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We wish our readers
a very happy and successful 2009.

CONTENTS

- A) Insurance policy lapse... - page 1
- Hema Ramakrishnan, *The Economic Times*
- B) Macro indicators – They're all flashing amber - page 3
- Rajalakshmi Sivam, *The Hindu Business Line*
-

Insurance policy lapse a bother for both customers and companies between 2002-03 & 2006-07, premium aggregating Rs. 20,500 Cr forfeited due to lapses

By Hema Ramakrishnan, Hyderabad

(Source: *The Economic Times*, Chennai, November 24, 2008)

Scores of life insurance policy holders run the risk of losing their insurance covers when they fail to renew their premiums within a deadline. This is not a happy situation for insurers either as termination of insurance policies could impact their business.

Between 2002-03 and 2006-07, policy holders forfeited premium aggregating Rs.20,500 crore due to lapses, according to a recent research paper by the insurance regulator on the impact of lapses on insurers. The total amount exposed to lapses was around Rs.3,36,183 crore during this period. The lapse rate — amount of lapses in any given year as a proportion of the total amount exposed to lapses in that year — was a tad over 6%.

A year-on-year comparison showed a steady rise in the lapse rate. The lapses were higher in the popular savings instrument, unit linked insurance plans (Ulips), compared to traditional insurance products. The high commission charged on Ulips in the initial years could have been a deterrent. But the highest rate of lapse was in term assurance products. Pension policies had the lowest lapse rate.

A policy holder can revive an insurance policy by paying premiums that are due along with the interest. But this seldom happens in India. The revival period varies among companies and is also different for different products. But most life insurers give a grace period of 28 days to policy holders for renewing their premium.

The regulator reckons that varying lapse definitions could distort the assessment of a company's performance vis-à-vis its rivals. It could also create confusion among policy holders. A short grace period could result in more policy lapses and be unfair for policy holders. A relatively long grace period could compel the insurer to provide free cover for a longer period and this could result in financial loss. Companies that sent reminders to their intermediaries on renewal and also built a commission structure to encourage

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renewals were gainers. The persistency levels were high in these companies, according to the study by R. Kannan, Member, Actuary, IRDA.

Based on the data analysis, IRDA has recommended a uniform grace period of 30 days for policy-holders paying their premium every quarter, half-year or every year. It has also suggested reinstatement of a policy if the premium is paid within the revival period of two to five years, depending on the internal practice of the insurer.

J. Hari Narayan, Chairman of IRDA, told ET last week that studies such as these are meant stimulate a policy debate. It could also help the regulator look at course corrections, if need be.

Macro indicators: They're all flashing amber

By Rajalakshmi Sivam, Chennai

(Source: *The Hindu Business Line*, Chennai, December 14, 2008)

For the first time in recent history, the macro-economic numbers relating to India are not painting a confusing picture. Instead, they are all pointing in just one direction — a dramatic slowdown in economic activity in the months ahead.

While the country may still manage economic expansion in the coming year the following statistics suggest that the next chapter of the growth story may not be all that rosy. Here is a brief recap of the various macro indicators that reflect India Inc's performance and how it may shape up in the coming months:

Decelerating momentum in the economy has been visible since last year. Slowdown in the agricultural and manufacturing sectors, with the worsening global scenario, has taken a toll on GDP numbers.



The gross domestic product growth slipped from 9.3 per cent in September 2007 to 8.8 per cent in the two succeeding quarters, further to 7.9 per cent in June 2008 and to even lower 7.6 per cent in the September quarter of this year. Quarterly GDP growth has slipped below the 8 per cent mark for the first time since December 2004.

The deceleration was caused equally by slowing manufacturing and agricultural growth, which saw growth rates fall from 9 per cent and 4.6 per cent a year earlier to 5 per cent and 2.7 per cent respectively in the latest quarter. Four quarters of slower growth may not be indication enough of a further decline, as there have been past instances when GDP numbers have rebounded strongly from a depressed phase.

The country recorded a growth of 11.3 per cent in the third quarter of 2003, the highest ever, after plunging to a low of 1.5 per cent in the corresponding quarter of 2002.

However, the disquieting trends presented by other macro indicators (see below) make it difficult to predict if a recovery will be as easy this time around.

IIP: Intermediate goods lead slowdown

The IIP (Index of Industrial Production) numbers, which capture factory output, have historically shown a close correlation to the profit trends of the corporate sector (see 'Does IIP offer clues to corporate growth?', *Business Line*, June 4, 2008). On this score, there has been continuous bad news.

Growth in IIP index has declined from 12.2 per cent in October 2007 to a negative 0.4 per cent this October. The contraction in IIP is the first reported in 15 years.

