

'The trust deficit needs to be plugged at a cost'

ROUND TABLE: Insurance industry leaders talk about mis-selling, the banks-as-brokers model and whether the perception about the obsession with top line is correct

Moderator: Mis-selling is still the biggest issue. Why hasn't the regulator been able to fix the problem?

R K Nair Till 2009, insurance companies were offering superior returns relative to banks. With the capital market boom, a lot of investment products were sold. But the slowdown has probably caused a lot of disinvestment among customers, particularly for investment-linked products. So the regulator suggested many changes like scaling up of commission, etc. to make them more of an insurance product than an investment product. Further reforms have happened since then and I believe that there will be a more healthy and orderly growth. In non-life products, complaints have actually fallen.

Why has the general insurance industry slowed down this year?

G Srinivasan When the economy slows down, there is bound to be some impact. The industry was growing at 19-20 per cent in the last three years that has slowed down to 13-14 per cent. If you look at traditional product lines like fire and engineering, there has been a slowdown for various reasons. The scope for project insurance has come down. There is a slowdown in property insurance also. If you look at the auto sector, most of the automobile companies are not seeing high growth. Auto insurance contributes 40-42 per cent of the total business. Fortunately, we have seen good growth in personal lines like health insurance. But that has slowed down as a very temporary phase.

General insurance players have been reducing premiums to grab market share. How long can you sustain this?

Bhargava Dasgupta You have to see the insurance cycle. For example, if you see motor insurance, which is 45 per cent of the market, I think the issue is not pricing but about the fact that the industry is degrowing. And you look at global practices, it is very typical of the general insurance industry. You will see a year or two of soft pricing; then there would be underwriting challenges for companies and prices will start hardening. The only area where pricing has been aggressive is the group health segment, where pricing is inadequate at present. But that also has cycles where prices have come down at one time and then corrected.

If you are segment by segment, the scope for penetration is huge. It is important for all of us to see that the business is run in a profitable way so that we are able to invest to capture that opportunity. If you see the penetration number, which was at 67 per cent, while China is at 1.25 per cent, Russia 1.25 per cent and Brazil 1.6 per cent. So there is a long way to go.

Life insurance has done well this year, but not premiums are down.

Amitabh Chaudhry I don't think life insurance companies have done well this year. If you analyse the data, you will notice that the private sector companies have really not done well. Data from Life Insurance Council for nine months till February compared to last year, shows that the number of life covered has come down; number of policies, number of offices have come down. The only good news is the life insurance industry was able to do a number of things in the last five years, of course backed by the regulator in a very big way. Post January, we can hope for stability and growth because the consumer can look forward to products which are better priced, better structured, more transparent. I don't know whether there are green shoots but there are some shoots and hopefully in the next 12 to 18 months, we will see growth coming back.

Has the industry done enough on innovation? The perception is different.

P Nandagopal The fundamental problem is that you are equating innovation with product innovation only. Product innovation must be there because we cannot really have one simplified product for everybody but a huge opportunity exists in process innovation. If you focus on process innovation, what will happen is the customer will be more inclined to buy the product while at the same time the insurers' operational cost will come down. The changes that we lay out to the customer will also come down.

Everyone says the new guidelines have brought transparency. But has the regulator been fair to insurers?

Anup Rai The life insurance industry peaked in 2010. This year, we will be lucky if we reach 200 numbers. I think post 2010, it has become impossible for us to sell market-linked plans. The paradox is, if you ask people sitting here, everyone will say that market-linked is expensive. If you sell a product through a channel where the charge structure is restricted, it is going to be a challenge. There is going to be a change in the traditionalists. The positive is that companies will be forced to focus on persistency and distributors will have to be more serious about the profession. It will force people to sell long term products.

The banks-as-brokers model is hitting the headlines. What's your view?

Nair India is still in more competition for brokers, but that's not the issue. Broker as a concept is an open architecture. Having a channel of distribution that represents the customer will help bridge the trust deficit. Importantly any decision as a necessary component to switch from one identity to the other isn't necessarily a good idea. If we correct the remuneration of the broker in line with the work he does, and then leave the choice to banks, we may see some banks



G SRINIVASAN CMD, New India Assurance



ANUP RAI CEO, RELIANCE LIFE INSURANCE



P NANDAGOPAL MD & CEO, IndiaFirst Life



R K NAIR MEMBER, IRDA

"Many banks look at insurance merely as a revenue generation area and not as a profession where they should put resources and give training. The current trust deficit will only get accentuated if banks don't do this"

"Companies will be forced to focus on persistency, and distributors will have to be more serious about their profession because of the new guidelines. We will see some short-term pain, but there are long-term benefits"

"There is a huge opportunity in process innovation. If you focus on that, the customer will be more inclined to buy the product while at the same time the insurers' operational cost will come down"

"The banks-as-brokers model is a very good concept. You have to bring a mindset change to represent clients rather than companies. But probably banks should not be forced and be given a transition period"

"What's the industry's take on persistency? Many view India's recent move to allow every insurer to decide on their own criteria for persistency as a strange move."

