insurance europe

Director General

To: Mr. Shri Arun Jaitley
Honorable Union Minister of Finance
Ministry of Finance, Government of India
North Block, New Delhi, 110 001

Your reference: -

Our reference: (MK) 14-006

Subject:

Brussels, 1 July 2014

Dear Finance Minister,

Insurance Europe, the insurance and reinsurance federation, represents all types of insurance and reinsurance undertakings accounting for around 95% of total European premium income. Many of these insurance and reinsurance undertakings already have Indian joint ventures and long-term interests in India.

Insurance Europe wishes to congratulate you and your colleagues from the National Democratic Alliance (NDA) on your recent election victory.

We are aware of the Indian Government's intention to introduce new economic reforms to liberalise foreign direct investment (FDI) rules in many sectors. In this respect, we would like to draw your attention to the potential benefits of approving the Insurance (Amendment) Bill, which would increase the allowed FDI in insurance from 26 to 49% and allow the establishment of foreign reinsurance branches. Through increasing the FDI limit, India will no longer have one of the lowest FDI limit in the world for insurance companies and it will begin to set the equity limit in insurance in line with other financial sectors in India which are much higher or have no limits at all.

We believe that a FDI increase would be beneficial for the Indian insurance market as well as for the Indian economy in general. Through allowing greater involvement of foreign insurers in the Indian insurance market it is expected that Indian consumers will benefit from more affordable coverage. In this regard a study[1] from the Centre for Economic Policy Research determined that India's restrictions on FDI in insurance raise the cost of insurance services by 18.1 percent. Alongside this it is anticipated that the FDI increase will bring refinements in the areas of products (e.g. on catastrophe, weather or crop insurance) and practices (e.g. on bancassurance models and corporate partnerships to expedite distribution to rural areas) to support growth and enhance the reach of insurance solutions. This will not only provide Indian consumers with more choice but also help support the development of domestic Indian insurance market through knowledge and skill transfer.

[1] J. Francois, B. Hoekman and J. Woerz (2007), "Does Gravity Apply to Nontangibles: Trade and FDI Openness in Services,"

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The participation of foreign insurers would also bring important capitalisation benefits as insurers play a significant role as institutional investors and provide a diversified source of long-term financing. In fact, European insurers are one of the largest institutional investors managing an estimated amount of €8.5trn of assets[2].

Any approach other than a straight FDI increase for both life and non-life insurers, including the consequent increase of voting rights, will fall short of expectations of stakeholders and not accomplish the results that are needed in the industry. In particular, it is of utmost importance that the equity increase comes from FDI not from FII. Otherwise, we believe it will send the wrong signal to the markets through rewarding speculative FIIs, which typically take a short-term perspective to their investments and lack experience in insurance and therefore lack the capacity to develop a larger and more sophisticated insurance sector in India.

Insurance Europe also supports the authorisation of reinsurance branches, as included in the original draft of the Bill. Reinsurance is an international business to business transaction between sophisticated market players, which benefits from freedom of establishment and investment as well as open markets to support the diversification of risk. In line with this the authorisation of foreign reinsurance branches in India should also help facilitate the provision of competitively priced products to Indian citizens underpinned by a well-diversified capital base thus also providing financial stability to Indian economy.

Insurance Europe would also like to take this opportunity to draw your attention to its concerns with two recent regulatory changes introduced by the Insurance Regulatory and Development Authority (IRDA): the limitations on life insurance cessions and the registration requirements for cross border reinsurers. Retention limits should be based on an overall risk assessment of the insurers' operations, taking into account factors such as their risk appetite, the distribution channel through which a particular policy is sold, and their underwriting and claims experience with specific classes of business. In particular, Insurance Europe has consistently opposed the IRDA's "life insurance reinsurance regulations, 2013" and has urged the IRDA to return to its previous principles-based regulation on retention limits, which conforms with the supervisory approach adopted internationally.

With respect to the new registration requirements for cross border reinsurance we believe that reinsurers from well regulated jurisdictions should be able to carry out reinsurance business freely on a cross-border basis without being subject to duplicative and onerous local reporting requirements. That said, where regulation is deemed necessary we believe that the effectiveness in the collection of the information could be considerably enhanced by demanding it directly from the reinsurers rather than from other parties involved in the reinsurance as is the current case in the registration requirements.

Insurance Europe appreciates the opportunity to provide these comments and your careful consideration of the Insurance Bill.

Yours sincerely,

Michaela Koller

Michael Koller
Director General

[2] "Insurance Europe Annual Report 2012–2013", June 2013