



Unlike many industries such as infrastructure or automobile it is not just the slowing of the economic growth rate that's pinching these companies, but a plethora of issues – regulatory intervention, flight of agents & high inflation have contributed to the insurance industry falling on tough times, says **Shilpy Sinha**

Crippled Life Insurance Headed for Critical Care

The agent count at Reliance Life Insurance has fallen 26,000, or 8% to 1.24 lakh at the end of March 31, 2013 since 2012 when it sold a 26% stake to Nippon Life which valued the company at three times its embedded value. In January this year, ING Group of the Netherlands sold 26% stake at a 25% loss to its JV partner Exide after a decade-long battle trying to make sense out of the Indian life insurance market.

That simply is the tale of sliding fortunes of the Indian life insurance industry which until a few years ago was considered to be a sunrise industry promising decades of uninterrupted growth and loads of profits for shareholders. Thirteen years after the monopoly of the state-run Life Insurance Corporation came to an end, the new born babies of the industry are struggling to even crawl, leave alone enthusiastically jumping around grabbing new business opportunities.

Of the total 24 companies in life insurance, 15 are still loss-making. For the last three years, the new premium income, a measure of growth, has been falling. For those private insurers who are still making money, the profit margins are as low as 8%.

Aviva, the UK insurer, has put its Indian business on the block and HSBC, the London and Hong Kong-listed bank, is looking to exit its life insurance joint venture with two state-run banks.

ISSUES AFFECTING INDUSTRY

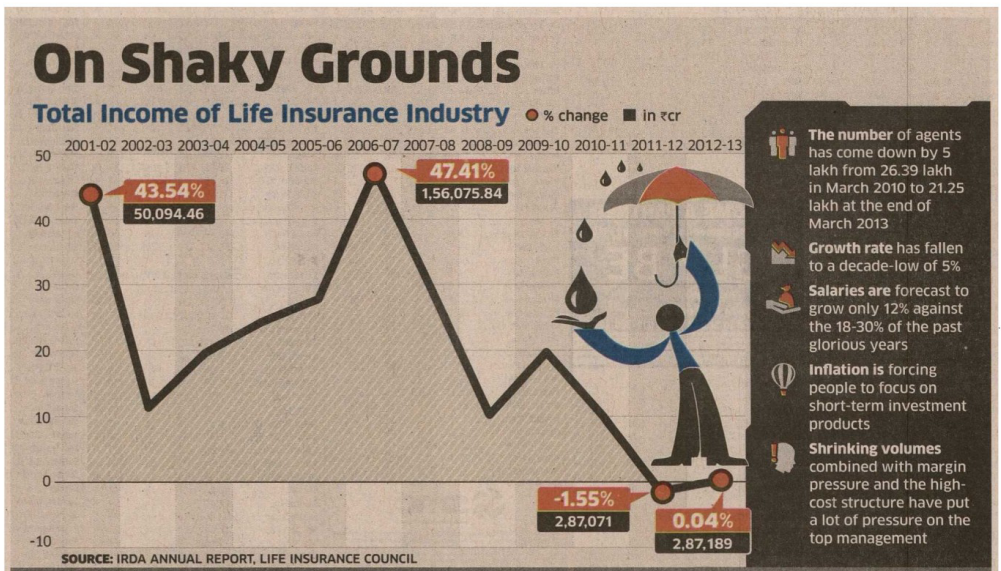
Unlike many industries such as infrastructure or automobile it is not just the slowing of the economic growth rate that's pinching these companies, but a plethora of issues – some self-inflicted, some induced by regulation and some by soaring price levels across the board.

"We slowed our business as we saw irrational competition," said Sanjiv Bajaj, managing director Bajaj Finserv that runs a joint venture with Allianz of Germany. "We saw products with high commissions fighting for market share and everybody burning a lot of capital. We consciously slowed down and remained lean."

Charges of dubious sales pitch by agents led to the Insurance Regulatory and Development Authority step in with tight controls on how a product is sold. The field that was unregulated – agent commissions – also drew regulatory attention.

There was a huge correction in the way insurance is being sold after two regulators – securities and insurance – indulged in public acrimony on who controls the so-called Unit Linked Insurance Plan (ULIP) which was peddled like mutual fund units. Commission on unit-linked products has since then come down to 5% from as high as 18%. So have sales.

"India is going through challenging times but it does not change how we look at our



- The number of agents** has come down by 5 lakh from 26.39 lakh in March 2010 to 21.25 lakh at the end of March 2013
- Growth rate** has fallen to a decade-low of 5%
- Salaries** are forecast to grow only 12% against the 18-30% of the past glorious years
- Inflation** is forcing people to focus on short-term investment products
- Shrinking volumes** combined with margin pressure and the high-cost structure have put a lot of pressure on the top management

business," says David Nish, chief executive at Standard Life of the UK which has a joint venture with Housing Development Finance Corporation. "Regulatory intervention has shifted quite dramatically."

The industry has lost quality talent with a mass flight of agents since 2010. The number of agents has come down by 5 lakh from 26.39 lakh in March 2010 to 21.25 lakh at the end of March 2013.

"The industry is at crossroads," says Rajesh Relan, MD and CEO, PNB MetLife. "If we are able to address the growth and profitability challenges quickly, and the industry is able to adjust to the new normal, the growth will return. I do not expect the industry to grow more than 10% over next 2 years." That outlook forecast is a jolt to an industry which grew by 35% annually before 2009-10. It had helped draw some of the biggest names such as Standard Life and New York Life to the country. But some are leaving the promised nation.

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NEGATIVE INFLUENCES

The economic mismanagement over the last few years has had its negative influ-

ence. The soaring inflation, which has averaged 10% at the consumer-level for much of the past decade, and dimming employment and income outlook are also keeping potential buyers away from buying insurance policies.

Not many are willing to commit for the long haul in this scenario where the growth rate has fallen to a decade low of 5% and salaries are forecast to grow only 12% against the 18-30% of the past glorious years, according to consulting firm Mercer's All Industries Total Remuneration Survey.

"The economic environment is forcing people to focus on short-term investment products as inflation is eating into their savings," said Sandeep Asthana, country head, India Sun Life Financial. "Uncertainty about future employment and income growth are also hurdles."

The disappointment over the government's failure to raise the foreign holding limit to 49% from 26% is also forcing many to give up. It is no surprise that the adverse economic climate and regulatory tightening are squeezing the profit margins of companies. Profitability of large life insurance companies like ICICI Prudential rose 8% while SBI Life's went up 12%.

"India as a market offers one of the lowest margins in the Asia region," says Relan of PNB MetLife. This is at a time when global companies are facing a de-

cline in profit. China Life has reported a 39.7% drop in net profit in 2012.

EXCITEMENT ON HOLD

Insurance, which once attracted top talent from the banking industry, is witnessing a reverse flow as top management struggle to cope with the pressures of increased regulatory scrutiny, falling business and clash between joint venture partners.

"Shrinking volumes combined with margin pressure and an inherently high-cost structure have put a lot of pressure on the CEO and the top management," said Sandeep Ghosh, chief executive, Bharti AXA Life Insurance. "It is very high pressure that has taken a toll on the CXOs."

Indeed, the state-run LIC, which still dominates more than three-fourths of the industry, is facing pressure. Its new premium income has also fallen 6% in the last fiscal. The excitement surrounding the industry is slowly giving way to pessimism and one of the key industries to feed the economic development has to be prevented from getting into critical care before it is too late. "I am realistic, and I never get excited on articles about raising FDI," says Nish of Standard Life. "The day the Parliament approves it I will get excited." That coming from a top executive is hardly encouraging.

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