Here's why private life insurers have still not been able to unseat LIC

By *Shilpy Sinha*, ET Bureau | Updated: Aug 31, 2016, 01.03 PM IST

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Deepak Parekh, the longtime chairman of Housing Development Finance Corporation (HDFC), has been among the few favourites of investors. There has hardly been a murmur about the performance or practices of the HDFC group for more than two decades as investors reaped record returns. After HDFC Bank, they were waiting for yet another gift from him, the initial public offering (IPO) of his insurance joint venture with Standard Life.

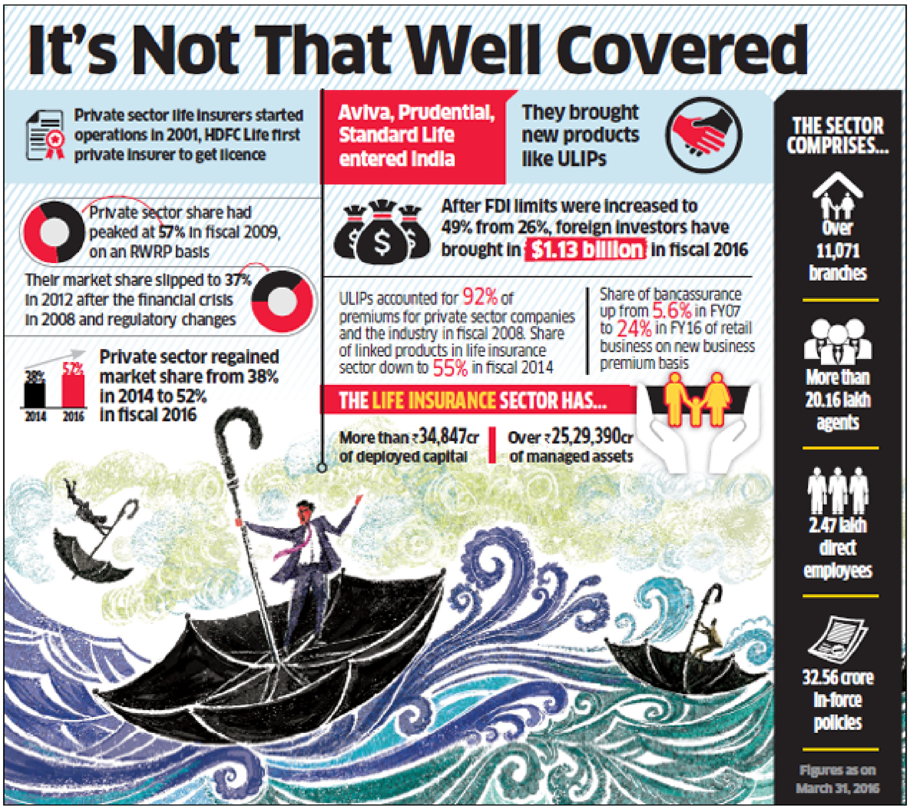
He obliged them by declaring on April 19 he would sell HDFC Life in an IPO by the end of the year. In just about three months, he stunned investors by announcing the merger of HDFC Life with Max Life in a transaction valuing the merged entity at Rs 67,000 crore. Parekh's decision captures the possible valuation gains in merging with Max and also the likelihood of capturing value later in a market that is losing momentum.

"Insurance is highly competitive and even after a decade-and-a-half, LIC continues to be dominant player with a market share of over 50 per cent," says Parekh. "You need a strong balance sheet to be in the business. It is a tough business to keep putting money year after year."

For all the brouhaha over higher foreign direct investments for nearly a decade and private participation since 2000, not many are making huge profits. The future doesn't look bright either given the slow acceptance of insurance as a preferred saving instrument, let alone treating it as a necessary protection against accidents that could leave a family in financial calamity.

