

## Driving India's Strategic Disinvestment Policy for a Promising Future: Preparing the Boards of Directors

\*Mr. Tuhin Kanta Pandey, IAS



We are preparing for a new era with Government of India's many transformational initiatives and the future looks quite promising for the Insurance sector in India. It is expected to reach about US \$280 billion.

I make my presentation in two parts:

- I. I would like to touch some key trends that the Indian insurance industry is going through.
- II. I would also like to focus on some of the key budget highlights, relating to some of the key changes that we are bringing in and also the sectors in which insurance is integrally connected with investments and so on.

Now, if you look at the new key trends in Insurance Industry in India, unlike the advanced countries, the Life Insurance industry in the country is expected to grow 12-15% annually, over the next 3-5 years. This is according to the IBEF

(India Brand Equity Foundation). While it might contract in advanced countries, the emerging countries like India are bound to grow both on the life and the non-life side.

The second important trend is the increase in insurance products. The need is now becoming ubiquitous for some of the products which were not at all being used by the insurance companies, have started to gain traction.

The third trend is there are several standardized products which have been brought in by IRDAI, the insurance regulator, in terms of Arogya Sanjeevani Health Insurance and later the Standard Term Life Insurance Plan which is Saral Jeevan Bima Yojana which was started in 2021. The Regulator has also asked to launch standard 'Travel Insurance' from April 1<sup>st</sup> 2021.

The next trend is that on-demand

insurance now we have something called 'On-and-Off Insurance'. For example, usage-based car insurance, which can come in and also will reduce the cost of consumers. Especially during pandemic time, it has been very useful.

There is also a very strong trend for increasing private sector contribution. If you really look at the market share of private sector companies in the non-life insurance sector, which has risen from 15% in 2004 to almost 56% in 2021. In life insurance segment also, the private players have a market share of 31% in the new business.

In FY 2020-21, the Crop Insurance has driven the growth and contributed 20% to Gross Domestic Product of non-life insurance companies.

Now, you have more tailored offerings in health insurance segments. The customers are able to pay their health insurance premium and installments.

Earlier, they used to collect it at one go. So, the new offerings are coming on, and there is more focus on 'embedded value' than 'profitability'. The large insurers continue to expand focusing on cost rationalization and aligning business models to realize reported embedded value and generate value from future business rather than focus on present profits. A lot of opportunities lie ahead in the digitization of distribution chain and cross-selling, in India. Digitization will play a big role in expanding the reach to new customers. Then we have a partnership with other organizations and local NGOs, on rural markets penetration; partnership with Fintech companies to sell insurance; and digitization for verification, i.e. a push towards e-KYC process for customer verification.

Introduction of new and innovative products, for example, 'Coronado Extract Plan' which is available for a time period of 3.5 months to 9.5 months with premium as low as Rs 100 per month. So, a lot of innovations have to actually come from India.

India is a market where, probably at the bottom of the pyramid, lays a great opportunity in a un-penetrated insurance market. Still various insurance companies have to innovate and couple it with the IT, digitization platforms and be savvy with which we can reach even the rural and remotest parts of India. India has a very good penetration of broadband now and they are getting into the digitized products like never before.

The standardization of products by IRDAI is another very important opportunity both across health life and travel. Large untapped market, 75% of Indians not having any sort of insurance - and this is Bloomberg Winter estimation. This standardization of products and on-line sales will expand into the large untapped market. We have an increased investment in Indian insurance industry and there is an

opportunity, particularly in terms of net owned fund requirements reduced from Rs 5000 crore to Rs 1000 crore. Cloud proposed to facilitate on-shoring of international funds and of course the new FY 2021-22 Budget in which the FDI will be raised from 49% to 74% and Bill in this regard will be actually brought in very soon.

