GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

To: Dr Chandan Mitra,
Chairman and Members of the Select Committee of the Rajya Sabha

Date: 31 October 2014

Subject: Proposed FDI increase to 49% in insurance joint ventures – need for a straightforward approach

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

The Global Federation of Insurance Associations (GFIA), which through its 38 member associations represents insurers that account for around 87% or more than $4.0 trillion in total insurance premiums worldwide, 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. We would therefore welcome your support in introducing the Insurance Bill to the Indian parliament including a straightforward Foreign Direct Investment (FDI) increase without further delay.

The GFIA 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 stable long-term capital into the Indian economy. In turn, it can act as a job creator and expand the ability of insurance and pension companies to make important new investments in infrastructure.

A large part of this capital 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 this would discriminate against existing market

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participants, create 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 Insurance Regulatory and Development Authority (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, such a problematic provision may end up being counterproductive in terms of overall investment levels.

We ask 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 India's commitment to implement long term economic reforms.

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

Yours sincerely,

GOVERNOR DIRK KEMPTHORNE,
Chair, Global Federation of Insurance Associations

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About the GFIA

Through its 38 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 56 countries. These companies account for around 87% of total insurance premiums worldwide. The GFIA is incorporated in Switzerland and its secretariat is based in Brussels.