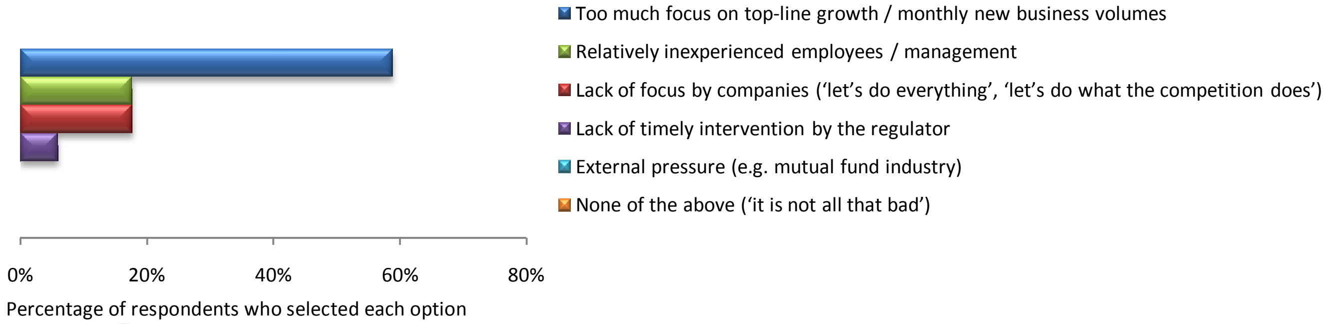
India Life Insurance Survey

May 2011

In May 2011, Milliman carried out a survey of the C-level life insurance executives (covering CEOs / CFOs / Appointed Actuaries / Chief Actuaries) to gauge their views on some topical issues currently affecting the Indian life insurance industry. We present the results of this survey below.

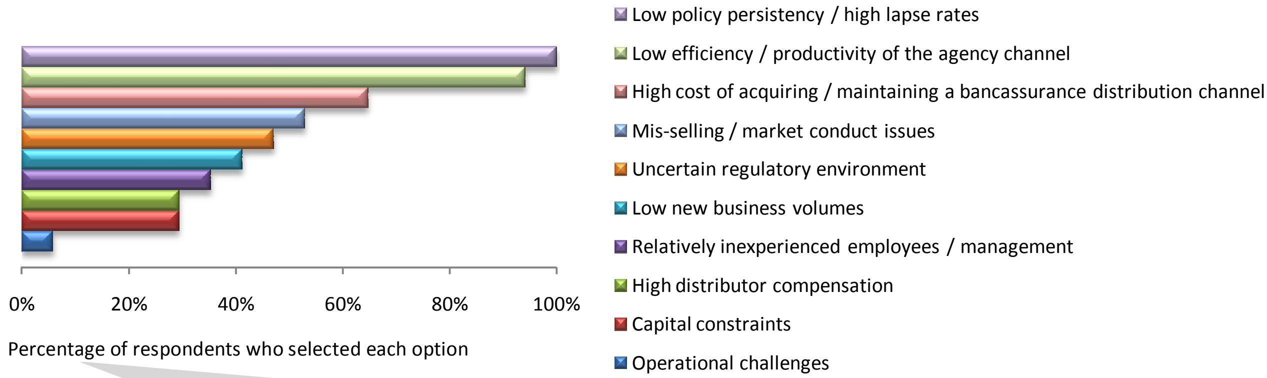
1. What do you think is the single most important reason for the current state of the industry?



It is now well accepted that the earlier strategy adopted by many companies of focussing too much on top-line growth, is one of the main reasons for the current state of the industry.

It is interesting to note that even after 10 years of the existence of private sector players, a lack of experienced professionals / management is also stated to be one of the main reasons for the current state of the industry.

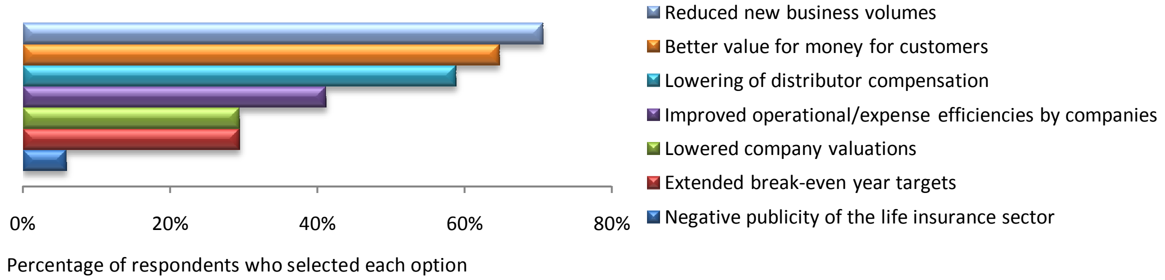
2. What do you think are the biggest issues facing the industry over the next three years? (Choose top 5)



Despite the efforts currently being put in by companies to curb mis-selling and promote persistency, respondents still believe that high policy lapse rates is an issue that will continue to affect the industry over the next few years.

