2020 Vision-Insurance India

In this two-part article, Tapen Sinha examines the critical underpinnings of the recent 2020 India Vision mooted by the Planning Commission. He shows how the domestic insurance sector will play an important role in implementing the vision statement

In the following introduction, we assess the general macroeconomic trends in India. In doing so, we discuss policy goals, economic realities to achieve those policy goals and political realities to implement them.

India has professed to commit itself to a long-term goal: a quadrupling of the real Gross Domestic Product by the year 2020 (Planning Commission, 2003). To make this vision a reality, simple arithmetic shows that it requires an 8-9 per cent growth in real GDP over a period of 17 years (2004-2020). The proponents of this vision are quite positive about this vision. They write, "The compounded effect of achieving the targeted annual GDP growth rate of 8.5 to 9 per cent over the next 20 years would result in a quadrupling of the real per capita income and almost eliminating the percentage of Indians living below the poverty line. This will raise India's rank from around 11th today to 4th from the top in 2020 among 207 countries given in the World Development Report in terms of GDP. Further, in terms of per capita GDP measured in purchasing power parity (PPP) India's rank will rise by a minimum of 53 from the present 153 to 100. This will mean, India will move from a low-income country to an upper middle-income country. This is a very real possibility for us to seize upon and realise."

How realistic is this vision? We examine that question first.

Saving, investment and economic growth

The ask rate is critically dependent on how the economy is able to absorb macroeconomic shocks. Specifically, it depends on how well the economy can cope with risks of bad monsoons. Let us examine the positives and the negatives of this equation.

The positives

When India became independent in 1947, it was a vastly rural economy

where agriculture dominated the economic landscape. This situation has been changing steadily over the past five decades. The changing landscape can be seen vividly in the following (see Figure 1).

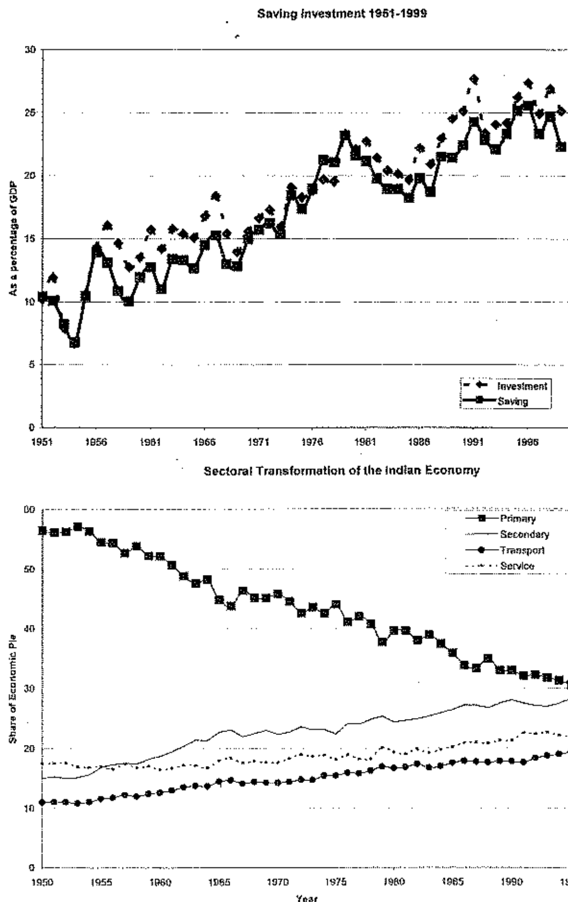
It shows that the share of the primary sector in the economy has gone from 58 per cent of total GDP in 1950 to under 30 per cent by 1995. On the other hand, the contribution of the secondary sector (where the largest segment is manufacturing) to the GDP has grown steadily to occupy the same importance in the economy as the primary sector. The share of transport sector in the GDP has also increased steadily. Although the share of services in the GDP has not grown as much, the composition of it has also changed behind the scenes. Traditional services have been replaced by more modern types of services.

