Bombay Chamber
of Commerce & Industry

Bombay Chamber of Commerce & Industry Trust
for Economic & Management Studies

# CREATING A **FIVE TRILLION DOLLAR** ECONOMY


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# FOREWORD

**Sandeep Khosla**
Director General,
Bombay Chamber of
Commerce and Industry

As we all know, the Hon'ble Prime Minister Narendra Modi envisioned making India a USD Five Trillion economy and global power house by 2024-25. On 11 October, 2018 the Working Group, constituted by the Department of Industrial Policy & Promotion, GoI, developed a roadmap towards achieving a Five trillion-dollar economy by 2025.

It is in this backdrop, to get insights from thought leaders on how to create a Five Trillion-Dollar economy, the Bombay Chamber had successfully organized three high profile virtual events with participation of eminent personalities like Dr. Rajiv Kumar, Vice Chairman, NITI Aayog, Mr. Ajay Piramal, Chairman, Piramal Group among others, as keynote speakers in December 2021, January 2022 and February 2022.

Taking this forward, the Chamber sought to capture a snapshot of industry stalwart's views by inviting their thoughts and bringing out a publication titled Creating a Five Trillion Dollar Economy. This covers few specific areas to address the issue; these include Digitization, Finance, Rural Development, Education, Health, Agriculture, Travel &Tourism, Infrastructure, Manufacturing, Policies, Private Equity and Insurance.

The document is put together by highly experienced and internationally reputed experts in their respective fields (academic, private or multinational).They include Anjali Bansal, Nilesh Shah, V S Parthasarathy, Ashok Barat, Ranjit Shahani, Ashok Wadhwa, Ashwini Kakkar, Neeraj Akhoury, Rajiv Anand, Rajiv Sabharwal, Professor Ashima Goyal, Asit Bhatia, Praveen Vashishta, Vibha Padalkar, Vishal Mahadevia and Naveen Tahilyani. I thank them all for their valuable contribution.

We express our gratitude to the Past Presidents, Members of Bombay Chamber Board, Members of the Banking, Financial Services and Insurance (BFSI) Committee of Bombay Chamber and Members of the Economic Policy Research & Development (EPR&D) Committee of Bombay Chamber for their unstinted continuous support.

This publication would not have been possible without the support from our Partners Axis Bank, ICICI Bank and Ambuja Cements Ltd. I thank every one of them for their generous support.

I would also like to thank Bombay Chamber of Commerce & Industry Trust for Economic & Management Studies (BCTEMS) for assistance in the printing of this document.

Special thanks to my colleagues at Bombay Chamber for their support.

This publication will have served its purpose if it assists in moving towards creating a Five Trillion Dollar Economy by 2025.

# UNLOCKING NEW FRONTIERS OF GROWTH WITH DIGITIZATION

**Anjali Bansal**
President, Bombay Chamber of Commerce and Industry
Founder, Avaana Capital

India has the second largest digital consumer base in the world with 1.2 billion mobile phone subscribers and 750 million internet users. The country has seen rapid transformation into a knowledge economy and a digitally empowered society with digitization driving affordable access, inclusion and new growth opportunities. We are seeing new, emerging technologies solving problems and unlocking massive value in essential sectors like financing, agriculture, healthcare, education and supply chains, among others. Digital technologies have helped create more transparency across value chains in multiple sectors, expanded markets, enhanced revenues and unlocked productivity, efficiency and savings. **Government and industry estimates expect the digital economy to add over US$1 trillion in economic value, contributing over a fifth of overall economic activity by 2025. More than half of this is expected to come from new and emerging digital ecosystems.** Additionally, over 60 million job opportunities are expected to be created on the back of India's digital transformation.

India's public digital infrastructure has become a critical building block to drive innovation and to support growth of startups, democratizing access to digital rails for young companies who would have limited resources. Aadhar's seamless registration and identity confirmation, sees an average of 48 million daily authentication transactions and has now reached 1.3 billion accounts. The Unified Payments Interface (UPI) crossed the $1 trillion mark in transaction value for FY2022, adopted by businesses and even solopreneurs across the economic spectrum and driving economic transactions across sectors and use cases. It has now evolved into a core payment channel on top of which new applications are getting built for credit, savings, insurance and wealth creation. The Open Network for Digital Commerce (ONDC) allows all potential participants, including small and traditional retailers, to go digital and grow their businesses. The newly launched India Health Stack not only enables more seamless operations in healthcare service delivery but also creates a platform for new and innovative solutions to be built to address the needs of the sector. The Gati Shakti initiative, bringing together multiple government bodies on a single digital platform, will boost the infrastructure sector and unlock further positive impact on the economy.


Innovators are leveraging digital infrastructure and technology to solve problems across various segments of the economy. Digitization of supply chains helps to reduce inefficiencies, improve transparency, reduce logistics costs, and enhance the overall global competitiveness of Indian industries, especially small and medium enterprises. Moreover, it helps participants, particularly small manufacturers, and service providers, become more discoverable, allowing them to access new revenue opportunities that would not have been available earlier. This formalization also helps with accessing more affordable financing options that can further support growth. As the recent Covid-19 pandemic has demonstrated, digitally equipped supply chains have been able to better withstand disruption and mitigate potential economic losses. Digitization assumes even greater significance in the context of agricultural supply chains strengthening not just India's food and nutrition security but also helping with the national objective of doubling farmers' incomes by expanding markets and improving resource efficiency. Income enhancement for workers in the newly formalized, digitized sectors, through technology platforms and value chains, has ripple effects through the economy, driving consumption growth.

All of this digital innovation-led transformation not only unlocks economic opportunities for traditional businesses, MSMEs and small producers but also creates attractive opportunities for digital innovators and startups who are leveraging emerging technologies to create these transformative solutions. We have seen the education technology, or EdTech, sector now grow into a $2.8B market, poised to become a $10B market by 2025. Additionally, use of digital tools in the education sector has democratized access to learning opportunities and has, in turn, created a massive digitally skilled talent pool contributing to new technology solutions being built. **Growth in IT services coupled with that of new digital startups working in emerging technologies like artificial intelligence, robotics, data analytics, automation, cloud, cybersecurity, blockchain, among others, is expected to add close to $250 billion in gross value by 2025**. India now has the unique opportunity to be positioned as a global technology and innovation leader. Innovations in India, with applications for manufacturing, supply chains, health, education and finance have the potential to be built for the world, enabling the country's digital innovation ecosystem to not only contribute towards India's goal of becoming a $5 trillion economy but also establishing itself as a digital factory for the world.

# INDIA AS A 5 TRILLION-DOLLAR ECONOMY

**Nilesh Shah**
Senior Vice President,
Bombay Chamber of Commerce and Industry, Group President & MD Kotak Mahindra AMC

GDP Growth is linked with Investment and Savings. Higher the Investment, Higher the Growth. Investment can be financed through domestic as well as foreign savings.

India must improve on ease of doing investments just like ease of doing business. Domestic as well as Global Investors must feel the Ease of doing Investments. Simpler KYC Norms, Pro-active response, single window clearance, stable tax policies, Rule of Law etc. will go a long way in improving ease of doing investments.

Global Investors are valuing Indian Equities multiples times peers like Brazil, China and Russia. We have broken away from the BRIC peers through COP 26 declaration and other steps to improve ESG practice. Staying ahead on the path of ESG will help maintain our premium equity valuations.

| India Gold Trade | |
|---|---|
| **(In US$bn)** | **2000-2021** |
| Jewellery of gold unset | 65.6 |
| Jewellery of gold (with pearls) | 2.5 |
| Jewellery of gold (with diamond) | 64.4 |
| Jewellery of gold (with precious / semi-precious stones other than diamonds) | 7.4 |
| Other non-monetary unwrought forms of gold | 24.3 |
| **Total exports estimate** | **123.4** |
| **Total Gold imports** | **556.7** |
| **Net Gold imports** | **433.3** |

**Note: We have assumed Item No 2,3 and 4 to consist 45% gold**

**It pains me to see that while Indians are good savers; their Investment is tilted towards physical assets including Gold.** In two decades of this century more than $ 433 billion has flown out of India towards net import of gold. If we add smuggled gold and gold ornaments passing through green channel, the amount could be in excess of $ 550 billion.

| Particulars | Cumulative FY 2000- 2020 USD Billion |
|---|---|
| Savings | **9,537** |
| Investment / GCF | **10,053** |
| Public | **2,210** |
| Private | **3,548** |
| Household | **3,564** |

Our outflow towards Gold imports is more than Foreign Portfolio Investments received in the last two decades. Our Dead Savings Locked in Gold could be more than $ 2 trillion which is almost equal to Government's Capital formation in this Century.

While gold buying is driven through traditions, emotions and black money needs, It is aided through ease of investment. Buying of Gold is much easier than a Financial Instrument.

Lack of easy entry in the Financial Market along with Lack of Knowledge has also resulted in loss of Rs 180,000 Crore plus for more than 1.5 Crore Indians in collective investment schemes especially at the bottom of the pyramid and in Rural and Semi Urban India.

Our Government through Jan Dhan Yojna has ensured banking to every Indian. **We need to launch a Jan Nivesh Yojna. Simpler and Standard KYC, Ease of doing Investment and appropriate Financial Education will channelize Domestic Savings for India's Investment needs.** This will reduce dependence on Foreign Investors and make India truly Atma Nirbhar. Jan Nivesh Yojna will ensure participation of Indians in the India Growth Story and earn better returns. Our largest listed Bank, Insurance, Telecom, FMCG, Automobile and Mutual Fund Co is majority owned by Foreigners. It is not too late for Indian Investors to own Indian Cos.

Finance is the lifeline of an economy. No growth is possible without a vibrant financial sector. Our financial sector should be more vibrant and innovative. Today it provides the debt capital in a fairly reasonable manner. Equity capital is scarce. We need to innovate on financial products, deepen our financial markets and ensure that capital domestic as well as financial is available for our entrepreneurs.