It is not surprising to see that low efficiency / productivity of the agency channel is also cited as an important issue over the next three years. Improving productivity levels would perhaps require significant efforts in training and ongoing management of agent activities.

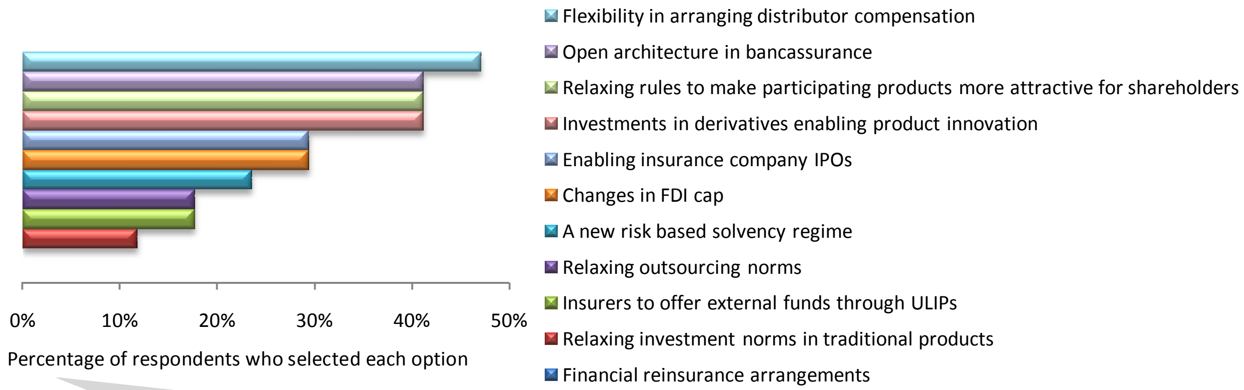
3. Which are the most significant outcomes of the recent IRDA regulations restricting unit linked/variable insurance product features? (Choose top 3)



Although the respondents agree that the new regulations lead to ULIPs offering better value to customers, they also acknowledge that these regulations result in a lowering of distributor compensation. This in turn is likely to have negatively impacted the new business volumes in the industry.

As the saying goes, "insurance is sold, not bought". If this is true, it is important to make sure that the distributors are adequately compensated or else the products that offer a better value for money may not even reach the customers.

4. Which of the following possible regulatory changes do you think will have the most positive impact on the Indian life insurance industry over the next three years? (Choose top 3)

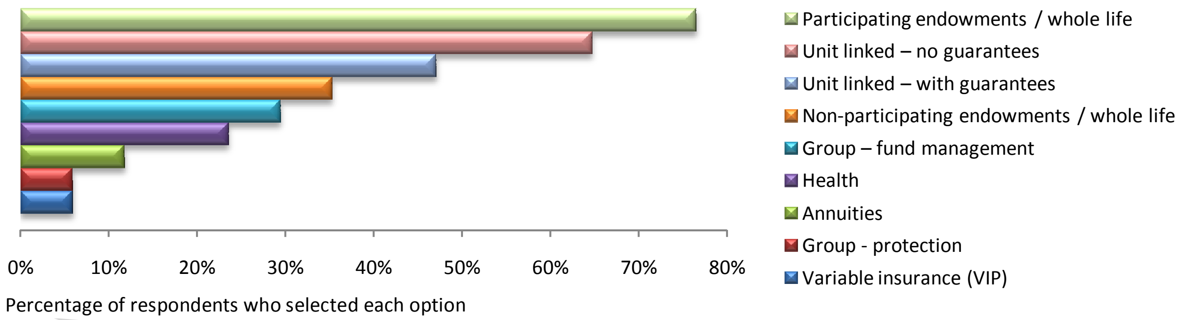


Not surprisingly, a majority of the respondents believe that flexibility in arranging the distributor compensation will have the most positive impact on the industry. We believe that within the overall commission limits, companies should be allowed to structure compensation that best suits their own needs and the needs of the distributors.