The Indian insurance industry was once considered a virgin market for private players with less than 30 per cent of the population covered by life insurance. While insurers had the potential to grow, their short-sightedness and regulatory flip-flops left them high and dry and consumers bore the brunt of their misdeeds. The industry grew 35 per cent between 2000 and 2008, but growth collapsed to 6-8 per cent after that, thanks to the packaging of mutual fund equity investment as insurance in the name of unit-linked insurance plans, or ULIPs. These were distributors' favourite since it offered up to 35 per cent commission.

Many insureres are now facing an uncertain future due to a collapse in new insurance premium and the domination by a few of the most lucrative bancassurance channel to sell insurance. In a sense, insurance could go the telecommunication way where everyone jumped to make a quick buck but later sold out to large and deep-pocketed ones.



"Insurance is going through the same phase as telecom in 1990-2000," said Ashvin Parekh, managing partner at Ashvin Parekh Advisory Services. "There were 17 licences in the first round and 23 in the next, but now there are only 6-7 operators. In insurance, those who went for a licence looked at it as a financial investment and are now disillusioned, and foreign companies are in pain due to the circumstances in their home market. I expect consolidation to happen in the insurance sector."

Some early entrants are still struggling to attain significant size despite being in the market for over 15 years. Aviva India, which started operations in 2001, has new business income of Rs 320 crore, down 11 per cent over the last three years. Similarly, Exide has grown 11 per cent in the last three years with the premium income of Rs 632 crore. Future Generali, operating for nine years, had profit of Rs 1 crore. India First, a joint venture between Bank of Baroda, Andhra Bank and UK's L&G, had earnings of Rs 6.89 crore and Star Union Daiichi had Rs 12.87 crore after eight years of operations.

Indian life insurance, which has 24 companies, is still dominated by state-run Life Insurance Corporation with a 50 per cent market share. The top four private companies have 30 per cent of the remaining market, leaving the rest to fight for 20 per cent .

Many insurers are less profitable or loss-making not because they can't draw customers, but because they are unable to reach them in the first place. HDFC Life succeeded more due to the distribution strength of HDFC Bank. So is the case with ICICI Prudential Life, whose products were sold through parent bank. Max Life benefited from its distribution deal with Axis Bank.

"HDFC Life-MAX Life deal is expected to open the floodgates for more deals in the segment," said Joydeep K Roy, partner and leader — insurance, PwC India. "Many insurance firms such as Birla Sun Life and Bajaj Allianz, though having good products, have not been able to sell policies to a wider audience due to lack of distribution network."

Among the potential candidates for consolidation are those not able to build their distribution network, like Future Generali, and are starved of capital. Some banks that own stakes in insurance firms may see some standalone insurers reaching out to them to create scale and distribution.

"We see structural changes in the life insurance industry, for example in distribution and bancassurance," said Analjit Singh, chairman of Max India. "We see margins coming under pressure. We see distribution channel led by bancassurance changing the landscape of insurance."

The well-developed banking sector and the nationwide presence of banks resulted in the increase of bancassurance's contribution to total insurance business. In FY16, bancassurance contributed 52.6 per cent of new business premiums for private sector companies.

Yet another factor that would force insurers to consolidate is that the regulator is behind them to get listed for the sake of transparency and better corporate governance. If a company has to list, it needs financial strength and has to convince investors that it is in a position to grow.

"Listing brings more transparency to the working of companies," said TS Vijayan, chairman, Insurance Regulatory and Development Authority (Irda). "We thought we will encourage companies to bring in more transparency into their system."

If not anything else, regulatory whipping could force many of the marginal companies to find buyers. Investors are demanding when it comes to financial parameters, especially when a company goes for an IPO. One of the reasons for HDFC Life going for a three-way merger with Max Life may be that it addresses the twin issue of listing as well as skipping the rigmarole of convincing investors and regulators.

ICICI Prudential Life, which is on road shows, gives you a sense the business. "We can talk about the underlying...everything is a function of value of new business and embedded value," says Sandeep Bakshi, chief executive at ICICI Prudential Life, who is meeting investors to sell his IPO. "A lot of metrics is around value of new business."

If so many companies have not been able to achieve substantial growth in 15 years, the question is: how will they be able to survive?

