

**Pvt Life Cos' Earnings Hit as 'Abnormal' Gains End**

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Regulatory intervention slashes earnings from policy surrender, which made up '3/4th of profit'

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Private life insurers' earnings growth rate slumped last fiscal as abnormalities such as surrender of policies, which inflated earnings in previous years, were nearly eliminated due to regulatory intervention. ICICI Prudential Life said net profit for the year rose 8% to Rs 1,496 crore, and SBI Life's grew 12% to Rs 622 crore. Kotak Mahindra Old Mutual Life Insurance, the other private insurer, said profits fell 73% from a year earlier.

"Surrender profit is not good for the end customers and over the past year profit due to surrender has fallen," said Alpesh Shah, senior partner and managing director at BCG. "Now, what we are seeing are true operating profits because companies have improved efficiency and cut cost."

Life insurance companies are rowing back to reality after years of heady revenue and profit growth driven by policies that did not suit investors, or promoted with huge commission to distributors. Many of these practices led to people buying Ulips, which are more like mu-

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<p><b>8%</b></p> <p>Rise in ICICI Prudential Life's net profit for the entire year</p>	<p><b>12%</b></p> <p>Growth in SBI Life's profit</p>
<p><b>73%</b></p> <p>Fall in Kotak Mahindra Old Mutual Life Insurance's profit</p>	<p><b>A report said top six life insurers reported a net profit of ₹4,182 crore for the year ended March 2012 – 37% was on account of lapsed policies</b></p> <p><b>Surrender charges are now capped at ₹3,000 for premium up to ₹25,000</b></p>



tual fund investments, but with a substantial sum of early investments eaten up by commissions. When realisation dawned that these policies were unprofitable, many discontinued and those discontinuation helped shore up profits.

In 2011-12, ICICI Prudential reported a 90% increase in earnings, for SBI Life it was 52%, and for Kotak Life earnings doubled. Canara HSBC OBC, a relatively new entrant, reported its maiden profit of Rs 235 crore. Although companies do not provide details of how much they earned from surrender, analysts forecast that to have been as high as three-fourths of the total profit. A report by Goldman Sachs on the life insurance industry in India said that top six life insurers reported a net profit of Rs 4,182 crore for the year ended March 2012 — 37% was on account of lapsed policies.

In September 2010, the insurance regulator revamped unit-linked plans by capping surrender charges, which

were as high as 100% in some cases. Surrender charges are now capped at Rs 3,000 for premium up to Rs 25,000. And the premium is transferred to discontinuance fund if the policy is surrendered before two years.

The industry, which is lobbying for higher foreign direct investment at 49% of total equity from 26%, has been hurt by slowing economic growth too. The industry's sale of new policies, the benchmark for growth, contracted 6.3% last fiscal as people squeezed by high inflation shunned financial savings.

The product mix of industry has shifted from unit-linked insurance plans, products that invest in equities, to traditional or conventional policies like money back that follows a regulated investment guideline. After the changes introduced in 2010, margins on unit-linked products fell to 8-12% from 15-20%.

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