Given the importance of bank distribution in the current environment, it is also not surprising that many respondents believe that open architecture in bancassurance will also impact the industry positively.
It is, however, not possible to tell if these respondents are from the companies without any captive bancassurance distribution! If and when open architecture is introduced, it should not result into fierce competition amongst the insurers to woo the banks by offering higher compensation, possibly leading to another costly distribution channel.

Other issues that respondents feel would be positive for the industry, include a change in the current regulations governing participating products to make such products more attractive to shareholders; and a relaxing of the norms for investments to help companies offer more innovative products. Both these issues have been long-standing requests by the industry.

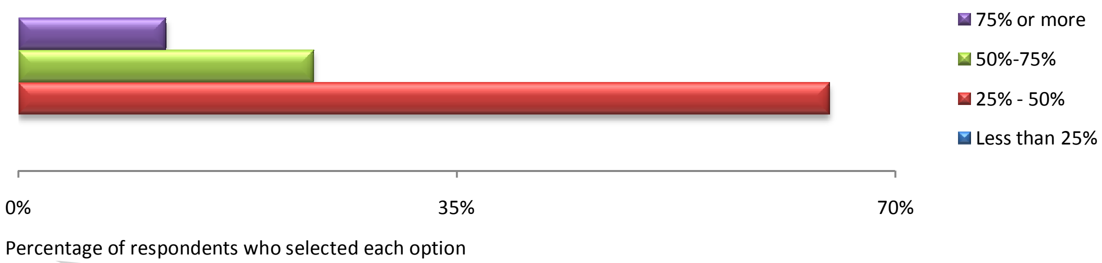
5. Which products do you foresee will record the highest new business volumes over the next three years? (Choose top 3)



It is interesting to note that the respondents still believe that unit-linked products will continue to contribute significantly to the overall mix of business. Perhaps this response can be attributed to those insurers with bank distribution partners where ULIPs may still be attractive?

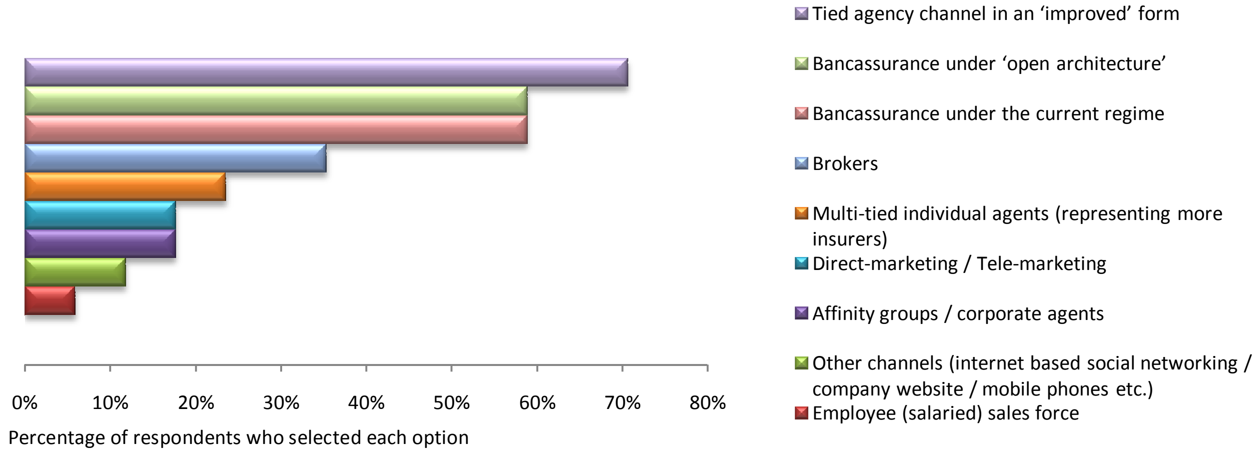
Thanks to the recent regulation on ULIPs, respondents expect participating endowments / whole life products to form a high proportion of new business volumes. The key question to be asked is whether policyholders would get a better value for money from these products, given the restrictions on investments.

6. What proportion of new business do you expect to come from unit-linked products over the next three years?



A majority of the respondents expect the proportion of new business from ULIPs, to be between 25% and 50% in the future. This highlights the current difficulties faced by the insurers in selling ULIPs, even though the products may offer better value for money to the customers.

