25% of the renewal premium in subsequent years.

Exhibit 3: Change in the commission structure (old vs. new)

Maximum commission payable to insurance agent/ intermediary (rules applicable till 31 March'23)			
Products		Single Premium (%)	Regular Premium (%)
All individual life products except pure risk products		2	30
Individual pure risk products (term plan)		7.5	40
Individual immediate/ deferred annuity		2	7.5
Group pure risk (incl group credit)		5	7.5
% of allowable of Expense of Management (EoM) (rules applicable from 1st April'23)			
Products	Single Premium (%)	Products	Regular Premium (%)
All individual life products except pure risk products	5	First year regular premium for all life policies (except pension plans)	80
Individual pure risk products (term plan)	14	Pure risk plan (In respect of policies with premium payment term 10 years and above)	100
Individual immediate/ deferred annuity	5	Deferred annuity plan	15
Group pure risk (incl group credit)	10	Group pure risk (one year renewable)	15

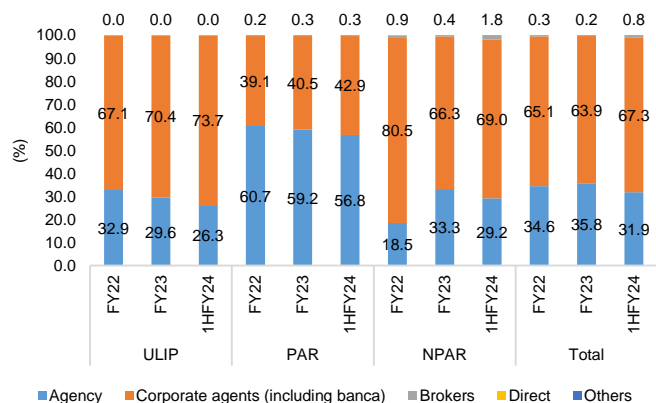
Source: Company, Nirmal Bang Institutional Equities Research

Impact: With the removal of product-wise caps on commission, we expect overall commissions for the sector to rise as life insurers are becoming increasingly competitive. However, we expect SBI Life to be better placed as it retains cost leadership (total cost ratio of 9.4% in FY23 vs. 16-21% for peers) to absorb higher commissions.

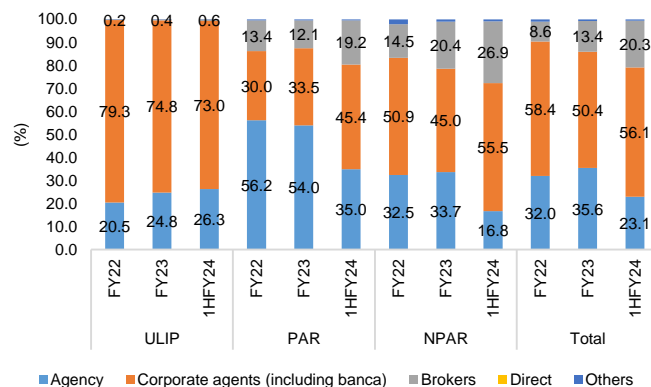
Exhibit 4: SBI Life maintains cost leadership

	SBI Life		HDFC Life		IPRU Life		Max Life	
	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Opex Ratio (%)	5.1	5.1	12.2	14.7	9.8	11.5	13.5	14.1
Commission Ratio (%)	3.5	4.4	4.1	4.9	4.2	4.4	6.3	6.4
Total Cost Ratio (%)	8.6	9.4	16.4	19.6	14.1	15.9	19.7	20.5

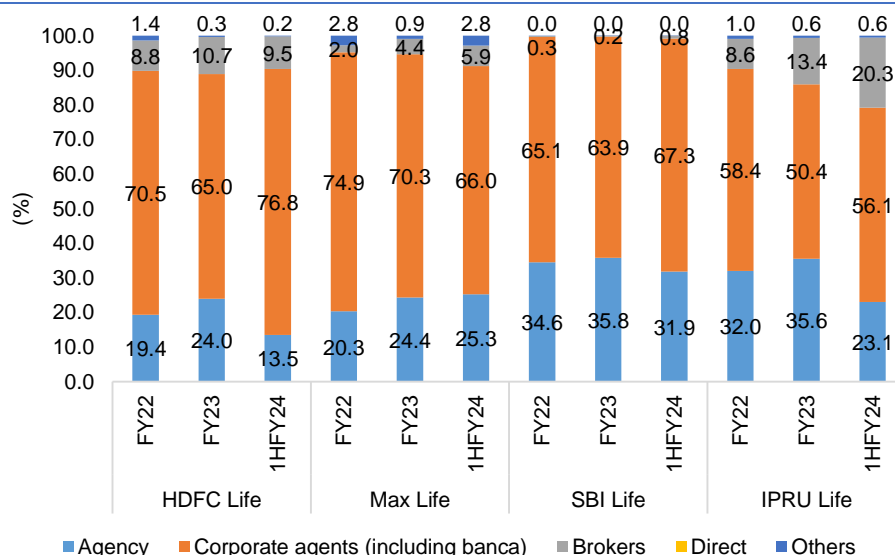
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: SBI Life Commission Mix (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: IPRU Life Commission Mix (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Commission mix across all private players (%)


Source: Company, Nirmal Bang Institutional Equities Research

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