

Life insurers' bottom lines to be hit as premium renewals drop

By R Srividhya Dec 12 2011 , Chennai

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Life insurance companies in the country, which are already saddled with the challenge of falling business, now have to take adequate measures to protect their bottom line too, which will be threatened by the lower premium renewals that they will have to face over the coming years.

Following the regulation of unit-linked insurance policies (Ulips) by the regulator, the Insurance Regulatory and Development Authority (Irda), the once-popular product became controversial. Many Ulip products had to be removed from the market because they did not meet the criteria laid down by Irda. With Ulips accounting for a majority of the business for most life insurers, a change in the product structure and the resulting skepticism lead to almost all life insurers posting a fall in new business premium by up to 50 per cent.

Considering that life insurers with more than 10 years of operations can now apply for an initial public offering (IPO), it would be very challenging for those companies to convince their investors that they would be able to post profits and maximize returns for the investors over the years to come. Profits of the industry have also taken a beating due to many reasons. Unlike other businesses, profits in the insurance business are impacted by returns on investment, renewal premiums and claims ratio.

"New business premium is like the icing on a cake. A lower business premium may not have an immediate impact on the bottom line; but in the subsequent years, when the premium renewal income goes down, the impact will be seen," says Mani Kant, vice-president, India Insure Risk Management and Broking Services.

Premium income collected by life insurance companies is invested in various debt and equity instruments. With a lower number of Ulip products in their basket, the sum invested in equities also goes down. The returns that good equity investments fetch cannot be matched by any debt market investment and so, the difference will be seen in the bottom line of life insurers, experts say.

Industry members have already expressed concern about the recent spurt in sales of single premium insurance policies, which means that there is no renewal premium coming from those businesses in the subsequent years. "The future of the life insurers does not lie in single premium policies. Every insurer knows that to maintain good growth rate year after year, it has to be through regular premium policies," says Akhila Srinivasan, managing director, Shriram Life Insurance.

Despite such challenges, measures like strong underwriting practices, efficient fund management and lower operating costs will help life insurers protect their bottom lines, says Kant.