IndiaFirst
LIFE INSURANCE

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Private life insurers need sustenance

Ulip norms and other new regulations hit profitability of private life insurers in FY13, and the condition is unlikely to improve soon

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LIFE insurance companies are suffering from shrinking profits. Falling income from new business and renewal premium, higher surrender payouts and a relentless regulatory screw during FY13 have hit the companies hard. What's more, the pressures can only worsen.

Take ICICI Prudential life Insurance. The country's largest private life insurance company reported a modest 8 per cent growth in net profit to Rs 1,496 crore for 2012-13 against a net profit of Rs 1,384 crore during 2011-12. SBI Life Insurance too registered a 12 per cent net profit growth for FY13 to Rs 622 crore. Only HDFC Life Insurance logged a net profit of Rs 451.48 crore for FY 13, compared with Rs 271.02 crore during 2011-12.

Kami Singh Arha, chief financial officer at India First life Insurance Company, told *Financial Chronicle*, "The sources of revenue for a life insurance company are the investment incomes from the shareholders' fund, operations, high persistency of policies, assets under management, profits from lapsed policies and surrender charges on old products sold."

"While the new business achieved profit (NBAP) margin for insurers in old Ulip products was 15-18 per cent of the new business premium over the life of the policy, in new Ulips the NBAP margin has fallen to 10-12 per cent. So while the eventual beneficiary is the policyholder, the profit margins of insurers have taken a hit," Arha added.

According to data compiled by *Financial Chronicle*, the top six private life insurance companies have seen a 81.3 per cent rise in surrender benefits paid at Rs 25,787 crore for the nine months ended December 2012. The surrender benefits paid by these six insurance companies was Rs 14,222 crore for the nine months ended December 2011. The six companies taken for the study are ICICI Prudential Life Insurance, Bajaj Allianz Life Insurance, Reliance Life Insurance, SBI Life insurance, HDFC Life Insurance and Max Life Insurance.

Says the chief financial officer of a large private life insurance company, "First, the industry is not growing. Secondly, the Ulip regulations have shrunk profitability for insurers. Going forward, the latest product guidelines for traditional insurance plans and variable insurance policies are much stricter than the earlier Ulip regulations; therefore profits will reduce further."

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> **Kami Singh Arha**
> *Chief financial officer, India First Life Insurance Company*

Irda during July 2010 (and with modification in September 2010) came up with unit-linked insurance plan (Ulip) guidelines capping upfront charges (paid by policyholders), returns and the commission payouts.

Immediately following these guidelines, during FY11 and FY12, the industry witnessed a shift in the product mix from linked products to traditional products. The premiums fell at an annual rate of around 19 per cent during FY11 and FY12.

The life insurance industry was focusing on selling Ulips and Ulip pension plans during FY05 to FY10 as it had high charges and the risk was borne by the customer. The performance of Ulips is directly linked to primary capital markets, which boomed between FY06 and FY08, benefiting the insurance companies in turn. FY09 and FY10 witnessed a slowdown in the economy and impacted the sale of policies.

"The periods FY11 and FY12 had a consolidated positive movement in the reserves. However, this positive movement was hugely driven by lapse profits on linked policies issued earlier. Insurance rules before September 2010 allowed insurance companies to write back the lapsed money as income in the books over a period of time. Estimates by an October 2012 Goldman Sachs global investment research report for just six companies show lapse profits of Rs 3,189 crore for two years ending 2011-12. The industry is at critical juncture wherein it has to identify the right models for long term viability," said a KPMG Report titled *Insurance Industry — Road Ahead, path for sustainable growth momentum and increasing profitability*.

What does this mean for you?

A profitable insurer means that your chances of facing a problem in getting your claims paid by the company do not really exist. According to Irda Annual Report 2011-12, LIC, ICICI Prudential Life, HDFC Life, SBI Life and Kotak Life were the top insurers with a claim settlement ratio of 92-97 per cent for individual death claims. These life insurers are the ones that are making profit. On the other hand, the life insurers with a poor claim settlement ratio were also those that continue to reel under losses such as DLF Pramerica Life Insurance that settled only 24.46 per cent of the claims it received, Aegon Religare (claim settlement ratio of 66 per cent), IDBI Federal (67.47) and Future General! life (68.06). These insurers also repudiated higher number of claims.

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