

# SBI Life's first quarter results show persistency and protection guarantee profitability

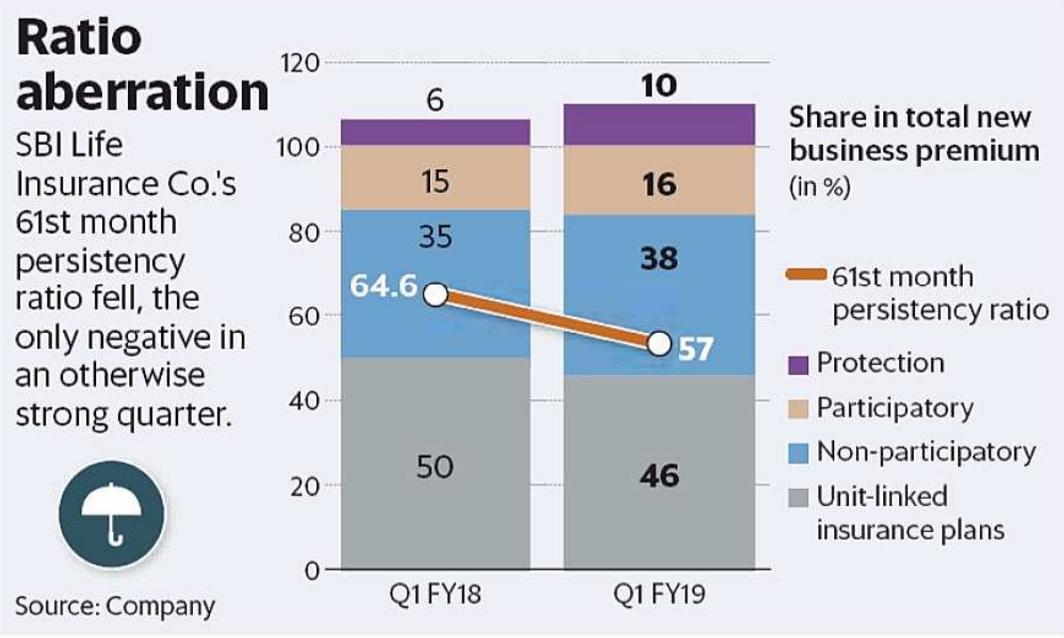
Aparna Iyer  
 aparna.i@livemint.com

The success of any insurer depends on how many of its customers stick with it and for how long, besides how many come on board every month.

On most of these parameters, the first quarter results of the largest private sector life insurer, SBI Life Insurance Co. Ltd, hit the right notes.

To start with, SBI Life's persistency ratios improved across tenures except for the 61st month, which fell—the management explained this was due to a lower share of single-premium products. Compared with its rivals, the company shines on persistency. Add the sharp drop in surrender rates for the quarter, and the life insurer seems to justify the buy rating it enjoys among most analysts.

What is more comforting is that the persistency ratio has improved across all distribution channels.



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This is significant given that insurance is a push product and a specific channel could upset ratios if the offerings are sweetened to the point of bordering around mis-selling.

Another positive is that the persistency ratio for retail after excluding single-premium products also improved. For instance, the ratio for the 13th month improved to 82.25% and that of the

61st month improved to 45.71% from 44.17% a year ago. Single-premium products tend to lend some volatility to persistency as these fly off the rack if equity markets boom and are surrendered faster if markets are falling.

In a nutshell, SBI Life's customers stick to it whether they buy through an agent or bundled through bank products. They stick with the insurer despite being

asked to pay every year rather than be swayed by the ebbs and flows of markets. This cements future profitability for the insurer.

Are there any misgivings?

Given the low penetration of insurance in India, SBI Life's scorching growth in new business in the previous year had raised expectations among investors. For the reported quarter though, new business premium grew by 15.3%, which is impressive for the insurer's size.

But even now, the company has a long way to go in improving the share of protection in its overall product mix. It has not been able to crack the code on selling protection, as the share was a mere 10% of new business premium.

The SBI Life stock trades at around 2.5 times its estimated embedded value for FY20, far cheaper than HDFC Standard Life Insurance Co. Ltd, and comparable to its immediate rival ICICI Prudential Life Insurance Co. Ltd.