

Current debt crisis in India is similar to the 2008 Lehman shock: Minoru Kimora

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Minoru Kimora of Nippon Life Insurance talks about the debt crisis and the new risk management practices that can be brought to India

A robust process in credit analysis will have to be implemented to avoid a similar situation in the future, said Kimora

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Nippon Life of Japan is in the [process of completing its acquisition of a 75% stake in Reliance Nippon Asset Management Co.](#), as its former partner Reliance Capital makes an exit. Minoru Kimora, executive officer and head of Asia Pacific at Nippon Life Insurance Co., talks about the debt crisis and the new risk management practices that can be brought to India. He also revealed their plans to unveil a new direct selling strategy in the life insurance space

What has your experience of the Indian mutual fund industry been so far?

We invested in Reliance Nippon Life Asset Management Co. in 2012 and we saw very good growth over the next seven years. This investment has been one of the most successful ones in our long history. We came to India to try to capture the growth potential in the life insurance and [mutual fund industries](#) and we believe that it was right to come to this country. We are long-term-oriented investors. There have been some fluctuations but in the long run, we do not see any big challenge.

What are the risk and asset management practices that Nippon will bring to Indian asset management?

Japan has also learnt from global best practices in both [asset management](#) and life insurance. The Indian market is still very domestic in the sense of customers, investors and products. This is because India's growth potential and higher yields are attractive enough. Indian investors don't need to go out of India. However, as the market matures, there will be some demand from clients for international diversification opportunities.

A global trend at present is giving due consideration to ESG (environment social governance) factors in the investment process. In India, this aspect is not paid as much attention. But in the long run, consideration of non-financial factors will increase in importance. We can bring these ESG processes to India as global best practices.

In terms of products, there are many outside India in the hybrid and multi-asset space. Here, pure equity or pure debt products dominate. As the market matures, our company can prepare for this shift and build a track record in such products.

A Morningstar report puts India as the fourth most expensive in terms of the equity fund costs out of the 26 markets it tracks. Has the time come to shift from active to passive funds in India?

The global trend is active to passive and it is a very strong and long-standing trend. India is still dominated by active funds. Active funds in India still have a lot of opportunity to create an alpha compared to more mature markets like the US. However, costs may be more important for institutional clients who might hence invest in the passive side. Our passive products in India are a kind of preparation for growth in passive funds.

India has been undergoing a debt crisis for the past year. Several funds of Reliance Nippon Life AMC were found to be holding bad debt. What changes are you making to ensure that this does not happen again?

The current debt crisis in India is a very big one. Investors of not just Reliance Nippon Life AMC but every other AMC are facing a very big challenge. It is similar to the 2008 Lehman global shock. In the long run, our credit team has a strong capability and can analyse and manage the current tough situation. A more robust process in credit analysis, more detailed risk management and control on exposure to single issuers will have to be implemented to avoid a similar situation in the future.

What are the challenges hindering the adoption of life insurance in India?

The life insurance market is growing healthily although some regulations are affecting the behaviour of companies and potential clients. [Unit-linked insurance plan \(Ulip\)](#) is the most popular product and most of it is sold by banks. However, the basic concept of life insurance is protection. In asset management, you can choose mutual fund, life insurance or other types of products but only life insurance can provide protection. As a player in the insurance industry,

we should emphasize on protection more not only in terms of death benefit but also in terms of health insurance.

We are focusing strongly on the direct face-to-face distribution channel which we are bringing from the Japanese experience. In this channel, female agents directly sell insurance to clients face-to-face because for protection, people have to be convinced by advisers and this takes a long time. These agents would be paid a fixed amount and they would get commissions if they exceed targets. This is the traditional mode in Japan unlike in India where most agents are commission-based rather than fixed. The advantage of the direct channel is that we can educate our agents on the product and how to communicate with clients and also after-sales service.

How can technology cut expenses and bring mutual funds and insurance closer to clients?

We are implementing a lot of technologies in various areas. For example, our customers can easily connect to the company through mobile applications for insurance claims, questions or procedures like change of address, phone, among others. Our customers can benefit from technology in this way. In India, identification of customer is critical to avoid mis-selling. Facial and voice recognition make it easier to verify identity. We are implementing those kind of things in our operations. Underwriting can also be done through artificial intelligence-based robotics over shorter time frames.

If the [FDI cap in insurance](#) changes, will you be open to increasing your stake in the life insurance business?

At this moment, I cannot give a complete answer but we are committed to India for future growth, not only in life insurance but also in mutual funds.

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