To: Chairman Dr Chandan Mitra and Honourable members of the Select committee of the Rajya Sabha on the Insurance Laws (Amendment) Bill of 2008

Your reference:

Our reference: IAR-14-292

Subject: Insurance Europe comments on the Insurance Amendment Bill

Brussels, 5 November 2014

Dear Chairman Dr Mitra and Honourable Members of the Select Committee of the Rajya Sabha;

Insurance Europe, the European (re)insurance federation, would like to submit comments to the Select Committee regarding the Insurance Amendment Bill.

The Select Committee has an important role to play in moving this long awaited legislation forward. In this regard, we would welcome your support in introducing the Insurance Bill to the Indian parliament without further delay.

Insurance Europe strongly believes that the approval of the Insurance Bill would have important benefits for the Indian insurance sector and the Indian economy. For instance, a FDI rise would inject capital into the Indian economy, create jobs and expand the ability of insurance and pension companies to generate stable long-term capital for investments in infrastructure. In addition, enabling foreign reinsurers to open branches will unlock the potential of the Indian insurance industry, providing vital capacity and claims paying ability, including cover for natural and industrial catastrophe events.

Proposed FDI increase to 49% in insurance joint venture – need for a straightforward approach

A large part of this investment will likely come from foreign companies increasing their stakes in their existing joint ventures. Currently, 22 of the 24 life insurers, and 18 of the 27 general insurance companies, have joint ventures. In addition, a 49% FDI cap in the industry may also attract some new market entrants.

In this regard, we believe that any approach other than a straight forward FDI increase for both life and non-life insurance companies will fall short of the expectations of stakeholders, will not correct the current market stagnation and will ultimately deprive the Indian economy of the investment engine which the industry can provide.

Unfortunately, we understand that the Committee may be considering the introduction of restrictions or conditions to the FDI increase, most notably limiting the FDI increase to new equity shares only. Such a provision would be extremely problematic as it would discriminate against existing market participants, create

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unique share classifications - whereby a domestic company could sell its stake to another company but not to an established foreign partner - and may undermine existing agreements that are approved by IRDA (e.g. when these provide for a pro-rata increase of shares by the foreign sponsor once permitted by law). Furthermore, it would be inconsistent with every other part of the financial services sector where, as far as we are aware, no such restrictions exist. Indeed, the effect of such a problematic provision may end up being counterproductive in terms of overall investment levels.

We request you to move forward with the introduction and passage of a clean FDI increase for life, health and general insurers, during the upcoming Winter Session of the Indian Parliament to clearly show its commitment to implement long term economic reforms.

Ensuring appropriate provisions for reinsurance branching

Insurance Europe invites you to recognise the important role played by reinsurance and welcomes the proposal to enable the establishment of reinsurance branches in India.

As noted by the Ministry of Finance in its report to the Standing Committee in 2011, it is important to enable international reinsurers to open branches so that they can diversify their risk portfolio and make significant capital available to cover severe losses arising after catastrophes, thereby enabling the flow of funds into a country during periods of stress.

More broadly, specialist reinsurance can also unlock the full potential of insurance as a catalyst for economic growth. A strong insurance industry enables entrepreneurs to take risks and, consequently, fuels innovation. In order to build the infrastructure to sustain India's economic growth, investors will need sophisticated insurance coverage. Reinsurance branches will not only provide the financial strength to sustain this, but moreover supply intellectual capital, acting as trusted partners to the local insurance industry, lending support in pricing, product development, risk mitigation, risk management and claims handling.

India is particularly exposed to risks from earthquakes, cyclonic storm damage and subsequent flooding. As a result, there are concerns about underinsurance in India and so enabling reinsurance branches could further help to address this, to the benefit of the Indian economy.

We welcomed an earlier draft of the Bill which empowered the IRDA to supervise branches of foreign (re)insurers on the basis of an amendment to Section 2C of the Bill. The recently proposed deletion of this amendment creates a high degree of uncertainty regarding the supervision of such branches under the Bill. Its removal could have the unintended consequence of affecting the legislative authority of the IRDA to approve foreign reinsurance branch applications and its ability to subsequently supervise them.

We would therefore request that either the provision or other suitable wording is inserted in the Bill to ensure that the legislation is clear on the IRDA's role in this area. Clarity on the supervision of foreign reinsurance branches is essential as any uncertainty created could impact the ability of the market to operate effectively.

We are available at your convenience to provide further information to aid in your consideration of this important and historical decision.

Yours sincerely,

Olav Jones
Deputy Director General & Director ECOFIN