Indian Life Insurers: Selling More But Creating Less

Across the four largest Indian life insurers, **Value of New Business (VNB) margins** peaked in **FY23** and have compressed since. The cause: a structural rotation in product mix from high-margin **non-participating** savings towards low-margin **unit-linked insurance plans (ULIPs)**.

Why VNB margin matters?

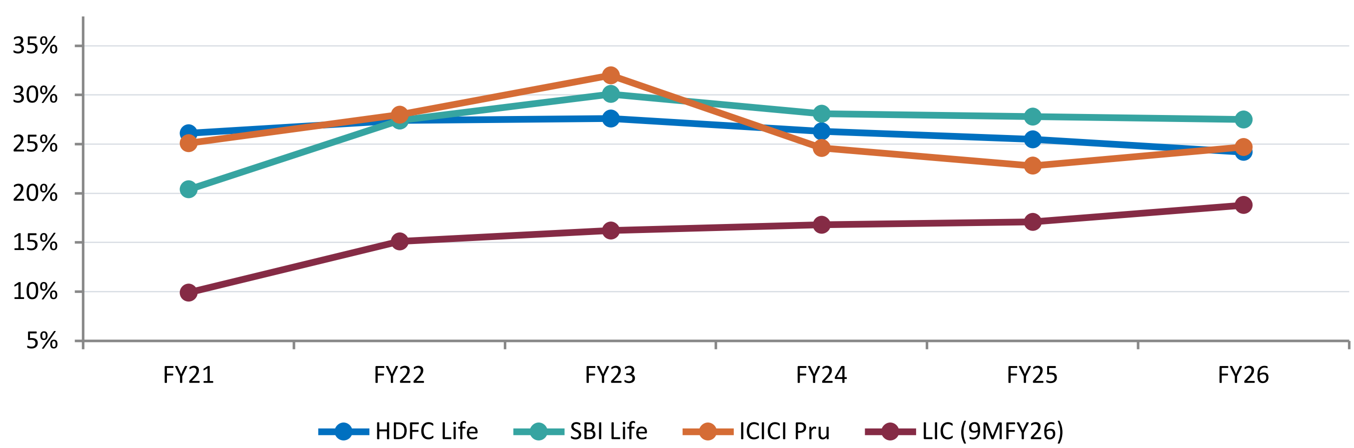
VNB as a percentage of **Annual Premium Equivalent (APE)** measures the economic value an insurer creates per rupee of new premium written. Volumes have grown consistently. **Since FY23, margin compression has been the more material story.**

1 VNB margin trend (FY21 - FY26)

Value of New Business margin: four largest Indian life insurers

Reported VNB margin, % of APE. LIC FY26 datapoint is 9MFY26.

Note: Margin compression post-FY23 is primarily driven by the rising share of ULIPs in the product mix, which carry the lowest VNB margins.



FY23 peaks: • HDFC Life 27.6% • SBI Life 30.1% • ICICI Pru 32.0% • LIC 18.8% (9MFY26 latest)

Source: Company filings, investor presentations, Aranca analysis

2 Reading the curve

The FY23 peak was real, and partly an artifact

VNB margins across HDFC Life, ICICI Pru and SBI Life all peaked in FY23, the year before the Feb 2023 Union Budget removed the tax exemption on non-ULIP policies with premium above Rs. 5 lakh.

The peak reflects a one-time rush of last-minute non-par buying ahead of the deadline, on top of an already favourable mix. HDFC Life management acknowledged a Q4FY23 one-time APE boost of approximately **Rs. 1,000 crore** from this effect.

The FY24-FY26 fall: sector-wide

ICICI Pru saw the sharpest compression, from 32.0% (FY23) to 22.8% (FY25), down roughly 1,000 bps in two years; the margin partly recovered to 24.7% in FY26.

HDFC Life margin fell from 27.6% (FY23) to 24.2% (FY26), the lowest among listed private peers. **SBI Life** is the outlier: it held 27.5-28.1% throughout, supported by a low-cost bancassurance moat. **LIC** moves the other way, rising on a deliberate non-par push from a much lower base.

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Not all premium rupees earned are worth the same. Each product category carries a fundamentally different VNB margin, and the post-FY23 rise in ULIP share is the proximate cause of margin compression.

