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Tide turns as Ulips come of age

A regulatory environment that focuses on customer protection while being pragmatic is the need of the hour

LIFE INSURANCE

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THE year 2015 will go down as a watershed year in the history of life insurance in India. The Insurance Laws (Amendment) Bill, 2015 passed by Parliament in March 2015 has the potential to change the landscape of the industry. The long-standing demand of the industry for increasing FDI to 49% has become a reality allowing the several insurers to access the much-required growth capital apart from several other changes influencing the entire value chain from distribution to policy servicing to claims.

The Bill also laid the foundation for another eagerly awaited regulation; that of enabling open architecture in bancassurance which saw the light of the day after a wait of six years. The IRDAI has been vested with greater powers to usher an era of responsive regulations; the need of the hour is to have a regulatory environment that is focused not just on customer protection but education as well while being pragmatic and mindful of the ground realities and challenges faced by the industry. The Bill lays equal emphasis on market conduct and consumer protection envisaging onerous penalties for insurers in case of any breaches and the somewhat contentious law for 'non repudiation' of claims on any grounds whatsoever, if intimated after three years, thus enabling holistic development of the industry.

ULIPs back in favour, unabated rise of bancassurance: FY16 also witnessed the return of the industry to the growth path. Before we begin celebrating the turning of the tide, it is important to understand the reason behind this growth. For the private industry, this growth is primarily linked to the resurgence of unit-linked insurance plans (Ulips) which in turn is driven by the prevailing bullish sentiment in the equity market. However, we should be circumspect in proclaiming the 'coming of age' of Ulips since the current rush for Ulips has little to do with its intrinsic value proposition and everything to do with the returns that the markets have delivered in the past 18 months.

The Ulips are inherently market-linked products and, therefore, the sales are bound to be influenced by the performance of the stock market.

However, that also makes Ulip sales vulnerable to the vagaries of the market. We have seen this play out in the past, Ulips in their new avatar have been in existence since 2010, however, their sales continued to be depressed till the second half of 2014 when the current bull run in the stock market began. Thus any growth that is solely driven by Ulips is bound to be volatile and as a life insurance industry, which is considered to be a safe haven for customer's money, we should be able to deliver steady and long-term growth rather that sporadic periods of hyper growth.

Another persistent challenge associated with Ulip sales is that stock market returns over the short term are wrongly extrapolated to lead customers to expect similar returns over a longer period. Despite knowing Ulips are market-linked products, the perception about life insurance being a 'safe' investment is so overwhelming that it leads customers to expect some kind of immunity from the sudden shocks of equity markets. Unless we, as an industry, have a robust control mechanism to safeguard customers against false expectations and ensure that Ulips are sold as a long terms savings plan rather than a short-term investment, we should be extremely cautious in cashing in on sentiment driven Ulip sales for growth.

Illustratio: SHYAM

Apart from Ulips, the bancassurance segment continues to grow as it has for the past four years. However, this growth is restricted to insurers who have access to this channel with bank-promoted insurers controlling over two-thirds of the private life insurance market. While the new corporate agency regulations do enable democratisation of bancassurance growth, that will depend on how many banks adopt open architecture, in letter and spirit, in the coming year.

LIC fared relatively better in 2015 compared to 2014 when it was hit by a complete overhaul in its product portfolio following changes in product regulations in January 2014. It has been declining for the last three financial years with 2014-15 witnessing its sharpest decline yet with individual weighted received premium 27% lower than the previous year. This year, the decline has been much lower, although it is a matter of concern that the decline is continuing despite a much lower base.

In summary, 2015 saw growth return to the industry, but core challenges remain making its sustainability debatable. Thus, while the current financial year has witnessed some growth, it has been Ulip-driven and given past experience, we know this growth is not sustainable. In fact, even bancassurance growth for the current year is largely driven by disproportionate Ulip sales which makes the growth even more skewed. On the other hand, the number of agents continues to decline. Life insurance penetration, which touched a high of 4.6% in 2010, has been on a decline hitting 3.1% in 2014.

A significant part of the opportunity lies beyond the top urban centres and agency has the strongest presence in these locations. So, agency decline compromises our ability to increase life insurance penetration.

At the same time, persistency, while improving, is still significantly lower than other parts of the world and similar markets in Asia. This is again linked to distributor attrition. With continuous exodus of agents, the orphan policy numbers are on the rise and for most insurers, the persistency of this book is 10-15% lower than that of policies of in-force agents. For steady and long-term growth, the private industry will have to look at a more balanced product and channel mix. Unless we are able to do that along with a turnaround in the fortunes of the agency channel, which requires an environment that encourages people to become and continue as an agent, we will not be able to ensure secular and sustainable growth for the industry.

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WINDS OF CHANGE

- **First step:** Ulips are inherently market-linked products and therefore the sales are bound to be influenced by the performance of the stock market
- **Some worries:** Even bancassurance growth was largely driven by disproportionate Ulip sales which makes growth more skewed
- **Reality check:** In summary, 2015 saw the industry return to growth, but core challenges remain, making its sustainability debatable