Business & Economy - BFM

CFO speak ANUJ MATHUR

"Persistency & cost management are the key"

Canara HSBC OBC Life Insurance Company has exclusive access to around 53 million customers and a pan-India network of over 4,800 branches of Canara Bank, HSBC and Oriental Bank of Commerce. Anuj Mathur, CFO, Canara HSBC OBC Life Insurance, speaks to BFM's LATIKA SHARMA about company's achievements and strategies for growth and sustained profitability

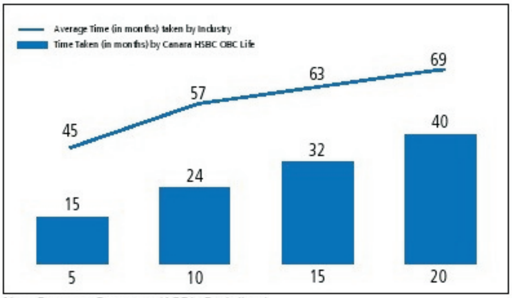
Ten years of reforms and India still has a pathetic state of insurance penetration. It's still in single digits. Where did the industry go wrong?
While India still has a very low level of penetration, one has to remember that there has been consistent improvement. Insurance penetration in India has increased to 5.2% in 2011 from 2.3% in 2001. According to media reports on a recent Boston Consulting Group (BCG) study titled 'India Insurance – Turning 10, Going on 20', the industry is likely to touch about $400 billion in premium income by 2020, making India one of the top three life insurance and top 15 non-life insurance markets by 2020.

Efficient and robust distribution mechanisms along with awareness about the true benefits of life insurance are the need of the hour. To ensure insurance penetration amongst masses, the insurance industry will require incentives for growth and expansion. I am of the view that fiscal incentives through favourable provisions in Income Tax Act, Service Tax Act, stamp duty should aid the growth of the industry over next few years. In short to increase the insured in India, the insurance products should be most "sought after" covering savings of the individual to generate reasonable returns in the long run & provide the insurance for eventualities, from the current "push sale" regime.

What kind of strategies are you adopting to overcome the competition in this perceptually undifferentiated sector? How is Canara HSBC OBC Life Insurance planning to expand its reach in the near future?
Launched in June 2008, the company is jointly owned by two of India's largest government banks – Canara Bank and Oriental Bank of Commerce and HSBC Insurance (Asia-Pacific), the Asian insurance arm of one of the largest financial services groups – HSBC. The company entered the market with a pure bancassurance model, a first in India, with each aspect of the business tailored to the specific needs of the bank's customers including products, operational & service support and integration with bank sales processes. The company has exclusive access to around 53 million customers and a pan-India network of over 4,800 branches of Canara Bank, HSBC and Oriental Bank of Commerce. The company reported 82% growth by garnering Rs.15.32 billion in gross written premiums in FY 2010-11 & issued over 1.11 lakh policies in the fiscal, 23% of which were from rural areas. It is now comfortably positioned amongst the top 10 private players in terms of

Canara HSBC OBC Life's premium income collections

The company is growing at a brisk pace with its bancassurance model



New Business Premium (APE*, Rs. billion)

Source: Company reports *Annualised Premium Equivalent

weighted new business premium income.

Can you throw some light on the importance of high persistency, effective cost management and efficiency in life insurance business?

In the current environment where economic factors are impacting growth of the economy and the growth in new business is likely to slowdown, high persistency and effective cost management will play an important role in meeting profitability targets. One of the key metrics of quality of sales and customer satisfaction is persistency, i.e. percentage of customers you are able to retain. As per the latest data available, we continued to maintain one of the highest 13-month persistency ratio of over 80% amongst private players.

Our bancassurance model does not warrant huge independent infrastructure set-up costs, resulting in one of the lowest opex to premium ratios in the industry at just 17%. In less than 3 years of operations, the company's financial management can be well compared with peers in the business for 8-10 years. Judicious investment in technology, building the culture where spend is evaluated for benefits it is likely to provide, well-defined and automated operational processes helped in running the company with optimal costs.

According to a FICCI & BCG analysis, the insurance industry will outpace the economic growth with premium income of $300-400 billion by 2020. What is your take on profitability in the industry?

We are quite positive about the sector's potential over the long term. However, in the immediate term, insurers are still realigning themselves to changes in their business environment. New business premiums (Weighted Premium Income) have fallen by 22% across the industry and 36% across the private sector in first half of current fiscal, as compared to the same period last year. Insurance companies will have to align costs and margins for new business within the window of the next two years.

Bancassurance has grown in importance in recent years garnering 25-30% of new business sales across Asia-Pacific. How do you assess the opportunities for the same in developing markets?

Globally, bancassurance has emerged as an important channel for distribution of insurance products. Various international studies have shown that a bancassurance strategy has indeed saved costs of insurance companies in the long run. Bancassurance in India is also moving on a fast track as it enables banks to offer bouquet of financial protection plans to their already existing customers. The banks are also trusted by the customers for providing innovative financial solutions and are well positioned to understand the customers' needs and offer suitable product.

According to a recent survey - "India's Life Insurance Channel Management Benchmarking Study, 2011 by Deloitte, life insurance companies with a bancassurance partner have higher chances of achieving profitability than those depending mostly on the agency channel. There are proven advantages that bancassurance brings from the profitability and productivity perspective due to the inherent partnering approach to channel management. The study observed that while none of the players have achieved profitability in agency channels, a few have managed to achieve break even in the bancassurance channel. Further, bancassurance partners play a larger role across the value chain of customer acquisition and claims processing. They are better integrated with insurers from the upfront strategy for product design to operational improvement across the customer life cycle. The present level of utilisation of bank branches for insurance sales is low, as reflected in the 80% of branches that are not actively selling insurance. In fact, out of 80,000 odd bank branches in India, only around 15-18% sell even a single policy. Further, bancassurance can also play a pivotal role in reaching rural areas.

As a CFO of a rising company in a still underpenetrated market, what are your immediate priorities in the current environment & context?

From the traditional roles of financial reporting and managing funds, the CFOs these days have now been morphed into strategists and facilitators focusing on business growth, risk management and high standards of corporate governance. My priorities in current environment would be:

"OUT OF THE 80,000 ODD BANK BRANCHES IN INDIA, ONLY AROUND 15-18% SELL EVEN A SINGLE POLICY"

a) Facilitating business growth in line with the company's long term strategy
b) Meeting shareholders' financial objectives, in terms of profitability, peak capital and break-even
c) Effective cost management and channelizing the company's funds into areas of growth and integration
d) Ensuring best in class governance structure

Last but not the least, talent management will be an area of focus as it is going to be a key business driver in era of competition and product innovation.