# CREATING A FIVE TRILLION DOLLAR ECONOMY

**V. S. Parthasarathy**
Past President, Bombay Chamber of Commerce and Industry
Vice Chairman, Allcargo Logistics Group

First & foremost, elevating India to a Five Trillion Dollar economy is a journey & not a destination. India will become a Five Trillion Dollar economy anyway, but the big question is how fast! Can this journey be accelerated?

**The answer probably lies in how inclusive our program is. How dispersed & how evenly can we reach across our geography & across verticals. How are we able to empower every nook & corner of the country, its populace & the various sections of the society? The answer lies in how we deal with rural India!**

When we deal with rural India, which covers 65% of the population & when we work with them and for them and by them, then we will become a real potent force. Because we would have a strong foundation, even though we would have high aspirations.

Let us look at some of the enablers and revolutions for us.

The first is the IT revolution; it enabled India to emerge as a super power & now, along with our digital journey, can certainly provide the next generation of spark for the Indian economy. IT & digitalisation at a rural level can be a catalyst for uplifting the rural economy of India. Therefore, this is one big theme, which we should pursue. We should not be bogged by the fact that we need to connect the corners of India, but we must be energized by the fact that a connected India & the surging rural would make all the boats rise.

The second facet we need to think about is the financial revolution. In India, the rural population is yet not part of the financial revolution. SEWA, an organization, with 2.1 MN women, can provide a building block of a financial revolution across all the states of India. Most of our private banks are more metro centric than rural centric. If we make the last mile financial products and micro finance available to 65% of the population in a bigger way, it would really bolster the economy in a big way.

The third one is shortening the supply chain cycle. It would give us a huge amount of positive momentum. Now we buy material from the rural, bring it to the city or manufacturing hubs, for making the final output & then it goes

back to the same rural market. Apart from time lag, we have seen the concerns around quality & preservation. We can cut through the cycle in India by forming shorter supply chain cycles around the rural market. Produced in rural, consumed in rural, processed in rural & thereby bringing the manufacturing & processing industry to rural can be our growth theme. Small scale processing is the next best & big thing that can happen because we should not compare cost only of the final output, but the total cost including supply and inventory management.

The fourth one is the education revolution. The education revolution would give a huge industry bias to the upliftment of the rural economy because 65% of the population would then be completely empowered. Right education can be the torch, which lightens the darkest corners of our economy. Thereby, digital & financial literacy & overall education can be the harbinger of our growth journey. **To clarify, the focus should be on digital education. The same would be relatively easy to roll out & that would enable our womenfolk to be part of this revolution in a big way. Bringing schools to home can be the real game changer. That is where we should see mass customisation as a basis of future education expansion.**

The last one is harnessing the power of women in our country. Women is the single largest segment, which is 50% of India. They must be empowered. We should engender a 'by/for/of women' rural revolution based on 'All Above' and India will Rise 'Above All', and then a Five Trillion is just a milestone & not a destination.

# INDIA: POISED TO LEAP

**Ashok Barat**
Past President, Bombay Chamber of Commerce and Industry

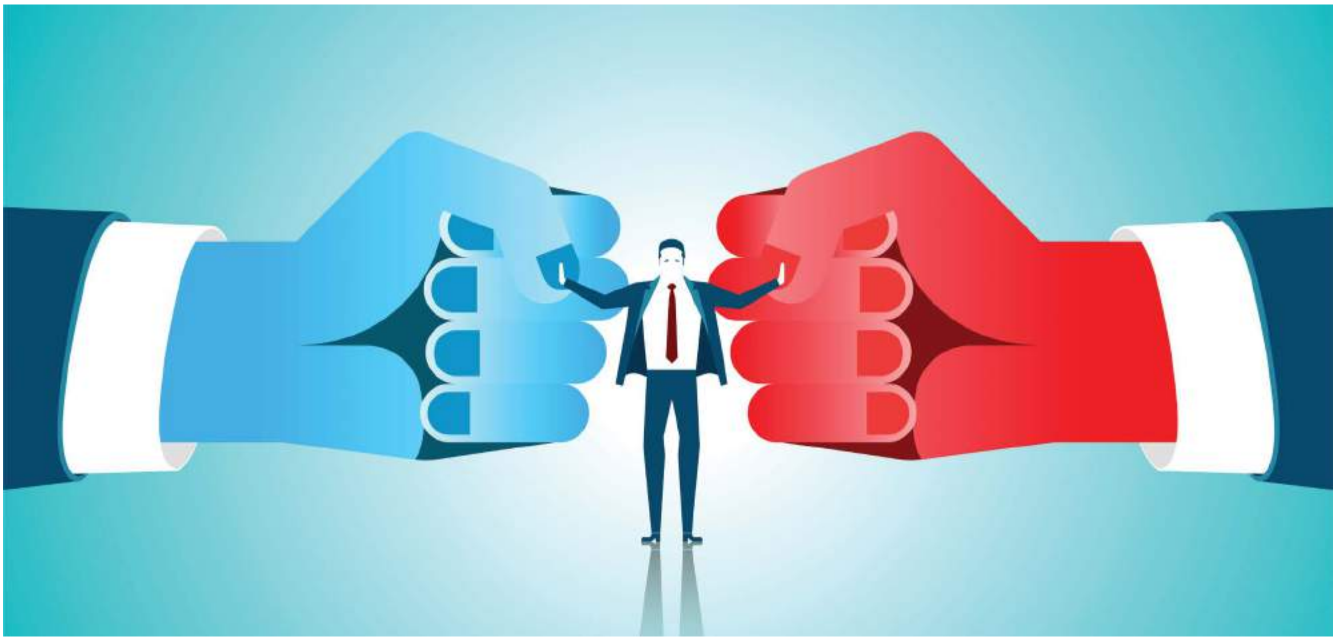
"Hitch your wagon to a star and you will land up on the moon; hitch your wagon to the moon and you will be hanging from a lamp post", goes a popular English saying. In a society that is largely cynical and jealous about someone else's success, and more salaciously curious about how it was attained, having a seemingly audacious ambition often invites a jeer and skepticism.

The goal to achieve a 5 trillion dollars economy by FY25 is sensible and achievable! It is also desirable, even if one falls short to achieve it by the designated year or takes a few more years to attain. The conversation should determinedly focus on 'how' rather than 'what' or 'when'.

There are three things that merit attention, and these are all softer interventions, rather than the hardcore physical or fiscal actions that most amount of attention is focused upon.

First, inculcating a spirit of entrepreneurship and respecting failure that comes as a part of that journey. This should start with the middle school education framework that includes primary appreciation of business, commerce, and entrepreneurship as possible career options. These topics must find honorable place in the social and general studies curriculum. If nothing else, it will engender, the dignity of labor, hard work and risk taking. High GDP growth rates will not come from large scale industries or big service sector growth alone. It will have to be fed and fueled in large measure, by the robust and sustainable growth of medium and small businesses – whether as ancillaries or as service providers or distributors or downstream processors. To ensure this, two things must happen. Reduction of regulatory cholesterol for small businesses and working on the principle - "I trust you, till you breach my trust". Second, if a business fails the entire focus of the State and the Lenders should be on resolution and not realization. If realization is made the last resort, the entire machinery will be geared to find a sensible path to rehabilitation and recovery. The laws, rules, the IBC framework, lending norms and covenants will need a rescript towards this approach.

Second, a wider, diverse, and more inclusive growth across various industry and service sectors, geographies, communities, and gender. The spread and footprint of the wealth creating infrastructure across the nation should be widely visible and result in wellbeing across the country. In India, distribution has always



been a greater challenge than wealth creation. **Disparity of economic well being and prosperity, real or perceived, will never be able to create the optimism, harmony, synergy and hence the momentum that exponential growth would require.** The law of diminishing utility inherently self limits growth beyond a point. A large country like India needs an elephantine growth movement to reach an ambitious target. Each of these participants – whether a State or a community has different inherent strengths – granted by nature, genetic prowess, and community ambitions. These need to be carefully harnessed to design a strategy that is nuanced and calibrated to increase the probability of success. Not everyone needs to do everything. With expanding physical and digital infrastructure, goods and services can move economically and expeditiously to various corners of the country, even if produced or created or delivered in or from certain pockets.

**Last but not the least, the legal and judicial infrastructure needs a complete revamp and makeover, to reinforce the primacy of justice delivery over law framing.** Things that need urgent and committed attention are:

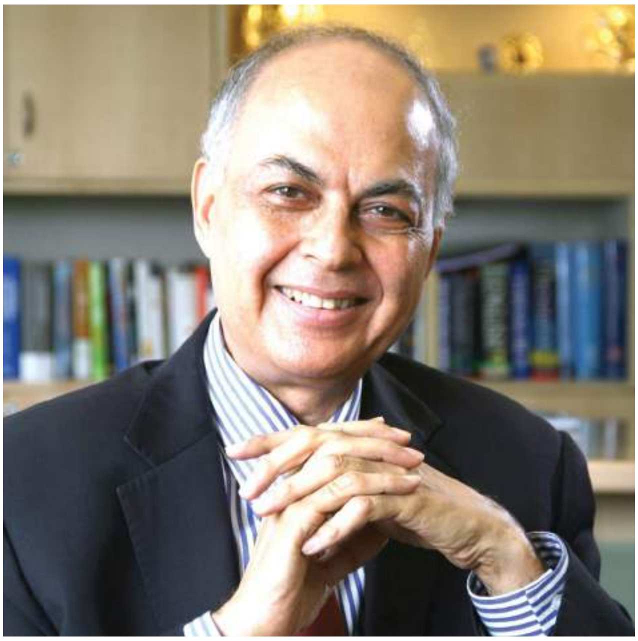
• Stability of laws. 'Don't fix it if isn't broken'; allow businesses, individuals, and institution to plan their destiny with certainty. It is not the rigor of the law or the burden of fiscal obligations that frightens or deters entrepreneurs, it is the unpredictability, and uncertainty and the fears that come with it.

