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

Date: 11 June 2014

Subject: GFIA Letter to the Indian Finance Minister

Dear Finance Minister,

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, congratulates you and your NDA colleagues on your recent election victory. We remember that it was the NDA which had the vision to open the Indian insurance market to private sector participation almost fifteen years ago.

We applaud the Finance Ministry for reviewing the Insurance Bill in the first days of your administration and would like to request you its passage in the Budget Session without delay or change.

Your long-term view and understanding of the benefits that the opening of the market has brought to the Indian economy and Indian consumers is critical for India to be able to regain the momentum and dynamism that the original market opening generated. NDA’s commitment to take the next incremental and to raise the FDI cap to 49% will inject new 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.

Unfortunately, it has been reported that various compromises are being proposed on the Insurance Bill, including (i) changing from 49% FDI in the draft bill to a mix of FDI and foreign institutional investment (FII), (ii) limiting voting rights of foreign partners to 26% rather than 49%, and (iii) deferring of the increase in the FDI limit for life insurance companies but immediately increasing FDI to 49% for non-life insurance companies.

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.

Similarly, proposals to allow for increased ownership by foreign partners which would not recognize their full contribution in voting rights, will simply not attract the long term stable investment which is central to the insurance business model. Such an approach would also send the wrong signal to foreign investors who have already made long term commitments in India, and dissuade others from considering future investments.

We ask you to move forward with the introduction and passage of a clean FDI increase for life, health and general insurers, to clearly show the commitment of this NDA government to implement long term economic reforms. We believe passage and implementation of a straight forward FDI increase to 49% will generate sustained increases in investment and market growth which will benefit the broader economy through new sources of investment in infrastructure, create more jobs and offer better protection for Indian citizens.
In line with this, we welcome the draft Bill's inclusion of authorization of reinsurers’ branches. Reinsurance is an international business transaction, which operates most efficiently with open markets and where freedom of establishment is provided. This in turn makes insurance markets more competitive, provides price and product advantages and creates opportunities for risk diversification thus providing financial stability to local markets. The opening of the reinsurance sector in addition strengthens India's prospects and vision of transforming itself into an international financial center.

In order to allow for overall efficient risk mitigation, Indian insurers should be able to manage their reinsurance programs according to their risk management approach, without being constrained by current restrictions in terms of mandatory cessions to local reinsurers or prescribed levels of risk retention within India. Accordingly, the supervisory standards of the International Association of Insurance Supervisors recommends that, for the supervision of reinsurance, the supervisor focuses on ensuring that the ceding insurer is prudently managing its reinsurance program.

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

Sincerely,

Chair, Global Federation of Insurance Associations (GFIA)