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Chairman~s Interview to Economic Times

Raising FDI limit would catapult insurance sector to new high: IRDA chairman TS Vijayan

By Dheeraj Tiwari, ET Bureau | 19 Apr, 2013, 04.00AM IST

Were you disappointed when you did not get an extension after working five years as LIC chairman and had to face allegations of irregularities?

Naturally, disappointment was there. I was looking at retirement. All I wanted was to go out with dignity. Everybody has to go through that sort of period in life at some point or the other. But I had firm faith in myself. I had the conviction that what I did was right . If you look at a career spanning 34-35 years, one and a half years of disappointment is nothing.

How difficult was it to come out of this?

If the person is right, the system will respond to it. It may take some time but the system is strong in India. You have to give credit to the PSU culture and strength in India that allow a village boy like me to rise to this level.

**The FM has said that IRDA under you should focus on development as you come from an insurance company and know

the problems of the sector. Do you feel the weight of expectations?

The finance minister said that as a statement of fact. Yes, there is pressure, lots of pressure, but all that from myself and not from anybody else. I hope I can contribute towards the development of this industry. I believe whatever happens is destined by God. It may not be up to our expectations, but God gives what we need, and we must make the most of it.

What would be your approach to regulation?

The regulatory framework has evolved to match the needs of the insurance sector which has undergone many changes since 2000 when the first set of companies were registered by IRDA. Now it should enable various stakeholders to meet the needs of the customer.

We have developed a strong foundation aligning our regulatory structure to international best practices, while finetuning it to suit our macro and micro-economic conditions. Both the industry and the regulator need to clearly project short- and medium-term goals.

What are the three foremost challenges?

For me, the foremost issue is increasing the reach of insurance. We are still a long way from reaching out to the bottom of the pyramid. And of course, the other side of the coin is consumer protection. Every claim must be honoured. Stabilising the product clearance environment is also a priority. I have set goals for quick processing and clearance of products. The first two cannot be achieved without streamlining of this process.

FSLRC has suggested merging regulators for capital markets, commodities, insurance and pension funds into a single body. Is this desirable?

Globally, two models of financial sector regulators are prevalent. But there is no final view which of them has yielded better results. We are at present examining the contents of the report of the Financial Sector Legislative Reforms Commission.

The much-awaited change in the limits would certainly catapult the sector to a new high in terms of number of players and expanding the reach of the sector.

Will FDI boost the industry?

The existing framework provides for a 26% limit on foreign capital, and the proposal for a hike in FDI has been around for a while. Given that the insurance industry, particularly the life insurance industry, is capital intensive and needs at least 7-10 years to break-even, there is a huge strain on the domestic partner since it has to bring in 74% capital at the point of each injection.

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Will allowing banks to act as insurance brokers help insurance penetration?

The restriction on a bank to partner with only one life and one general insurer, along with one specialised insurer, has restricted manoeuvrability of the insurance companies to increase insurance penetration. The bank acting as broker will certainly enable them to tap the reach of their branch network, including the rural areas. The draft guidelines are already out.

How can financial inclusion become a viable business model for insurance firms?

IRDA~s micro-insurance regulations were notified in 2005 to create a framework for providing insurance to the vulnerable segments of society who cannot afford mainstream insurance products. A standalone micro-insurance agency channel was created which permits NGOs, SHGs and MFIs to become an agent. We reviewed the progress made in this segment and released an exposure draft in July 2012 proposing certain amendments. A comprehensive review of the same is on.

Pending this, IRDA has expanded the definition of who can become a micro-insurance agent to include many categories of people who are permitted to act as business correspondents of banks by RBI and also many institutional entities such as RRBs.

The authority is also looking at facilitating technology absorption and innovative & transparent product segments that can make micro-insurance not only a viable business model for insurers but also more satisfying to the customers while protecting their interests.

The authority has also mandated a specific proportion of business of all insurers to be procured from rural areas and social sector (covering unorganised, economically vulnerable or backward classes and other categories of persons both in rural and urban areas). The compliance with these stipulations is strictly monitored.

General insurance Industry is suffering.

I do not think that is a correct assessment. Following the de-tariff in 2007, for all segments, except third party motor insurance, insurers were free to decide the premium rates commensurate with the risk inherent in the cover provided by them. This led to stiff competition among players to grab market share.

Now, the industry is stabilising and we can expect to see the average premium steadily increasing year-on-year. In the last two years, the growth rate of the general insurance industry (except specialised insurers & health insurers) has been more than 22% for 2010-11 and more than 24% for 2011-12. We expect similar growth in 2012-13.

In terms of the bottom line, the underwriting losses of the industry have also decreased from FY 2010-11 to 2011-12. Is LIC being used to achieve the government~s disinvestment target? Investments are made by the insurers pursuant to the investment decisions of the investment committee of the respective insurer. Also, insurers cannot invest in any instrument that does not meet the eligibility criteria prescribed under the Insurance Act and the regulatory framework.

Is LIC allowed to invest up to 30% as prescribed by the LIC Act or 15% in equity as per IRDA norms?

As per existing investment regulations, any insurer which has investment assets of more than Rs 2,50,000 crore can take exposure in a single investee company up to 15% of the outstanding equity shares. The single company exposure limits have been prescribed in the regulations without disturbing the level playing field.