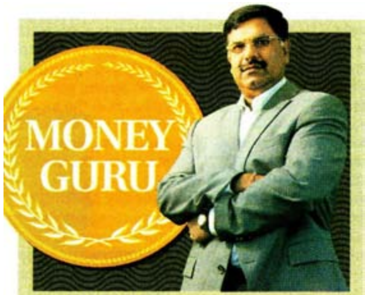
Structuring is important, should lead to faster clearances

The last leg of reforms on insurance product design has finally happened. On 18 February, product design guidelines on traditional products were notified in the official gazette of India. With this, the chapter on product reforms has finally come to an end and the insurance industry is hopeful that the industry will stabilize. In conversation with Mint Money, Jayant Dua, managing director and chief executive officer, Birla Sun Life Insurance Co. Ltd, talks about the immediate challenges for the industry and shape of things to come.



JAYANT DUA
Managing director and chief executive officer, Birla Sun Life Insurance Co. Ltd

How much of the product basket will change to conform to the new guidelines? Is a deadline of about seven months comfortable?

That's got to be a function of the industry capacity on two fronts: pricing the products and changes in the system. We keep talking about product change but what is also critical is the back-end system changes that we will need to make and some of them are fairly onerous. I think most insurers will have to change about 80-85% of their products but the tweaks could be minor to major. In our case, the major change will be in the surrender value and commissions. As for sum assured, we are mostly complaint.

Will this mean faster clearance?

Any structuring is important and it should lead to faster clearances. Because if everybody is working on a defined set of guidelines, mere isn't too much of an innovation that will come in but the flip side is how much does this impact innovation. And as a young country we need to constantly evolve and innovate.

A fear in the industry was that changes in unit-linked insurance plan (Ulip) guidelines that reduces surrender charge drastically will lead to a stark fall in persistency and encourage lapsation. But that hasn't happened.

It's also the quality of sale that matters. For instance, we have always maintained a persistency ratio in excess of 80%. This is a factor of the training and knowledge. We were the first to bring in the concept of illustration even before it became mandatory. Also now the entire industry has put a fair amount of training in place. Even customers are appreciating the fact mat insurance is a long-term product. People who have been investing for six-seven years have a benchmark in their head. If they don't see that return they exit. So in that sense the surrender charge cap of Rs 6,000 has not been a game changer. Secondly, the block of new policies has not come. We have the block of earlier policies where persistency is improving due to the efforts of the industry.

But lapsation of traditional or non-linked insurance policy is very high in case of Birla Sun Life. In fact, it is the highest.

Let's put it this way that till 2010, we were selling up to 90% Ulips and now selling about 58% traditional policies. So there are checks and balances. For instance, we are not issuing a policy today unless we have spoken to the customer and gone through features. So what we did in Ulips, the same thing is being replicated in traditional. Our persistency in non-linked plans is improving and we expect in a year persistency will be where it should be.

In light of the current product guidelines what kind of products will survive? When Ulip guidelines came the industry switched to traditional products.

I think that move was more because of the arbitrage which still exists. But traditional plans have also undergone changes. So for the insurers, what will change now is the investment strategy because of the guarantees sitting on the books. There will be a degree of conservatism now. I think it will mostly be the participating products that will be popular until we get a better understanding of the products.

A large section of the industry believes that it is not the product that is at fault but distribution. Will the guidelines sort it out?

Let's take the case of Ulips. When guidelines on Ulips came the industry swung to traditional plans. So far, we have been fixing the products and now there need to be some focus on distribution. The panacea is not just products alone, we need to get the right kind of people to sell insurance and mere should be proper examination. We right now have an entry level examination but we also need a graded examination which should be left to the industry.

Are penalties or staggering commissions a solution to improve agents' persistency?

The minute you penalize agents you will not let the industry grow. I mink you need to empower agents. We are now in a phase where we are are reorganizing ourselves. So what we need now is to educate our distribution channel mat cost of acquisition is so high that you will make money only when you sell for long term.

With pressure on costs, agency has become an expensive channel compared with bancassurance. What does that mean for insurers who are not backed by banks?

Even globally, agency is a very strong force and we can't let it go only because it's expensive. We are talking to the regulator on how can we variablize the agency. Today it's more like a fixed-cost channel and the only person who in not on the roll is the agent. So we need to bring variablization where the costs are linked to the performance.

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