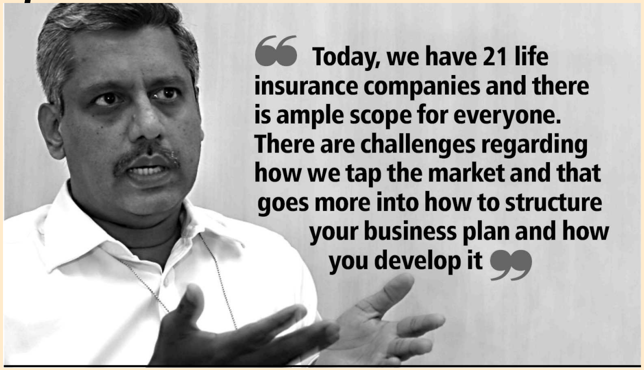
Q&A PARESH PARASNIS, Principal Officer and Executive Director, HDFC Standard Life Insurance

'Assured return products restrict investment options'

Paresh Parasnis, *HDFC Standard Life Insurance Company's Principal Officer and Executive Director is not new to the company having been there since it started operations eight years ago. But he has taken over a new role after Deepak Satwalekar stepped down as the CEO of the insurance company. In his first interview in his new role, Parasnis spoke to* **Shilpy Sinha & Sidhartha** *about the company's strategy. Excerpts*



You just completed eight years of operations. How has life changed?

Life has changed for the better, especially for customers. Now, they have much more choice. We seealot of innovation as far as products are concerned, servicing standards have improved, regulations have changed. Also, Irda is playing a pro-active role through a consultative approach. There is a huge scopesince India is an under-penetrated market. Today, we have 21 life insurance companies and there is ample scope for everyone, there are challenges on howto tap the market andhowto develop it. Customers are not buying insurance today for tax related reasons, which usedto be the case earlier.

Is the approach such that policy holders do not get as much importance?

There are policy holder protection regulations and there are things such as free look-in peri-odorfree switches. Plus, Irda has anadvisory board whichincludes representatives who represent consumer interests. Increasingly, consumer forums has been active in takingupconsumerissues. It is not one-sided, these (practices andrules) have evolved partly due to regulations and partly because of customers coming backandsaying 'if others aredo-ing it why can't you do if.

You have taken over when the economy is not in the best of health. Does that make your task tougher?

It is tougher but more interesting. It is possibly a toughtime to step in but having been associated with the company from day one, and having worked closely with the seniormanagementteam, it is also importantto ensure that the focus continues.

What is the split between unit-linked insurance plans (Ulips), traditional products and pension plans?

Ulips constitute 95 per cent of our new business and traditional with profit and endowments constitute the balance 5 per cent. Having said that, we were among the late entrants in the unit-linked market, so even today 28-29 per cent of ourtotal assets under management come from traditional with profit policy. Between the various product categories, pension contributed 40 per cent to our business, almost 30 per cent came from young-star, 27-28 per cent came from endowment plan and balance 2-3 per cent came from single premium investment product and term assurance. In case of term assurance we sell a large number of these policies butthe premiums are not high.

Is growth affected?

In the short-term one has seen the industry growth rates come down. Given the uncertainty, funds are movingto bank deposits.Theneedforinsurance has not disappeared. Possibly, the needhas increased due to uncertainty. The potential, which comes from semi-urban and rural areas, is huge. There are challenges in terms of cost of distributing and servicing clients in that area, butthat is the next fron-tierwere we will be moving. The scope for improving efficiency and productivity in this time is immense. Existing policies are continuing and people have not stopped paying premium or withdrawn or surrendered. In terms of new commitments there are some changes.

What about the growth rate for 2009-10?

The industry should grow at 20-25 per cent. The phase thatthe economy is going through will lastforsometime. Business confidence is down andthatwill take sometimeto rebound. We should grow in line with the industry.

Have you scaled down your growth ambitions, in terms of going to new markets?

Our focus this year was not so much expanding our branch network. But what we have changed is not so much look at our width but the depth of our distribution. In bigger markets such as Delhi and Mumbai we are more deeply entrenched in terms of distribution force, channels. We have increased the strength of these networks. It is more to see how December goes, last quarter account for 40 per cent of the annual business. Almost 20 per cent comes in March.

Will you also opt for assured return products?

There has been a recent move where companies have started offering guarantee on unit linked plans. We have consistently stayed away from guarantees. If you offer aguarantee, your investment options are limited and you have to back it up withmore debt. You also seethe products in the market where guarantees are offered on equity. I don't know how they are structured. A lot of these guarantees will work only if you stay till maturity. The moment you switch or make withdrawals, the guarantee is off. Sothe number of scenario the guarantees becomes effective is very limited.

How do you look at the risk-based capital approach and what kind of capital infusion are you looking at this year and next year?

This year, we will need around Rs 700 crore. We are still working on the business plan (for next year). It is not a concern as the two promoters will continue to contribute capital. On riskbased capital, there has been some discussion. Today one of the strengths of the life insurance industry is the solvency margin of 150 per cent. Our solvency at the end of September was 309 per cent and the capital base was Rs 1,620 crore. Itisnotthe right time to implement risk based capital. We do not know what weights will be attached to various risks and before we know that we cannot say it will lead to areduction capital requirements.

What about the IPO plans? Are they on course?

Deepak Parekh is on record sayingthat we are looking atlast quarter of 2009 and our efforts will continue. A lot will depend on external market conditions. We will keep growing, andtothat extent the profit or loss that we show on our profit and loss account is more a function of the accounting system in India.