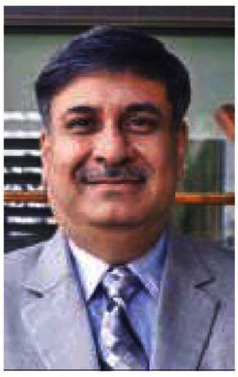
mint
Mon, 15 May-17; Mint - Delhi; Size : 637 sq.cm.; Page : 15

Absence of a strong bancassurance partner has impacted pace of growth



money GURU

Ashish Vohra, chief executive officer, Reliance Nippon Life Insurance Co. Ltd

Secrets to successful succession
bit.ly/2q80BEr

The life insurance industry recorded an overall growth of 26.23% in the first-year premium collection in FY17—the private sector grew by 23.53%. However, three insurers reported negative growth, one amongst them was Reliance Life Insurance Co. Ltd. It reported a negative growth of 32.52%. Ashish Vohra, chief executive officer, Reliance Nippon Life Insurance Co. Ltd, who assumed charge around 7 months ago, spoke with *Mint* to explain the negative growth and the way ahead. Edited excerpts:

The life insurance industry saw positive growth. What are the reasons you saw negative growth?

There are many factors to understand. One can measure the performance by looking at the first-year premium collections, renewal premium collections, growth in embedded value, profits declared and persistency of policies. It is not necessary that one metric correspond with another. Knowing this is useful to look at growth. Our company has seen negative growth this year due to a few reasons. Firstly, we weeded out unprofitable business in the last 1 year, resulting in right sizing the expense base and corresponding volume reduction. This took a toll on the growth numbers but improved persistency.

Second, we don't have a strong bancassurance partner which impacts pace of growth. We have seen growth in the industry mainly came from bancassurance channel, where banks have a captive customer base and they can cross-sell products. We are primarily an agency-driven company; so the task is to first acquire customer, which is definitely tougher. Lastly, only 20% of our portfolio are Ulips (unit-linked insurance plans). This product category is becoming popular, given the buoyancy in stock market.

In our experience with urban centres, smaller towns and tier-2, tier-3 cities through our 750 branches, we have realised that people in these places don't have the appetite for risk and are looking for guaranteed returns. So we have a huge chunk of our portfolio that is non-participating, non-linked products, which takes time to build.

In the last few months, we have set on course the correction track, to tackle these issues and identified a few growth levers—including cost-effective growth for agencies, partnership with banks under open architecture, improve business quality, lay deeper emphasis on digitization and focus on improving persistency—that will drive growth in the next few years.

But given the downward trend in interest rates, how easy is it to maintain long-term guarantees? Some insurers have relaunched their guaranteed products with revised rates.

There are two aspects to guaranteed products. From the customer standpoint, these are great products as they guarantee you a return over the long term, say 20 years, thereby insulating you completely from the vagaries of the market. So for a certain set of customers, this works well and if you choose your customer set carefully, these products work well for them. Now, for an insurance company, these products certainly carry interest rate risk and in order to meet the guarantees we strengthened our reserves—by Rs100 crore this year—impacting profitability in the short run. But we are of the view that over the long term, we will see a correction. So, perhaps over the short term we may take a hit but over the long term things will balance out. We haven't revised our products due to declining interest rates.

You spoke about reaching out to your customers with the right products, but why are customers still dropping out? According to figures reported in the *Handbook of Statistics*, released by the regulator, the 13th month persistency ratio in FY16 was 56% whereas 61st month persistency was 16%.

If you look at the latest numbers, our 13th month persistency has improved to 65% and the 61st month persistency is 31%. Customer centricity as a focus is something that has taken shape only in the last couple of years. When I joined, we did a suitability study and decided to stick with products that our customer segment needed. We have instituted a few changes which are global practices and the FY17 numbers are a result of that.

We brought in several digital enhancement measures for a well-rounded focus across all channels. First, we have integrated persistency into KPIs (key performance indicators) of our sales force. Our distributors need to maintain a certain minimum persistency for rewards. So instead of focusing only on the top-line, they have to focus on retention and fewer complaints. Every branch now has this KPI sheet.

Customer retention and persistency remain one of the key focus areas for us

We have also developed persistency models. So in the case of new agents, or certain geographies with less training, there is a probability that customers may drop out. In such cases, we call the customers before renewal to explain the importance of renewing the policy. We have also observed persistency of customers to be low from agents that attrite. So we call the customers to make sure they understand the protection element of their policy as well and know the consequences of dropping out. Customer retention and persistency shall remain one of the key focus areas for us this year, and in the years to come.

You mentioned that bancassurance is important for growth. What's the progress on tying up with banks or even acquiring a bank-promoted insurance company?

We have tie-ups with small banks and recently we tied up with Equitas Small Finance Bank Ltd. We are very keen to strengthen our bancassurance channel as that is not only cost-efficient but also more productive as it has a captive customer base. There are two opportunities to use the bancassurance channel: one by acquiring a small bank-led insurer and second by tying up with a bank. We are very keen to acquire and are looking out.

In terms of product suite, most companies have started focusing on pure protection plans. What's your product strategy?

Even now, 95% of the market is made up of investment-led insurance products and 5% of term plans. It is true that protection as a product category is growing and in 3 years it will increase to 10% of the market. We are also focussing on protection and will be coming out with new products. However at the moment, our focus is to make sure our customers who buy bundled plans understand the protection element in the policy. Customers are typically interested in the investment aspect so they need to be made aware of the insurance element in policy as well and that the risk of death is real. Our second strategy is to build riders and we have already filed for three riders. We also make sure that the claims of the customers who have bought term plans are honoured. Our claims settlement ratio is over 95%.

According to a news report in *Mint*, the insurance regulator is contemplating portability for life insurance policies as well. What is your take on portability?

Life insurance policies are long-term products and as such the concept of portability is yet to be established. If you think about term plans then portability is already happening because when a customer finds a cheaper option, he can simply buy the new policy and lapse the old. In terms of savings and investment products, when people surrender, it's not because they want to move to a better insurance product. It's because they don't want to be in the plan: they may either need the money urgently or may realise that the product category is not suitable to them. In both the cases, they are not looking to port. We will therefore need to apply thought as an industry to define the customer problem we would solve through portability.

Deepti Bhaskaran
deepti.bh@livemint.com