GUEST COLUMN

PRASHANT TRIPATHY

Irdai's recent reforms will help expand the market

India's resolve to emerge as a global economic powerhouse is anchored in the twin pillars of self-reliance and economic resilience. As macroeconomic conditions worldwide present newer risks and challenges, insurers and re-insurers assume a crucial role in insulating the economy from external shocks. The unique capacity of the insurance industry to engender resilience and self-sufficiency, by underwriting risks and spurring the capital markets provides the foundation for the nation's progress.

Against this backdrop, the Insurance Regulatory and Development Authority of India's (Irdai's) visionary 'Insurance for All by 2047' mission plays a crucial role in realising the goal of building a financially robust and resilient nation.

Irdai's road map for insurance reforms encompasses a range of strategic measures for enhancing the accessibility and affordability of insurance products, while also promoting the industry's development. While the recent slew of reforms is set to give a boost to the industry, the following efforts are critical to achieving deeper insurance penetration in the country.

In order to achieve accessibility for all by 2047, insurers today are tasked with a greater responsibility to understand their customers' needs through timely and unique solutions. Addressing the need for rapidity in today's dynamic market, Irdai's 'use and file' framework helps spawn innovative offerings, providing insurers with much-needed flexibility in designing innovative products and shorter timelines for introducing insurance plans in the market.

Insurers must be quick to respond to the evolving regulatory environment by offering innovative solutions and bolstering their capabilities to reach customers

The latest amendments to the regulations on 'payment of commission' and 'expenses of management' by Irdai, aimed at freeing the industry from the restrictions of multi-layered expense limits, are expected to assist in expanding the insurance market. As the market grows, the impact of such reforms on insurance products would inevitably decrease, allowing insurers to offer more competitive pricing.

The recent reforms announced by Irdai will help bolster the ease of doing business and will aid in making the sector more investment-friendly. One of the significant reforms is the new limit for private equity funds and the capital structure. The reforms have allowed insurers to access more capital, which will enable them to attract more investment, strengthen their balance sheets and pursue growth opportunities.

Simplifying regulatory and compliance requirements is another important pillar in the road map to enable insurers to focus more on their core business, leading to better outcomes for customers and the industry as a whole.

The new regulations, which reduce the number of returns to be filed by insurers, is a huge relief for them. It will also facilitate the smooth functioning of the sector, which is crucial for the ease of doing business.

The regulator's proactive stance in identifying a lead insurer for each state in India, through collaboration with state governments and insurance companies, is a revolutionary step towards enabling insurers to provide insurance accessibility to all. This approach ensures that insurers have a deeper understanding of the specific needs of each state and can design customised insurance solutions. The appointment of a lead insurer will foster healthy competition among insurance companies.

By leveraging technology and collaboration, Irdai's efforts have not only encouraged incumbent players, but also contributed to the rise of InsurTech. With several regulatory developments that will further alter how insurers do business with customers, the future looks bright for the industry. In light of these reforms, insurers must be quick to respond to the evolving regulatory environment by offering innovative solutions and boosting their digital capabilities to reach customers — urban as well as rural.

The next big milestone is to enable a financially protected society, and the insurance industry will have to play a crucial role in making this a reality.

The writer is the managing director and chief executive officer of Max Life Insurance

Ah, the whiff of cash!

The business of moving currency is booming, with new revenue streams set to open up, reports **Raghu Mohan**

"If Danny Ocean were to try a stunt here, we would be able to handle it," quips Suneel Aiyer, chief executive officer (CEO) of Writer Safeguard, a company that moves cash between banks, retail outlets and consumers, or what is known in the industry as a cash-in-transit (CIT) firm. The reference to the character played by George Clooney in *Ocean's Eleven*, the 2001 film about an elaborate casino heist, is to call attention to the huge sums of cash ferried by CITs on a daily basis, ranging between ₹20,000 crore and ₹23,000 crore. At the lower end of this figure, it works out to ₹51.4 trillion a year.

