PM's cheap cover bleeds PSU bank-backed insurers

 Life insurance companies floated by public sector banks have witnessed profit erosion in the first quarter ended June 30 due to higher provisioning for future claims under the government's pradhan mantri jeevan jyoti bima yojana (PMJJBY).

SBI Life Insurance, a subsidiary of State Bank of India (SBI), saw its net profit fall 16 per cent to Rs 202.35 crore from Rs 241.35 crore.

Similarly, IndiaFirst Life Insurance, a joint venture between Bank of Baroda and Andhra Bank, reported a loss of Rs 4 crore for the June quarter compared with a net profit of Rs 90 lakh during the corresponding period of the previous year.

Losses of Star Union Daiichi Life Insurance, a joint venture between Bank of India and Union Bank, more than doubled to Rs 12.3 crore for the quarter compared with a loss of Rs 5.4 crore during the same quarter of 2014-15.

Speaking to Financial Chronicle, SBI chairman Arundhati Bhattacharya said, "We have made a provision of Rs 50 crore towards claims that may come from PMJJBY. As a result, SBI Life's profit has been lower in the June quarter compared with the previous year."

A total of 1,127 claims have been reported under PMJJBY till August 14. Public sector behemoth Life Insurance Corporation of India (LIC) has received 529 claims, IndiaFirst Life Insurance 206, Star Union Daiichi Life Insurance 182 and SBI Life 125, according to government data.

Insurers offering policies of private sector banks received very low claims. ICICI Prudential Life Insurance received one claim and Max LifeInsurance received three claims, while Tata-AIA Life, HDFC Life, Birla Sun Life and Shriram Life Insurance did not received any claim, government data showed.

Out of the 23 private life insurance companies, only eight are offering PMJJBY.

RM Vishakha, managing director and chief executive officer of IndiaFirst Life Insurance, told FC, "We had projected a profit for June quarter, but had a loss on account of stamp duty on PMJJBY policies. Stamp duty is an expense going out of the profit and loss account. Out of the Rs 330 premium that a customer pays, the business correspondent gets Rs 30, while the bank gets Rs 10. Of the Rs 290 premium we get, we have to pay Rs 40 as stamp duty. I have so far insured 20 lakh lives and earned a premium of Rs 58 crore. I settled more than 200 claims in the first quarter, resulting in an outgo of Rs 4 crore."

"While the claim ratio is not alarming, the direct impact in the first quarter was because of stamp duty. We, as well as the life insurance council, have written to the finance ministry asking for waiver of stamp duty on PMJJBY. Being a social sector scheme, we believe our request would be considered favourably. We have also established a good track record in settling claims and are committed to the scheme," added Vishakha. Speaking about a higher number of claims reported by insurance companies of public sector banks, a senior insurance industry official explained, "The customer profile of public sector banks consists largely of low and middle income groups. Also, a major chunk of their customers are above 45 years. On the other hand, private sector banks have a much younger customer base from the middle income and affluent classes."

The government has extended the last date for enrolling under the PMJJBY till September 30, and persons enrolling within this period would not be required to submit a certificate of good health. The government has kept the premiums low for PMJJBY so that more people enrol in these schemes.

The premium for PMJJBY, a renewable term life insurance cover of Rs 2 lakh to all savings bank account holders is fixed at Rs 330 per annum irrespective of a person's age. Low premium has also exposed the life insurance companies to high level of frauds. With such a low premium, insurers and banks cannot underwrite the risk prudently. Any ailing person can enrol in PMJJBY without the insurer's knowledge, as no medical tests are required.