Dear Prime Minister Manmohan Singh,

I am writing on behalf of the Global Federation of Insurance Associations (GFIA) which through its 35 member associations represents insurers that account for around 88% of total insurance premiums worldwide. GFIA is active on a broad range of issues affecting the international insurance industry.

Over the last few months we have seen your nation’s economic team press forward with new reforms including liberalizing foreign direct investment (FDI) rules. Furthermore, we understand further reforms may be announced in the coming weeks. We are encouraged by the recent decision to allow FDI up to 49% to be placed through the automatic route, and take this decision as a sign of confidence that the cap itself will soon be increased.

We firmly believe that increasing the FDI cap in insurance will quickly provide a sizeable injection of foreign investment into the economy. A large part of this investment will be from foreign companies increasing their stakes in their joint ventures. Currently, 22 of the 24 life insurers, and 18 of the 27 general insurance companies, have joint ventures. Allowing these foreign partners to increase stakes in their existing joint ventures should yield a spike in foreign direct investment in the near term. In the medium term, a 49% FDI cap in the industry may also attract some new market entrants.

Moreover, as recognized by the G-20, due to the nature of their liabilities, insurers are significant long-term investors in the economy. Measures that contribute to the insurance sector’s growth can be a harbinger for a larger and more diversified source of long-term financing across an array of physical and intangible investment needs in India.

Apart from the actual inflows of investment due to the removal of restrictions, moving the Insurance Laws (Amendment) Bill will also send a strong signal to the international community that India is “open for business.” We know this is a goal that you and your colleagues have been working hard to meet.

While the market has witnessed tremendous growth, there remain high levels of under-insurance. The security a family or business achieves by insuring its most valuable assets helps supplement programs already in place by the government to lift the living standards of the Indian people. In line with this we welcome the inclusion of authorization of reinsurers' branches in the draft Bill. 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 centre.

GFIA’s members look forward to remaining close partners with your government in expanding India’s insurance sector.

Yours sincerely,

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Cc:
c. 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