



भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

Title:Address of Dr YV Reddy

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Address of Dr YV Reddy, Chief Guest of Celebrations of Insurance Awareness Day – 2016 held on 19th April, 2016 at Hyderabad.

Chairman, Mr. Vijayan, distinguished members of IRDAI, former members, officers, staff and friends,

At the outset, I would like to compliment the IRDAI for taking initiative for celebrating the IRDAI Formation Day, as Insurance Awareness Day. I made enquiries about the initiatives taken by IRDAI. They seem to be in the forefront on several fronts; grievous redressal; dispute resolution; consumer awareness, financial literacy and outreach. I must compliment the Chairman Mr. Vijayan, and his team for their pioneering efforts.

Mr. Vijayan, the first person to move from being the Chairman of a regulated entity to becoming Chairman of regulatory body of insurance industry is credited with heralding a new paradigm in customer service in the industry. I believe it was called **SAMPARK** offices concept.

I must congratulate all prize winners for their excellence. I am delighted to have released the reading material, especially in Telugu.

My personal contact with insurance was in 1966, fifty years ago. A friend of mine was a LIC agent and so he persuaded me to take insurance for Rs.25,000/, which I did. A few years later, after I was married and had two children, I wanted to insure for additional sums, but I was told that I was unfit to be insured. I was insulin dependent diabetic. Only my car could be insured. I believe that things have improved a lot – both for diabetics and the insurers!

My official contact with insurance was in my days in the Ministry of Finance in early 1990s, about 25 years ago. As Joint Secretary, I had to write a note on Reform of Insurance Sector. At that time, insurance was the monopoly of public sector. I requested non-life insurance companies for information about the mandatory insurance as distinguished from voluntary insurance. For example, if somebody took a loan from IDBI for establishing an industry, insurance was compulsory. Similarly, every car owner had to have some insurance. We found out that about 98% of the total insurance was mandatory insurance only. In other words, almost nobody was buying insurance unless he or she was compelled either as per law or as per condition of financial transaction. That note was a small input that went into appointment of Malhotra Committee headed by former Governor, RBI, on reforms in insurance sector in 1993. The Committee felt that insurance industry should be opened up to competition in order to improve the customer services and increase the coverage of the insurance industry.

In the case of insurance, unlike banking, a new regulatory institution had to be set up and so IRDAI came into existence. I am happy to see that you have come a long way in building this institution. I am also happy that the regulatory authority has been taking initiatives to create awareness of insurance. In fact, insurance awareness serves both the objectives of the IRDAI, viz., protecting the interests of the holders of the insurance policies through financial literacy, and promoting orderly growth of insurance industry through financial inclusion.

Why do we require financial literacy? We do not have literacy program for buying vegetables, we do not have such programs for buying clothing or even housing. Obviously, there is something special about the financial sector.

When people go to buy vegetables for Rs.200/-, they ensure that it is weighed carefully, look at quality, feel their texture with palms, etc. There is lot of bargaining. Why is it that people do not spend as much time when they are putting thousands of rupees while depositing in a bank or while buying insurance?

I believe that the distinguishing feature of financial sector is the special relationship between trust and the financial sector. Trust is a universal value, but trust is critical in finance. There is no exchange of goods and services which you can feel instantly. You are only exchanging money which will give the claim for goods and services in future. You buy insurance now, and under some conditions, you will get money in future. You put a bank deposit now, and you get back the money with interest sometime in future. But, there is nothing tangible like feeling a vegetable.

Exchange of money and financial instruments involves movement of claims. Claims move over space, i.e., I give money to somebody in Hyderabad and they go and spend it in Vijayawada. I give money today, and it can be used sometime in future. I may give money taking some risk to a friend, and that friend may be using this money to take more risk than I would have taken. This makes the dealings in financial sector, what I may call, less tangible.

Whenever we, as common persons, deal with a financial institution like a bank or an insurance company, we give lot of information about ourselves. In the process, the banker or the insurance company knows a lot about us, but we have very little information about the institutions. When we buy health insurance, the insurance company knows a lot about my health condition, but I know very little about the financial health of the insurance company!

Most of the financial intermediaries are limited liability entities. The liability of owners or share holders is limited to their capital put in. Therefore, there is always a temptation on the part of the owners or the managers to leverage excessively and take excessive risks. They gain when there is profit, but when they lose, they can declare insolvency. In financial sector, we common persons, are dealing with financial intermediaries, who have limited liability and who know more about us than what we know about them.

Experience has shown that some of the characteristics of modern financial sector attract many intelligent people to this sector. That is mainly due to the potential for making enormous amount of money within a short period by dealing in other people's savings. It also means that financial sector will be especially attractive to those who are both intelligent and crooked.