Strong policy support is there for boosting insurance. We had four major schemes, for example, Government of India flagships, which have actually improved. There is strong potential in crop insurance sector; the awareness is still about 38% and it's the largest market in the world, even at that level. More focus on this and more awareness, which means more crop insurance and better crop insurance. We do have, of course, the key risks and threats but the point is that this is a growing market and India's growth Budget - which is the FY 2021-2022 Budget - will push this forward and further the demand as well as the supply of insurance products.

We have, of course, some limitations in terms of the insurance company in public sector space, where we really do have lack of capital and I think that is an important concern that the government is facing and going forward that would be addressed; but we have to be aware of the fact that a lot of private insurance companies are actually increasing their market share quietly. They are innovating I think that's the 'ecosystem' that we should look forward to The Insurance Regulator will actually, indeed, provide going forward.

Now let me come to the important issues that actually will spur growth, because I think that is where we are all linked. Insurance Market you know - while it really earns premium on one hand it also deploys long-term funds so it's an insurance sector is something which is there on the both sides of the growth; but it is dependent on the demand, I mean it you know for its own

premium but when it invests the premium it actually creates a lot of infrastructure in the country and that is one of the very important goals of this budget to stimulate CapEx cycle to trigger the capital investments. There it is a stimulus budget because for the first time you know the Finance Minister has taken a call on the stimulus rather than actually go for fiscal consolidation at this stage. Rightly so because there is a time when you know we have to kick-start the investment cycle before the capital investment sentiments, so-called animal instincts of the private sector get they get kicked in now how do we stimulate this CapEx cycle?

Well a lot is discussed of their three-pronged approach. One is that we are trying to lay down a very important financial institution for long-term capital. We have been talking about asset supply mismatch while we are dealing with the banks financing the long-term infrastructure expenditure which is always a problem. Therefore, the need for the DFI (Development Finance Institution) which has been announced, the bill in this regard will be actually tabled in the parliament very soon where it will be a large public sector and large institution the DFI which FM has said before. The bill will also provide for the private DFIs to come into being, so it will not only be a single large DFI. Large capitalized single DFI would be there but there will also be provision for multiple DFIs possible under the private sector, under the same legislation. So, that is a very important innovation which is coming in stimulating it.

I mean a lot of leveraging can then take place; a lot of funds can come. There are sovereign funds, the pension funds, the insurance funds, the wealth funds; and they are waiting for good opportunities to be there. We need to have an ecosystem and I think we should be providing with this institution.

The second aspect of the Budget is wherever the public investments can

take place; where the government itself is trying to put in the money, on the roads, on airports, on railways, on various infrastructure projects, as well as the public sector companies that we have, they have their own ambitious CapEx plans, and this is actually spurring demand as well as the supply, creating employment opportunity and triggering the virtuous cycle that we have been talking about as the growth cycle.

The third leg of this CapEx plan is 'asset monetization' and 'asset recycling' where we are saying that there would be an asset monetization plan a National Asset and Plan which is also grounded. So, to say in the national investment pipeline, we have a requirement of more than Rupees 100 trillion over the 5 years and within that we have identified from FSI a core asset monetization of Rupees 2.5 trillion, which will be in pipelines, in roads, in power sector, in transmission lines, in airports, in births, in the ports and even the sports stadium.

I mean the idea is that you have the projects and you de-risk the project and once they have put it in cash streams you bundle them into projects. That could be a very important source of investment for insurance funds. For example, insurance companies as well as other funds which are there, the pension funds, the sovereign funds, which are waiting to get an opportunity to come to India, and make returns.

So, this three stage cycling plan in which I think deeper, my department is also, in one sense, is quite intrinsically linked with this growth strategy.

Fundamentally, we have got two major points: one is a New Public Sector Enterprise Policy. We do have a lot of Public Sector Enterprises still in that, and the new Privatization Policy has been announced where barring the four sectors, which we say strategic, the rest of the sectors are open. We are saying that the Public Sector Enterprises will be

privatized or closed and they are in the strategic sectors, which are four strategic sectors, only a bare minimum presence of State, of Public Sector Enterprises will be maintained and one of them is a Banking Insurance and Financial Services Sector.

