

Tweaks to rules shot in the arm for insurance industry



Embedded Value
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THE INSURANCE Laws (Amendment) Ordinance, 2014, has again put the focus back on the insurance industry. A long-awaited step, it has been hailed by industry leaders and observers. However, no serious articulation of views has been noticed on the part of the largest stakeholders, the policyholders or prospective customers, as the comments have largely been on the issue of the higher cap of 49% for foreign investment.

In fact, this was the most contentious issue before Parliament and this kind of liberalisation was awaited by promoters of private sector insurance companies in India and abroad. The ordinance has given a big relief to promoters, though it is yet to be seen how the industry benefits from more foreign investment. It provides for some important changes in the law, which may extensively influence the way insurance is sold or bought. I think there is a need to inform people of such a progressive proviso. But, before that, the FDI issue deserves some analysis.

A higher foreign investment limit has caused a lot of excitement among multi-national insurers. They have compelling reasons to look beyond the domestic market, especially in the emerging economies that seem to offer great opportunities. Some estimate foreign fund flows of Rs 50,000 crore. But it's not that simple.

Most companies in India with foreign partners will have to undergo a valuation before shares are offloaded. Estimating the net worth of an insurer is an actuarial function and the influence of subjective elements cannot be ruled out. Hence, due diligence regarding the acquisition cost and future potentiality of income would be critical. On the other hand, the latest global trend indicates that some large foreign entities have

Ulips. So it seems that perceptible benefits accruing from the higher investment ceiling will take some time. Impatience on part of some Indian promoters, however, may let some funds to trickle in before long. Most of them are expecting to recover their initial investments.

The ordinance permits maintenance of policy records in electronic form subject to regulations. It provides for compulsory underwriting of a minimum percentage of insurance in third-party risk for motor vehicles. There are a lot of changes with regard to assignment of a policy, the right to receive the proceeds to conform to modern requirements and to bring in more clarity. The ordinance has introduced clauses on claim payments and on the nominee's rights. To remove ambiguities in respect of claims repudiation on grounds of suppression of material facts, the ordinance makes it clear that "no policy of life insurance shall be called in question on any ground whatsoever after the expiry of three years from the date of the policy (date defined in detail)".

The concept of principal, chief or special agent has been done away with, and it defines multi-level marketing scheme and prohibits sale through such entities. Moreover, sale of insurance through unregistered entities will attract a fine of Rs 10 lakh-1 crore. Several deterrents have been brought in. The ordinance also provides for fixing minimum qualification for surveyors and loss assessors.

THINKING CAP

- Most companies with foreign partners will need to undergo a valuation before they offload shares to make most of a higher foreign investment cap
- So far, there has not been any serious instance of growth getting hampered due to lack of capital
- The perceptible benefits from a higher foreign investment ceiling will take some time to trickle in

preferred to exit foreign JVs and, in India too, they may have second thoughts on increasing their stake.

Some kind of disillusionment is now gripping the few big players. So far, there has not been any serious instance of growth getting hampered due to lack of capital. The closure of offices and retrenchment during 2010-11 were not necessarily due to lack of funds. These were the fallout of certain strategic issues after a cap on charges was imposed by Irda on

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