

For more information, please contact:
Shilpi Tripathi at +91-9953779905, stripathi@ncaer.org
Sudesh Bala at +91-9899262692, sbala@ncaer.org

Investing in Investor Education in India: Priorities for Action

Five investor education workshops with financial regulators

NCAER hosts its second session on investor education and protection in the insurance sector

New Delhi (Wednesday, January 20, 2020): The National Council of Applied Economic Research (NCAER) hosted its second workshop on investor education and protection with financial regulators. The second of a five-part NCAER workshop series focused on customer education and protection in the insurance sector. The workshop, inaugurated by NCAER Director General **Shekhar Shah**, commenced with **Satyajit Dwivedi**, CEO, National Centre for Financial Education (NCFE) setting the context with a presentation on the National Strategy for Financial Education and the recent NCFE survey on financial literacy and inclusion.

The keynote address at the workshop was delivered by **Subhash C Khuntia**, Chairperson, Insurance Regulatory and Development Authority of India (IRDAI). He highlighted the need to focus on vulnerable sections of society, where insurance is an essential vehicle for financial security over their and their families' lifetimes. He said *"We need to put in place a sectoral strategy for insurance that goes over and above the National Strategy (for Financial Education)... NCAER's study (Post-launch Survey Report of IRDAI's Insurance Awareness Campaigns (2010-2015)) rightly highlights a trend of increase in awareness, but it is difficult to measure how these (awareness) strategies are working.... It is important to note that there are a large number of people who have never availed insurance and don't know of its utility—especially in rural areas, among women, disabled populations, geographies which don't have awareness. We must focus on them, and work with local administration, state governments, panchayats, and other local bodies to create awareness."*

At the heart of the workshop was the [National Strategy for Financial Education 2020-25](#), which recognizes the unique challenges of creating a financially aware and empowered India, and the need to converge efforts across multiple stakeholders that regulate and manage India's financial resources. India's 2014 *Pradhan Mantri Jan Dhan Yojana* programme has helped create robust digital financial services, increasing the proportion of those above the age of 15 with a bank account to nearly 80% in 2017, compared to just about 35% in 2011. Digitisation has

brought banking access to many more during the pandemic. But many are first-time users and do not trust unfamiliar ways of handling their money. This surge places a big responsibility on the financial regulatory authorities to demystify finance and encourage informed and safe investing.

Having opened up insurance to private and global players at the turn of the century, India broke 60 years of public sector monopoly that had resulted in lower-than-expected insurance penetration and density. However, India's insurance density and penetration—both measures of the development of the insurance sector—is still considerably low by global standards, as well as in comparison to other countries in the per capita income peer group. Post the opening up of the sector in the late 1990s, the growth of the sector came with its own costs and benefits.

The Government perspective on the issues under discussion and the way forward was presented by **Amit Agrawal**, Additional Secretary (Insurance), Department of Financial Services, who noted that while insurance density (in terms of premium per person) and insurance penetration (in terms of product diversification and reach), has increased, the level of ambition for the sector must be far higher. He focused on relying on the reach of India's expansive banking correspondents' networks in rural areas, the digitization of financial services, and simpler and diverse products for greater customer choice, all coming together towards increasing customer protection. *“Even as I mention the need to increase the supply side (of insurance products), it is important to note that the demand side too plays a great role, for which investor education and protection occupy the center stage. I compliment NCAER for pulling together all stakeholders and perspectives on the subject.”*

Vimal Balasubramaniam, of Queen Mary College London, laid out the foundational issues in financial education and customer education in the insurance sector. He opined that *“those who most often seek financial education, probably don't need it, and those who need it, may not use it”*. He highlighted that even as insurance participation is on a consistent rise in India, there is a large urban-rural divide and diversity among states. As a result, designing effective education becomes a difficult task because it varies by states, context & objectives, made possible only through constant research and experimentation. *“We need to think about the challenge ahead of us, where we need to customize to products and consumers.”* He stressed that the demand of insurance will not change overnight, and that it is essential to take knowledge-based decision making as an essential measuring outcome of customer education. *“Efforts should be in the direction of creating an environment that allows people to make better informed decision”*, he said.

