



DEMONETIZATION-IMPACT, ISSUES, CHALLENGES ON INSURANCE INDUSTRY IN INDIA

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ABSTRACT

The recent demonetization of Rs 500 and Rs 1,000 currency notes by the government of India dealt a big blow to cash hoarders and the parallel black economy. The insurance sector will see little impact and for a short duration. In the last few years, especially the private sector insurers have discouraged cash transactions. People who prefer paying cash will have to pay through their bank accounts. But unbanked customers, like people in rural areas, may find it difficult to pay up in the immediate future. However, last minute pains can be avoided if customers are proactive. For renewals, insurers notify the customers in advance. For insurance policies even after the due date there is a grace period of 30 days for annual premium policies during which time the policy expires but continuity benefits are given if the premium is paid within the grace period.

Key words: life insurance, Demonetization, policy holders, cashless

Introduction

The History of Demonetization

While this is a big step in the current state of Indian Economy, this is not the first time such a step has been taken. Not many people are aware of the fact that the Indian history is quite familiar to the demonetization scheme.

India has already undergone one major demonetization scheme in the past, before Independence, in 1946, where the scheme was responsible in scraping off the 5000 Rupees and 10000 Rupees notes from existence. However, this spark of this feud of demonetization did not catch much fire as it proved to be only partially successful. Also, the notes were reintroduced not long from then in 1954.

A demonetization scheme was again run in India in the year 1978 against the 1000 Rupees, 5000 Rupees and the 10000 Rupees notes. However, this time the 5000 Rupees and the 10000 Rupees notes were abolished for good.

History of insurance industry

It's now been more than a decade since the opening up of the insurance sector in India to the private sector and for foreign players. The past decade has seen considerable growth in the insurance sector and has seen the introduction of a large number of innovative products – a natural and positive outcome of increasing competition. The insurance sector plays a very crucial role in the economy of any country – it increases avenues for savings of individuals, protects the future of individuals and spreads risks of institutions by forming a large pool of fund. The sector also contributes significantly to the capital markets and assists in large capital infrastructure developments of our country through their funds.

The insurance industry in India is divided into 2 basic sectors – Life Insurance and Non-life Insurance (also called General Insurance and even called Property and Casualty or P&C). Both these sectors are governed by Insurance Regulatory and Development Authority (IRDA) of India which is a government body which frames the rules for the entire industry and all insurance companies have to abide by them. IRDA is the policy maker for the entire insurance industry in India and also serves as the custodian of consumers rights.

As the name suggests life insurance companies cover the risks associated with the life of a person and non-life insurance companies cover other risks associated with our daily living like health, our vehicles, travel and home insurance to name a few. Non-life insurance sector also covers a lot of other risks in the corporate world – from simple office insurance to insuring entire factories and industrial equipments. Over a period of time life insurance policies have started incorporating an investment component along with the basic insurance cover so that your money grows while it remains invested with the insurance companies – details about these types of policies will be taken up in detail in the forthcoming posts in this series. But non-life insurance companies have so far been restricted to pure risk cover itself.

OBJECTIVES OF THE STUDY

- To understand the concept of demonetization effects on insurance industry
- To understand the issues and challenges of demonetizations on the insurance industry .

Research methodology

Research methodology is a way to systematically solve the research problem Research methodology used in this study is descriptive in nature. For this study data and information has been collected with the help of Books, Magazines, Newspapers, Research articles and E journal

DATA COLLECTION

The data was collected from secondary sources. The research methodology adopted is secondary in nature .My research methodology requires gathering relevant data through journals, newspapers, books, magazines, conference proceedings and internet, government reports and websites. Also self interpretation is made with the help of collected material. Since the objectives were focused on secondary data, the Study relied more on the secondary data.

The Objective behind the Demonetization scheme in India

While the normal public all over India is stressed by standing in long ATM queues blaming the Indian Government for their troubles, the government has introduced this scheme with some of

the superior motives for the benefit of the nation as a whole. Some of the reasons why the scheme was introduced include:

- To tackle the problem of excessive black money that is faced by India as of now.

The introduction of the demonetization scheme will prove to be a nightmare for major black money holders as the crores of rupees stored by them (mainly in the form of larger denomination notes i.e; 500 Rupees and 1000 Rupees) will render useless.

- For the elimination of fake currency use within India and outside India.

