61st ANNUAL CONFERENCE

&

119th COUNCIL MEETING OF INSURANCE INSTITUTE OF INDIA, MUMBAI

Hosted by

ERNAKULAM INSURANCE INSTITUTE
at **Hotel Le Meridien**, Kochi

President, office bearers of the Institute, ladies and gentlemen.

It is my pleasure to attend the 61st annual conference of Insurance Institute of India. I welcome all the delegates, and extend a special welcome to outstation delegates, to Gods own Country. It is very thoughtful on the part of the Insurance Institute, to have the conference organized in Kochi, when Ernakulam Insurance Institute is celebrating its Golden Jubilee. Let me thank the President and other office bearers of both III and Ernakulam Insurance Institute, for inviting me.

The III is the oldest Insurance educational institution in India. It has been rendering a very valuable service to the insurance community. I was associated with the Institute for a couple of years, by being a member in the Board of Education. It is therefore an honour to be at this function.

The origin of Insurance in India, dates back to the beginning 19th century. Companies were few in numbers, foreign owned and provided Life cover for Englishmen. It was difficult for Indians to get cover. Things changed from the beginning of 20th century, with formation of Indian Life and Non-Life companies. Composite companies were also operating in India till the nationaliation of Life Insurance. Later, 106 Non–Life companies were brought under four government owned companies with nationalization, in 1972. However, it was after liberalization that both Life and Non-Life sector made tremendous progress. In the last 15 years, both sectors have grown by 10 to 11 times. The Life and Non – Life premium has touched Rs.3,60,000 Cr and Rs.1,00,000 Cr. respectively by last year. Government's Make in India program, opening up of certain sectors like defence production for foreign investment, private participation in mining projects, major thrust given for solar power generation etc. and increased flow of FDI in different sectors, can offer great potential to attain exponential growth in the Non-Life sector in the coming years. It is expected that the Non-Life industry is poised for double digit growth annually, and to double the existing premium within the next 5 to 6 years. The position of life sector is also not different. With growing per capita income, increasing number of both middle class and HNI segments, the demand for insurance policies will be increasing considerably. Sufficient care should be taken to see that the growth we achieve is orderly and sustainable.

While the Regulator's primary responsibility is to see that the Insurance companies are financially solvent to meet their liabilities at all times, and to have regulations in place to protect the interest of the policy holders, it is the stakeholders' responsibility to see that sales activities are conducted, strictly adhering to the Policyholders Protection Regulations. Complex Rules and Regulations give room for different interpretations. If they are simple and easy to understand, it helps stakeholders to do their business with more ease. Indian insurance market has been very vibrant and dynamic from the inception of liberalization, and IRDA has been able to very quickly adapt to those changes, with introduction of fresh Regulations from time to time. Regulations for training and examination of agents and brokers, allowing Banks to work with more than one insurance company, introduction of new types of intermediaries, digitalization of policies, regulations for health insurance companies, unit linked Insurance, etc. are a few, worth mentioning. The recent amendment of the Insurance Act, has given more powers to the Insurance Regulator in framing regulations.

Intermediaries have a great role to play in the growth and development of a sound insurance market. While the introduction of corporate agency and banc assurance has given a big fillip to the growth of the Life sector, it is the broking services that will help the Non-Life sector grow substantially through commercial and corporate business of all sizes, in the coming years. The Non-Life sector has still not been able to get the full benefit out of the broking services due to various reasons. My experience in interacting with corporate entities over the past few decades convinces me that, when there is a large property damage caused by an accident like fire, flood or cyclone, the compensation that an enterprise gets from its insurer is much less than the actual loss suffered by the enterprise. In quite a few cases, the claim is rejected by the insurance company, creating a financial stress for the enterprise that can even lead to insolvency. Such a situation arises because risk awareness among enterprises is low and therefore there is low attention to risk management.

Multinational Companies are exceptions. Their risk awareness is high and therefore their insurance is also managed well, through the Indian arm of their foreign brokers.

As and when, and if only, insurance broking profession develops in India on sound lines, enterprises will develop sensitiveness to risks, manage them through insurance efficiently. This would also lead to an increased awareness of the usefulness of insurance to enterprises leading to a substantial increase in insurance spends.

Brokers should focus on providing the ideal insurance program for the customer from the point of view of risk management, rather than negotiating for lower rates. The main impediment to the development of the broking profession is investor's disinclination to invest more in a business which cannot produce quick returns on the capital. A minimum capital of Rs. 50 Lakhs for a broker is inadequate to develop this profession on healthy lines, particularly when the concept of broking is new, and has to be marketed with persistence and with a combination of insurance, engineering, accounting and finance expertise deployed intelligently. Broking firms that can claim to be functioning as genuine risk management consultants to enterprises are a handful.

