

Nothing to beat an insurance policy

► *An infrastructure boost calls for high insurance cover.*

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While there have been many discussions around mis-selling, aggressive sales, customer issues, in the life insurance sector, it is important to step back and take stock of how this sector has contributed towards the economy and the people.

Insurance penetration in India was 1.7 per cent of GDP in 2000 when the sector opened up to the private players. Today it's pegged at 4 per cent and would have been higher had the macro environment supported it.

DEMOGRAPHY TRENDS

In the first decade since privatisation, the insurance industry grew at a record pace of 24 per cent CAGR, going from Rs 20,000 crore (2002-03) to Rs 1,20,000 crore (2010-11) in terms of new business premiums (NBP).

This was only possible as the sector invested Rs 65,000 crore of capital, opened over 11,000 branches in over 700 towns and cities reaching out to the length and breadth of the country. The industry has also made significant investments towards customer education.

The young demographic of India will age in the next 20-30 years, which will increase manifold the resources required to support retirement needs of citizens.

A huge retired population which will need a regular flow of income. The only financial instrument that can guarantee this is Insurance. In addition to ensuring financial security for one's family, insurance also plays a significant role in boosting the economy. To elucidate:

Impact on the capital market and Infrastructure funds: The insurance companies are mandatorily expected to invest 50 per cent of assets under management in Government Securities and 15 per cent towards infrastructure funds.

The industry invested close to Rs 90,000 crore in 2010-11 in Infrastructure, which has seen a dip in the last two years.

Even in the capital markets, it is contributing in a big way. In fact, one of the reasons that the Government is looking at opening FDI in insurance is to control the current account deficit.

India has an extremely large and critical need for investments in infrastructure. The demand for infrastructure funding and debt is estimated to increase from the existing about Rs 6 lakh crore to about Rs 20 lakh crore by 2015 and about Rs 45 lakh crore by 2020.

The tenure of funding for these infrastructure projects normally

ranges from 10 to 15 years. The insurance industry needs to be one of the primary sources for these funds.

Impact on the Indian customer and society: Insurance is the only instrument in the market that ensures that the income one planned for the family is available for them whether they are around or not. A case in point is children's future education.

One can choose from multiple



ance. Even the banks have benefited in a big way from this industry creating employment and increasing their income from the Bancassurance channel.

Most of the recent regulatory changes implemented by the Insurance Regulatory and Development Authority (IRDA) are extremely positive for customers and good for the long-term health of the insurance sector.

Companies now need to re-configure their own operations in the short term to fall in line with the new regulations and settle quickly to the new normal.

The industry has taken significant steps in the customer centricity journey and brought about significant changes to the operational models, led by innovation and backed by technology.

While some parts of the regulation seek to standardise products and approach, we must ensure that there is no compromise to innovation which will be the key factor to drive growth of this sector, attract and retain talent.

For the industry to contribute meaningfully to the economy and secure the financial future of people, industry and the regulator need to continue to effectively work together.

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products, from Mutual Funds to Fixed Deposits and invest regularly to create a corpus for their child. However none of these guarantee that the corpus one plans for one's child will be available when he/she turns 18, whether the parent is around or not.

Employment opportunities: With the advent of private players, job opportunities have been created across the spectrum due to insur-