The second positive element for India is the direction of saving and investment. Economic growth comes from higher saving rate leading to higher investment (capital formation) leading to economic growth. The *causality* of higher saving leading to higher GDP cannot be theoretically settled. It is taken as an article of faith. In some cases, such a faith is misplaced. For example, Sinha and Sinha (1998) have shown that in the case of Mexico, higher saving *precedes* higher economic growth and *never* the other way around. In the case of India, however, preliminary analysis shows that indeed higher saving leads to higher economic growth (Sinha, 2004a).

Where is all the saving concentrated in India? Documents from the Reserve Bank of India (RBI) (http://www.rbi.org.in/sec3/31188.pdf, Table 2.1) drawing on the data from the Central Statistical Organisation (CSO) shows that in 2001, around 11 per cent of savings are in financial assets with additional 10 per cent in physical assets. Corporate savings account for four per cent of the GDP. In addition, there is a small dissaving by the government sector.

How does India measure with respect to growing saving and investment? The following figure (Figure 2) answers that question. It shows a very clear trend: over a period of fifty years, both saving and investment are rising. Coupled with the observation that economic growth in India follows higher saving, we conclude that this trend can be considered a "good thing" for India.

Figure 2 shows in 1950, the saving and investment rates in India hovered around 10 per cent of GDP. They have risen to around 25 per cent of GDP by 1999. Note that investment rate does not necessarily track savings rate exactly. The difference is usually financed either through domestic or foreign borrowing. For developing countries with largely closed economies, with restrictive access to both domestic and international capital markets, the gap between saving and investment rates can be worrisome.



In 1956-7, 1966-7 and again in 1990-1, the difference reached 3 per cent or more of the GDP. Most traumatic was the 1990-1 event. International lenders began to doubt the capacity of the Indian government to finance such a debt given the dwindling foreign exchange reserves precipitating into a crisis for the Indian economy.

In the spirit of 'Look East' policy initiatives, it is instructive to compare the savings rate of India with that of the other rapidly growing countries in the region. The first striking feature of Table 1 is that with the exception of Indonesia and the Philippines, all other countries in the reference set have higher saving rate (than India) over the past seven years.

The negatives

One important element of the Indian economy is agriculture. In the past, India had tremendous dependence on agriculture. It has reduced steadily over the past five decades (see, Figure 1). Nevertheless, some 25 per cent to 30 per cent of GDP in India comes directly from agriculture. In terms of employment, this dependence is even stronger. Some 55 per cent to 60 per cent of the working population depends either directly or indirectly on agriculture. Dependence of agriculture is problematic. The amount of land under irrigation (even with generous definition) is less than 40 per cent (http://planningcommission.nic.in/plans/planrel/plsec3.pdf, page 44). This leaves a huge gap between what is irrigated and what is not. To put it differently, more than half of the land under cultivation is at the mercy of Mother Nature. Thus, a large chunk of the economic output depends on the generosity of monsoons. In addition, micro-climatic conditions do not allow uniform outcome in every part of the country.

Moreover, the natural phenomena such as floods and cyclones also affect India at an elevated rate. Some 2 per cent of Indian GDP and 16 per cent of the central government outlay has been eaten up by the vagaries of weather. The following table (Table 2) shows how high India's vulnerability is. Along with Bangladesh, India ranks among the Top Five spots on vulnerability index (constructed using the frequency and severity of weather-related phenomena). The other countries in Top Five are island nations (with the exception of Bangladesh).

Table 2: Vulnerability index of the Indian economy

Country	Index Value
Vanuatu	727.17
Bangladesh	539.16
Trinidad & Tobago	523.13
India	510.67
The Bahamas	491.28
Mauritania	487.55
Antigua & Barbuda	430.77
Botswana	418.03
Mozambique	361.13
The Gambia	339.16
Swaziland	304.31
Fiji	296.28
Dominica	261.97
Sao Tome & Principe	245.49
Chad	241.60

Source: Commonwealth Secretariat

Gross domestic saving as a percent of GDP

	1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
China	41.5	39.8	39.4	38.0	38.6	38.7	38.2
Hong Kong	31.6	30.5	30.9	32.9	31.6	33.9	34.0
South Korea	33.7	34.4	32.9	32.4	30.2	29.2	28.0
Indonesia	31.5	26.5	19.5	25.1	24.9	21.1	20.1
Malaysia	43.9	48.7	47.4	47.1	42.2	41.8	42.1
Philippines	18.7	21.6	26.5	24.8	17.0	17.3	19.5
Singapore	50.5	51.7	48.8	47.9	43.6	44.2	47.1
Thailand	33.6	36.1	32.8	31.0	30.0	30.5	28.7

