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Insurance sector gets a boost from social security schemes

ANALYSIS

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By launching social security schemes - Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), and Atal Pension Yojana (pension scheme) - last year, the Centre has not only taken its financial inclusion drive a step further, but also tried to address the problem of very low penetration levels.

Over the past year, about three crore policies have been issued under the PMJJBY scheme (life insurance). This is more than the 2.6-odd crore new life policies issued during the whole

of financial year 2014-15. The response under PMSBY (personal accident) has been stronger. More than 9.2 crore people have enrolled for the scheme. Until 2014, just 17 crore people were covered under personal accident insurance. Around 15.85 lakh people have registered for the Atal Pension Yojana so far.

Beyond bank accounts

Banks have opened over 20 crore bank accounts under the Pradhan Mantri Jan Dhan Yojana (PMJDY).

However, realising that opening of such accounts alone cannot guarantee financial inclusion, the Centre has resolved the dormancy issue to some extent by routing subsidies through these accounts. According to the

latest data on Jan Dhan, about 30 per cent of the accounts have zero balance, down from more than 60 per cent last year.

Currently, the Centre is using direct benefit transfers for 35-40 schemes, and about ₹40,000 crore was directly transferred to beneficiaries in calendar year 2015.

Apart from raising the deposit levels, it is necessary to increase the number of transactions to ensure viability of these accounts.

This means that banks have to leverage these accounts to provide a variety of financial services. By launching simple and affordable insurance schemes, the Centre has helped banks to increase activity in these accounts.

But it is not that banks

alone have benefited from the Centre's low-cost insurance schemes. Life and non-life insurers, grappling with low penetration levels, have also got a leg up.

Under-penetration

In life insurance, the penetration is just about 2.6 per cent of the GDP, while in non-life it is lower at 0.7 per cent. Complexity of insurance products as well as low awareness have led to poor penetration.

According to Suresh Sugathan, Head (Health Insurance), Bajaj Allianz General Insurance, the biggest breakthrough for the insurance industry has been the financial inclusion initiatives launched last year.

These products are simple and are being distributed

through banks with large networks.

"This initiative is a great example of how simplicity of a product, a robust distribution network, and use of mobile technology can transform the industry. The initiative showed how we can reach millions of customers when products and process are simple," he says.

The two insurance schemes launched by the Centre are low-cost. PMSBY provides accident insurance worth ₹2 lakh at ₹12 per year, while PMJJBY provides life insurance at just ₹330 a year.

High volumes

Big volumes have helped insurers offer these products at a much cheaper cost. For instance, the premium paid for

a personal accident cover of ₹2 lakh usually is ₹100-200. But the PMSBY is offered at almost a fraction of this price, as insurers are happy with the volume of business.

After the scheme was rolled out in May 2015, Bajaj Allianz General Insurance, for instance, saw a growth of over 150 per cent in its personal accident portfolio. The company has been able to enrol over 14 lakh customers, and has settled close to 70 claims under this scheme.

Other insurers that have tied up with various banks to offer this scheme are National Insurance, United India Insurance, ICICI Lombard, Cholamandalam MS, New India Assurance, Universal Sompo General Insurance and Reliance General Insurance.