• Design and enact laws in a simple manner and language, that generally enables and facilitates the do-gooders, rather than catch and punish the wrong doers. The entire legislative narrative and outlook needs to change along with the attendant mindset at the field level. The larger section of citizens that want to follow the law should not be held to ransom by a handful that don't or possibly ever won't.

• Promote, encourage, and expand, alternate dispute resolution mechanisms, particularly mediation, to enable businesses and business families resolve their differences and disputes, cheaply, quickly, and privately, and move forward. Unresolved conflict damages them financially and in spirit alike. Both are needed in equal measure for economic success.

Entrepreneurship has been a strong Indian trait. The success of the Indian diaspora in the remotest corners of the world stands testimony to the genetic ability of our people to generate wealth through commerce and industry. We need to harness this pedigree better within our own nation.

# CAN INDIA BE A USD 5 TRILLION DOLLAR ECONOMY BY 2025



**Ranjit Shahani**
Past President, Bombay Chamber of Commerce and Industry

Is there a credible path for India to achieve its goal of becoming a USD 5 trillion economy by 2025 post the Covid setback or is it a chimera?

To answer this question we have to look at the key realigned targets now necessary to achieve this target, building on the past momentum and also bold outcome oriented priorities which will now be necessary. It took the Indian economy eight years to double to $2 trillion in 2014 and another seven to grow to just under $3 trillion currently. At that rate, the leap to a $5-trillion economy by 2024-25, as envisaged by Prime Minister Narendra Modi's - seems a very difficult ask , especially after the Covid-19 pandemic and its lingering after effects. India becoming a USD 5 Trillion economy requires the country to grow at ten per cent per annum for the next five years in order to achieve this by 2027. So is it possible?

The economic impact of the first wave was severe; the health impact of the second wave was serious. The contraction of the economy has hit hard the daily wage earners and migrant labour. Life Versus Livelihood emerged as a serious issue. Following the aggressive and effective implementation of the vaccination drive this is now back in order and we can actively pursue our goal of the 5 trillion USD economy albeit with the flag post shifted to 2027.

The government has set specific targets, sectoral push and PLI scheme to turbocharge manufacturing. FDI inflows are at record levels and todays foreign exchange reserves at 604 USD Billion is the third largest globally.

A big game changer to fund capital expenditure is to go for larger divestments in the Public Sector Enterprise. The current target of Rs. 65000 crores is far too modest and needs to be at least quadrupled. **A renewed and committed focus on building new cities, ports, bridges, high-speed rail and highways will have a significant multiplier effect on jobs and the economy and also help reduce unemployment.** This rebooting of infrastructure has to be a combined effort of Centre, States and the Private Sector.

Challenges can be turned into opportunities. Covid showed how under adversity also India could step up manufacturing a strong testimony to India's manufacturing prowess.

The Government of India already has several policy drivers including the 500-gigawatt (GW) green energy plan, production-linked incentive (PLI) manufacturing push, digital economy drive, Rs. 145 lakh crore-plus infrastructure pipeline, and targeted incentives for micro, small, and medium enterprises (MSMEs) to set the pace of growth. Besides, sound taxation policies, like the rationalisation of GST rate slabs, and improved compliance measures will provide the government with adequate revenue buffers to drive fiscal policies. **Spending on health infrastructure and education need to be significantly increase as fundamental building blocks of the engine of growth.**

To help its transition from an agrarian to a service sector economy, the Government launched the $1.9-trillion National Infrastructure Pipeline (NIP) in 2020. That was complemented by the launch of the Rs. 100 lakh crore Gati Shakti plan last October. The government is aiming to increase the length of the national highway network to 200,000 km, create more than 200 airports, heliports and water aerodromes, and double the gas pipeline network to 35,000 km by 2024-25. In addition, it aims to set up 11 industrial corridors, two new defense corridors, 4G connectivity in all villages, and increase renewable energy capacity to 225 GW from 87.7 GW. A key thrust on export and manufacturing. So there are a large number of moving parts. Key is execution on time. The fundamental building blocks are in place.

'The $5 Trillion Economy: Rhetoric or Reality?'. The answer has many divergent views, but clearly — the goal of a $5 trillion economy is not so easy to come by, given certain factors that bound the Indian Economy.

Clearly it would be pragmatic to accept that the target off a 5 Trillion USD economy by 2025 is now not achievable but in five years' time by 2027 it is a distinct possibility provided the GDP grows at a compounded growth rate of 10% pa for the next five years.

# FUTURE OF INDIA: CREATING A 5 TRILLION DOLLAR ECONOMY

**Ashok Wadhwa**
Past President, Bombay Chamber of Commerce and Industry, Group CEO, Ambit Corporate Finance Pte. Ltd.

In the last couple of years, the Indian economy has gone through some fairly fundamental changes that will prove to be fairly decisive in ushering in an era of highly stable and sustainable growth. The US $5 trillion economy, which looked like an ambitious target, now suddenly looks fairly achievable.

First and foremost, the biggest fundamental change that is unfolding right in front of us is the maturing of the startup eco system. As technology evolves, it does not work in isolation but is touching all accepts of the old economy businesses. Information analytics, digital advertising, robotics, D2C distribution, artificial intelligence are just some of the examples. This combined with the swift formalization will ensure that earnings growth trajectory for market leading companies in organized space continues to remain strong. Suddenly we are now looking at 18x one year forward PE multiple for 12-13% sustainable earnings growth and valuations become inexpensive.

Agriculture has been the other silent knight. Not only has the growth been fairly steady thus lending support in these trying times, but some fundamental changes are unfolding. **Improving productivity, rising labour charges, reduction in reliance on agri as the only source of income and the dual MSP policy have ensured that overall rural incomes continue to rise steadily at high single digits.** The important thing is that when rural affluence rises it has a multiplier effect on the overall GDP growth of the economy.

Capex is another key factor that will ensure that growth continues to remain strong and steady. Government has already demonstrated that they have a fairly steady growth focused agenda and fiscal consolidation will not be the primary aim. Hence, central government capex should ideally continue to accelerate in the years to come with focus on Agriculture, Infrastructure and Rural economy. Housing, roads are just some of the sectors that should see steady focus from the government. Private sector capex is also now starting to show signs of revival. In the last couple of years, corporate India has witnessed significant deleveraging thus ensuring significantly improved profitability and stronger balance sheet. Now with steady

growth and improving capacity utilization levels, corporate India is poised to usher in an era of strong capex cycle.

Last, but by no means the least, the government has in the last few years ushered in an era of reforms, some of which are fairly fundamental in nature. Introduction of GST, indirect tax reforms, corporate tax rationalization, PLI are some of the initiatives which will strengthen the manufacturing sector in India.

Overall, India is likely to remain one of the fastest growing economies in the world outstripping even China. The path to us being only the fourth economy in the world to reach the exclusive US$5tn mark is all laid out. The real aspiration now is to attain the US$10tn mark and become only the third economy to do so. We will need to grow in double digits, in nominal terms, over the next decade to attain the same. We have done that in the past, nothing to say that we can't do it again with everything that's working for us.

Here is to ushering in an era of steady growth and becoming the world leader.

# CREATING A FIVE TRILLION DOLLAR ECONOMY- THE TRAVEL & TOURISM INDUSTRY

**Ashwini Kakkar**
Past President, Bombay Chamber of Commerce and Industry
Managing Partner, Indventure Partners LLP.

The Travel & Tourism industry must figure amongst the top focus sectors, if our nation is to attain our PM's vision for India, of a Five Trillion Economy by 2025.

At a Global level, the industry averagely contributes around 10% of World GDP and around 10% of World Employment.

After being debilitated during Covid, which globally affected all of us but directly affected almost 500 million persons, Travel & Tourism has come back with a vengeance, reconfirming its resilience.

As we move towards a period of "Slowbalisation," where countries become increasingly inward looking, this is one industry which would definitely buck that trend and offer substantial growth at a Global level.

Luckily our nation is endowed with some of the greatest (1) natural assets in the thousands of kilometers of coastline, the mighty Himalayas, our amazing rivers etc. (2) historical assets like the Taj Mahal, Ajanta, Ellora, our Palaces etc. (3) wellness assets like our Ashrams, Yoga, Meditation, massages etc. (4) social assets like the multiple festivals, the diverse art forms, cultural manifestations (5) human assets, our people with their warmth, their communication abilities, their culinary skills, our self-sustaining villages and a slew of other offerings for visitors, which make India a compelling proposition. On the other hand, all this ensures that we do not have to make huge investments in attractions, like a lot of our competitor countries do.

**Thus with minimal input investments on the soft side, like international and domestic marketing, for both leisure and corporate (including MICE) segments, within the next few years it is very possible to take the travel and tourism output to between 400 and 500 Billion USD on an annual basis.**

The main reasons why Travel and Tourism will grow so fast are (a) Demographic: people are averagely living between 15 and 20 years longer and these additional years are post retirement, where they have more time and more money to travel. (b) Economic: enormous wealth has been created during the Covid period especially due to the unabated rise in the stock markets and government payouts. The additional money that people had, could not be spent due to Covid restrictions, and the emerging attitude is "I survived it, I deserve to enjoy now." (c) Emotional: people feel that they missed out on friends and family, as well as the outdoors and are consequently putting a much higher value on experiences as opposed to goods. (d) Generational: The Generation Z influence on parents and grandparents is driving digitization, as also multi-generational programs in the direction of curiosity, purposefulness and sustainability. (e) Technological: advances in Artificial intelligence, Big Data, Analytics etc.are ubiquitously delivering focussed, desired experiences at the desired moments and at desired prices, and making them available to all. (f) Hybridization: work from anywhere and combining business travel with leisure (Bleisure), is allowing people to lead their lives in a more Nomadic way and experience different locations, cultures and communities. (g) Inflation: Price elasticity of risk-adjusted, low, invitational pricing, driving pent-up demand, will be severely tested due to fewer planes, cruise liners etc. operating at higher price points, coupled with high fuel prices, leading to a virtual doubling of prices in the medium term.

