

We are looking to break even in 2 years
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Reliance Life Insurance formally started operations three years ago after it acquired AMPO Sanmar. So far, the Anil Dhirubhai Ambani Group firm has managed to buck the downturn but Reliance Life President and CEO P Nandgopal said the company may scale down growth and focus on profitability in the coming years as it tries to break even in another two years.

Excerpts:

You have seen healthy growth at a time when some of the bigger players are finding it difficult to grow. Won't the downturn catch up with you as well?

Even while the industry growth is declining, we still manage to grow at 60 percent. We have focused on product innovation and distribution. In the first three years, we focused on general growth. The life insurance industry may not be badly hit. The life insurance council is expecting 15-20 percent growth and our aim is 2x or 3x of the market. This will not only mean volume. We expect Rs 3,500-4,000 crore premium collection by the year-end.

But will you also start focusing on profitability just as Reliance General has done?

Yes. As you grow to a certain scale, you can manage your variable cost and the premium from existing business keeps flowing in. So, you can afford to look at slower growth. From 2010, we expect growth to moderate as we will focus on profitability. The market growth will also have a bearing.

And, when do you expect to break even?

We are looking at a breakeven in another two years. Our profitability ratio has gone up while our operational expenses have come down from 40 percent to 37 percent. If things keep moving in the right direction, then we will break even in 2011. If the slowdown continues till the third and fourth quarters of the financial year, then we will have to re-look at our plans. A slowdown for another two quarters will not have too much impact as only 10 percent of the total business is done in the first quarter while 20 percent business comes in the second quarter.

How much capital will you need to meet your growth aspirations?

We will infuse Rs 1,000-1,200 crore over the next two years.

Will you look at new areas to tackle the slowdown?

We will focus on pension and health. These segments will grow substantially as the demand is huge and penetration is low. If you look at how the life insurance industry has behaved historically, initially, insurers focused on traditional products and then they came out with unit-linked products (Ulips). The demand for Ulips was flat earlier but with the boom in the equity markets, it has become a hit among customers.

So, is the investment behaviour changing with the equity markets where they are?

There has not been a basic shift in the investment pattern. Earlier, if the ratio between the equity and debt portfolio was 70:30, it has now changed to 60:40. People are still sticking with their equity portfolios. The shift may be 0.2 percent from equity to debt. The other trend is that the ticket size has come down. Policyholders are now investing Rs 15,000 if they were previously taking a policy of Rs 35,000. This has led to an increase in the number of policies. We have asked our sales force to focus on selling policies instead of looking only for big-ticket policies. Also, Reliance is seen to be strong on the equity side, so, a lot of people who come to us focus on equities.

How will Irda's proposed M&A guidelines help and are you looking at acquiring some companies?

The guidelines will provide clarity and create the framework for consolidation a few years down the line. We are not looking at any acquisitions as we have managed to grow organically.

Now that the pension regulator has finalised six fund managers for the business, do you see an impact on the pension plans that you sell?

We offer our own pension products and our business will not be affected by the PFRDA's six pension players.