

Our costs are front-ended but we break even only in the next few years

PRIYANKA PARASHAR/MINT



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Anuj Mathur, CEO, Canara HSBC Oriental Bank of Commerce Life Insurance Co Ltd

Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd announced its financial results for 2016-17 and reported a net profit of Rs111 crore in its ninth year of operations. Going forward, the company is planning to tap the increasing digitization in Indian market to increase its presence, while working at the same time to increase penetration into the customer base of the three partner banks. In an interaction with *Mint*, Anuj Mathur, chief executive officer discussed why the industry is still grappling with persistency issues, its impact on profitability and the strategy to deal with it. Edited excerpts:

What are your plans for this year, given that the last year was good?

Last year was good. We registered a growth of 40% in our new business premiums. Our persistency at 13 months moved up by 6%, from 74% in 2015-16 to 80.6% to 2016-17. Our claim payment ratio has also improved from 93% to 96%. Now, we have come up with a strategy for 2020. We aim to have 1 million customers. If we look at the three partner banks—Canara Bank, HSBC India and Oriental Bank of Commerce—they have a combined customer base of over 1 million, so we are targeting 1% of this number.

Our penetration here stands at 0.4% now. Further, our focus in the current year will be at improving penetration in tier-3 and tier-4 cities. We will also use our digital channel to reach the penetration level. When I say digital, it is not limited to products alone.

It ranges from prospecting to on-boarding, to customer service and benefit payment. So, it is a complete life cycle.

We will use our digital channels to reach out to these customers. Otherwise, it is very difficult to get into the interiors. Thanks to government's initiatives, digital penetration has increased.

Currently about 240 million people in India have a smartphone with internet connectivity. This number is expected to grow to 700 million by 2020. So we have identified digital as a big opportunity to reach customers.

Another important development is our Point of Sale (PoS) product. Insurance Regulatory and Development Authority of India (Irdai) came out with regulations on this a few months ago. We will be launching it in June. This is an across-the-counter product where customers walk in without any document and can buy it across branches. Everything will be digitised and we will be using Aadhaar-based authentication. There will be no medical underwriting, so the customer will not have to undergo any medical test or complex processes. The policy will be issued across the table.

Irdai data suggests your single-premium business has fallen sharply.

We are not focusing on that segment. Single premium is more of an investment business and we are not looking at expanding it. Real insurance is in regular premium. In life insurance single premium products, the life cover is also not much.

If you are paying a single premium of Rs98,000, the sum assured will be Rs1 lakh. Typically, in single premium products, the multiple of sum assured is almost the same number.

Traditional plans still dominate the industry, and the industry has defended higher

front loading of charges.

Traditional plans are sold on the basis of benefits and not on the base of returns. The objective behind insurance is not investment, it is to provide long-term protection. Traditional plans are sold for the benefits. So the benefits are to be structured in such a manner that there is value for money for the customer. If the benefits are really good, then the persistency will be higher. I don't think charges play an important role in a long-term plan. It is the benefits that are a hook for the customer.

But when we talk of the industry, about 39% of customers are not returning to continue the policy in the second year. Something is going wrong.

I think there are two reasons for that. One is the kind of efforts that the insurers are placing in collecting the money. You must have seen that over a period of time this persistency number has improved. It's not that it is 60% for 5 years. There is a gradual improvement that is happening. I am not saying that 60% is a good level, for us any number above 80% is a good level of persistency. Many times, even if the customer is willing, at times he is not approached for making the premium payment. Indian customers are not that savvy—particularly in smaller towns—that they will on their own remember the date and go to the branch and make the payment.

The main reasons of poor persistency are customer contactability and inability of explaining the benefits. While the trend is now changing, what unfortunately happens in insurance is that you sell that policy to the customer and then you try to establish contact after a year when the premium is due. That is not right. When we start engaging with customers on digital platforms, you will find persistency improving.

If someone pays a Rs15,000 premium, it is not a small amount for anybody to just forego. Why it happens is because the customer is not contacted and benefits are not known.

You mentioned that your persistency was 80.6%

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for 2016-17 and was 74% for 2015-16. According to the Irdai handbook of statistics, your persistency was at 59% in 2015-16.

The way the number gets published in the Irdai domain is slightly different. The way it happens is that this number is published as of 30 April for the previous financial year. Now on premiums, you do not stop collecting premiums after a month. In India, only about 60% of customers pay the premium within 30 days of the due date. Then people keep on paying after that. So the 15% bump in our numbers, compared to Irdai's numbers, is due to collections that we have made after 30 days till date.

Many times customers say that they have some problem and seek some time. They return after some time to make the payment. So if the payment is not made within 30 days, the policy goes in to lapsed portfolio. But many customers come back in month two or three.

How does this level of persistency impact profitability of the company?

The nature of insurance business is such that our costs are front ended. Whereas, you actually break even, depending on the product, in the next couple of years. So if a customer stops making payments after a year, you actually bleed and lose out as only a part of costs that you have made are recovered. The real benefit comes only after a customer has paid four to five premiums. So there is a direct link between persistency and profitability.

The share of term plans in the overall policies sold is very low. Are insurance companies putting less efforts in selling them?

When we say that the market is predominantly selling traditional products, I think it depends on customers' needs from time to time. Many times some customers are comfortable buying a Ulip because they expect a higher return on the amount that they are paying. People who are risk averse tend to go for traditional products. So far, the customer mindset was that if I am paying a premium, I should get something in return. But now, particularly in the younger customer profile, we are seeing they are going for term plans also. The mindset is changing. It is not that companies are not focusing on term plans. Gradually, you will see that the demand for protection products will increase.

The mindset that I should get something in return is what is blocking term products from being more popular.

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Shaikh Zoaib Saleem

zoaib.s@livemint.com