For India to take advantage of all the above, we have to treat this as a focus industry and ensure milestones for inputs and outputs, in each of the coming years.

As an example, a small country like Vietnam, has set itself a target of 65 million international visitors this year.

For India, the immediate actions in this regard would be: (1) Universal Industry status for all large and small players in every segment of this industry including Airlines, Hotels, Rail, Roads, Cruises, Tour Operators, Travel Agents, Online Agencies, Restaurants, Monuments, Museums, etc. (2) Restructure the complex, unwieldy and untenable Taxation structure which currently has multiple slabs on multiple elements in multiple ways, and make India more competitive and attractive as a travel destination (looking at exponential growth in GDP contribution and volumes of taxes collected, instead of high taxes on a small base : Laffer Curve effect). (3) Intelligently make the requisite soft side investments in invitational marketing, easier visa processes, pre-cleared immigration or assisted traveler programs etc.

As a nation we however need to be cautious about building sustainability into our Travel & Tourism. The industry is responsible for between 5% to 8% of the world's carbon emissions, of which around two thirds are due to transportation. While serious global efforts are on to reduce these numbers, it would be better to build carbon neutrality into all our programs "a priori". Keeping an eye on futuristic trends like electric mobility, driverless cars, space travel etc. may also be quite important. **If we play our cards right, we could even be small beneficiaries from global investments in the Travel & Tourism sector, of US$ One Trillion which are made on an annual basis**

Apart from the potential for an annual GDP Contribution of US$ 400 to 500 Billion to India's economy, creation of tens of millions of jobs (as per WTTC, 1 in 3 jobs globally) and Billions in taxes for the Government, this industry engenders peace, harmony, well being and a high happiness quotient across caste, creed, colour, gender and all socio-economic strata of society.

As and when the Government decides to give it wings, this industry is ready to fly and take the entire nation with it on this exciting journey.

# A $5 TRILLION ECONOMY AND ITS INFRASTRUCTURAL FOUNDATION

**Neeraj Akhoury**
Board Member, Bombay Chamber of Commerce and Industry
CEO INDIA, Holcim, Managing Director & CEO Ambuja Cements Ltd.

India is right on track in terms of its commitment to meeting its $5 trillion economic destiny by 2025. Some experts have cautioned us over a possible delay in achieving this after the economic contraction we faced due to the pandemic. However, we are likely to become the third largest economy in the world before this decade comes to a close.

**We can draw a lot of confidence in meeting the $5 trillion GDP goal with our commitment to make huge investments in infrastructure.** We are now putting the money where the mouth is. The latest Economic Survey has also seconded this view by recommending a $1.5 trillion investment in infrastructure between now and 2025. This will be a record spending in infrastructure given that India had invested around $1.1 trillion between 2008 and 2017.

In the Union Budget 2021-22, the National Infrastructure Pipeline (NIP) was expanded to 7,400 projects from 6,835 projects a year ago. The investment pipeline in roads, ports, housing are also going to see record spending in the next few years.

Cement manufacturers in India are set to play a big part in this march towards the $5 trillion target. **Despite being the world's second largest producer, India's per capita consumption of cement at 150 kgs (a year) is less than a third of the global average (500 kgs) and a sixth of China's 1000 kg. The scope for growth is therefore enormous.** Even a high but consistent single digit economic growth of 8-9% a year over the next few years would have a big rub-off effect on the fortunes of the cement sector.

The sector has been expanding its capacity steadily though there is plenty of catching up to do in terms of capacity utilization, which is currently below 60%. By 2025, the industry is expected to have a total capacity of around 550 million tonnes.

One cannot help but draw parallel to how the US economy bounced back from the Great Depression (1929-33) thanks to President Franklin D. Roosevelt's 'New Deal' programme between 1933 and 1939, that paved the way for the country's future prosperity and emergence as an economic superpower.

We should also remember that we have a new opportunity and challenge called sustainability today. Big industries like cement, along with steel, power and other hard to abate sectors have an additional responsibility to ensure that the economic growth does not come at the cost of the environment. The good news is we are aware of this and are tackling it by mainstreaming sustainability. **Unlike the past few decades, big investment decisions now have to be put through the sustainability test, not just environment but within the wider scope of ESG, that is including social and governance too.**

Here again the Indian cement sector is fully committed to ensure that we don't seek economic growth today and expect future generations to pay the price for it. The cement industry looks at its entire value chain through an ESG lens that is now showing very encouraging results such as a larger share of clean energy, creating water positivity, community connect and putting in place the best governance standards in place.

Building a $5 trillion economy is one thing, but ensuring that it is a holistic growth benefiting every Indian is another challenge all together. The Indian cement sector is all set to fully seize both the opportunities and its responsibilities.

# LEVERAGING DATA AND TECHNOLOGY TO INCREASE ACCESS TO CREDIT FOR MSMEs

**Rajiv Anand**
Board Member, Bombay Chamber of Commerce and Industry
Deputy Managing Director,
Axis Bank Limited.

Making the MSME segment more dynamic and productive is one of the central pillars of the Government's drive to a USD 5 trillion India economy and beyond. This sector is essential not just for sustained growth but also for jobs and employment. MSMEs are also large consumers of goods and services and hence aggregate demand, which is crucial for capacity utilization and private sector capex. MSMEs are also linked to the growth of smaller Tier towns and rural India, and hence can support the Government's initiatives for increasing farm productivity and doubling farmers' income.

The RBI and Govt. have provided several support mechanisms to help these enterprises, particularly the micro and small businesses tide over the severe cash flow disruptions. Banks have often been the key channel for implementing these programmes. Going forward, the focus will need to shift to the creation of an ecosystem which will enable these enterprises to thrive. The proposed Raising and Accelerating MSME Performance (RAMP) programme will help to strengthen capacity.

**The Government's initiatives to boost infrastructure and logistics are eminently laudable, and will go a long way in reducing the cost of doing business for Indian firms, particularly in manufacturing.** These initiatives can be leveraged for small businesses by expanding the scope and depth of the various support measures. Banks have developed capabilities for addressing last mile credit delivery, and residual gaps are sought to be plugged through partnerships with NBFCs, MFIs and emerging specialized niche technology driven lenders.

This article recommends some policy interventions which will facilitate increased flows of credit and financing to MSMEs across geographies and sectors. The following are some specific recommendations:

**1. Improve access to digital Information to improve the lending process :**

a. GSTN is extremely reliable and useful for underwriting and credit assessment. As of now, this data is available to lenders through borrower specific consent. However, this consent needs to be provided every time a new credit facility is required, and is cumbersome for both the lender and the borrower. A new process should be developed, wherein the borrower could provide a "Standing Instruction" consent, allowing the lender to get GST information on a regular basis, till such time as the consent remains valid.

b. Many MSME borrowers are either Proprietorship concerns or Partnership firms. Though they submit their Balance Sheet and P&L while filing tax returns, this information is not available to Banks while processing their loan facilities (unlike Private Limited Companies where the information is updated in the MCA website). A digital portal, similar to GSTN, could be created for accessing these IT returns and supporting computations using APIs, again with borrower's consent.

c. Government may consider a central repository, aggregating all customer documents (ITR, GST, utility bills, Aadhaar, PAN, etc.) at a single point, accessible with customer authentication. A single sign-off platform should be seamlessly available for MSMEs to generate LEI, URC, GSTN, e-way bills, PAN, etc. without having to log onto different sites.

**2. Easing the process of security creation:**

a. Most MSMEs use collateral to support their credit sanction, incurring costs of Mortgage stamp duty and registration charges, which vary across the country. These charges may be reduced for MSMEs, again reducing the cost of accessing credit.

b. A digital / online process for aggregating applications for 'Permission to Mortgage' and NOCs from various government agencies, in CERSAI, can help to simplify the loan application process.

**3. Cash Flow Support:** Invoice discounting platforms like TReDS have enabled regular cash flows through early payment of receivables. Encouragement for larger adoption and usage of these platforms will further improve cash flows for a broader set of MSMEs. For example, nudge the PSU entities to use the TReDS platform. Also, early payments of MSME receivables from Government entities will ensure that the receivables remain short term and can be funded by banks through working capital.

**4. Expanding the central government guarantee scheme:** The ECLGS programme has been widely lauded in keeping many stressed MSMEs solvent during the crisis, and for the proposed expansion of its scope. The current CGTMSE cover till INR 2 crores may be increased to a higher amount, say INR 5 crs, and may also include Supply Chain financing.

**5. Expanding the scope of incentives and subsidies for MSMEs:** Going beyond setting up new units to also including capital expansion in the existing entities suitably calibrated for turnover, the expansion of scope is likely to further incentivise scale and support growth for this segment.

Exploring synergies and interlinked channels for the multiple initiatives envisaged and implemented by the Government, private enterprises and financial intermediaries can go a long way to maximize opportunities provided by technology and aspirations. For instance, digitizing the 15 lakh post offices with over 35 crore deposit accounts and integrating them into the core banking system, will help interoperability and facilitate digital payments even in semi urban and rural areas.

# ROLE OF THE FINANCIAL SECTOR IN INDIA'S RACE TO $5 TRILLION


**Rajiv Sabharwal**
Board Member, Bombay Chamber of Commerce and Industry
Managing Director & CEO TATA Capital Ltd.


In fiscal 2022, India already surpassed the halfway mark to $5trilion with a burgeoning economy of over $3 trillion. With an expected sustained growth rate of around 8%, we are set to win this race in the near future. Our confidence in India's destiny emanates from various growth drivers - demographic dividend, the reform and investment agenda of the government, the strength and outlook of the private sector, a robust financial sector and a growing middle class pushing consumption.

