May 22, 2012

Dr. Manmohan Singh
Prime Minister
Government of India
South Block
Raisina Hill
New Delhi-11000

Delivered via email: manmohan@sansad.nic.in

Dear Prime Minister Singh,

On behalf of the signatory national and regional insurance associations which collectively represent over 75% of global insurance premiums, we would like to provide additional information for your consideration as you reconsider introduction of the Insurance Act amendments, relative to the report on the Bill issued by Parliament's Standing Committee on Finance. We are very supportive of your Government's effort to increase the foreign direct investment cap in insurance, and we are grateful to you and your Cabinet colleagues for the deferral of a vote on the Insurance Act amendments until such a time as there is sufficient political support to pass the Bill with the FDI increase intact. Our intent with this letter is to present to you our views on some of the arguments against the increase of the foreign direct investment cap used by the Committee.

We strongly believe that some of the arguments employed by the Committee are self-evidently incorrect, such as claiming that the insurance industry has not really grown since it was liberalized in 1999 (p. 36). In fact, the size of the life insurance sector vis-à-vis the overall Indian economy has grown nearly 300%, and the non-life market's share of the economy has grown 50% in the last 10 years. Other arguments such as that foreign insurers have poor balance sheets (p. 13), should be guided by the opinions of established national regulators and international standards setting organizations, which have a diametrically opposite view than the Standing Committee. We have provided an overview of the general opinions of key international regulators, as well as a review of the major initiatives underway around the world that will further strengthen regulation of global insurers, contrary to the Standing Committees report.

The attached note also provides our views and statistical evidence to refute some of the other issues raised by the Standing Committee. We hope your Government will find this information helpful in making the case to press forward for the increase in the cap on foreign investment to 49%. We respectfully ask your Government to allow global insurers to further contribute to financial security for India's business and citizens in the near future, by bringing to the floor the Insurance Act amendments including the increase of the equity cap.

Sincerely,

American Council of Life Insurers (ACLI)
Association of Bermuda Insurers and Reinsurers (ABIR)
Association of British Insurers (ABI)
Canadian Life and Health Insurance Association (CLHIA)
General Insurance Association of Japan (GIAJ)
Insurance Council of Australia (ICA)
Insurance Europe

Cc: Finance Minister Dr. Pranab Mukherjee

Global Industry Response to
Standing Committee Comments on
Amendment of the IRDA Act to
Raise Equity Cap on Foreign Investment to 49%

Background

Since the 1999 IRDA Act, which de-monopolized and opened the Indian insurance market to both domestic and global investment, it was understood that the 26% equity limitation on foreign investment was just the first step in the continued development of the industry. The next step being to raise the equity limitation to 49% would be taken once the regulator was firmly in place and the market established. We were understandably pleased when, shortly after your Government's election in 2004, you announced that increasing the FDI cap in insurance was a priority for your Government. Four years later the legislation was introduced to Parliament, and three years after that the Standing Committee on Finance completed its report on the Bill.

The report confirmed that the market is well established and that the IRDA is an effective and well regarded supervisor of the Indian private industry; however the Standing Committee's report was critical of the proposed equity increase, and we as representatives of all global insurance and reinsurance companies with operations in India, provide additional information that should assuage the concerns raised by the Standing Committee. We urge that the Government exercise its discretion to include the equity increase in the Insurance Act amendments and bring it to the floor for a fair review and vote.

Support for the increase in the insurance FDI cap comes from many groups, including:

- Insurance Regulatory Development Authority
- Policy Platforms of the Congress and BJP Parties
- Governments of, Brazil, Canada, France, Germany, Italy, Japan, Korea, Mexico, Netherlands, South Africa, United Kingdom and United States
- Indian Joint Venture Partners, Economic Opinion Leaders and Business Groups
- The Reserve Bank of India

The Truth / Response to Standing Committee

Foreign insurersexpose "the economy to the vulnerabilities of the global market by way of likely inheritance of unsound balance sheets and financial health of the foreign partners."

> The 2007/2008 financial crisis has led to the elevation of the G20 as the leading international coordinating body tasked with analyzing the international financial regulatory level of infrastructure to assure that systemic risks do not again threaten global

economic stability and growth. The G20 has empowered the Financial Stability Board to undertake this analysis and work with the regulatory standards setters, including the International Association of Insurance Supervisors for insurance, to identify the regulatory gaps that allowed the crisis to occur and address them. This international effort is being implemented at the national level through passage and enactment of sweeping new laws like the Dodd Frank Act in the U.S. and Solvency II in the European Community.

Fundamentally the G20 and FSB have determined that the insurance sector was neither an originator nor transmitter of the financial crisis, and that core insurance products are not systemically significant at the global or national level because the insurance business model accounts for risk at inception and because of the prudential nature of insurance supervision. To assure this the IAIS has just implemented a new set of enhanced insurance core principles by which the IMF and World Bank will review national insurance regimes, and regulators in G20 markets are proactively accelerating their regulatory modernization to add to these minimum international standards.

Per the International Association of Insurance Supervisors (IAIS), in their Insurance and Financial Stability report, released November 2011:

> The financial crisis of 2008/09 has shown that, in general, the insurance business model enabled the majority of insurers to withstand the financial crisis better than other financial institutions. This reflects the fact that insurance underwriting risks are, in general, not correlated with the economic business cycle and financial market risks and that the magnitude of insurance liabilities are, in very broad terms, not affected by financial market losses. Moreover, insurers' investment portfolios, which are selected largely to match the underlying characteristics of insurance liabilities, were able to absorb sizeable losses. Similarly, the nature of insurance liabilities, and the fact that payments to policyholders generally require the occurrence of an insured event, makes it less likely for insurers engaged in traditional activities to suffer sudden cash runs that would drain liquidity. While impacted by the financial crisis, insurers engaged in traditional insurance activities were largely not a concern from a systemic risk perspective.