While the Regulation allowing the banks to deal with more than one Insurance company is a good step in increasing penetration and freedom of choice of Insurers in different geographies, it is time to extend the same facility to agents as well. This is practiced in different countries. With this change, unhealthy practices are avoided, and an ordinary customer can easily meet all his insurance requirements from a single agent. Agents will have more products to sell to their customers and increase their income. It will help the industry in retaining existing agents and attracting more in to this profession.

The recent regulations allowing foreign reinsurers and Lloyd's to set up branches in India is a welcome step and makes it closer to our plans of making India, a regional Insurance and Re-insurance hub. There could be challenges in complying with regulations of giving preferences to GIC Re, over both branches of reinsurance companies and Lloyds, registered in India. The industry will be deprived of the full benefit from this initiative. The most practical solution would be to give freedom of choice between reinsurers available in India, before placing with oversees reinsurer, which is possible only if Regulation is amended. Both Singapore and Dubai are fast developing as reinsurance hubs and it will be difficult for India to catch up with them.

The Banking Industry is very much ahead of the Insurance, in the use of technology. While the technology has changed the landscape of banking, it has its down side too, if banking systems can't be protected. Imagine what happened to Central Bank in Bangladesh and UBS in Singapore. This is an opportunity for selling cyber crime policies, which is yet to develop in our market. In our industry too, Technology is proving to be a great enabler for a cost effective operation. Insurance companies are also outsourcing part of their work as per regulations. More and more work could be outsourced with the increasing use of technology. Insurance companies may end up doing only product development, underwriting and claims settlement very soon, if regulations permit.

The Goods and Services Tax (GST) - the country's biggest tax reform, will soon be rolled out. We have to see whether it will have any negative impact on the insurance market or not. The likely rate can be 300 basis points higher than the present rate for Non-Life and certain Life policies.

Higher service tax is always a deterrent for growth in policy sales, at least in the short term. There could be other challenges too in complying with GST laws. Registration and filing of returns in different states will increase work load and cost of compliance. This is the right time for the Industry association to study the implications of GST and take it up with the regulator and Government before it is finalized.

The government and the regulators of different sectors have amended the company law and put in place regulations for maintaining the highest degree of corporate governance and transparency to protect the interest of shareholders as well as customers. The interest of the policy holders cannot be fully properly protected just by framing regulations or by addressing the customer's grievances by the Regulator or the Ombudsman. Unhealthy competition or indiscipline in the sales related activities by stake holders are the main reasons for the increasing number of repudiation of claims as well as customer grievances and low persistency levels.

I strongly feel the need for setting up Self Regulated Organisations (SRO) for insurers and brokers, to begin with. The responsibility lies more with the stakeholders than the regulator, in developing a well-disciplined, professional and stable insurance market. Prior to nationalisation, Insurance councils framed "Code of Conduct" for ensuring fair conduct and sound business practice. These SROs should be made responsible by the regulator for framing "Code of Conduct" to ensure fair conduct and sound business practice in the market place. It will help the Regulator to devote time for important work including change over to Risk Based Capital (RBC) for solvency calculation and better supervision. Miss-selling and forced selling is rampant that it results in loss of trust and fresh business. In Life sector, it also affects persistency level negatively, making it one of the lowest compared with levels prevailing in developed markets. Selection of right products for different customer segments is very important in increasing the persistency level. While timely action of Regulator or Ombudsman can make some improvement, much more can be achieved only if the industry players manage the market place with more discipline and transparency.

I remember reading the credos of the institute in their printed booklet. I am reproducing couple of them which some of you might remember.

"Maintain the highest standard of Professional integrity, ethical conduct with respect to what they say and do in their professional life and work, exercising discrimination and judgment to decide what is fair, just and the right thing to do.

Act in the best interest of the customer, display deep sensitivity and empathy to their customers, champion their just and legitimate cause, provide fair and objective professional advice and a high standard of service.".

If the second point is practiced by those involved in sales and after sales service of the policies, the problems mentioned earlier can be resolved easily.

The topic for today's conference, "Combating Insurance Fraud' assumes great importance because of mounting claims for insurers. Insurance fraud is prevalent world over and constitutes a good share of the insurance company's loss. Greater co-operation and exchange of information between insurers is required for combating and reducing fraud. However much we try, it cannot be fully eliminated. I wish the Seminar all the success.

I will reiterate that the contribution from our Insurance Institute to the knowledge levels in the insurance industry and financial sector is immense. As the industry grows, requirement of well trained manpower also increases. There are strong indicators that the industry or even the economy needs professionals at higher levels who have acquired insurance knowledge so that the sector can deliver better service. Therefore I conclude by suggesting that ways be examined as to how III can play a vital role in making it more relevant to changing market realities.

I once again thank the Insurance institute for inviting me to this conference.

Mathew V.