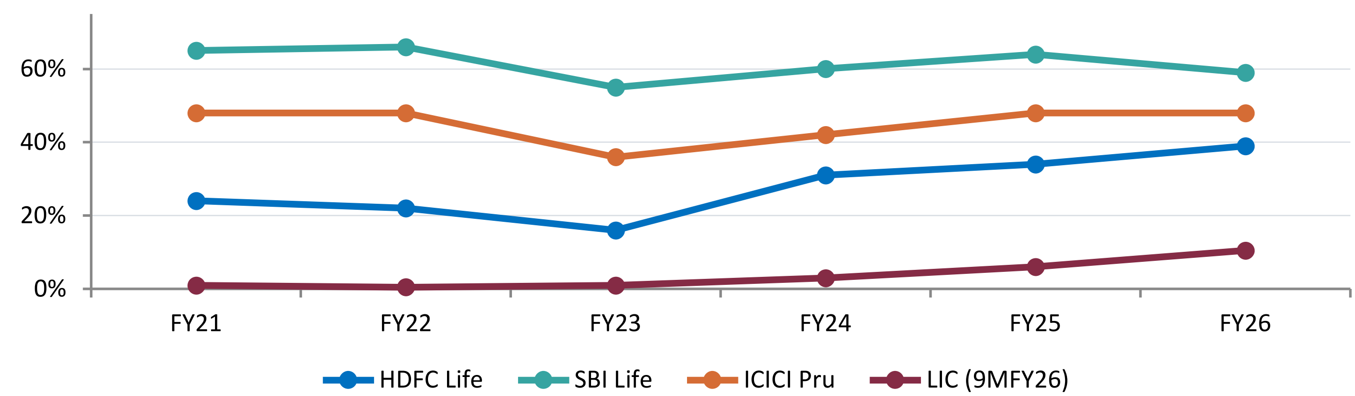
3 VNB margin hierarchy by product (as estimated)

Product category	VNB margin range	Margin tier
Protection / Term	50-70%	Highest
Non-par savings	25-35%	Highest
Annuity	10-20%	Medium
Par savings	10-18%	Medium
ULIP	5-12%	Lowest
Group savings	5-10%	Lowest

4 ULIP share of APE: the product mix shift post-FY23

ULIP / Linked share of Annual Premium Equivalent, %. LIC FY26 datapoint is 9MFY26

Note: The ULIP/linked share in the APE product mix was at its lowest in FY23, as a result of which VNB margins were at their highest. Post the peak level of margins, as the ULIP/linked share has risen, the margins have deteriorated



Source: Company filings, investor presentations, Aranca analysis

5 Three regulatory events which drove ULIP share higher

FEB 2023 · UNION BUDGET **Tax exemption removed**

Non-ULIP policies with premium above Rs. 5 lakh lost tax-free maturity status. Customers rushed to ULIPs, where tax benefits remained. **FY23 non-par numbers were artificially inflated by last-minute buying**: the peak was partly a deadline effect.

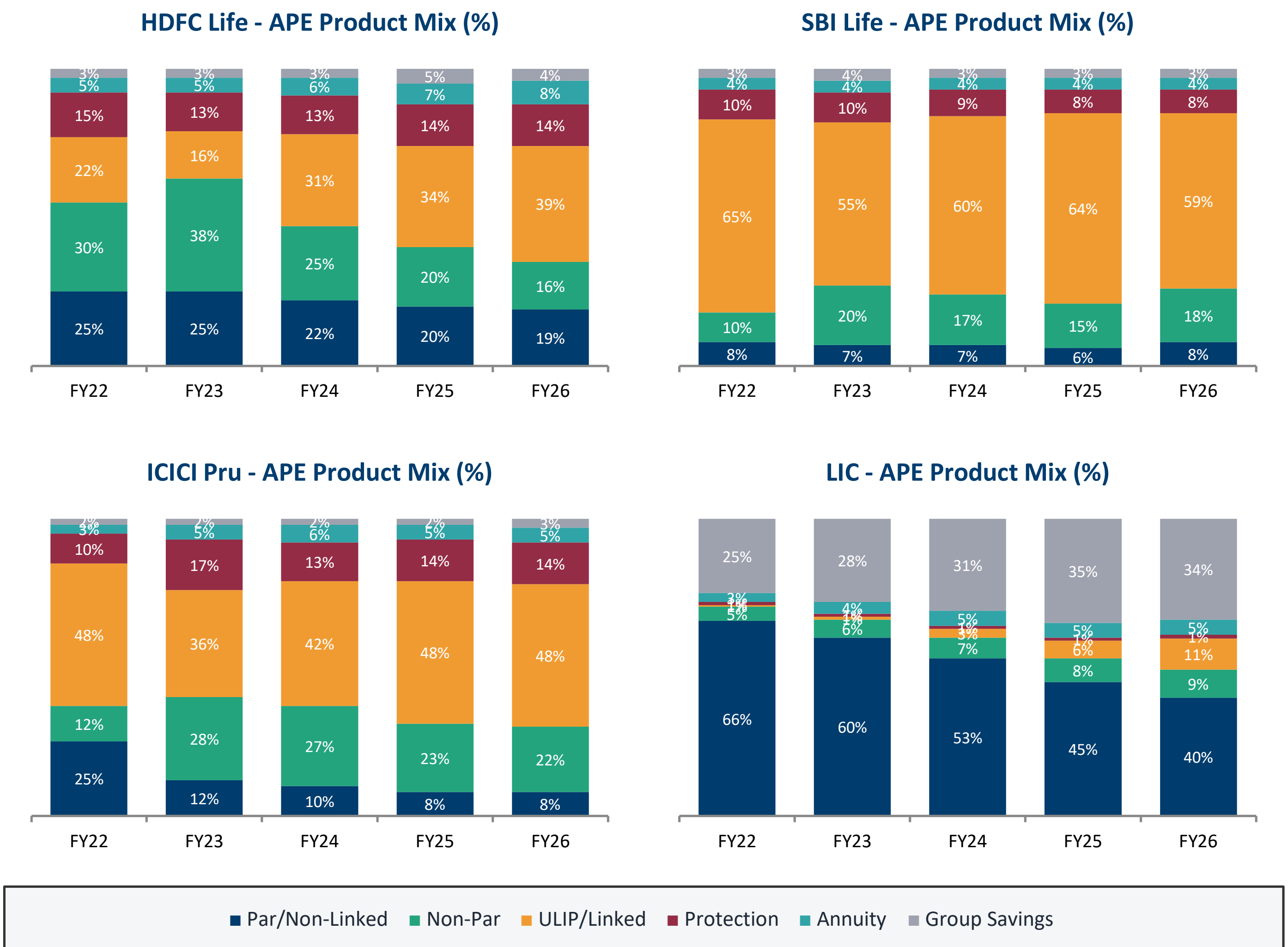
OCT 2024 · IRDAI **Surrender value circular**