Source: ADB. 2003. Asian Development Outlook

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of the much awaited publication.
HS Wadhwa, chairman and managing director, National Insurance and chairman, GIPSA, praised the effort of Interlink in providing this yeoman's service to the industry for over 15 years. There is a great need for statistics in the insurance industry to decide premiums as well as pay claims. Today, because of lack of sufficient and reliable data most of the public sector companies are writing losses.
KH Parekh, chairperson, Interlink says that apart from publishing statistical information, Interlink has been active in making presentation on Indian Market Reinsurance Programme at various international conferences before select group of insurers and reinsurers which has proved to be very popular.
"Such presentations were organised at Singapore and Baden-Baden conferences and attracted a fairly larger number of delegatesin Indian insurance market," she said.
In his article 'Reinsurance in India-Retrospect and Prospect', (appeared in the statistical booklet) RK Joshi, general manger has commented that India has the necessary resources both intellectual and material and there is every reason to hope that Indian insurance industry can repeat the performance of India IT industry.
"There is no doubt that in the next decade as a logical outcome India would emerge as an important hub for reinsurance business and occupy a place of honour among the leading reinsurers world-wide," he felt.

From (L to R) AC Mukharjee, HS Wadhawa, secretary general, GIPSA, K Parekh, chairperson, Interlink and H Parekh, CEO, Interlink at launching of The Indian Insurance Industry (Non-Life) 2002-03

In another article PK More, general manager, GIC has noted that GIC has opened representative offices in London and Moscow. It is also likely to open a representative office in Dubai. All these initiatives would enable it to gain an access to the markets in Western & East European countries and Middle East and Asian countries,
Sanjib Chaudhary of Munich Re mentioned that all international reinsurers including his organisation looks forward to this publication, which gives an overall picture of the Indian non-life industry in India.
AC Mukherjee, ex-CMD, New India and MM Bhagat, ex-CMD, United India also appreciated the efforts of Interlink in publishing the statistics and improving its quality every year.
Harshad Parekh, CEO, Interlink, said, "The booklet includes a section on General Insurance Corporation of India (GIC) as the national reinsurer. The section on security analysis of the Indian general insurance companies has also been included." He also thanked the dignitaries present in the conference along with insurers and reinsurers for their continued encouragement, appreciation and also suggestions for further improvement of the publication.

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For the insurance industry, high vulnerability can be an opportunity. If, for example, weather-related insurance products take off, India can become a big market. There are already some small beginnings. For example, instead of traditional crop insurance (which always loses money) rainfall index-related policies are being sold to small farmers in Andhra Pradesh.

(To be continued)

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Professor Tapen Sinha has been appointed Swiss re visiting professor to India's Institute of Insurance & Risk Management (IIRM), for one year, effective January 1, 2004.
At the IIRM, prof Sinha will lead a team in researching several key projects of important relevance to India's insurance industry. Theses include the study of corporate risk management in emerging markets; the growth of financial institutions and development of investment trends in these markets; as well as the capitalization of emerging market insurance companies.
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An example of a blended delivery could be a 20:20:60 split with 20 per cent of the workload delivered through on-shore resources, 20 per cent through near-shore (example, Canada) and the remaining 60 per cent through off-shore (example, India or the Philippines). In this scenario, the on-shore location could act as a tier- two delivery center for escalation issues. On-shore and near-shore resources can handle regulated processes that cannot be outsourced offshore.
Offshore resources can be leveraged to provide a low cost delivery system for the remaining work. This global blended delivery model enables insurers to minimize the risk of outsourcing to any one location, and at the same time provide the savings and flexibility that can be achieved with global outsourcing.
Furthermore, with most vendors possessing or developing a global presence, the possibility of taking advantage of a blended delivery model through one or two outsourcing relationships is very likely.

(The author is head-services, FirstApex)