Nandagopal I think the industry has to



AMITABH CHAUDHRY MD & CEO, HDFC Life



BHARGAVA DASGUPTA MD & CEO, ICI Lombard



SANJAY KEDIA CEO, MARSH INDIA

"Life insurance industry hasn't done well, but we can now hope for growth as the consumer can look forward to better products. I don't know whether they are green or brown, but there are definitely some shoots"

"If you see segment by segment, the scope for penetration is huge. It is important for all of us to see that the business is run in a profitable way so that we are able to invest to capture that opportunity"

"For all market participants, growth means top line growth and the feeling is that bottom line will be automatically taken care of. If the industry is obsessed with top line, we will be led into a lot of other problems"

"Why did the regulator take a U-turn on persistency?"

"Health is clearly the fastest growing business. Let's bring back the main point about aggressive discounts. We'll see this strategy work?"

Chaudhry The regulator has given a very clear signal to the industry about what it wants the industry to do about this problem. They expect the persistency to come up to a certain level. I think the industry should go back to the regulator, saying this will

need to continue to provide them good service. If you don't, the trust deficit increases and obviously you won't be able to sustain this growth. If you look at the three segments, the retail portfolio largely for most companies is typically profitable. There are certain challenges in the retail portfolio as well because the regulator does not agree on certain price increases. There is also a high level of about 15 per cent medical inflation that we all are aware of. So every year the portfolio starts getting into zones of unprofitability. That is something that we need to look at (annual price increase).

If you turn to the corporate portfolio, some companies may be making a bit of money. But overall on an aggregate basis, the industry is losing money. I don't think there is any real incentive and disincentive for underwriting. One of the things we've been talking about is that we need to look at some form of risk-based capital model. Even if we come to a very simple solution, for example in group health or in health portfolio if you're consistently running a combined ratio of let's say X, more than 100, that's more capital.

The third segment on health side is again the government portfolio which is being very similar to the group portfolio. The year the group portfolio is bleeding because of underpricing, the government portfolio also bleeds. And this is a larger risk for the industry and the sponsor.

How do you see the concept of insurance marketing firms, which are some kind of a half-way house between an agent and a broker?

Kedia We haven't resolved the fundamental issue of trust deficit of the customer and the insurer. An agent representing five companies has no liability towards the customer, the only thing that he would do is sell the product of the insurance company that offers the maximum commission. And the regulator on the insurance marketing firms will be far lesser than the broker's system. I am worried from the customer trust deficit perspective. We need a mechanism of cash distribution. Addressing the core 'can we create a pull environment?' can involve a lot of things.

For all market participants, growth means top line growth and the feeling is that bottom line will be automatically taken care of. If the industry is obsessed with top line, we will be led into a lot of other problems.

Are insurance industry CEOs obsessed with only top line?

Srinivasan There should be full emphasis on the bottom line as well. If a company does not make enough profit, there are automatic checks. Yes, we should move to a risk-based system so that there is adequate capital consistent with the underwriting efficiency of an organisation and also with the underwriting results they produce. While growth is certainly important, there must certainly be focus on the bottom line.

Chaudhry Broker model accounts for the highest number of mis-selling complaints and extracts the maximum amount of money from the industry. But you need to understand why some players are obsessed with top line. If you look at profit and loss, unless you have top line there is no profit. With all the infrastructure that insurance companies have created, a lot of it is fixed. If you don't get a certain amount of top line, there is no profit. And in the life insurance industry, the problem starts with top line. There is no growth, there is no growth and expenses cannot be cut beyond a point. That is why there is focus on top line.

Kedia While I concede that it is not good with brokers, we all know that statistics speak what we want them to speak. That is what is happening on the claims side. Let us look at some statistics from the claims side. On non-life policy premium, the average market reduction is 8.8 per cent from the tariff rate. If the premium on property claims comes down by as much, does this mean that India has become very cheap in the short term, this could mean that persistency. We are expected to behave and make sure those numbers improve.

What is happening in the market is that the number of claims settled has improved, but customers say that when the claim is small, the insurance company is quick to settle the claim. But when it is a large claim, the insurance company refuses even if the relationship spans 10 years, it cannot recover this premium and the claim is stuck for ever. So large claims have become a major issue in the industry.

The second problem is that a customer cannot go to a broker for settling claims. Advice if he has to use the broker for placement of services. This is not allowed only in India. We have experienced many times and the regulator allowed a partial ban. But the General Insurance Council intervened and said up to the broker better should be involved. But the problem is in the large claims, so we have a serious issue of customers neither getting the claim nor the money in the industry.

Rao One of the points that brokers have the highest number of complaints followed by insurance and then agents. If you look at the data, most of the complaints are on the side-calling side and that is charged against. If you put that out, you will see that if you have a branch model, complaints are actually low.

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(Srinivasan, Chaudhry and Nandagopal are members of the Round Table)

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