Insurance companies take long-term view amidst market turbulence: Sampath Reddy, CIO of Bajaj Allianz Life

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Sampath Reddy, Chief Information Officer, Bajaj Allianz Life Insurance | Photo Credit: Balaji W S 463@Chennai

With strong fund inflows, domestic institutional investors led by mutual funds and insurance companies have become the counter-force of foreign portfolio investors in times of turbulence in equity markets. Insurance companies usually take a long-term view of markets due to the nature of fund flow compared to mutual funds. Sampath Reddy, Chief Investment Officer, Bajaj Allianz Life Insurance, spoke to *businessline* on current investment opportunities and market outlook. Excerpt:

Q How do you see the current market valuation?

Indian equity markets are currently trading slightly higher than their long-term averages. Nifty is currently trading at a 12-month trailing P/E (Price to Earnings) ratio of 22.2 times, slightly above its long-term average of 21.8 times, and the 12-month trailing P/B ratio of Nifty is 3.3 times, which is above its historical average of 3 times. This was largely due to foreign portfolio investor equity inflows, which have returned to India after last year's lull. These inflows have contributed to a healthy rally in the equity markets. Moreover, India's stronger macroeconomic conditions, moderating inflation, growth opportunities and lesser impact of El Nino on monsoon expectations have made the equity market more attractive in the current global economic landscape.

Q Has your equity allocation been reduced, given the global uncertainty?

We have been cautious on the back of rising global inflation and subsequent tightening of the monetary policies of various central banks. Despite strong growth in corporate earnings over the last 2-3 years, market returns have been subdued on the back of these global factors. As we are coming to the end of the interest rate hike cycle we are cautiously optimistic towards equities.

Q Is the insurance seeing good flows like MFs?

A consistent inflow into the insurance sector indicates a positive trend. In FY23, life insurance companies collected a total premium of ₹3.70 lakh crore, indicating an increase of 18 per cent compared to the previous year. Individual Non-Single Premium has grown by 19 per cent in the same period. The life insurance premium has grown by 14 per cent in the last 5 years (FY18-FY23). The growth can be attributed to a rise in awareness increase in disposable income, and also the Covid pandemic emphasized the need for investing in life insurance. Moreover, the government and regulator IRDAI's efforts in expanding insurance accessibility through initiatives such as Pradhan Mantri Jeevan Jyoti Bima Yojana and Pradhan Mantri Suraksha Bima Yojana have contributed to this positive trajectory.

Q What is your outlook on interest rates?

Over the last few months, the inflation rate has been moderating both globally and domestically. This has allowed global central banks to reduce the pace of rate hikes. After having hiked the policy repo rate by 2.5 per cent to 6.5 per cent, RBI has paused since April, 2023. India's consumer inflation moderated in May to 4.25 per cent and inched closer to RBI's target of 4 per cent. RBI is not expected to cut rates before seeing inflation sustaining closer to 4 per cent. Inflation is expected to be at 5 per cent, and for FY25, RBI projects inflation at 4.5 per cent. We feel that we are at the end of a rate hiking cycle, with the possibility of rate cuts later depending on the evolving inflation-growth dynamics. With this view, we believe that the current interest rates offer attractive value to investors.

Q Which are the sectors that will sustain growth going ahead?

Sectors exposed to domestic consumption and infrastructure are expected to do well during these global uncertain times. We have been positive in the banking and financial sectors and continue to like them. The BFSI sector is in a strong position regarding asset quality at multi-year low non-performing loans. Also, the credit growth and interest rate margins have been healthy. Industrials and infrastructure companies have also been showing a big improvement in their financials, with healthy growth in order backlogs. The government's thrust on capital expenditure spending on the infrastructure and Production-Linked Incentive schemes has led to strong order books and capital spending. We believe industrials would continue to do well. Some niche sectors, such as QSR & Hotels (Quick Service Restaurant) segments, are also expected to do well amid the rise in discretionary spending. Gas utility stocks, which had taken a beating to the demand on the back of a sharp rise in spot gas prices last year, are also expected to do well as spot gas prices have fallen.

Q Is the General election next year a big risk to the market?

Usually, markets like continuity in policy making and a stable and strong government at the centre. Given that we are approaching the elections during the next calendar year, there is a potential risk. In the past, we had seen strong bullish market phases even during politically weaker mandates at the centre due to India's strong underlying fundamentals. We believe the pre-election period could see strong spending by the government, which could act as a positive catalyst in the near term.

Q Do you expect fund flow will be hit by changes in tax treatment?

The initial expectations were that some high-value traditional products may take a hit due to the changes in the tax benefits for investors in the insurance products. However, given the low ticket size of insurance investors, the implications are relatively smaller.