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## Liberal Regime for Insurance Businesses in GIFT City: IFSCA

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### Why in News

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Recently, the **International Financial Services Centre Authority (IFSCA)** announced a new liberal regulatory regime for facilitating formation of various international and Indian insurance businesses in the **Gujarat International Finance Tec-City (GIFT City)**.

The regulations for setting up **International Financial Services Centre (IFSC) Insurance Offices (IIOs)** and **IFSC Insurance Intermediaries Offices (IIIOs)** were notified by the IFSCA earlier, in October 2021.

### Key Points

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- **About:**
  - **Entities that can set Insurance Businesses:**
    - Even **non-insurance entities can incorporate public companies in IFSC** and undertake insurance or reinsurance business.
      - **Insurance** is a means of protection from financial loss. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss.
      - **Reinsurance** is the practice whereby insurers transfer portions of their risk portfolios to other parties by some form of agreement to reduce the likelihood of paying a large obligation resulting from an insurance claim.
    - Similarly, **Indian insurance companies can set up subsidiaries** to undertake insurance or reinsurance business as IIO.
    - Foreign intermediaries will also be allowed to set up IIOs alongside **IRDAI (Insurance Regulatory and Development Authority of India)** registered intermediaries like insurance brokers and corporate agents.
  - **Paid Up Capital Requirement:**
    - In the case of a branch, a player doesn't have to bring in any capital and with regard to subsidiaries, **new insurance or reinsurance companies will require a paid-up capital (as per Insurance Act, 1938)** of Rs 100 crore for insurance and Rs 200 crore for reinsurance.
    - The new rules specify that **no local\domestic capital will be required for foreign insurers** or foreign reinsurers setting up IIOs as branches. The assigned capital of USD 1.5 million can be maintained in home jurisdictions.
    - Further, there's no local\domestic solvency (ability to pay one's debts) requirement for IIO in the IFSC.
      - The assigned capital solvency margin will have to be maintained in the home jurisdiction.
      - A **solvency capital requirement** is the total amount of funds that insurance and reinsurance companies are required to hold.
- **Significance:**
  - The new regulations have the **potential of unlocking opportunities for global insurers and reinsurers.**

The regulatory framework is **very friendly and addresses the aspirations and expectations of the players.**
  - The new facilities **will help India to develop a global reinsurance hub** in the country, competing with offshore financial centres like Singapore, Dubai and Hong Kong, which currently dominate the insurance business in Asia.

**International Financial Services Centres Authority**

- **Establishment:**

It was **established in April 2020 under the International Financial Services Centres Authority Act, 2019.**

It is headquartered at GIFT City, Gandhinagar in Gujarat.

- **Functions:**

The Authority shall **regulate all such financial services, financial products and Financial Institutions in an IFSC.** It may also recommend to the Central Government such other financial products, financial services and financial institutions which may be permitted in the IFSCs.

- **Powers:**

All powers exercisable by the respective financial sector regulatory (viz. **Reserve Bank of India, Securities and Exchange Board of India, IRDAI, and Pension Fund and Regulatory Development Authority** etc.) under the respective Acts shall be solely exercised by the Authority in the IFSCs in so far as the regulation of financial products, financial services and FIs that are permitted in the IFSC are concerned.

- **Processes and Procedures:**

The processes and procedures to be followed by the Authority shall be governed **in accordance with the provisions of the respective Acts of Parliament** of India applicable to such financial products, services or institutions, as the case may be.

- **Grants by the Central Govt:**

The Central Govt. may, after due appropriation made by Parliament by law on this behalf, make to the Authority grants of such sums of money as the Central Government may think fit for being utilized for the purposes of the Authority.

- **Transactions in Foreign Currency:**

The **transactions** of financial services in the IFSCs **shall be done in the foreign currency** as specified by the Authority in consultation with the Central Govt.

## **International Financial Services Centre**

- An IFSC **enables bringing back the financial services and transactions that are currently carried out in offshore financial centres** by Indian corporate entities and overseas branches/subsidiaries of Financial Institutions (such as banks, insurance companies, etc.) to India.

It **offers a business and regulatory environment that is comparable to other leading international financial centres** in the world like London and Singapore.

- IFSCs **are intended to provide Indian corporates with easier access to global financial markets**, and to complement and promote further development of financial markets in India.

**Source: IE**