**Partnering to grow**

The financial sector has evolved into a strong partner to India's growth aspirations by broad basing the channelisation of household savings towards a productive economy. The sector has also played an important strong role in bringing global pools of capital and credit to a cross-section of organizations including government, infrastructure and large industry, small and medium sector, agriculture, and individual consumers.

**Supporting growth drivers in financial sector**

For our economy to achieve the $5trillion mark and beyond at speed, finance will have an even more critical role to play than it does today. The requirements are immense. According to The Economic Survey of 2022, we will require $1.4 trillion in infrastructure investment itself in the next four years to achieve our $5 trillion goal. A recent McKinsey report talks about a $2.4 trillion capex requirement in 2030 out of which $800 billion will be required just for the small and medium enterprises. Investments in these key sectors bring in related economic development, increased job opportunities, and eventually contribute to the economic multiplier effect. And hence, the need for financial capital becomes even more exacerbated.

The financial sector will have to focus on a few key sectors to make additional financial capital available in the near future. One important focus should be on enhanced financialization of household savings. Experts view that a couple of percent increase in household savings can substantially increase the availability of domestic capital thereby significantly reducing India's dependence on global capital. We will have to reach out to more households and make it easier and accessible for them to invest in financial instruments and various asset classes. Efforts to deepen and improve the efficiencies of capital markets will enable a smoother flow of capital to productive industries across sectors.

### Financial Inclusion

Equally or perhaps more importantly, the financial sector will need to further strengthen its financial inclusion agenda. The aim is to bring more and more people under the formal financial sector so they can benefit enough to get out of poverty or experience a rise in their incomes and become new pockets of consumption-driven growth. They need to be exposed to instruments like insurance to instill trust and confidence in the mainstream economy. **The overall penetration for the insurance is 4 % as of 2021 – life insurance at 3 % and non-life insurance penetration merely at one percent. In my opinion, this is as big an agenda for the Indian financial sector as financing infrastructure and industry.**

For the financial sector to be able to achieve these incremental tasks, it will have to extend its reach, simplify the processes and deepen its offerings. The government's efforts to set up institutional depth in long-term infrastructure finance by setting up entities like NABFID and NIIF are good examples.

Similarly, NBFCs have helped address the key challenges to financial inclusion and have developed a strong ecosystem to serve the unbanked and underserved. Currently, India's nearly 10,000 (9651) NBFCs with assets more than 54 lakh crore make up about 25% of the country's banking sector (as of 31st March 2021). NBFCs are actively reaching new markets and credit segments. Take for instance,micro finance products are meeting the needs of small players, and specialized products such as working capital loans or affordable housing loans enable the small enterprises and common people. These financial solutions are far easier to access with simplified processes and tech-enabled support. Rapid adoption of digitisation is really helping India's economic advance today. Since 2020, digital financial inclusion accelerated as more and more people chose contactless and cashless transactions. A total of 7,422 crore digital payment transactions were recorded in FY 2022(up from 5,554 crore transactions seen in FY 2020-21). Also, a recent working group by the RBI (Nov 2021) reports states that digital lending space has grown by 12x between FY17 to FY20.

Today, customers can avail loans via any mobile loan app or any e-commerce portal almost instantly with just a few clicks. This has led to an increase in credit penetration in a significant way. **Digital will have to be the way forward for the financial sector, we will have to adopt robust modern technologies to make finance and banking even more friction-less and efficient.**

In conclusion, while some of the key drivers of India's economic growth seem to be in place to lead it to the desired $5 trillion goal, the finance sector will have to fire on all cylinders and be the wind beneath the economy's wings to help her soar and stay there. NBFCs and HFCs will have to play smart in deploying capital and technology in a way that will help achieve growth and deliver real value to all its stakeholders. Thankfully, the Indian financial ecosystem is equal to the task and will prove to be an able ally.

# TRANSFORMING GOVERNMENT FOR GROWTH


## Ashima Goyal

Professor, Indira Gandhi Institute of Development Research
Member, Reserve Bank of India's Monetary Policy Committee


A precondition for rapid growth is transformation of government into a facilitator and builder of capacity. Many steps are underway towards this. The recent large rise in Indian exports suggests these policies are succeeding. A major contributor was better coordination with states.

**For better health and education outcomes, as well as a rise in public investment also states have to be on board. But they seem to have difficulty in spending.** Even in Covid-19 times they piled up large unspent balances. They also tend to reduce investment to fund populist schemes while staying within their budget constraints.

A state fiscal council could help states converge to best accounting and payment practices, tax and spend effectively with delegation to the third tier. The formal responsibilities of the Council could be to improve data, accounting systems and incentive mechanisms. Better technology, transparency and predictability could enable timely payments. Introducing norms such as ensuring funding before announcing schemes, and pre- announced expenditure totals from finance ministries would reduce competitive bidding-up of expenditures. As rationalization of centrally sponsored schemes gets under way, discussion with and rationalization of state-level schemes also could be a game-changer. States multiple schemes create duplication and waste but are rarely shut since each gives rise to some interest groups that want continuity.

Such a council would help put peer pressure on the laggards, raise awareness and convergence to best practices. States do want to be part of and contribute to the Indian growth story. Leadership from the centre can help get them on board. Crucial reforms that encounter resistance at the central level may be feasible if one state starts and others follow as evidence of better outcomes accumulates.

States have to be weaned from policies such as free electricity that cause large distortions. India is facing multiple cases because our per capita income has crossed the level after which World Trade Organization rules disallow support through price intervention. These pressures could be used to modify state policies. Income transfers are WTO compatible. But given India's narrow tax base and large population they have to be well targeted and restricted to the really vulnerable, in order to release funds for capacity building.

It is important to continue with supply-side measures that reduce the cost of producing and living in India, and with smart green infrastructure investment, all of which helps contain inflation. Supporting renewable energy, in a well-sequenced manner, is essential to tackle climate change as well as reduce our dependence on imported oil.

**Instead of wasting political capital on reforms that encounter large resistance and shock the system, the government can enhance favorable technology trends to increase India's comparative advantage in digital initiatives. An example is improved data privacy.**

More stability and diversity in the financial sector with stronger institutions is necessary to finance growth. A key objective should be to build up the diversity of the financial sector so that it can meet public and private funding needs and serve India's diverse population. Diversity also makes for resilience since exposures vary. Therefore current initiatives towards building a Development Finance Institute and setting up a bad bank are in the right direction.

Both public and private sectors have to be strengthened and contribute in line with their comparative advantage.

# INDIA @ $5-TRILLION


**Asit Bhatia**
Board Member, Bombay Chamber of Commerce and Industry
Global Corporate and Investment Banking, Bank of America


India was on course to become a $5-trillion economy and the third largest in the world by 2024-25, as envisioned by Prime Minister Narendra Modi. But then the pandemic intervened and pushed back this goal, albeit temporarily. I remain very optimistic of India's growth prospects, largely driven by the high consumption story, rising affluence, the expansion of a highly mobile middle class segment, increased urbanization and technology advancement in connecting people and businesses.

India achieved a $1 trillion economy status in 2006 and subsequently took eight years to double to $2 trillion. It took another seven years to reach just under $3 trillion in 2021. Covid-19 and geopolitical tensions have most certainly impacted our growth; and as was the case with the rest of the world, we did not materially grow in 2020/21. To move the needle again towards a growth trajectory, the government has already set the wheels in motion, but I do believe that it will take a few years beyond 2025 to achieve our $ 5 trillion goal.

We can accomplish the target sooner if there are no further waves of the novel coronavirus and provided the conflict in Eastern Europe is resolved soon. In the absence of these two factors, I believe that India can achieve 8-10% growth continuously for the next few years. However, we do need to keep an eye on global challenges including high crude oil and commodity prices, and rising interest rates.

**In the backdrop of global uncertainties and volatility, government reforms, public spending and encouraging private investment including FDI, hold the key to economic growth.** This will lead to the creation of jobs and improving the lives of our citizens. Besides, as is evident from India's annual budgets, we can expect investment in physical infrastructure, health and education to continue to be the major drivers of growth.

But the road ahead is not an easy one. India is amongst the few countries in the world that balances economic growth with sustainable development on such a vast scale. Successive governments have pursued growth in a way that fulfills the aspirations of the people and safeguards the environment for present and future generations. While India has made tremendous progress on most economic parameters, there is still much to be done.

I outline below some key policy measures that are imperative for India's march to become the third-largest economy in the world.

First, India must attract greater investment (including foreign investment) in diverse and new age sectors, particularly in areas such as green energy, infrastructure and technology, which offer immense opportunities over the long term. To facilitate this, equal participation from the industry, local governments and communities is of paramount importance. Well-articulated regulations/standards, with incentives for meeting these standards, will create the much-needed fillip to such investments. At the same time, a penalizing green tax on harmful environmental activities will act as a deterrent and, in fact, force industry to invest in green and clean initiatives.

While states like Gujarat, Maharashtra and Karnataka have attracted high levels of FDI in the past few years, other states need to strengthen policies that are conducive to foreign investment. Favorable legislations, political will, a reliable transportation system and social infrastructure are some of the factors that would help add more FDI friendly states on India's map.

Second, we need to streamline single-window clearances for speedy approvals and further ease doing business. While the Department for Promotion of Industry and Internal Trade (DPIIT) has set up the National Single Window System (NSWS), a digital platform to guide investors and help them identify and apply for approvals, a lot needs to be done in terms of onboarding additional ministries, central departments and states.

Third, India needs to ease its complex, and often hotly debated, labour laws. While we can take pride in being a labour-surplus country, we need to do away with non-inclusive and archaic laws. For example, some laws based on the size of companies, create a perverse incentive structure wherein some firms continue to remain small, just to stay below the radar. I do believe that from the government's perspective, a clear roadmap on the implementation of labour codes, timely notification of central and state rules and taking away the retrospective cost impact, will go a long way in ensuring that investors become more confident of investing in India.

