'Now, you'll see a more pro-active company'

Q&A

Amitabh Chaudhry
CMD, HDFC Standard Life

*HDFC Standard Life is going through an image makeover by looking to become a more responsive and pro-active company. Once number three in the insurance industry in market share, it has slipped to the sixth position. AMITABH CHAUDHRY, the new MD and CEO, tells **Sidhartha** & **Shilpy Sinha** that his effort will be to be different from the competition and fill the gaps within. Edited excerpts:*

What are your shareholders' expectations from you?
The shareholders have been in the business for 10 years and they have not demanded any return. In the first 10 years, when others followed market share, companies like us did some other right things, like the kind of business or the kind of practices we followed. We were more into establishing need-based selling.

In the last two years, after the economic crisis, the expense ratio shot up. For us, it went up to 28-29 per cent, which was not seen in the past. This brought focus back to profitability and capital strain. It is good for the industry.

Given the number of players, what will be the differentiator?
Right now, there are only two channels, retail distribution and bancassurance. We will continue to move towards more. There are a number of regulators and they represent different asset classes. Looking at the cap on charges or what has happened to the mutual fund industry, we have to assume that the pressure on commission is going to be there. We have to be prepared to compete with different asset classes like pension plans and mutual funds in the next three-five years.

We want life insurance to cater to product sets which are more medium to long term. If you look at fixed deposits, mutual funds and insurance products of three-five years, the products look more or less the same. Only the providers are different. You need a cost structure that can compete with these asset classes effectively and a delivery mechanism which can be different.

After looking at the Swarup Committee recommendations, cap on charges, Sebi's (Securities and Exchange Board of India) showcause notices, RBI asking banks to disclose from selling insurance and PFRDA's low fund management fees, we come to the conclusion that we have to be much more cost-competitive in the next three-five years than what we are today.

How would you differentiate yourself from others?
Our product suite has been rounded up from January. First, we had a product gap for some time. We had products with high premium. Also, people have been coming up with guaranteed products, but we have stayed away from that segment. Second, on the investment management side, we have put up a very strong team. Third, we invested a lot in hope of growth and are now trying to cut expenses.

Now you will see a more responsive and a more pro-active HDFC Standard Life than before. You will see us differentiating from others. We have a brand and we only have to speed up execution.

Are guaranteed products the flavour of the season?
These structured products have come as people have gone through a cycle and incurred losses on the equity side. The returns are lower, as there is a guarantee attached to it, and it comes with cost. Today, the demand is there because there is a clear need to protect assets.

Are products getting more complicated?
As you keep adding products, for operations to manage, consumer to understand and financial consultant to sell, it becomes more difficult. Here, the consumer segment becomes more important. From an operational, marketing and consumer perspective, you need to have limited offerings.

Products from different asset classes look alike. Why will a customer buy a Ulip (unit-linked insurance plan) from an insurance company when the element of insurance is very low over a mutual fund product?
Products look alike. There is no harm in that. There will be an overlap. But, customer experiences will become the differentiator. There is a need to make consumers understand the need to buy life insurance and actually selling the product which caters to their demands and needs.

Have you revised your break-even target?
We have been saying we will break even in 2011-12, but IFRS (International Financial Accounting Standards norms coming in) might postpone it a bit. The cap on charges has also affected our margins because companies, not distribution channels, have taken the hit. This has postponed the break-even target.

The way things are moving, the insurance Bill is yet to be cleared by Parliament. You have completed 10 years and will have to list next year.
Right now, Irda (the sector regulator) and Sebi are working on the guidelines. The ability of a foreign shareholder to take 49 per cent (equity) is not there because the Bill had not been cleared. The fact that we want to do an initial public offering and be profitable in shape and size when we do one will pan out in the next 12-14 months. Our shareholders have been very clear that they want to list.

How much capital will you need in the next financial year?
This year, we have drawn down Rs 50 crore and require Rs 120 crore more. So, our capital requirement has come down substantially from last year. Our expense ratio has come down to 22-23 per cent. We will continue to bring down our capital requirement.

Based on our reasonable growth target, we will need Rs 150-175 crore in the next financial year. We are trying to squeeze our business. We will end this financial year with 21-22 per cent management expense ratio.