

Leader's Speak

Ms. Vibha Padalkar, CFO, HDFC Standard Life Insurance Company Ltd

Hemant Maradia & Fahima Shaikh / 11:04 AM , Sep 04, 2009



HDFC Standard Life Insurance Company Ltd is one of India's leading private insurance companies, offering a range of individual and group insurance products. It is a joint venture between HDFC Ltd. and Standard Life Plc, UK. HDFC holds 72.4% and Standard Life holds 26% of equity in the joint venture.

Ms. Vibha Padalkar is the **CFO** of **HDFC Standard Life Insurance Company Ltd**. She qualified as a member of the Institute of Chartered Accounts in England and Wales in 1992. She returned to India in 1993 and was briefly with PricewaterhouseCoopers. This was followed by a seven year stint at Colgate Palmolive India, including a short posting to its New York headquarters. In 2001, she joined WNS Global Services, as Executive Vice President, Finance until July '08. Vibha's key achievement during her tenure at WNS was to lead a team that successfully completed the Group's IPO on the New York Stock Exchange in a short span of six months.

Speaking with **Hemant Maradia** and **Fahima Shaikh** of India Infoline, Vibha Padalkar says, "Capping of charges is a positive step from the policyholders' point of view, which should help boost long-term savings and protection of the market."

What is your view on IRDA's latest circular on capping of charges for ULIP's?

We have in the past, been in discussions with the IRDA on standardization of charges. We think that capping of charges is a positive step from the policyholders' point of view as the new / revised products would certainly offer better value to them.

We are in the process of reworking our revised product pricing as well as existing cost structures. In the case of some of our products we have to carry out minor adjustments while for others we might have to make substantial changes in order to comply with the limits set. Fund management fees as per the circular, have been capped at 1.35%. Most of our products are within this cap. .

This step by the IRDA will force insurance companies to take a re-look at their existing cost structures and would have to lead to reductions, both in commission and overheads.

Can you briefly explain how the capping of charges would levy during the tenure of the insurance contract?

As per the IRDA circular, the difference between the gross and net yields on insurance contracts of a tenor of 10 years or less should not exceed 3%. So, in this case, the maximum charges that insurance companies can levy on policyholders would be 3%. This cap would exclude mortality and morbidity charges. So, it is upto the insurance company on how it designs its products with

these capped charges. The Regulator's main aim appears to be to protect policyholder interest.

Tell us about your distribution channel and do you get any preferential treatment from HDFC group companies?

Currently, the alternate channel constitutes the HDFC Bank, Saraswat Bank and the Indian Bank, amongst others. In FY09, 47% of EPI was from the alternate channel with HDFC Bank being the biggest contributor.

The commission that we pay distributors such as HDFC Bank, is as per pricing that is approved by the regulator. As with any pricing, it has to work for both parties. .

How would HDFC Standard Life Insurance Co. cut costs? Would it be through downsizing of the workforce or would you be reducing the prevailing commission rates?

We are focused on increasing productivity of the workforce. That way, every extra policy that we sell, would help reduce our cost ratio.

We are also in the process of controlling costs in various areas. We have reduced our infrastructure cost primarily by renegotiating our prevailing rentals with landlords. We have taken a conscious decision not to open any new branches in this financial year.

Other cost efficiencies have been achieved through procurement via reverse auctions and bulk buying. Even on smaller expenditure such as travel and printing costs, we have taken achieved sizable savings. With these measures in place, we have successfully been able to reduce our costs in the above categories in the range of 20-40%.

What according to you prompted this move (charge caps) by IRDA?

I think IRDA is taking a longer term view of sustainability of this industry. In the last ten years, the private players were given time to build their businesses. But after a decade in existence, it is perhaps time for insurance products to become more competitive.

After SEBI abolished the entry load in MFs, how would insurance products compete with them?

Both these products are different in nature. A Mutual Fund as a financial product appeals to short term investors, whereas ULIPs serve long-term needs of investors. Also, ULIPs offer a life cover to take care of unforeseen circumstances.

What kind of insurance products is the company currently focusing on and why?

This is a function of demand from the policyholders, rather than what we want to sell. With the recent turbulence in the markets, there has been a rise in the share of conventional products being sold. Share of conventional products in FY09 constituted 16% of the total new business but this has increased in the first quarter of the current year. However, this may be temporary trend. With a positive move in the financial markets, demand could again skew towards ULIPs.

At HDFC Standard Life, our philosophy is to sell products according to clients' needs. For example, if the investor has a lesser risk appetite and does not want to handle the complexity of a ULIP, he/she might prefer to invest in conventional plans.

With the outbreak of Swine Flu, are you focusing on health products? Does your health products cover Swine Flu treatment?

During the last year, we launched two health products – Critical Care and SurgiCare. These would help cover the health care needs of our policyholders. We also have other health related products in the pipeline.

In the unfortunate event of a death due to swine flu, the same would stand covered.

Any new products in the pipeline?

There are many products in the pipeline, which are more of ULIPs. We would also need to redesign some of our existing products in accordance with the cap on charges.

What is your take on IRDA thinking of raising the lock in period for ULIPs to 5 years?

This move ought to have a positive effect on the industry, as insurance companies would be prevented from levying surrender charges post the 5 year period. It might encourage investors to invest for a longer term of at least 5 years.

How is your overall business shaping up?

Due to unfavourable financial conditions witnessed last year, the insurance industry registered negative growth. This year, we have grown month on month. However we have degrown against last year largely due to the base impact.

Have you seen any outflows in ULIPs during the market turbulence?

We did witness a higher lapse ratio of ULIP products last year, a lot of which was due to market turbulence. We try to counsel policyholders that since they have invested in a long term product, they should ignore short term market turbulence.

Do you foresee any consolidation?

The new IRDA regulation on charge caps might discourage new entrants as it could take a longer time to break even. Consolidation is bound to happen.

IRDA is also in favour of combining life and non-life products. What is your take on that?

A combined product has to be more cost effective to make it attractive to the policyholder. Merely adding the product together does not create a value proposition. The idea is fine but it has to generate incremental value to the policyholder.

Are you planning any fresh infusion of capital?

In FY08, shareholders infused Rs 525 crores and in this financial year, they are planning to inject another Rs 350 crores. This is expected to go down in the next two years. Fresh capital infusion will be in proportion of the stake held by the promoters i.e. HDFC and Standard Life.

Are you looking to tap Tier I and Tier II cities?

We already have an increasing presence in these cities. We also have a rural obligation of 18% under IRDA regulations. We have to come out with a low cost model to be able to operate efficiently in these markets.

Any listing plans in the future?

Listing is unlikely to happen before FY10-11. We are really focused on getting the fundamentals of our company right rather than being the first or second to list.

What is your outlook on the Industry?

With the regulator being very active, we would expect to see a lot of changes happening in the industry. The effects and the implementation of new norms would be seen over a period of time. We expect to see sustainable growth over the next few years, albeit at a slower clip than that witnessed so far.

A majority of people do not have social security in India. So, there still exists is a strong need for protection and savings.