Traditional insurance products benefit from higher G-Sec yields

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Anurag Jain, Chief Investment Officer, Canara HSBC Oriental Bank of Commerce Life Insurance

Dearth of investment options worry insurers: Canara HSBC OBC Life official

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Hardening yields of government securities are proving to be an advantage for traditional insurance products but have led to crowding out corporate bonds with few issuances taking place, believes Anurag Jain, Chief Investment Officer, Canara HSBC Oriental Bank of Commerce Life Insurance.

“In traditional products, we are at a very sweet spot. Higher rates mean that all the new inflows we get are deployed at a higher rate. We can give better returns to policyholders,” said Jain.

Traditional insurance products include term and endowment policies. Over the past few months, the 10-year benchmark government bond yield has been hardening, and has touched 8 per cent, even as the rupee continues to weaken against the US dollar.

“A falling rate may worry us but rising rates don’t worry us,” Jain told *BusinessLine.*

Unit-linked products

However, in the case of unit-linked insurance products (ULIPS), hardening G-Sec yields impact investment values and returns. “That is factored in; people have already reduced duration so that the impact can be minimised. There is no impact as such,” said Jain.

But with rates having moved up, issuances of corporate paper have come down.

“Most corporates are not issuing paper and there are very few issuances. Secondary market transactions on the corporate bond side have also dried up,” said Jain, adding that as of now only housing finance companies and non-banking financial companies issue bonds.

According to Jain, this is only a short-term phenomena and the market will start to recover in some time.

However, there is a dearth of investment options for insurers, given that their liabilities are long dated with products having a duration of 25 years and even longer.

“For meeting these we need longer-duration products, (and) similar cash flow profiles, but we don’t have that kind of investment opportunities in the market. We need to deepen the bond market; companies can also raise longer-term paper,” he said.

Canara HSBC OBC Life Insurance Company is jointly owned, with Canara Bank holding 51 per cent stake, Oriental Bank of Commerce having 23 per cent stake and HSBC Insurance (Asia Pacific) Holdings having the balance 26 per cent.

The life insurer had assets under management worth ₹13,500 crore by end of July this year.

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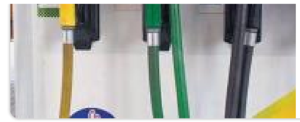

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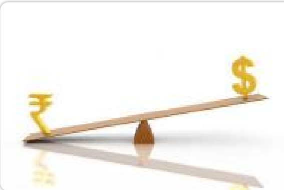

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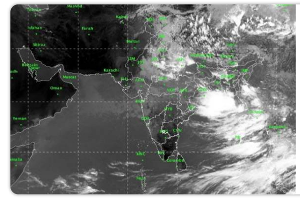

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