Fourth, we should create a level-playing field to raise debt capital in order to compete globally. Indian companies should be able to access low cost debt in order to effectively compete against their global competitors. **I think both the banking and markets regulators need to review policies in order make it conducive for Indian companies to access debt markets globally, particularly at a time when there has been a surfeit of global liquidity and interest rates are at their lows.** Currently, the domestic debt markets do not have the depth to accommodate large capital raisings and are conducive mostly to highly rated borrowers. But as the credit profile weakens, the markets turn increasingly challenging. Hence, easing of the regulatory environment, will make it easier for all Indian corporates to access the global debt markets, as has been outlined by several committees.

To reiterate, I firmly believe that India is en-route to become a $5-trillion economy, provided the strength of our actions match the grandeur of our aspirations. We must think of doing things at a global scale. We should move away from the playing-catch syndrome. I suggest we should take a leaf from the bevy of unicorns in the start-up space which have each perfected the market access issue by building things on scale. As a nation, we should think of building for the needs of our society 50 years hence. To that end, $5 trillion is just a number, there is no reason why we shouldn't set our targets at $ 10 trillion.

# CREATING A USD 5 TRILLION ECONOMY

**Praveen Vashishta**
Board Member, Bombay Chamber of Commerce and Industry
Chairman, Howden India,Howden Insurance Brokers India Pvt. Ltd.

The Honourable Prime Minister Narendra Modi made a bold announcement in 2018 that envisioned making India a USD 5 trillion economy and a global economic powerhouse by 2025. Much has been said and written since on this subject, with most analysts and commentators questioning the feasibility of the timeline. **To me, the intent and direction is more important than the precise timeline. And I think there is no doubt on this score. The vision to become a USD 5 trillion economy and the third largest in the world is after all a collective aspiration of an entire nation.**

The aspiration to become a USD 5 trillion economy was predicated on an average 8-9% plus GDP growth. And I believe the government has had the right policy levers in place, which amongst others, include the 500-gigawatt (GW) green energy plan, production-linked incentive (PLI), manufacturing push (amplified by "make in India" initiative), digital economy drive, Rs 145 lakh crore-plus infrastructure pipeline, and targeted incentives for micro, small, and medium enterprises (MSMEs) to set the pace of growth. Besides, rationalization in taxation policies, such as GST rate slabs, and improved compliance measures will hopefully provide the government with adequate revenue buffers to drive fiscal policies. Further, the last budget signaled a robust outlay on capital expenditure and spending on health infrastructure.

To help its transition from an agrarian to a service sector economy, India launched the USD 1.9-trillion National Infrastructure Pipeline (NIP) in 2020. That was complemented by the launch of the Rs 100 lakh crore Gati Shakti plan last October. The government is aiming to increase the length of the national highway network to 200,000 km, create more than 200 airports, heliports, and water aerodromes, and double the gas pipeline network to 35,000 km by 2024-25. In addition, it aims to set up 11 industrial corridors, two new defense corridors, 4G connectivity in all villages, and increase renewable energy capacity to 225 GW from 87.7 GW. Investments in physical infrastructure, besides health and education, will be among the key engines of growth, but surely the impact on growth will depend on how successfully these infrastructure plans are implemented.


India remains a top destination for foreign direct investment (FDI) and recorded its highest-ever annual FDI inflow of USD 81.97 billion in FY21. But India still lags many competing countries in the ease of doing business and in tax laws. Indubitably, there is room for simplifying the tax regime and there is a need for greater transparency, predictability, and clarity in policy.

Having worked for the insurance industry for well-nigh 39 years, I find it pertinent to add a word or two on this sector that is significantly under penetrated and promises huge opportunities to catch up. **India's insurance penetration is pegged at 4.2% as compared to 9% and above in mature economies like Japan, the U.K., and the U.S. The life insurance penetration is at 3.2% and non-life insurance penetration at closer to 1.0%. In terms of insurance density, India's overall density stood at US$ 78 in FY21.**

The Indian insurance sector has historically witnessed growth between 12% and 15% barring exceptional years when it has been marred by circumstances such as the pandemic. The industry has also evolved, driven by the emergence of insure-techs, sandbox framework by the regulator, digital transformation, and big data. While FY21 and part of FY22 was largely focussed on the pandemic, the Indian insurance industry is expected to focus more on the growth story going forward. Going ahead I see increased consolidation, increased foreign capital, capital market activity, more technology, and big data. The insurance industry is expected to grow at approximately 15 to 16% in a three-to-five-year horizon which will gradually lead to a higher penetration in terms of its contribution to the overall economy.

Finally, coming back to the subject of creating a USD 5 trillion economy, the target and larger objective has surely been in sight with several new enablers, reforms, and prudent policy push. But we have encountered strong headwinds. The COVID pandemic and its lingering aftereffects have delayed the timeline by at least 3-4 years i.e., until 2029-30. We had barely started recovering from the impact of the pandemic when the Ukraine war hit us with rather troubling supply chain disruptions. India will eventually become a $5-trillion economy. The only question is if that will happen sooner rather than later.

# FUTURE OF INDIA: CREATING A 5 TRILLION DOLLAR ECONOMY

**Vibha Padalkar**
Member of Banking, Financial Services and Insurance Committee, Bombay Chamber of Commerce and Industry
MD & CEO, HDFC Life

India, in the recent years, has consistently ranked amongst the fastest growing major economies in the world. In the last couple of decades, the country has come a long way to become a major player in global trade and geopolitics. Our capabilities in several areas including in the fields of technology and pharmaceuticals have been well established. Currently, the Indian economy is the 5th largest economy in the world with nominal GDP of around $3 trillion. On PPP basis, we are already ranked 3rd in the world behind only China and the US.

Over the years, the reliance of the economy on agriculture has reduced and we have witnessed rapid urbanisation. Although the contribution of agriculture in India's GVA has come down, it is still much higher than the global average and therefore we expect the Manufacturing and Services to continue to grow at a faster pace. Currently, more than 50% of the nominal Gross Value Added (GVA) comes from the Services sector with Financial, Real Estate and Professional services being the largest contributors. The Services sector has also been the leading recipient of foreign direct investment in India. We expect both Industry and Service sector to fuel the next phase of growth. Focus on Make in India and the development of the India Stack are foundation stones.

**India is expected to become the most populous country by 2027. Currently, we have the highest number of young people (<25 years) in the world. The country can benefit from its 'demographic dividend' by training the workforce at employable skills which will enable them to contribute to the economy. Having a skilled and educated workforce will also lead to a high human capital which can be tapped by the industries as well as the booming start-up ecosystem. We have benefitted from the information technology revolution in the past couple for decades and we're currently seeing a boom in start-up ecosystem.**

In India's economic growth life insurance sector will play a pivotal role. As per latest Swiss Re estimates, India's protection gap of 83% is amongst the highest in major economies. The increase in number of nuclear families which don't have the social safety net enjoyed by joint families, has led to a much higher need for financial security amongst our population. Due to the impact of Covid crisis and the increasing financial literacy, people are becoming more aware about the need for protection. Also, in the coming years the proportion of Indian population over 60 years is also expected to go up significantly, leading to increased demand for retirement solutions. The Indian life insurance industry has matured over the last 20 years since private participation was introduced. **The life insurance industry has over 11,000 offices and generates employment for over 3 lakh full time employees and engages with over 24 lakh commission agents. It now covers a large geographical footprint and is well placed to fuel the next phase of growth through greater financial inclusion.**

As we move forward, we have to ensure that the fruits of economic development are enjoyed by every Indian across the country. It is a collective effort and we all have a part to play in making the goal of becoming a '$5 trillion economy', a reality.

# ROLE OF PRIVATE EQUITY IN MAKING INDIA A FIVE TRILLION DOLLAR ECONOMY

**Vishal Mahadevia**
Head of India, Warburg Pincus

Given the strong foundation and roadmap that the government has put in place, I am confident that we as a country will achieve the goal of becoming a $Five trillion economy over the next few years. However, in order to achieve that goal, India will need to kickstart an investment cycle and attract risk capital from both domestic as well as global investors. The private equity industry will need to be a significant contributor to this effort.

Since the early days of the industry in the 1990s, private equity as an asset class has truly matured, and entrepreneurs are increasingly experiencing the benefits that a private equity partnership can bring. Private equity is also one of the few sources of long-term capital at scale that is available to Indian entrepreneurs today. **In 2021 alone, private equity and venture capital firms invested $63 billion in India across more than 1,200 companies, making it the largest contributor by far to FDI flows into the country.**

Private equity's contribution in enabling India's growth goes well beyond simply serving as a source of patient capital. A new generation of young Indian entrepreneurs has emerged that is taking advantage of a level playing field and disruptions being caused by both the massive digital transformation we are witnessing as well as the government's reform agenda. Reflecting the spirit of Atmanirbhar Bharat, many of these home grown champions that didn't even exist a decade ago have become market leaders in their respective sectors. While full credit goes to this new generation of entrepreneurs, private equity has also been instrumental as a partner in helping entrepreneurs scale their businesses and create institutions with robust governance standards.

I also believe that the private equity industry will play a meaningful role in supporting this next generation of Indian entrepreneurs to create businesses that will not just be domestic champions, but also global leaders in their respective sectors. Private equity firms can help companies accelerate growth by entering


new markets and geographies, making their business models "future proof", and enabling the creation of globally competitive businesses. Private equity firms also support entrepreneurs in 'thinking big' by bringing global networks and best practices, while still keeping in mind the importance of being local. In an increasingly interconnected and digital economy, it will become important for companies to look beyond India and be able to compete on a global stage. For example, India has a tremendous opportunity to leverage our deep pool of engineering talent to become home to the next wave of innovation in areas like cybersecurity, payments, and fintech.