7. Which distribution channels do you think will be the most successful in the Indian life insurance market in the next 10 years? (Choose top 3)

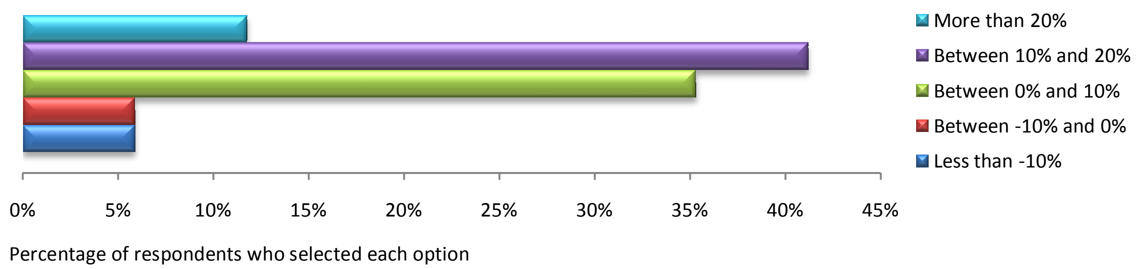


Despite the current euphoria over bancassurance distribution, most of the respondents still believe that agency channel will be the major distribution channel over the next ten years.

It is refreshing to note that most of the respondents expect an 'improved' tied agency channel to dominate the distribution scene in the industry, whereas none of the respondents expect the 'current' form of agency channel to survive for too long. If this is indeed achieved, there is hope for improvements in areas such as mis-selling, persistency levels, productivity levels and high cost ratios etc.

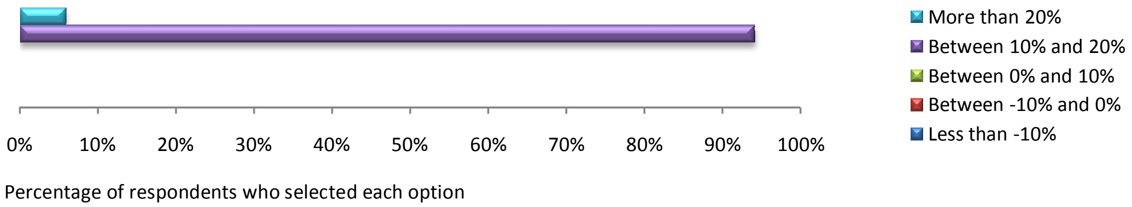
Very few respondents believe that other channels such as employee sales force, direct marketing / tele-marketing etc. will be successful.

8. What do you expect the new business growth rates (based on weighted new business premium) for the private sector players in FY11-12 to be?



In light of the 17% reduction in weighted new business premium volumes for the private sector in FY10-11, a majority of the respondents expect a turn-around for private sector insurers in FY11-12. This is certainly a sign of optimism, and underlines the fact that many of the companies seem to have already reconciled with the new environment and are putting in place efforts to 'correct' their business models.

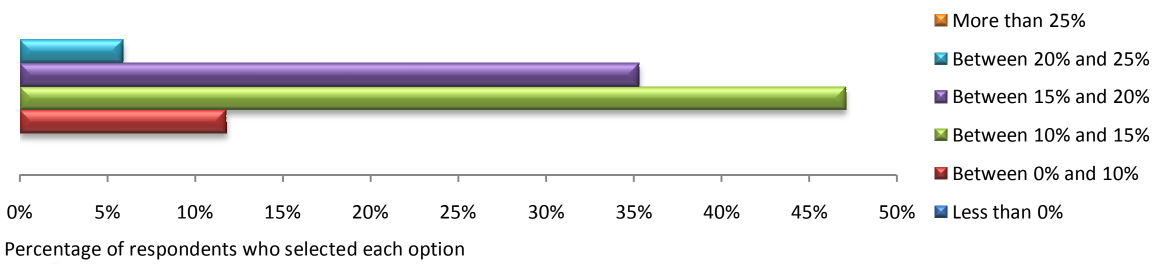
9. What level of new business growth rates (based on weighted new business premium) do you expect for the industry as a whole over the next three years (i.e. up to FY13-14)?



The long-term growth story of the Indian life insurance sector appears to be intact! There is a strong consensus that the growth rates for the industry as a whole over the next three years will be between 10% and 20% per annum.

This provides optimism for both existing insurers and those insurers looking to enter the market.

10. Where do you expect the long-term (over the next 10 years) industry profitability (i.e. VNB divided by APE) to stabilise?

