

**PRESS INFORMATION BUREAU
GOVERNMENT OF INDIA**

**TEXT OF THE SPEECH OF THE UNION FINANCE MINISTER DELIVERED
DURING HIS MEETING WITH THE CHAIRMEN OF PUBLIC SECTOR
INSURANCE COMPANIES**

**New Delhi: Jyaistha 23, 1934
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Following is the text of the speech delivered by the Union Finance Minister Shri Pranab Mukherjee delivered during his meeting with the Chairmen of Public Sector Insurance Companies here today:-

I am happy to be with the Chairmen of PSU Insurance Companies today for reviewing their performance in 2011-12, resolving common issues and setting out broad strategy framework for the insurance sector during 2012-13 onwards.

On the economic front, as I pointed out during my meeting with the CEOs of Public Sector Banks and Financial Institutions yesterday, we faced a challenging situation in 2011-12. On Insurance Sector front too, there were natural calamities and catastrophic events in Japan, Thailand and elsewhere during the year which have affected Indian Insurance Companies.

I hope that the trough in the rate of growth cycle is behind us. Specifically in the Insurance Sector, I have had detailed interactions with IRDA during its last Board Meeting held on 4th April, where number of regulatory issues were discussed at length and I am hopeful that interactive process with the insurance regulator and other such associated issues will be streamlined soon. I am, likewise, happy to be here interacting with all PSU Insurance Companies after more than 2 years and I am sure it will set a path of healthy and sustainable insurance growth.

We have travelled a long distance since the time Insurance was nationalized in 1956. The growth in premium underwriting has witnessed strong CAGR of 18.85% since 2001. Insurance penetration and density has improved since then. The public confidence in the industry is more positive today than it was earlier. 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 during this period 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. I wish to highlight these factors to drive home the fact that despite occasional hiccups, the future also looks bright for the insurance sector.

We are all aware that the insurance sector has been contributing immensely to the infrastructure development of the country. The total investments of the PSU insurance companies in infrastructure (as on 31st March, 2012) were to the tune of Rs.14.26 lakh crores, of which LIC alone has invested Rs.13 lakh crores.

In Life sector, LIC continues to be the leader and despite it being an open market, LIC has a market share of around 81% in terms of new business policies and 71.3% in terms of new business premium during 2011-12. I congratulate LIC for being the trust factor among the people. LIC also is successfully implementing Social Security Schemes – Aam Aadmi Bima Yojana and Janashree Bima Yojana (JBY). I would advise LIC to work out **“Kisaan Bima Yojana”**, a life insurance scheme for the farmers on the lines of JBY where the coverage can be extended up-to the age of 65 or 70 years and the additional premium could be borne by the farmers covered under the scheme.

In agriculture sector, I have noted the progress in terms of coverage of farmers under agriculture insurance. However, the number of non-loanee farmers has been coming down over the years. Agriculture Insurance Company of India Limited (AICL) should work for ensuring not only bringing all loanee farmers under the cover but also as many non-loanee farmers as possible. I feel this is the most marginalized group requiring agriculture insurance and should be covered on priority.

Reinsurance is an integral part of the insurance sector and GIC is the sole Indian reinsurer in the country. While the loss of Rs 2490 crores during 2011-12 is largely attributable to the natural catastrophes in Japan and Thailand and also due to the provisioning on account of motor pool, the larger policy issue of minimization of exposure risk, diversification of risk, due diligence while assessing the country specific risk etc remains and I am sure GIC is making all necessary efforts in this direction.

I have few concerns in the General Insurance non-life sector where the insurance market is structurally challenged in terms of profitability. India is the only country in Asia with a combined ratio of 105 and above consistently during the last 5 years and all the four PSU General Insurance Companies have been largely responsible for such a trend.

The combined ratio for four non-life PSU insurers, which was in the range of 136% to 140% during 2010-11, has come down and now is in the range of 120% to 129% for non-life general insurance companies. There is a desire in general insurance PSUs to grow at a faster rate and be the market leader. The growth rate in GDPI for all four companies, during last year was 21.39% with a market share of 55.76%. While the emphasis on growth in premium is understandable, what is however concerning is the underwriting losses which stood at a whopping 6,134 crore during 2011-12. The overall profitability clearly is driven by the investment income, with continued deterioration in the core business of premium underwriting. It is well understood that growth in top line cannot be at the cost of bottom line. The Ministry has suggested certain welcome steps to curb the unhealthy competition in underwriting premiums and it will help restore the sustained business growth.

I complement the PSU insurance companies in reaching out to the people in far-flung areas. However, I have pointed out earlier in my Zonal Meetings the **need to cover all the remaining un-served areas especially district headquarters**. You will agree that the per capita income has grown over the years and a large number of people in smaller towns are saving and are looking for insurance products. **It is in this regard that we have decided that LIC as well as PSU general insurance companies shall necessarily have a presence in all the towns up to Tier IV classification as per census**. Such an early foothold will be advantageous in business sense also to the PSU Insurance Companies and It should be done without any further delay. **A reorganization of the existing loss making Branches, especially those of non-life general insurance companies and also de-congestion of branches which are concentrated in metros can help this expansion in un-served areas.**

We have recently initiated, as part of Financial Inclusion, a detailed exercise to ensure the presence of Business Correspondents (BCAs) in all the revenue villages with a population of two thousand and above. **It only makes business sense for insurance companies to appoint these BCAs as insurance agents to tap the huge potential of insurance coverage in rural areas.**

Similarly, **other mode of distribution such as Bancassurance must be adopted in a big way**. Out of the available 80,000 bank branches, less than 7000 are being used by PSU insurers and we need to scale up Bancassurance immediately.

In order to tap the growing segment of insurable population who is IT savvy, **you all must immediately take the e-governance route and ensure that all your policies, both new and renewal, are available online**. This will also enable them to have direct access with you and dependence on brokers will come down. And in the process, some of your savings must be passed on

the customers through discounts. E-governance, issuance of e-policies and e-payment are no longer options but have become a necessity if one is to survive in the sector.

I would also like **to highlight the need to ensure that claims are settled in the shortest possible time frame.** I notice that large numbers of claims, especially in the General Insurance companies, are pending for final settlement. **You may like to take up a drive to ensure that this pendency is minimized.**

We have a long way to go if we have to grow on a sound footing. **Policyholders trust is of utmost importance and all our functioning should be geared up with this philosophy. There is also a need to have a balance between growth and profitability and our strategy in coming years should be guided accordingly.** I have full confidence in all of you and your team and hope that PSU companies will continue to be the leaders in their respective segments and in a financially sound and healthy manner.