**The private equity industry will continue to play a vital role in helping companies strengthen governance levels and preparing them to eventually become listed companies. This will contribute to building more robust capital markets in India, an essential driver to India becoming a Five Trillion Dollar economy.** Additionally, given the increasing global focus on ESG-related issues, private equity firms can help Indian companies create broader social and economic impact on all stakeholders, rather than only creating wealth for their shareholders. ESG issues, which until recently have largely remained a "check the box" exercise for many companies, will continue to gain prominence, and I am a big believer that the private equity industry, with its increasing focus on ESG considerations, will help create more valuable, competitive, and sustainable companies in the long-run.

Far too many people in our country still view private equity with suspicion and as short-term capital that is solely focused on making a quick profit. However, the facts show the opposite, with private equity having proved itself as sticky long-term capital that drives economic growth and job creation. Given the significant risk capital that the country still needs, the private equity industry will play an increasingly important role in accelerating India's journey to becoming a Five Trillion Dollar economy and beyond.

# LIFE INSURANCE – A POTENTIAL CATALYST IN INDIA'S JOURNEY OF EQUITABLE GROWTH

**Naveen Tahilyani**
Member of Banking, Financial Services and Insurance Committee, Bombay Chamber of Commerce and Industry,
CEO & MD, TATA AIA

Indian economy has tremendous potential; a decade or more of real double-digit growth is not out of reach. Several, structural macro and micro reforms across sectors will be needed to unlock this potential. Also, growth cannot come at the cost of increased inequality else we will put the fabric of the nation in danger. **As a rule of thumb in relatively early stages of the growth of an economy, its financial sector must grow 2-3x to support overall growth. Insurance sector which commands almost 15% of the household savings, will have an important role to play to catalyze India's growth.**

***Pivotal role in supporting India's equitable growth***

Insurance can support India's growth across four distinct pillars

1. Creating a more protected society.
2. Delivering an efficient avenue to mobilize long term savings.
3. Bridging the pension gap in the country.
4. Ensuring Financial inclusivity.

**1. Creating a more protected society**

Addressing the existent protection gap in India is the first step that needs to be taken. As a nation, we must ensure that the population, especially the lower and lower-middle income groups are not financially stifled in case of any adverse event. Currently, as per industry estimates, only 1 out of 40 people (2.5%) who can afford it, are buying an insurance policy every year. This can have serious financial ramifications in the event of death or disability of the bread earner and needs to be addressed. The protection gap in India is 83% and is quantified at USD 17 trillion which is almost six times the size of the economy. Total Sum Assured/Nominal GDP ratio in India is at 25%-- amongst the lowest in the top 10 economies. McKinsey estimates that only 10% of Indian households have a retail term policy. All stakeholders—industry, government and the regulator—need to work together to address this protection gap on top priority.

**2. Delivering an efficient avenue to mobilize long term savings**

As the benefits of India's economic progress reach the masses, life insurance schemes can enable them to save and accumulate wealth over the long term. Fundamentally, life insurance contract signifies a two-way process wherein policy holders agree to set aside a certain sum of money for protection of life and financial future. Additionally, given the discipline inculcated by the regular payment of premiums, financial stability of the investing base will be significantly increased. Since customers resist inculcating such discipline unless the end rewards are attractive, this will further lead to a symbiotic relationship between life insurance and capital markets. For example, today, life insurance is the only vehicle which can deliver long term guaranteed savings to customers. By encouraging long-term savings in both debt and equity, life insurers will act as a catalyst to the growth of capital markets and hence the economy itself.

**3. Bridging the pension gap in the country**

The size of the retirement savings gap in India is expected to touch USD 85 trillion by 2050 from the current levels of USD 3 trillion, given longer lifespans and reduced savings. By 2050, 19% of India's citizens will be above 60 years of age, but only 25% currently have some form of pension cover. A Lancet study estimates that by 2050, India's average age expectancy will increase by 10% to 77 years.

In the absence of government-led social security system, insurance can act as the support system to help the retiring population maintain a lifestyle of dignity through a mix of annuity plans and guaranteed income solutions. Globally, the Life Insurance sector contributes significantly to retirement provision. Being in the business of long-term savings, the sector has invested in developing pension products more suitable to the evolving needs of customers, addressing the risk of longevity. This also leads to larger coverage of population, especially in the self-employed / unorganized sectors, who are usually inadequately insured against exigencies.

**4. Ensuring Financial Inclusivity**

While the benefits of life insurance to the economy and population are well noted, it is important that the industry ensures product affordability and accessibility. The post pandemic normal calls for extended collaboration between Government and private players. The private sector complements and acts as a natural extension of the public sector and a strategic partnership between the two, can help increase the penetration of insurance products in rural areas and those inaccessible through traditional financial bastions. Through tie-ups with agencies such as India Post, CSC (Common Service Centers) etc., insurers can close last mile connectivity, offering customized solutions across financial protection and security. Simple, digitally enabled products like guaranteed savings, life and health protection can be delivered through these new channels.

***A reality check is eye opening; several reforms are needed immediately***

While the potential of the sector is massive, life Insurance in India is still at a nascent stage. The sector accounts for only 1.5% of the world's total insurance premium, compared to India's share in world GDP at 3.10%. India has among the lowest life insurance penetration (defined as Premium/ GDP) across key Asian markets (3.2% vs. Hong Kong 19.2%, Singapore 7.6%, Japan 5.8%, Malaysia 4.0% & Thailand 3.4%).

The government and the regulator will have to enable several changes to unshackle the sector. These reforms fall into four categories:

**A. Tax reforms:** GST on protection products have to be reduced; consumers have to be incentivized further through direct tax breaks to purchase life insurance.

**B. Operating relaxations:** Compared to most of their Asian peers, Indian insurance companies have limited operating freedom. For example, every single product requires the approval of the regulator. This stifles innovation and hampers agility in meeting consumer needs. Insurers in India cannot bundle health and wellness with their offerings; life insurers cannot even sell health insurance. India has one of the highest incidences of NCDs in the world—750 per 100K population. Insurers can make a positive contribution by encouraging people to live healthier and better through products which are designed to encourage such behavior. A new framework for product development and deployment and bundling of life insurance, health insurance and health and wellness on the same platform, is the need of the hour.

**C. Outcome based regulations:** Today, expenses are artificially capped by the regulator. This prevents companies from investing as they would like to with a long-term view. Commissions to different types of distributors are also capped. This creates enormous frictional cost, arbitrage opportunities and structural disadvantages amongst insurance providers. The regulator should evolve a framework which protects customer outcomes as the core metric and relax many of the other constraints they impose today.

**D. Technical reforms:** Regulations prescribing capital adequacy and statutory liability haven't kept pace with the modern times. There is a pressing need to move to risk based capital and more modern accounting standards. This will increase efficiency of existing capital and further attract more capital to increase penetration and bridge the protection gap.

To conclude, life insurance is a catalyst that can help us create a better tomorrow where the benefits of India's economic progress are enjoyed by everyone in earnest and on a sustainable basis. **What matters is how fast are we able to unshackle the sector and leverage its potential to transform the growth journey of the nation and its 1.4 billion aspiring citizens.**

# AUTHORS

## Anjali Bansal

Anjali is former Non-Executive Chairperson of Dena Bank, appointed by the Government of India to steer the resolution of the stressed Bank, eventually leading to merger with Bank of Baroda. She was earlier a Global Partner and Managing Director with TPG Growth PE responsible for India, SE Asia, Africa and the Middle East. She started her career as a strategy consultant with McKinsey and Co. in New York.She serves as an independent non-executive director on several leading boards including Tata Power, Kotak AMC, and Piramal Enterprises. She has been President, Bombay Chamber of Commerce and Industry, and serves on the CII National Committee on Corporate Governance.

## Nilesh Shah

Nilesh Shah is Group President and Managing Director of Kotak Mahindra Asset Management Company Limited. Nilesh was part of the team that has received “Best Fund House of the Year” Award at all the mutual funds where he has worked. Nilesh is part time member of the Economic Advisory Council to the Prime Minister.

## V. S. Parthasarathy

Mr. V S Parthasarathy is the Vice Chairman at Allcargo Logistics. Mr. Parthasarathy also serves as Independent Director in Life Insurance Corporation (LIC), a government-owned insurance and investment corporation trusted by generations of Indians, and Cloudnine Hospitals, India’s leading chain of maternity, childcare and fertility hospitals. He has also been appointed as a Member on the Board of NITIE (National Institute of Industrial Engineering), He has, in the past, held several industry forum positions as a Chairman of Sustainable Council of Federation of Indian Chambers of Commerce and Industry (FICCI) – 2021, President – Bombay Chamber of Commerce & Industry (2019-2020), Chairman of Association of Finance Profession of India (AFPI) (2015-2020), besides working closely with Ministry of Finance through CFO Board, and on global advisory boards for CISCO/ SAP. Mr. Parthasarathy is a Chartered Accountant from ICAI and ICAEW, UK, and an alumnus of Harvard Business School’s AMP (2011).

## Ashok Barat

Ashok Barat is a Fellow of the Institute of Chartered Accountants of India and of the Institute of Company Secretaries of India, Associate, Institute of Chartered Accountants of England & Wales and CPA (Australia).

Past President of the Bombay Chamber of Commerce and Industry and of the Council of EU Chambers of Commerce in India, currently Member of the Managing Committee of ASSOCHAM. He is a Certified Mediator and the Convenor of the Centre of Mediation and Conciliation of the Bombay Chamber.

He is on the Board of various companies, and a former Trustee of the Mumbai Port Trust. He graduated first class first from the Allahabad University and was a Rank holder in the ICAI examinations.