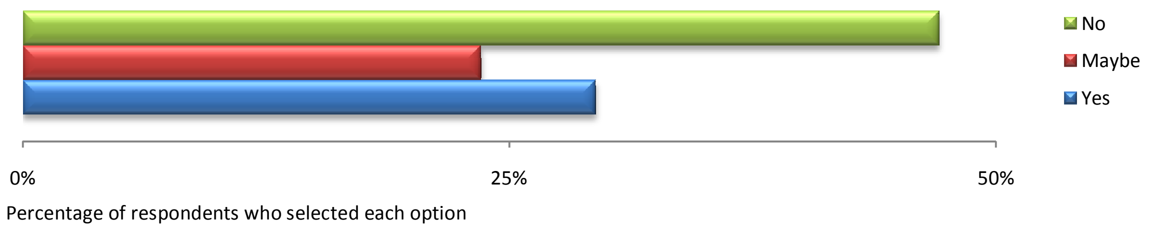


It is interesting to note that for an emerging market such as India, the expected levels of profitability are much lower than the levels of profitability being experienced in many other Asian countries.

A large proportion of the respondents expect the profitability (VNB divided by APE) to stabilise between 10% and 15%, whereas the profitability in many other countries in Asia Pacific exceeds 30%.

Perhaps this underlines the 'low profitability, high volumes' nature of the Indian businesses?

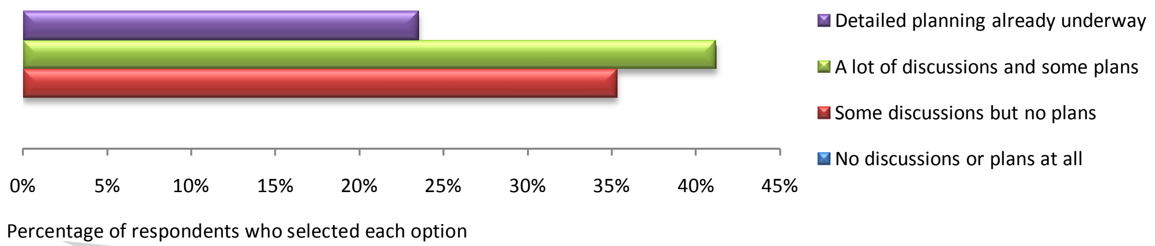
11. Does your company already publically disclose its embedded value / value of new business; or plan to do so in the next two years?



Around 50% of the respondents stated that their companies either already disclosure their embedded value / value of new business or may have plans to do so over the next two years. This is a welcome sign, as increased disclosure should help to enhance performance within the sector.

However, the remaining 50% of the respondents' companies still do not have plans to disclose these figures, perhaps because either they are recent new entrants, or because they have no plans for raising capital or seeking IPOs in the short term.

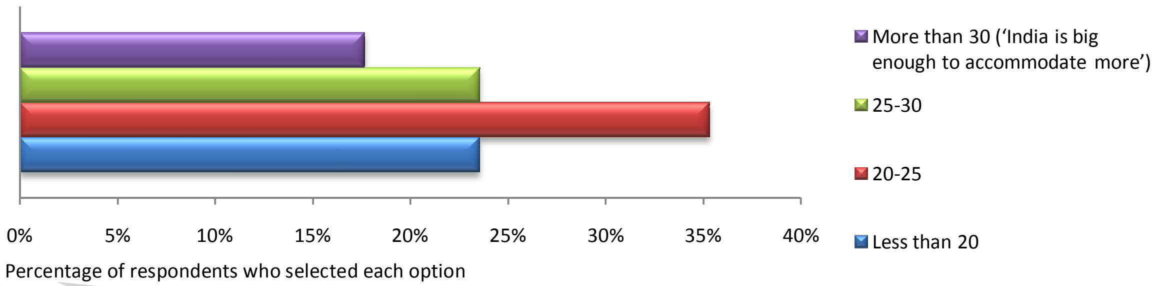
12. To what extent is your company planning for the implementation of IFRS?



It is encouraging to note that all companies have at least had some discussions regarding IFRS. This is clearly expected to change the financial reporting standards in the life insurance sector in a significant way.

A lot of training, planning and preparatory work may be necessary though to introduce and implement IFRS. The fact that around 80% of the respondents' companies have not developed detailed implementation plans indicates that companies still have a lot of work to do!

13. Currently, there are 23 life insurance companies in India. How many life insurance companies do you think will be operational in five years time?



A large proportion of the respondents expect an increase in the number of life insurance companies in the next five years. This again underlines the strong fundamentals for the long-term prospects for the industry.

However, close to 25% of our respondents expect the number of life insurance companies to reduce to less than 20, perhaps indicating that some merger and acquisition (M&A) / consolidation activity can be expected.

Contact details

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