

'Value of New Business Subdued because of Conservative Assumptions'

ET Q&A

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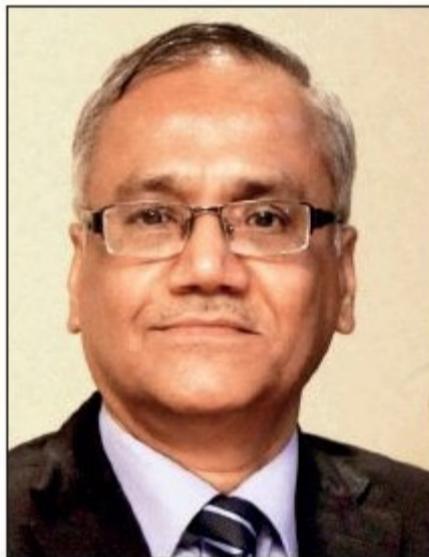
SBI Life posted a 13.4% growth in profit after tax in the fourth quarter ended March 31, 2018, while profit for the full financial year rose 21% to ₹1,150 crore. However, the value of new business (VNB) margin growth remained subdued at 80 basis points at 16.2%. In an interview with **Shilpy Sinha**, **Sanjeev Nautiyal**, MD and CEO, explains the reasons for subdued margin growth. Edited excerpts:

Why is the VNB margin growth subdued relative to those at peers?
VNB margin has grown by 80 basis points. Our actuarial assumptions have been conservative, especially outside agency that has followed the international standards. We have not taken the effective tax rate but prescribed one on all products even

if they enjoy tax exemption. We have not gone by that route. That is why VNB margin has not grown by that multiplier.

Second, our solvency margin is 206% against our board requirement of 180%, and the regulatory norm of 150%. We target ourselves toward stiffer solvency margins and we lose 30 basis points. The more you lock toward solvency, the less it flows towards VNB.

Your market share in new business premium income has fallen in FY18 to 18.5% from 20%...
This was a conscious call by the management to stop from falling into the trap of group savings business. It was about managing the superannuation and gratuity funds of companies. In the



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beginning, for the first 5-6 years, we were incurring losses in the portfolio. The rate of interest did not match the return we were paying on the portfolio. It is only lately that incremental profit has crept in. It only improves the top-line. We will focus more on group term insurance products.

The 61st month persistency is down in FY18. Are people surrendering policies after five years?

Our 61st month persistency is down but still better than others. This is because of single premium policies sold in 2012. In 2012, 40% of the premium income included single premium policies.

Will you look to grow through acquisitions?

If companies are valued properly at right price, we are not closed to acquiring. It has to fit in at right price. There is plenty of room to grow within our network.

How many quarters can you grow without raising fresh capital?

We had a presentation today to the board. We will not need any capital this financial year. If growth pans out the way we have projected and estimated, solvency may come down to 1.98 times, which is much above the approved limit

of 1.8. By end of 2019-20, we may need capital. We will have to sell our stake in three years as mandated by SEBI. We will take a call on offloading by the second half of the next financial year, driven by the SEBI requirements and the way growth pans out.

What is your expectation of growth in VNB margin and premium income?

We internally thought that we will grow value of new business by 1% this year, but it did not happen because of underpinnings. We have decided to grow our VNB margin by 1.25% yearly. It depends on how assumptions take place. We will grow business by over 30%-35%. Protection is an area we think we could have done better. It now contributes 5% to our business. We want to sell combo products - savings combined with individual protection products.

What are the targets for the current financial year?

We have taken ambitious target for the quarter. We will be activating our branch channels. We will focus on credit life and protection businesses... We will ramp up numbers on the agency side. We will open 92 more branches. We will tie up with many banks and NBFCs. We have tied up with South Indian Bank and Punjab & Sind Bank. As per our estimates, we should conclude 8-10 tie-ups this year. The broad strategy is to make things efficient, improve persistency, and avoid surrenders and lapses. We are sound in most areas and would like to improve these numbers further.

You have moved from a bank to head the insurance business. How are the challenges different in both industries?

It is not as relationship based as banking. The challenge is to make it more interactive. We need to make long-lasting relationships with our policyholders.