The demonetization scheme will render the old 500 Rupees and the 1000 Rupees notes useless hence ceasing the funds of the anti-national and terrorist groups that often operate by the means of cash with these forms of notes. This will ensure a safer future for India and its allies.

- A way towards Digital India.

The demonetization scheme is a simple yet highly effective way to ensure that India is on its way towards the market of a digital India. The scheme forces the public indirectly to shift towards other modes of payment such as internet banking, debit cards and credit cards, as the higher value denomination notes will now be scrapped off which constituted of the major chunk of the Indian Economy.

MEASURES TO SUSTAIN DEMONETIZATION

Parallel economy was erased after a lot of efforts made by the government. Following are the measures are taken to sustain the demonetization: ∞ Implementation: The problem is not the existence of parallel economy to curb it, but it is implementation of all those measures to overcome menace of parallel economy. If government takes initiation in implementing at least majority of the measures available before government, then this problem finds solution on its own.

- Linking of Aadhaar: Linking of Aadhaar must be made mandatory to get civil benefits. All multiple bank accounts must be linked with Aadhaar. Various departments like Income Tax, Sales Tax, VAT, Excise, Customs, Service Tax and Licensing Department etc. must be linked with Aadhaar number. This not only creates awareness among the people but also as controlling mechanism.

- **Reduced Tax Rates:** The main reason for tax evasion and tax avoidance is high tax rates. Tax rates are to be brought down to such an extent that cost of compliances must be lower than the cost of tax evasion.
- **Mechanized System:** In generating revenue to government there are leakages due to corruption. If we plug those leakages, government can reduce its tax rates. Reduced human interference in the system will reduce corruption.
- **Declaration of Assets:** It must be made mandatory to declare every persons asset to government. If undeclared assets found, then the same assets can be seized by government. This prevents mobilization of black money in the form of gold, land, house property etc.
- **Simplified Tax Structure:** Many people are finding it difficult to understand various taxes and its calculation. Simplify the tax calculation mechanism. Removal of various tax mechanisms in direct tax like surcharge, education cess, short term capital gains etc. may be removed.
- **Uniform Property Registration Software:** Uniform software should be developed to register properties throughout the country. That should be linked with Aadhar to overcome holding of benami properties. This can be made without disturbing the state government power to generate revenue of stamp duty, just as a control technique.
- **Good Governance:** People must believe in good governance and support for it. Winning public faith in good governance is very much essential to build strong economy. Control on holding of cash and physical

Impact of demonetisation on the Indian insurance sector

According to the monthly numbers of life insurance companies released by IRDAI, the individual single premiums collected in November for all life insurance subscriptions were Rs 6,692 crore. This was a whopping 507% more than what was collected in November 2015. In fact, even on monthly basis, the insurance segment grew by 170% from Rs2,481 crore collected in October. The total amount of first-year premiums (both regular and single premium) grew 113% on a year-on-year basis, and 45% compared to the collections in October 2016, revealed the IRDAI data.

The insurance industry, which was growing at a decent 28% on a month-on-month basis, grew more than 40% in November. It was a pleasant surprise for all players in the sector.

Cash inflow	Premium collected (₹crore)	Growth year-on-year (%)		Month-on-month growth over October (%)
	November 2015	November 2016		November 2015
Private sector	2370.54	3533.33		49.05
Individual single premium	204.27	253.63		24.16
Individual non-single premium	1554.44	2205.5		41.88
LIC	5182.5	12528.07		141.74
Individual single premium	898.78	6438.22		616.33
Individual non-single premium	1364.71	1361.82		-0.21
Grand total	7553.05	16061.4		112.65
Individual single premium	1103.05	6691.85		506.67
Individual non-single premium	2919.16	3567.32		22.2

Source: IRDAI website

There are two main areas where the insurance industry will feel the impact of demonetisation. In the short term, the trend is already clear that more number of customers are opening up to pay their premium online, rather than paying cash to agents. In the health insurance sector, for instance, hospitals carry out a lot of transactions in cash. But with cashless settlement kicking in, patient parties can go fully cashless..

Effect of Demonetization on The Insurance industry

All the service based as well as consumer based industries in India will be affected in their own ways by the introduction of the demonetization scheme.

Just like all the industrial sectors in India, the finance sectors of India will be affected by the government's demonetization schemes. The effect, however, will be more short term and targeted deeply towards the privately driven insurance funds. Similar to all the other sectors, this scheme has several painful short term effects, however, can prove to be sincerely beneficial in the long term.