In brief, therefore, financial sector is special and it requires appropriate regulation. However, it is also important that the customers are on their guard and take informed risks and informed decisions, rather than blindly. So, the regulator has to protect the customer, but not protect too much since competition as well as customers guard are important

Let me share with you my experience in dealing with the subject of Financial Inclusion, financial literacy, financial counseling, etc. during my tenure as Governor. I felt strongly that the financial sector should focus on financial services as much as financial markets. I was always uncomfortable when people talked of labour markets, as if people are commodities. Finance is not just financial markets, but is something lot more important for security and day-to-day living of common persons.

People asked me when I was Governor, why is it that I was always emphasizing the common person. I explained that I am a selfish person. I was retiring very soon. Once I retire, I become a common person. So, I am trying to serve myself.

Anyway, in my tenure, I concentrated on matters like zero balance account, credit for consumption smoothening, expanding ATMs, making drawl of cash from all ATMs free, etc. I also emphasized the use of technology for disbursement from the Government as a service to common person. Experimentation was made in Mahboobnagar District here. As far as the credit was concerned, I encouraged micro-finance institutions mainly on the ground that they were non-profit making institutions and, therefore, worthy of support. I also wanted the banks to deliver what they promised in terms of standards of service. The Banking Codes and Services Board as an industry and association, modeled on UK, was part of that initiative.

As in case of most other initiatives, there were some failures in our efforts, some successes and some mixed

successes, but financial inclusion propounded by us in Reserve Bank of India was accepted as a policy objective by Government of India also.

Global Financial Crisis brought the whole subject of Financial Inclusion to the forefront and brought it on global agenda for reform of financial sector. The Global Financial Crisis compelled many countries to spend huge amounts of money to bail out large financial institutions. This had to be done by Governments and central bankers in both advanced economies and developing countries. The financial sector was viewed as a villain by many and, yet they were bailed out at great expense to the exchequer. So the policy-makers at a global level had felt the need to demonstrate that they were equally concerned with people as much as with finance. So, in bailing out the large financial institutions at great expense, the policy makers wanted to convince the people at large that they were creating a direct stake to larger segments of population in the financial sector that they were intending to build in future. We must appreciate the importance given to Financial Inclusion and financial awareness etc. at global level in the broader and political context.

The limits to spread of Financial Inclusion may be set by economic or social disadvantages of segments of population. Program of Financial Inclusion may do many things to facilitate financial transactions, financial sector coverage, penetration and efficiency of financial sector but the temptation to treat it as a panacea must be resisted. It can at best facilitate but cannot deliver employment, development, equity or environmental friendliness. The most important lessons of Global Financial Crisis must not be forgotten. Financialisation in excess doses can be injurious to health. Housing “bubble”, is a classic example of danger of excessive Financial Inclusion. There is a need for continuous rebalancing between Regulation and Development.

Financial Inclusion is an important policy that gives human face to the tasks of financial sector. But, its role in the policy depends on how broad or how narrow the scope of Financial Inclusion is set in a given country. It is useful to demarcate what Government should do, what Central Banks and regulators could and how they relate to each other in pursuit of a national policy for Financial Inclusion.

In conclusion, what are my thoughts today, keeping in view my experience and subsequent developments? Financial literacy is useful only upto a point. Many people simply are not inclined to apply their mind to finance merely for study and use in taking financial decisions in future. At the same time, we should find means of explaining matters relating to finance when a common person wants to know something specific or relevant at a point of time.

I am delighted to find that IRDAI has call centres for customer care. It has Grievance Call centres. I suggest a slight extension of the Customer Care Centre; let it be a ‘query’ centre. This query centre is a sort of centre for purposive financial literacy on demand. Let me explain. It may be difficult to convince all people to get financial literacy in general. But, we can help people to get literacy that is appropriate for specific transactions, for example, say buying life insurance or health insurance when they are contemplating. Currently, we get functional financial literacy only from marketing by the sellers. The Query Centre that I am suggesting deals with explaining or informing, and not marketing or with grievance redressal.

The query centre could give information or literacy, when required, and as appropriate. The Query Centre can have a 24x7 Call Centre in English, Hindi, and regional languages to which one can call. For example, when my assistant wants to take a health insurance, he will call the Query Centre on what he should be informed about. That Centre may be authorized to explain or to read out from the published material that IRDAI has already prepared, or send it as a text message on his mobile or by email. IRDAI could have an “on demand service, for insurance literacy and awareness” called Query Centre. Query Centres responding to mobiles in the language required will be functional, purposeful, tailored to individual needs, time-saving and available when needed.

In conclusion, the Integrated Grievance Management System for grievance redressal, Ombudsman system for inexpensive and speedy settlement of disputes, a dedicated consumer education website for imparting financial literacy with content for all ages, have together placed IRDAI as one of unique insurance regulators in the world. Take one more step: make your consumer education interactive, in a query ‘mode’.

Thank you all, ladies and gentlemen. Happy birthday to IRDAI.