**Interview**

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# 'DAYS OF 25% CAGR ARE OVER'

Photo: BHUPINDER SINGH

In a candid interview with Sunil Dhawan, the MetLife chief admits that the industry is slowing down and tells how bancassurance might just be the booster shot it needs

**The life insurance industry has been in slumber since the regulator announced the new guidelines in October 2010. It appears that lowering of remuneration for agents has had a big impact.**

It isn't easy for distributors to adapt to new selling practices and products overnight. Before they start selling, they need to understand the new product and their competitors' offering in the same space, never mind the corresponding reduction in commissions.

There are other factors too. The industry has taken time to adjust to the shift from investment-linked plans to traditional ones. A longer lock-in period has affected liquidity. Further, selling a five-year product is not easy. On top of that, there has been a mass exodus of agents.

**Which makes one thing quite clear—the industry's sales hinged on commissions.**

If the margins are no more viable, it's quite obvious. India's life insurance industry is largely a part-time one graduating into a full-time one. And, during this time, if there is no sustainable income for the part-timers, it is difficult for them to stay afloat.

**What's your near-term outlook for the industry?**

As the industry enters the maturity phase, I would say a growth rate of 10-15 per cent seems reasonable. The days of 25 per cent CAGR are definitely over. And the effect of the October 2012 guidelines has already been absorbed by the market to a great extent. Most companies have adjusted to the new realities and adopted new growth strategies. A product is only a part of the overall strategy—for growth, one needs to look at introducing new channels, and entering new market segments and geographies.

**Any positive tidings?**

For one, shareholders, customers, distributors all have become smarter. Shareholders have realised the kind of impact that the new rules will have on their margins; customers are aware that a better internal rate of return (IRR) is in the offing; and distributors have migrated from a high-cost model to a low-cost model for procuring business, even though their incomes have gone down. For insurers, too, distribution is more efficient and productive now—we are working with a reduced workforce and trying to generate at least the same amount of business as earlier.

At MetLife, we will try to get more out of our existing bank partners. We already have tie-ups with four banks: Punjab National Bank (PNB), Jammu & Kashmir Bank, Karnataka Bank and Barclays Bank. PNB is our pan-India distributor—we have completed launches in 65 circles with PNB. Bancassurance is integral to our strategy as it gives us the opportunity to expand quickly. Going ahead, we will find more bank partners. We will generate more from our agency system too. Before PNB became our bank partner, the business mix was 50:50—now it's 70:30 in favour of banks. No company can sustain itself by being in only one channel. Still, agency continues to be the mainstay of the business—proprietary distribution is important.

> 'The opening up of banks to multiple partners provides the consumer with choices. It also opens up the sector'

**Do you think bancassurance is the future?**

Every life insurance company needs to reach out to the customer through various distribution channels. Banks are one such channel. In fact, if you look at MetLife, the majority of its income comes from the bancassurance channel.

Let's accept that if you are opening branches in a country you need a certain critical mass. And if you want to be a large player, you need to have a large distributor with a national footprint.

Bancassurance is emerging as a strong channel. As there are 80,000 bank branches in the country and only 15-20 per cent of them offer any insurance product, there's tremendous potential in this area. In fact, this model is going to be the industry's growth engine. Even from the banks' perspective, fee income on selling life insurance products is an attractive proposition. In fact, in developed markets, bancassurance constitutes 30-40 per cent of banks' total income. The figure is a paltry 5-8 per cent for India.

**What's your take on IRDA's new draft guidelines on bancassurance?**

Besides growth for the industry, bancassurance will also boost penetration—competition will ensure that banks try to utilise all of their branches. We believe that the opening up of banks to multiple partners is good for the consumer and provides him with choices. Also, it opens up the sector. We are proponents of open architecture.

However, a draft is a draft until it's passed. So, as an insurer, we await further clarity on the proposed guidelines.

**With low inflation-adjusted returns, where do traditional plans fit into your overall product portfolio? Whom do they suit?**

Close to 50 per cent of our business comes from traditional products. We have always had a well-balanced product strategy. In 2007, when market-linked plans were the order of the day, we were mostly selling traditional plans. So, we were well-positioned to face the changes that 2010 brought—and hence the least affected.

Traditional products have been around for a good 50 years. And even though Ulips, a new generation product, are more transparent, different customers have different risk profiles, different time horizons and different perceptions of the appropriate financial instrument. In fact, over the last 10 years, buying insurance has become synonymous with saving for the long term and ensuring protection at the same time. As an industry, we need to sell insurance through endowment plans, money-back plans and whole life or pure term plans (in-built with returns and guarantees). Our bonus record has been consistent over the last several years.

Traditional products cater to people with different risk profiles and especially suit those who want guarantee returns. For those who are willing to take on risk, there are market-linked plans. But many an investor has bought them only to find their values eroded.

**Does MetLife have any plans to launch health insurance products?**

We already have a strong suite of health insurance products. We also filed a new long-term health solution with the regulator six months ago and are awaiting approvals for that. ❑

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