

INTERVIEW  
AMITABH CHAUDHRY, CEO, HDFC STANDARD LIFE INSURANCE

# 'COST CAP HASN'T HAD FULL IMPACT'

The tussle between the two regulators—Securities Exchange Board of India (Sebi) and Insurance Regulatory and Development Authority (Ird) —has stirred apprehensions about unit-linked insurance plans (Ulips). **Amitabh Chaudhry**, chief executive officer of HDFC Standard Life Insurance, shares his views on the issue in an interview with **Teena Jain Kaushal** and **Sunil Dhawan**

## How should investors deal with the debate between two regulators?

Nothing has changed for investors. Both existing and new investors have nothing to worry about. People got scared when the controversy erupted, but now they have understood the situation.

Ird has capped the expenses in market-linked plans. **Beyond** structural changes, how has it affected the business?

The cap on charges has led to reduction in income for two players. One is the company itself and the other is the customer. The customer hasn't got the full benefit

from the capping of charges because the distributors haven't taken any hit at all. The same is the case with the mutual fund (MF) industry. I was told that people who were distributing MFs are now taking money from the MF company as well as the customers. So, the customer has not benefited to the extent he was expected to.

What is going to drive the consumers behaviour in the next financial year?

The interest rate environment is still buoyant. So, the insurance market should pick up. People are hoping for a growth of 10-15 per cent again from the next year. And, 'highest NAV' is the flavour of the month. Everyone seems to be talking about it. Health has not taken off really, but going forward, there will be a shift in the consumer's mind on that aspect.

## Any new products and product categories you are looking to launch next year?

You look at existing products and see what needs to be done there. Then, you look at what your competitors are offering, and do you need any product to fill the gap? Then, you sit back and think out of the box and say what new ideas you want to bring in. We have made some conclusions on what we need to launch in the next 6-9 months. Some of the proposals are already with Ird.

## Can we expect a company like HDFC Standard Life Insurance (SLI) to take a stand and change the approach towards insurance?

Strong disciplinary practices are required. Also, it's important to have need-based training. This applies to the training of our sales personnel, the agency people as well as bank employees. You need a thought-leadership position where you are talking about a long-term insurance market. We follow the best underwriting practices in the industry. We have just 3.5 per cent of customers who are denied claims against the industry average of 15-25 per cent.

## Are you considering launching an NAY-based guaranteed ulip?

We are working on it, but can't reveal whether we will launch it.

## What are your persistency ratios, which indicate whether the customer is sticking to your policy over a period of time?

Our persistency ratio last year was 65 per cent. The biggest reason why persistency ratios took a hit was that we were selling a product where people could reduce the premium in the second or third year. So, our persistency crashed. We stopped this in 2008.

## Is there any reason why HDFC SLI doesn't have a guaranteed product?

We were not sure whether the expertise existed in the market to manage the expectations of people. We wanted to see the market before jumping into it.

## Do you have plans to get listed?

We would like to list, but when, I don't

**Do customers really understand what highest NAV means? Do they really understand how the product works?**

know. Maybe, sometime next year. We are waiting for the Ird-Sebi guidelines on IPOs as well as clarifications on FDI. We are expected to release HDFC Standard Life report where people will see huge amount of disclosures.

## What are some of the challenges for the industry today?

Earlier, the top management was pushing for market share. Now, the focus is on profitability. As a result, there are a lot of malpractices. For new players, because they want to capture market share faster, it creates a further problem. The attrition rate is a worry. There is a lot of selling on short-term basis, rather than a focus on the long term. If we compare it with the MF industry, for example, our reach has been humungous in a very short span of time. A lot of money has been invested in the industry and a lot of employment has been generated. A lot of products have been introduced, such as guaranteed products.

## Do you think the market is ready for product innovation, such as guaranteed ones, even when people fail to understand plain-vanilla products?

I do worry about whether the customer understands the product at the time of buying it. Take the example of products offering the highest NAV. Do the customers really understand what highest NAV means? Do they really understand how the product will work? In many cases, the customer simply trusts the bank or the financial consultant. While there are good financial consultants and bankers, there's mis-selling as well. They not only mis-sell, but also ensure that they keep getting commission. They sell you a policy and, two years down the line, they ask you to cancel it for a new policy. In the new policy, they get a fresh commission, which is much higher than what they get for renewals. In a way, the commission structure is giving me the incentive to keep using the same money to sell yellow new products. Sometimes, bankers and consultants tell you to cancel a policy and get a better policy simply because the NAV has gone up. II

[sunildhawan@outlookindia.com](mailto:sunildhawan@outlookindia.com)

[teena.j@outlookindia.com](mailto:teena.j@outlookindia.com)

[teena.j@outlookindia.com](mailto:teena.j@outlookindia.com)

<http://twitter.com/OutlookMoney>; <http://www.outlookmoney.com/Facebook/Insurance>

