

The CIM Group redesign: investments and insurance forming the right fit

The CIM Group redraws its internal boundaries. The various business lines are being reconfigured around dedicated clusters as part of a major organisational realignment that has seen the emergence of four autonomous divisions: the Retail Cluster, the Global Cluster, the Insurance and Investment Cluster and the Outsourcing and IT Unit.



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speaks to Mr. André Tait, the new Chief Executive (CE) for the Insurance & Investment Cluster (each division will be headed by a CE). He explains the rationale behind the move to bring insurance, investment management and stockbroking operations under a single roof. He also discusses the potential synergies and value creation opportunities of the new set-up. Furthermore each of these businesses will function through its own board.



Mr. André Tait

Henceforth, the Insurance and Investment Cluster will be a major force to reckon on in the non-banking financial intermediation arena. It is comprised of Albatross Insurance, CIM Asset Management and CIM Stockbrokers. Before the clustering, a centralised top management was handling business units involved in activities as diverse as consumer finance, retailing, stockbroking, insurance, business process outsourcing (BPO), asset management, global business, factoring, forex, credit cards and leasing.

"It has become apparent that we have to develop a more optimum structure. Hence, the business was grouped into four clusters to break it into more manageable chunks," says Mr. Tait.

According to him, it makes sense to bring asset management and insurance together since they have many things in common. *"There is a natural link between insurance and investments for many reasons. Both activities have a much longer planning horizon compared to other industries, operate in uncertain markets and create opportunities and scale from pooling of funds,"* he pointed out.

Albatross Insurance, CIM Asset Management and CIM Stockbrokers will establish linkages between themselves and will help boost each other's business. For instance, asset management helps the

insurance industry to bridge the gap between today's premiums and its future commitments. *"In the retirement provisioning of a life assurance and pension fund, investments form an integral part of the strategy."*

New opportunities arise from a product deployment and business development perspective. Mr. Tait believes that product launch will be more cost-effective. The clustering will unlock the power of market information and knowledge. Customer databases of various business units can be leveraged to enhance the scope for cross-selling and up-selling, particularly in the insurance business. Marketing and distribution logistics will be shared for greater cost efficiency in delivering financial products. *"We will be able to build synergies within our own cluster, thereby eliminating possible cost layering,"* the CE added.

Besides the streamlining of costs, the clustering also opens up new avenues in terms of product development. The Insurance & Investment Cluster is looking forward to tap opportunities in the Indian securities market through the Foreign Institutional Investor (FII) licence that CIM Asset Management holds. From the stockbroking side, new solutions for high-worth individuals can be deployed.

How does all this translate into increased shareholder value? Mr. Tait takes the view that it is important to have a strategy that creates value for both the shareholders and the policy-holders. *"The balance sheet of an insurance company is a leveraged one as it pools together shareholder and policy-holder funds."*

He also argues that value creation for people, corporates and institutions that have put their money in the business (either through premiums or through

shares) is an intricate process and that conventional yardsticks like earnings per share (EPS) do not always tell the true story about how wealth is being created and managed. *"It has become common practice in our industry to look at an embedded value calculation in the life insurance industry which provides an economic view on the company."* The key issue, he stresses, is managing risks.

The business environment in which the cluster operates brings new opportunities as well as new challenges to the operators. The financial services industry has come a long way in implementing critical reforms. Insurance and investment houses have now to deal with more compliance and regulation. *"This is on the increase internationally. It is up to the industry to decide how to react to it. In my view, rules and compliance should be seen as a minimum requirement to build a good commercial enterprise on top of that,"* Mr. Tait affirms. Nonetheless, from his standpoint, self-regulation should be the preferred option for the industry.

In some years' time, the new rules pertaining to the separation between life and the general insurance will start redefining the contours of the industry. But the forces of change will also originate from the industry's big players' appetite to grow even bigger through mergers and acquisitions. *"I see a lot of potential for further consolidation in the industry."* Smaller and resources-deficient companies are likely take-over targets.

Lower competition should help improve economies of scale. *"The outlook will remain tough as we see higher loss ratios in various classes of business. The industry will be challenged on its cost structures going forward,"* Mr. Tait predicts.

But whilst costs escalation poses a serious challenge, new opportunities emerge in the area of customer service. *"Technology can become an enabler,"* he pointed out.

Akilesh Roopun