While the insurance industry's primary regulators believe the industry is relatively strong compared to other financial service sectors, many jurisdictions (including the IAIS) have been proceeding with regulatory changes that will make the sector even stronger.

These initiatives include:

> Solvency II, European Union, the new risk based regulatory regime for European insurers. Alongside this regulatory change, changes have also occurred in the European financial supervisory architecture A with the creation of a European Systemic Risk Board tasked with macroprudential oversight of the financial system in order to prevent or mitigate systemic risks and a European System of

Financial Supervisors to foster harmonized rules across the EEA and coherent supervisory practice and enforcement. Solvency Modernization Initiative (SMI), United States: Solvency modernization. Australia's Life and General Insurance Capital Review (LAGIC).

Financial Stability Oversight Council (FSOC), U.S.: Financial service regulators will devote additional oversight to the country's largest financial institutions. Common Framework (COMFRAME), IAIS: Developing a comprehensive regulatory framework to aid in the supervision of internationally active insurance groups.

Globally Systemically Important Financial Institution (G-SIFI), Financial Stability Board of the G20: More robust capital requirements and internal controls for the world's largest and most systemically significant financial institutions.

May not necessarily have the desired impact in view the experience of its limited role thus far in terms of deepening insurance accessibility for the poor.

As you are aware, the IRDA mandates that a certain percent of a company's business must be derived from the rural and social sectors. Essentially, established life insurers must sell 20% of policies to rural customers, and insure 50,000 lives from the "social sector." For P&C companies, 7% of premium income must come from rural customers along with the 50,000 customer requirement for selling to the "social sector."

As was noted by the Standing Committee, we are pleased to report that, per the IRDA's 2009-10 Annual Report, all 22 private sector life insurers met their mandated sales target for the rural sector, and 21 of 22 companies met their obligation for the social sector (in fact, IRDA notes that private companies were above the stipulated regulations).

Among non-life companies, IRDA's 2009-10 Annual Report indicates that all 17 private insurers met their rural and social sector obligations, and in total were above their obligations. In fact, the only non-life company to have fallen short of its IRDA mandate was the Government-owned New India Assurance Company.

The data that gives credence to these observations include the fact that growth in business as a percentage of GDP during 2000 to 2010 in case of life insurance has risen merely to 4.61% from 1.2%, and in case of non life insurance, to 0.61% from 0.4%.

The fact that life insurance penetration (premium to GDP) has risen from 1.2% to 4.61% highlights the tremendous increase in the adoption of life insurance since the market was opened to private and foreign companies. This marks an increase of 284%. Life insurance premiums have jumped from Rs. 9,707 crore ($2.2 billion) in 2000 to Rs. 109,260 crore ($24.3 billion) in 2010.

While the increase in non-life insurance penetration as a percent of GDP has been a more modest 50% increase- from .4% to .61%- first year premium has jumped by 265% in the last 10 years, from Rs. 9,806 crore ($2.1 billion) in 2000 to Rs. 35,815 crore ($8 billion) in 2010.

May not necessarily have the desired impact in view the experience of its limited role thus far in terms of facilitating investment in infrastructure.

Insurers look to match their long-term liabilities with long-term assets, making infrastructure an ideal investment. In the SCF's own report, they indicate that private companies have invested over $8 billion in infrastructure. This is not an inconsequential sum, and will certainly continue to grow as insurers mature and build their books of policies.

While Indian private insurers would have made infrastructure investments without foreign partners, these investments hinge upon the companies' successful growth of premium income. Foreign companies have contributed both capital and strategy to the process of building the companies.

In addition, many foreign companies have established separate infrastructure investment funds from their parent companies that invest directly in Indian infrastructure. The fact that these companies have joint ventures in India to sell insurance has contributed to their knowledge of the market, and so these direct infrastructure investments are partly as a result of their participation in the insurance market.

Increasing the FDI cap will bring more insurers into the market, and increase the amount of capital foreign partners can contribute to fund further expansion, thereby accumulating more capital for infrastructure investment.

May not necessarily have the desired impact in view the experience of its limited role thus far in terms of developing products suited as a means of providing social security to the Indian masses at large.

In their report, the SCF claims that foreign companies have not brought many new products into the marketplace beyond investment-oriented products (ULIPs), and questions the utility of ULIPs in the same paragraph. We strenuously object to this dismissal of investment-oriented products as "questionable."

While there have been reports of poor sales practices and customers not achieving the full potential of these products, IRDA has worked with companies to redesign these products, and companies have strengthened their sales practices. India's economy is one of the most vibrant and fastest-growing in the world, so the global industry remains supportive of allowing Indian consumers to participate in this growth through appropriate life insurance products. Investment-oriented life insurance products are viewed as an important component to life insurers' offerings around the world.

Apart from introducing new products, it is equally important to look at the global practices and expertise that foreign companies have brought to the market, which would not have been possible without allowing them to hold equity stakes.

These include:

- Better customer service experiences;
- Faster claims processing;
- Growth of Bancassurance and corporate partnerships to expedite distribution to rural areas;
- Stronger agent training and education;
- Ability to leverage foreign actuaries and other technical positions when the availability of sufficient numbers of trained professionals was low;
- Introduction of world-class standards in internal risk and compliance monitoring capabilities.

While it is easy to dismiss some of these advancements as being purely the result of greater competition in the marketplace, foreign companies have developed systems and experience that they have been able to transfer to India. This allowed India's market to develop much faster than if Indian companies had attempted to build these processes in a vacuum. By allowing foreign companies to have a more equitable stake in their India joint ventures, we would expect a further escalation of these benefits to Indian industry.