The Sun Rises, But the Clouds are There

PNB MetLife chief feels that the sector regulator should now take steps to bring back customer confidence and unleash the next wave of reforms

Monday Musings

Q&A

PNB MetLife is the latest insurance company to get a lifeline with Punjab National Bank buying 30% into the company. **Rajesh Relan**, MD and CEO of PNB MetLife, says the bancassurance model will have to move away from reward and recognition to training and recognition to avoid dubious sale of policies by banks. In an interview with **Shilpy Sinha**, Relan talks about the challenges ahead for the industry. Edited excerpts:

What do you expect from the tie-up with Punjab National Bank?

It gives a new direction to the company. PNB has over 78 million customers. Most bank-promoted companies are better placed. We have also leapfrogged – today, we are the 8th largest company from 12th.

We expect to use the wide distribution network of PNB, its customer base and the PNB brand. MetLife will gain access to a nationwide branch network, a strong financial partner and an ally with a trusted national brand. PNB was already a corporate agent of PNB MetLife since 2011, and now as an equity partner, it will further strengthen our relationship.

Bank-led companies are said to have an edge over others. What do you think are the advantages and disadvantages of having a bank as a promoter?

If we look at the league tables today, it is evident that bank-led companies are leading not only in quantum of profits, market share and rank, but also in terms of AUMs and statutory premiums. The advantage for an insurer is the access to a captive distribution network and customers, especially someone they trust for their financial needs. One of the limitations is that the insurance company gets restricted to banks' distribution network or geographies.

We all know that the bancassurance model has worked in India and will continue to grow. Even today, only a small percentage of branches are involved in insurance – 15,000 out of a total of 80,000 – and, therefore, the potential to grow is huge.

How is selling products through a private bank different from that of public sector bank? Why is mis-selling prevalent in bancassurance?

Having done more than 45 partnerships in the past 12 years, we have an experience with small-time co-operative bank to public sector bank to large private sector bank to multinational bank. Challenges are different: multinational banks would be demanding in terms of the product they want for a specific segment. Old-generation private sector bank's focus may not be on fee-based income. While PSU bank would have issues to train the distribution and sales staff to leverage the partnership.

Having worked in various banks, I can see the difference. The time has come to move away from reward and recognition to training and recognition. Reward was purely meant as cash reward or contest-linked. We have moved to training and recognition by offering them opportunities.

The new bancassurance norms allow banks to sell products of multiple insurers. How do you look at it?

This has advantages as well as disadvantages. While it seems that now banks can sell products of multiple insurance companies, I do not see any compelling reason for banks to go down this path. Fundamentally, banks would like to focus on their core business and banking products while integrating insurance products into their overall suite. Multiple tie-ups require creation of multiple processes with multiple companies, and a lot of investment in time and resources. Also, most insurance companies make similar products addressing similar needs.

Successful bancassurance partnerships emerge only when the insurer and the bank work closely to integrate their processes and customise products for the customer – all of which requires significant time and resources to be invested by the insurer.

IRDA has changed norms of traditional products. How is it going to affect your business?

There have been multiple regulatory changes notified by the regulator and the norm on traditional products is one of them.

We are examining the regulations in detail and assessing the impact, but we have maintained a balanced approach to products.

At this stage, at a very high level, I see that the overall expenses that an insurer can incur as percentage of premiums will have to be brought down. IRDA norms will shift the industry focus towards long-term and protection of products, which are pro-customers.

This will certainly improve the quality of business and the overall long-term growth of the industry. However, in the short-term, the new norms will impact customers, shareholders, and distributors. It will impact customers due to reduced yields, shareholders due to reduced margins, and distributors because of lower commissions. The impact on distribution may be significant – we have seen shrinkage of distribution post ULIP guidelines and a similar trend may be seen now. Besides, the new products will consume more capital.

What are the issues IRDA should address?

While significant regulatory changes have been proposed by IRDA in the past 3 years, overall it had a negative impact on the industry, something the new regulator must take note of.

My assessment is that the life insurance industry has lost its attractiveness, with shrinking distribution, erosion of customer confidence and declining shareholder value. The industry has lost talent with mass exodus of agents over the past couple of years. These regulatory changes have not delivered any customer value, but eroded shareholder value, which is limiting fresh capital flow into this sector.

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MD & CEO, PNB MetLife

Besides, India as a market, offers one of the lowest margins in the Asian region. We would urge IRDA to bring the growth focus back, make it attractive for fresh capital and help deliver value to customers to sustain their belief in life insurance products and the industry. We would also want IRDA to usher in the next level of reforms. It's time to open distribution by simplifying agent licensing and training, facilitating the entry of sub-brokers, and creating open architecture in banks. This will improve insurance penetration, create fresh employment, aid government's efforts of financial inclusion, and facilitate sustained inflow of premiums to the capital markets.

The industry has been growing at a very slow pace. When do you expect it to swing to double-digit growth?

The industry has been growing slowly due to headwinds from global markets, amendments to tax laws compelling sale of longer-tenured products, lack of fresh capital, expense pressures and reduced commission for distribution. With high inflation and low savings rate, the savings percentage of the Indian consumer has also fallen. Again, the frequent regulatory changes have disrupted the plans of insurance companies and created more uncertainties. At this stage, the industry is at the crossroads: it can either go up from here or slide. If we are able to address the growth and profitability challenges quickly, and the industry is able to adjust to the new normal, growth will return. In any case, I do not expect the industry to grow more than 10% over the next two years. Again here, captive bank distribution models like ours will benefit, we will continue to outgrow the market given the huge opportunity offered by the bank. You need focussed action to get back to growth. I would say the sun has risen, but there are still clouds... and they will clear away.

What are the challenges for the industry?

The industry's biggest challenge now is to be able to have a distribution model which it can afford in the absence of long-term FDI. Secondly, a major part of 2013 is likely to be spent in reassessing the customer needs and coming up with new products which are IRDA-compliant. At the same time, the key issue will be how the industry builds a positive customer sentiment.

Do you think banks will become brokers?

I am not sure how many banks will become brokers as mentioned in the budget – which brings a lot more compliance ownership on the part of banks and risk exposure, since they are representatives of the customers and responsible for the advice given to them.