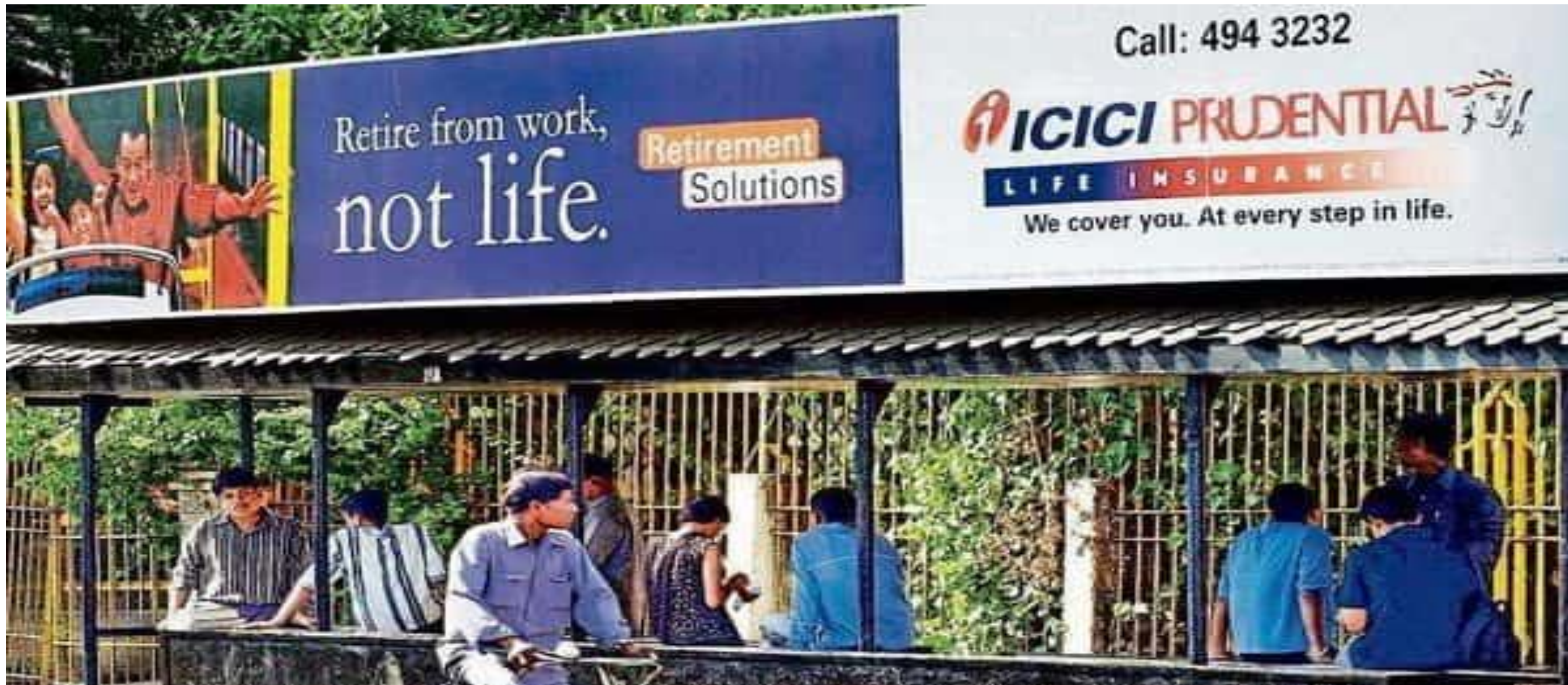
What a hike in foreign equity in insurance means



PREMIUM Photo: Mint *2 min read* . Updated: 05 Apr 2021, 05:31 AM IST **Jagadish Shettigar**, **Pooja Misra**

The Rajya Sabha recently passed a Bill to raise the limit on foreign equity participation from 49% to 74% in the insurance sector. Higher foreign equity participation will help insurers tide over solvency-related issues, increase competition and efficiency. Mint explains.

What is the rationale behind such a Bill?

Raising the limit on foreign equity participation in insurance means the caveat that such firms remain Indian-owned and controlled is now removed. This is expected to attract prominent global insurers to set up shop in India, which will take care of liquidity pressures. It will also help companies achieve growth and will strengthen their solvency ratio, increase insurance penetration, give access to the best in class know-how and deepen product expertise. Besides, the mandate to have a majority of key management as Indians and retaining a part of profits as general reserve will ensure that checks and balances are in place.

What other gains could be drawn from this?

The Centre has been emphasizing on infrastructure development in a big way. The Union budget saw an increased allocation of 137% in health infrastructure, and rolled out production linked incentives, asset monetization and set up a Development Financial Institution to boost infrastructure. Since break-even points in such projects are longer than 10 years, banks are usually not too comfortable in funding them. However, insurance firms are locked with premium money as policies are for a longer period. Hence, it is a practice to facilitate infrastructure projects via insurance firms. Thus, it is key to attract FDI to drive the processWhat is the significance of the hike from 49% to 74%?

Conservative thinkers fear that foreign-led insurance firm may prefer MNCs after mobilizing premium from local people. That's why the sector was restricted for foreign equity—until the Centre opened up the industry to 26% FDI in 2000. The law states that any conflicting resolution can be blocked by minority shareholders too if they have at least 26% equity control.

Easing restrictions

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What do the current insurance metrics say?

Against the backdrop of pandemic and with insurance penetration in India being at 3.76% as against a world average of 7.23%, an increase in insurance penetration is key. Foreign equity participation in the sector was permitted up to 26% in 2000 and hiked to 49% in 2015. Post-2015, around ₹26,000 crore has come in as FDI in the sector and assets under management have grown by 76%. As of March 2019, FDI stands at 30% for 21 non-life private insurers, 35.5% for 23 private life insurers and 31.7% for seven specialized health insurers.

What would be the impact on economy?

An increase in FDI limit to 74% in the industry will help supplement domestic long-term capital, technology and skills needed for growth along with increasing insurance penetration and health protection. It will boost businesses and stabilize currency exchange rate. Higher foreign capital inflows will provide firms the impetus to scale up and build digital capabilities. It will accelerate jobs and ensure that insurance cover reaches the last mile.

Jagadish Shettigar and Pooja Misra are faculty members at BIMTECH.