Asia Insurance Post

"Insurance has to be an integral part of everyone's financial plan"

John Holden, CEO, Canara HSBC OBC Life Insurance

What will be its positive impact on the Indian life insurance industry as the country has created more millionaires much faster than any other country?

As the idea of having a financial plan gains popularity in securing and managing one's personal goals, the growth of HNIs augurs very well for the Indian life insurance market, as life insurance is a key component of financial plan. This will provide an opportunity to create life insurance propositions focused on the specific estate planning and legacy planning needs of this segment.

Where do see your insurance products as asset class in India?

We mustn't forget that insurance has a key role to play in life protection and in providing some form of guaranteed return. Insurance products in India are positioned for financial protection of the family, typically through a combination of protection (life, health) and investment. So far the private industry has focused on unit-linked products, which allow customers to choose their asset mix between equity and debt, while also providing protection for their family.

I believe that the need for life protection and retirement planning is essential for all individuals and the need for insuranceand annuity products is always there for any individual. Hence, insurance has to be an integral part of everyone's financial plan. The attendant benefits of long term disciplined savings, the power of compounding returns and having policies that mature to coincide with a known future commitment (for example children's education expenses) make insurance an ideal choice as part of a financial plan.

What kind of insurance products the HNIs (High Net-worth Individuals) buy?

Indian life insurers so far have been moderately successful in terms of tapping the HNI segment. The HNIs have specific requirements, some of which have been addressed by insurers in the past, through products like high sum assured term plans and flexible single pay plans.

There is a definite need to generate more awareness on how these customers can leverage life insurance solutions. I do see a more sharply defined role for the life insurance industry going forward for products and services catering to this segment, based on an understanding of their specific requirements, not only from a product perspective in terms of providing a solution to their life and medical protection, estate planning/ wealth transfer and wealth creation needs, but also in terms of their service requirements. If insurers are able to align the propositions to identify customer needs, they have a greater chance of success in this segment.

How do you see the potential of tier I & cII cities which are also creating a lot of rich people?

As the Indian economy grows,the wealth creation opportunities have expanded from large cities to smaller locations and accordingly the potential has expanded. While there are now many customers in tier I and II cities who can be classified as HNIs, their aspirations are no way less than the metro customers and there is scope for increasing the awareness and understanding of the importance of financial planning/retirement planning and also the options available. The same applies to the affluent rural segment which also cannot be overlooked. With our bancassurance model, we are well positioned to leverage the trust of these individuals through their 'neighbourhood' bank branch to offer world-class products and services.

Will you agree with investment advisors when they say it is better to invest in other products like mutual funds, gold, other commodities and just buying a good term insurance policy is the right investment strategy?

No, this is a popular misconception. I believe that over a 10-15 year horizon, the reduced fund management charges in ULIPs more than compensate for the up-front charges. For example, a ULIP would typically be more cost-effective in terms of net effect of charges versus a term policy + mutual fund combination over a 10-15 year period. In addition, ULIPs offer the flexibility of switching asset allocation at zero/low cost and remain a tax efficient investment, irrespective of asset class (equity, debt or balanced). Investment advisers may want to encourage customers to change and switch investments frequently, thereby earning commission each time. This perhaps leads them to advance this argument. However, insurance products contain many different fund options, allowing the customer to switch at very low cost, thus preserving their corpus.