

Insurance companies can curtail extreme volatility

Incremental investments would rise: HDFC Standard Life

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Mumbai, March 17 In three to five years life insurance companies in India will be in a position to stem extreme volatility in the market by acting as a counterweight to

foreign institutional investors. In an exclusive interview to *Business Line*, Mr Prasad Gajri, CIO, HDFC Standard Life, said the incremental investments by the insurance firms would go up by then; and as such, they have a reasonably large exposure to the equity market.

Excerpts from the interview:

What is driving insurance companies to invest in equities?

The channelisation of domestic savings through the insurance companies is becoming a bigger piece of the market. Large part of that money is getting into unit-linked investment plans. And, through the ULIPs, a significant portion of the money is getting into equity as an asset class.

How long will it take for insurance companies to get closer to the FIIs in terms of the equity market investment?

My sense is that close to \$10-13 billion of annual inflow is there into equities through the insurance channel, including LIC money.

On an incremental basis, in



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**PRASUN GAJRI, CIO,
HDFC STANDARD LIFE**

2009 insurance companies (investments) were pretty much in line with the FIIs. On stock basis, FIIs are clearly the larger investor. There is no doubt about that, given the historical presence they have.

Obviously, if the insurance money continues to flow at the same pace and keeps growing, then at some point of time (3 to 5 years) we could be getting near the FIIs investments.

How will insurance companies encounter a sudden sell-off by FIIs?

What insurance money will do is that it will give a reasonable domestic base, including absorbing major selling by FIIs.

But having said that, one thing has to be kept in mind clearly, FII selling can happen very quickly... you could have \$4.5 billion of sales happening over two months.

On the other hand, you are not going to see \$4.5 billion inflow into insurance at such

a short duration. Of the \$10-13 billion inflows annually, you see a larger chunk coming in during January-March, while for the rest of the year it is going to be an evenly spread.

So even though on total annual basis we could counter FIIs outflow, there could be instances when FIIs sell a large chunk of shares in a short span of time and domestic insurance inflows will not be able to absorb it.

What positives do you see from such long-term investments?

It is a good thing from the market perspective, because you are seeing stable long-term domestic investors owning the larger part of the market. It provides a sense of stability to the market as well.

It is difficult to prove, but over the next two years the extreme volatility could come down because we would have long-term investors.