And the new security protocols, as Aiyer — who is also the founder of the Cash Logistics Association, or CLA — notes, "will lead to a structural shift, a transformation in the way the industry operates. It will help in building newer capabilities and open hitherto unexplored opportunities for the industry".

Not only is the place of cash secure, but the good times are going to last. According U S Paliwal, secretary-general of the CLA, "with interest rates more or less having peaked, retail spends will increase as the economy picks up. This will lead to a further spurt in cash-outsourcing operations by big retailers".

The biggest force multiplier, though, is compliance with the strict hygiene protocols of the Reserve Bank of India (RBI) and the Union Ministry of Home Affairs (MHA). These require movers of cash to maintain a fleet of at least 300 vans — owned or leased — equipped with close-circuit cameras in both the passenger and cash compartments. They must also be GPS-enabled and be monitored live with geo-mapping, with the capability of sending alerts to the nearest police station in the event of an emergency.

Vans are also required to vary their routes and timings, to avoid becoming predictable. This was warranted because the cash logistics business had no standards ever since it gained currency in the mid-1990s, when foreign banks set up ATMs and began offering cash at the customer's door-step — a smart way to skirt the RBI's strict branch licensing norms.

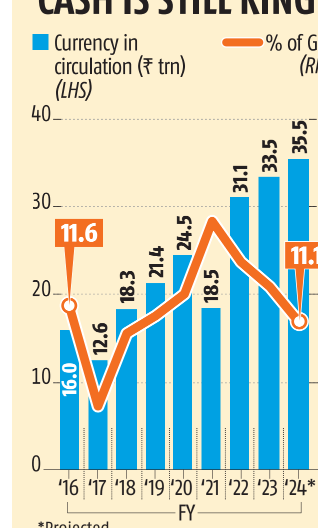
"This will aid a seamless rollout and transition to the cassette-swap process — a key focus area for the regulator," says Anush Raghavan, president (cash management systems) at CMS Info Systems. Cash is "in" big time. Over the last few years, three firms in this space have listed on the bourses — CMS, AGS Transact Technologies and Radiant Cash Management Services. According to a report by Frost & Sullivan, a market research and advisory firm, there has been a significant increase in demand for cash due to the expansion of non-banking financial companies, e-commerce and other retail enterprises, as well as their thrust into Tier-II cities and beyond.

This has led to a far greater share of cash-on-delivery (CoD). In 2021-22 (FY22), CoD accounted for more than 60 per cent of e-commerce payments, indicating the significance of cash in payments. The share of CoD (in all payments) is 70 per cent in non-metro cities, and as high as 90 per cent in Tier-IV cities, compared with 50 per cent in the metros.

Another variable to watch out for is whether merchants push customers to settle in cash if the Unified Payments Interface (UPI) were not to remain free for peer-to-merchant transactions.

On August 17, 2022, Mint Road put out a discussion paper making a case for the pricing of UPI transactions. It was blunt. "In any economic activity, including payment systems, there does not seem to be any justification for a free service, unless there is an element of public good and dedication of the infrastructure for the welfare of the nation. But who should bear the cost of setting up and operating such an infrastructure is a moot point," noted the paper.

MILLIONS OF RURAL INDIANS NOW HAVE DEBIT CARDS, YET LACK ACCESS TO ATMs. SUCH DRIVERS ARE EXPECTED TO CONTRIBUTE TO THE GROWTH OF ATMs IN THE RURAL REGIONS



It's an issue that has been bothering the payments industry ever since the launch of UPI in 2016, and has figured in talks with the RBI — for without correct pricing, just about everybody in the payments ecosystem is under pressure.

A few days later, on August 21 (a Sunday), North Block tweeted that UPI is a digital public good with immense convenience for the public and productivity gains for the economy. "There is no consideration in the government to levy any charges for UPI services. The concerns of the service providers for cost recovery have to be met through other means," it said.

