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Insurers to re-work joint venture pacts to comply with new 'control' norms

Domestic promoters of insurance companies will now have to work closely with their foreign partners to re-draft their joint venture agreements to comply with the regulatory guidelines defining "Indian management and control" within the stipulated timeline of three months.

The regulator, on Monday, released guidelines defining "Indian-owned and controlled" as mentioned in the Insurance Laws (Amendment) Act, 2015.

The Insurance Regulatory and Development Authority of India (IRDAI) said "control" includes the right to appoint a majority of the directors or control the management or policy decisions. This means the majority of directors, excluding independent directors, will have to be nominated by Indian promoters or Indian investors. According to the guidelines, even the appointment of key management persons, including chief executive officer, managing director or principal officer in case of an insurance broker will have to be through them or the board of directors.

10 per cent impact

Ashvin Parekh, Managing Partner at Ashvin Parekh Advisory Services, said that all the current joint venture agreements envisage a fair bit of control for the foreign partner in terms of appointment of independent directors and key management positions in the insurance company which will now have to be revised in compliance with the norms.

Parekh said the norms are likely to impact about 10 per cent of the joint venture agreements where the foreign partner is a dominant player financially and strategically.

Anuraag Sunder, Director, Insurance, PwC India, said: "IRDA is now demonstrating a shift in its guidelines and has empowered the board, which is a positive corporate governance practice. The appointment of CEO of the insurer will not be given to the foreign promoter, but they can recommend others whose appointment will have to be ratified by the board, making the board more accountable." RM Vishakha, MD and CEO of IndiaFirst Life Insurance said the company is compliant with the guidelines as it is predominantly board-run.