Though the recent numbers can be partially explained by the timing of festival sales and last October's high base, the broad-based nature of the slowdown is evident from intermediates, consumer durables and consumer non-durables all seeing negative growth. The 39 per cent growth in sales of all listed companies in the September quarter, could not filter down to profit growth, with companies seeing a 26 per cent decline in operating profits, the past quarter.



If the steep increases in interest rates are indeed behind the slowdown in IIP, recent cuts in lending rates should help. However, expect a lag of a few quarters before the lower interest rates filter down to interest costs of companies.

New orders tumble

If the manufacturing sector's September scorecard was worrying, what do the months ahead hold? If the ABN Amro Bank Purchasing Managers' Index is any indicator, investors can expect a further softening of IIP numbers in November.

The PMI is a lead indicator of manufacturing output and is based on a survey of purchasing managers of 500 companies. It measures many industrial indicators, ranging from purchases to new orders and output. The index shrank from 57.3 in September to 45.8, a record low reading, in November.

Given that an index reading of 50 reflects a “no change” scenario, this number is a pointer to possible contraction in IIP numbers in the months ahead. This sharp contraction in the index can be traced mainly to a falling number of new domestic orders.

This adds to the trend of declining new export orders since September, and is a clear sign that the manufacturing slowdown has acquired a domestic dimension.

Brakes on auto numbers

Healthy “consumption” was supposed to be one of the pillars of the India growth story. But vehicle sales numbers in recent months show that the slowdown has definitely dented big-ticket purchases such as vehicles. From two-wheelers to commercial vehicles, every segment of the automobile sector has seen a slippage in sales in November.

While commercial vehicles (decline of 49 per cent) were the worst hit, even hitherto resilient segments such as passenger cars (down 19 per cent) were not spared. The year-to-date numbers too were modest with commercial vehicle sales falling by 9.4 per cent and passenger cars recording a mere 0.5 per cent growth. The sharp decline in commercial vehicle sales is an indicator of slowing freight and goods movement — again a key gauge of economic activity.

The passenger and two-wheeler segments have been clearly impacted by tightening credit availability and higher interest rates deterring buyers. Ironically, export sales were buoyant this month, with car and three-wheeler exports showing strong growth.

If auto sales are an indicator of the consumer’s mood, cement despatches are a gauge of construction and infrastructure building activity.

Cement: Slowdown in pockets

Cement, a key input for infrastructure companies shows no visible slowdown in despatches. Between April and October this year, despatches recorded a 6.3 per cent growth over the last year and October in particular saw a 4 per cent growth.

However, the significant regional disparity in the numbers showed that the slowdown was concentrated in specific regions. The South has managed strong growth in despatches at 11.5 per cent in October followed by the East at 9.7 per cent. The higher despatches were on a strong demand growth of 11.7 per cent in South and 8 per cent in East (Y-o-Y in October). The West at 1 per cent and North, where consumption dropped by 3.7 per cent, represented pockets of lower growth.

Exports dwindle

Exports, a key engine of growth last year, have also presented a deteriorating picture in recent months. While India’s overall export growth in April-October is a healthy 20.6 per cent, this masks a sharp deterioration in growth in recent months.

October 2008 marked the first month in five years when exports actually declined (down 12 per cent) in dollar terms. If the export fall for October is worrying, the sharp slippage in non-oil imports (up just 5.5 per cent), is also a pointer to muted industrial activity in the months ahead.

With the US economy now officially in recession and Europe and China also slowing sharply, it is difficult to dismiss the export slowdown as just a blip on the charts.

Tax numbers

Corporate tax, an advance indicator of how corporate earnings may shape up, too dropped in November. From over Rs 7,700 crore in the same month last year, corporate tax collections were down to Rs 4,561 crore in November 2008, a 41 per cent slide.

The personal income-tax collection figures too were down by 31 per cent in November. That may be partially a result of the cut in tax rates; but could also be a pointer to a shrinkage in incomes. However, for the period till date (April-November) both personal and corporate tax collections are higher than the corresponding period of last year, by 15 per cent and 27 per cent respectively.

The picture on indirect taxes is no better, with excise duty collections in October lower by 8.7 per cent compared to the same month last year, a sure sign of slowing sales growth for manufacturing companies.

The earnings numbers of India Inc until the September quarter suggested that companies may yet scrape through the current economic slowdown with modest, if lower, growth rates in profits. The listed companies did manage strong 39 per cent sales growth in the September quarter, though profit growth didn't keep pace.

This held out hope that the deep correction in commodity prices would be enough to revive earnings growth for India Inc. But the above indicators clearly show that India Inc's sales growth too, is now at risk. That certainly is not good news for investors in stocks.

Do write in with your comments, suggestions and contributions to DMS Financial Services Company Pvt. Ltd. at <dms.financial.services@gmail.com>

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