

# Break-even has been delayed by growth, possible in 2-3 years

RAMESH PATHANIA/MINT



**Uncertain plan:** Paresh Parasnis says the insurer is looking at an initial public offering in early 2010.

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**E**xecutive director with **HDFC Standard Life Insurance Co. Ltd**, Paresh Parasnis expects the insurer to break even in the next two-three years and sell shares in an initial public offering, or IPO, next year, provided uncertainties over regulations are removed and the markets look up. In an interview, he also talked about expansion plans of the insurer, a joint venture between **Housing Development Finance Corp. Ltd** and UK-based **Standard Life Plc**. Edited excerpts:

**What is your company's market share?**

As on December-end, our market share is 8% of India's private insurance sector. We have stayed quite constant. As on 1 April, we were 8% and we have continued to retain that share.

**Why have you adopted a conservative strategy?**

Our focus has been entirely

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on these three pillars—market share, cost management and at the same time ensuring that good persistency (a measure of insurance policies remaining in force) and good quality book are built.

**When do you expect the company to break even?**

We would have broken even in possibly seven-eight years (after the formation of the company in 2000). But given that we have continued to grow, that break-even is being pushed. The reason it has happened is because under the Indian accounting standard, what happens is that the entire acquisition cost of the business has to be written off in the first year itself. As we keep growing, it keeps building up. In next two-three years, we would expect to break even in terms of business.

**Does it mean that it will delay your IPO plans?**

Not necessarily. We all are looking at an IPO in early 2010. But much depends on the mar-

kets... Second thing that is slightly uncertain is the way regulation is seen to be shaping up. Today, you have the Insurance Act which says that after 10 years the promoters have to bring down their shareholding to 26%. But we have an amendment Bill in Parliament which says that a foreign promoter can own up to 49%. If that happens, then obviously both Indian and the foreign promoters may (hold) 49% each (and) then the possibility of an IPO would be very limited because you can't be offering just 2% equity share to the public.

**What about the Securities and Exchange Board of India's (Sebi) requirement that a company can launch an IPO only if it is profitable for three years?**

It says that only if you are profitable for at least three years, you can offer your shares at a premium. But if your promoters agree to bring in shares at the same value...as long as promoters agree to bring in capital at the same rate, Sebi has no objection. It can be charged at a premium,

but in that case it should be charged at a premium for all investors, including promoters. Having said that, Sebi and Irda (Insurance Regulatory and Development Authority) really need to sit and work out some of these regulatory issues if life insurance companies have to come out with IPOs.

**How much is your operating expense ratio (operating expenses as a percentage of premium income)?**

As of March 2008, we had an operating expense ratio of 20.8%. Growth rates have come down for the entire industry. The private sector started the year with a growth rate of between 75% and 80%. Today, as on December, the growth rate is just 13%. There has been a slowdown even in the life insurance space...as a result of which...expanding our distribution network is not giving us same return that we had worked on.

**What about your persistency ratio?**

We ended the last year at about 86% (high persistency means low percentage of policy lapses for non-payment of premiums) and this year our persistency has come down to mid-seventies... What we have seen is that customer continues to stay with us...but the level of premium that he or she commits is coming down... Today, the number of customers are increasing 30% year-on-year but average premiums, given what is happening in the market place and (to) individual finances, have come down.

**By how much has the average premium size come down?**

The average premium last financial year was about Rs30,000. It has now come down to around Rs22,000.

**What are your expansion plans?**

By the end of this calendar year, we will have 610 branches. Last year, we had 572 branches... We have increased our agency force from 145,000 to 203,000. Our distribution from bancassurance (sale of policies through bank branches) channel has grown... We were selling products through 700 branches. It has now grown to effectively 1,450 branches.