HDFC Life CEO Padalkar says protection is being left behind as India chases wealth

Vibha Padalkar, MD & CEO, HDFC Life

Summary

Vibha Padalkar reveals the challenges and opportunities in India's insurance landscape, calling for greater awareness and reform in policy practices. She argues for a shift in narrative from short-term returns to comprehensive coverage.

In April, HDFC Life reappointed Vibha Padalkar as managing director and chief executive officer for five years starting September. She got the top job in 2018, after spending 10 years in the life insurer. The company reported a net profit of ₹611 crore in the June quarter, up 12% year-on-year.

In an interview, Padalkar said India needs much higher insurance coverage, given the size of the economy. She said many people, including youngsters, are overfocussed on short-term returns and liquidity over long-term protection. Edited excerpts:

After spending 18 years in the sector, do you think there is a need for the insurance sector at all?

There absolutely is. I think the only products wherein the government has removed GST is on insurance. That clearly says that India getting into the top three in terms of GDP in the world or our per capita going up is not possible without the safety net of insurance. I think the means of getting there is less important but how quickly we get there.

We are asked the question: why, as a sector, why isn't term insurance growing faster or why is it for us only 9-10% of your retail annual premium equivalent. If you look at the growth in sum assured, that has been increasing very rapidly, which means that risk is moving from the customer to the insurer, so that he/she can sleep better at night.

Overwhelmingly, sum assured is growing significantly fast. We are overemphasizing on how you get there and saying this product or that. It doesn't matter. Anything more than not having anything is better. The focus is on some other things which are somewhat distorting our singular goal on how to get more cover.

What are some of the things that are distorting this focus?

First, all these years, the industry has been focussing on top-line growth. Second is that we've gone through a fair bit of conversation on the landed cost for the customer and the distributor. My view is that while it needs to move downwards, distribution is essential in life insurance. People don't wake up in the morning, saying I want to buy insurance.

So, it is important for us to ensure that all the stakeholders in the architecture of insurance are adequately enthused about insurance. Otherwise, in some of this, we lose the plot and not really get to our goal, which is insurance.

From a nation of savers, we are moving to consumers. There is now an inordinate focus on returns and on liquidity. Where is that counter-narrative to say you need both: you need some corpus that is liquid, you need that alpha to make returns, but you also need stability of your returns and predictability in your cash flows. So that's my worry, that the narrative is all becoming one-sided.

Has that impacted your industry?

I'll put it another way. We could grow faster, if there was more balance. It's not so much impacting the top line, but the surrender of policies is driven by this. It is not meant to be market is up or down; you should take a 7, 8, 10-year view.

Do you see surrendering policies increasing among youngsters?

It is similar to mutual funds, although it's not as acute as mutual funds. Everything is being consumed or put into something else in the search of a return but often consumed. Where does compounding happen if we keep switching?

Awareness has to be built early on in life. One is in schools, wherein our curriculum, especially in 9th, 10th, when kids are a little bit older, something like managing your finances should be taught. We learn calculus and algebra, but youngsters today often don't understand debt, equity, hybrid, risk, how to assess my own risk appetite, and compounding. So that is number one, for people to have a lot more awareness as to what are the different instruments for different objectives.

Second thing is that we spend more time on which iPhone or car model or what to watch on Netflix than to check what is the right policy. Begin with generative AI to at least demystify some stuff. If one is young and one doesn't want to talk to a human being, use the tools that are there.

The insurance regulator has been tweaking quite a few rules. What are the two or three things that the regulator could do to help the industry and consumers?

Whatever paradigm-changing regulations have to be done, should be done quickly, swiftly and then left alone. In the last three years, around August, September, October, we've had significant regulations. We had the tax withdrawal, we had surrender charges, then we had the GST removal.

Customers also get spooked… should I have bought it before? Should I have waited? Should I have bought it after? We need positive reinforcement to say that insurance is good, it is needed, from both the government – which it has overwhelmingly done in terms of GST cuts, as well as 100% FDI — and the regulator as well.

When you say paradigm-changing regulations, what do you mean?

So, the surrender charges had a 100-basis point impact on my margin. The GST had a 300-basis point impact on my margin. Growth rate earlier was about 15-17% for the sector and that is now struggling in low single digits. Our definition of paradigm-changing is, at least maybe 20% impact on your top line, or at least 100 basis points impact on your margins, or both.

What happens is that all that CEOs are looking at is redoing their business model. We have 350-plus distribution partners, so bespoke conversations with each one of them has to happen. It just consumes a lot of mental bandwidth and time, rather than looking at how I cover more customers.

HDFC Life acquired Exide Life four years ago. What did it bring to the table and has the integration been done?

We wanted to really grow our proprietary channel in order to de-risk dependence on any particular channel. Plus, proprietary channels are very good in terms of stickiness. With that in mind, when Exide came up for sale, we looked at it and it made sense. Of course, it didn't have scale and hence it was not profitable, but we thought that the quality of the advisers was good.

So, today, the erstwhile Exide Life business is close to about 40% of our overall agency business and growing. We wanted to really understand tier two and three, have those good advisers that already have been operating in that geography. Happy to share that all the key senior people and all senior advisors have all been retained post the merger.

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Shayan leads the coverage for banking and finance in Mint. Based in Mumbai, he has spent 15 years as a journalist, joining the Mint team in 2018. Over...Read More

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