

KEYNOTE ADDRESS

**for 114th Mid-Term Council Meeting
1st February, 2014**

Host- Guwahati Insurance Institute



**Insurance Institute of India
'G' Block, Plot No.C-46, BKC, Bandra (East), Mumbai-400051.**

It is my great privilege to be able to attend and address the 114th Council Meeting of the Insurance Institute of India being held today, 1st February 2014 at Guwahati. I welcome all distinguished Guests and Delegates to Guwahati.

I am sure that the Council Meeting will be a grand success and all the Delegates will return from Guwahati with fond memories. The mighty Brahmaputra flowing by is a testimony to the heritage and culture of the North East. I am certain that the insurance industry in India will replicate the greatness of the Brahmaputra.

At the outset, I wish to remind the Delegates about few details about the Insurance Institute of India. It is necessary to always remember and recall our heritage because that gives us the strength of the past and leads us to a grand vision of the future. As we know, the Federation of the Insurance Institute was inaugurated on 30th June 1955. The first Licentiate examination was held in 1957; in 1959, the first batch of Associates qualified. In 1961, the fellowship examination was held for the first time. In 1970, the Federation of Insurance Institute worked in collaboration with the Actuarial Society of India to publish a book on Actuarial Valuation. In 1984, C.I.S. examination was started for Agents. In 1986, Federation of Insurance Institute was rechristened as Insurance Institute of India.

I also wish to recall from the Objectives of the Insurance Institute of India - at least, those aspects which are of great significance in today's context. The objectives of the Insurance Institute of India, inter alia states:-

- a) To ascertain the law and practice relating to all matters connected with insurance and to disseminate such knowledge among those interested in insurance.
- b) The activities and programs of the Institute, among others, assist people in the insurance industry, to acquire the skills and expertise to match the

growing needs of multiplicity of customers - the objective being to enhance professional insurance service to the millions in this country.

In the course of my deliberations, I will come back to the objectives mentioned above. However, I request Delegates will note that the first objective that I mentioned, highlights the role of Insurance Institute of India in ascertaining the law and practices to all matters connected with Insurance. I am sure that, it is no longer sufficient to know the laws and practice of Insurance in India. We must be familiar with the law and practices of Insurance in similar economies, e.g. the BRICS nations. It is a scary thought - how many Indian insurance professionals are familiar with insurance laws and practices of China? If there are some, then, they should share their knowledge. It is important that we know laws and practice in similar geographies- one of many reasons could be that, knowledge of the Chinese markets, would possibly help us in gaining scale.

The second objective that I have highlighted, deals, importantly, with customer service. The pre 1956 era and the post 2000 era have taught us many lessons. One of them is that Customer service determines a company's success. If the customer is the key to the Insurance Companies' strategy, so much better, the chances of success.

I now seek to identify some of the key features of the life insurance industry today. I caveat this by saying that these are my personal views, and should be treated as such.

- a) The last few years have seen a real challenge for growth in new business for the industry. We are aware of the apparent reasons for this-change in the product preferences by the buying public, attrition of Agents, transformation of products during the period, plateauing of by alternate channels of distribution, etc. My personal view is that, if we see the larger picture, at least

two major trends are visible. One, after insurance products started getting compared with other products in the financial sector, it was incumbent that at some time, and importantly FOR some time, the buying public may be attracted towards acquiring non-financial assets, e.g. real estate, gold, etc. My belief is that, this divergence to non-financial assets is not long-term and the buying public would again reconnect with life insurance in a big way. Two, though bulk of new business in the life insurance industry comes from the tied channel, highest growth was seen by alternate channels of distribution. We have seen steep decline in new business from non-bank Corporate Agents, who, earlier had prominence in distribution. I see green shoots in this area also, as alternatives to alternate channels are now emerging. Therefore, I have reason to believe that we are now in growth phase in the Life insurance industry.

