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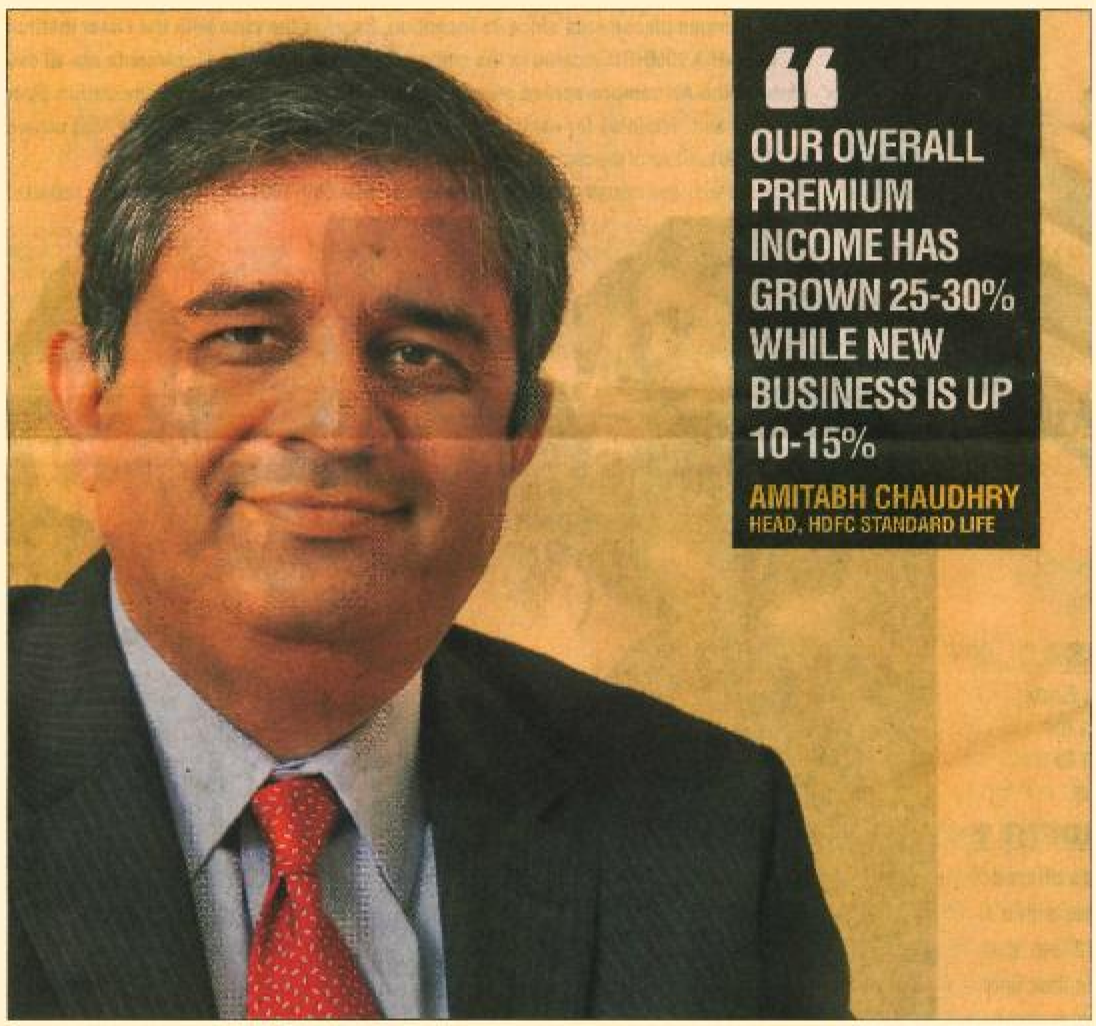
Q&A

Increasing revenue share, cutting costs and launching new products will lead to profitability for the company, feels HDFC Standard life head **Amitabh Chaudhry**

'WE'RE FOCUSED ON PROFITABILITY'

A MITABH Chaudhry, former CEO of Infosys Technologies' BPO business, has recently taken charge as head ofHDFC Standard Life.In an interview with Mayur Shetty, he dwells on what has became his most immediate agenda.



Have you been given any specific targets by the board?

Shareholders are asking at what stage and how quickly will we become profitable. As a brand, HDFC Standard Life stands out because of the things that we do. So I think the board is asking why the brand promise is not being reflected in the market share that we have. Why is it not being reflected in our coming to profitability faster? Now the board is expecting me to make some of the things happen faster than in the normal pace.

In the insurance business, growth and profitability appear to be conflicting objectives...

Our growth has turned positive on a year-on-year basis. This was partly because we filled some gaps in our product portfolio. Our overall premium income has grown 25-30% while new business is up 10-15%. There is more than one way to achieve profitability. One is to in-crease revenue through the existing capacity. Second is to cut costs, the third is to launch products that do not require so much capital. We are doing all of these.

How much capital would you require?

Our capital requirement has come down. We have a capital base of Rs 1,870 crore of which only Rs 50 crore has been infused this year. We expect to add another Rs 120 crore by the end of this year. Next year, we are talking r about similar numbers — Rs 200- 250 crore, depending on the business we write. We expect to become profitable in 2011-12 by Indian GAAP. But Indian GAAP might not be relevant because there is a proposa> to introduce IFRS. Of course once we become profitable, capital requirements will also go down. But while we start making profits, we will still have Rs 1,100 crore of accumulated losses.

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Coming from the BPO industry, what is your perception of the life business?

Sometimes when you believe things are different, they turn out to be really the same. There is strong competition in both industries, coupled with having global brand leaders in the market. People are expecting companies to grow exponentially on the maturity curve in delivering what they promised. The real differentiation will continue to come from a unique customer experience, being a long-term player and following our value system and being innovative. In insurance, you can be innovative for only three months as products can be copied. But if you are innovative in the margin, that becomes part of your brand promise.

Have you undertaken any cost-cutting measures?

It's too early as I have been only four weeks into the job. But I have maintained consistently that we should drive more efficiency from the system or reduce unnecessary costs. For instance, we had already gone and done a lot of work where branches are located and do we need that size?. Now, we need to take it to the next stage and ask whether this is the right capacity? Do we need a front and back-end that are different. Do we need to establish branches in tier-III and tier-IV towns? In some places, we do have excess people and we have to see where they can be redeployed in some areas where we intend to invest in.

Do you think HDFC Standard Life is ready for an IPO?

Yes, in the sense that we have a revenue stream, we have persistency, we have in force business which has some embedded value. Whatever we have shared with investment banks, the impression is that yes, HDFC is the right name to take to the market. But obviously we need to take it at the right time at the right valuation. There is the issue of 26% foreign holding which may be raised to 49%. If Standard Life wants to hike, there is the question of who will dilute how much. But the IPO guidelines are not yet in place. There are lot of balls in the air but we expect them to fall in the next six months, and when that happens, we will be ready.

A large part of your business is brought in by HDFC Bank. Is this not a concentration risk?

Today, bancassurance accounts for almost 50% of the business which is on the higher side. We would like the bancassurance channel to contribute not more than 30%. Of the rest, agency should be 30-40% and others should be 30-40%. But we want to reduce the share of bancassurance by increasing the share of other channels and not by reducing the premium from this segment.

mayur.shetty@timesgroup.com