Higher mandatory early-exit payouts on traditional savings products. Insurers estimated **100-200 bps** of gross margin compression. The change directly targeted non-par savings, already under structural pressure from the tax change.

SEP 2025 · GST RATIONALISATION **ITC removal**

GST was removed on individual insurance policies, supporting demand. However, insurers lost input tax credit on operating expenses. One-time cost: **Rs. 873 crore for SBI Life alone**. Sector-wide drag of 200-300 bps on FY26 VNB margin.

6 APE product mix for the companies



Sources: Company filings, investor presentations, Aranca analysis. LIC FY26 datapoint is 9MFY26. Mix percentages are best-estimate approximations from disclosed *data points.*

Note: Post the change in regulations from FY23, the highest margin products (Protection and non-par) have ceded share to ULIPs. As the share for these high margin products have begin to recover, the margins have begun to stabilize. These products have a smaller share overall but have high potential to influence margins.

7 Margin improvement to take precedence over volume push

- Management across private players have explicitly guided for VNB growth to match APE growth in FY27E, a clear pivot from the volume-first approach that defined FY24 and FY25.
- ULIP contraction is now a stated strategic intent, with non-par savings, protection, and par identified as the primary mix drivers going forward.
- Distributors who aggressively pushed ULIPs through bull market cycles are now facing moderating equity market momentum, making the pivot to non-par a commercially logical move

Two forces are converging in FY27E that make non-par savings attractive again, from both sides of the transaction. The demand case rests on rates remaining stable throughout the year. The supply case rests on the structural margin advantage of non-par for insurers.

8 Non-par is coming back: for buyer and insurer

The demand case · For the buyer

- With the RBI already cutting rates in past, any further rate cuts are beneficial to the buyer.
- A non-par policy offering a guaranteed return today, protects customers from the risk of FD rates falling to lower.
- Unlike bank deposits, the guaranteed return in a non-par policy is locked in for the entire policy term and cannot be repriced downward.
- As the US-Iran peace deal has been digitally signed, if this holds, the rates are expected to remain unchanged for the year. Thus, non-par products will perform at par with FDs in such a situation.

The supply case · For the insurer

- The economics of non-par products are driven less by the G-Sec-to-deposit-rate spread and more by their inherently superior profitability.
- Non-par savings products generate VNB margins of ~25–35%, significantly higher than ULIPs (~5–12%) and participating savings products (~10–18%).
- As customer demand shifts from ULIPs to non-par products, insurers benefit from a mechanically higher blended VNB margin.
- This margin expansion can occur even without any meaningful improvement in investment spreads or interest-rate tailwinds.

9 What comes next

Non-par and protection products to remain in focus

Insurers will lean into non-par savings and term protection to rebuild margin, the two highest-margin categories in the product hierarchy. Expect explicit guidance on mix in FY27E earnings call.

SBI Life best positioned among peers

The only listed private player to hold VNB margins above 27% through the cycle, driven by bancassurance cost moat, guided 26-28% for FY27E. ICICI Pru is recovering off the trough.

ULIPs will give up share

The move away from ULIPs toward non-par savings, term protection, and mutual funds for the equity allocation could be the new pattern. The product mix correction is the most material driver for FY27E re-rating.

Aranca View

India's life insurance sector has spent three years concentrating on **volume growth by selling ULIPs** while margins have eroded. We believe this is changing, which is indicated by insurers' intention of pivoting from **ULIPs to non-par and protection products from FY27E.** We expect interest rates to remain stable which positions such products at par with FDs. Companies that navigate this transition seamlessly are likely to command a valuation re-rating, pivoting most effectively from **volume to value**.

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80+
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