



New Rules for Increased FDI in Insurance Sector

Why in News

Recently, the **Ministry of Finance** amended [Indian Insurance Companies \(Foreign Investment\) Rules, 2015](#) and clarified on the final rules for increased [FDI \(Foreign Direct Investment\)](#) in the Insurance Sector.

- Parliament had passed the **Insurance Amendment Bill 2021** to increase the [FDI](#) limit in the insurance sector to **74% from 49%**.
- The Ministry of Finance has notified '**Indian Insurance Companies (Foreign Investment) Amendment Rules, 2021**'.

Key Points

▪ Highlights of New Rules:

◦ Management Persons to be Resident Indian Citizens:

- For an Indian insurance company having foreign investment - **majority of its directors, key management persons, and at least one among** the chairperson of its Board, its managing director and its chief executive officer - **will be a resident Indian citizen.**

◦ Meaning of Foreign Investment:

- Total foreign investment here would mean the **sum of both direct and indirect** foreign investment.

- **Direct investment** by a foreigner will be called **Foreign Direct Investment**, while **investment by an Indian company** (which is **owned or controlled by foreigners**) into another Indian entity is considered as **Indirect Foreign Investment.**

▪ Significance:

- The increase in foreign ownership to 74% **can result in inclusion of global best practices in terms of insurance products** going forward. It will **also help in bringing down the cost of insurance products** in India.
- It is **good for Indian Promoters**, it will **let them keep control of management and board**, the additional capital **inflow will help them** with funds to push for growth.
- It will **benefit small insurance players** or the ones where the sponsors don't have the ability to put in more capital and hence it will benefit in strengthening them and **increasing competition** across the industry.
- It is **likely to help local private insurers** grow fast and expand their presence across India, which has one of the lowest insurance penetration levels globally.

▪ Insurance Penetration in India:

- Insurance penetration in India is **currently at 3.7% of the [Gross Domestic Product \(GDP\)](#)** compared to the world **average of 6.31%**.

- Growth in the **life insurance sector** has slowed to **11-12% currently** from **15-20% until fiscal 2020**, as the pandemic pushed customers to save cash instead of spending on stocks or life insurance policies.
- As of **31st March, 2021**, there were **only 24 life and 34 non-life direct insurers** in India, whereas there were **243 life insurance companies (1956) and 107 non-life insurance companies (1973)** at the **time of nationalisation**.
- **Other Related Step (Model Insurance Villages):**
 - The **Insurance Regulatory and Development Authority of India (IRDAI)** has mooted the concept of '**Model Insurance Village (MIV)**' to boost **insurance penetration in rural areas**.
 - The idea is to offer **comprehensive insurance protection** to all the major insurable risks that **villagers are exposed** to and make available covers at **affordable or subsidised cost**.

Insurance Regulatory and Development Authority of India

- Following the recommendations of the **Malhotra Committee report, in 1999**, the **Insurance Regulatory and Development Authority (IRDA)** was constituted as an autonomous body to regulate and develop the insurance industry.
- The **IRDA** was incorporated as **a statutory body in April 2000**.
- The **key objectives** of the IRDA include the promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums while ensuring the financial security of the insurance market.
- It is **headquartered in Hyderabad**.

Way Forward

- There should be sufficient appetite for investment from long term investors including **sovereign wealth funds**, global **pension funds** and insurance firms.
- The sector needs capital and larger participation of the international partner for evolution and availability of global products in India and for better penetration.

Source: IE