

# To earn better returns, insurers step up exposure to mid-/small-cap stocks

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The investment universe of insurance firms has widened over time.

Insurers were invested in 146 mid-cap and 688 small-cap companies at the end of June this year. Five years ago, the numbers were 96 and 471, respectively.

Insurers were invested in 57 mid-cap and 343 small-cap companies at the end of June 2014.

"Some insurers have started to invest in equities more aggressively over the last few years. They compete to provide superior returns to policyholders and in the process started to look for opportunities in the small- and mid-cap space. Such stocks have beaten large-caps in returns over the past few quarters," said Deepak Jasani, Head of Research, HDFC Securities.

A part of the investment by the life insurers could also be a slice of their treasury operations, where they can afford to take greater risks, with adequate safeguards in place, added Jasani.

"The more interesting part is the

## Divergent trend

	Large-cap	Mid-cap	Small-cap
<b>All insurers</b>			
Jun-24	100	146	688
Jun-19	85	96	471
Jun-14	70	57	343
<b>LIC*</b>			
Jun-24	77	74	132
Jun-19	65	50	186
Jun-14	62	42	172
<b>Non LIC</b>			
Jun-24	98	145	662
Jun-19	75	85	413
Jun-14	58	47	310

\*Disclosure of holdings greater than 1 per cent  
Source: primeinfobase.com

variety of sectors they operate in. With structural tailwinds, some of these could grow much faster than their larger peers. So, investing in some of the smaller names may be a better long-term strategy than investing in large-caps," said Sanjeev Mohta, Vice-Chairman and CEO at B&K Group.

## BULL MARKET

Nifty has returned 129 per cent

over the past five years compared with gains of 279 per cent and 254 per cent clocked by Nifty Midcap 100 and Nifty Smallcap 100, respectively.

"There have been several new listings over the past few years, especially from mid- and small-cap companies. A lot of domestic institutional investors invest in IPOs and the pool of such companies in insurers' portfolios may have grown in line with that," said Pranav Haldea, Managing Director, PRIME Database.

Over 240 IPOs have hit the market since 2019. Selling of Unit Linked Insurance Plans (ULIPs) may have also played a part. The asset allocation in ULIPs varies, but typically about 75 per cent is invested in equities.

## LIC, THE OUTLIER

LIC has been an outlier when it comes to investment in small-caps. The insurer has trimmed its investments in small-caps to 132 from 186 five years ago. The insurer may have booked profits in some of the small-cap names or exited altogether, learning from past experience, said experts.