The tweet left many wondering just what those "other means" could be, even as it more than suggested that those who make up the payments world and the government differed hugely on UPI pricing, and whether it was desirable at all.

Just how the UPI pricing issue unfolds from here will be watched by CIT firms.

Layers in the plot

Dhiraj Singh, CEO of SIS, another provider of cash logistics solutions, notes: "We reduced exposure to the ATM business and continue to focus on the bank outsourcing services business instead. We service only 10,000 ATMs, while more than 75 per cent of our revenue comes from other banking services across the country." This implies that while CIT firms may have operated within the ATM ecosystem up until now, the plot is changing.

And this is despite the fact that only 51 per cent of the country's 250,000 ATMs are located in semi-urban and rural areas. "This presents a high potential for the banking industry. Due to the rapid growth in Jan Dhan Yojana accounts and RuPay cards, millions of rural consumers now have a debit card and a bank account, yet many lack basic infrastructure such as an ATM to successfully use them. Such drivers are expected to contribute to the growth of ATMs in the rural regions in India," noted Frost & Sullivan.

Singh's view appears to suggest that a huge business window is opening up outside of ATM cash replenishment. Says Raghavan: "We are positioned for the next inflexion point — to leverage the infrastructure for currency processing and currency chest outsourcing by banks."

Globally, banks have been outsourcing ATM and customer relationship management-related activities so that they can allocate their resources to core banking activities. Some countries have championed the concept of a "common currency chest management solution". Here, the cash management agency allocates a dedicated section to each partner bank and financial entity within a currency chest (CC) or vault at a central location. This reduces the cost of having multiple CCs or vaults, and is operationally more efficient.

As Ravi B Goyal, chairman and managing director of AGS Transact Technologies, sees it, as a result of the RBI and MHA guidelines, a secured, more structured and standardised infrastructure will be in place. "This will make a strong case for the outsourcing of CCs in the future."

Currently, banks are outsourcing cash processing activities at their CCs and cash management agencies like the AGS arm Securevalue India, but this is different from opening up the CC and vault business itself. Opening up CCs to private players has another implication. Banks with CCs privilege their ATMs over those who operate white-label ATMs (WLATMs) — machines that are owned and operated by non-bank entities. It was partially sorted out when the RBI allowed WLATMs to buy wholesale cash from it. But throwing open the CC channel can dramatically change the game.

The stage is set for differentiated business lines. CMS, Radiant and Writer Safeguard are big in the retail cash management (RCM) market. CMS has offerings across ATM cash management, RCM and Dedicated Cash-in-Transit Vans (DCV), even as Radiant has established itself as an integrated cash logistics player with a leading presence in the RCM segment. How does the security drill business fit into all of this? Few want to go on record on this aspect, as it is settling-in time, with huge changes having occurred in the cash handling business in recent years.

Off the record, a senior official says, "It does not mean cash logistics players will foray into the security business — for security firms, cash logistics is an evolution, in the sense that you move up from protecting people and establishments to cash and valuables." Cash logistics is a subset of the private security industry. Brinks Arya, CMS and Writer Safeguard have always remained cash logistics firms and never ventured into the security business.

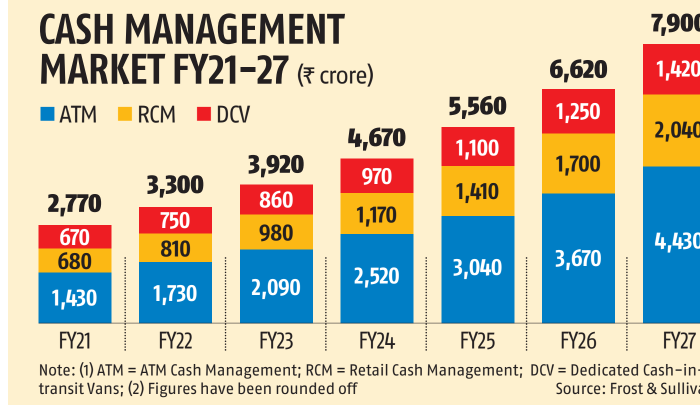
One reason could be that it is hard to get gun licences in the security business. The industry has lobbied the MHA to grant cash logistics companies blanket licences for guns. That is because, sooner or later, these firms will not be able to get insurance cover for the cash and valuables they move.

