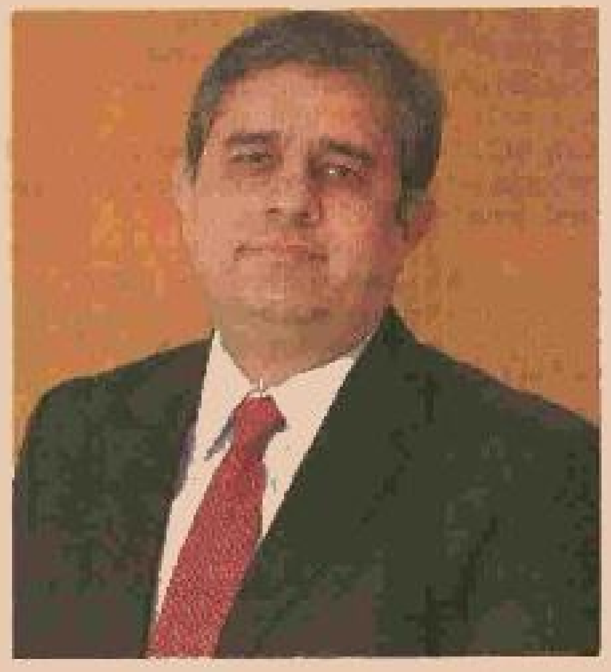
'The regulator is looking for more self-regulation'

Insurers are facing a lot of problems, which are set to change the course of the industry. But the new MD and chief executive officer of HDFC Standard Life, **Amitabh Chaudhry**, is aiming at growth and volumes. Though his earlier stint was not in the insurance industry, but with Infosys BPO, he has learnt the ropes on revenue generators for the company that is planning an initial public offering (IPO) in a couple of years. He tells **Khyati Dharamsi** how the changes will affect Ulips and life insurers from now on. Excerpts:



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Monday Interview

Amitabh Chaudhry

Will the changes proposed help the industry garner more funds?

The industry, in the long term, will benefit from this. The low hanging fruits will be there, but not as much. We have to restructure the business. We need to see whether we want to offer all things for all people or limit them. People will need investment options and they will come to Ulips.

What about the reduction in charges? Will it be a tough road?

There is scope for reduction. But only reduction will not work as you are running the risk of lower revenues. My problem gets lesser, because I am generating revenue. So the stream of revenues is important. Though we have increased our premium by 63% between April and May, our expense base has remained flat in the first quarter. We are aiming at a margin of 20% NBAP on a long-term point of view and it will not happen overnight.

We have seen how 184 branches were slashed by the industry in first quarter. Will you be trimming your network too?

We might be closing some down branches, especially where there are multiple branches in the same city. From a standalone profitability point of view, we will see how many districts we can cover up from one location. But we are cognizant of the existing customers and see whether we are moving away from them. We will look at a combination.

But you have the HDFC Bank branch network...

It is just that we can't just rely on that network. We need to have our own network.

Will you be cutting down people?

The good news is that the industry has high attrition rates, so we will be able to have a headcount without much pain. HDFC group has been seen as an employer friendly organisation, so our intent is to stick to minimum reduction.

But won't attrition rates come down now?

Yes, this number might reduce as 30-40% of the people who left were moving within the industry and that number might reduce.

What about the changes on surrender front, will that reduce profitability?

For the next 2-3 years surrenders from existing policies will be there. But later the surrender penalties will give you nothing, as the operating model is changing. We may move to traditional, but that is again not good for customers, as traditional products are opaque in terms of charges — there is a 35% commission plus bonus and you can't play the equity market as much as you can in Ulips.

Why are you filing for more traditional products, when you already have them?

We are filing for traditional products with low charges. Why should traditional be any different? And going by reports of Irda looking to cap charges in the traditional basket, why not do what they might ask for later? The regulator is looking for more self regulation; we need to understand that otherwise we will be over-regulated.

But agents have been misselling Ulips before the September deadline saying no medical tests now and lock-in for only 3 years?

It is not that the agents are selling the wrong thing. There are some benefits and flexibility available now, which may not be available later.

How will losses be made good for agents?

The hope is that they may be able to compensate for the loss by selling more. Our idea is to reduce the waste, rather than the reach. We are looking at whether they can offer the full suite of HDFC products. Other group companies, too, are looking at expanding distribution and agents are looking to sell more. So the idea is, can we have right books so that they get paid off.

But why are the number of agents being slashed by industry as there is no additional capex on non-performing agents?

The idea of companies trimming their agency workforce is probably because they have to give renewal commissions. The costs are being analysed and if you don't cancel, the costs build up.

What about your IPO?

There are things such as the 26:49 ratio (of FDI limit), the 25% public shareholding that need to be resolved. We also need to look at the picture in the new scheme of things and the margins in the long-term. But I don't see it happening until the third quarter of next year.

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