

'Knowledgeable investors do not look at profit or loss numbers'



Q&A

PARESH PARASNIS
Principal Officer, HDFC
Standard Life

Among private players, HDFC Standard Life has the first registration number (101). It was also one of the two private sector companies that ended Life Insurance Corporation's 43-year-old monopoly in 2000. The company's Principal Officer and Executive Director, PARESH PARASNIS, who has been associated with the company since its inception, says the country's sixth-largest life insurer is focusing on increasing productivity, improving persistence and managing expense overruns. In an interview, Parasnis talks to Shilpy Sinha about the plans on listing and stake dilution by HDFC. Excerpts:

How has life changed in the last nine years?

Life has changed for the better for customers. Now, customers have many choices. We have seen a lot of innovation, as far as products are concerned. Earlier, there was more focus on conventional plans, but the mix has changed. Servicing standards have improved and everyone is looking at further improvement. New channels of distribution have come up. In 2000, we only had tied agency. Now we have ban-assurance partners, brokers, third-party administrators, e-channel, etc. Today, online contributes 10 per cent to the total premium income.

You have recorded a double-digit decline in new business income this year. Do you see the trend reversing?

We expect the industry to grow at 10-15 per cent and our growth will be in line with the industry. Since most of the sales take place in the last quarter, we should wait till the end of the financial year for a better picture to emerge. The growth will come from the sale of unit-linked plans as the market has rebounded. Consumer sentiments have improved.

Though you had hoped to break even after seven-eight years, why have insurance companies not met that target?

We are consolidating our business and leveraging the distri-

bution network we created over the last few years. Efficiency and productivity are the key to profitability. Persistence is another area that we are emphasising. As we grow our top line, we are also looking at retaining the old customers. Our renewal premium has also seen good growth in the first half. We have reduced our infrastructure cost by 20-40 per cent, primarily by renegotiating our rentals and through other cost-efficiency initiatives. We expect the cost savings measures would lead to a lower need for capital infusion during the current financial year.

What is your capital

requirement for 2009-10?

In 2007-08, shareholders infused Rs 525 crore and they are planning to inject another Rs 350 crore this year. We have so far infused Rs 50 crore.

When do you plan to list? Have you started with the valuations?

We are working on valuations and expect an initial public offer in 2010-11. Meanwhile, the regulator is working on valuation guidelines on the basis of market-consistent embedded value. This will set the standard way of valuing a business. However, a lot will depend on external market circumstances. A lot will depend on the amendment of the law. We have to see how 26 per cent foreign investment becomes 49 per cent. It will be a call taken by the stakeholder list, or the foreign partner to increase stake. They may also get a third partner, a foreign institutional investor, after the rules are amended.

Does that mean you will not be profitable before you go public?

We expect to break even in 2011-12. Knowledgeable investors do not pay more attention to accounting loss or profit of an insurance company. It is much more driven by the appraisal value, the kind of margins we generate from our product and a good quality book.

What are your expectations from 2010-11?

The life insurance industry is going through a phase of unprecedented changes. Multiple regulations, along with the changing market scenario, have raised several challenges. Moreover, with next year being the tenth year of operations, many players are gearing up for IPOs. We expect that efficiency and productivity would be the key focus areas. Deeper penetration, productive agents, innovative products to meet changing customer preferences, newer ways of reaching customers, establishing a direct relationship with them, encouraging and educating customers to remain invested for the long term would be critical success factors. We would continue with our strategy of focusing on three pillars—increasing productivity, maintaining good flow of new and renewal business premium income and, above all, reducing expense overruns.