- b) In have referred to transformation of products in the recent past. A few years ago ULIPs were re-structured, and now, w.e.f. 01/01/2014, a new product regime in Life side has set in – Group products were restructured w.e.f. 01/08/2013. As new product features will take some time and efforts to be understood by the distribution team and the buying public, I am certain that the new product regime will see acceptance by the buying public; when that happens, the life insurance industry will again see sustained growth.
- c) Insurance is still sold and not bought; the IRDA mandates that all sales literature should display that Insurance is the subject matter of solicitation. It is therefore important in this context that the critical role of distribution in life insurance selling must be central to any discussion on the future trends of the industry. As per the IRDA Annual Report for 2012-13, the number of individual agents declined by 10% during the year. It is seen that the decline in Agents in private sector life insurance Companies was 12.11%, while for LIC it was 8.23%. The Annual Report notes: “Such high attrition may adversely

affect life insurance business, policy persistency and public perception of the agency channel as a stable career. It is therefore, in the interest of all stake holders to work on reducing the turnover of agents and build a stable and growing agency force. “[2012-13:77]. A similar trend was seen in Corporate Agency also. Their number declined by 16.21% during the year. Whilst it is not my intention to try to analyze the reasons for attrition of tied and Corporate Agents, I believe, the Insurance Institute of India can play a role in this regard. I look forward to Insurance Institute of India doing a detailed analysis of Agency attrition. After all, who is more competent to do this than Insurance Institute of India, being the original certifier of Agents. If there is some discomfort about the examination body doing this study, the College of Insurance can do so. After all, as I earlier mentioned, sharing of data is one of the objectives of Insurance Institute of India. As the IRDA Annual report states, future long term growth of the industry is dependent upon fixing this problem.

- d) Another key issue being faced by the insurance companies, especially life insurance companies is expansion. As per the IRDA Annual Report 2012-13, the number of life insurance offices was 10,485; this figure is lower than the number of Life Insurance offices as on 31-03-2009, when the number of such offices was 11,815.[2012-13:28]. This represents a 7.90% reduction in reach. Private sector offices reduced by a net figure of 953, while LIC opened 71 new offices. A major dilemma for the industry is, I believe, whether expansion should lead to growth, or growth of business should lead to expansion. We note that during 2012-13, Private Sector Life Insurance companies new policies declined by 12.80%; offices closed were 7.90%. [I am taking basis of new policies sold as an issue of strategic convenience only for this analysis]. Is there any co-relation between 2.88% growth in NOP and opening of 71 new offices by LIC; is there any correlation between net closure of 953 offices

[7.90%] and 12.88% reduction in number of new policies sold? I am unable to come to any conclusive finding, but, I firmly believe, if not direct, then, at least, indirectly, there would be a connection between the two. I also believe, if number of offices increases, then, Agency Strength will more likely also increase.

- e) Profitability is an issue that is a cause of concern for the industry. I don't want to deliberate on the issue at length, but, would only highlight it as an area of concern. The IRDA Annual Report 2012-13 states: [2012-13:27] "Life Insurance industry is capital intensive, and insurers are required to infuse capital at regular intervals to fund both the new business strain and to expand their infrastructure base including expenses on initial operations, training costs for development of the distribution channels, creating niche markets and achieving reasonable levels of persistency. The experience of the insurance markets globally indicates that companies in the life sector take seven to ten years to break-even." As mentioned above, profitability has a cause and effect relationship with growth and expansion. i.e. growth of business and expansion of offices. Out of the 23 private sector Life Insurance Companies, 17 showed profits during the last financial year. I hope this number will increase, and more Companies would show sustained profits. For most Companies, the 7year itch or decade of existence is over. It will be a creditable achievement for the industry to show profits on a sustained basis.
- f) A key indicator of any industry, especially an emerging industry, is the quality of manpower that it employs. My concern about manpower is both in the sales team and in customer service; it also includes back end jobs in Actuarial Science, Finance & Accounts, HR etc. A key trend in the last few decades has been the marked disinclination of the new entrants into the industry, and I speak for LIC as an example, to not take up professional courses being offered by Insurance Institute of India. I dare say, if professionals in administration

don't take a lead in pursuing professional studies, the sales team is will be much less motivated. I believe, Insurance Institute of India has a large task on hand in this area. The affiliated institutes, most of whom may be present here today, should take an annual plan for enrolling students for professional studies, coaching them and helping them qualify by providing quality support. When the industry will have a large number of professionals qualify both in sales and administration, we can say with confidence, that, the industry is taking deep roots.

It is my fervent appeal to the 114th Council Meeting to take up this on a war footing – both in private sector and public sector companies; this will be a significant contribution of the Insurance Institute of India to sustaining the life insurance industry.

Mr. President, I am grateful to you for your kind invitation to me to be present and share some of my personal thoughts. The life insurance industry is again at a cross-road. The future will largely depend upon the road that we choose. I am sure that Insurance Institute of India will help companies, individuals and the industry to see the right path and help them along in this eventful journey.

I conclude by quoting from an inspirational song sung by a pride of the nation, Dr. Bhupen Hazarika: "Amra Korbo Joy"- we shall overcome !!

Thank You.