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UNION FINANCE MINISTER’S SPEECH AT IRDA’S 72ND BOARD MEETING

New Delhi: Chaitra 15, 1933
April 04, 2012

Following is the text of the Speech of the Union Finance Minister Shri Pranab Mukherjee at 72nd Meeting of Board of Directors of Insurance Regulatory Development Authority (IRDA) delivered by him here today:

It gives me great pleasure to be here today for the board meeting of Insurance Regulatory Development Authority (IRDA). It is a matter of pride that the financial regulatory framework in India is evolving in a manner which is conducive to development of a robust financial sector, ensures the independence of the regulators and enables the sector to grow in a healthy manner in line with the requirements of a growing economy.

We have travelled a long distance since the time Insurance was nationalized in 1956. As we look back from the time the IRDA Act, 1999 was enacted by the Parliament, it is heartening to note that the objectives for which the IRDA was created, have been largely achieved; and that the industry has been making steady progress. The growth in premium underwriting has witnessed strong CAGR of 22.3% during the decade 2001-2011. Insurance penetration and density at 5.1% in 2010 is a marked improvement from 2.71% in 2001.The public confidence in the industry has improved and is positive. The future looks bright for the insurance sector.

Asia excluding Japan will contribute nearly a quarter of global growth in next 5 years and within Asia, India will be the fastest growing general insurance market, with an average expected growth of 15%. A welcome feature is that the share of life insurance premium in the gross domestic savings with the household is about 18% and is increasing over the years. There are strong underwriting growth drivers. The demand for insurance products is likely to increase due to growth of household savings and purchasing power.

The insurance sector has been an important contributor to the infrastructure development of the country. The total investments of the insurance industry in infrastructure (as on 31st March, 2011) were to the tune of Rs 198,369 crore, of which 78% has come from public sector insurance companies.

I am happy to note that the Planning Commission and IRDA are working together to develop necessary framework for infrastructure financing. I am sure that IRDA will ensure all what's required to ensure that the growth potential of the insurance sector is fully realized.

There are a few concerns that need to be addressed. Notwithstanding India's rapid growth in recent decades, it has largely remained an underinsured market with financial vulnerability across most of the income segments. The protection level, as measured by level of sum insured to Gross Domestic Product, at 55% is still low, pointing to the need for promoting long term savings and protection. Further, the insurance market is structurally challenged in terms of profitability. The industry profitability is driven by the investment income, with continued deterioration in the core business economies. No Company in India has yet achieved a sustainable balance between growth and profitability.

The IRDA, through its regulations, has been ensuring policy holders' protection. Initiatives such as dematerialized accounts, declining risk pool for third party motor pool, promotion of rural and social sector obligations, micro insurance policies, Institution of ombudsman and Integrated Grievance Redressal Mechanism, to name a few have strengthened the insurance sector tremendously. These efforts have to continue in the near future. IRDA, I feel has a crucial role at this moment to see that the sector develops in a healthy manner and the reach of insurance is maximized.

There are two potential scenarios for the market profitability (i) more holistic competition with new business models (ii) aggressive price based competition. It is the first option rather than aggressive competition in premium underwriting, that has been the case so far. While de-tariffing has resulted in significant lowering of premiums for the consumers, the adverse impact is being felt on the insurance company's balance sheet. Underwriting performance is the biggest driver of superior returns and is the key differentiator between the top performers and the rest. To ensure prudent underwriting and curbing unhealthy and suicidal competition among the companies through undercutting premiums is something that the Regulator will need to address suitably.

The focus area for an insurance company should be to strive towards a proper business mix, distribution mix along with underwriting excellence, operation excellence and claims excellence. It is imperative that (i) companies adopt the granular growth approach and realign resources differentially by channel, product and geography, (ii) strengthen core distribution capabilities (iii) deeper retention through Customers lifecycle management, (iv) invest in technical excellence and (v) driving comprehensive expenses management. It is time for the IRDA to examine promotion of Digital channels and incentivize E-Governance and E-Policy so as to extend insurance coverage especially among the youth.

IRDA has made progress in ensuring policyholder's protection. In continuing this work, IRDA should be expressively punitive to companies who resort to mis-selling or violate the initially agreed terms and conditions. I feel there is a case for moving to a 'use and file' system for approving products or mix it with the existing 'file and use' policy, in order to speed up the product approval process which has been the concern in the sector for some time. The regulatory environment should be conducive to changes with regulator seeking broad guidelines as opposed to micro management.

Indian market, despite newer models of distribution is still largely dependent on the agents and agency model of insurance. Can we think of a system where in the mass market/OTC vanilla products with low ticket size are incentivized by having a second level of agents with lesser entry restrictions? This will ensure widening the reach of Insurance especially in semi-urban and rural areas. The low penetration in general insurance is primarily because of low penetration in retail insurance product segment.

The efforts of IRDA in promoting rural and social sector insurance are steps in the right direction. In this regard I have instructed the LIC as well as four Public Sector Insurance Companies to have their presence in all district headquarters and upto the Tier IV cities as classified by Census. In addition, IRDA may think of setting up a pool which should be specifically meant to take up insurance literacy and awareness. This is one area I am concerned and concerted efforts are needed to make people realize the importance of insurance especially as old-age security.

IRDA should have a clear vision in insurance sector in India in this changing social economic scenario and have a consistent long term policy framework so that the industry can flourish.

To conclude, I would emphasize that though the journey has begun well, it is only half-complete. It is now up-to both the Department of Financial Services and IRDA to work in a manner that insurance becomes an effective tool for transforming the lives of individuals and the society at large.

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