But for now, the cash business is booming.

PLUGGING THE GAPS

Non-bank players set up white-label ATMs under the following schemes

Scheme A	Scheme B	Scheme C
Year 1: Minimum of 1,000 WLATMs	**Year 1, Year 2, and Year 3:** A minimum of 5,000 WLATMs is to be set up every year for three years	**Year 1:** A minimum of 25,000 WLATMs is to be set up in the first year
Year 2: Twice the number of WLATMs (minimum) set up in the first year		**Year 2 and Year 3:** At least another 25,000 in the next two years
Year 3: Thrice the number of WLATMs (minimum) in Year 2		
A ratio of 3:1 will be applicable. For every three WLATMs set up in Tier-3 to Tier-6 centres, one can be installed in Tier-1 and Tier-2 centres. Of the three WLATMs in Tier-3 to Tier-6 centres, a minimum of 10% must be installed in Tier-5 and Tier-6 centres	A ratio of 2:1 will be applicable. For every two WLATMs set up in Tier-3 to Tier-6 centres, one WLATM can be set up in Tier-1 and Tier-2 centres. Out of the WLATMs in Tier-3 and Tier-4 centres, a minimum of 10% should be in Tier-5 and Tier-6 centres	The ratio of 1:1 will be applied. Of the WLATMs installed in Tier-3 to Tier-6 centres, a minimum of 10% should be in Tier-5 and Tier-6 centres



Note: No prior RBI permission is needed for rollout once a WLATM player picks a scheme, but no switchover of schemes is permitted. WLATM operators cannot take over ATMs operated by banks

Source: RBI

CASH MANAGEMENT MARKET FY21-27 (₹ crore)

	ATM	RCM	DCV	Total
FY21	1,430	680	670	2,770
FY22	1,730	810	750	3,300
FY23	2,090	980	860	3,920
FY24	2,520	1,170	970	4,670
FY25	3,040	1,410	1,100	5,560
FY26	3,670	1,700	1,250	6,620
FY27	4,430	2,040	1,420	7,900

Note: (1) ATM = ATM Cash Management; RCM = Retail Cash Management; DCV = Dedicated Cash-in-transit Vans; (2) Figures have been rounded off

Source: Frost & Sullivan

CASH IS STILL KING

Currency in circulation (₹ trn) (LHS); % of GDP (RHS)

FY	'16	'17	'18	'19	'20	'21	'22	'23	'24*
Currency in circulation (₹ trn)	16.0	12.6	18.3	21.4	24.5	18.5	31.1	33.5	35.5
% of GDP	11.6								11.1

LHS: 0, 10, 20, 30, 40; RHS: 6, 9, 12, 15, 18

*Projected

Source: Press Information Bureau

"The RBI and MHA norms will ensure a secure infrastructure. This will make a strong case for outsourcing currency chests"

RAVI B GOYAL
Chairman and Managing Director, AGS Transact Technologies

"We are positioned to leverage the infrastructure for currency processing and currency chest outsourcing by banks"

ANUSH RAGHAVAN
President (Cash Management Systems), CMS Info Systems

"We have reduced our exposure to the ATM business, and continue to focus on the bank outsourcing services business instead"

DHIRAJ SINGH
Chief Executive Officer, SIS

"The new security protocols will transform the way the industry operates. It will help open up hitherto unexplored opportunities for the industry"

SUNEEL AIYER
Chief Executive Officer, Writer Safeguard