The session included a discussion on these issues by leading insurance sector experts, including **P Venugopal**, National Insurance Academy, Pune, **Monika Halan**, Author of *Let's Talk Money*, **RM Vishakha**, IndiaFirst Life Insurance, **Rekha Gopalkrishnan**, New India Assurance, **SN Bhattacharya**, Life Insurance Council, and Vinay Sah, Insurance Ombudsman, Pune. The rich discussion led to the following conclusions:

- It is difficult for the common man to understand jargon-dense disclosures and policies. There is a need to shift from the view of “buyers beware” to “suppliers beware”, wherein a customer-first attitude must be adopted by regulators. This includes reducing cost structures that encourage agents to benefit from the lack of awareness of the average policy-buyer. Financial literacy must be coupled with insurance regulation, and one must not be seen as a substitute for the other.
- At the same time, customers must be empowered with increased choices and decision-making power, while also creating an onus of integrity that is matched by high claims settlement rates of insurance companies.
- In the eyes of the general population, there is a need to shift the perception of insurance from investment to a risk-transfer mechanism. The public needs to be made aware of the importance of non-life insurance which is intangible in nature, but essential for long term security.
- Understanding and segmenting target demographics will help create effective awareness drives based on the customer’s needs and current awareness levels. There exists a large segment which needs insurance, but cannot afford it. An example of this are farmers who might need crop insurance, but either cannot afford it, or aren’t aware of it. Ground-level awareness efforts are possible with the help of regulators and insurance companies, while also reducing transaction costs.

Concluding the webinar, the Workshop chair, **T L Alamelu**, Whole Time Member (Non-Life Insurance), Insurance Regulatory and Development Authority of India stated that *“It was very interesting to hear the divergent views presented, where the common thread among all speakers was that financial education has now become an essential individual life skill. There has been an exponential rise in financial risks due to a rise in products and many of us have switched to electronic transactions. There is also a significant increase in income, which has led to a rise in the number of active consumers and investors. All this is pushing us to a situation where financial literacy and education is becoming essential. This is essential to complement prudential regulation and policy-holder protection.”*

Shekhar Shah’s remarks bring together the overall relevance of NCAER’s IEPF Chair Unit’s efforts, *“These workshops provide both an opportunity for our regulators to tell us their concerns, for researchers and data specialists to hear them, and create a research agenda that NCAER and other research institutions like us can pursue and support regulators in terms of an action plan for accelerating investor education and protection. This is part of the deepening of the financial sector that we are all concerned with, which has become critical during the pandemic. This moment allows us both an opportunity to reset many of these issues, given the openness to adjustment, reform, and adaptation that is likely to be present in all parts of the economy.”*

These five NCAER workshops with key financial regulators—SEBI, PFRDA, IRDA, and RBI—serve as an opportunity for participants to both learn from the regulators about their strategies for investor education and to contribute to refining the priorities for action and for further research and data collection in this area. The

next workshop in the series is scheduled for **the second week of February, 2021**. The upcoming workshops will address customer education across pensions, banking, and payment systems. These will result in a consolidated sectoral action plan to implement the National Strategy for Financial Education against the backdrop of the findings of the NSFES 2019 Financial Literacy and Inclusion Survey.

These workshop series are led by NCAER's IEPF Chair Professor Dr K P Krishnan. The NCAER's IEPF Chair has been established to conduct research on contemporary issues related to investor education and protection and analyse economic, legal, and regulatory issues that are the root cause of the lacunae's in investor protection in India and ways to bridge these.

About NCAER | The National Council of Applied Economic Research

Established in 1956, **NCAER** is India's oldest and largest independent, non-profit, economic policy research institute. NCAER's work cuts across many sectors, including growth, macro, trade, infrastructure, logistics, land, labour, urban, agriculture and rural development, human development, poverty, and consumers. The focus of NCAER's work is on generating and analysing empirical evidence to support and inform policy choices. It is also one of a handful of think tanks globally that combine rigorous analysis and policy outreach with deep data collection capabilities, especially for household surveys. More on NCAER is available on www.ncaer.org.

For more information, please contact:

Shilpi Tripathi at +91-9953779905, stripathi@ncaer.org

Sudesh Bala at +91-9899262692, sbala@ncaer.org

NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH

NCAER India Centre, 11 Indraprastha Estate, New Delhi 110002

Tel: +91-11-2345 2698, +91-11-6120 2698 | Email: events@ncaer.org

www.ncaer.org

NCAER | Quality . Relevance . Impact

