

To: Mr. Manmohan Singh
Prime Minister Manmohan Singh
South Block, Raisina Hill
New Delhi
India - 110011

Your
reference: -

Our
reference: IAR-13-303

Subject: Insurance Act Amendment Bill

Brussels, 28 November 2013

Dear Prime Minister Manmohan Singh,

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 a long-term interest in India.

We are writing to express our support for the approval of the pending Insurance Act Amendments Bill.

Insurance Europe welcomes your government's push for new reforms that have recently liberalised foreign direct investment (FDI) rules in many sectors, opening the door for economic growth in future years. In this respect, we believe it is important that the insurance sector follow this path and increases the FDI limit to 49%.

A FDI increase would enhance the involvement of international insurers in India, which hold strong global experience in underwriting skills, risk management culture and technological advancement on technical systems and practices. This would be a substantial asset for the insurance sector in India and as a consequence, for the Indian society which would benefit from new 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) as well as more affordable coverage (in this regard a study¹ 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).

This would also set the equity limit in insurance in line with other sectors in India as well as with the equity cap in insurance in other countries in the Asian region. In addition, this reform would lay a firm foundation for future insurance business relationships between Indian and Europe and also have a positive effect on the current bilateral trade negotiations.

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



For Insurance Europe it is of utmost importance that equity increase comes from FDI and not from Foreign Institutional Investment (FII). An increase based on FII would send the wrong signal to the markets through rewarding short-term minded and speculative FIIs, which typically lack experience in insurance and therefore the capacity to develop a larger and more sophisticated insurance sector in India. In addition, it would compromise the economic interests of those foreign insurers that have already entered the Indian market and have yet to reach break-even and generate positive cash surpluses and reserves to meet policy pay-out obligations.

Against this background, Insurance Europe believes that only an equity increase with FDI can bring clear benefits to the insurance sector in India and the Indian economy.

In addition, the participation of international insurers would bring important capitalisation benefits. As a consequence of their primary role of providing protection and long-term savings and pension products, insurers play a significant role as institutional investors and can be a diversified source of long-term financing. In fact, European insurers are one of the largest institutional investors owning an estimated amount of €8.5trn of assets under management².

Insurance Europe also firmly supports the authorisation of reinsurance branches, as currently included in the draft Insurance Bill. Reinsurance is an international business to business transaction between sophisticated market players, which benefits from freedom of establishment and 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 appreciates the opportunity to provide these comments; and would welcome continuing our dialogue with you and your colleagues on this issue.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Michaela Koller".

Michaela Koller
Director General

CC:

cc. The Honorable Union Minister of Finance P. Chidambaram

The Honorable Union Minister of Commerce Anand Sharma

The Honorable Union Minister of Parliamentary Affairs Kamal Nath

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