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INDIA'S NEW INSURANCE REGIME CAN CHANGE THE GAME

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Background

India's insurance industry is on the brink of transformative changes with the anticipated introduction of the Insurance Amendment Bill (the "**Bill**") during the winter session of Parliament. This landmark reform builds on past efforts, primarily, the Insurance (Amendment) Act, 2021, under which foreign direct investment ("**FDI**") in Indian insurance companies was increased from 49% to 74%. Under the Bill, the government is likely to have no FDI cap in the insurance sector and permit foreign investors to own up to 100% in Indian insurance companies. In addition, the government is considering the issuance of composite licenses, thereby permitting an insurance company to offer all types of insurance under one license and entity.

Effect of raising the FDI limit to 100%

Despite the current limit of 74%, many foreign players continue to hold stakes below 74%, with control in the hands of their Indian joint venture partners. In fact, some foreign insurers have or are considering exiting India due to regulatory restrictions on control of joint venture companies. It is felt that the removal of the FDI cap altogether will attract new entrants and address the sector's need for greater capital to fuel growth.

Composite licenses

Currently, life insurance companies are barred from offering health or general insurance products, and vice versa. A composite license will allow insurers to consolidate their operations and reduce compliance burdens and costs. This proposed reform will align with best practices in mature insurance markets like the UK and Singapore, and will enable the creation of bundled products, such as policies combining life and health insurance.
For Indian insurers this will offer an opportunity to diversify their portfolios and remain competitive in a dynamic market. Foreign insurers will also benefit by being able to simplify their different joint ventures and consolidating operations.

In addition to the foregoing, the Bill also introduces several forward-looking reforms:

- **Broader financial distribution:** Insurers will be able to distribute other financial products like mutual funds, loans, and credit cards, creating new revenue streams and offering integrated solutions.

- **Reduced capital requirements:** The Bill may lower entry barriers by reducing the initial capital requirements for insurers (currently at INR100 crore (US$11.8 million approx.)) and reinsurers (INR200 crore (US$23.6 million approx.)). By tailoring minimum capital

requirements to a company's size and operations, the Bill seeks to lower entry barriers for smaller, niche players, thereby encouraging innovation.

- **Captive insurance licenses:** Large businesses may be permitted to set up captive insurance entities to manage their own risks, giving them greater control over risk management.

- **Dynamic investment regulations:** The Insurance Regulatory and Development Authority of India will have more flexibility in revising investment norms in line with market needs, potentially improving returns for policyholders.

- **Agents free to sell from multiple companies:** The Bill is likely to permit individual insurance agents to sell policies of multiple companies, eliminating the existing restriction that limits them to one life and one general insurer.

Our comments

These reforms reflect the government's intent to modernize India's insurance sector and make it more dynamic, competitive, and consumer friendly. By opening the doors to 100% FDI and addressing structural limitations, the Bill has the potential to align India's insurance industry with global standards, while fostering innovation and growth. This can also attract more global players, especially if they can exercise greater control.

The Bill once implemented will enhance insurance penetration in India. For consumers, this will mean better insurance products, competitive pricing, and improved service delivery.

All in all, the Bill promises long-term benefits for all stakeholders.