So, the first time the Banking and Insurance has been intrinsically linked to an overall policy rather than a segmented banking policy which was earlier being talked about. So, we have an overarching framework which is a long-term, which is a median term, which actually will guide next 4-5 years. However, Private Sector and Public Sector Enterprises either in the operating ITes or on the Banking and Insurance side will remain, will be privatized, and will be closed. So, a certain kind of a 'strategic vision' has been unveiled that will actually prepare all the stakeholders, accordingly.

The other point is that the FM has upfront announced that there will be privatization of two Public Sector Banks and one Insurance Company, and this has been announced, both as a policy as well as an action agenda. Policy is important because legislation will be involved, so legislative changes will have to be done. Action because I think even the initial number has to be given not to say that it is going to be the final number because as I said the final number is bare minimum presence of public sector enterprises in this strategic sector, which is called Banking Insurance and Financial Services.

So, I think there is a fair amount of clarity in the Budget as to how we want to go forward. It is a more 'action oriented' Budget. For example, there is a mention of LIC IPO as you know the Life Insurance Corporation is one of the largest institutions we have where we have assets to the tune of 36 trillion rupees under management and this is an organization where you know we see a lot of potential for further growth and further change and also to say that you

know some of the wealth which has been created, will also be shared with the shareholders. So an IPO will be brought in and the budget clearly says that the IPO will be brought in the FY 2021-22.

Apart from the two banks, there is also the IDBI Bank which has already been announced to be disinvested, which means that you have three banks and an insurance company which has been announced, and of course an LIC IPO. So, these are the things and they are into this broader market.

Briefly, I will touch upon the Stock Market and how we are handling that because a lot of insurance players would also be interested to know, how we are as PSU stocks handling deep actually handled the equity of the public sector enterprises. And, we have had some change in our strategy. One - we have been very clear about the valuations and the fact that the people investing in the PSU stock, should be a rewarding experience and therefore, some of the steps that we have taken in this regard have been stated clearly to the market, that we will not go for a repeated offerings on the same stock, as well as, we will not have the equity ETF in the markets because of their price overhang concerns.

We have seen for the last quarter or so, the PSU stocks are back in the reckoning and these have been the re-rating of the stocks and people have been trying because they are actually very important companies. We have also announced a 'consistent dividend policy' for these things. Therefore dividends are insured because that particular dividend policy has been further fine-tuned to say that we need not actually wait for an annual dividend and we can have as many as four interim dividends as well, with every quarter in some of the companies or maybe twice in a year and so on.

You would notice that even this FY, we brought this policy a little late. But, even in this FY you have several companies

going for interim dividend, twice already, even in the last three months. So, a consistent dividend policy is something which we feel that should consistently reward the shareholders, which also includes insurance companies and the pension funds and so on, which are also looking for returns on that side. Also, our voluntary message, that we will use our stock market offerings in an intelligent way and in a selective way, so that we do not really disrupt the market and we allow the existing investors to make

good returns.

So, I think I have taken a lot of my time but finally I will say the last one which we are doing for the public sector enterprises, you know having a memorandum of understanding which administrative ministries sign off with every public sector enterprise and we have brought in several changes in those memorandum of understanding, in terms of the criteria and what are the criteria we have said is the return on

equity and return on capital employed will be a very important criteria going forward for the for award of mark uh score to them as also the asset monetization plan has also their market cap of a listed company. Now, I wanted to give a little snapshot of Indian Insurance industry as well as what we have been trying to do in Ministry of Finance. I would say being a part of writing of the budget but its imple -mentation is the key. Thank you very much. ■

\*Excerpts from the '**Guest of Honour Keynote Address**' delivered by **Mr. Tuhin Kanta Pandey, IAS, Secretary for Department of Investment & Public Asset Management, Ministry of Finance, Government of India** at IOD's 'Directors' Dialogue Series' Global Edition #3 with a special focus on Financial Services & Insurance Sector, held virtually on March 10, 2021.

