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Capital in Life Cover Falls Despite Higher FDI

Higher FDI has only helped in exchange of shares & Indian shareholders have made money in the process

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Mumbai: The passage of the insurance bill last year was seen as a life-altering event for the sector but there has actually been a decline in capital deployed in the last financial year. That is despite overseas investors pumping ₹11,000 crore into Indian life insurance companies.

Capital deployed in the life insurance sector, including share premiums, fell 2.3% to ₹34,847 crore in the last financial year from ₹35,681 crore in the year before, according to the Life Insurance Council, a representative body.

Higher foreign direct investment (FDI) has only helped in the exchange of shares, with Indian shareholders making money in the process.

The Insurance Laws Amendment Bill was approved in March 2015, lifting the foreign direct investment ceiling to 49% from 26%.

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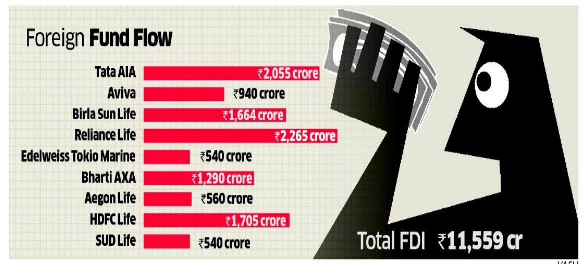
AIA has invested ₹2,055 crore in Tata AIA Life Insurance, Nippon Life has invested ₹2,265 crore in Reliance Life and Sun LifeAround has invested ₹1,664 crore in Birla SunLife Insurance Company.

"As of now, FDI has only helped in exchange of shares but it is more long-term gains," said RM Vishakha, CEO of IndiaFirst Life Insurance. "Capital has not come in this year but later on if there is need for capital, contribution will come in from both the partners."

Another half a dozen foreign promoters have increased stakes in Indian insurance joint ventures after the amendment, seen as a major reform and aimed at fuelling growth in the insurance business.

"Indian promoters' ability to put in capital is limited," said SB Mathur, former chairman of Life Insurance Corporation of India. "With the exchange of shares and higher stake of foreign promoters, it will be easier to fund growth in future."



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Some promoters have not yet raised holdings in Indian joint ventures as they are evaluating the caveat on ownership and control, which have to vest with Indian residents. The Insurance Act did not explicitly state this so it was possible for offshore strategic partners in the insurance sector to have substantial control, including reserved matters or veto rights on operational and financial policy decisions.