The major insurance sector in India is covered by the government agencies such as the Life Insurance Corporation of India (LIC), Oriental Insurance Co. Ltd, New India Assurance Co. Ltd, etc.

These insurance companies have already started taking steps towards making lives easier for the general public who seem to be distraught by the demonetization schemes. LIC for example, extended its grace period for the customers to pay their premiums of several policies without any penal fee for a period of 20 days after the scheme was introduced. This allowed people to have some time in order to withdraw any necessary amount from the bank ATMs.

The private insurance sector which mainly deals in cash is hit hard by the demonetization drive as it is not ready to except the premiums in terms of online banking or credit in terms of bank transfers. This will basically ensure that people are lured more towards the national government operated insurance companies which can still freely operate by means of internet banking. Hence, the insurance and banking sector of India will be forced to be converted into a digital market where the promise of cash deliverance is reduced. This will ensure a major increase in the internet banking sector of India.

Benefits of the demonetization on insurance sector

- Traditionally, asset classes like real estate and bullion are considered as the de facto modes to build legacy and lend security to one's family. Insurance policies and long-term investment products rarely get the serious consideration they deserve.
- Building on the popular notion that real estate and bullion attract the largest share of black market funds, the post-demonetization era can induce a significant shift in behaviour.

- Retail investors have begun reconsidering their financial decisions. There are signs of switching to channels like mutual funds and insurance for investing their money and safeguarding the goals of their family.
- Along with communicating the obvious benefits like higher liquidity, more flexibility, transparency, ease of maintenance and a ready secondary market, insurance companies can leverage this shift in spending patterns, evolving consumer behaviour and the digital drive in India to increase penetration and tap the significantly untapped latent potential.
- There are enormous opportunities for insurance generally, and insurance-linked investment products could take a major role in this new consumer mindset.

Limitations

- Create a sense of loss of cash in a mind of spending population. It is similar to when stock market crashes and a lot of wealth disappears in front of consumer eyes.
- Create a cash scarcity and less cash in circulation.
- Impact certain businesses (such as restaurants, entertainment etc.) and consequently will have ripple effect on employment and downstream supply chain.

In long-term, assuming government would bring more measures to keep a check on the size of cash economy, this would

- Move the median income up at the bottom of the pyramid.
- Migrate more transactions from cash to electronic or mobile form.
- Give more power and legitimacy to Digital India and India Stack (e-KYC, Digital Locker, Unified Payment Interface, E-Signature).
- Create more productive money for the economy – either in the bank or higher tax collection. Which in turn can be ploughed back to the economy through low interest loans or government investment in infrastructure.
- More small businesses would consider buying insurance to cover the risks as the cash transactions become limited.

Market for insurance may expand as income at the bottom of the pyramid (individual and business) is expected to rise. This would be positive for the overall Insurance industry.

SUGGESTIONS

1. Most of the cashless transactions are connected through internet which demand proper network that is still inadequate in some parts of India.
3. Government is promoting the cashless transaction and in this direction, government has taken initiative with some incentives such as insurance, e-payment discount offer etc.
4. Central government as well as State government has made efforts to make their offices cashless that deal with public.
5. The government has put its very big efforts through PMJDY accounts so that every citizen could be connected to banking services and really this effort has been providing fruitful in the Demonetization move.
6. Proper tracking of people is must so that needy could be provided money and commission agents could be arrested.
7. There must be efforts to equip each government office with cashless machine so that people can make their e-payment smoothly.
8. Government must put its best efforts to train the people at ground level even up to small villages and for such purpose contributions of government officials, teachers, sarpanchs and panchs can be availed.

CONCLUSION

The following conclusions can be drawn by this research:

- Market for insurance may expand as income at the bottom of the pyramid (individual and business) is expected to rise.
- This would be positive for the overall Insurance industry.
- Online and mobile channels will become more effective channels for sale and service due to increased online and mobile adoption.
- Influence and contribution of Web aggregators will increase over agent force in long-term.

- Penetration of Insurance in India is less than half compared to developed countries. India is one of the fastest growing Insurance market in the world. Such initiative would further help the momentum.
- Insurers should look to develop effective products for the market at the bottom of the pyramid. From Distribution perspective, most effective way to reach to these consumers will be Online, Mobile channels, Bancassurance and Web Aggregator. From servicing standpoint, Insurers should accelerate integration with Digital India and India Stack framework. Both Insurers and consumers will win in long-term due to this move.

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