

Commissions are necessary to sell insurance products

The turf between Securities & Exchange Board of India (Sebi) and Insurance Regulatory & Development Authority (Irda) has left life insurers waiting for more clarity on new product launches which could hurt their business this year. In an interaction with FE's Kumud Das, HDFC Standard Life MD & CEO Amitabh Chaudhry talks of ground realities. Excerpts:

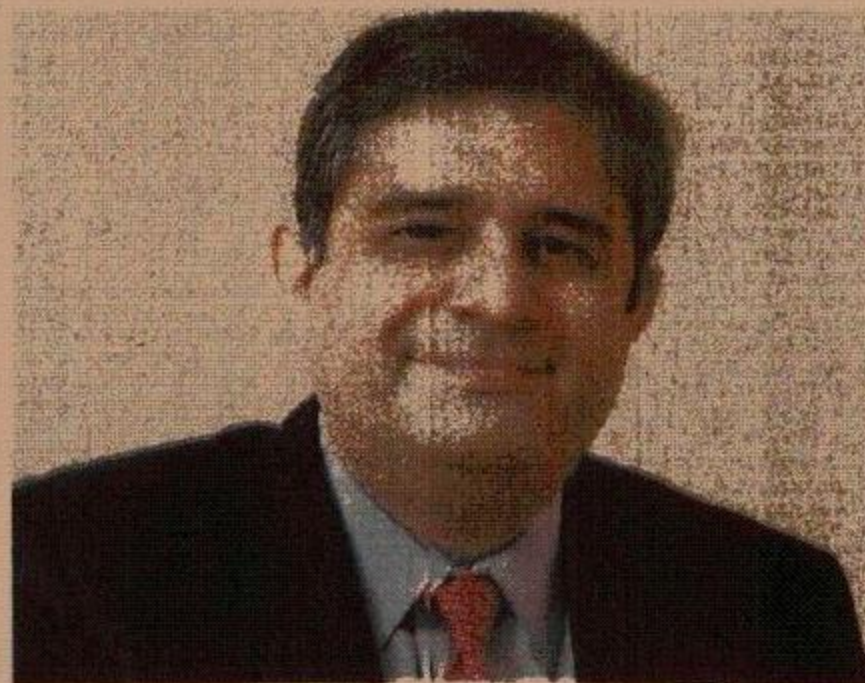
How has Sebi-Irda spat over Ulips affected the industry?

So far, there has not been any major impact because it happened during the lean period. The existing customers haven't been hurt. However, there is a perception that distributors' margins are high, which is not true. Customers believe

that commissions will fall and so some maybe postponing their purchases. Secondly, there are talks that like mutual fund products, Ulips too should not attract entry load. Currently, life insurers are holding back and we wonder why only 14 insurers have been singled out by Sebi when there are 23 players. Some changes have been made by Irda such as life covers for pension products and changes in the cap on surrender charges, and multi-level marketing are being considered.

What is your view on commissions?

Commissions are necessary to sell insurance products. Someone has to sit down and explain the product to the consumer, understanding his needs. To



assume these products will be sold without a commission, which varies between 4% and 8% in case of Ulip products, is not comprehensible. Insurance is a long-term saving instrument and financial advisors need to be compensated. Irda has laid down guidelines on dis-

closures of commission. I believe that the two regulators will arrive at a conclusion soon.

Are you ready to be governed by the two regulators?

Hopefully, both the regulators will talk to each other

and ensure that the final decision will improve overall governance in the system. But tomorrow if the government or the court decides, the regulators will not have a choice. Though we prefer to be regulated by one regulator, we do not have any say in the matter.

How are you tweaking pension products post Irda's new norms?

We are tweaking our products. Products such as pension schemes and Ulips will be changed in line with Irda guidelines. Premium on pension products is also likely to go up from July 1, 2010. I believe the sale of pension products, comprising 20-25% of our entire product portfolio, will come down once the new Irda guidelines on pension products comes into effect. How-

ever, this gap will be filled by the endowment products that are likely to become more popular due to the current controversy which has hurt Ulips sales. Another product that could become popular is the limited underwriting product, or what we call 'Suvridha.'

How much capital will be infused this year? Will there be an IPO?

We have already infused Rs 172 crore during 2009-10. We may add to this but how much we bring in will depend on how business pans out. We are looking at an IPO sometime in the next fiscal (2011-12) assuming the government passes the Bill in Parliament to allow foreign players to increase their stake to 49%, as against the existing cap of 26%.