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Former Vice Chairman, Managing Director, Novartis India Limited, is a veteran in the healthcare industry. Mr Shahani is President Emeritus of Organisation of Pharmaceuticals Producers of India (OPPI), and Swiss Indian Chamber of Commerce. He is the past President of the Bombay Chamber of Commerce and Industry. He is an independent director on three publicly listed companies in India, trustee on two Global American NGOs and on the advisory council of Harvard School of Public Health. Mr Shahani is a Mechanical Engineer from IIT Kanpur and an MBA from Jamnalal Bajaj Institute of Management Studies.

## Ashok Wadhwa

Ashok Wadhwa is the Group CEO of Ambit. Ashok founded Ambit in 1997 and has built it into one of India's premier Investment Banks. Alongside Ambit, he co-founded RSM, a tax advisory firm. He built RSM into a world-class consulting house, which then merged with PricewaterhouseCoopers in 2007. An incisive investment banker, Ashok has steered a gamut of transactions across sectors and geographies and is the recipient of several awards. Before founding Ambit, Ashok was Managing Partner, Arthur Andersen. He is active in industry forums, has served as President of Bombay Chamber of Commerce and Industry; and on the Managing Committee, FICCI and YPO. Ashok is a Chartered Accountant and Law graduate from the University of Mumbai.

## Ashwini Kakkar

Ashwini Kakkar served as an Executive Director on the global board of Thomas Cook, was co-founder and Chairman of Via.com and also turned around the fortunes of Mercury Travels Ltd. before accomplishing its sale to Nasdaq listed EBix Corp in 2018. He has been the Founder Chairman of the Fight Hunger Foundation, which is now part of global 'Action Against Hunger'. He continues to support Entrepreneurship, as an Angel investor and mentor for multiple start-ups and has a handful of 'Exits' to his credit. He is a 'Distinguished Fellow' of the Institute of Directors. An active contributor to industry, he served as President of the 'Bombay Chamber of Commerce and Industry', Chairman of the World Travel and Tourism Council (India Initiative), President of Travel Agents Association of India and Director of UFTAA.

## Neeraj Akhoury

Mr. Neeraj Akhoury began his career with Tata Steel in 1993 and joined the Holcim Group in 1999. He was a member of the Executive Committee of Lafarge India, heading Corporate Affairs followed by Sales. In 2011, he moved to Nigeria as CEO & Managing Director of Lafarge AshakaCem PLC. Thereafter, he was appointed as Strategy & Business Development Director for Middle East & Africa at the Lafarge headquarters in Paris. He was also CEO of Lafarge Surma Cement Limited and Country representative of Holcim Bangladesh. Mr. Akhoury was appointed as Managing Director & CEO of ACC Limited in February 2017. In February 2020, he took over as CEO India, Holcim, Managing Director & CEO, Ambuja Cements Limited and Non-Executive Director, ACC Limited. He is on the board of Governors at National Council for Cement and Building Materials (NCCBM) constituted by the Ministry of Commerce & Industry, Government of India. He also serves as Vice President of Cement Manufacturers Association of India. Mr. Akhoury has a degree in Economics and MBA from the University of Liverpool; General Management from XLRI, Jamshedpur; and an alumnus of Harvard Business School.

## Rajiv Anand

Rajiv Anand, 55 years, joined Axis Bank on 1st May 2013 from its asset management arm, Axis Asset Management Co. Ltd., where he was the Managing Director & CEO.

Rajiv Anand is a Commerce graduate and a Chartered Accountant by qualification.

He was appointed as the President (Retail Banking) and was thereafter elevated as the Group Executive (Retail Banking) in 2014. He was appointed as a Director of the Bank on 12th May 2016 and thereafter as the Executive Director (Retail Banking) of the Bank, w.e.f. 4th August 2016. Subsequently, he took over as the Executive Director (Wholesale Banking) of the Bank, with effect from 21st December 2018.

Over a career spanning more than 30 years, Rajiv Anand has focused on various facets of the financial services industry having held key management positions at leading global financial institutions. He has led an award-winning investment management team at the erstwhile Standard Chartered AMC. He was Business Standard Debt Fund Manager of the year in 2004.

## Rajiv Sabharwal

Mr. Rajiv Sabharwal, a B. Tech from IIT Delhi and PGDM from IIM Lucknow is currently the Managing Director & CEO of Tata Capital Limited. He is also the Chairman of Tata Capital Financial Services Limited, Tata Capital Housing Finance Limited, Tata Securities Limited, Tata Asset Management Company Limited. He is also on the Board of Tata Capital Cleantech Limited, Tata Capital Pte Ltd. and Tata Realty and Infrastructure Limited. Mr. Sabharwal has been acknowledged for his contribution to the growth of the Retail Banking and Real Estate & Housing Finance market in India. Mr. Sabharwal also has had experience in both Venture Capital and Growth Capital investing at Sequoia Capital and True North. He has served on the Boards of early stage and growth companies in Financial services.

He has also served on committees of RBI and IBA.

## Ashima Goyal

Ashima Goyal, emeritus professor IGIDR, Mumbai, is widely published in institutional and open economy macroeconomics, international finance and governance, edits a Routledge journal, has received many fellowships, national and international awards and consultancies, is active in the Indian public debate with frequent columns and interviews in the media, and has served on several boards and policy committees including the Prime Minister's Economic Advisory Council.

Currently she is a member of the Monetary Policy Committee of India's Central Bank; on the Advisory Board of egrow Foundation and Policy 4.0; and an independent director at Edelweiss Financial Services, SBI General Insurance and Institute for Studies in Industrial Development.

## Asit Bhatia

Asit Bhatia is responsible for senior client coverage of select clients across corporate and investment banking products. He is a member of the Country Leadership Team. He is Chairman of the Board of BofA Securities India and Co-Head of Investment Banking (India). Asit joined the bank as a management trainee in 1987 and has (over two stints) worked in several credit and marketing assignments in the past 30+ years. He has extensive experience in the financial services industry. This knowledge has helped in concluding some of the most innovative, complex and structured transactions for corporate customers in India. He is a qualified Chartered Accountant. He also holds a Bachelor's Degree in Commerce from the Bombay University.

## Praveen Vashishta

Praveen Vashishta has worked for the Insurance, Financial Services and Risk Management industry for over 38 years. Praveen has served on the international board & Executive Committee of the Howden Group in the UK. He serves as a director on the board of several companies. Praveen worked with the Zurich Insurance group before joining Howden & held several positions including that of CEO /Chief Representative for India. Alumnus of University of Delhi & Wharton Business School, USA.

## Vibha Padalkar

Vibha has been associated with HDFC Life since August 2008. She qualified as a member of the Institute of Chartered Accountants of England and Wales in 1992, and is also a member of the Institute of Chartered Accountants of India. Prior to her appointment at HDFC Life, she worked in varied sectors, such as global Business Process Management, global FMCG, and in an international audit firm.

Over the years Vibha has been the recipient of various awards which includes the 'CA Business Leader - For Large Corporates - BFSI' by The Institute of Chartered Accountants of India. She has also been felicitated with awards by ET Prime Women Leadership Awards, IMA India, and has been recognised as one of the 'Top 30 Most Powerful Women in Business' by Business Today for four consecutive years. In 2021, Vibha has been recognised as one of the 'Most Powerful Women in Business' by Fortune International and Fortune India magazines.

## Vishal Mahadevia

Vishal Mahadevia is a Managing Director, Head of India, and member of the Executive Management Group at Warburg Pincus. Mr. Mahadevia is also a Director of IDFC First Bank Limited and Apollo Tyres Limited. He serves on the International Advisory Board of Center for the Advanced Study of India, and the India Regional Board of Room to Read. He received a BS in Economics with a concentration in Finance, and a BS in Electrical Engineering from the University of Pennsylvania.

## Naveen Tahilyani

Naveen brings with him rich experience of over two decades in financial services — Insurance, Banking & Asset management. His association with Tata AIA commenced in 2015 as CEO & MD of the Company where he leads the organization's transformation. Under his stewardship, Tata AIA has scripted profitable growth by nurturing a performance-oriented culture and driving a consumer centric business model.

Prior to joining Tata AIA in 2015, he served as Senior Partner at McKinsey & Company, based in Mumbai and led the Financial Services practice in India and Southeast Asia (Singapore, Malaysia, Indonesia, Thailand, Philippines, Vietnam).

Naveen holds an MBA from Indian Institute of Management, Ahmedabad, and a Bachelor of Technology from Indian Institute of Technology, Madras. Naveen is passionate about running, is an avid reader and loves watching science fiction.

# EXECUTIVE TEAM

## Sandeep Khosla

Sandeep Khosla is the Director General of the Bombay Chamber of Commerce and Industry since February 2020.

Sandeep has over 33 years of overall experience in the Media & Entertainment industry. He has 20+ years experience in Leadership roles having spent 23 years as Group Vice President with the Indian Express Newspapers (Bom) Ltd., 6 years as CEO with Network 18 and 4 years as CEO at Mid-day Infomedia Ltd.

Sandeep was also the Producer of the Annual Star Screen Awards for 10 years. He has successfully built and led top performing teams nationally. He has in-depth knowledge of the Publishing industry with expertise in Advertising & Marketing.

## Dr. Sugeeta Upadhyay

Dr. Sugeeta Upadhyay, presently associated with the Bombay Chamber of Commerce and Industry, completed her PhD from Visva Bharati University, Santiniketan. She was associated with the Gokhale Institute of Politics and Economics and Lal Bahadur Shastri National Academy of Administration previously. Her interests lie in Development and Macro Economics, working extensively with various Central and State Government Institutions including the NITI Aayog (Planning Commission) and State Project Office (District Primary Education Programme, DPEP).

## Priyanka Agarwal

Priyanka Agarwal is currently associated as Executive with Bombay Chamber of Commerce and Industry, and has completed her Master's in Business Administration from SIES College of Management studies. Her previous experience and association includes working with HDFC Bank Ltd and Axis Bank Ltd., as content strategist in the research domain.

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